The Biofore Company UPM

GROW WITH BIOFORE

Annual Report 2015

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UPM – THE BIOFORE COMPANY

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

In 2015, UPM's sales totalled EUR 10.1 billion. UPM has production plants in 13 countries and a global sales network. UPM employs approximately 19,600 employees worldwide. UPM shares are listed on the NASDAQ Helsinki stock exchange. At the end of 2015, UPM had approximately 85,000 shareholders.

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 in Finland.

The main customers for UPM Biorefining businesses are tissue, specialty paper and board producers in pulp, joinery, packaging, distribution and construction industries in timber and fuel distributors in biofuels. UPM aims to grow as a reliable pulp supplier, intends to maintain full run operations in timber and seeks growth in advanced biofuels.

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 and a frontrunner in reshaping the Nordic electricity market. UPM Energy is an active shareholder in major Finnish electricity companies such as Pohjolan Voima Oy (PVO), Teollisuuden Voima Oyj (TVO) (through PVO) and Kemijoki Oy. As a shareholder UPM is actively seeking shareholder value through decision making and asset management.

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

UPM PAPER ASIA UPM Paper Asia serves growing markets with labelling materials globally, 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 labelling and packaging materials production lines at the UPM Jämsänkoski mill in Finland. The main customers are retailers, printers, publishers, distributors and paper converters. UPM Paper Asia seeks growth in labelling materials globally and in high quality office papers in Asia.

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

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

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

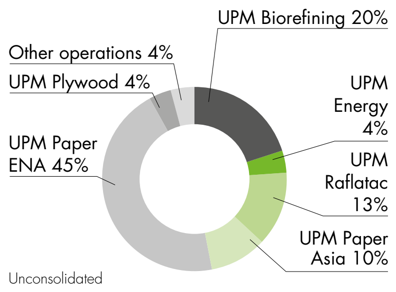
VISION
As the frontrunner of the new forest industry UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future. Cost leadership, change readiness, engagement and safety of our people form the foundation of our success.

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

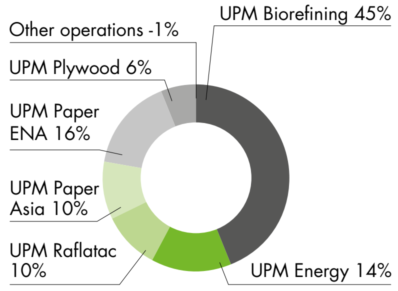
VALUES
Trust and be trusted
Achieve together
Renew with courage

UPM'S BUSINESS PORTFOLIO IN FIGURES

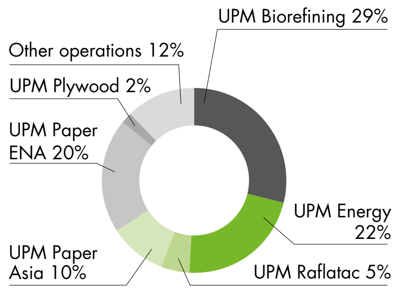
Sales 2015 EUR 10,138 million



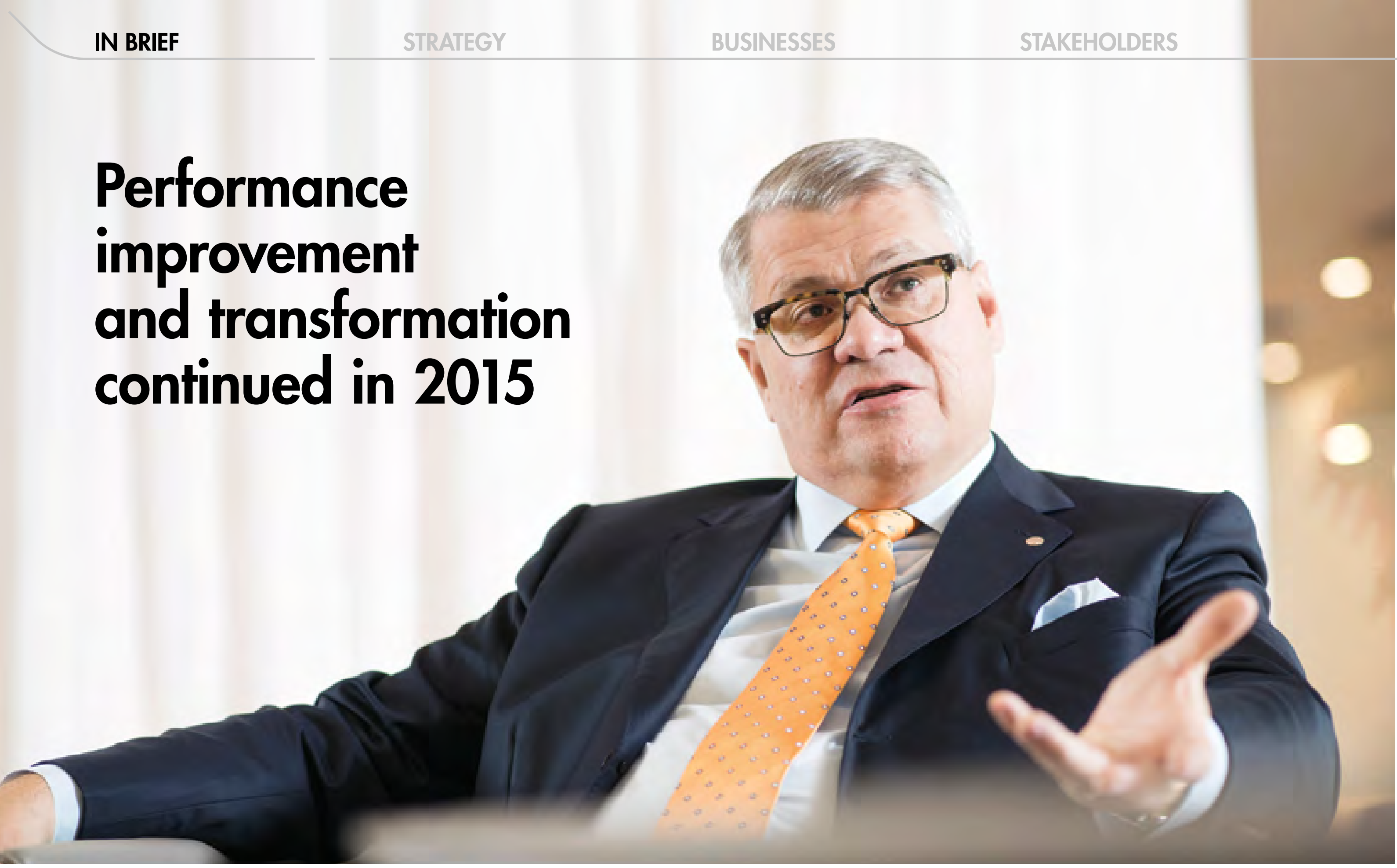
EBITDA 2015 EUR 1,350 million



Capital employed 31 Dec 2015 EUR 11,010 million



Performance improvement and transformation continued in 2015



UPM aims to generate value based on forest biomass in multiple ways: cost efficient operations, selected growth projects, innovations and reshaping the business portfolio to increase the long-term value of the company.

In 2015, we made good progress with our strategy. All business areas sharpened their operations, our profit improvement programme exceeded its target and our growth projects started to deliver earnings. Our strong cash flow drove net debt down to a new record-low level. All in all, UPM's transformation progressed well and our business model showed its capability to deliver.

We were able to successfully implement the short term profitability improvement programme. By the end of the year, target savings were exceeded by 10 % with the annualised variable and fixed cost reduction impact totalling EUR 165 million.

Key growth projects were completed during the year and I am very pleased to see that they already contribute to our cash flow.

The Lappeenranta biorefinery started commercial production of advanced renewable diesel in Finland in January. UPM Biofuels picked up steam as the year went on and reached a break-even level during the last quarter. The UPM Kymi pulp mill expansion was a success and we achieved record-high pulp production in December. UPM Raflatac's investments in Poland, Malaysia and China were already visible in our earnings during the second half of the year. Also the UPM Changshu's speciality paper machine ramp-up got off to a good start in December.

We will reap the benefits of these projects in 2016 and beyond.

Good earnings momentum

UPM showed good performance throughout 2015. Much of the good performance was driven by our own actions. Out of our six business areas, UPM Biorefining, UPM Plywood and UPM Energy exceeded their long-term return targets, and UPM Raflatac showed good improvement, getting very close to its target. Both UPM Paper ENA and UPM Paper Asia were able to offset the pressures of the challenging market environment with their own actions.

Our operating profit improved by 37% year-on-year thanks to the successful profit improvement actions. Return on equity excluding special items was 12.1 % for the full year and cash flow per share was EUR 2.22.

I am especially pleased with the reduction of our net debt. Following the consistently strong cash flow, our balance sheet at the end of 2015 was the strongest ever in the company's history. We were able to reduce our net debt by EUR 301 million throughout the course of the year.

UPM's Board of Directors has proposed an increased dividend for 2015 of EUR 0.75 per share which is 34% of the operating cash flow per share. The Board's proposal reflects confidence in UPM's ability to generate growth in earnings and cash flow.

Overall, the company performance has progressed as planned and I would like to thank all UPM employees for an excellent 2015.

Responsibility is good business

We believe that customers, investors and other stakeholders value responsible operations that keep risks under control and add to our business opportunities, thereby increasing the company value.

Over the course of the year we paid special attention to the implementation of UPM's Code of Conduct in our businesses. The Code has also been updated to better reflect the current operating environment.

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

Furthermore in 2015, UPM's consistent work in the area of corporate responsibility received third-party recognition. The company was listed in the Dow Jones Sustainability Indices for the fourth time in a row. The companies that perform better against sustainability criteria than their competitors are selected in the indices. United Nations invited UPM to participate in the Global Compact LEAD forum. LEAD members include the 50 most advanced companies in terms of sustainability across geographical regions and industry sectors. UPM is the first forest industry company and also the first Finnish company ever to receive such an invitation.

Outlook

UPM has a versatile business portfolio and five growing business areas. 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.

Despite the somewhat uncertain environment in the beginning of the year, we are confident about our prospects for 2016. We are starting the year with a stronger balance sheet than ever. Our investment levels are decreasing and earnings and cash flow from growth projects are starting to materialise. We will maintain cost competitiveness and strive to achieve top performance in our businesses. The versatile use of forest biomass and focus on competitiveness and being at the forefront of developments will also continue to advance UPM's Biofore strategy this year.

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

Jussi Pesonen
President and CEO

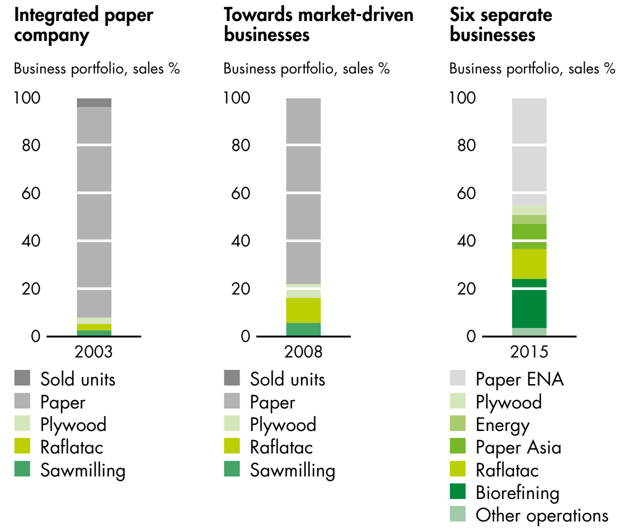
Global Compact LEAD

UPM in transformation

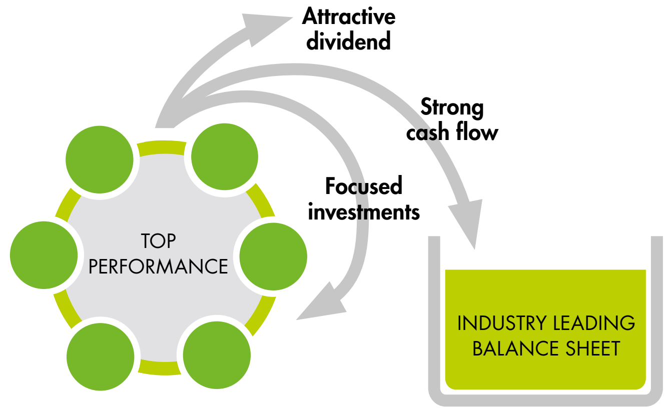
UPM has made significant changes in business portfolio and simultaneously improved its performance in most KPIs.

	2003	2008	2015
Sales	EUR 9.8bn	EUR 9.5bn	EUR 10.1bn
EBIT *)	EUR 429m	EUR 513m	EUR 898m
Net debt	EUR 4.9bn	EUR 4.3bn	EUR 2.1bn
Market cap	EUR 7.9bn	EUR 4.7bn	EUR 9.2bn
Personnel	34,500	25,000	19,600

*) excluding special items. EUR 265 million forest fair value increase in 2015 excluded for comparability



Top performance lays foundation for strategy execution



Grow with Biofore

UPM's strategic focus areas

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

1 PERFORMANCE

Continuous improvement in performance

UPM implements profit improvement actions in all businesses to further improve cost competitiveness and advance towards top performance in the businesses' respective markets. UPM is committed to continuous improvement in its financial, social and environmental performance.

- The profit improvement programme, launched in November 2014, exceeded its target of EUR 150 million of annualised fixed and variable cost savings by 10% in Q4 2015
- The programme also included the permanent closure of four publication paper machines in Europe
- UPM aims to further improve its resource efficiency and drive down variable and fixed costs in 2016, too
- Good governance, industry leading environmental performance, responsible sourcing and a safe working environment are important sources of competitive advantage

2 GROWTH

Focused growth projects

UPM invests in focused, high-return projects to capture growth opportunities in its business portfolio. The company is investing EUR 770 million in 2013–2016 in the following growth projects, targeting an EBITDA impact of EUR 200 million when all the projects are fully operational.

- 10% (340,000 t) capacity increase in the existing pulp mills
- Lappeenranta biorefinery and the start of the UPM Biofuels business
- Labelling materials and speciality papers expansion in China
- Increase in self-adhesive labelstock production capacity
- Birch plywood capacity expansion in Estonia

At the end of 2015, cumulative investments in the above projects totalled EUR 660 million. In 2016, focus turns to reaping the benefits from these investments, as most of them are ramping up.

3 PORTFOLIO

Business portfolio development and value creation

UPM aims to develop its business portfolio to increase its value, long-term profitability and growth outlook. The target is to increase the share of highly profitable businesses with good fundamentals for growth.

- Top performance: UPM targets top relative performance in each business in their respective markets
- Grow well performing businesses: focused, high-return growth investments and synergistic mergers and acquisitions
- Simplify: best value realisation for UPM
- Consolidation in the European paper market without allocating more capital
- Ability to take action: strong balance sheet and releasing capital

4 INNOVATION

New business and product development for long-term growth

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

BIOFUELS
Advanced renewable diesel suitable for all diesel engines

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

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

Product development in the current businesses is also an important source of competitive advantage and growth. All business areas aim to increase the value added for customers through product and service development.

Growth projects near completion – focus turns to reaping the benefits in 2016 and beyond

Capex so far EUR 660m | Remaining capex EUR 110m

Q2 2014	PIETARSAARI pulp mill expansion 70,000 t
Q3 2014	
Q4 2014	FRAY BENTOS pulp mill expansion 100,000 t
Q1 2015	LAPPEENRANTA BIOREFINERY 120 m litres of renewable diesel
Q2 2015	UPM RAFLATAC 50% expansion in APAC, growth in filmic labelstock in Poland
Q3 2015	KYMI pulp mill expansion 170,000 t
Q4 2015	UPM PAPER ASIA Changshu new speciality paper machine 360,000 t
Q1 2016	
Q2 2016	
Q3 2016	
Q4 2016	KAUKAS pulp mill efficiency improvement, paper and pulp decoupling completed; UPM PLYWOOD Otepää mill expansion to 90,000 m^3

Performance improvement and transformation continued in 2015

1 PERFORMANCE 2 GROWTH 3 PORTFOLIO 4 INNOVATION

BUSINESS AREA	STRATEGIC TARGETS	ACTIONS IN 2015	ACTIONS PLANNED FOR 2016 *)
UPM BIOREFINING	Grow as a cost competitive pulp producer providing the most versatile pulp product offering Commercialise the biorefinery investment Benefit from integrated full-production	Capacity expansion completed at UPM Kymi pulp mill 2 Commercial production started at UPM Lappeenranta Biorefinery 2 4 UPM Kaukas pulp mill investment decision 2 Debottlenecking investments at sawmills 1 Reduction in variable costs 1	Capture benefits of pulp capacity expansions 2 Complete UPM Kaukas pulp mill investment 2 Continue production ramp-up in UPM Lappeenranta biorefinery 2 4 Participate in variable cost savings 1
UPM ENERGY	Create value in power generation and physical and financial trading Profitable growth on the Nordic CO_2 emission-free electricity market	Optimal use of hydropower assets and hedging 1 Continued OL3 construction 2 Continued the refurbishment of hydropower plants 2	Continue OL3 construction and refurbishment of hydropower plants 2 Grow energy management services 2 Continue optimal use of hydropower assets 1
UPM RAFLATAC	Profitable growth through organic growth, product portfolio development and synergistic acquisitions Growth in high value added films and special products Expand presence in developing markets	Started up expanded production in China, Malaysia and Poland 2 Strengthened product portfolio in films and special products 1 2 4 Reduction in variable costs 1	Continuous product portfolio development 1 2 4 Ramp up production in new units 2 Plan new slitting and distribution terminals in growth markets 2 Participate in variable cost savings 1
UPM PAPER ASIA	Profitable growth in labelling materials globally and in high quality office papers in Asia-Pacific Exceptional customer experience and leading sustainability performance	Completed construction of the third production unit at UPM Changshu, China 2 Reduction in variable costs 1	Ramp up of the third production unit at UPM Changshu, China 2 Participate in variable cost savings 1
UPM PAPER ENA	Improve profitability and maximise cash flow through a customer-focused sales strategy Make use of optimisation opportunities in the extensive low-cost operations	Leverage on simplified, customer segment-based organisation 1 Closure of four paper machines 1 Reduction in variable and fixed costs 1 Improved market position 1	Strengthen customer relationships 1 Participate in variable cost savings, fixed cost savings 1 Study the possible sale of UPM Schwedt in Germany 1 3
UPM PLYWOOD	Profitable growth through customer-oriented service and operational excellence Strengthen market position in selected businesses by increasing value and service offering	Increased deliveries to demanding end-use segments 1 2 Otepää plywood mill investment decision in Estonia 2 Improved production flexibility 1 Competitiveness improvement programme at the Finnish birch plywood mills 1 Reduction in variable costs 1	Complete Otepää mill investment in Estonia 2 Participate in variable costs savings 1
WOOD SOURCING AND FORESTRY	Secure competitive wood	Reduction in wood costs 1 Sold 63,670 hectares of forest land in Finland 3 Sale of Tilhill Forestry Limited 3	Continue forest land sales 3 Participate in variable costs savings 1
BUSINESS PORTFOLIO DEVELOPMENT AND VALUE CREATION	Grow with synergistic acquisitions Simplify with best value realisation for UPM	Studied M&A opportunities, no significant transactions materialised 3 Sold the SMARTRAC share 3	Continue to look for value enhancing M&A opportunities 3
NEW BUSINESS DEVELOPMENT	UPM Biocomposites: business creation and continued growth UPM Biochemicals: further application development and piloting Commercialise technology and IPR innovations for core-related activities	Industrial concept development proceeded in biochemicals 4 Significant EU funding for biochemicals concept demonstration 4 Active management of patent portfolio, attractive partnerships with start-up companies enhanced 3 4	Continue to expand UPM ProFi product portfolio. Continue to commercialise UPM Formi 4 Continue to develop biochemicals 4 Continue technology and IPR commercialisation, search collaboration opportunities in bioeconomy/circular economy 4
RESPONSIBILITY	Comply with laws and regulation Mitigate risks and capture opportunities Enhance competitiveness Continuous improvement	Code of Conduct renewed 1 New 2030 responsibility targets established 1 Efficiency and safety improved 1 Responsible sourcing management strengthened 1	Code of Conduct launch and training 1 Efficiency and safety further improved 1 Diversity initiative to be launched 1 UPM's sponsorship and donations programme 1

*) not a complete list

EVENTS IN 2015

12 Jan: UPM announces that its Lappeenranta Biorefinery is in commercial production producing wood-based renewable diesel

19 Jan: UPM is listed as industry leader with Gold Class Distinction in RobecoSAM's sustainability assessment

20 Jan: UPM announces the permanent closure of three paper machines in Finland and in the UK as part of the profit improvement programme launched in Nov 2014

3 Feb: UPM introduces a new cash flow-based dividend policy

23 Apr: UPM announces an EUR 40 million investment to expand its Otepää plywood mill in Estonia

6 May: Renewable and locally produced UPM BioVerno diesel fuel becomes available at certain Finnish service stations

11 June: UPM's ValChem project receives EUR 13.1 million in funding from the EU to demonstrate an integrated biochemicals process from wood to chemicals value chain

16 June: UPM announces a EUR 50 million investment to further improve the efficiency and competitiveness of its Kaukas pulp mill

22 June: UPM permanently closes paper machine 3 at UPM Chapelle Darblay in France as part of the profit improvement programme launched in Nov 2014

24 June: Teollisuuden Voima Oyj decides not to apply for a building permit for the Olkiluoto 4 nuclear power plant project

1 Sept: UPM marks one hundred years of listing on the stock exchange

2 Sept: UPM sells Tilhill Forestry Limited to the BSW Timber Group

10 Sept: UPM is listed as industry leader on the global Dow Jones Sustainability Index

16 Sept: UPM announces that its FSC® group certification scheme for private forest owners in Finland has exceeded 100,000 hectares of certified forest

2 Oct: UPM joins China Sustainable Paper Alliance to promote responsibly sourced pulp and paper

7 Oct: UPM Plywood announces a competitiveness improvement programme at its Finnish birch plywood mills

12 Oct: UPM announces an increase in the IFRS fair value of its forests in Finland

27 Oct: UPM announces the successful ramp-up of the expansion in the UPM Kymi pulp mill in Finland

4 Nov: UPM is listed on the CDP Nordic Disclosure Leadership Index (CDLI) for the 7th time

17 Nov: UPM and LEIPA announce discussions on the potential sale and conversion of the UPM Schwedt mill into liner production in Germany

3 Dec: Finnish Market Court makes decision on biofuels-related patent dispute between UPM and Neste for UPM's benefit

10 Dec: UPM announces its plan to change its corporate structure in Finland to better match its current business structure

22 Dec: UPM announces the sale of its 10.6% SMARTRAC share to OEP Technologie Holding B.V.

Responsibility is good business

Corporate responsibility is an integral part of all our operations and is seen as a source of competitive advantage. UPM is strongly committed to continuous improvement in economic, social and environmental performance. UPM promotes responsible practices throughout the value chain and is active in finding sustainable solutions in co-operation with its customers, suppliers and partners.

MANAGING THE WATER CHALLENGE

UPM is among the investments of Norges Bank Investment Management (NBIM), one of the biggest investors in the world. In 2015, NBIM published a revised version of the "Water Management – Expectations to companies" guidance. The purpose of the guidance is to express how NBIM, as a financial investor, expects companies to manage the challenges and opportunities surrounding water resources.

UPM was consulted by NBIM for input and discussions in the development of the guidance, as UPM has been one of the top performers in NBIM's framework assessing water disclosures in companies' reporting. This co-operation is a good example of how the investor community and companies have started to promote best practices in sustainability topics. Integrating the issue of responsibility more thoroughly into investment decisions improves understanding of risks and opportunities and brings added value to the company and to the society.

Water risk analysis is relevant to UPM's business strategy and operational footprint. The company reports several water-related investment programmes to improve energy and water efficiency. UPM's most water-intensive production plants are located in areas where there is sufficient water available. High-quality fresh water is a precondition for high-quality paper products, for example.

As an example, UPM has mapped all pulp and paper mills on the Water Stress Index (WSI) maps, and reports water stress risk exposure per mill. UPM reports on water-related risks in its supply chain. UPM discloses several water performance indicators at corporate and mill levels. The indicators include volume of process wastewater, as well as emissions to the water courses.

Read more:
www.upm.com/responsibility

All UPM activities comply with local laws and regulations. The company respects international human rights agreements and agreements concerning labour rights, including the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the OECD Guidelines for Multinational Enterprises. The company is also one of the participants in the UN Global Compact initiative whose ten universal principles are derived from international agreements in the areas of human rights, labour standards, the environment and anti-corruption. UPM also takes into account the sustainable development goals (SDG) of the UN Agenda 2030.

In 2015, UPM was invited to join the UN Global Compact LEAD group intended for global sustainability leaders. The company has promoted global forest industry partnership projects in the World Business Council for Sustainable Development (WBCSD), The Forest Dialogue (TFD), and with other ethically-driven organisations, such as the World Wildlife Fund For Nature (WWF). UPM has also participated in local projects through its co-operation with several expert organisations.

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

During the year 2015, UPM renewed its Code of Conduct and drafted new long term targets. The project involved interviewing approximately 200 UPM representatives, including the Group Executive Team, the members of business and function management teams and other key personnel. UPM also involved external parties in the process through a third-party stakeholder survey.

The company's updated Code of Conduct discusses our commitment to ethical business conduct, respecting human rights, ensuring occupational safety and environmentally sound practices. The Code of Conduct is complemented by more detailed policies, rules and guidelines. Code of Conduct training is mandatory to all employees. Comprehensive training programme introducing the renewed Code of Conduct will be launched in 2016.

By the end of 2015, more than 90% of all UPM employees in active employment had attended training covering the previous Code of Conduct. The target set for the coverage of training was achieved as planned.

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

UPM continually strives to improve its environmental and health and safety performance by using various tools, such as certified management systems. The company is committed to monitoring and assessing its anti-corruption and anti-bribery activities. UPM's Ethics Advisory Committee monitors UPM's compliance with rules, and reports to the Board of Directors' Audit Committee at regular intervals.

Several focus areas In 2015, the main focus of UPM's responsibility activities was the previously mentioned renewal of the company's Code of Conduct and responsibility targets. The safety of employees and contractors also remained an important focus area. The planning of the new One Safety system began in 2015, and the system will be brought into use in 2016. The system covers the anticipatory observation and reporting of both occupational safety and environmental issues.

Progress was made in the renewal of the management systems used at the company's pulp and paper mills, for instance, the role of product safety was reinforced. Investments in the further development of responsible sourcing continued. The development work performed was based on the human rights assessment completed in 2013. The assessment was founded on the UN Protect, Respect and Remedy Framework, the UN Guiding Principles on Business and Human Rights, and a more comprehensive risk analysis than before.

Read more:
UPM's responsibility focus areas and 2030 targets are on page 36

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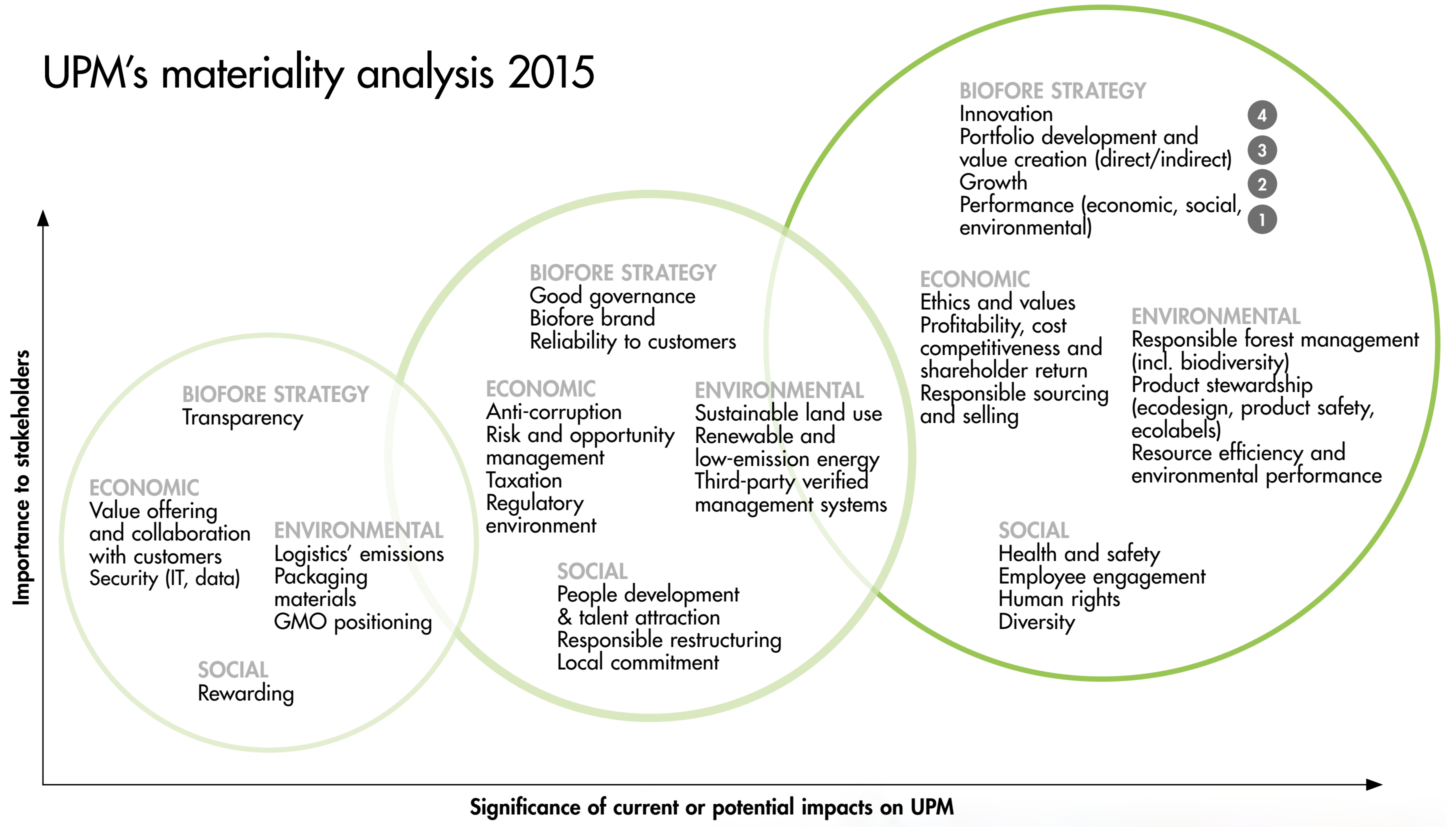
UPM's materiality analysis 2015



The materiality analysis of the company's responsibility issues (above) covers topics that directly or indirectly influence the ability to create, maintain or acquire economic, environmental or social value for UPM, stakeholders and society. UPM's responsibility thinking (below) starts from risk management and extends to stakeholder involvement. When all steps are included, we can achieve third-party recognition.

More with Biofore: Responsibility as a source of competitive advantage

Key performance indicators

UPM is committed to continuous improvement in its financial, social and environmental performance. This is reflected in its selection of KPIs. The updated responsibility focus areas, targets and performance indicators are presented on page 36.

Operating profit *) EUR 1,163 million
+37%
Improving business performance is reflected in increasing UPM operating profit. Strong competitiveness mitigates risks.

Operating cash flow per share EUR 2.22
–5%
Strong cash flow enables organic growth projects, business development and attractive dividends.

Earnings per share *) EUR 1.75
+50%
Increasing EPS reflects earnings to shareholders, following contributions to other stakeholders, e.g. employees, suppliers, debtors and taxes.

ROE *) 12.1%
+3.8pp
ROE measures earnings in relation to the equity.

Gearing 26%
–6pp
A strong balance sheet mitigates risks and enables value-enhancing strategic actions.

% of employees completed Code of Conduct training 90%
+2pp
The Code of Conduct lays the foundation for responsible business operations and continuous improvement.

Employee engagement 66%
+3pp
Engaged, high-performing people implement the Biofore strategy and drive short and long term success.

LTA frequency 3.9
–11%
Ensuring a safe working environment and safeguarding for employees and everyone working for UPM.

Supplier Code qualified supplier spend 79%
+12pp
Transparent supplier requirements form the basis of responsible sourcing throughout the entire supply chain.

Share of certified wood 84%
+1pp
Forest certification is an excellent tool for promoting sustainable forestry.

Share of ecolabelled products 77%
+1pp
Ecolabels help customers and consumers to make responsible choices and promote transparency.

*) excluding special items

Financial targets

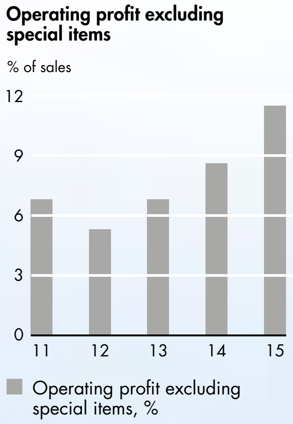
At the business area level, UPM targets top relative performance in their respective markets compared with key peers. UPM has also defined long-term EBITDA margin and ROCE targets for each of its business areas. In the case of UPM Paper ENA, these long-term targets are instead defined for cash flow margin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

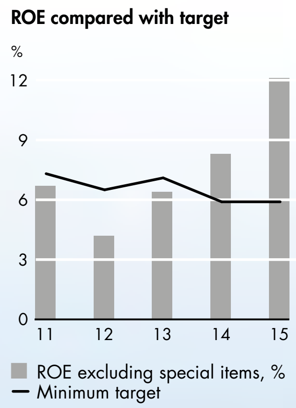
In UPM Energy, where the asset base is valued at fair value, the ROCE target is 6%. In the less capital intensive converting industry, UPM Raflatac, the ROCE target is 18%. Finally, in the process industry businesses UPM Biorefining, UPM Paper Asia and UPM Plywood, the ROCE target is 10-12%, or cash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

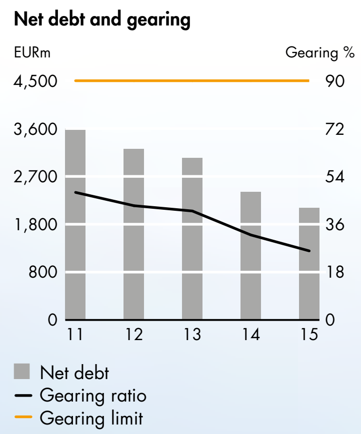
With the current business portfolio, achieving the business area targets simultaneously would result in a UPM Group operating profit margin of approximately 10%, and ROCE of approximately 9%.

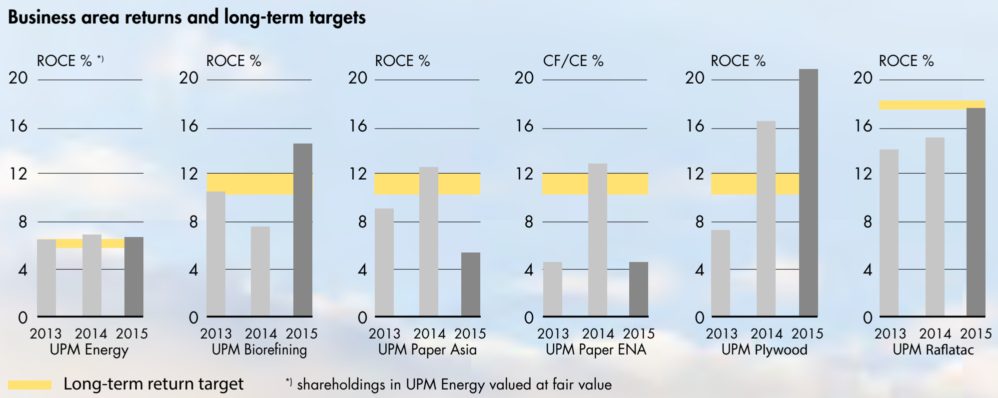
At the Group level, UPM's financial targets are based on return on equity and gearing. The return on equity target is at least five percentage points above the yield of a 10-year risk-free investment such as the Finnish government's euro-denominated bonds. At the end of 2015, the minimum target for return on equity, as defined above, was 5.9%. For 2015, UPM's return on equity excluding special items was 12.1%.

The company aims to maintain a strong balance sheet. The maximum limit for gearing ratio is 90%. At the end of 2015, gearing ratio was 26%.









UPM as an investment

1 PERFORMANCE · 2 GROWTH · 3 PORTFOLIO · 4 INNOVATION

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

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

UPM aims to increase shareholder value

Drive top performance: At the business area level, UPM targets top performance in their respective markets. In 2015, out of our six business areas, UPM Biorefining, UPM Plywood and UPM Energy exceeded their long-term return targets, and UPM Raflatac showed good improvement, getting very close to its target. (page 12). UPM is committed to continuous improvement in its financial, social and environmental performance. 1

Capture growth opportunities: To expand the well-performing businesses with promising long term fundamentals, UPM is implementing focused growth projects. In 2016, several growth projects are ramping up and focus turns to reaping the benefits from the investments. 2

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

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

Strong operating cash flow is important for UPM as it enables the realisation of organic growth projects and new business development, as well as paying attractive dividends to UPM shareholders. 1 2 3 4

Industry leading balance sheet: The company aims to maintain a strong balance sheet to enable portfolio changes that increase UPM's shareholder value. 1 2 3 4

Responsibility is an integral part of UPM's Biofore strategy. Good governance, industry-leading environmental performance, responsible sourcing practices and a safe working environment are important sources of competitive advantage. Proactive corporate responsibility work also enables business impacts and risks to be efficiently identified and mitigated. UPM's consistent efforts in this area continued to gain external recognition in 2015. 1

Dividend policy

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

DRIVING PERFORMANCE AND TRANSFORMATION

Over the past years, UPM has transformed from an integrated paper company into a Biofore company with six separate business areas, each striving for top performance in their respective markets. UPM has turned former internal resources such as chemical pulp and energy into customer-focused and market-driven businesses, created new business in advanced biofuels and grown in its other well-performing businesses. The company's profitability has improved, shareholder returns have increased and the balance sheet has been strengthened (see page 4).

Each business area is responsible for executing its own strategy and achieving targets. Group direction and support from global functions enable the businesses to capture benefits from UPM's brand, scale and integration, while navigating the complex operating environment.

UPM's structure of six separate businesses enables optimal capital allocation decisions at the group level, as well as developing the business portfolio further.

With the Biofore strategy (on page 5), we are committed to continue the transformation. A strong focus on performance and competitiveness, combined with an industry leading balance sheet, demonstrate our ability to execute it.

GROUP

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

IMPLEMENTATION IN BUSINESSES

Business area strategies
Commercial excellence
Growth projects
Profitability improvement programmes
Innovation

OUTCOMES

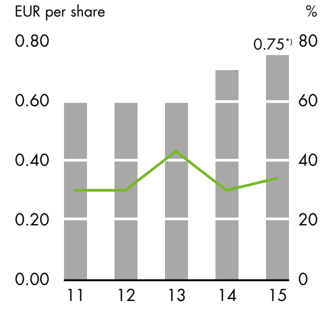
Top performance
Competitive advantage
Value creation
Shared value with stakeholders
License to operate

5-YEAR SHARE PERFORMANCE AND VALUATION MULTIPLES

	2015	2014	2013	2012	2011
Share price at 31 Dec, EUR	17.23	13.62	12.28	8.81	8.51
Earnings per share, excluding special items, EUR	1.75	1.17	0.91	0.74	0.93
Dividend per share, EUR	0.75 *)	0.70	0.60	0.60	0.60
Operating cash flow per share, EUR	2.22	2.33	1.39	1.98	1.99
Effective dividend yield, %	4.4	5.1	4.9	6.8	7.1
P/E ratio	10.0	14.2	19.5	neg.	9.7
P/BV ratio[1]	1.16	0.97	0.87	0.62	0.60
EV/EBITDA ratio[2]	8.4	7.5	8.3	6.0	5.8
Market capitalisation, EUR million	9,192	7,266	6,497	4,633	4,466

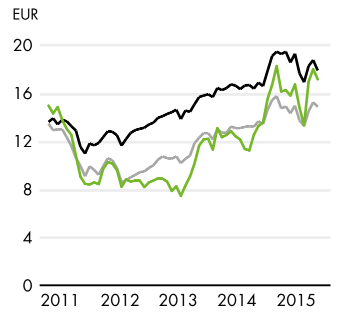
*) 2015: Board's proposal
1) P/BV ratio = Share price at 31.12./Equity per share
2) EV/EBITDA ratio = (Market capitalisation + Net debt)/EBITDA

Cash flow-based dividend



— % of operating cash flow per share
*) Board's proposal for 2015

UPM share price 2011–2015 compared with indices



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

UPM'S BIOFORE STRATEGY RECEIVES EXTERNAL RECOGNITION

UPM invited into UN Global Compact LEAD as the first forest industry company and the first Finnish Company as of 1 Jan 2016

Industry leader in the Dow Jones European and World Sustainability Indices for 2015–2016

RobecoSAM's annual Sustainability Yearbook 2015 with Industry Leader and Golden Class distinctions

CDP Nordic Disclosure Leadership Index the 7th time in a row

Number 25 in the 2016 Global 100 Most Sustainable Corporations in the World (Global 100)

Recognition by FAO for exemplary forestry in Uruguay

Global Compact LEAD

Member of Dow Jones Sustainability Indices In Collaboration with RobecoSAM

ROBECOSAM Sustainability Award Industry Leader 2015

ROBECOSAM Sustainability Award Gold Class 2015

CDP CLIMATE DISCLOSURE LEADER 2015

Read more:
www.upm.com/responsibility

Changing operating environment

The global population is growing and its purchasing power and living standards are expected to increase. By 2030, there may be 3 billion more middle-class consumers, mainly in the developing countries.

Digitalisation is already impacting most businesses today. This concept will continue to change consumer preferences, as well as the ways in which business or work are being conducted.

Climate change is a major challenge for the world. In the coming years, it is likely to have an increasing impact on businesses, both directly as well as through various policy responses. Both regulation and demand for transparency are increasing.

These developments represent many long term opportunities and challenges for UPM. They are also driving demand for sustainable solutions and responsible business practices.

MEGATRENDS	POPULATION GROWTH – URBANISATION AND EXPANDING MIDDLE CLASS IN EMERGING MARKETS DEMOGRAPHIC CHANGE	DIGITALISATION	CLIMATE CHANGE	RESPONSIBILITY AND COMPLIANCE
EXPRESSIONS	Global consumption growth Economic power shift to emerging markets Higher living standards Changing consumer behaviour and preferences Increasing interest for sustainable solutions and supply chains Resource scarcity, competition for natural resources	Changing consumer preferences — from print to screen Growing e-commerce Changing work Disruptive business models and technologies	Policies to limit and mitigate climate change Replacing fossil energy and oil-based materials Direct and indirect impacts of climate change	Increasing regulation, subsidies Requirements for transparency Global trade and businesses, local impacts Focus on human rights, pollution, biodiversity
OPPORTUNITIES FOR UPM	Attractive growth outlook for pulp, tissue, packaging, hygiene products, labelling materials, self-adhesive labelstock and wood products globally Attractive growth outlook for renewable materials and renewable energy Growing demand for safe and sustainable products New business opportunities with ecodesign Resource efficiency and circular economy offer competitive advantage Cost efficient and responsible supply chains Healthy forests and safeguarded wood availability	Different demand trends for different paper end uses and geographical areas UPM's paper production platform provides continuous optimisation opportunities Online shopping drives demand for labelling, packaging and pulp Increasing efficiency, productivity and change agility Industrial internet, big data, automation	Sustainability offers competitive advantage and growth opportunities Preferential treatment of low-emission and renewable energy Growing demand for safe and sustainable products New business opportunities with ecodesign Forests as carbon sinks Increased forest growth in Scandinavia	Responsibility and sustainability offer competitive advantage and growth opportunities Regulation may drive markets for sustainable products New business opportunities with ecodesign Transparency as competitive advantage Cost efficient and responsible supply chains Engaged and diverse workforce
CHALLENGES FOR UPM	Fit of UPM's product mix and geographical presence to future growth outlook Unpredictable raw material costs and availability Competition for renewable raw materials Unpredictable regulation and subsidies may distort markets	Declining graphic paper consumption Fit of UPM's product mix and geographical presence to future growth outlook Changing needs for skills and competencies Cyber security	Unpredictable regulation and subsidies may distort markets Cost for greenhouse gas emissions Political instability Increasingly common and more severe storms, floods, draughts, natural disasters Unpredictable wood harvesting conditions	Reputation and financial risks in case of non-compliance Unpredictable regulation and subsidies may distort markets Trade barriers, protectionism, sanctions

UPM'S BIOFORE STRATEGY FITS WELL INTO THE CHANGING WORLD

1 PERFORMANCE

- Continuous improvement in cost efficiency, competitiveness and productivity
- Efficient use of renewable materials and energy
- UPM Code of Conduct, compliance, transparency
- Responsible sourcing, UPM Supplier Code
- Continuous improvement in health and safety, employee engagement and human capital development
- Industry leading environmental performance, Best Available Techniques (BAT)
- Sustainable forest management, UPM's global biodiversity programme
- Water strategy, production in water abundant areas
- Local commitment
- Robust and safe IT systems

2 GROWTH

- Growth in competitive pulp, label, packaging and release materials, self-adhesive labels, office papers in APAC
- Plywood solutions for transport and LNG shipping
- Commercialise new business in biofuels (outside food value chain), biocomposites and biochemicals
- Focus on competitive, low-emission energy sources
- Talent attraction

3 PORTFOLIO

- Business portfolio development organically and potentially through M&A
- Businesses with best development and/or value potential for UPM

4 INNOVATION

- Develop new businesses in biofuels (outside food value chain), biocomposites and biochemicals
- Value added product and service development in current businesses
- Expertise in renewable materials and energy
- Product stewardship
- Recycling and reuse of production waste
- Collaboration and partnerships in R&D
- Intellectual property rights

Read more:
UPM's responsibility focus areas and 2030 targets are on page 36

Risks and opportunities

1 PERFORMANCE 2 GROWTH 3 PORTFOLIO 4 INNOVATION

The operating environment exposes UPM to a number of risks and opportunities. While executing strategies, UPM and its business areas, functions and production plants are exposed to a number of risks and opportunities. UPM regards risk management as a systematic and proactive means to analyse and manage the opportunities and threats related to its business operations. It also includes careful planning and evaluation of future projects and the business environment in order to avoid risks and capture opportunities. The organisation and governance model of risk management at UPM are described in the Corporate Governance Statement. The Report of the Board of Directors (page 79) includes further discussion on risks and risk management.

Read more:
www.upm.com/governance

	RISK DESCRIPTION	IMPACT	MANAGEMENT	OPPORTUNITY	STRATEGIC FOCUS AREAS INVOLVED
OPERATING ENVIRONMENT	Global economic cycles	Impacts the demand and sales prices of various UPM products and main input costs items, as well as currency exchange rates. UPM's main earnings sensitivities are presented on next page.	Industry leading balance sheet. Continuous improvement in competitiveness, resource efficiency and customer offering. Business portfolio development.	UPM's strong balance sheet and focus on competitiveness mitigate risks and may present strategic opportunities (incl. M&A) in an economic downturn.	1 2 3
	Faster than expected decline in demand for graphic paper	Increased pressure on UPM's graphic paper deliveries and sales prices	Continuous improvement in competitiveness. Focus on more attractive paper end-use segments. Adjust paper production capacity to profitable customer demand. Business portfolio development.	UPM's large paper production platform provides continuous optimisation opportunities. Reliable supplier of high quality products and customer service merits customer loyalty. Share of UPM businesses in declining markets is decreasing.	1 3
	Overcapacity in some of UPM's products due to changes in demand or supply	Temporarily impacts sales prices and deliveries of the product in question	Continuous improvement in competitiveness. Disciplined planning and selection of investments. Business portfolio development.	UPM's diverse business portfolio, focus on competitiveness and strong balance sheet mitigate risks and may present strategic opportunities (incl. M&A) in a cyclical downturn of a business.	1 2 3
	Significant moves in currency exchange rates relevant for UPM	Impacts UPM's earnings and cash flow directly and competitiveness indirectly. UPM's main currency exposures are presented on next page.	Continuous hedging of net currency exposure. Hedging the balance sheet. Continuous improvement in competitiveness. Disciplined planning and selection of investments. Business portfolio development.	UPM's diverse business portfolio and geographical presence, focus on competitiveness and strong balance sheet mitigate risks and may present strategic opportunities in changing currency environment.	1 2 3
	International trade barriers, e.g. antidumping duties	Impacts trade flows and short-term market balances and may directly or indirectly impact sales prices and deliveries of UPM products.	Monitoring through international trade associations. Continuous improvement in competitiveness. Disciplined planning and selection of investments. Business portfolio development.	UPM's diverse business portfolio and geographical presence mitigate risks and may present opportunities for optimisation in case of trade barriers in some products and locations.	1 2 3
	Changes in regulation, subsidies, taxation, e.g. related to climate policies	May distort markets, e.g. for energy or wood raw material. May change relative competitiveness of energy forms. May create additional competition for wood raw material.	Monitoring for early signals for regulation changes. Communicate the impacts of such policies on employment and creation of value-added clearly. Continuous improvement in competitiveness, materials and energy efficiency. Leading environmental performance. Innovation and selected investments in value added renewable products and energy. Business portfolio development.	May drive market growth for sustainable products and energy. Resource efficiency, circular economy and renewability are increasingly important sources of competitive advantage. In electricity markets, hydropower is an increasingly important and competitive form of power generation.	1 2 3 4
	Availability and price of major production inputs like chemicals, wood and fibre	Increased cost of raw materials and potential production interruptions. UPM's cost structure is presented on next page.	Continuously improving resource efficiency. Long-term supply contracts and relying on alternate suppliers. Selected ownership of forest land and long-term forest management contracts.	UPM's continuous improvement in resource efficiency and circular economy mitigate risks and offer competitive advantages.	1 3
OPERATIONS AND STRATEGY	Continuous improvement in competitiveness	Weakening relative competitiveness impacts profitability and increases risks related to the external business environment (above).	Programmes for savings in variable and fixed costs. Culture and track record of continuous improvement in productivity and resource efficiency. Product and service development.	Increasing relative competitiveness improves profitability and mitigates risks related to the external business environment (above).	1 4
	Selection and execution of investment projects	Material cost overruns. Inopportune timing. Return on investment does not meet targets	Disciplined selection, planning, project management and follow-up processes.	Carefully selected and implemented growth projects improve UPM's profitability and ROCE. UPM's financial targets are presented on page 12.	2
	OL3 nuclear plant start-up	Loss of profit and cost overruns. Inopportune timing. Return on investment does not meet targets	Ensuring that contractual obligations are met by both parties. Arbitration proceedings have been initiated by both parties.	The investment provides a competitive, safe and CO_2 emission-free electricity supply for the long term.	2
	Selection and execution of M&A	Cost of acquisition proves high and/or targets for strategic fit and integration are not met. Return on investment does not meet targets	Disciplined acquisition preparation to ensure the strategic fit, right valuation and effective integration.	UPM's strong balance sheet and cash flow enable value-enhancing M&A when timing and opportunity are right.	3
	Developing and commercialising innovations and new businesses	Return on investment does not meet targets. Lost opportunity.	Disciplined selection, development and commercialisation processes for innovations. Collaboration and partnerships in R&D and commercialisation. Business model development.	Existing products and services redesigned to bring more value. New value-added products to replace oil-based materials may be a significant source of value creation and growth for UPM.	1 4
	Compliance risks; competition law, anti-corruption, human rights	Damage to reputation. Loss of business. Fines and damages. May impact the value of the company.	Governance, compliance procedures, Code of Conduct, Supplier Code, audits, whistleblowing channel, training	Good governance mitigates risks and promotes best practices. High responsibility standards are a differentiating factor and create long term value.	1 2 3
	Supply chain reputation risks	Damage to reputation. Loss of business. Loss of competitive position. May impact the value of the company.	Code of Conduct, Supplier Code, supplier audits, certification	Responsible sourcing practices mitigate risks and provide competitive advantage.	1 2 3
	Environmental risks; a leak, spill or explosion	Damage to reputation. Sanctions. Direct costs to clean up and repair potential damages to production plant. Loss of production.	Best available techniques (BAT). Maintenance, internal control and reports. Certified environmental management systems (ISO 14001, EMAS).	Industry-leading environmental performance, provides competitive advantage, including efficiency gains.	1 2 3
	Physical damage to the employees or property	Harm to employees and damage to reputation. Damage to assets or loss of production.	Occupational health and safety systems. Loss prevention activities and systems. Emergency and business continuity procedures.	Leading health and safety performance strengthens the brand as an employer, as well as improving engagement, efficiency and productivity.	1
	Ability to retain and recruit skilled personnel	Business planning and execution impaired, affecting long-term profitability	Competence development. Incentive schemes. Workplace safety. Acting on employee engagement and management effectiveness.	Engaged high-performing people enable the implementation of the Biofore strategy, as well as commercial success.	1 2 3 4
	Availability and security of information systems	Interruptions in critical information systems cause a major interruption to UPM's business. Damage to reputation. Loss of business.	Technical, physical and process improvements to mitigate availability and security risks.	Sophisticated IT systems enable efficient operations, optimised performance as well as new customer services and data security.	1 4

Changes in sales prices

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

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

	EURm
Papers in UPM Paper ENA	501
Fine and speciality papers in UPM Paper Asia	97
Label materials	141
Plywood	41
Sawn timber	30
Chemical pulp (net effect)	21

Exchange rate risk

Changes in exchange rates can have a marked impact on financial results.

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

At the end of 2015, UPM's estimated net risk currency flow for the coming 12 months was EUR 1,930 million. The US dollar represented the biggest exposure, at EUR 1,010 million.

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

FOREIGN NET RISK CURRENCY FLOW

	EURm
USD	1,010
GBP	600
JPY	230
Others, total	90

Cost structure

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

COSTS, EXCLUDING DEPRECIATION

%	2015	2014
Delivery of own products	10	10
Wood and fibre	29	31
Energy	9	9
Fillers, coating and chemicals	11	11
Other variable costs	17	14
Personnel expenses	14	15
Other fixed costs	10	10
Total	**100**	**100**

Costs totalled EUR 8.8 billion in 2015 (2014: 8.7 billion)

UPM Biorefining

OUR DIRECTION

- In Pulp, maintain cost competitiveness through continuous operational improvement, provide the most versatile pulp product range aligned with top-notch environmental standards and most advanced technical service. Grow as a cost efficient producer through debottlenecking investments and potentially through acquisitions.
- In Biofuels, commercialise the investment in the world's first biorefinery producing wood-based renewable diesel.
- In Timber, enhance profitability through efficient use of wood supply, integrated full-production and sharpened commercial strategy.

OUR STRENGTHS

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

KEY FIGURES

	2015	2014
Sales, EURm	**2,272**	1,937
Operating profit excl. special items, EURm	**467**	217
Capital employed (average), EURm	**3,191**	2,862
ROCE excl. special items, %	**14.6**	7.6
Personnel on 31 Dec.	**2,593**	2,529

Significant improvement in profitability

Benefits from integrated production

In the UPM Biorefining business area, UPM combines integrated production of pulp, renewable diesel and sawn timber with a joint supply chain of wood raw materials. Energy, crude tall oil and turpentine are recovered in the pulp production process. Pulp mills produce renewable energy in their recovery boilers and provide fossil CO_2-neutral biomass-based electricity. Crude tall oil is the raw material in UPM's Lappeenranta Biorefinery producing wood-based renewable UPM BioVerno diesel.

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

Business performance

In pulp operation, profitability increased mainly because of higher average pulp sales prices. Variable costs decreased, partly because of improved cost efficiency. Biofuels production ramp-up was slow in the first half of the year and improved after the maintenance shutdown in the third quarter. Profitability reached break-even by year-end.

Profitability in sawmill operations decreased due to stiffer price competition, more than offsetting the positive impacts of increased delivery volumes and improved production efficiency. UPM Biorefining's return on capital employed increased, exceeding the long-term target.

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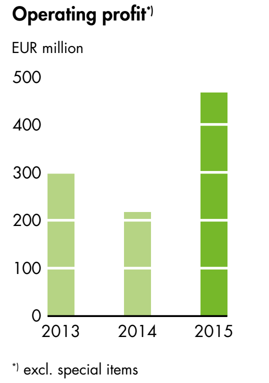


UPM BIOREFINING — VALUE CREATED

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

FORESTRY AND WOOD SOURCING
- Professional sourcing organisation
- UPM's certified forests in Finland
- UPM's certified eucalyptus plantations in Uruguay
- Forestry services

Synergies in wood sourcing and raw materials

PRODUCTION

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

BIOFUELS
- Advanced renewable diesel
- World's first biorefinery producing wood-based renewable diesel
- IPR

TIMBER
- Efficient sawmills

Synergistic operations in production integration

SALES

PULP
- Multi-fibre pulp product offering
- World-class technical service
- Global sales

BIOFUELS
- Regional sales

TIMBER
- Skilled global sales network

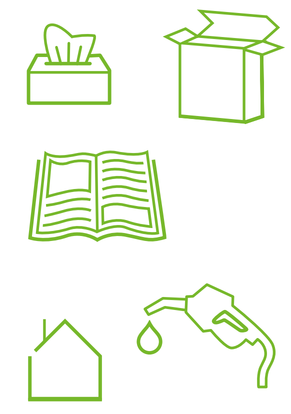
CUSTOMERS

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

BIOFUELS
- Fuel distributors

TIMBER
- Construction, furniture, joinery industries

END USES



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

UPM Biorefining

LONG-TERM COMMITMENT TO EUCALYPTUS

UPM has been planting eucalyptus in Uruguay for a quarter century after new legislation was passed to boost the forest industry. The plantations are managed by Forestal Oriental, a UPM-owned company active in Uruguay since 1990.

Most of the harvest from UPM's eucalyptus plantations in Uruguay is used to make pulp at the UPM Fray Bentos pulp mill. The mill began operations in November 2007.

Eucalyptus trees are mature for harvesting within about ten years. UPM has continued developing the species chosen for cultivation through systematic breeding. The ultimate goal is to ensure that the pulp remains as uniform as possible, as this is crucial for customers' production processes.

In addition to pulp, the Fray Bentos mill generates electricity, which is sold to the national grid. The mill generates nearly 9% of the Uruguayan electricity supply.

UPM has been co-operating with private landowners since 2005 within the framework of the FOMENTO Programme. Under the programme, UPM Forestal Oriental supplies the tree seedlings and is responsible for planting and harvesting the trees later on. The plantations offer income for agriculture, while the forest industry is expanding its planted areas with the support of farmers.

Read more:
www.upmpulp.com

Business development

Over the past two years UPM has made focused investments in expanding production and improving efficiency at the Pietarsaari, Kymi and Fray Bentos pulp mills.

The modernisation of the UPM Pietarsaari pulp mill was completed in 2014 and the UPM Kymi mill expansion investment was completed in 2015. Minor investments have been made in the Fray Bentos mill to increase production in line with the permit received in June 2014.

Having successfully completed these projects, focus is turning to releasing benefits of the investments. Production capacity of these mills grows gradually by 340,000 tonnes.

In June, UPM announced a EUR 50 million investment in UPM Kaukas pulp mill in Lappeenranta. When completed, the work will strengthen the mill's efficiency, competitiveness and optimisation and benefit the entire Kaukas integrated mill. The investment is expected to be completed by the end of 2016.

UPM's pulp mill expansions, part of UPM's growth investments, are primarily production debottlenecking investments and thus estimated to be value enhancing with low risk. When all projects are completed, UPM will have realised full potential of its existing pulp production operations.

The investments in the Kymi and Kaukas mills will complete UPM's strategic decoupling of its pulp and paper businesses. This will enable higher efficiency and separate optimisation of pulp and paper production, while simultaneously maintaining internal synergies at the mill sites.

UPM Biorefining offers its pulp customers a multi-fibre pulp product range directly from producers to the global market. From own production or through co-operation, UPM Biorefining provides customers with the most versatile range of northern softwood, birch, eucalyptus and semi-chemical pulp.

UPM Biorefining's own pulp sales and technical service experts are located close to customers and in each mill working in close co-operation with UPM's global R&D network.

Demand for chemical pulp continues to increase globally due to its versatility in a broad range of end-use applications. Growth is stable, predominately driven by private consumption.

The wide range of pulp end uses with different quality requirements makes selecting the most suitable pulp quality essential to providing benefits to the customers. In pulp production, the quality of the wood fibre impacts sourcing costs, production efficiency and pulp quality. For UPM's pulp customers and the production alike, consistent product quality is of utmost importance.

UPM Biorefining's multi-fibre offering fits well into the frame of sustainable fibre usage, i.e. optimal fibre for each end use. In wood sourcing for pulp production, UPM meets the highest sustainability demands in the industry.

In January, the UPM Lappeenranta Biorefinery started commercial production of advanced renewable diesel UPM BioVerno. The biorefinery is the first of its kind in the world.

The production process works as planned and the high quality end product fulfils customer specifications. The production ramp-up phase of the biorefinery has included customary new process and production-related challenges. In 2015 efforts targeted improved utilisation and stable production.

Production is based on a hydrotreatment process developed by UPM, and the capacity is approximately 120 million litres of advanced renewable UPM BioVerno diesel annually. The Lappeenranta Biorefinery is the first significant investment in a new and innovative production facility and marks an important step in UPM's transformation process.

In May, distribution of UPM BioVerno started through St1 and ABC service stations in Finland. UPM BioVerno is a competitive and sustainable alternative to fossil fuels or first generation biofuels, and is well positioned among the few existing advanced biofuel alternatives available on the market.

As an integral part of UPM Biorefining's value chain, efforts to enhance performance of the wood supply chain continued. Sourcing of high quality logs and pulp fibre as well as full-production in sawmills enabled efficient production at integrated mills and also enabled UPM Biorefining to act as a reliable and stable customer on the wood market.

UPM increased production at sawmills through several debottlenecking investments, e.g. the modernisation of the log sorting line at Seikku sawmill improved the overall production efficiency.

Markets and drivers

- Chemical pulp demand is growing globally by approximately 2-3% annually, driven by growth in private consumption. In 2015, global market shipments increased by 3% compared to the previous year.
- Pulp consumption is driven by an increasing use of tissue papers, hygiene products as well as board and specialty papers, for example for packaging and labelling. In developing markets, growth is also underpinned by middle class expansion and fast urbanisation.
- Demand for hardwood pulp grows faster than for softwood pulp due its end-use qualities and lower production costs.
- The global hardwood pulp production capacity is growing, primarily through new production line installations entering the market. The softwood pulp production capacity is growing mainly through expansion investments.
- Chemical pulp demand is also supported structurally as the graphic paper segment supplies fewer white recycled fibres for the growing tissue and speciality segments.
- Older pulp capacity has been closed down for financial and environmental reasons.
- Demand for advanced biofuels is growing due to stricter environmental standards and sustainability requirements. Regulation developed in favour of advanced biofuels.
- Sawn timber demand is driven by the activity of joinery, packaging, distribution and construction industries. In 2015 demand remained stable in Europe, Asia and the Middle East and North Africa.

CLEAN POWER FROM THE FINNISH FORESTS

The UPM BioVerno renewable diesel project reached its ultimate goal when the product was launched onto the markets at the beginning of May 2015. Finnish energy company St1 has been selling UPM BioVerno as part of their Diesel plus fuel at its filling stations in Finland.

Harri Tuomaala, Marketing and Communications Director at St1 confirms that an important share of St1 diesel customers are using Diesel plus containing UPM BioVerno on a daily basis as there are over 100,000 Diesel plus refills in a day.

Tuomaala says that the technical properties of UPM BioVerno make it an excellent component in St1's Diesel plus. A higher cetane number improves the engine performance due to a fast combustion of the diesel fuel. UPM BioVerno has also been granted the Finnish Key Flag symbol.

"For consumers this is a clear case as Diesel plus with UPM BioVerno is compatible with all diesel engines, just like traditional diesel. In addition, it is seamlessly compatible with the existing distribution infrastructure."

"UPM BioVerno is delivered from Lappeenranta to our blending terminal located in Hamina. Then it is blended there with our Diesel plus product and delivered to our service stations across the whole country."

Read more:
www.upmbiofuels.com

UPM Energy

OUR DIRECTION

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

OUR STRENGTHS

- Cost competitive, low-emission electricity generation portfolio
- Versatile asset base – nuclear power as base load capacity, hydropower as flexible capacity and condensing power as reliable peak load capacity
- Strong competencies and value creation track record in physical and financial electricity trading
- Proven capabilities in energy management services to both generating and consuming customers

KEY FIGURES

	2015	2014
Sales, EURm	**415**	464
Operating profit excl. special items, EURm	**181**	202
Capital employed (average), EURm	**2,716**	2,903
ROCE excl. special items, %	**6.7**	7.0
Personnel on 31 Dec.	**73**	80

Mitigating market challenges

Business performance

Operating profit decreased due to clearly lower average electricity prices. Significantly higher hydropower generation volumes reduced production costs, and thanks to good water availability and increased price volatility, profit opportunities improved from optimal use of the adjustable hydropower capacity. Return on capital employed met long-term financial targets.

Business development

The year 2015 was characterised by a challenging market environment. Electricity prices decreased and the competitive market situation remained distorted. Mild temperatures caused decrease in demand and electricity prices also decreased thanks to exceptionally good hydrology.

The competitive market situation was impacted by non-market driven issues such as regulation, taxes and support schemes, benefitting renewable energy generation. Meanwhile other generation forms, including emission-free hydropower and cost competitive nuclear generation, suffered from weak profitability and generally rising taxes and environmental regulation.

Current low electricity prices and the distorted competitive market situation prevent market-based modernisation or new investments in low-emission generation technologies. The full potential of all sustainable alternatives may not be fully utilised.

The challenging market conditions are laying the groundwork for industry restructuring, e.g. by mothballing coal condensing and decommissioning nuclear power capacity before the originally projected life span. Market situations may also call for structural changes in the industry and UPM Energy, as a large producer, can be an active participant.

The share of weather-dependent (wind and solar) power production is growing. This increases price volatility and also the need for flexible balancing power generation to compensate for the variations in the production and consumption of electricity. Hydropower is an efficient way to produce this balancing power and it is needed to mitigate climate change.

With its competencies and optimal use of its hydropower assets, UPM Energy is well positioned to generate good profitability and create additional value from the increased electricity price volatility in the market.

In 2015, UPM Energy proceeded with its hydropower production asset upgrades. Through its ownership of Länsi-Suomen Voima Oy, UPM Energy is participating in the expansion of the Harjavalta hydropower plant. The project covers a new machine unit and refurbishment of the existing two turbines. When completed in 2017, the project will improve the efficiency, control and environmental safety of the plant, while also responding to the increasing demand for flexible capacity. The total power output of the plant will increase from 72 MW to 110 MW.

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

Through Pohjolan Voima Oy (PVO), UPM is entitled to approximately 500 MW of capacity.

According to the plant supplier's schedule, regular electricity production is scheduled to start at OL3 towards the end of the year 2018.

In June 2013, UPM announced that it is participating in the share issue from Pohjolan Voima Oy to finance the Olkiluoto 3 nuclear power plant project. UPM's share of the issue is EUR 119 million, of which EUR 31 million was paid in Q4 2015, EUR 31 million in Q4 2014 and EUR 31 million in Q2 2013. The remaining part of the share issue will be implemented in the coming years based on the financing needs of the project.

In June 2015, Teollisuuden Voima Oyj decided not to apply for a building permit for the Olkiluoto 4 nuclear power plant unit, resulting in a charge of EUR 19 million related to UPM's participation in the tendering and planning phase of the project.

Markets and drivers

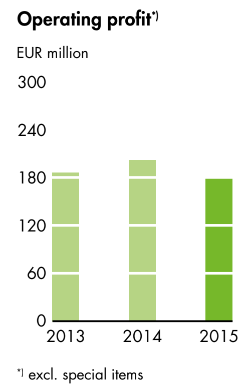
- Electricity consumption in the Nordic countries is expected to remain stable. Demand is driven by household consumption, the commercial sector and industrial activity, and it is heavily dependent on temperatures.
- In 2015, electricity consumption in the Nordic countries decreased slightly, primarily due to weather that was warmer than usual.
- New capacity investments in the Nordic countries are driven by economics and influenced by regulatory policies and support schemes Therefore, capacity is mainly growing in subsidised renewables.
- Due to current market conditions, existing generation capacity is decommissioned before the originally projected life span, e.g. it has been announced that Swedish nuclear capacity will be decommissioned earlier than expected.
- Hydrological balance and wind in the Nordic countries impacts electricity supply and, therefore, electricity prices and price spreads between different price areas.
- In the Nordic countries there are several different price areas; UPM Energy's assets are located in the Finnish price area only. Power markets across Europe are becoming more integrated due to new transmission lines.

HYDROPOWER IS SUPERIOR BALANCING POWER

As the use of renewable energy based on the forces of nature increases, also the need for balancing power grows to maintain the stable operation of the power grid. If there is no wind or sunlight, the electricity generated by windfarms and solar power plants has to be replaced by other energy sources. Balancing power is also needed for evening out the fluctuations in energy consumption.

Hydropower is an excellent solution for producing balancing power. The electricity production of a hydropower plant can be adjusted very quickly by controlling water flow and the operation of the turbines. Unlike wind and sunlight, water can also be stored for future needs. By using reservoirs, electricity can be generated when it is needed. Autumn rainfall can for instance be used to generate electricity during the cold winter months.

Read more: www.upmenergy.com



UPM ENERGY VALUE CREATED

CAPITALS

Capital intensive utility business

Low-emission energy sources, including water rights

Fuels

Engaged high performing people

Organisational experience

Energy trading platform

Regulation

VERSATILE GENERATION

(from own hydropower plants and shareholdings in energy companies)

HYDROPOWER
- Flexible
- Cost competitive
- Low emissions
- Renewable

NUCLEAR
- Efficient base load
- Cost competitive
- Low emissions

CONDENSING POWER
- Reliable peak load

PHYSICAL POWER MARKET

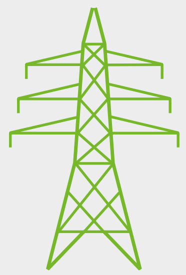
- Physical value creation
- Mainly Nord Pool Spot market for day-ahead and intraday trading
- Members (buyers and sellers) agree on contracts for the delivery of power

FINANCIAL MARKETS

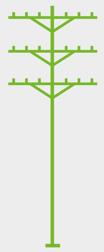
Derivative power contracts traded on Nasdaq Commodities
- Value protection and creation

Energy management services to both generating and consuming customers

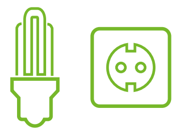
TRANSMISSION



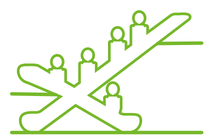
DISTRIBUTION



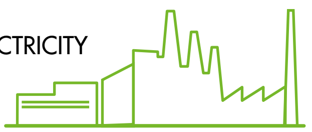
HOUSEHOLD CONSUMPTION



SMALL AND MEDIUM SIZED ENTERPRISES



INDUSTRIAL ELECTRICITY CONSUMPTION



OUTCOMES

Low-emission electricity

Work safety

Energy supply security

Flexible power supply

Risk mitigation

ROCE

UPM Raflatac

OUR DIRECTION

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

OUR STRENGTHS

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

KEY FIGURES

	2015	2014
Sales, EURm	**1,409**	1,248
Operating profit excl. special items, EURm	**102**	80
Capital employed (average), EURm	**581**	530
ROCE excl. special items, %	**17.6**	15.1
Personnel on 31 Dec.	**2,894**	2,847

Consistent progress

Business performance

Operating profit increased because of higher sales margins partly resulting from improved operational efficiency and higher delivery volumes. Fixed costs increased. Exchange rate adjusted sales grew by 6% in 2015 compared to 2014. Return on capital employed increased for the second year in a row and came close to the long-term target.

Business development

UPM Raflatac's performance improved in all geographical regions thanks to efficiency improving measures and timely growth investments. Delivery volumes improved above all in Europe, UPM Raflatac's largest market.

Solid progress in 2015 was in part a result of successful product portfolio development, particularly in film and special products. Exchange rate adjusted sales of films and special label products grew by 7% and paper-based label materials grew by 5% in 2015 compared to 2014.

UPM Raflatac is actively developing its product portfolio to generate growth and respond to market demand. Close partnerships with label printers and brand owners are an elementary part in building their brand and product appeal.

In April, production started at the new labelstock coating line in Nowa Wies, Poland. The new line, part of UPM's growth projects, was a timely investment and enables cost competitive growth in film products, a key strategic focus area. The strengthened offering in high value added films and special products, in parallel with increased production capacity and service capability, enabled UPM Raflatac to advance in the fast growing end-use segments such as wine and spirits.

Developments in innovative products such as ultra-thin and conformable films, roll-fed shrink sleeves and solvent-free adhesive technology for challenging end-use applications further enhance growth opportunities. Such innovations also secured productivity gains and leaps forward in sustainability and product safety.

Private consumption growth strengthened in 2015, further stimulated by the online retail trade. This increased self-adhesive label use in the packaging industry. UPM Raflatac was able to benefit from the favourable market environment due to its efficient production platform and distribution network as well as the new investments. UPM Raflatac's sales increased by a strong 6% in developed markets in 2015 compared to 2014.

In rapidly growing developing markets, fast urbanisation, population growth and higher disposable income are main drivers for increased opportunities. In 2015, these markets represented one third of UPM Raflatac's sales and exchange rate adjusted sales grew by 5% compared to 2014. In Asia, growth continued albeit at a lower level than in the previous year. In Latin America, demand remained at the previous year's level due to weaker economic growth in the region, particularly in Brazil. Robust demand growth continued in most of Eastern Europe.

In Asia, UPM's labelstock business has seen rapid growth in recent years. The capacity expansion of 50% in the Asian region, part of UPM's growth investments, allows UPM Raflatac to respond to the increasing demand with improved quality, service and cost competitiveness in the long term. A material improvement in cost efficiency was already achieved in fact in 2015.

The new coating line in Changshu, China, completed in June 2015, machine investments in Changshu and Malaysia and terminal investments in China and Mexico significantly enhance the manufacturing network and local service in these rapidly growing developing markets.

Stakeholder demand in sustainability and product safety issues is growing in all markets offering new opportunities for value creating partnerships. In 2015, UPM Raflatac had multiple stakeholder initiatives with customers, end-users, industry associations and the environmental organisation WWF in Poland and South Africa.

Markets and drivers

- In 2015, global demand for label materials is estimated to have increased by 4-5% compared to the previous year.
- The global label materials market has a sustained robust growth outlook, evidenced by private consumption forecasts for branded and packaged goods.
- Thanks to its versatility and brand appeal, self-adhesive labelling as a technology is increasing its market share among labelling solutions.
- The growth of the online retail trade is increasing label use for packaging and logistics. Stricter legislation, especially in food labelling, regarding product content and authentication is also rising demand for self-adhesive labels.
- Growth rates are strongest in developing markets, thanks to urbanisation, an expanding middle class and increasing income levels. Demand is further supported by the rapid development of retailers, distributor networks and automated product labelling.
- In the mature markets, in recent years growth has surpassed the private consumption growth and is mainly driven by product renewal, innovations and tailored solutions.

SHRINK SLEEVE LABELS ARE THE RISING TREND IN PACKAGING

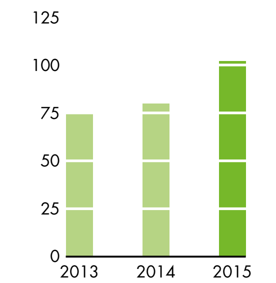
With shrink sleeve labels, UPM Raflatac is expanding its business from self-adhesive label materials to a new product area. Shrink sleeves do not contain any adhesive, but are shrunk tightly around products using hot steam.

The UPM Raflatac RafShrink shrink sleeve films have primarily been designed for the beverage industry where production volumes are high. The shrinkage properties of these film labels are essential to its functionality.

"Due to UPM innovations, the shrinkage properties of our materials are excellent compared to other similar polyolefin films. Our products have also high clarity and low haze, which ensures sharp images with vibrant colours," Erkki Nyberg, Director, Shrink Sleeve Films, UPM Raflatac explains.

Read more:
www.upmraflatac.com,
www.upmbiofore.com

Operating profit[1]



[1] excl. special items

UPM RAFLATAC VALUE CREATED

CAPITALS

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

SELF-ADHESIVE LABELSTOCK FACTORIES

- Modern
- Efficient
- Strategically located

DISTRIBUTION AND SLITTING NETWORK

- Optimised distribution and slitting network
- Efficient and responsive

SALES AND SERVICES

- Loyal relationships
- Global scale
- Technical know-how

New concepts and products, sustainability through the lifecycle

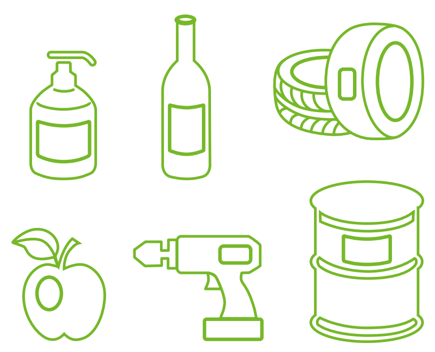
CUSTOMERS

Label printers

LABEL USING INDUSTRIES

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

END USES



OUTCOMES

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

UPM Paper Asia

OUR DIRECTION

- In Label, Pack & Release, profitable growth globally through competitive production, innovations and strengthened partnerships with customers by offering an exceptional customer experience and leading sustainability performance
- In Fine Paper Asia-Pacific, profitable growth in high quality office papers, new innovations through strengthened partnerships with customers achieved by offering exceptional customer experience and leading sustainability performance

OUR STRENGTHS

- Global market leadership in labelling materials, focusing on high quality release liners, face papers and flexible packaging papers
- Reliable supplier with high quality fine papers in Asia Pacific with extensive distribution network
- Exceptional customer service globally and strong office paper brands in China
- Recognised industry leader in sustainability and environmental excellence
- Cost efficient operations with unique position on the Asian market

Preparing for growth

Business performance

Operating profit decreased mainly due to the negative impact of currency hedging. Return on capital employed decreased and was short of the long-term target.

Business development

In 2015, UPM Paper Asia completed the investment in a third production unit at the UPM Changshu mill in China. Production started in December. The new unit, part of UPM's growth investments, facilitates growth in labelling materials and release liner markets globally, in the Asian office and graphic paper market as well as in various converting end uses. The annual production capacity is 360,000 tonnes.

The investment further strengthens UPM Paper Asia's unique position on the Asian market. The business area is headquartered from Shanghai within the fast growing region in China. The production operations in Changshu are conveniently located close to Shanghai and next to the Yangtze river, providing logistical competitiveness. UPM Paper Asia has an extensive sales and distribution network throughout Asia and is a recognised industry leader in sustainability and environmental excellence globally.

The new production unit enables growth, improves local cost efficiency and enhances global market coverage of UPM Paper Asia's labelling materials and release liners. Due to shorter lead times, the new unit provides an excellent platform for strengthening partnerships with customers through improved capability to provide a full range of services and new products in Asia Pacific. Thus far production has been concentrated to two mills in Finland. The unit will also improve production flexibility for the European and North American markets. Global labelling materials demand growth is primarily driven by economic growth in emerging markets as well as growth in automated product and logistics labelling, meanwhile demand for release liner, as a carrier of adhesive materials used e.g. in various fastening systems of hygiene, graphic, industrial applications or in manufacturing, has a wide variety of end uses with robust growth outlook.

UPM Paper Asia holds a strong position in office papers in China and selectively in coated and uncoated fine papers in Asia. Graphic fine paper demand is in slight decline, whereas the new production unit particularly responds to continued growth in office papers and various converting applications, driven primarily by economic activity in the region. UPM's success on the Asian fine paper market is supported by high quality products, well established own brands, excellence in sustainability, and exceptional customer experience through an extensive own sales and distribution network. UPM Paper Asia's growth opportunities have been restricted by capacity.

Markets and drivers

- The labelling materials and release liner market is growing globally, particularly in Asia Pacific. In 2015, the global market grew by 3–5%. In Asia Pacific, the growth rate was even twice as high.
- In developing markets, growth is driven by private consumption, middle class expansion and branded goods. Growth is also supported by the rapid development of retailers and automated product labelling. Moreover, release liner demand is driven by increasing use of pressure sensitive adhesive materials in consumer products, industrial applications and the manufacturing industry.
- In Asia Pacific, fine paper demand somewhat decreased, while office paper demand grew by 2–3% in 2015 compared to 2014.
- Regional office paper demand is driven by economic activity, urbanisation and new company establishments.
- In Asia overcapacity prevails in all paper grades and US anti-dumping and countervailing duties on some Asian producers are adding regional fine paper supply. New investments and paper machine conversions to uncoated wood-free and labelling materials in Asia Pacific, as well as conversions to labelling materials in Europe have intensified the competition.

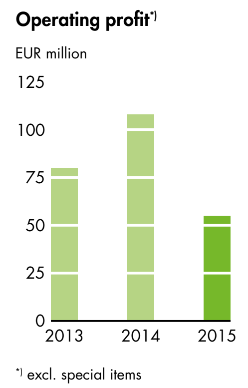
A CHINESE PROJECT WITH FOCUS ON SAFETY

UPM has completed its new paper machine project at the UPM Changshu mill in China not only on time, but with an enviable safety record. Strict safety rules were implemented throughout the entire project which reached over four million hours' work time without a single lost time accident (LTA).

Since dozens of contractors and suppliers were involved in the project, a comprehensive occupational health and safety (OHS) plan was produced and distributed to every new supplier.

This time much of the equipment was sourced from China. All of the subcontractors were selected by UPM and were mainly local companies. Also UPM's largest environmental investment in 2015 was linked to the project as the wastewater treatment plant was expanded and air protection technology was upgraded.

Read more:
www.upmpaper.com,
www.upmbiofore.com



KEY FIGURES

	2015	2014
Sales, EURm	1,168	1,124
Operating profit excl. special items, EURm	55	108
Capital employed (average), EURm	1,012	861
ROCE excl. special items, %	5.4	12.5
Personnel on 31 Dec.	1,738	1,652

UPM PAPER ASIA — VALUE CREATED

CAPITALS

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

PRODUCTION

LABEL, PACK & RELEASE
- Extensive experience in high quality release liners and face papers, selectively in flexible packaging papers
- Cost efficient production

FINE PAPER ASIA-PACIFIC
- Leading office paper brands in China
- Selectively in uncoated and coated segments
- Cost efficient production
- BAT (Best Available Techniques)

CUSTOMER-DRIVEN R&D

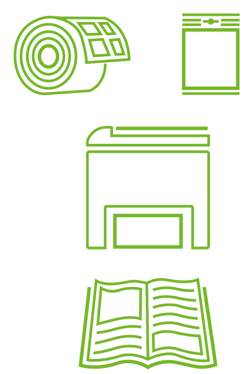
SALES

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

CUSTOMERS

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

END USES



OUTCOMES

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

UPM Paper ENA

OUR DIRECTION

- Improve profitability and maximise cash flow through a simplified customer-focused sales strategy
- Make use of optimisation opportunities in the extensive low-cost operations

OUR STRENGTHS

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

KEY FIGURES

	2015	2014
Sales, EURm	5,056	5,284
Operating profit excl. special items, EURm	24	181
Capital employed (average), EURm	2,289	2,511
ROCE excl. special items, %	1.0	7.2
CF/CE, %	4.6	12.9
Personnel on 31 Dec.	9,472	10,467

Managing headwinds

Business performance

Operating profit decreased mainly due to higher euro-denominated pulp costs and lower publication paper prices in Europe. The positive impact of favourable currency development on export prices was moderated by a significant negative impact from currency hedging. Cash flow return on capital employed decreased and fell short of the long-term target.

Business development

The year 2015 was characterised by significant capacity reductions and measures to manage the business in a continuously challenging market environment.

In November 2014, UPM announced plans to reduce approximately 800,000 tonnes of publication paper capacity of which 345,000 tonnes was newsprint and 460,000 tonnes was magazine paper capacity.

In March 2015, UPM Paper ENA closed down paper machine 2 at UPM Kaukas and paper machine 5 at UPM Jämsänkoski in Finland and, in February, paper machine 1 at UPM Shotton in the UK. In June 2015, UPM closed down paper machine 3 at UPM Chapelle Darblay in France.

Machine closures were vital given the challenging market conditions. Paper demand decreased and sales margins were squeezed particularly due to lower newsprint prices and higher euro-denominated pulp costs. Overcapacity continued to plague the European paper markets, especially during the first half of 2015.

With the machine closures, UPM Paper ENA adapted its production to meet profitable customer demand and to improve operating rates of its remaining production assets. UPM Paper ENA's production strategy is based on interchangeability and its extensive geographical coverage enabled machine closures without endangering customer deliveries. From the business point of view, the measures taken were necessary to improve profitability. The fixed cost reduction related to the capacity closures was EUR 65 million.

A lean organisation based on strategic business units (SBUs) with responsibility for profit and loss as well as continuous focus on efficiency enabled UPM Paper ENA to improve its performance.

The SBU specific commercial strategies paid off, resulting in a strengthened market position and customer loyalty. The next step in the digital service channel development enables internet-based ordering of paper, making both customer's and UPM Paper ENA's processes more streamlined. The paper consultancy model was piloted with selected customers in Finland and Scandinavia.

Measures to reduce variable costs were successfully implemented with meaningful savings achieved in energy, raw materials and logistics costs as well as consumption.

The strengthened USD improved profitability on certain export markets. UPM is an established supplier in the US and aims to enhance its customer relationships on the market.

In November, UPM announced a study of a potential sale and conversion of UPM Schwedt mill into liner production to LEIPA Georg Leinfelder GmbH.

Markets and drivers

- Graphic paper demand is driven by advertising spending in printed media and in targeted and unaddressed direct marketing, magazine and newspaper circulations and titles as well as home and office paper consumption.
- Following the increased use of digital media in the consumer market, paper consumption has been in structural decline in mature markets in Europe and North America since 2007-08. Despite the overall decline, however, there are still growth opportunities in certain end-use and market segments.
- In Europe, demand for graphic papers decreased by 4% in 2015. The decline was steeper in newsprint and magazine paper, while uncoated fine paper demand decline was more moderate. Demand development by country also varies. The German market is experiencing slower decline than, for example, the UK or the Nordic market.
- In North America, demand for magazine paper decreased by 7% in 2015. Also in North America, the uncoated fine paper demand was holding up better than that of the other grades.

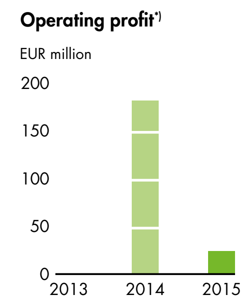
PAPER CONSULTING MEETS CUSTOMERS' NEEDS

In 2015, UPM piloted a new paper consulting model to meet the cost efficiency needs of customers. UPM experts work together with publishers and review their entire range of printed products to find a suitable UPM paper grade for each magazine, advert, brochure or other printed publication. The aim is to decrease the number of different paper grades and grammages used by publishers.

The consulting service is based on trust and good co-operation between UPM and the customer. The consultation process does not bind customers in any way, but the open dialogue provides a good basis for growing partnerships. UPM's sales and technical sales experts work closely together to provide customers with the best possible service.

As a result of the project, the publisher achieves significant savings without compromising the quality or the brand of their printed products. UPM in turn is able to optimise its production and make better use of its paper machines. Everybody wins: the publisher, the printing house, UPM, and the readers.

Read more: www.upmpaper.com



*) excl. special items

UPM PAPER ENA VALUE CREATED

CAPITALS

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

CUSTOMER-BASED BUSINESS UNITS

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

MAGAZINE PUBLISHING & ADVERTISING

NEWSPAPER PUBLISHING

MERCHANTS, HOME & OFFICE

PRODUCTION

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

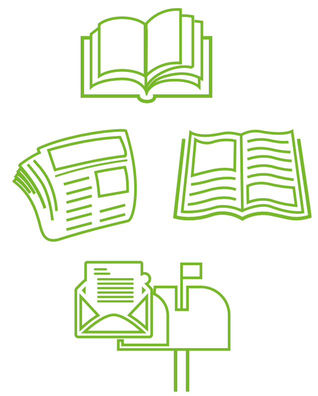
SALES

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

CUSTOMERS

Publishers
Printers
Retailers
Cataloguers
Advertisers
Brand owners
Merchants
Converters

END USE



OUTCOMES

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

UPM Plywood

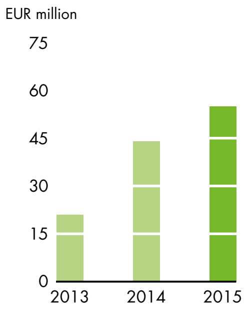
OUR DIRECTION

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

OUR STRENGTHS

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

Operating profit[1]



[1] excl. special items

KEY FIGURES

	2015	2014
Sales, EURm	439	440
Operating profit excl. special items, EURm	55	44
Capital employed (average), EURm	263	268
ROCE excl. special items, %	20.9	16.4
Personnel on 31 Dec.	2,469	2,441

Investing in growth

Business performance

Operating profit increased because of lower variable costs, partly driven by favourable currency development and improved cost efficiency. Delivery volumes increased. Return on capital employed increased, significantly exceeding the long-term target.

Business development

UPM Plywood's performance improved further. Delivery volumes increased due to improved customer focus and customer-oriented approach, partly mitigating the negative impacts of increased competition of plywood imports from Russia and South America.

Improved production flexibility enabled UPM Plywood to respond to customer demand with increased production. Deliveries to demanding industrial end-use applications such as trailer manufacturers and LNG (liquefied natural gas) carriers increased. As a whole, construction activity in Europe remained subdued.

In the area of road freight applications, UPM Plywood has provided expertise to customers' product and production development introducing both economic and environmental benefits. UPM has experienced rapid growth in the trailer segment in past years and in 2015, new customer agreements were also signed outside Europe.

UPM Plywood has seen solid growth in the LNG segment in past years. WISA birch plywood is ideal material in LNG vessels due to its strength and stability at extremely low temperatures. Investment activity in the LNG industry is high and the outlook remains good.

In April, UPM decided to expand its Otepää plywood mill in Estonia. The expansion will almost double the mill's production to 90,000 m³ per annum. The expansion increases UPM Plywood's capability to deliver competitive high quality birch plywood to demanding end-use segments and serve key customer industries effectively. The investments in Otepää total to approximately EUR 40 million and will be completed by the end of 2016.

In 2015, UPM Plywood continued developing the thermoformable UPM Grada wood material. New products were launched with lower forming temperatures than before and improved form pressing process efficiency. UPM Grada is ecologically designed and safe for use, as the material is free from harmful compounds. In 2015, the distribution network including agents was expanded to cover the whole of Europe. The first mass production line using thermoformable UPM Grada wood material was started up at the Finnish furniture manufacturer Isku's Lahti mill in Finland.

In October, UPM Plywood started a programme to improve the cost competitiveness of its Finnish birch plywood mills. Central elements of the programme are to increase production volumes at the UPM Savonlinna and Joensuu mills to reduce unit costs. At the UPM Jyväskylä mill production was streamlined and mill cleaning was outsourced.

In November, UPM Plywood made a decision to curtail the production of softwood plywood at its Pellos mills in Finland during the end of 2015 and first half of 2016 due to increased imports of low-priced softwood plywood to Europe from South America.

Markets and drivers

- In 2015, plywood demand in Europe is estimated to have increased slightly. Demand grew in both industrial applications and construction-related end-use segments.
- The plywood market in Europe was in balance during the first half of 2015. Low-priced imports increased over the course of the year, leading to price pressure in some product segments in the fourth quarter.
- Plywood demand is driven by activity in the building and construction and furniture industries as well as industrial end-use segments such as transportation.
- In the building and construction industry, wood material is increasingly used because it is a cost effective material and a renewable resource.
- In the transportation industry, construction of LNG vessels is driven by global demand for LNG. Road transportation is growing for the benefit of trade, requiring environmentally sound trailer solutions.

UPM GRADA CUTS MANUFACTURING TIME IN HALF

Finnish furniture manufacturer Isku began using UPM Grada wood material and managed to cut the manufacturing time of form-pressed components in half compared to the traditional manufacturing method.

In order to be able to benefit from Grada technology, a new automated manufacturing line was constructed at the Isku factory in Lahti, Finland. The new line was taken into commercial use in September 2015. The line is used to manufacture components for chairs, tables and school furniture, for example.

Essential time savings have been achieved by using industrial robots and other automated systems to carry out work that previously required a lot of manual labour. According to CEO Arto Tiitinen from Isku, the use of UPM Grada, a material developed and patented by UPM, will strengthen the furniture company's position in the international furniture market.

"In order to succeed in hard competition, top-class design is a must as well as taking a front runner position in applying new materials and techniques," Tiitinen says. The unique properties of UPM Grada provide designers with entirely new opportunities for creating modern furniture. Designers appreciate the slenderness, durability and uniform quality of the easily mouldable material.

Read more:
www.wisaplywood.com,
www.upmgrada.com

UPM PLYWOOD — VALUE CREATED

CAPITALS

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

PRODUCTION

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

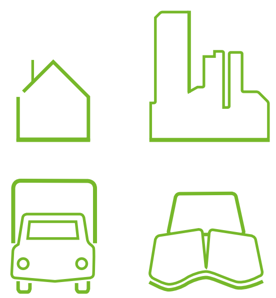
SALES

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

CUSTOMER INDUSTRIES

Construction
LNG shipbuilding
Vehicle flooring
Parquet
Other industrial manufacturing

END USES



OUTCOMES

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

Product and process development

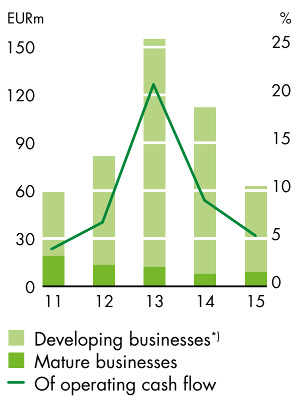
Innovations and R&D

Innovations are at the forefront in the creation and development of new products that can be used to replace non-renewable materials with renewable, recyclable and low-impact alternatives and provide resource efficient alternatives for the future.

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

By co-operating with selected value chain partners UPM aims to increase its speed, agility and effectiveness.

UPM's development expenditure



*) Includes negative operating cash flow and capital expenditures

Efficient use of resources

In 2015, UPM spent EUR 63 million (112 million) on research and development work equating to 5.3% (9.0%) of UPM's operating cash flow. The focus was on new technologies and developing businesses. On top of the direct R&D expenditure of approximately EUR 37 million (35 million), the figures include negative operating cash flow and capital expenditure in developing businesses.

Versatile use of wood biomass

UPM is seeking business development and innovation in various bioeconomy projects through collaboration. The special focus areas are new biobased products, development of by-product utilisation, resource efficiency and the circular economy.

UPM's side stream efficiency research is looking for solutions to better utilise the side streams of UPM's integrated pulp and paper mills; sludge, ash, various rejects and waste heat. The aim is to reduce costs and increase the value of side streams by finding new business opportunities in industrial symbioses.

In the UPM Kaukas mill, studies have been done to produce biogas from sludge in co-operation with the Lappeenranta city experts and other external partners.

Fertilizer development and nutrient recirculation is also part of UPM's circular economy solutions. Other studies relate to new end uses for ash in construction applications. Also good saving ideas have been found in mills' heat efficiency.

UPM has a global network of research centres to support the businesses and their development goals. Environmental aspects are systematically integrated into product design at an early stage.

Wide-scale collaboration in new businesses

UPM is one of the founding members of the industrial consortium part of the European Joint Undertaking on Bio-based Industries (BBI). This Public Private Partnership (PPP) aims to trigger investments and create a competitive market for bio-based products and materials that are sourced locally. For UPM, the PPP is an important funding element for speeding up the implementation of future investments.

UPM is a shareholder in the Finnish CLIC Innovation, which focuses on bioeconomy and cleantech research. The Cluster's research programmes focus on bioeconomy as well as energy and environmental research, thus supporting UPM's internal R&D activities.

In 2015, UPM received approximately EUR 1.4 million (2.1 million) from Tekes (the Finnish Funding Agency for Technology and Innovation) for its research projects. These projects were carried out in co-operation with research institutes, universities and other companies.

UPM works together with a wide network of universities and research institutes as well as technology suppliers and startups. Partnerships enable us to develop new solutions and get to the market faster, especially in new businesses.

UPM's intellectual property rights applications remained on a significant level. The high level of patent registration highlights the progress made in new businesses.

UPM actively manages its patent portfolio and evaluates the applicability and commercial value of its patents. UPM is trying to seek new commercialisation partners for patents not suitable for our businesses.

Biocomposites combine best properties of natural fibres and high performance polymers

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

UPM ProFi's Design Deck range is one of the leading composite decking brands in Europe. Through patented recycling technology, UPM Biocomposites recovers the cellulose fibres and polymers found in label material waste and gives them a second life.

UPM Formi is the engineered range of pure cellulose and virgin polymer compounds suitable for various applications from furniture to consumer electronics. The products have a considerably lower carbon footprint than those made with pure plastics.

Biochemicals offer a sustainable alternative to fossil-based solutions

UPM Biochemicals offers and develops innovative, sustainable and competitive wood-based biochemicals. The product segments are chemical building blocks, lignin products, biofibrils and biomedical products.

Chemical building blocks are made from lignocellulosic biomass offering a cost competitive replacement for fossil-based monomers and chemicals such as intermediates to bioplastics.

Lignin is one of nature's most abundant materials and an ideal bio-based substitute for various petro-based products e.g. resins and binders. UPM BioPiva™, based on UPM's proprietary lignin-resin technology, allows resin producers to substitute up to 70% of their fossil-based raw materials with a non-toxic, 100% bio-based, and cost efficient alternative.

Biofibrils are cellulose micro- and nanofibril products that can be used for shaping materials and giving them new characteristics. Biofibrils products can be used as a suspension aid and rheology control agent or reinforcement and barrier element in different uses.

GrowDex is a novel wood-based cellulose nanofibril hydrogel for 3D cell culturing and other biomedical applications. It is highly biocompatible with human cells and tissues.

In 2015, UPM's ValChem project received a EUR 13.1 million funding from the European Union. ValChem stands for Value Added Chemical Building Blocks and Lignin from Wood. The aim is to demonstrate the technical and economic viability of an integrated biochemical process, covering the whole value chain from wood raw materials to a selected platform for chemical and lignin-based performance chemicals.

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

COMMERCIALISING INNOVATIONS

Green Campus Innovations (GCI), an investment company established in 2012 by Lappeenranta University of Technology (LUT), is one of UPM's partners in commercialising innovations that cannot directly be used in UPM's core business areas. The collaboration between the university, the investment company and UPM enables the partners to combine their competencies in bioeconomy, industrial engineering and management.

In 2015, UPM and LUT signed a license contract concerning the Biokenno technology developed by UPM. LUT has applied and received funding for the further development and commercialisation of the licensed technology from Tekes, the Finnish Funding Agency for Technology and Innovation. GCI will play an important role in commercialising the Biokenno technology and in developing the business around it.

The Biokenno technology has been licensed to the university which will assemble a research group for carrying out further research. BioKenno is a biodegradable, board-based growing medium that market gardens can use to replace materials such as rock wool.

Read more:
www.upm.com/innovation,
www.upmprofi.com, www.upmformi.com,
www.upmbiochemicals.com

R&D'S ROLE IN DIFFERENT BUSINESSES

R&D's role is to support development in following focus areas:

UPM Biorefining	Pulp and plantations optimisation for various needs Biofuels
UPM Energy	Energy conversion technologies for a wide range of biomass and fuel mixtures CO_2-neutral energy sources Opportunities arising from the evolution of the electricity market
UPM Raflatac	Expansion of product range and market support
UPM Paper Asia	Effective support for paper businesses in growth markets and new products
UPM Paper ENA	Cost competitive and resource efficient solutions and new products
UPM Plywood	Products with special customer value Process efficiency
New businesses	Supporting the development of new opportunities building on synergies Developing competencies and a common infrastructure

CONTENTS

New responsibility targets to 2030

Based on a materiality analysis (page 10), UPM has established a set of responsibility focus areas to guide its responsibility activities, and determined targets and performance indicators.

The responsibility focus areas, targets and performance indicators were all updated in 2015, and cover all three areas of responsibility: economic responsibility, social responsibility, and environmental responsibility. In addition to being influenced by the materiality analysis, UPM's new long term responsibility targets were also influenced by the UN's Sustainable Development Goals (SDG) published in 2015.

In the area of economic responsibility, UPM's responsibility principles cover economic performance, good governance and responsible sourcing. The principles for social responsibility focus on the implementation of human rights, occupational safety, local co-operation between UPM and stakeholders, and UPM's role as a responsible employer. In terms of environmental responsibility, the key focus areas are sustainable products, the climate, the utilisation of forests and waterways, and the reduction of waste. Some of the targets are continuous and some have been extended to 2030. For environmental targets, the reference year 2008 was maintained to ensure that the new targets remain comparable with previous targets (see table on next page). The 2015 achievements in regard to old 2020 targets are presented on UPM website.

UPM provides an extensive amount of assured information

UPM uses the G4 Guidelines published by the Global Reporting Initiative to measure and report on corporate responsibility at Group level. UPM's corporate responsibility reporting in 2015 has been prepared to meet the GRI G4 'In accordance' - Core option. Standard disclosures for 2015 in English with a reference to external assurance in the GRI content index have been externally assured by an independent third party PricewaterhouseCoopers Oy (see the Independent Assurance Report on page 77), and congruence between the English and Finnish versions has been checked. The shortened GRI content index can be found on pages 75–76. The GRI content index, including detailed descriptions of the scope of the reporting and data collection techniques, is available on the company website at www.upm.com/responsibility.

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

UPM provides comprehensive environmental information that has been assured by third parties from corporate level to the mills and individual products. Ecolabelled products, product declarations and certified operations are used to inform the company's stakeholders about sustainability, transparency and risk management (read more on product stewardship on page 51).

Read more:
www.upm.com/responsibility,
https://sustainabledevelopment.un.org

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS GUIDING UPM TARGETS

UPM RESPONSIBILITY FOCUS AREA	2030 TARGET	2030 FOLLOW-UP / 2015 RESULTS
ECONOMIC		
Profit Creating value to shareholders	• Operating profit margin > 10% • Return on equity at least 5 percentage points above the yield of a 10-year risk-free investment • Gearing ratio to be kept below 90%	• Operating profit excluding special items was 11.5% of sales. • Return on equity excluding special items was 12.1%. • Gearing ratio as of 31 December 2015 was 26%.
Governance Ensuring accountability and compliance	• 100% coverage of participation to UPM Code of Conduct training (continuous)	• More than 90% of employees have completed the previous Code of Conduct training.
Responsible sourcing Adding value through responsible business practices	• 80% of UPM spend qualified against UPM Supplier Code (continuous) • 100% of UPM raw material spend qualified against UPM Supplier Code by 2030 [1)] • Continuous supplier auditing based on systematic risk assessment practices	• 79% of supplier spend qualified against UPM Supplier Code. (+12pp compared with 2014). • 92% of raw material spend qualified against UPM Suppler Code. • Since 2013, the number of risk assessment-based supplier audits has been doubled, with a much wider geographical area than earlier.
SOCIAL		
Diversity and inclusion Developing organisational culture and local conditions to ensure inclusive and diverse working environment for business success	• All UPM employees are treated as individuals regardless of gender, age, race, nationality etc. 100% favourable responses in Employee Engagement Survey by 2030 • Diversity initiative to be started in 2016	• Responses to Employee Engagement Survey's diversity question were 77% favourable. • Initiative will be started in 2016.
Continuous learning and development Ensuring high performance for business success and continuous professional development for future employability	• Target setting and development plan for all employees, completion rate 100% by 2030 • Employees experience the opportunity for learning and development, 80% favourable in Employee Engagement Survey by 2030	• 86% of all permanent employees had a personal performance review with their managers. • Responses to Employee Engagement Survey's question regarding learning and development were 61% favourable.
Responsible leadership Emphasising value-based and inspiring leadership and integrity. Continuous development of working environment	• Employee engagement index overall favourable score in global top quarter by 2030	• Employee engagement index overall favourable score increased to 66%. This is 10% below global top quarter.
Working conditions Ensuring safe and healthy working environment and wellbeing of employees	• No fatalities or serious accidents in UPM operations • Continuous improvement in safety: Lost time accident frequency (LTAF) <1 and Total recordable injury frequency (TRIF) <2 levels permanently reached including contractors • All operations have certified OHS system by 2030 • Health Promotion Programme is in use at all UPM sites and businesses by 2030 • Absenteeism rate < 2 % in all organisations by 2030	• One fatal contractor accident in 2015. • LTAF was 3.9 for own employees and 5.5 for contractors. TRIF was 10.6 for own employees. Follow-up of TRIF for contractors will be evaluated in 2016. • All production sites have an OHS management system in place. 45% of the sites got external certification of their OHS system. • A majority of the sites have started their programme. • The absenteeism rate was 3.7% in 2015.
Community involvement Ensuring local commitment	• Continuous development of strategic sustainability initiatives with leading NGOs • Continuous sharing of best practices of stakeholder initiatives • UPM sponsorship and donations programme to be started	• Co-operation with BirdLife and Vida Silvestre continued. • Sharing of best practices ensured through well-established operational stakeholder forums, for example. • Programme will be started in 2016.
ENVIRONMENTAL [2)]		
Product stewardship Taking care of the entire lifecycle	• Environmental Management Systems in 100% use (continuous) • Environmental Product Declarations for all products (continuous) [3)] • All applicable products ecolabelled by 2030	• All production sites have a certified environmental management system in place, except the new biorefinery. • Environmental declarations are available for all relevant UPM products. • The share of ecolabelled products was 77% (76% in 2014).
Waste Promoting material efficiency and circular economy - reduce, reuse and recycle	• No process waste to landfills or to incineration without energy recovery by 2030	• Over 90% of UPM's total process waste was recycled or recovered.
Climate Creating climate solutions and working towards carbon neutrality	• Fossil CO_2 emissions from own combustion and purchased electricity (Scope 1 and 2) reduced 30% by 2030 • Maximise the business benefits of greenhouse gas claims (continuous) • Acidifying flue gases (NOx/SO_2) reduced 20% by 2030 [4)]	• Despite improvements in fuel mix and energy efficiency, actions have not compensated for the increased level caused by the Myllykoski acquisition in 2011 and increased CO_2 factors for purchased power. • UPM sold greenhouse gas claims worth of 0.5m CO_2 tonnes. Without sales UPM's reported emissions (Scope 1 and 2) would have been over 7% lower. • 20% reduction achieved since 2008 for the UPM average product.
Water Using water responsibly	• Effluent load (COD) reduced 40% by 2030 [4)] • Wastewater volume reduced 30% by 2030 [4)] • 100% of nutrients used at effluent treatment from recycled sources by 2030	• 29% reduction achieved since 2008 for the UPM average product. • 11% reduction in wastewater achieved since 2008 for the UPM average product. • Project will be started in 2016.
Forests and Biodiversity Ensuring sustainable land use and keeping forests full of life	• 100% coverage of chains of custody (continuous) • All fibre certified by 2030	• Coverage is 100%. • The certified fibre share increased to 84%.

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

Our people – Growing with Biofore

In 2015, the main focus areas in UPM's People Strategy were value-based and inspiring leadership, creating a safe workplace, developing both keen commercial ambition and sales capabilities as well as change readiness and agility in changing business environment.

It is important to us to develop a safe and inspiring working environment in which people can participate and enjoy equal opportunities.

Encouraging professional growth

UPM aims to provide an environment in which employees are capable of achieving good results. UPM encourages its employees to pursue professional growth and supports them in learning and developing their skills further.

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

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

Over the past few years, UPM has developed its performance appraisal process by emphasising managers' roles in leading performance and giving feedback. Managers are expected to focus on performance management and guiding their team members to reach agreed targets. 86% (86%) of all permanent UPM employees had a personal performance review with their managers in 2015. The target of 90% coverage by 2015 was not reached.

Engaging employees to develop the workplace

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

In 2015, 79% (78%) of UPM employees responded to the survey which illustrates a high level of willingness to participate in the development of UPM as a place to work. The figure is well above the 2015 target of 70%. The Engagement index increased to 66% (63%) although the 2015 target of 70% was not met. Favourable scores in the OHS index increased it to 79% (78%). Favourable scores in the Manager Effectiveness index have steadily improved over the years (from 75% in 2014 to 76% in 2015), and the score is now close to the top quarter of the global norm.

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

Developing empowering and engaging leaders

UPM aims to have inspiring leaders who empower and engage employees at all levels. We strive to lead by our own example, in accordance with UPM values and with integrity. Our values guide and support us in our daily actions – Trust and be trusted, Achieve together, Renew with courage.

To further develop its leadership capabilities, UPM has a development programme portfolio focusing on self-leadership, coaching capabilities, innovation and leading in complexity.

In 2015, UPM continued to support a coaching leadership style and use of various tools for feedback on behaviours and performance. The target is to improve dialogue and the feedback culture in the company. UPM also continued its mentoring programmes as a valuable tool for developing leaders.

At UPM we want to develop our working environment so that it is diverse and inclusive. It is important to employ people with different competences, backgrounds, experiences, genders, ages and nationalities in order to bring multiple views and thus improve decision-making and business success. For the first time UPM made a diversity status review of all businesses and functions. In addition, various local projects supporting diversity were carried out.

Rewarding and recognising good performance

UPM offers reward and recognition with an emphasis on high performance. UPM has a total compensation approach consisting of base salary, benefits and incentives, which are determined by UPM's global rules, local legislation, general agreements, local market practice, level of the position and individual performance. Gender, race, age nor nationality play no role when defining salaries and wages.

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

All UPM's employees belong to a unified annual Short Term Incentive (STI) scheme. The plan includes company and business-level targets, safety targets and personal and/or team performance targets.

EBITDA is one of the key financial indicators for the company and business-level targets. The annual incentives paid in 2015 for the 2014 STI plan were EUR 62 million and the estimated amount of annual incentives for the 2015 STI plan is EUR 55 million. For significant individual or team successes, there is a separate Achievement Award system in place.

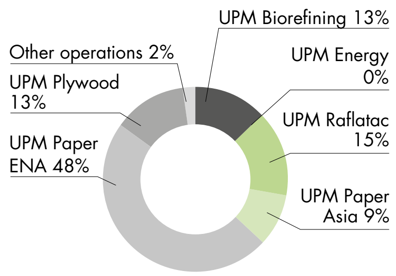
UPM has two long-term incentive plans: a Performance Share Plan (PSP) for senior executives and a Deferred Bonus Plan (DBP) for other key employees.

PERSONNEL BY COUNTRY

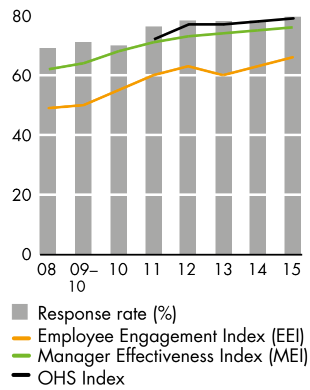
31 Dec.	2015	2014	2013
Finland	7,464	7,855	8,110
Germany	4,591	4,586	4,609
Russia	798	787	771
United Kingdom	763	1,098	1,136
France	585	785	901
Poland	535	499	440
Austria	518	549	547
Estonia	217	204	206
Spain	109	109	194
Italy	55	61	62
Turkey	42	40	38
Belgium	31	28	32
Ukraine	27	25	22
Sweden	24	27	26
Other Europe	79	86	155
China 1)	1,546	1,424	1,412
United States 2)	1,070	1,087	1,116
Uruguay	573	565	562
Malaysia	122	175	174
Mexico	81	50	30
South Africa	78	67	66
Brazil	58	89	95
Australia	50	61	77
India	42	39	41
Rest of the world	120	118	128
Total	**19,578**	**20,414**	**20,950**

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

UPM's personnel by business area 2015



Employee Engagement Survey (EES) results, Trend 2008–2015



BRINGING TEENAGERS BACK TO SCHOOL

Due to lack of opportunities and long distances, some children living in the rural areas of Uruguay leave school at 12 years old. The early exit will weaken their opportunities to continue education later and makes it difficult for them to enter into professions that require a higher degree or special vocational training.

To tackle the problem, the UPM Foundation has launched a project with the Technical University of Uruguay (UTU) to organise secondary level studies with an emphasis on mechatronics in Fray Bentos.

"We are organising a basic course that will prepare these young students for repairing and maintaining machines used in agriculture and forestry," explains Rodolfo Merello, director responsible for regional technical education from UTU.

"In the first year they will concentrate on general subjects and then they will pursue more detailed technical studies during the second year. In addition to concluding the current course, we are also planning to organise a new course for the next generation in the coming year."

Furthermore, the UPM Foundation provides necessary tools through the practical training in the course. In the second phase there will also be technical experts like harvester operators from UPM working as teachers.

Read more:
www.upm.com/responsibility,
www.upmbiofore.com

Approximately 600 employees are covered by the plans launched in 2011 and run on an annual basis. Under both plans, shares can be earned based on either group or business area-level performance. More information about long-term incentives can be found in the Remuneration Statement on www.upm.com in the Investors section under Governance.

UPM promotes active participation

At the end of 2015, UPM had 19,578 employees working in 45 countries. UPM promotes local leadership at the main production sites where 94% of management team positions are held by locals. Overall at UPM, approximately 0.3% of employees were on international assignments at various levels of organisation in foreign countries.

As a multinational company, UPM complies with international, national and local laws and regulations and respects international agreements concerning human and labour rights and freedom of association.

UPM abides by legally binding collective agreements. UPM does not collect information on or report on its employees' union membership at a global level due to differences in national legislation in the various countries. The estimated percentage of active employees covered by collective agreement mechanisms was 74% in 2015.

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

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

Supporting re-employment

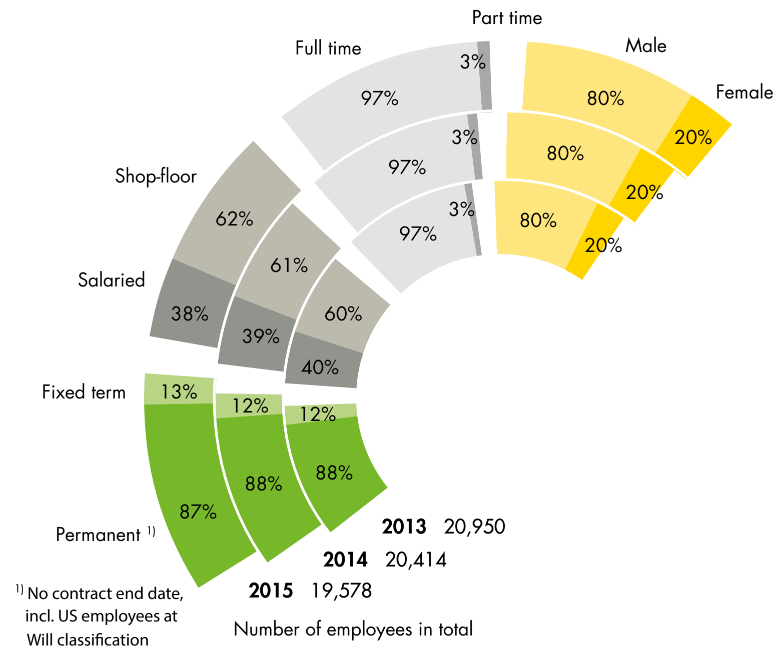
The central elements of UPM's activities on permanently closed sites and in restructuring typically are retraining, re-employment and relocation within the company, supporting entrepreneurship as well as severance payments. Active measures promoting employment and retraining are carried out in close co-operation with various authorities and other third parties.

In restructuring situations, UPM follows the local labour laws. In Finland, the minimum notice period is determined in The Finnish Employment Contract Act and collective agreements, based on the length of employment: employment from one year to 12 years, notice period is 14 days and after 12 years six months.

Similarly in Germany, the minimum notice period is determined by German Civil Code and adhered to by collective agreement. It is calculated by the length of employment: from up to 20 years, notice period accordingly from four weeks to seven months. In China the minimum notice period is 30 days and is described in local legislation.

As part of the profit improvement programme, launched in November 2014, UPM permanently reduced its publication paper production capacity in Europe by approximately 800,000 tonnes in Q1-Q2 2015. Newsprint machines at UPM Shotton in the UK and at UPM Chapelle Darblay in France, and magazine paper machines at UPM Jämsä River Mills in Finland and at UPM Kaukas in Finland were permanently shut down.

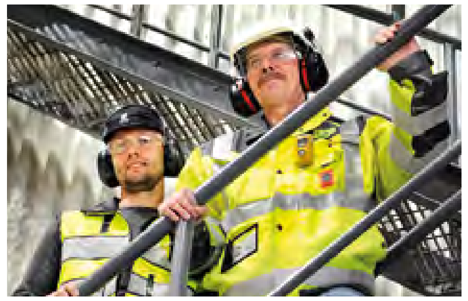
As planned, UPM also centralised its Supply Chain operations in Paper ENA (Europe and North America) from Tampere in Finland and Altrincham in the UK to Augsburg and Dörpen in Germany. Personnel was reduced by approximately 500 people by the end of 2015, as planned.



UPM PERSONNEL IN FIGURES

	2015	2014	2013
Turnover %	10.5	10.9	12.5
Turnover% (voluntary)	3.3	4.8	5.5
Average age of personnel	43.6	43.7	43.4
People development			
Average training hours[1] (hours employee)	14	15	15
OHS figures, UPM workforce			
Lost-time accident frequency	3.9	4.4	5.4
Total recordable injury frequency	10.6	11.6	13.5
Absenteeism %	3.7	3.4	3.4
Number of occupational diseases	6	n/a	n/a
OHS figures, contractors			
Lost-time accident frequency	5.5	6.5	n/a

1) Reflects active employees



INVESTING IN LEADERSHIP

Due to the age structure at UPM's Finnish mills, dozens of managers will retire over the next ten years. Compared to future needs, degree programmes in technology include very few courses on leadership, which is why there is a clear demand for a tailored apprenticeship-based training programme that will prepare employees for managerial duties.

UPM's apprenticeship-based training programme for managers is one example of UPM's investments in leadership. A total of 350 people applied for the programme, and ten applicants were selected to begin their studies in February 2016. The 18-month programme will consist of classroom teaching (10%) and practical work (90%) that participants will carry out at various UPM locations in Finland.

The selected trainees already have a relevant degree and some work experience. The tailored training programme focuses on leadership skills and UPM's way of working. UPM has good experiences of apprenticeship-based training programmes as the Future Professional training programme launched in 2014 was a success.

Production managers today and in the future must have the ability to lead and motivate employees in everyday work. A profound understanding of strategy and business targets is also needed. Once the participants have completed the programme, their employment opportunities at UPM pulp and paper mills and within the sawmill and plywood business will be examined.

Read more:
www.upm.com/careers

Continued development in UPM's safety culture and performance

Safety is an essential part of UPM's activities and business management system. Equal safety requirements are applied to all employees as well as to visitors and contractors working at the company's premises. All employees in Finland and Germany are represented by joint employer–worker health and safety committees as defined in local legislation. The aim of these location-based committees is to monitor and advise on occupational health and safety issues and programmes.

2015 was the first year after the "Step Change in Safety 2012-2014" initiative. The next step is to take safety from campaign mode to company-wide culture. Positive development continued in occupational safety indicators.

In 2015, UPM's lost-time accident frequency (LTAF, the number of lost-time work accidents per one million hours of work) was 3.9 (4.4). The result is UPM's best. At the end of the year, 12 production units achieved more than one year without any lost-time accidents. In addition, TRIF (total recordable injury frequency) improved in 2015 being 10.6 (11.6). In addition to LTA, it includes modified duty cases and accidents requiring medical treatment.

The safety of the external workforce improved as well. UPM's contractors had 92 lost-time accidents (114 in 2014). Unfortunately, there was a fatal contractor accident in 2015 at UPM operations in the UK during foresting work.

The rate of absenteeism due to sickness and accidents at work was 3.7% (3.4%) globally. Absenteeism due to accidents at work remained at the same level as in 2014.

Good performance in safety is recognised with company-wide safety awards. The 2015 UPM Safety Award of the best improver was given to UPM Changshu paper mill for improved safety culture.

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

Driving continuous improvement in safety

Regardless of severity, employees and the external workforce working for UPM must report all near misses and make safety observations. These are reported, investigated and corrective actions taken to prevent their reoccurrence. High-risk near misses are investigated using root cause analysis. In 2015, a total of 47,121 near-miss and safety observation reports were recorded.

In 2015, safety efforts concentrated on avoiding the most common accident types like slip, trip and fall accidents and hand injuries. In addition, UPM improved contractor safety and implemented actions based on a fatal accident in 2014 as well as further developed the overall behavioural safety.

In the new biorefinery in Lappeenranta, Finland, safety was very high on the agenda during the first operational year with the help of external audits. At the beginning of the year, there were some process safety incidents but the operation was stabilised towards the end of the year.

Safety work will continue to be one of the key focus areas. In 2014, UPM set the new short-term target: to achieve LTAF 3 by the end of 2017. An additional target is to avoid fatalities or serious accidents. The ultimate target of the safety work is to ensure that neither UPM employees nor contractors are subjected to any risks when working at UPM's premises.

Safety improvement initiatives continue in all business areas. Many of the activities in 2015 will continue during 2016. The focus will be on behavioural safety, full implementation of UPM safety standards, contractor safety improvement, reduction of hand injuries and improvement of safety during lifting operations. A major effort was carried out as UPM built a common environmental and safety reporting system "One Safety". Use of the tool will be rolled out in spring 2016.

Efforts on contractor safety

UPM requires its contractors to follow safety guidelines which enable them to carry out their work safely whilst on UPM premises. The safety induction is a prerequisite before starting work at a UPM site. By the end of 2015, over 65,000 UPM safety inductions to contractors were completed.

In 2015, several contractor safety improvement projects were carried out or initiated in businesses such as common meetings with contractors in Wood Sourcing and Forestry, a contractor safety programme in UPM Paper ENA maintenance operations and improved safety in outsourced maintenance operations in UPM Timber. The largest investment projects at UPM Kymi, Finland and at UPM Changshu, China had a strong focus on safety with good results. There were only one LTA accident at UPM Kymi and no LTA contractor accidents at UPM Changshu.

Health theme continued

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

In 2015, UPM continued the health theme that was originally launched in 2014 as the "Focus on Health" campaign. The aim of the health theme is to support continuous improvement of employees' health, quality of life and ability to perform. In 2015, UPM launched quarterly health themes, which were recovery, physical activity, nutrition and brain health. Several health and wellbeing initiatives were launched at various UPM sites and businesses under these themes.

The "Personal Health Plan" project which was piloted in 2014 continued at several sites in Finland during 2015. This health project consisted of a medical check, wellness assessment and personal support based on individual health improvement action plans. According to the self-evaluation, improvement of the wellbeing targets during personal support was on average from 4.2 to 6.7 (scale 1-10). The annual employee engagement survey (EES) results also correlate with positive development.

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

STAYING HEALTHY WITH WASH

UPM wants to make sure that all its employees, regardless of their country or location, work in an environment that is as healthy as possible. In line with this goal, UPM is the first forest industry company to commit to the WASH (Water, Sanitation and Hygiene) programme launched by WBCSD.

The programme requires companies to monitor the water, sanitation and hygiene conditions within their organisation and to make any required improvements.

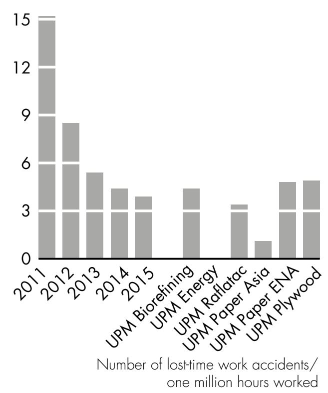
UPM joined the WASH programme in 2014. The company sent out a survey to all its production facilities enquiring about local water, sanitation and hygiene conditions in 2015. All production facilities from around the world responded to the survey and evaluated whether conditions at their sites could be improved. In 2016, a survey will be sent to sales offices, followed by forest management and wood sourcing teams in 2017.

Tap water is fit to drink in most European countries, but subcontractors working at a plantation in South America, for example, should always carry safe bottled water to quench their thirst.

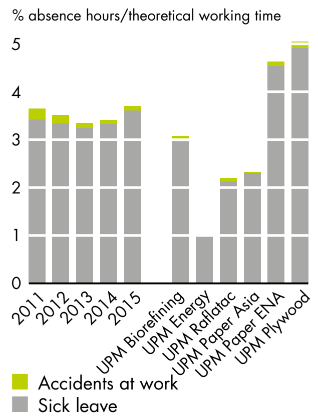
Similarly UPM analyses and manages the opportunities and threats related to healthy working environments. UPM's significant operating sites are not located in areas, where employees face risks related to HIV/AIDS, malaria or tuberculosis.

Read more:
www.upm.com/responsibility,
www.upmbiofore.com

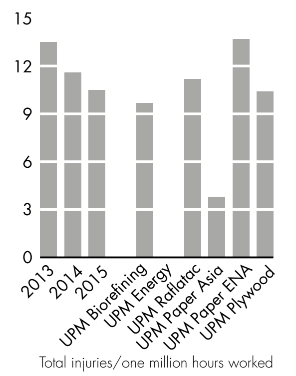
Lost-time accident frequency, UPM workforce



Absenteeism due to sickness and accidents at work, UPM workforce



Total recordable injury frequency, UPM workforce



Creating added value through stakeholder engagement

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

Every year, UPM produces a materiality analysis that highlights the most important issues for UPM and its stakeholders. The analysis is based on stakeholder feedback and the company's risk mapping.

In 2015, the most important issues were innovation, portfolio development and value creation, as well as growth.

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

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

UPM aims to provide a balanced view of the economic, environmental and social aspects of its business activities, recognising, however, the differing interests and emphases of different stakeholders.

Stakeholder engagement is part of the strategy process

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

The Stakeholder Relations function, which is represented in all businesses, is responsible for the global leadership and co-ordination of activities, while UPM's businesses are responsible for local activity. Best practises are regularly shared.

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

The UPM Code of Conduct sets the standards of responsible behaviour for each and every UPM employee towards stakeholders. The standards cover topics relating to legal compliance and disclosure, conflicts of interest, anti-corruption and anti-bribery, HR practices, human rights questions and environmental matters.

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

Activity in 2015

The 2015 materiality analysis is based on a third-party survey and additional focus group interviews. In addition, the importance and potential impact of different issues or activities on UPM's operations was assessed based on feedback from regular stakeholder enquiries, the company's risk mapping and other sources of information.

During the year the management's responsibility for legal and Code of Conduct compliance was underlined in trainings and discussions. The Code of Conduct was renewed during the year and the Board of Directors approved the new Code of Conduct in February 2016. The revised Code of Conduct includes new sections on trade sanctions, data privacy, responsible sourcing and interaction with stakeholders.

UPM was able to respond to stakeholders' expectations reasonably well. The majority of direct feedback from stakeholders focused on the local effects of UPM's operations, such as noise, odour or logging practices. Customer enquiries focused on topics such as product safety, ecolabels and the origin of raw materials. UPM actively participated in the discussion and provided facts and further information in each situation.

In one case a stakeholder pursued its interest through a court process. The former employees of the French Docelles mill demanded to acquire the mill below the market price: the claim was dismissed in the commercial court. OECD, however, reprimanded UPM for the process.

Competitiveness at the forefront of public affairs

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

In Finland, UPM highlighted the economic footprint of its existing operations. In addition, UPM has published six critical topic areas within the Finnish operating environment that impact the competitiveness of the forest industry in Finland and continued to discuss these topic areas with several Finnish decision makers. The same consistent messages were also delivered to local decision makers.

On the environmental front, the most important influencing activity was the preparations for the Paris COP climate summit together with industry associations and through the Low Carbon Technology Partnership Initiative by the World Business Council for Sustainable Development (WBCSD). The initiative involved an extensive dialogue with the stakeholders. Forest industry, for its part, offers solutions to mitigate climate change through renewable, carbon binding and resource efficient products.

Co-operation on environment provides prerequisites for trust

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

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

UPM was invited to participate in the UN Global Compact LEAD group, which represents the world's leading companies to promote sustainability through innovation and actions. On environmental issues, co-operation continued with the Birdlife and Uruguayan Vida Silvestre. With regard to ecolabels and standardisation issues, UPM collaborated with FSC, PEFC, the German Blue Angel, the Swan label, The Finnish Key Flag symbol, ISCC and the EU Ecolabel. Global sustainability initiatives were promoted within WBCSD and in co-operation with The Forest Dialogue organisation.

The company also engaged in several joint initiatives with different parties: in China, UPM was one of the ten founding members of the China Sustainable Paper Alliance (CSPA). WWF China and the Chinese Forestry Industry Association are key players in the initiative. The purpose of the alliance is to promote responsible sourcing and sustainable forestry in the Chinese forest industry.

Bioforce transformation strategy raised interest

During 2015, UPM's Biofore strategy and its progress was widely discussed with the key stakeholder groups. The constant transformation of the company, growth projects and innovations continued to generate significant interest. More than 20,000 visitors visited the head office at Biofore House and were introduced to UPM's transformation story.

An important step was the start-up of the Lappeenranta Biorefinery, which marks the

CHALLENGING START-UPS AT SLUSH

The 2015 Slush event focused on themes related to the bio-based and circular economy and added value generated by services and smart operations. UPM partnered with Slush to offer new partnership opportunities for start-up companies.

"We are looking for partners to develop new ideas that aim to make good use of forest industry side streams such as sludge, ash and, in particular, waste heat derived from the pulp and paper process. We believe that start-up companies have plenty of opportunities to grow with us in these areas", says Jyrki Ovaska, Executive Vice President of Technology at UPM.

UPM is also engaging in start-up collaboration to build innovative mobile solutions for the new generation of forest owners. UPM also challenges mobile game developers together with Guides and Scouts of Finland to create a mobile game that motivates the younger generation to learn about forests and the opportunities they offer from a completely new perspective.

Slush brings together some 15,000 attendees, including 1,700 start-ups and 800 venture capital investors from 100 countries.

Read more: www.upm.com/innovation

first investment in a new, innovative production facility in Finland as part of the transformation of the forest industry. The biorefinery received significant domestic and international publicity. The visit of two heads of state, Finland and Sweden, was a public recognition for the work and courage required to renew.

Engagement in the Slush event as a key partner was also a new opening. Slush is the world's leading event where start-up and technology companies meet. At Slush, UPM was looking for partners to develop solutions in circular economy and customer-friendly digital solutions and aid in the utilisation of non-core patents and industrial internet.

UPM also continued co-operation with WWF Finland to promote the sustainability of forestry and the sustainability of wood-based liquid biofuels.

Sponsorships supporting company strategy

UPM focuses on sponsorship initiatives that are future-oriented and support innovation and sustainable values or local vitality. The company's guidelines for sponsorships and donations are applied in all businesses. UPM does not financially support political parties or individual candidates.

An important sponsorship agreement was signed with the Technological University of Uruguay (UTEC) to facilitate regional high level technical education in Fray Bentos. The target is to advance technical skills and engineering, particularly in mechatronics, renewable energy, transport and logistics. The investment in education will create further development opportunities, enhancing the overall competitiveness and competence pool of the forest industry in Uruguay in the future.

Another significant sponsorship was signed with Guides and Scouts of Finland. The target is to strengthen the youth's relationship with forests by encouraging them to see the forests from a versatile perspective and by using innovative mobile applications.

The focus of the local sponsorship was to support the vitality of UPM production locations. UPM spent approximately EUR 3.6 million on local sponsorships and donations. For commercial sponsorships, UPM spent approximately EUR 800,000.

UPM's support for its Uruguayan UPM Foundation continued with EUR 367,000. The foundation supports and encourages training, entrepreneurship, employment and healthy living and entertainment in local communities in the Uruguayan countryside.

EUR 60,000 was donated to charities or other non-profit purposes, including a donation to the German Stiftung Lesen foundation for supporting reading among refugee children in Germany.

Continuous development with corrective actions

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

THE FOCUS OF UPM'S STAKEHOLDER ENGAGEMENT WORK

UPM's Biofore strategy forms the foundation of UPM's stakeholder dialogue. The key focus areas and activities vary locally and according to stakeholder needs. Find out more about our activities in 2015 in this picture.

1 Stakeholders' main concerns and expectations
2 Key engagement activities
3 UPM's target

Suppliers
1 Future-oriented, trusted partner with clear requirements and expectations
2 Good governance, supplier collaboration projects and responsible sourcing practices
3 Efficiency, cost leadership, innovativeness, continuous development and compliance with supplier requirements

Communities
1 Responsible, safe neighbour, employment opportunities, dialogue on local topics
2 Open door events, stakeholder visits, sponsorship and local community projects
3 License to operate and good collaboration

Media
1 Publish interesting content
2 Proactive media outreach
3 UPM messaging incorporated in content

Employees
1 Safe and motivating working environment
2 Continuous development of safety culture and leadership capabilities
3 Employee engagement

Investors
1 Total shareholder value
2 Clear and reliable disclosure and communications, investor meetings and events
3 Attractive investment

Government and regulators
1 Fulfil regulatory requirements, employment and competitiveness
2 Network to ensure UPM view is heard
3 Ensure competitiveness and a fair operating environment

NGOs
1 High level of environmental and social responsibility performance
2 Dialogue, transparency and co-operation in climate-related topics in particular
3 Understanding expectations to development of performance, partnerships

Customers
1 Reliable partner, service offering, product safety and quality, product profiles and ecolabels, supply chain performance
2 Collaboration, customer satisfaction surveys, best practice sharing, strengthened customer focus
3 Mutual business success and Biofore opportunities

UPM does not tolerate any violations of the UPM Code of Conduct. Employees can ask for advice from appointed Code of Conduct contact persons or report misconduct anonymously through UPM Report Misconduct channel. Misconduct reports are reviewed carefully and UPM takes corrective actions when necessary.

In 2015, UPM received approximately 210 inquiries and concerns expressed by stakeholders. The concerns related mainly to environment, forestry and biodiversity. 12 cases were reported through UPM Report Misconduct channel. The complaints related mainly to suspected cases of fraud and suspected failures to adhere to the company's HR Rules or compliance procedures. Five cases related to discrimination were reported, but none were found to be justified. None of the cases were related to society, environment, human rights violations, corruption or labour practices. Some of the reported cases led to disciplinary action including warnings or terminations of employment.

Read more on Code of Conduct renewal p. 10, materiality analysis p. 11 and climate actions p. 59. Concrete examples of our commitment to stakeholder engagement can be found in the cases throughout this report.

UPM PROMOTES READING

The two village schools of Quebracho in Paysandú, Uruguay welcomed UPM Foundation's book donation with great enthusiasm.

"We aim to improve the reading habits of school children in a new way but also improve the amount of interest that their families display for reading and education in general. The idea is to go around the neighbourhood and visit children and hundreds of families and spend time with them by reading and lending books," says Rosario Maldonado who is the head teacher of one of the schools involved.

"With the help of UPM Foundation we renewed our library and received some 170 new books from our wish list. The children are happy as they like to listen to stories and read encyclopaedias but families are also happy with the experiment."

UPM also supports reading among refugee children in Germany through German Stiftung Lesen (German Reading Foundation). Reading is fundamental to human development and a prerequisite for full participation in today's media-led and culturally diverse society.

Read more: www.upm.com/responsibility

UPM pays corporate income taxes where added value is created

In accordance with UPM's tax policy, UPM pays corporate income taxes where added value is created and profit generated.

Taxes are paid in accordance with the local tax legislation and regulations of the country in question.

Due to UPM's corporate and operational structure, UPM reports and pays its corporate income taxes mainly in the production countries and in the countries where innovations are being developed.

CORPORATE INCOME TAXES PAID AND PROPERTY TAXES BY COUNTRY

EURm	2015
Finland	131
Uruguay	10
China	9
Russia	8
United States	8
France	3
United Kingdom	2
Other countries	3
Germany	-2
Total	**172**

Particularly in the countries where UPM's business areas have significant value-adding operations, the company is a major taxpayer of both direct taxes (for example corporate income tax, real estate/property tax) and indirect taxes (for example value added tax).

UPM has worked systematically to improve its profitability in all businesses. UPM's importance to tax revenue is especially emphasised at the locations of production sites. In addition to Finland, UPM has major investments in production in Uruguay, Germany, China, the UK and the USA, for example.

In Finland, UPM has significant operations through all of its six business areas as well as research and development operations. Due to these factors, UPM is also one of the biggest tax payers in Finland.

In some countries, governments support companies making significant investments, for example by granting temporary operating permits for special economic zones. In Uruguay, the government has granted UPM's pulp mill with a permit to operate in a special economic zone. Therefore, UPM's tax payments in Uruguay mainly concern real estate/property taxes. In China, with regard to fine paper production, UPM qualifies as a High-tech enterprise with a reduced corporate income tax rate of 15% instead of the standard rate of 25%.

Corporate income taxes and property taxes paid by UPM are reported by country (see table on the left). In addition to these taxes paid by UPM, the local impact is augmented by the taxes paid to the local municipalities by UPM's employees as well as those indirectly employed by UPM to perform various services at the production sites.

About UPM's tax policy

The main principles of UPM's tax policy are:

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

UPM Audit Committee has reviewed the company's tax policy and the principles of tax risk management during 2015.

UPM's tax policy is available on the corporate website under www.upm.com/governance.

Corporate income taxes and property taxes paid by country

The tax figures shown in the country analysis include corporate tax payments and property taxes.

The country analysis shows the corporate income taxes paid by UPM business areas operating in that particular country. The corporate income taxes paid are reported on a cash basis and thus include some taxes concerning previous years as well, but exclude deferred taxes because they may not be paid. Consequently, in those countries where UPM's companies are using tax losses resulting from previous years to offset the tax liability of the year in question, such as Germany, there are no or only limited corporate income taxes paid.

Real estate/property taxes that are reported in the country analysis include various types of taxes imposed on real estate, land and property. For UPM, these taxes are also particularly significant in the production countries due to the operations requiring major investment in production facilities, land areas and other real estate and property. The scope, basis and tax rates of the real estate/property taxes vary significantly between countries. For example, land, buildings or total net assets may be subject to these taxes, the tax rates may depend on conditions such as purpose of use or location of the immovable property, and the amount of tax may be calculated based on variables such as taxable values, historic values or balance sheet values of the property.

Aligning the corporate legal structure with the business structure in Finland

Currently in Finland most business areas have their main operations in UPM-Kymmene Oyj, the parent company of the UPM Group, with the exception of UPM Raflatac and UPM Plywood. These businesses have their Finnish operations in UPM Raflatac Oy and UPM-Kymmene Wood Oy.

In addition to production and sales operations, these subsidiaries perform certain R&D activities and may also own subsidiaries outside of Finland. In 2016, similar subsidiary structures are considered for other business areas and/or units in Finland to align UPM's corporate legal structure with its current business structure.

As a taxpayer, UPM has already consolidated the taxable income and corporate income taxes of the Finnish group companies to the parent company. Consequently, the corporate income tax has been reported and paid by the parent company UPM-Kymmene Oyj. While not affecting UPM's total tax payments in Finland, the planned changes in corporate legal structure, which aim to align this with the business structure, will divide UPM's corporate income tax payments between its Finnish group companies.

In 2015, UPM's corporate income taxes in Finland are estimated to be approximately EUR 83 million in total, of which, subsidiaries – mainly UPM Raflatac Oy and UPM-Kymmene Wood Oy – report and pay approximately EUR 22 million, and the remaining approx. EUR 61 million is reported and paid by UPM-Kymmene Oyj. Starting from 2015, the corporate income tax of UPM-Kymmene Oyj is also affected by the accelerated depreciations of production investments concerning Lappeenranta Biorefinery, which started up in January 2015, and the expansion on Kymi pulp mill, which was completed in October 2015.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED BY UPM IN 2015 (EUR MILLION)

Direct economic value created		Economic value distributed	
		Operating costs	–7,577
Sales	10,138	Employee wages and benefits	–1,257
Income from sale of assets	69	Payments to providers of loans	–39
Income from financial investments	7	Dividend distribution	–373
Other income	–7	Corporate income taxes paid and property taxes	–172
	10,207		**–9,418**

Economic value retained 789

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

Read more:
www.upm.com/governance

PROSPERITY GROWS IN URUGUAY'S FORESTS

The forest industry's investment projects have been a key enabler of economic growth in Uruguay. UPM's success story is an excellent example of how one industry spreads prosperity across many sectors of society.

The economic impact of UPM on the Uruguayan economy can be measured through its entire production process starting from the breeding of eucalyptus varieties up to logistics and foreign trade.

According to a recent independent study, UPM's input in the value chain, together with that of its service providers accounted for over 1% of Uruguay's GDP in 2014. The direct impact of UPM Fray Bentos pulp mill represents more than 3% of the country's manufacturing industry.

The majority of the inputs derive from the production process while the remaining added value can be attributed to employment, salaries, exports and productivity.

The UPM Fray Bentos and UPM Forestal Oriental directly generate approximately 560 jobs. At the same time, UPM's suppliers employ around 3,700 people directly through their operations.

Consequently, these jobs generate salaries as well as consumption, which results new jobs. The employment in various sectors linked to UPM's activity in Uruguay amounts to more than 1,700 jobs.

Direct, indirect and induced UPM salaries exceeded USD 170 million, which represents approximately 30% of the total added value generated by the company in Uruguay in 2014. The total number of jobs generated by UPM amounts to around 6,000, which accounts for 0.3% of the total employment generated in the country.

Pulp is one of the four main export products and UPM is Uruguay's largest exporting company. In 2014, UPM Fray Bentos exports represented approximately 7.2% of total goods exports.

The added value generated directly by the activities of UPM Forestal Oriental represents 42% of the added value generated by the forest sector in 2014. The majority of UPM Forestal Oriental's activities are located in rural areas and support local livelihoods.

Read more:
www.upmbiofore.com

Collaborating with customers

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

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

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

	PULP	BIOFUELS	TIMBER PRODUCTS	ENERGY	UPM RAFLATAC	UPM PAPER ASIA	UPM PAPER ENA	PLYWOOD	WOOD SOURCING AND FORESTRY
Product range	Softwood, birch and eucalyptus pulp	Wood-based renewable diesel and gasoline for transport	Standard and special sawn timber	Electricity and related services	Self-adhesive paper and film labelstock	Fine papers, office papers, labelling and packaging materials	Magazine papers, newsprint, fine papers for various end uses	Plywood and veneer products, thermoformable wood material	Wood and wood-based biomass (logs, pulpwood, chips, forest residues etc.), full forestry service package offering
Customer industries	Tissue, specialty, printing and writing papers and packaging	Fuel distributors, transportation, oil and petrochemicals industry	Joinery, packaging, distribution and construction industries	Nordic market: Industrial consumers, electricity distributors and retailers	Label printers, packers, brand owners in durables, tyres, retail, A4, food, beverage, personal care, pharmaceutical, retail and logistics segments	Distributors, retailers, OEMs (original equipment manufacturer), printers, publishers and converters	Newspaper and magazine publishers, printers, cataloguers, retailers, distributors and converters	Construction, vehicle flooring, LNG shipbuilding and parquet industries as well as furniture and other manufacturing industries	All UPM businesses using wood or wood-based biomass, forest owners
Measurement of customer satisfaction	Continuous dialogue, regular customer surveys	Continuous dialogue and collection of feedback, end-user studies	Continuous dialogue and collection of feedback, customer satisfaction survey every second year	Continuous dialogue	Continuous dialogue, customer surveys, training, customer events	Continuous dialogue and customer meetings, regular customer surveys	Continuous dialogue, regular customer surveys	Continuous dialogue, bi-annual customer surveys	Continuous dialogue and regular customer surveys
Actions in 2015	• Co-marketing and best practice sharing on sustainability with customers • Increased pulp production and bailing capacity at Kymi mill • Strengthened supply chain • Strengthened technical customer service in Europe • Strengthened sales in APAC and Europe	• Commercial production and deliveries started in January • Launch of UPM BioVerno renewable diesel to consumers in Finland • Ensuring product functionality by comprehensive motor and fleet testing	• Further focus on strategic markets and market-specific weighting • Customer categorisation and customer specific account plans • Optimisation of raw material quality and usage • Delivery accuracy	• Achieved customer cost reductions through energy management services	• Strengthen films & specials offering • Optimisation of production and distribution network • Product development partnership • Improvement of supply chain efficiency • Sustainability and product safety solutions	• Launch of PM3 label products and new value-added products • Joint development projects with customers • Enhancing sustainability message further • Customer focus throughout the organisation	• Launch of new products that add value to customers • Joint product and business development • Development of service offering • Improved business interaction with customers	• Continuation of the ongoing work to improve supply chain performance and service • Quantifying the added value of new product solutions • Continuous customer and contract management	• Development of a new way of serving forest owners • Development of web solutions to improve customer service • Development of the relationship and way of working with entrepreneurs
Important corporate responsibility topics	Safety, forest certification, sustainable forestry, environmental performance of mills, water use and resource efficiency	Reducing greenhouse gas emissions and tailpipe emissions, biofuels-specific sustainability certification, social and traceability criteria in targets set by the EU Renewable Energy Directive	Chain of custody, origin of wood and forest certification	Low-emission electricity production, balancing energy grid with balancing power, fish migration	Product safety, lifecycle analysis, ecodesign, waste management, recyclability and forest certification	Product safety, forest certification, origin of wood and resource efficiency, supplier audits at mills	Safety, forest certification, environmental performance, supplier audits at mills, ecolabels, resource efficiency and financial stability as a supplier	Forest certification, chain of custody, product safety and resource efficiency	Sustainable forestry, forest certification, income and employment for people living in rural areas, employee relationship with private entrepreneurs
Major changes in customer industries	• Growth of tissue and packaging board production • Continued decline of printing and writing paper industry in mature markets	• Global increase of advanced biofuel volumes and demand • Waste and residue-based biofuels are favoured by both customers and legislation	• Growing importance of East Europe as a production area • Instability and financial challenges in Egyptian market	• Structural changes in the Nordic electricity market • Increased volatility of electricity market through subsidised weather dependent production capacity	• Online commerce increasing label use for packaging and logistics • Increase in automated product labelling and identification • Retailer and distributor network development • Adhesive technologies for demanding applications	**Fine Papers APAC:** • Changes in graphics end uses • Increased share of e-media • Quality upgrade and lower price in cut-size business **Label, Pack and Release:** • Growth in personal care products • Retailer and distributor network development • Online shopping boosting • Increase in automated product labelling and identification	• Digitalisation • Structural overcapacity • Variations in raw material availability and costs • Power shift in global economy • Consolidations	• Increased need for services, stocks and short lead times • Requirement for forest certifications has increased within on-site construction end use • More customer-driven specifications among industrial end users decreasing supplier's possibility to differentiate with a product	• Increasing wood demand and competition due to pulp mill investments in Finland • Increasing energy wood demand

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

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

Collaboration with customers

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

Customer satisfaction is measured regularly in most businesses through customer satisfaction surveys conducted by a third party. Based on various business customer satisfaction surveys, the overall total satisfaction with UPM as a supplier is 75%. The result is not comparable with the previous year's result due to changes in the methods of surveys. The surveys act as a tool for further development, and bring an important customer dimension to performance management.

Customers interested in responsibility

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

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

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

Read more on UPM BioVerno renewable diesel on p. 22 and 51, UPM Raflatac's shrink sleeves p. 26 and UPM Paper ENA's Paper consultancy model on p. 30

Prioritising product stewardship

Product stewardship is a key element in UPM's responsible practices. Our products are made of renewable, recyclable and biodegradable materials, and our raw material base creates a strong foundation for product stewardship and circular economy. UPM's product stewardship covers the entire manufacturing process from raw material sourcing to the delivery, use and end-of-life management of all products.

Ecodesign and product safety mean that all the impacts the raw materials and manufacturing processes have on the products and the environment are taken into consideration and minimised early on in the design stage. Raw materials, water and energy are used in a resource efficient way. UPM provides its customers with products that are safe to use. The company's product stewardship is complemented by open and transparent product communication.

In January 2015, UPM launched the commercial production of renewable diesel UPM BioVerno. New UPM ProFi composite applications were also introduced during the year.

Other examples of product stewardship:
- Lighter UPM Valor printing paper
- Thermoformable UPM Grada wood material
- Share of ecolabelled products
- The UPM Restricted Substance List (RSL)
- RafCycle recycling solution for label waste

Ecolabels and product declarations as a sign of transparency

UPM provides product declarations to grant customers easy access to information concerning the product stewardship and the supply chain. Product profiles are developed for various customer needs, for instance to ensure that products do not contain hazardous chemicals. Ecolabels help customers make responsible choices and provide stakeholders with important information. Third-party verified environmental certificates and labels tell customers about the environmental performance of our products.

UPM is globally the largest producer of EU ecolabelled newsprint, office papers and graphic papers. The company also provides its customers with the opportunity to choose papers that have been granted a well-known local ecolabel, such as the German Blue Angel label or the Nordic Ecolabel. All UPM businesses have FSC and PEFC chain of custody certification, which means that customers can use these certifications in their marketing if they wish to do so.

The product safety profiles developed by UPM in 2014 were third-party verified and extended to new product groups in 2015. The company's new UPM BioVerno diesel has been granted the Finnish Key Flag symbol.

UPM updated its product stewardship target in 2015. The previous target of a 25% increase in the share of ecolabelled products by 2020 was achieved ahead of schedule. The new target is to acquire an ecolabel for all relevant products by 2030.

PAIRING LOW CARBON WITH HIGH EFFICIENCY

UPM BioVerno renewable diesel is an excellent ecodesign example, combining both high levels of functionality and environmental benefits.

The high quality and higher cetane number of UPM BioVerno increases the power of the engine and provides cleaner combustion in the engine, resulting in significantly lower tailpipe emissions.

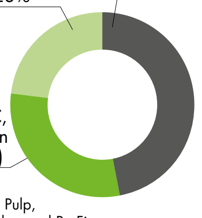
In addition to fulfilling high quality requirements, the fuel provides important environmental benefits such as decreasing CO_2 emissions by up to 80% during its lifecycle, and also decreasing hazardous harmful tailpipe emissions compared to conventional fossil diesel fuels.

"The results showed that even as a 30% blending component, the accumulated hydrocarbon emissions were reduced by more than half and the carbon monoxide emissions by more than 40% compared to reference fossil diesel. Our tests also showed good results in NOx emissions and efficiency," says Dr. Ing. Thorsten Schnorbus, Manager Passenger Car Diesel, FEV.

UPM initiated BioVerno field tests in urban buses together with Helsinki Region Transport (HSL) and the VTT Technical Research Centre. The fleet tests are a part of the Helsinki Region Transport initiative that is aiming for emission-free public transport.

Read more:
www.upm.com/responsibility,
www.upmbiofuels.com

UPM's ecolabelled sales*)



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

In 2015, 77% (76%) of UPM's overall sales of paper, chemical pulp, plywood and timber products was ecolabelled. This figure includes FSC, PEFC and EU Ecolabels, and national ecolabels. UPM aims to have all applicable products ecolabelled by 2030.

Sustainable forestry and fibre sourcing the cornerstones of UPM's business

Wood is a renewable material and the primary raw material for UPM's businesses. Wood is UPM's most important raw material. The company is committed to sustainable forestry, monitors the origin of wood and ensures that wood is legally logged from sustainably managed forests.

At the end of 2015, UPM owned 704,000 hectares of forest in Finland and 75,000 hectares of forest in the United States. The company additionally has 236,000 hectares of forest plantations in Uruguay. Forests owned by UPM house approximately 50,000 protected sites with a total area of approximately 148,000 hectares. The company is also responsible for managing nearly 900,000 hectares of forests owned by private forest owners and 57,000 hectares of forest plantations.

Forest certification is an excellent tool for promoting sustainable forestry. Certification is based on standards that have been created in an open stakeholder process, and compliance with these standards is monitored by an independent third party. All of UPM's forests are certified, and the company also promotes certification in privately owned forests, for instance through group certification.

During 2015, UPM's Finnish FSC group certification scheme grew to cover over 100,000 hectares of forest. The company also worked together with FSC Finland to launch a pilot project for promoting the certification of small privately owned forests. All the wood sourced by UPM is covered by third-party verified chains of custody.

UPM updated its forest and biodiversity targets in 2015. The previous target of maintaining the share of certified fibre at 85% was nearly achieved as 84% (83%) of the wood used in the UPM mills is certified. The new target is to reach 100% level by 2030.

UPM is both a major forest owner and a purchaser of wood

Global deforestation, which is caused by the growing need for food production and wood, particularly in the tropics, is an essential concern for the entire forest industry. UPM recognises that deforestation is a global challenge and responds to it in its own operations, for instance by actively participating in international collaboration.

UPM does not use wood from tropical rainforests as raw material, or accept wood

A 20-YEAR TRADITION OF GUIDING THE BIODIVERSITY

Biodiversity has been one key element in UPM's forestry and wood sourcing strategy for more than 20 years. UPM has enhanced a new working culture by actively taking part in various species and habitat projects in co-operation with stakeholders.

UPM's biodiversity programme aims to maintain and increase biodiversity in forests as well as promote best practices in sustainable forestry and wood sourcing.

"It is great that maintaining biodiversity plays such an important role in UPM's strategy. I hope that UPM's example also encourages other companies to include ecosystem services in their environmental responsibility themes and to see the opportunities offered by new nature-based solutions in their business strategies", says Timo Tanninen, Director General, Ministry of the Environment.

Biodiversity supports ecosystem services including air quality, climate, water purification, pollination, preventing erosion and raw material provision. Preserving biodiversity will help to support adaptation to potential impacts on climate change. It is also important for maintaining the health and strength of wildlife populations.

Read more:
www.upm.com/responsibility

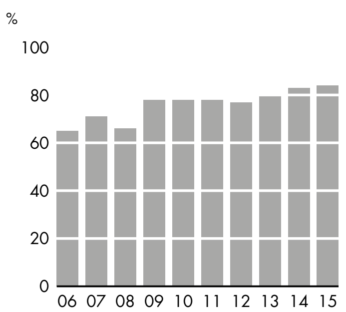
from forest plantations that have been established by converting rainforests. UPM does not operate in areas where the rights of indigenous peoples are threatened or endangered. In 2015, UPM received recognition from the Food and Agriculture Organization of the United Nations (FAO) for its exemplary forest management practices in Uruguay. The recognition was conferred by the local forestry authorities.

Own forests essential for research and development

UPM has systematically developed new ways of securing biodiversity in commercial forests for over two decades. A good example of this work is provided by a joint project aimed at promoting the wellbeing of the endangered white-backed woodpecker in commercial forestry. The project was carried out by UPM, WWF Finland, The Finnish Environment Institute (SYKE) and Metsähallitus (Finland's forest administration). During the past 20 years, the population of the white-backed woodpecker has multiplied as a result of the conservation and management of its natural habitat.

During the year, UPM participated in the CBD Business and Biodiversity Forum 2015 held in Helsinki. The CBD Business and Biodiversity Forum is part of the UN's Convention on Biological Diversity initiative. Recognising ecosystem services offers plenty of opportunities from the bioeconomy point of view, and UPM and the Finnish Environment Institute (SYKE) published a joint study on ecosystem services that can be derived from forests alongside the production of wood. The study provided more insight into the environmental impacts of wood-based products. UPM and the Finnish Ministry of the Environment also agreed on the establishment of several private conservation areas in different parts of Finland in 2015.

Certified wood supplied to mills



The share of certified fibre supplied to UPM's mills increased to 84% (83%). UPM's target is to get all fibre certified by 2030.

Sourcing operations play a significant role in ensuring the efficiency and profitability of UPM.

The objective of UPM's sourcing operations is to enhance a supplier base that is capable of delivering material and service solutions that are cost competitive, produced in a responsible way and innovative to UPM businesses globally.

Responsible sourcing throughout the entire supply chain

The sourcing of all necessary products and services represents a significant cost element for UPM business. Cost efficiency is the leading principle in UPM sourcing.

Besides cost, UPM sets requirements for the reliability of deliveries in the long term as well as the quality of the products and services. In addition, requirements are also set for financial stability of the supplier, the environmental management of operations, social responsibility, occupational health and safety and product safety.

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

Wide range of suppliers – targeted co-operation

Suppliers are an important stakeholder group for UPM. The company's sourcing network consists of suppliers ranging from private forest owners and local companies to large international corporations. Over 25,000 suppliers around the world deliver a variety of raw materials, products and services to UPM.

UPM continuously evaluates the performance of its suppliers and seeks to develop key supplier relationships. We have established long-term plans with some 400 suppliers in order to ensure systematic performance and quality development.

Internal stakeholders' satisfaction with the responsibility of key suppliers is measured annually. As a result, our understanding of the complete lifecycle of products is continuously enhanced, and the social and environmental performance of UPM products is further improved.

Transparent supplier requirements are the basis for responsible sourcing

The current business environment calls for a transparent and responsible supply chain. Transparent and systematic supplier requirements are the basis for UPM's supplier selection process and supplier performance evaluation.

UPM requires its suppliers to apply the principles of the Code of Conduct and to fulfil the criteria concerning social and environmental responsibility. These supplier requirements are defined in the UPM Supplier Code. UPM expects its suppliers to expose the same requirements in their upstream supply chain.

In 2015, 79% (67%) of supplier spend was qualified against the Supplier Code. Additional specific requirements are in place for areas such as wood, chemicals, safety, logistics, pulp and packaging.

UPM's supplier risk assessment covers financial, quality, delivery, environmental, social and economic risks. Based on the risk assessments UPM selects the suppliers whose performance is studied more closely by annual questionnaires, joint development plans and supplier audits.

All UPM's suppliers of primary raw materials – wood, pulp and recovered paper – have been screened using environmental, labour practices and human rights criteria and criteria for impacts on society. This is realised in majority of cases through forest certification and chain of custody standards (FSC, PEFC) and for the remaining part through FSC Controlled Wood standard and PEFC Due Diligence system.

The human rights-related risk assessment of the supplier base has been enhanced since 2013. Consequently, the number of risk assessment-based supplier audits has been doubled, with a much wider geographical coverage than earlier. Some of the audits covered the entire upstream supply chain.

In cases of revealed non-conformances the supplier is obligated to make corrective actions. UPM is ready to support its suppliers in order to help them to develop their performance.

Capital expenditure is exposed to scrutinised responsibility

Responsible sourcing practices also cover all investments. All approved suppliers are qualified against the UPM Supplier Code, i.e. they commit themselves to UPM requirements including occupational health. All suppliers working on UPM site go through UPM's safety requirements and a web-based safety induction training.

Wood is the primary raw material for UPM's businesses

UPM is both a major forest owner and a purchaser of wood. UPM sources all wood assortments to ensure optimal utilisation of this valuable raw material.

In 2015, UPM sourced 26.1 (26.3) million cubic metres of wood from around the world. The majority of wood is purchased from private forest owners who numbered nearly 22,000.

A network of local entrepreneurs takes care of harvesting, logistics and forestry work operations. There were nearly 6,000 harvester drivers and 5,000 truck drivers working for the entrepreneurs in 2015. UPM wood sourcing creates employment opportunities for thousands of people living in rural areas within the UPM wood sourcing spheres.

Tracing the origin of wood is a prerequisite for UPM

Wood used in UPM products comes from sustainably managed forests and from legal sources. All UPM wood supplies are covered by third-party verified chain of custody certificates under FSC and PEFC. UPM aims to use certified fibre to the highest possible degree and to promote a global increase of certified forests. Today, 84% (83%) of the wood used in the UPM mills is certified.

UPM verifies that the wood raw material supplied to its mills is procured according to the requirements of EU Timber Regulation, the US Lacey Act and other regional jurisdictions. UPM does not accept all wood. Mixed tropical hardwood from rainforests is not accepted as raw material, neither wood from plantations that have been established by converting rainforests. UPM does not accept wood from areas where the rights of indigenous peoples are not respected.

Pulp, chemicals and other raw materials are purchased worldwide

Specific requirements are set for pulp, chemical and other raw materials suppliers with regard to environmental performance, forestry and wood sourcing, product safety and performance reporting.

UPM paper businesses apply systematic supplier management methods in order to ensure good and responsible performance of key suppliers.

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

Based on UPM Supplier Survey in paper businesses' raw material sourcing, more than 150 corrective actions were implemented with key suppliers in 2015. More than 50 key suppliers received feedback including some 300 proposals for improvement.

Supplier awards motivate suppliers for continuous improvement. In 2015, UPM Raflatac launched the Label Life Award competition on corporate responsibility and invited the best performing suppliers to participate. The purpose of the award is to recognise UPM Raflatac's suppliers' efforts in achieving good environmental and social performance and to share best practices in the field of sustainability. UPM Paper ENA awarded packaging supplier Paul & Co. with UPM Best in category supplier award.

UPM is a significant user and buyer of recovered paper

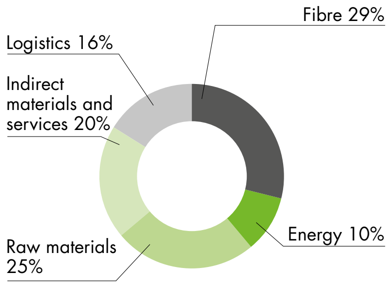
UPM is the world's largest user of recovered paper for the production of graphic papers. In 2015, the total consumption of recovered paper was approximately 3.1 (3.4) million tonnes.

Paper can be recycled up to six times after its first use, and even after the fibres wear out, they can still be used to generate renewable bioenergy.

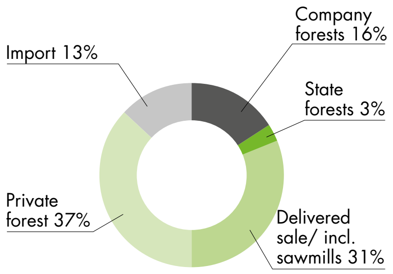
Efficient paper recycling depends on the local infrastructure for national collection schemes and recovery systems. The recovered paper used by UPM is purchased from Europe, where the most significant suppliers are local authorities, waste management companies and printing houses. UPM aims to optimise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

The share of recycled fibre represents one third of all fibre raw materials used in UPM's paper production.

UPM's external purchasing spend



Sources of wood to UPM mills 2015



WOOD DELIVERIES TO UPM MILLS

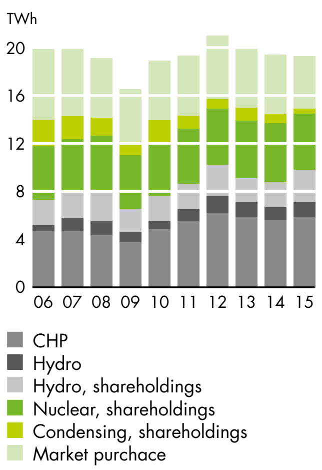
1,000 m³	2015	2014
Finland	17,697	17,910
Germany	1,543	1,336
Austria	1,013	962
Russia	272	328
United Kingdom	271	289
Estonia	135	135
United States	867	940
Uruguay	4,293	4,366
Total	**26,090**	**26,266**

Energy from renewable sources

UPM is both a significant purchaser and producer of energy. The majority of electrical and thermal energy is consumed at the company's pulp and paper production. UPM favours a wide range of low-emission energy sources and focuses on energy efficiency and energy savings in its businesses. In 2015, 67% (67%) of the fuels used by UPM were from renewable sources.

In addition to the company's own electricity generation, electricity is also purchased from the Nordic and Central European energy markets. In Germany, the company has bilateral agreements in place with electricity suppliers.

Electricity sourcing



Logistics form the foundation of on-time deliveries

UPM delivers approximately 1.2 million truckloads (c. 25 tonne each) of products and raw materials around the world every year; that is one load every 25 seconds. Of all UPM deliveries, 68% are transported by rail and road and 32% by sea. The majority of UPM's haulage is handled by contract partners. UPM aims to create strategic long-term alliances to create benefits for the company and its customers.

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

EU Sulphur Directive came into effect in the beginning of 2015. All 30 ships of UPM partners are equipped with sulphur scrubber and have been taken in use in early 2015 as planned. The method improves the quality of air and reduces negative impacts of health.

Wood sourcing, transportation and logistics have a significant socio-economic impact on rural areas around the UPM mill sites. The total external workforce includes 5,916 harvester drivers, 4,839 truck drivers and 791 railroad workers. The number of entrepreneurs and companies involved is 1,155. Looking at UPM global scale, this – together with purchases from the forest owners – results in significant support for local livelihoods in rural Europe, USA and Uruguay.

Out of total spend of EUR 3,355 million for UPM primary raw materials – wood, pulp and recycled paper – 70% was purchased from local suppliers.

SUPPLIER AUDIT PROCESS CREATES MUTUAL BENEFITS

"As one of the leading companies in the global paper industry UPM has an advanced management style and comprehensive experience in industrial production. Our business relationship gives us an excellent opportunity to develop our own practices as well," says Mr Meng Xiang Feng from Asian Sage, the owner and CEO of the company.

Asian Sage manufactures blade devices, dewater and sealing elements, fibre reinforced products and composites like fiberglass and carbon fibre. The company started its co-operation with UPM at the Changshu paper mill in 2008 and since then it has become the main supplier for UPM in this field in China.

Mr Meng welcomes UPM's well-designed audit process that has helped Asian Sage to improve management systems and increase production efficiency.

The main targets of the audits are to improve company management and the quality of products but also to make improvements in health and safety of employees and social and environmental responsibility.

Petri Riihinen, Quality and Supply Development Manager at UPM confirms that the target is to continuously improve relationships with suppliers. "So far, unsafe working practices such as lacking personal protective equipment or excessive working hours have been the most common findings in the audits," he notes.

"This development brings along mutual benefits for both partners but also for employees and for the society in general. Such positive and continuous improvement strengthens the relationship and co-operation between all parties."

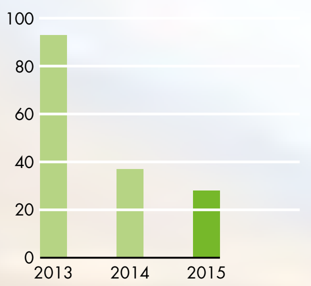
Read more:
www.upm.com/responsibility

Controlled and resource efficient production

Certified management systems help UPM to control and improve the performance of the company's production sites in matters related to the environment, health, safety and quality. The company uses raw materials, water, energy and other resources in a responsible manner and continuously improves energy, production and cost efficiency.

Almost all of UPM's production sites, as well as its wood sourcing operations, are covered by environmental, quality and occupational health and safety systems which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards. Additionally, several production sites have an ISO 22000 food safety management system.

The number of environmental deviations at UPM pulp and paper mills



Thanks to UPM's internal Clean Run environmental campaign, the number of environmental deviations has decreased from 2013 by 70%.

UPM has certified all its European pulp and paper mills, the UPM Fray Bentos pulp mill in Uruguay, and the UPM Changshu paper mill in China in accordance with the EU Eco-Management and Audit Scheme (EMAS). EMAS requires participants to have an Environmental Management System and to publish a third-party verified Environmental Statement, which increases the credibility and reliability of environmental data. In November 2015, the EU awarded UPM a recognition certificate for being one of the pioneers of the 20-year-old EMAS scheme. In order to improve energy efficiency, UPM introduced ISO 50001 certification systems in Germany and a national energy efficiency system (ETJ+) in Finland.

Investments in environmental performance

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

In 2015, the company's environmental investments totalled EUR 28 (12) million. The single largest investment was made to wastewater treatment and air protection at the UPM Changshu paper mill in China.

UPM's environmental protection costs totalled EUR 129 (127) million, including depreciation. The main cost items were effluent treatment, waste management and air pollution control. Effluent treatment amounted to EUR 49 (44) million, waste management to EUR 34 (41) million and air pollution control to EUR 5 (4) million. One of the focus areas in 2015 was the closer monitoring of environmental costs.

Positive development in number of environmental non-conformances

The number of environmental non-conformances has seen a significant decrease since UPM's internal Clean Run campaign was launched in 2012. Almost 2,000 anticipatory environmental observations were reported in 2015. The goal of UPM's campaign is to further improve the company's environmental performance, share best practice, and improve and maintain environmental awareness.

No major environmental incidents occurred at UPM production plants in 2015, and UPM was not ordered to pay any significant fines due to non-conformances. A total of 28 (37) temporary deviations from permit limits or major deviations from the environmental limits set by UPM occurred at the company's pulp and paper mills during the year. The most notable deviations were either small oil leaks to nearby waters or biological sludge losses from wastewater treatment plants. UPM immediately reported deviations from permit limits to the local authorities and undertook corrective measures to normalise the situation and prevent similar situations from occurring in the future.

Water plays an increasingly important role

Water is one of the most important natural resources and of crucial importance to UPM. Water resources and the natural water cycle have an essential impact on our operations in forests, plantation forestry and the production of energy, pulp and paper. The company's target is to minimise the impact of operations on local water resources, safeguard the natural water cycle in forests and maintain the functioning of aquatic ecosystems.

UPM's main production plants are located in areas where there is sufficient water available. The water used by UPM plants comes from rivers, lakes or groundwater resources. UPM uses water responsibly in terms of the company's water consumption and effluent quality.

Reducing water consumption is a continuous target at all UPM mills

Using less water also means using less electricity, chemicals and thermal energy. The water used in different processes is recycled as much as possible.

All of UPM's pulp and paper mills are required to have both a mechanical and a biological wastewater treatment facility. In order to ensure the best possible treatment result and share best practice, UPM's wastewater treatment facility team has continued its work. The results have been good and the number of incidents has decreased.

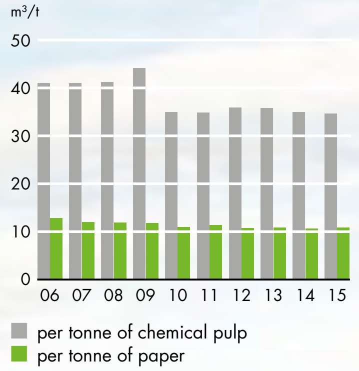
UPM has thoroughly studied the ecological state of the effluent discharge areas at all UPM pulp and paper mill sites using a number of bio-indicators. The international ISO water footprint standard, which has been in the making for several years, was published in 2015. UPM's pioneering work in water footprint research contributed to the final standard.

Hydropower plays an important role in UPM's versatile energy production portfolio. In many areas, constructing hydropower facilities has affected the reproduction opportunities of migratory fish species. This has traditionally been compensated by fish planting obligations and fish management fees set by authorities. UPM is currently participating in a two-year project administered by the Natural Resources Institute Finland in which suitable means for restoring migratory fish stocks and supporting their natural reproduction are studied.

UPM was the first forest industry company to sign the WASH Pledge (Water, Sanitation and Hygiene). During 2015, access to drinking water and sanitary conditions has been determined at all UPM production plants. This work will continue in 2016.

UPM updated its water-related targets in 2015. The previous target of reducing the COD load by 20% by 2020 proceeded well as the target was nearly achieved in 2015. The second target of reducing the wastewater volume by 15% proved to be challenging. The new targets include reducing water consumption by 30%, reducing COD emissions by 40% and introducing the use of recycled nutrients at wastewater treatment plants by 2030.

UPM's process wastewater volumes



UPM has reduced wastewater volumes per tonne of paper by 16% and per tonne of chemical pulp by 16% over the last ten years.

CONTINUOUS RIVER MONITORING

Uruguayan environmental authorities and UPM have conducted a continuous monitoring of the Fray Bentos mill's environmental performance with the help of several independent researchers and environmental experts during ten years.

"Throughout the programme we have not found any evidence that pulp mill effluents would have an environmental impact on water quality and biology of Río Uruguay since the start-up of the mill in 2007," says biologist Jukka Tana. Tana has been a member of the researcher group since the very beginning of the work.

Between 2005 and 2007 the research group concluded baseline studies of water quality and biology of Rio Uruguay to analyse the river as the receiving water of the mill effluents. After the start-up these analyses have been continued as a permanent monitoring programme. Tana says the monitoring programme has been one of the most comprehensive research works ever conducted in a pulp mill emission studies.

"We have also recruited local fishermen to keep a record of their fish catches. The fish community and population structure has remained unchanged at all three study areas and the condition of the fish caught has been observed to be in a good state."

Read more:
www.upm.com/responsibility

INCREASING RENEWABLE ENERGY PRODUCTION AT SHOTTON

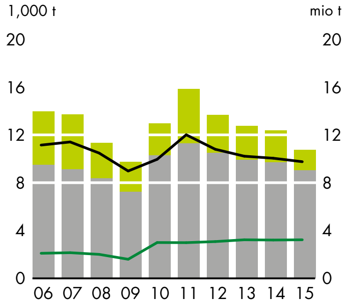
"Prior to the closure of a paper machine, all of the excess low pressure steam generated as a by-product of electrical power generation was used as heat in UPM's paper mill. We can no longer use all of this steam, which consequently is cooled and vented to the atmosphere. The new condensing turbine power plant will use this excess steam and generate electrical power," says mill manager David Ingham from Shotton in the UK.

The new plant will generate approximately 4.8 MW of renewable energy from waste steam. Thanks to the condensing turbine, the share of biomass energy production will increase to 70% from 56%. The condensing turbine will reduce the mill's carbon footprint by approximately 27% and at the same time improve the mill's cost efficiency. The new plant will be producing power by early 2017 at the latest.

"In addition to the new condensing turbine, we are executing a plan for further energy efficiency improvements within our existing paper mill operations. We have kept the most energy efficient assets in operation but have also developed the availability of our power plant boiler and improved the quality of the waste biomass that feeds the boiler," says Ingham.

Read more:
www.upm.com/responsibility,
www.upmbiofore.com

UPM's acidifying flue gases



Total NOx
Total SO_2
Paper production
Chemical pulp production

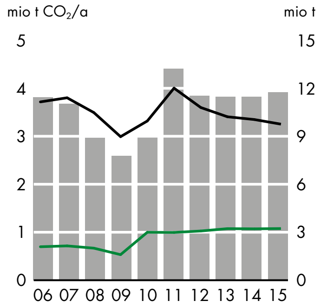
In 2015, reduction was achieved mainly due to investment in flue gas purification at UPM Changshu paper mill. Increases in total volumes are due to acquisitions (in 2010 and 2011).

Climate actions and energy efficiency

The goal of international climate policy is to keep the global average temperature rise at a level that does not threaten mankind. Achieving the goal requires significant reductions in emissions across the globe. Developing means for adapting and preparing for climate change is also necessary. UPM participated in preparing industry views for the Paris climate change conference in 2015.

UPM's Biofore strategy meets the challenge set by climate change on many levels:

UPM's fossil carbon dioxide emissions



Total emission
Paper production
Chemical pulp production

Biomass-based fuels account for 67% of the fuels used by UPM.

Sustainable forestry
- We ensure that our most important raw material, wood, grows in forests that are sustainably managed and act as carbon sinks
- We promote biodiverse ecosystems that are less vulnerable to the impacts of climate change

Responsible production
- We promote resource efficiency by making more with less
- We utilise the best available techniques (BAT) in our production
- We continuously increase the share of renewable and low-emission energy in our operations

Renewable and recyclable products
- We replace non-renewable materials with renewable materials and our products function as carbon sinks
- We innovate new business and products for future needs

UPM's energy production is based on versatile energy sources

UPM is a significant energy producer. The company favours the use of renewable and other carbon-neutral energy sources and the use of natural gas. Biomass-based fuels account for 67% of the fuels used by UPM. UPM is the second largest generator of biomass-based electricity in Europe. In 2015, UPM continued to develop the utilisation of forest energy in collaboration with its partners.

Paper and pulp mills, which use power and heat in their production processes, represent the majority of UPM's total energy consumption. Most of the energy is consumed in the manufacture of mechanical pulp, pumping and paper drying. At all pulp and almost all paper mills, steam and electricity are generated simultaneously by combined heat and power (CHP) plants. At some mills, all or some of the energy is produced by external power plant companies.

As the use of weather-dependent energy sources increases, the need for balancing power in energy systems will also grow. UPM is investing in hydropower, the most effective and sustainable method of producing balancing power.

UPM strives to continuously improve its energy efficiency across all its operations. During the last 20 years, the energy efficiency of production has significantly improved due to energy audits, innovations and internal campaigns.

The electricity consumption per tonne of paper has decreased by 17% over the past 10 years. From its energy-saving investments carried out in 2015, UPM gained savings of EUR 1.2 million, achieved 8,100 t avoidance in CO_2 emissions and a 32,000 MWh reduction in energy consumption. The annual savings are EUR 1.7 million, 13,000 t and 51,000 MWh.

In 2015, UPM was listed on the CDP Nordic Disclosure Leadership Index (CDLI) for the seventh time in a row with the score A-99.

UPM updated its climate targets in 2015. Regarding the previous target of a 15% reduction in fossil carbon dioxide emissions by 2020, the development was not in line with target in 2015. The new target is to achieve a 30% reduction in CO_2 emissions at UPM production plants and in the production of purchased electricity and a 20% reduction in acidifying combustion gases at UPM production plants by 2030.

CAPACITY TO GENERATE POWER THROUGH OWN POWER PLANTS AND SHAREHOLDINGS

	Nominal MW
Hydropower	708
Nuclear power	581
Condensing power	191
UPM Energy in total	**1,480**
Mill site combined heat and power (CHP)	1,473
Mill site hydropower	49
Mill site power generation in total	**1,522**
Total UPM	**3,002**

ELECTRICITY GENERATION THROUGH OWN POWER PLANTS AND SHAREHOLDINGS

TWh	2015	2014
Mill CHP	5.9	5.6
Hydropower	3.9	3.2
Nuclear power	4.7	4.8
Condensing power	0.4	0.8
Total	**14.9**	**14.4**

FUELS USED FOR HEAT GENERATION

TWh	2015	2014
Black liquor	17.6	18.5
Bark and other biomass	8.5	8.5
Heat recovered from TMP production	1.4	1.3
Renewable fuels total	**27.5**	**28.3**
Peat	1.1	1.2
Purchased heat	0.7	0.5
Natural gas	8.3	8.0
Oil	0.6	0.7
Coal	3.0	3.6
Total	**41.2**	**42.2**

Reusing waste is part of circular economy

Reducing the amount of solid waste and increasing reuse are important targets at all UPM mills. To us, yesterday's waste is the valuable raw material of tomorrow.

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

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

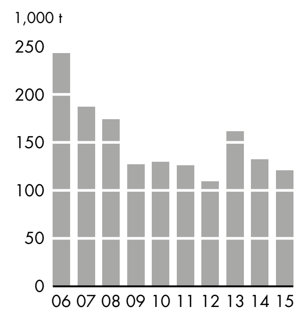
UPM has developed innovative ways to reduce its own waste and residues and reuse waste in new products.

Good examples of the company's efforts in promoting circular economy:
- UPM is the world's largest user of recovered paper for the production of graphic papers, consuming 3.1 million tonnes of recovered paper in 2015.
- The share of recycled fibre represents one third of all fibre raw materials used in UPM's paper production.
- UPM's renewable diesel, UPM BioVerno, is produced from crude tall oil, a residue of pulp production.
- Most Central European paper mills no longer send any solid waste to landfill.

During 2015, UPM focused on utilising and reusing production side streams in a more efficient way.

UPM updated its waste target in 2015. The previous target of a 40% decrease in the amount of solid waste sent to landfill by 2020 proceeded as planned. According to the new target, no process solid waste will be sent to landfill by 2030.

UPM's total waste to landfills



The total amount of solid waste sent to landfill has decreased over the last ten years by 50%. However, from 2012 to 2013 the total amount of waste sent to landfill increased significantly. This is due to the fact that former reuse possibilities for ash ceased at one of UPM's paper mills. Starting from 2014, new methods of recycling were established, with further options for recycling still being investigated.

UPM direct value creation 2015

RAW MATERIAL COSTS
EUR 4.3bn

RAW MATERIALS from 50,000 suppliers

Wood m³	Market pulp t	Recovered paper t
26,100,000	1,900,000	3,100,000
Purchased paper for converting t	**Minerals t**	**Plastics, adhesives, resins, films t**
210,000	2,400,000	180,000
Co-mingled domestic waste t		
190,000		

ENERGY

Fossil fuels GWh	Renewable fuels GWh
13,000	26,000
Purchased electricity GWh	**Purchased heat GWh**
13,000	310

WATER UPTAKE

Surface water million m³	Groundwater million m³	Communal water million m³
460	22	4

UPM

Capital employed
EUR 11.0bn

Net debt
EUR 2.1bn

Market Cap
EUR 9.2bn

54 production sites in 13 countries

19,600 employees

1.0 mill ha forests and plantations

approx. 85,000 shareholders

Read more:
www.upm.com

EMPLOYEE WAGES AND BENEFITS
EUR 1,257m

PAYMENTS TO PROVIDERS OF LOANS
EUR 39m

CORPORATE INCOME TAXES PAID AND PROPERTY TAXES
EUR 172m

DONATIONS AND SPONSORSHIPS
EUR 5m

DIVIDEND DISTRIBUTION
EUR 373m

EMISSIONS TO AIR

Sulphur dioxide t	Nitrogen oxides t
1,700	9,000
Particulates t	**Carbon dioxide (fossil), t**
730	3,900,000

PRODUCTS *)

Paper t	Chemical pulp t	Fluff pulp t
9,800,000	3,200,000	56,000
Converting materials t	**Plywood and veneer, m³**	**Sawn timber, m³**
510,000	770,000	1,400,000
Heat GWh	**Electricity GWh**	**By-products (waste for recycling) dry t**
300	9,000	1,300,000

*) incl. internal sales

SALES
EUR 11.2bn*)

*) Unconsolidated

OPERATING PROFIT
EUR 1.163m*)

ROCE
12.1%*)

*) excl. special items

EMISSIONS TO WATER

Chemical oxygen demand t	Biological oxygen demand (7 days) t
73,500	8,200
Adsorbable organic halogens t	**Process waste water million m³**
240	240

SOLID WASTE

To landfills dry t	To temporary storage dry t
121,000	6,100
To incineration without energy recovery, dry t	**Hazardous waste for special treatment, t**
1,000	4,900

Governance

Read more:
www.upm.com/governance

UPM-Kymmene Corporation (UPM or the company) follows the Finnish Corporate Governance Code 2015 (Code) issued by the Securities Market Association which entered into force on 1 January 2016. The Code is available on the Securities Market Association's website www.cgfinland.fi. UPM complies with all recommendations of the Code.

UPM's Corporate Governance Statement for the financial year 2015 and the Remuneration Statement dated 1 March 2016 have been prepared in accordance with the reporting section of the Code. The statements and this governance section complement each other, and this section contains references to the statements and also to the governance pages on the corporate website. The statements and the governance pages provide additional information on UPM's governance practices and policies and they can be found on the corporate website under www.upm.com/governance.

UPM's governance structure

UPM-Kymmene Corporation is a Finnish limited liability company with headquarters in Helsinki, Finland. The parent company UPM and its subsidiaries form the UPM Group having approximately 19,600 employees in 45 countries. The group's business operations are divided into six business areas supported by global functions. UPM shares are listed on the Nasdaq Helsinki exchange.

UPM uses a one-tier governance model, which, in addition to the general meeting of shareholders, comprises the Board of Directors and the President and CEO as presented in the illustration below. In the operative management of the company, the President and CEO is assisted by the Group Executive Team, the Business Area Boards and the Strategy Team. The general meeting elects the members of the Board of Directors annually, and the Board of Directors appoints the President and CEO and the members of the Group Executive Team. The members of the Group Executive Team report directly to the President and CEO.

Governance guidelines and monitoring of compliance

UPM's decision-making and management are guided by UPM values and the Code of Conduct. The Code of Conduct has been approved by the Board of Directors and it is available in all company languages on UPM intranet and under www.upm.com/governance. The Code of Conduct is complemented by more detailed rules and guidelines approved by the Group Executive Team, business areas and global functions. These rules and guidelines cover, among others, such topics as anti-bribery, competition law, confidentiality, contract management, taxation, human resources, environment, information security, safety, and equality. UPM is committed to observing applicable laws and its Code of Conduct wherever it operates and strives to ensure compliance with the Code of Conduct and related rules by training employees and by developing the company's auditing, monitoring and reporting processes. More than 90% of UPM employees had participated in the Code of Conduct training by the end 2015.

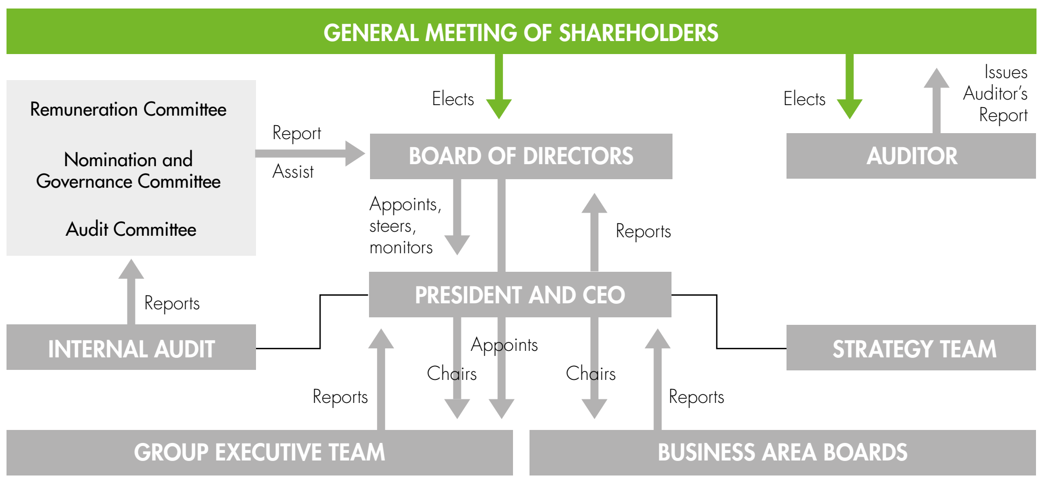
The Code of Conduct was renewed during the year and the Board of Directors approved the new Code of Conduct in February 2016. The implementation of the new Code of Conduct has started and will include a comprehensive training programme, which is mandatory to all employees.

UPM Legal Function manages legal compliance programmes and arranges related trainings. The compliance programmes have specific target audiences which have been defined based on risk assessments. Persons belonging to a specific target group receive separate invitations to participate in trainings arranged in a form of either a face-to-face training or e-learning. So far, legal compliance programmes and trainings are provided for anti-corruption, competition law, confidentiality, insider matters, energy markets and trade sanctions.

The Board of Directors, with the assistance of the Audit Committee, is responsible for monitoring the company's compliance with the applicable legal and regulatory requirements and with the company's Code of Conduct. In addition, the Audit Committee oversees procedures for treatment of complaints and concerns received anonymously or otherwise by the company regarding accounting, internal accounting controls or auditing matters, or potential violations of law. As a part of the committee's compliance review, the committee is provided with a quarterly report by the company's Ethics Advisory Committee and a report of submissions under the company's Report Misconduct channel by the Head of Internal Audit. This channel is available on UPM's intranet for any UPM employee, and on the corporate website under www.upm.com/governance for the company's external stakeholders.

Further information on the company's governance policies, guidelines and practices is available under www.upm.com/governance.

GOVERNANCE STRUCTURE OF UPM-KYMMENE CORPORATION



General meeting of shareholders

The company's supreme decision-making body is the general meeting of shareholders. According to the Articles of Association, the general meeting shall be held annually by the end of June. Usually, the Annual General Meeting (AGM) takes place late March or early April. In 2015, the AGM was held on 9 April in Helsinki. A total of 2,607 (in 2014: 1,984) shareholders attended the meeting either in person or through a legal or proxy representative, representing a total of 51.4% (45.6%) of the company's registered share capital and voting rights at the time of the meeting. All decisions at the meeting were taken without voting. These decisions are summarized below.

Financial statements and dividend

The AGM adopted the company's financial statements for the period 1 January–31 December 2014, decided to distribute dividends amounting to EUR 0.70 (EUR 0.60) per share, and discharged the President and CEO, and the members of the Board of Directors from liability for the financial year 2014. The dividends, totalling EUR 373 million, were paid on 23 April 2015.

Board composition

The AGM elected ten members to UPM's Board of Directors for a term which will end upon closing of the AGM 2016. Berndt Brunow, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Kim Wahl and Björn Wahlroos were re-elected to the Board and Henrik Ehrnrooth and Suzanne Thoma were elected as new directors. Matti Alahuhta, member since 2008, stepped down from the Board. All directors except President and CEO Jussi Pesonen are non-executive. The directors' personal details, career histories and other significant positions are presented on pages 71–72 of this report and under www.upm.com/governance.

Board remuneration

As regards Board remuneration, the AGM resolved that the Chairman of the Board be paid an annual fee of EUR 175,000, the Board Deputy Chairman and Chairman of the Audit Committee EUR 120,000, and other members of the Board EUR 95,000. The annual fee was decided to be paid in the company shares and cash so that 40% of the fee was to be paid in shares to be acquired on the Board members' behalf, and the rest in cash to cover withholding tax. The company was to pay any costs and transfer tax related to the acquisition of the company shares. No annual fee was paid to the President and CEO for his role as a member of the Board.

The Board members' annual fees, the number of acquired shares and the number of UPM shares held by the members at the end of 2015 are presented in the table on the following page. The Board members do not receive any other financial benefits for their Board or committee membership in addition to the annual fees. The annual fees have remained the same since 2007. According to the Board charter, Board members are encouraged to own company shares on a long term basis.

Auditor and auditor remuneration

The AGM also resolved on the company's auditor, and re-elected Pricewaterhouse-Coopers Oy, a firm of Authorized Public Accountants, as the company's statutory auditor for a one-year term, with Authorized Public Accountant Merja Lindh as the lead audit partner. Ms Lindh holds this position since 8 April 2014. The AGM further resolved that the audit fee would be paid against invoices approved by the Board of Directors' Audit Committee. The fees paid to the auditor, as approved by the Audit Committee, are shown in the following table.

AUDITOR'S REMUNERATION

EUR million	2015	2014
Audit fee	2.3	2.0
Tax consulting	0.8	0.6
Other services	0.5	0.5
Total	**3.6**	**3.1**

Board authorizations

Further resolutions taken at the AGM include authorizations to the Board of Directors to decide on the repurchase of the company's own shares and to decide on donations for charitable or corresponding purposes. The maximum number of shares that may be repurchased amounts to 50 million shares, and the total amount of donations may not exceed EUR 250,000. From before, the Board of Directors has the authorization to issue 25 million shares or special rights entitling to shares. The Board has not exercised the repurchase or the share issue authorizations but donations totalling EUR 60,000 have been made to the Department of Neurosurgery at the Helsinki University Hospital and to the Stiftung Lesen, a German foundation helping refugee children to integrate through improved reading skills.

Board of Directors

The basic responsibility of the directors in discharging their duties as members of the Board of Directors is to always act in good faith and with due care and exercise their business judgement on an informed basis in what they reasonably believe to be in the best interests of the company and its shareholders.

The Board is responsible for the oversight and control of the entire UPM Group and for ensuring that the company's administration and operations as well as control of its accounts and finances are duly in place. The Board has prepared a written charter for its work including the Board's duties and operating principles. The duties of the Board of Directors, as defined in the charter, are presented in the Corporate Governance Statement 2015. The entire charter is available on the corporate website under www.upm.com/governance.

Board work in 2015

Like the year earlier, the Board continued focusing on strategic considerations including several strategic initiatives and monitored closely the implementation of the company's strategy. The main elements of this strategy are short term profitability programmes, mid-term focused growth projects, development of the business portfolio and value creation, and new business development for long term growth. The Board was also regularly reported on the progress of the strategic priorities: the EUR 150 million profit improvement programme and the targeted EUR 200 million EBITDA contribution as a result of focused growth projects in Finland, China, Poland and Malaysia. The Board also reviewed and approved updated group and business area strategic plans in its strategy session in May.

An essential part of the Board's annual strategy work is the review and consideration of strategic and operational risks and opportunities. The company's annual risk management process ends up at reporting of strategic risks and opportunities to the Board as described on pages 8–9 of the Corporate Governance Statement 2015. The Board has recognised that the company will face challenging strategic issues in the coming years. These issues include the declining demand of graphic papers in Europe and North America and management of risks related to the long term influence of China's economy on the business environment.

A good example of the development of new businesses for long term growth is the Lappeenranta biorefinery which produces renewable diesel from crude tall oil. The Board originally approved the investment in this project in February 2012, and the refinery started commercial production of renewable diesel called UPM BioVerno in January 2015. UPM BioVerno is a solid, although yet a minor part of the Biofore strategy.

Evidencing the success of the company's Biofore strategy and good business performance in 2014, the Board approved a new cash flow based dividend policy for the company in February. According to this policy, the company aims to pay an attractive dividend amounting to 30–40% of the company's annual operating cash flow per share. The target of the new dividend policy is to provide the shareholders with a more transparent and uncomplicated indication on the dividend level. In line with the new policy, the Board proposed a dividend of EUR 0.70 to the company's AGM 2015. The dividend represented 30% of the operating cash flow per share in 2014 and was 17% higher than the dividend of EUR 0.60 for 2013.

In 2015, the Board held eight meetings. The directors' average attendance at the meetings was 96.4% (99.0%). There is no minimum attendance requirement for the directors' attendance at the meetings as the general assumption is that directors attend all meetings unless there is a valid reason for the non-attendance. Directors' personal attendance rates are presented in the table on the following page.

Director independence

The Board of Directors evaluates the independence of its members annually and, in addition to this, on a continuous basis with the assistance of the Board's Nomination and Governance Committee. The Board members shall provide adequate information for the Board so that the Board can assess the members' independence, and notify the Board of any changes in such information. Board members shall also provide the Board with their own assessment of their independence. The directors' independence is assessed against the independence criteria of the Finnish Corporate Governance Code 2015 which is available on the Securities Market Association's website www.cgfinland.fi.

Directors' independence is assessed in relation to UPM and its group companies and the company's significant shareholders. A shareholder is significant with a shareholding of at least 10% of the company's shares or votes attached to them or with the right or obligation to acquire the corresponding number of already issued shares. Majority of directors shall be independent of the company, and at least two directors of this majority independent of significant shareholders. In order to be considered independent of the company, a director shall not have any material relationship with the company other than his/her service as a director. In the overall assessment of a director's independence, any material relationships with a director's family members or closely related persons or entities are also taken into account in addition to other factors that may compromise the director's independence or ability to represent all shareholders.

According to the evaluation carried out by the Board, all Board members are independent of the company's significant shareholders as the company has no controlling shareholder and none of the company shareholders has announced a holding of more than 10% of the company's shares or voting rights. The Board has also assessed that all non-executive directors are independent of the company including Berndt Brunow and Wendy E. Lane who according to the overall evaluation carried out by the Board continue to be independent of the company although they have been non-executive directors for more than 10 consecutive years.

As the President and CEO of the company, Jussi Pesonen is not independent of the company.

Board diversity

The Board of Directors' Nomination and Governance Committee prepares the proposal for the composition of the Board to the Annual General Meeting. The committee's director nomination process is discussed in further detail on page 68 of this report.

Currently, UPM Board of Directors comprises 10 members and both genders are represented in the Board. In 2015, two new directors, Mr Ehrnrooth and Dr Thoma, were appointed to the Board, and now female directors count for 33.3% of the non-executive directors and 30% of all directors. Mr Ehrnrooth's and Dr Thoma's election to the Board's widened the Board's diversity in terms of educational background, age and nationality, and enriched the Board's broad competence base with their CEO-level experience in international business in various industries.

Further information on the Board's diversity in respect of gender, age, nationality and tenure is available enclosed.

Board self-evaluation

The Board of Directors reviews its performance and working methods annually. The Board has used the same self-evaluation questionnaire with some additions for several years to maintain comparability of the results. As assessed by the Board, the Board culture is candid and open, and new improvement areas to enhance the Board work even further are identified each year. The Nomination and Governance Committee also takes the survey results into consideration when preparing its proposal for the composition of the Board to the Annual General Meeting.

In 2015, the evaluation was conducted as a self-assessment and its results were reviewed and discussed at the Board meeting in December. Directors evaluated the Board's performance of its duties and responsibilities, Board composition and structure, Board culture, effectiveness of Board meetings, and, for the first time, individual director contribution. During the past three years, the directors have also assessed the performance of the Chairman of the Board.

The results of the 2015 self-evaluation survey indicated that the Board is functioning effectively, focusing on key issues and keeping a good balance between risks and opportunities. The current Board composition including the number of directors, variety of director backgrounds, and skills and experience reflected in the Board was also considered apposite to the company's needs and strategic agenda. In 2016, the Board will pay more attention to the review of the company's succession planning process.

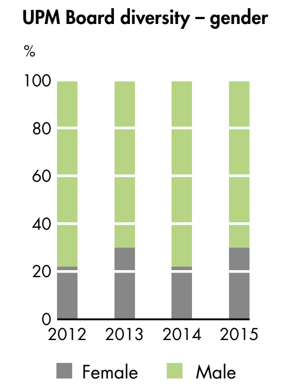
BOARD REMUNERATION AND SHAREHOLDINGS IN 2015

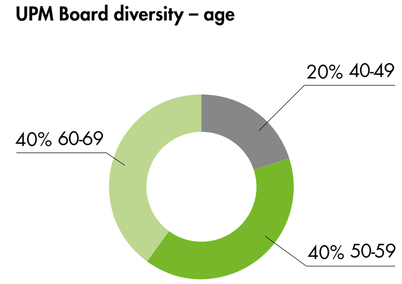
Board member	Position	Annual fee (EUR)	40% for shares (EUR)	60% in cash (EUR)	No of acquired shares	Shareholdings on 31 Dec. 2015 *)
Björn Wahlroos	Chairman	175,000	70,000	105,000	4,193	254,442
Berndt Brunow	Deputy Chairman	120,000	48,000	72,000	2,875	303,578
Henrik Ehrnrooth	Member	95,000	38,000	57,000	2,276	2,276
Piia-Noora Kauppi	Member, Audit Committee Chairman	120,000	48,000	72,000	2,875	11,856
Wendy E. Lane	Member	95,000	38,000	57,000	2,276	32,925
Jussi Pesonen	Member, President and CEO	–	–	–	–	220,275
Ari Puheloinen	Member	95,000	38,000	57,000	2,276	4,301
Veli-Matti Reinikkala	Member	95,000	38,000	57,000	2,276	36,097
Suzanne Thoma	Member	95,000	38,000	57,000	2,276	2,276
Kim Wahl	Member	95,000	38,000	57,000	2,276	14,075
Total		**985,000**	**394,000**	**591,000**	**23,599**	**882,101**

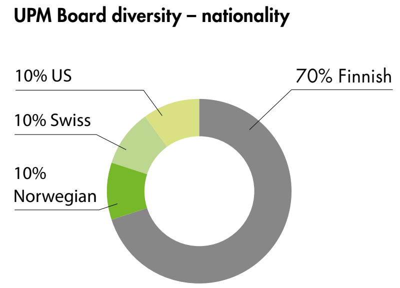
*) Including shareholdings of director's closely associated persons and controlled entities, if any.

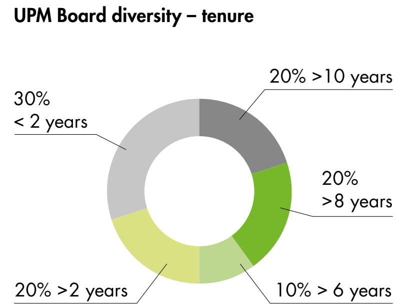
ATTENDANCE IN BOARD MEETINGS 2015

Director	Director since	Attendance/ No of meetings	Attendance-%
Björn Wahlroos (Chairman)	2008	8/8	100
Berndt Brunow (Deputy Chairman)	2002	8/8	100
Matti Alahuhta (retired 9 April)	2008	1/1	100
Henrik Ehrnrooth (from 9 April)	2015	6/7	86
Piia-Noora Kauppi	2013	8/8	100
Wendy E. Lane	2005	8/8	100
Jussi Pesonen	2007	8/8	100
Ari Puheloinen	2014	8/8	100
Veli-Matti Reinikkala	2007	7/8	88
Suzanne Thoma (from 9 April)	2015	6/7	86
Kim Wahl	2012	8/8	100









Board committees

The committees assist the Board of Directors by preparing matters to be decided by the Board. In addition, the committees assist the Board in its oversight and monitoring responsibilities. The Board is responsible for the performance of any duties assigned to the committees.

The directors appointed to the Board committees in the Board's organizational meeting on 9 April 2015 are presented in the table below. The table also contains information on the number of committee meetings and committee members' attendance in the meetings.

The written committee charters approved by the Board of Directors set forth the purposes, composition, operations and duties of each committee as well as qualifications for committee memberships. The charters are available under www.upm.com/governance. Each committee is responsible for carrying out the duties assigned to it in its charter. The committee duties and responsibilities, as defined in the charters, are described in the Corporate Governance Statement 2015.

The committees hold their meetings prior to Board meetings in order to prepare matters for the Board's decision-making. In the Board meeting following the committee meetings, the Committee Chairmen report to the Board on matters discussed and actions taken by the committees. In addition, minutes are kept for the committee meetings and submitted to the Board members for their information.

Audit Committee

Duties and responsibilities of the Audit Committee are related to the oversight of the company's financial reporting processes, accounting, statutory audit, financial reporting, internal control, internal audit and risk management processes.

To perform its duties, the Audit Committee reviews the company's quarterly financial results and interim reports and recommends their approval to the Board. The committee's results review includes a review of potential significant and unusual transactions, accounting estimates and policies for the period in question. The committee also reviews quarterly reports on assurance and legal matters including status reports on internal control, internal audit, litigations, and other legal proceedings. Other quarterly reports include treasury risk and limits reports and energy risk report.

The lead audit partner attends all committee meetings and provides the committee with a report on the interim procedures and findings as well as an account of the audit and non-audit fees incurred during the quarter. The committee quarterly meets with the internal and statutory auditors without members of the executive management present and holds regular sessions among themselves.

With regard to the effectiveness of the company's risk management, the committee annually reviews the company's risk management process and is informed of the top 20 risks as well as group-level strategic risks identified in this process including macroeconomic, political, environmental, compliance and business-specific risks. In 2015, the committee also reviewed taxation at UPM and the company's tax policy and management of tax risks, and the company's outsourcing arrangements in finance and IT. The committee also agreed to include an annual review of responsible sourcing as a regular item on the committee's agenda.

The Audit Committee is also responsible for preparing a proposal for the AGM for the election and remuneration of the statutory auditor. In this respect, the committee evaluates together with the corporate management the qualifications and independence of the statutory auditor annually. This evaluation includes the assessment of the effectiveness of the audit process, quality of audit, performance of the lead auditor and the audit team, and co-operation with the auditor's international audit network. The committee also arranges tendering processes for audit services at regular intervals to ensure the independence and cost efficiency of the statutory audit. The latest tendering process was carried out in 2013 and the previous one in 2007.

COMMITTEE MEMBERS AND THEIR ATTENDANCE IN COMMITTEE MEETINGS 2015

Committee	Members	Attendance/ No of meetings	Attendance-%
Audit Committee	Piia-Noora Kauppi (Chairman)	6/6	100
	Wendy E. Lane	6/6	100
	Kim Wahl	6/6	100
Remuneration Committee	Veli-Matti Reinikkala (Chairman from 9 April)	3/3	100
	Berndt Brunow (Chairman and member until 9 April)	1/1	100
	Matti Alahuhta (retired 9 April)	1/1	100
	Henrik Ehrnrooth (from 9 April)	2/2	100
	Suzanne Thoma (from 9 April)	0/2	0 *)
Nomination and Governance Committee	Björn Wahlroos (Chairman)	4/4	100
	Matti Alahuhta (retired 9 April)	1/1	100
	Berndt Brunow (from 9 April)	3/3	100
	Ari Puheloinen	4/4	100

*) Ms Thoma could not accommodate her schedule to the committee meeting schedule due to her other engagements agreed prior to the start of her committee membership.

Remuneration Committee

Duties and responsibilities of the Remuneration Committee are related to the remuneration of the President and CEO and senior executives reporting directly to the President and CEO, and to the evaluation, planning and preparation of the company's incentive schemes and annually commencing plans.

To perform its duties, the Remuneration Committee follows the remuneration market trends at regular intervals and reviews the various components of the management remuneration annually. The review includes benchmarking the different remuneration components to market practices in corresponding positions in peer companies. Based on this review, the committee makes recommendations to the Board for the approval of salaries and benefits of the President and CEO and other senior executives.

Related to the company's short and long term incentive plans, the committee reviews the plans annually and makes recommendations for the structure, measures and targets of the short term incentive plan, and for the earning criteria and targets of the plans starting annually under the company's long term incentive plans. Each year, the committee also evaluates the achievement of the set targets and the overall performance of the President and CEO and other senior executives, and makes recommendations to the Board for the approval of incentive pay-outs, if any.

In addition, the committee annually reviews the achievement of and compliance with the company's share ownership recommendation set for the senior executives as well as succession plans for the President and CEO and other senior executives, and reports to the Board on such matters. The committee is also informed of the results of the employee engagement survey which is conducted every year in the autumn.

Nomination and Governance Committee

Duties and responsibilities of the Nomination and Governance Committee are related to the composition and remuneration of the Board of Directors and to corporate governance.

To perform its duties, the Nomination and Governance Committee identifies individuals qualified to serve as directors and prepares a proposal to the general meeting for election or re-election of directors and for their remuneration. When needed, the committee also identifies individuals qualified to serve as the President and CEO and prepares a proposal to the Board of Directors for the appointment of the President and CEO. The committee may engage executive search firms to identify potential director and President and CEO candidates.

Director nomination process

When preparing its proposal to the AGM regarding director nominees, the Nomination and Governance Committee reviews the size and composition of the Board as a whole and the company's current and evolving needs in terms of director competencies. The committee considers whether the Board reflects appropriate balance of sound judgement, business specialization, skills, experience, independence, and availability of service to the company and its shareholders. A decision on a search for potential new director candidates and engagement of a search firm is taken in the committee's first meeting in the autumn.

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

As a result of the committee's extensive search efforts including the use of a search firm, the committee proposed the election of two new directors to the Board to the AGM 2015: Henrik Ehrnrooth, CEO of KONE Corporation, a globally operating Finnish elevator and escalator company, and Dr Suzanne Thoma, CEO of BKW Ltd., a Swiss energy company.

Both Mr Ehrnrooth and Dr Thoma fulfilled the key criteria for director candidates set by the committee, i.e. CEO-level experience and experience in international business. The committee also valued Mr Ehrnrooth's robust knowledge of accounting and financial matters earned during his earlier positions as the CFO of KONE Corporation and in investment banking in London. Dr Thoma was considered to contribute useful skills and experience relevant to UPM's Biofore agenda due to her current position as well as her earlier career in international chemical business and her educational background. According to Björn Wahlroos, Chairman of the Nomination and Governance Committee, the new directors enhance the Board's diversity and strengthen the Board's ability to address the needs of UPM's evolving businesses and strategy.

Evaluation of director nominees' independence

Evaluation of director nominees' independence is an essential part of the director nomination process. The nominees' independence is assessed against the independence criteria of the Finnish Corporate Governance Code as discussed earlier on pages 65–66 of this report.

As a part of the committee's assessment of director nominees' independence, the committee reviews the directors' professional engagements and positions of trust and the results of the company's verification procedures concerning director independence, conflicts of interest, related party transactions and other commitments that could jeopardise a director's independence. Based on the results of such procedures, no such transactions took place and no conflicts of interest were identified in 2015. In addition, the committee reviews on a continuous basis reports on any changes in directors' professional engagements and positions of trust and assesses the potential effects of such changes on directors' independence and availability for Board work and reports to the Board on the results of such assessments.

Board remuneration

When preparing its proposal to the AGM regarding Board remuneration, the committee considers the development of director remuneration and the level of director remuneration in peer companies. The committee has underlined the importance of aligning the interests of directors with those of shareholders and has preferred payment of Board remuneration in the form of shares and cash. The remuneration has remained the same since 2007. The cash portion of the remuneration is meant to cover withholding tax.

The committee also annually reviews the composition, qualification criteria and duties of the Board committees, and makes a proposal to the Board of Directors for the appointment of committee members and chairmen. Further, the committee reviews regularly the adequacy of the Board and committee charters and assists the Board in the annual self-evaluation survey and review of the survey results.

MAJOR INVESTMENT IN THE UPM KYMI MILL

One of the company's mid-term focused growth projects was the EUR 160 million investment in the UPM Kymi pulp mill approved by the Board in February 2014. The purpose of the investment was to strengthen the company's position in the growing end-use segments of the global pulp market by increasing the mill's pulp production capacity by 170,000 tonnes to 700,000 tonnes of bleached northern softwood and birchwood pulp annually.

The Kymi expansion project was completed safely and on schedule in 2015. The new debarking plant started operation in June and the modernised softwood fibre line was commissioned in August along with a new pulp drying machine, which was the largest single investment in the project. Other improvements made last summer include the expansion of the wood yard and the introduction of a new railway and wagon loading system.

The investment will also have a positive effect on local employment rates and businesses. The increasing use of wood in the mill integrate will generate wood harvest and transportation work for forest industry professionals and stumpage earnings for forest owners.

UPM's Board members visited the UPM Kymi mill in December following the completion of the project. Over the past ten years, UPM has invested approximately EUR 550 million in the Kymi pulp mill and today, the Kymi integrated pulp and paper mill complex is even more energy efficient and flexible than ever before.

Corporate management

Jussi Pesonen is the President and Chief Executive Officer of UPM-Kymmene Corporation since January 2004. He is also member of the company's Board of Directors since March 2007. The President and CEO leads the company's day-to-day operations in accordance with the instructions and orders given by the Board of Directors. The duties and responsibilities of the President and CEO are presented on the Corporate Governance Statement 2015 and under www.upm.com/governance.

In the operative management of the company, the President and CEO is assisted by the Group Executive Team, the Business Area Boards and the Strategy Team as presented in the illustration on page 63 of this report.

The company's management system was modified during the year with the purpose of creating a more direct leadership channel from the group level to the business area level. As a result of this modification, UPM initiated a new forum, Business Area Boards, for business area level decision-making. Also, the roles of the Group Executive Team and the Strategy Team were reconsidered. The duties and responsibilities and the composition of these management bodies are presented below. Members of the Group Executive Team continue to carry the main responsibility for the business areas and global functions they are heading.

The Group Executive Team consists of the executives heading the business areas and the global functions, and it is responsible for approving and executing group-level guidelines and procedures. The President and CEO chairs the Group Executive Team.

The Business Area Boards comprise, in addition to the President and CEO chairing the boards, the CFO, the EVPs of the global functions, and the EVP of the business area in question. The Business Area Boards are responsible for business area level decision-making in matters pertaining to each business area's strategy, budget, business performance, operative investments, commercial strategies, business development plans, business and strategic risks, strategic and organizational changes as well as HR matters.

The Strategy Team is chaired by the President and CEO and its other members are the CFO and the heads of the strategy, technology and legal functions. The team assists the President and CEO in matters pertaining to the preparation of group strategies, strategic projects, capital expenditure, M&A and other strategic development initiatives for the Board of Directors' approval.

Members of the Group Executive Team and their position and shareholdings in the company are presented in the table below, and their responsibility areas in the illustration on the following page. Kim Poulsen headed UPM Paper Asia until he left the company at the end of October 2015. Bernd Eikens, Executive Vice President of UPM Paper ENA, was appointed his successor in December and he assumed his new duties as the Executive Vice President of UPM Paper Asia on 1 February 2016. Winfried Schaur was appointed Executive Vice President of UPM Paper ENA succeeding Mr Eikens as of 8 February 2016.

The executives' personal details, career histories and positions of trust are presented on pages 73–74 of this report and under www.upm.com/governance.

MEMBERS OF THE GROUP EXECUTIVE TEAM

Executive	Team member since	Position at UPM	Shareholdings on 31 Dec. 2015	Shareholdings on 31 Dec. 2014
Jussi Pesonen *)	2001	President and CEO	220,275	195,280
Bernd Eikens *)	2013	Executive Vice President, UPM Paper ENA	13,747	10,000
Pirkko Harrela	2004	Executive Vice President, Stakeholder Relations	40,870	35,488
Tapio Kolunsarka *)	2013	Executive Vice President, UPM Raflatac	13,588	10,000
Tapio Korpeinen *)	2008	CFO, Executive Vice President, UPM Energy	54,747	45,792
Juha Mäkelä	2008	General Counsel	37,500	32,068
Jyrki Ovaska	2002	Executive Vice President, Technology	74,269	64,612
Kim Poulsen (until 31 Oct. 2015) *)	2013	Executive Vice President, UPM Paper Asia		–
Riitta Savonlahti	2004	Executive Vice President, Human Resources	17,803	16,570
Mika Sillanpää *)	2013	Executive Vice President, UPM Plywood	11,883	10,117
Kari Ståhlberg	2013	Executive Vice President, Strategy	7,229	4,212
Heikki Vappula *)	2010	Executive Vice President, UPM Biorefining	17,111	10,000
Total			**509,022**	**434,139**

*) Executives belonging to UPM's public insiders. Their shareholdings above include shares held by their closely associated persons and controlled entities, if any.

RESPONSIBILITY AREAS OF THE MEMBERS OF THE GROUP EXECUTIVE TEAM

President and CEO Jussi Pesonen

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

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

Management remuneration

The remuneration of the President and CEO and other members of the Group Executive Team consists of the base salary and fringe benefits, performance-based short and long term incentives, and pension benefits. The Board of Directors resolves annually on the remuneration of the President and CEO and other members of the Group Executive Team based on the proposals by the Remuneration Committee. The Board of Directors also approves the terms and conditions of the short and long term incentive plans prepared by the Remuneration Committee. When preparing long term incentive plans, the committee consults independent advisors.

The aim of the company's management remuneration is to promote the company's long term financial success, competitiveness and favourable development of shareholder value. The remuneration comprises non-variable and variable components. The variable components are linked to predetermined and measurable performance and results criteria, and maximum levels have been set for the variable components of the remuneration. Further information on the variable components is available in the Remuneration Statement under www.upm.com/governance.

The base salary is paid monthly in cash. The base salary includes the fringe benefits e.g. company car and phone. Short term incentives are based on the company's Short Term Incentive Plan and they are paid annually in cash. The amount of the incentive is linked to the executive's position and achievement of annually set targets.

Long term incentives are based on the Performance Share Plan targeted at the President and CEO and other Group Executive Team members, and other selected members of the management. The Performance Share Plan consists of annually commencing three-year plans, and the incentives are payable in company shares following a three-year earning period. The number of payable shares is linked to the executive's position and achievement of annually set targets. Long term incentives are also paid to other key employees of the group based on the Deferred Bonus Plan.

The company's short and long term incentive plans, and the termination payments and pension benefits of the President and CEO and other members of the Group Executive Team are presented in the Remuneration Statement which is available under www.upm.com/governance.

Remuneration of the President and CEO

The President and CEO's annual salary and other financial benefits are shown in the table below.

REMUNERATION OF THE PRESIDENT AND CEO

Salaries and benefits (EUR 1,000)	2015	2014
Salary	1,052	1,052
Short term incentives	856	627
Share rewards	824	–
Benefits	27	27
Total	**2,759**	**1,706**
Personal income tax withholding in Finland *)	1,381	927

*) Income taxes withheld from salaries and benefits and remitted to tax authorities by UPM.

Remuneration of the Group Executive Team

The annual salaries and other financial benefits of the members of the Group Executive Team (excluding the President and CEO) are shown in the table below.

REMUNERATION OF THE GROUP EXECUTIVE TEAM

Salaries and benefits (EUR 1,000)	2015	2014
Salaries	3,455	3,457
Short term incentives	1,733	869
Share rewards	1,805	–
Benefits	238	249
Total	**7,231**	**4,575**

Read more:
www.upm.com/governance

Board of Directors

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

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

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

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

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

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

Henrik Ehrnrooth
Member since 2015
Member of the Remuneration Committee
Independent of the company and significant shareholders
Born 1969, Finnish citizen
M.Sc. (Econ.)

President and CEO of KONE Corporation since 2014 and Chief Financial Officer 2009–2014. Earlier worked at Goldman Sachs International 1998–2009, most recently as a Managing Director in the Investment Banking Division. Prior to that, various positions at UBS Limited 1994–1998.

Member of the Foundation Board of the International Institute for Management Development (IMD, Switzerland).

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

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

Board member of Sulava Oy and the Finnish Financial Ombudsman Bureau. Member of the Supervisory Board of Helsinki Deaconess Institute and HSE Foundation. Member of the Executive Committee of European Banking Federation (Committee Chairman 2014–2015).

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

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

Board member of Willis Towers Watson PLC (former Willis Group Holdings PLC), MSCI Inc. and Al-Dabbagh Group Holding Company Limited.

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

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

Chairman of the Board of the Finnish Forest Industries Federation (FFIF) and Ilmarinen Mutual Pension Insurance Company (until 31 December 2015). Board member of the Confederation of European Paper Industries (CEPI) and East Office of Finnish Industries Oy.

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

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

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

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

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

Board member of Quant AB.

Suzanne Thoma
Member since 2015
Member of the Remuneration Committee
Independent of the company and significant shareholders
Born 1962, Swiss citizen
Ph.D. (Chem. Eng.), BA (Business Admin.)

Chief Executive Officer of BKW Ltd. since 2013. Head of BKW Group's Networks Business Unit 2010–2012. Head of WICOR Group's Automotive Division 2007–2009. Chief Executive Officer of Rolic Technologies Ltd 2002–2007. Various positions at Ciba Specialty Chemicals Corp. (former Ciba-Geigy) 1990–2002.

Board member of Schaffner Holding AG and Beckers Group.

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

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

Board member of DNB Bank ASA and Intermediate Capital Group plc. Chairman of Voxtra AS and Voxtra Foundation.

Group Executive Team

Jussi Pesonen

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

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

Chairman of the Board of the Finnish Forest Industries Federation (FFIF) and Ilmarinen Mutual Pension Insurance Company (until 31 December 2015). Board member of the Confederation of European Paper Industries (CEPI) and East Office of Finnish Industries Oy.

Tapio Korpeinen

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

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

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

Bernd Eikens

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

Senior Process Engineer, International Paper Co. 1996–1998. Several management positions at UPM Nordland Papier 1998–2005. President, UPM-Kymmene Inc. North America 2005–2008. Senior Vice President, Supply Chain, Paper Business Group 2008–2013. Executive Vice President, UPM Paper ENA 2013-2016.

Board member of Johann Bunte Bauunternehmung GmbH & Co. KG.

Pirkko Harrela

Executive Vice President, Stakeholder Relations
M.A.
Born 1960, Finnish citizen
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 1985.

Several positions in Communications in Finnpap and UPM Paper Division 1985–2002. Vice President, Corporate Communications of UPM 2003, Executive Vice President, Corporate Communications 2004–2013.

Member of S-Group's CSR Advisory Group. Supervisory Board member of WWF Finland. Board member of Satalinna Foundation.

Tapio Kolunsarka

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

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

Juha Mäkelä

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

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

Supervisory Board member of Kemijoki Oy.

CONTENTS

Jyrki Ovaska

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

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

Vice Chairman of AmCham Finland (The American Chamber of Commerce in Finland). Board member of CLIC Innovation Oy.

Riitta Savonlahti

Executive Vice President, Human Resources
M.Sc. (Econ.)
Born 1964, Finnish citizen
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 2004.

HR Specialist positions at ABB 1990–1994. Human Resources Manager at Nokia Mobile Phones, Salo Operations 1995–2000. Senior Vice President, Human Resources at Raisio Group 2000–2001. Senior Vice President, Human Resources at Elcoteq Network Corporation 2001–2004.

Board member of Posti Group Corporation.

Winfried Schaur

Executive Vice President, UPM Paper ENA
M.Sc. (Mech. Eng.)
Born 1965, German citizen
Member of the Group Executive Team since 2016.
Employed by UPM-Kymmene Corporation since 2001.

Project Engineer, Hoerbiger Automotive 1991–1992. Project Manager, Investments, Haindl Papier GmbH 1993–2001. Several leadership positions in the UPM paper business 2001–2007. General Manager, Schongau mill, UPM Paper Business Group 2007–2013. General Manager, Ettringen mill, UPM Paper Business Group 2011–2013. Senior Vice President, Newspaper Publishing, UPM Paper ENA 2013–2016.

Mika Sillanpää

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

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

Kari Ståhlberg

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

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

Heikki Vappula

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

Several management positions at Nokia Corporation in Finland, Denmark, UK and Hungary 1993–2006. Senior Vice President, UPM Sourcing 2006–2010. President, Energy and Pulp Business Group 2010–2013.

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

GRI content index – short version

UPM follows the Global Reporting Initiative's (GRI) sustainability reporting guidelines (version G4) in its corporate responsibility reporting. The reporting follows the core option of the GRI G4 guidelines.

This shortened version of the GRI index shows where the specific G4 indicators are addressed in the annual report and UPM's internet pages. More information on the general standard disclosures as well as on omissions, further explanation and disclosures on the management approach can be found in the actual GRI content index which is available at www.upm.com/responsibility.

AR = Annual Report 2015 GRI index = GRI content index, published as pdf at www.upm.com

GENERAL STANDARD DISCLOSURES [1]

ASPECT	INDICATORS	LOCATION	ASSURANCE [2]
Strategy and Analysis	G4 - 1 to 2	AR	
Organizational Profile	G4 - 3 to 16	AR , GRI index	
Identified Material Aspects and Boundaries	G4 - 17 to 23	AR, GRI index	G4 – 10 to 11
Stakeholder Engagement	G4 - 24 to 27	AR	
Report Profile	G4 - 28 to 33	AR	
Governance	G4 - 34 to 41, 44, 47 to 49	AR	
Ethics and Integrity	G4 - 56	AR	

1) Details are published in the actual GRI content index.

SPECIFIC STANDARD DISCLOSURES

CODE	GRI CONTENT	LOCATION	OMISSION[1]	ASSURANCE[2]
G4-DMA	Disclosures on management approach (DMA)	GRI index		
	CATEGORY: ECONOMIC			
	Economic Performance			
G4 - EC1	Direct economic value generated and distributed	AR 47-48		x
G4 - EC2	Financial implications and other risks and opportunities due to climate change	AR 15-18, 59-60	x	x
G4 - EC3	Coverage of the organization's defined benefit plan obligations	AR 117-120		x
G4 - EC4	Financial assistance received from government	AR 33, 96-97, 108		x
	Market Presence, Economic Impacts, Procurement Practices			
G4 - EC6	Proportion of senior management hired from the local community	AR 39		x
G4 - EC8	Significant indirect economic impacts	AR 48		x
G4 - EC9	Proportion of spending on locally-based suppliers	AR 56		x
	CATEGORY: ENVIRONMENT			
	Materials			
G4 - EN1	Materials used by weight or volume	AR 61-62, web		x
G4 - EN2	Percentage of materials used that are recycled input materials	AR 55-56, web		x
	Energy			
G4 - EN3	Energy consumption within the organization	AR 55, 59-62, web		x
G4 - EN5	Energy intensity	AR 147-148		x
G4 - EN6	Reduction of energy consumption	AR 59-60		x
	Water			
G4 - EN8	Total water withdrawal by source	AR 61-62		x
G4 - EN9	Water sources significantly affected by withdrawal of water	AR 58, web		x
	Biodiversity			
G4 - EN11	Location and size of land holdings in biodiversity-rich habitats	AR 52-53, web		x
G4 - EN12	Significant impacts in protected or other biodiversity-rich areas	AR 52-53, web		x
G4 - EN13	Habitats protected or restored	AR 52-53, web		x
G4 - EN14	Species with extinction risks in areas affected by operations	AR 52-53, web		x
	Emissions			
G4 - EN15	Direct greenhouse gas emissions (Scope 1)	AR 62, 148		x
G4 - EN16	Energy indirect greenhouse gas emissions (Scope 2)	AR 148, web		x
G4 - EN17	Other indirect greenhouse gas emissions (Scope 3)	AR 148, web		x
G4 - EN18	Greenhouse gas emissions intensity	AR 148		x
G4 - EN19	Reduction of Greenhouse gas emissions	AR 59-60		x
G4 - EN21	NOx, SOx, and other significant air emissions	AR 59, 62		x
	Effluents and Waste			
G4 - EN22	Total water discharge by quality and destination	AR 58, 62		x
G4 - EN23	Total amount of waste by type and disposal method	AR 60, 62		x
G4 - EN24	Total number and volume of significant spills	AR 57		x
G4 - EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization	GRI index, web		x
	Products and Services			
G4 - EN27	Mitigating environmental impacts of products and services	AR 22, 33-34, 36, 51, 57-60		x
	Compliance			
G4 - EN29	Significant fines and non-monetary sanctions for non-compliance	AR 57		x
	Transport			
G4 - EN30	Significant environmental impacts of transporting	AR 56, 148, web		x
	Overall			
G4 - EN31	Total environmental protection expenditures and investments	AR 57		x
	Supplier Environmental Assessment			
G4 - EN32	New suppliers screened against environmental criteria	AR 54		x
G4 - EN33	Significant negative impacts on environment in the supply chain	GRI index	x	x
	Grievance Mechanisms			
G4 - EN34	Grievances about environmental impacts	AR 46		x

CODE	GRI CONTENT	LOCATION	OMISSION[1]	ASSURANCE[2]
	CATEGORY: SOCIAL - LABOR PRACTICES AND DECENT WORK			
	Employment			
G4 - LA1	Total number and rate of employee turnover	AR 40, web		x
	Labor/Management Relations			
G4 - LA4	Minimum notice period(s) regarding operational changes	AR 39		x
	Occupational Health and Safety			
G4 - LA5	Workforce represented in formal joint health and safety committees	AR 41		x
G4 - LA6	Injuries, occupational diseases, lost days, absentee rate and fatalities	AR 40-42	x	x
	Training and Education			
G4 - LA9	Average hours of training per year per employee	AR 40	x	x
G4 - LA10	Programs for skills management and lifelong learning	AR 37, 39		x
G4 - LA11	Employees receiving performance and career development reviews	AR 37	x	x
	Diversity and Equal Opportunity			
G4 - LA12	Composition of governance bodies and breakdown of employees	AR 40, 66, web	x	x
	Supplier Assessment for Labor Practices			
G4 - LA14	New suppliers screened using labor practices criteria	AR 54		x
G4 - LA15	Significant negative impacts for labor practices in the supply chain	GRI index	x	x
	Labor Practices Grievance Mechanisms			
G4 - LA16	Number of grievances about labor practices	AR 46		x
	CATEGORY: SOCIAL - HUMAN RIGHTS			
	Investment			
G4 - HR1	Human rights screening or clauses in significant investment agreements	AR 55		x
G4 - HR2	Employee training on human rights policies or related procedures	AR 9	x	x
	Non-discrimination			
G4 - HR3	Incidents of discrimination and corrective actions taken	AR 46		x
	Freedom of Association and Collective Bargaining			
G4 - HR4	Supporting the right to freedom of association and collective bargaining in risk areas	GRI index		x
	Child labor			
G4 - HR5	Operations and suppliers identified as having significant risk of child labor	GRI index		x
	Forced and compulsory labor			
G4 - HR6	Operations and suppliers identified as having significant risk of forced or compulsory labor	GRI index		x
	Indigenous rights			
G4 - HR8	Incidents of violations involving rights of indigenous people	GRI index		x
	Supplier Human Rights Assessment			
G4 - HR10	New suppliers screened using human rights criteria	AR 54		x
G4 - HR11	Significant negative human rights impacts in the supply chain	GRI index	x	x
	Human Rights Grievance Mechanisms			
G4 - HR12	Number of grievances about human rights impacts	AR 46		x
	CATEGORY: SOCIAL - SOCIETY			
	Local Communities			
G4 - SO1	Local community engagement, impact assessments, and development programs	GRI index	x	x
G4 - SO2	Operations with significant negative impacts on local communities	GRI index		x
	Anti-corruption			
G4 - SO5	Confirmed incidents of corruption and actions taken	AR 46		x
	Public Policy			
G4 - SO6	Political contributions by country and recipient/beneficiary	AR 45		x
	Anti-competitive Behavior			
G4 - SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	AR 84		x
	Compliance			
G4 - SO8	Significant fines and non-monetary sanctions for non-compliance with laws and regulations	AR 84		x
	Supplier Assessment for Impacts on Society			
G4 - SO9	New suppliers screened using criteria for impacts on society	AR 54		x
G4 - SO10	Significant negative impacts on society in the supply chain	GRI index	x	x
	Grievance Mechanisms for Impacts on Society			
G4 - SO11	Grievances about impacts on society	AR 46		x
	CATEGORY: SOCIAL - PRODUCT RESPONSIBILITY			
	Customer Health and Safety			
G4 - PR1	Product categories for which health and safety impacts are assessed for improvement	AR 49-51, web		x
	Product and Service Labeling, Marketing Communications			
G4 - PR3	Type of product information required by procedures	AR 51		x
G4 - PR5	Results of surveys measuring customer satisfaction	AR 49		x
G4 - PR6	Sale of banned or disputed products	AR 51-56, GRI index		x
	Compliance			
G4 - PR9	Significant fines and non-monetary sanctions for non-compliance with laws and regulations	GRI index		x

1) See GRI content index for general standard disclosure as well as for omissions and explanations
2) The assurance report by PricewaterhouseCoopers Oy can be found on page 77.

AA1000 Licensed Assurance Provider 000-29

Independent Practitioner's Assurance Report

To the Management of UPM-Kymmene Corporation

We have been engaged by the Management of UPM-Kymmene Corporation (hereinafter also the Company) to perform a limited assurance engagement on selected corporate responsibility information for the reporting period 1 January 2015 to 31 December 2015, disclosed in UPM-Kymmene Corporation's Annual Report 2015 and on its website in section "Responsibility" (hereinafter CR Reporting). The assured information is indicated in the Company's GRI Content Index 2015 on the Company's website.

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

Management's responsibility

The Management of UPM-Kymmene Corporation is responsible for preparing the CR Reporting in accordance with the Reporting criteria as set out in the Company's reporting instructions and the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative. The Management of UPM-Kymmene Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of CR Reporting that is free from material misstatement, whether due to fraud or error.

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

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the CR Reporting and on the Company's adherence to the AA1000 AccountAbility Principles based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the CR Reporting is free from material misstatement.

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

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

Our work consisted of, amongst others, the following procedures:

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

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation's CR Reporting for the reporting period ended 31 December 2015 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Reporting is not reliable, in all material respects, based on the Reporting criteria.

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

Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to UPM-Kymmene Corporation for our work, for this report, or for the conclusions that we have reached.

Observations and recommendations

Based on the procedures we have performed and the evidence we have obtained, we provide the following observations and recommendations in relation to UPM-Kymmene Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Regarding Inclusivity:** UPM-Kymmene Corporation has processes in place for stakeholder inclusivity and engagement. Stakeholder Relations coordinates stakeholder engagement at the group level, while businesses are responsible for local activity. Diverse stakeholder engagement activities have been undertaken both at the group level and at the local level in 2015. We recommend that the Company continues to develop the coordination of stakeholder engagement activities by ensuring Stakeholder Functions' awareness of the local issues as well as the related action plans.
- **Regarding Materiality:** UPM-Kymmene Corporation has a systematic process in place to evaluate and determine the materiality of corporate responsibility topics. In 2015, the Company conducted a materiality analysis in association with the update of its responsibility focus areas, targets and performance indicators. We recommend that the Company pays particular attention to business area specific characteristics in implementing the responsibility activities in the responsibility focus areas.
- **Regarding Responsiveness:** UPM-Kymmene Corporation has processes in place for responding to stakeholder needs and concerns. In future, we recommend that the Company considers the possibility to increase the disclosures on material sustainability topics at the business area level. This would provide stakeholders further opportunities to assess the Company's performance in the responsibility focus areas.

Practitioner's independence, qualifications and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Helsinki, 19 February 2016

PricewaterhouseCoopers Oy

Merja Lindh
Authorised Public Accountant

Maj-Lis Steiner
Authorised Public Accountant

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Market environment in 2015

Global economic growth in 2015 was largely on par with the previous year.

Growth strengthened in Europe mainly as a result of greater consumer spending. The euro area benefited from lower energy prices and a weaker euro. In the US, solid growth continued. In China, growth continued to slow, mainly due to slowdown in manufacturing and construction, while consumer spending remained robust. The slowdown in China increased uncertainty about the global economic outlook, particularly during the second half of 2015. Decreased prices for oil and many other commodities affected economic growth in several raw material-dependent developing countries.

As a result of a loose monetary policy in the euro area and prospects of interest rate hikes in the US, the euro weakened against the US dollar. Against the US dollar, the euro was on average 16% lower than in the previous year. The euro also weakened against the British pound sterling and Japanese yen.

For UPM's businesses and products, the market environment differed in 2015.

Chemical pulp markets remained in balance, supported by solid growth in demand. During the year, hardwood pulp prices increased modestly and softwood pulp prices decreased, converging most of the historically large price difference in the beginning of the year.

Demand for advanced biofuels grew, and regulation developed in favour of advanced biofuels.

Electricity consumption in the Nordic countries decreased slightly, primarily because of unusually warm weather. Finnish area prices were lower than in the previous year because of mild temperatures and improved hydrology. The hydrological balance in Finland was on average above the long-term average level.

Label material demand increased in all regions and strengthened particularly in Europe. Likewise, label and release paper demand increased globally.

In Asia, fine paper demand decreased slightly, although development varied by product and market segment. Office paper demand grew modestly.

In Europe, demand for graphic paper grades decreased. The decline was steeper for publication paper grades, while fine paper demand decreased only moderately. Paper demand development by country also varied.

Plywood demand in Europe increased slightly. The plywood market was in balance during the first half of 2015. Imports increased in the second half of the year, leading to price pressure in some product segments.

Sawn timber demand remained stable in Europe, Asia and the Middle East and North Africa.

Key figures

	2015 2)	2014
Sales, EURm	10,138	9,868
EBITDA, EURm 1)	1,350	1,306
% of sales	13.3	13.2
Operating profit (loss), EURm	1,142	674
excluding special items, EURm	1,163	847
% of sales	11.5	8.6
Profit (loss) before tax, EURm	1,075	667
excluding special items, EURm	1,096	774
Profit (loss) for the period, EURm	916	512
Earnings per share, EUR	1.72	0.96
excluding special items, EUR	1.75	1.17
Diluted earnings per share, EUR	1.72	0.96
Return on equity, %	11.9	6.9
excluding special items, %	12.1	8.3
Return on capital employed, %	10.3	6.5
excluding special items, %	10.5	7.5
Operating cash flow per share, EUR	2.22	2.33
Capital expenditure, EURm	520	411
Capital expenditure excluding acquisitions and shares, EURm	486	375
Equity per share at end of period, EUR	14.89	14.02
Gearing ratio at end of period, %	26	32
Net interest-bearing liabilities at end of period, EURm	2,100	2,401
Capital employed at end of period, EURm	11,010	10,944
Personnel at end of period	19,578	20,414

1) EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, excluding the change in fair value of unrealised cash flow and commodity hedges, excluding the share of results of associated companies and joint ventures, and special items.

2) 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.

Information on key financial and share-related indicators is presented in financial statements.

Results

2015 compared with 2014

2015 sales were EUR 10,138 million, 3% higher than EUR 9,868 million in 2014. Sales grew in UPM Biorefining, UPM Raflatac and UPM Paper Asia and decreased in UPM Paper ENA and UPM Energy. Sales remained at the same level in UPM Plywood.

EBITDA increased to EUR 1,350 million (13.3% of sales) from EUR 1,306 million (13.2% of sales) in the comparison period. Variable and fixed costs decreased, largely driven by UPM´s profit improvement programmes. The favourable exchange rates had a significant positive impact, which was moderated by hedging. In 2015, realised currency hedges decreased EBITDA by EUR 114 million, which mainly impacted the UPM Paper ENA and UPM Paper Asia business areas. Lower paper deliveries, publication paper prices in Europe and electricity sales prices had negative impacts.

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

Operating profit excluding special items was EUR 1,163 million, 11.5% of sales (847 million, 8.6%). This includes a fair value increase of biological assets in Finland totalling EUR 265 million booked in Q3 2015, resulting from adjusted long-term wood price estimates and a change in the discount rate. The total increase in the fair value of biological assets net of wood harvested was EUR 352 million (78 million). Depreciation totalled EUR 524 million (521 million, excluding special items).

Reported operating profit was EUR 1,142 million, 11.3% of sales (674 million, 6.8% of sales). Operating profit includes net charges of EUR 21 million as special items. In June 2015, Teollisuuden Voima Oyj decided not to apply for a building permit for the Olkiluoto 4 nuclear power plant unit, resulting in a charge of EUR 19 million related to UPM's participation in the tendering and planning phase of the project.

Profit before tax was EUR 1,075 million (667 million) and, excluding special items, EUR 1,096 million (774 million). Net interest and other finance costs were EUR 68 million (62 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 1 million (loss of EUR 4 million).

Income tax expenses totalled EUR 159 million (155 million), including an increase in deferred tax liability of EUR 53 million related to the fair value increase of biological assets in Finland. The effect of special items on income taxes was a benefit of EUR 6 million (EUR 4 million expense).

Profit for 2015 was EUR 916 million (512 million), and earnings per share were EUR 1.72 (0.96). Earnings per share, excluding special items, were EUR 1.75 (1.17).

Operating cash flow per share was EUR 2.22 (2.33).

Financing

In 2015, cash flow from operating activities before capital expenditure and financing totalled EUR 1,185 million (1,241 million). Working capital increased by EUR 8 million (decreased by EUR 73 million) during the period.

The gearing ratio as of 31 December 2015 was 26% (32%). Net interest-bearing liabilities at the end of the period decreased to EUR 2,100 million (2,401 million).

On 31 December 2015, UPM's cash funds and unused committed credit facilities totalled EUR 1.7 billion.

Personnel

In 2015, UPM had an average of 20,246 employees (20,852). At the beginning of the year, the number of employees was 20,414 and at the end of Q4 2015, it was 19,578.

More information (unaudited) on personnel is published in UPM´s Annual Report 2015.

Capital expenditure

In 2015, capital expenditure was EUR 520 million, 5.1% of sales (411 million, 4.2% of sales) and, excluding investments in shares, EUR 486 million, 4.8% of sales (375 million, 3.8% of sales). Total capital expenditure, excluding investments in shares, in 2016 is estimated to be approximately EUR 350 million.

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

On 23 April 2015, UPM announced that it 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 m3 per annum. In addition to mill expansion, a new bio power plant will be built at the mill site. The investments in Otepää total about EUR 40 million. The expansion will be completed by the end of 2016.

On 16 June 2015, UPM announced it 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 31 million was paid in Q4 2015, EUR 31 million in Q4 2014 and EUR 31 million in Q2 2013. The remaining part of the share issue will be implemented in the coming years based on the financing needs of the project.

Growth projects targeting EBITDA impact of EUR 200 million

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

Biofuels, a 10% capacity increase in UPM's existing pulp mills, wood-free speciality papers in China and growth measures in UPM Raflatac are expected to provide top-line growth for UPM in the coming years. With these growth projects, the company is targeting an EBITDA impact of EUR 200 million when the projects are in full operation.

The total investment requirement for these projects is EUR 680 million. EUR 644 million has already been invested, and the total remaining capital expenditure during 2016 will be EUR 36 million.

UPM invested EUR 179 million in a biorefinery to produce renewable diesel from crude tall oil in Lappeenranta, Finland. The biorefinery is capable of producing approximately 120 million litres of advanced renewable diesel for transport every year. The refinery started its commercial production in January 2015.

In February 2014, UPM announced that it was building a new production unit at the UPM Changshu mill in China. The new unit is capable of producing 360,000 tonnes of labelling materials and speciality papers. The total investment is approximately EUR 285 million. The unit started production in December 2015.

In February 2014, UPM announced that it was expanding its UPM Kymi pulp mill, comprising a new pulp-drying machine, modernisation of the softwood fibre line, a new debarking plant and improvements to the energy balance of the Kymi integrate. The investment of EUR 160 million increased the pulp mill's production capacity by 170,000 tonnes and was completed in Q4 2015.

In addition to the investment in the UPM Kymi pulp mill, the 10% increase in UPM´s pulp production capacity also includes the expansions at the UPM Pietarsaari and UPM Fray Bentos pulp mills, completed in 2014.

In April 2014, UPM announced that it is increasing its labelstock coating capacity in the Asia-Pacific region by more than 50% with the building of a new coating line at the Changshu labelstock factory in China and machinery upgrades at the Johor Bahru factory in Malaysia. Investments totalling EUR 14 million were completed in Q2 2015.

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

Profit improvement programmes

On 13 November 2014, UPM announced a profit improvement programme targeting a total annualised cost reduction impact of EUR 150 million by the end of 2015, compared with Q4 2014. The target included savings in variable and fixed costs in all UPM businesses and functions, as well as capacity closures in UPM Paper ENA.

As part of the programme, UPM permanently reduced its publication paper production capacity in Europe by approximately 800,000 tonnes during H1 2015. Newsprint machine 1 at UPM Shotton in the UK, SC paper machine Jämsänkoski 5 at UPM Jämsä River Mills in Finland and coated mechanical paper machine 2 at UPM Kaukas in Finland were permanently closed in Q1 2015. Newsprint machine 3 at UPM Chapelle Darblay in France was permanently closed in Q2 2015. The annual fixed cost reduction from the capacity closures is EUR 65 million and is part of the total savings target.

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

In Q4 2015, the actions taken under the profit improvement programme reduced UPM's costs by EUR 41 million (annualised EUR 165 million), meaning about 110% of the annualised savings target had been achieved.

Events after the balance sheet date

The group's management is not aware of any significant events occurring after 31 December 2015.

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.

Business area reviews

UPM Biorefining

2015 compared with 2014

Operating profit excluding special items for UPM Biorefining increased significantly to EUR 467 million (217 million). Sales increased by 17% to EUR 2,272 million (1,937 million). Pulp deliveries decreased by 2% to 3,224,000 tonnes (3,287,000).

In UPM Biorefining, operating profit increased mainly because of higher average pulp sales prices in euro. Variable costs decreased, partly because of improved cost efficiency in pulp production. Biofuels production ramp-up was slow in the first half of the year and improved after the maintenance shutdown in the third quarter. Profitability reached break-even by year-end. Profitability in sawmill operations decreased due to stiffer price competition, more than offsetting the positive impacts of increased delivery volumes and improved production efficiency.

The UPM Lappeenranta Biorefinery started commercial production in January 2015. Deliveries of advanced renewable diesel started in May.

The UPM Kymi pulp mill expansion started production ramp-up in Q3 2015.

UPM Biorefining	2015	2014
Sales, EURm	2,272	1,937
EBITDA, EURm	614	358
% of sales	27.0	18.5
Change in fair value of biological assets and wood harvested, EURm	21	9
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–169	–150
Operating profit, EURm	466	223
% of sales	20.5	11.5
Special items, EURm [1]	–1	6
Operating profit excl. special items, EURm	467	217
% of sales	20.6	11.2
Pulp deliveries, 1,000 t	3,224	3,287
Capital employed (average), EURm	3,191	2,862
ROCE (excl. special items), %	14.6	7.6

[1] In 2015, special items of EUR 1 million relate to increase of pension obligations due to Finnish employee pension reform. In 2014, special income of EUR 5 million relate to a gain on sale of property, plant and equipment and income of EUR 1 million relate to restructuring measures.

Market review

In 2015, global chemical pulp demand remained robust and growth was well distributed over several regions. Demand growth was strongest in Asia, particularly in China, and Eastern Europe.

The average northern bleached softwood kraft (NBSK) pulp market price in Europe in 2015 was EUR 771/tonne, 10% higher than the previous year (698/tonne).

The average market price of bleached hardwood kraft pulp (BHKP) in Europe was EUR 707/tonne, 26% higher than the previous year (561/tonne).

In the first nine months of the year, USD-denominated NBSK pulp prices slipped, while the market price of BHKP increased. The market price difference between NBSK and BHKP narrowed as producers and end-use consumers responded to the high NBSK price premium in the beginning of the year. Price competition increased in Q4 2015.

Demand for advanced biofuel increased, and regulations developed in favour of advanced biofuels. Compared to energy prices in general, which decreased significantly in 2015, advanced biofuel price development was positive.

UPM Energy

2015 compared with 2014

Operating profit excluding special items for UPM Energy decreased to EUR 181 million (202 million). Sales decreased to EUR 415 million (464 million). The total electricity sales volume increased by 3% to 8,966 GWh (8,721 GWh).

Operating profit decreased due to lower average electricity sales prices, more than offsetting the positive impact of higher hydro power generation volumes.

The average electricity sales price decreased by 15% to EUR 38.7/MWh (45.3/MWh).

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

UPM Energy	2015	2014
Sales, EURm	415	464
EBITDA, EURm	192	213
% of sales	46.3	45.9
Depreciation, amortisation and impairment charges, EURm	–11	–11
Operating profit, EURm	155	202
% of sales	37.3	43.5
Special items, EURm [1]	–26	–
Operating profit excl. special items, EURm	181	202
% of sales	43.6	43.5
Electricity deliveries, GWh	8,966	8,721
Capital employed (average), EURm	2,716	2,903
ROCE (excl. special items), %	6.7	7.0

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

Market review

The Nordic and Finnish hydrological balance improved in 2015. At the end of December, the hydrological balance was well above the long-term average level. The average Finnish area spot price on the Nordic electricity exchange was EUR 29,7/MWh, 18% lower than the same period last year (EUR 36.0/MWh), because of mild temperatures and improved hydrology. The Finnish area price was above the Nord Pool system price because of dependency on imports. The price difference between the Finnish area price and Nord Pool system price increased as a result of a sharp decrease in the Nord Pool system price, driven predominately by improved hydrology.

Due to global oversupply and weakening demand outlook, coal prices decreased significantly in 2015. The CO_2 emission allowance price of EUR 8.0/tonne at the end of the period was higher than at the end of the comparison period (EUR 6.9/tonne).

The Finnish area front-year forward electricity price closed at EUR 30.7/MWh at the end of the year, 15% lower than in on the same date the previous year (36.1/MWh).

UPM Raflatac

2015 compared with 2014

Operating profit excluding special items for UPM Raflatac increased to EUR 102 million (80 million). Sales increased by 13% to EUR 1,409 million (1,248 million), driven by solid volume growth and decline in the euro exchange rate.

Operating profit increased because of higher sales margins partly resulting from improved operational efficiency and higher delivery volumes, more than offsetting the impact of increased fixed costs.

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

UPM Raflatac	2015	2014
Sales, EURm	1,409	1,248
EBITDA, EURm	137	112
% of sales	9.7	9.0
Depreciation, amortisation and impairment charges, EURm	–35	–35
Operating profit, EURm	99	69
% of sales	7.0	5.5
Special items, EURm [1]	–3	–11
Operating profit excl. special items, EURm	102	80
% of sales	7.2	6.4
Capital employed (average), EURm	581	530
ROCE (excl. special items), %	17.6	15.1

[1] In 2015, special items of EUR 3 million mainly relate to restructuring charges. In 2014, special items of EUR 11 million relate to restructuring charges, including impairments of EUR 3 million.

Market review

In 2015, global demand for self-adhesive label material increased by approximately 4–5% compared with the previous year. Demand strengthened particularly in Europe, thanks to higher consumer spending. In North America, demand remained robust, while, in Asia, growth continued at a lower level than in the previous year. In Latin America, demand was at the previous year's level.

UPM Paper Asia

2015 compared with 2014

Operating profit excluding special items for UPM Paper Asia decreased to EUR 55 million (108 million). Sales increased by 4% to EUR 1,168 million (1,124 million) mainly because of the weaker euro exchange rate. Deliveries decreased by 1% to 1,401,000 tonnes (1,421,000).

Operating profit decreased mainly due to the negative impact of currency hedging.

UPM Paper Asia	2015	2014
Sales, EURm	1,168	1,124
EBITDA, EURm	141	188
% of sales	12.1	16.7
Depreciation, amortisation and impairment charges, EURm	–86	–80
Operating profit, EURm	55	108
% of sales	4.7	9.6
Special items, EURm	–	–
Operating profit excl. special items, EURm	55	108
% of sales	4.7	9.6
Paper deliveries, 1,000 t	1,401	1,421
Capital employed (average), EURm	1,012	861
ROCE (excl. special items), %	5.4	12.5

Market review

In the Asia-Pacific region, fine paper demand decreased slightly in 2015, although the development varied by product and market segment. Growth in office paper demand continued. Overcapacity prevailed in all paper grades, and the preliminary United States anti-dumping duties added regional supply. In 2015, the average market price in local currencies was slightly lower in most markets compared with 2014. Label and release paper demand increased globally, and average prices were slightly lower than in 2014.

New investments and paper machine conversions to uncoated woodfree and labelling material in Asia and conversions to labelling material in Europe increased competition.

UPM Paper ENA

2015 compared with 2014

Operating profit excluding special items for UPM Paper ENA was EUR 24 million (181 million).

Sales decreased by 4% to EUR 5,056 million (5,284 million). Deliveries decreased by 3% to 8,370,000 tonnes (8,607,000).

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

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

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

In November, UPM announced a study of a potential sale and conversion of UPM Schwedt mill into liner production to LEIPA Georg Leinfelder GmbH.

UPM Paper ENA	2015	2014
Sales, EURm	5,056	5,284
EBITDA, EURm	213	392
% of sales	4.2	7.4
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–190	–349
Operating profit, EURm	32	–32
% of sales	0.6	–0.6
Special items, EURm [1]	8	–213
Operating profit excl. special items, EURm	24	181
% of sales	0.5	3.4
Paper deliveries, 1,000 t	8,370	8,607
Capital employed (average), EURm	2,289	2,511
ROCE (excl. special items), %	1.0	7.2

[1] In 2015, special items include net income of EUR 10 million related to restructurings and special charge of EUR 2 million related to increase of pension obligation due to Finnish employee pension reform. In 2014, special items include write-offs totalling EUR 135 million and restructuring charges totalling EUR 73 million related to planned capacity closures and charges of EUR 5 million related to other restructuring measures, mainly to the closure of the UPM Docelles mill in France, including impairment charges of EUR 1 million.

Market review

In 2015, demand for graphic paper in Europe was 4% lower than in 2014. The decline was steeper in newsprint and magazine paper, while uncoated fine paper demand decline was more moderate. Demand development by country also varied. The German market is experiencing slower decline than, for example, the United Kingdom or Nordic markets.

In the fourth quarter, publication paper prices in Europe were on average at the same level as in Q3 2015. In 2015, publication paper prices were on average 5% lower than in 2014.

In the fourth quarter, fine paper prices in Europe were on average at the same level as in Q3 2015. In 2015, fine paper prices were on average 4% higher than in 2014.

In 2015, demand for magazine papers in North America was 7% lower than the previous year. In the fourth quarter, the average US dollar price for magazine papers were at the same level as in Q3 2015. In 2015, the average US dollar price for magazine papers were on average 1% higher than in 2014.

UPM Plywood

2015 compared with 2014

Operating profit excluding special items for UPM Plywood increased to EUR 55 million (44 million).

Sales were EUR 439 million (440 million) and deliveries increased by 1% to 740,000 cubic metres (731,000).

Operating profit increased because of lower variable costs, partly driven by favourable currency development and improved cost efficiency. Delivery volumes increased.

UPM Plywood	2015	2014
Sales, EURm	439	440
EBITDA, EURm	78	68
% of sales	17.8	15.5
Depreciation, amortisation and impairment charges, EURm	–23	–24
Operating profit, EURm	53	44
% of sales	12.1	10.0
Special items, EURm [1]	–2	–
Operating profit excl. special items, EURm	55	44
% of sales	12.5	10.0
Deliveries, plywood, 1,000 m^3	740	731
Capital employed (average), EURm	263	268
ROCE (excl. special items), %	20.9	16.4

1) In 2015, special item of EUR 2 million relates to Lahti estate restructuring charges.

Market review

In 2015, plywood demand in Europe is estimated to have increased slightly. Demand grew in both industrial applications and construction-related end-use segments. The plywood market in Europe was in balance during the first half of 2015. Imports increased over the course of the year, leading to price pressure in some product segments in the fourth quarter.

Other operations

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

2015 compared with 2014

Operating profit excluding special items was EUR 303 million (37 million). Sales decreased to EUR 406 million (447 million).

The increase in the fair value of biological assets net of wood harvested was EUR 331 million (69 million). The increase in the fair value of biological assets (growing trees) was EUR 377 million (121 million). This includes a fair value increase of biological assets in Finland totalling EUR 265 million, resulting from adjusted long-term wood price estimates and a change in the discount rate. The cost of wood harvested from UPM forests was EUR 46 million (52 million).

In 2015, UPM sold 63,669 (51,000) hectares of forests.

In September, UPM concluded the sale of 100% of its shares of Tilhill Forestry Ltd to BSW Timber Ltd in the United Kingdom.

Other operations	2015	2014
Sales, EURm	406	447
EBITDA, EURm	–16	–21
Change in fair value of biological assets and wood harvested, EURm [2]	331	69
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–13	–11
Operating profit, EURm	306	82
Special items, EURm [1]	3	45
Operating profit excl. special items, EURm	303	37
Capital employed (average), EURm	1,483	1,445
ROCE (excl. special items), %	20.4	2.6

1) In 2015, special items include capital gains of EUR 3 million from the sale of Tilhill Forestry Ltd shares, capital gains of EUR 3 million from the sale of other assets and EUR 3 million of restructuring charges. In 2014, special items relate to a capital gain of EUR 45 million from the sale of forestland in the UK.

2) 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 discount rate.

Shares

The company has one series of shares. There are no specific terms related to the shares except for the redemption clause which is presented in the consolidated financial statements (Note 27). Information on the biggest shareholders and break-down by sector and size is disclosed in Information on shares.

The company is a party to certain agreements concerning its businesses and financing. These agreements contain provisions as to the change of control in the company. The service contracts with the President and CEO, and Group Executive Team members include termination provisions in case of a change of control. The service contracts have been presented in the consolidated financial statements (Note 7). The share ownership of President and CEO and the members of the Board of Directors is presented in the financial statements (Information on shares).

Information of the authority of the Board of Directors in regard to the issuance and buy back of own shares, and regulations to amend the Articles of Association is disclosed in the consolidated financial statements (Note 27).

In 2015, UPM shares worth EUR 7,469 million (6,233 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent about two thirds of all trading volumes in UPM shares. The highest listing was EUR 19.26 in April and the lowest EUR 13.19 in September.

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

The Annual General Meeting held on 9 April 2015 authorised the Board of Directors to acquire no more than 50,000,000 of the company's own shares. This authorisation is valid for 18 months from the date of the decision.

The Annual General Meeting held on 4 April 2013 authorised the Board to decide on the issuance of new shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights to shares in the company, as follows: (i) the maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of special rights; (ii) new shares and special rights to shares in the company may be issued, and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their existing shareholdings or in a directed share issue, deviating from the shareholder's pre-emptive subscription rights. This authorisation is valid until 4 April 2016.

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

The number of shares entered in the Trade Register on 31 December 2015 was 533,735,699. Through the issuance authorisation, the number of shares may increase to a maximum of 558,735,699.

On 31 December 2015, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of company shares and voting rights.

Company directors

At the Annual General Meeting held on 9 April 2015, the number of members of the Board of Directors was increased from nine to ten and Berndt Brunow, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Kim Wahl and Björn Wahlroos were re-elected to the Board for a term continuing until the end of the next Annual General Meeting. Suzanne Thoma and Henrik Ehrnrooth were elected as new members of the board. Matti Alahuhta stepped down from the Board.

At the organisation meeting of the Board of Directors, Björn Wahlroos was re-elected as Chairman, and Berndt Brunow as Deputy Chairman of the Board of Directors. In addition, Piia-Noora Kauppi was elected as chair of the Audit Committee and Wendy E. Lane and Kim Wahl as other committee members. Veli-Matti Reinikkala was elected as chair of the Remuneration Committee, and Henrik Ehrnrooth and Suzanne Thoma were elected as other committee members. Björn Wahlroos was elected as chair of the Nomination and Governance Committee and Berndt Brunow and Ari Puheloinen as other committee members.

Litigation

Group companies

In 2011, Metsähallitus (a Finnish state enterprise which administers state-owned land) filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Finnish Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the Finnish roundwood market. In addition to Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims totals EUR 196 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 34 million in the aggregate. It is expected that the amounts claimed will change as a result of new claims, which have not yet been served. In addition to the claims on capital amounts, the claimants are also requesting compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

In 2012 UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along right under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of shares in Metsä Fibre to Itochu Corporation. UPM claimed jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million. Metsäliitto and Metsä Board had sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto had exercised a call option to purchase UPM's remaining 11% shareholding in Metsä Fibre for EUR 150 million. The arbitral tribunal rendered its final decision (arbitral award) in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount of EUR 58.5 million and penalty interest and compensate UPM for its legal fees. As a result, UPM recorded an income of EUR 67 million as a special item in Q1 2014. In May 2014 Metsäliitto and Metsä Board commenced litigation proceedings in the Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. On 18 June 2015 the District Court dismissed the actions by Metsäliitto and Metsä Board. 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 is not final.

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. The judgement is not final.

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. According to TVO, the proposed schedule is currently undergoing detailed scrutiny.

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 July 2015, is in total approximately EUR 3.4 billion. The claim covers events occurred during the construction period until the end of June 2011. The sum includes penalty interest (until 31 July 2015) and payments allegedly delayed by TVO under the plant contract together amounting to approximately EUR 1.4 billion as well as approximately EUR 140 million in alleged lost of profit. Having considered and found the earlier claims by the Supplier to be without merit, TVO will scrutinize the updated claim and respond to it in due course. According to TVO, the quantification estimate of its costs and losses related to its claim in the arbitration proceedings is approximately EUR 2.6 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.

Risks

Risk management

UPM regards risk management as a systematic and proactive means to analyse and manage the opportunities and threats related to its business operations. This includes also risks avoided by careful planning and evaluation of future projects and business environment.

UPM seeks to transfer insurable risks through insurance arrangements if the risks exceed the defined tolerance. The insurance cover is always subject to the applicable insurance conditions.

The main risk factors that can materially affect the company's business and financial results are set out below. They have been classified as strategic risks, operational risks, financial risks and hazard risks. Risks may also arise from legal proceedings incidental to UPM's operations.

Strategic risks

Competition, markets and customers. The energy, pulp, timber, paper, label, plywood and biofuels markets are cyclical and highly competitive. In all of these markets the price level is determined as a combination of demand and supply, and shocks to either demand (decrease/ increase in end-use demand, change in customer preferences etc.) or supply (e.g. new production capacity entering the market or old capacity being closed) may impact both the volume and the price level for UPM. Also competitor behaviour influences the market price development.

UPM performance is also impacted by the performance of substitute or alternative products. Most notably, the demand in graphical papers in the mature markets is forecasted to continue to decline, due to the shift away from print media to electronic media. Similarly, several raw materials used by UPM have competing end uses.

Consumers' environmental awareness has also increased, and this may have either a positive or negative impact on the consumption of UPM's products, depending on the product area.

UPM sells a proportion of its products to several major customers. The largest customer in terms of sales represented approximately 3% of UPM's sales in 2015, and the ten largest customers represented approximately 15% of such sales.

M&A and changes in the business portfolio. UPM's strategic direction is to increase the share of growing businesses with positive long-term fundamentals. This may require acquisitions of new businesses or divestments of existing businesses. Participation in M&A involves risks such as successful implementation of a divestment and the ability to integrate and manage acquired operations and personnel successfully, as well as to achieve the economic targets set for an acquisition/divestment.

Regulation. UPM is exposed to a wide range of laws and regulations. The performance of UPM businesses, for example the biofuels business, the paper businesses and the energy business, are to a high degree dependent on the current regulatory framework, and changes to regulation, direct and indirect taxation or subsidies would have a direct impact on the performance of UPM. In addition, regulation may structurally restrict or exacerbate UPM's ability to compete for raw material.

UPM's environment related processes and management are based on full compliance with such laws and regulations, and environmental investments, audits and measurements are carried out on a continuous basis. UPM is currently not involved in any major proceeding concerning environmental matters, but the risk of substantial environmental costs and liabilities is inherent in industrial operations.

Political and economical risks. UPM has major manufacturing locations in Finland, Germany, the UK, France and the US. In these countries, the slow development of the individual economies and/or of Europe as a whole influences adversely UPM's performance. Furthermore, policies (on European and/or national level) that hamper economic growth or lower the competitiveness of UPM (for example through adverse regulation or increase in direct or indirect taxation) may have an adverse impact on UPM's performance. In the developed countries, the unpredictability of regulation may lead to an increasing uncertainty and risk level when investing in or operating in these countries.

UPM has manufacturing operations in a number of emerging market countries, such as China, Uruguay and Russia. In the emerging market countries, the lack of transparency and predictability of the political, economic and legal systems may lead to an increasing uncertainty and risk level when investing in, or operating in these countries. These uncertainties may materialize as unfavourable taxation treatment, trade restrictions, inflation, currency fluctuations and nationalisation of assets.

Operational risks

Earnings uncertainty. The main short-term uncertainties in UPM's earnings relate to sales prices and delivery volumes of the Group's products, as well as to changes in the main input cost items and exchange rates. Most of these items are dependent on general economic developments. The main earnings sensitivities and the Group's cost structure are presented in the Annual Report of 2015, on page 18.

Availability and price of major inputs. In 2015, third-party suppliers accounted for approximately 84% of UPM's wood requirements. Other production inputs, such as chemicals, fillers and recovered paper, are obtained from third-party suppliers. Disruptions in the supply of key inputs would impact upon manufacturing operations, for example, by interrupting or resulting in the downscaling of production or a change in the product mix. They could also cause price increases for critical inputs or shifts in the availability and price of wood. It is also uncertain how the EU energy policies may impact upon the availability and costs of fibre and energy.

Project execution. Investment projects in UPM businesses such as energy, pulp, paper or biofuels are often large and take one or more years to complete. UPM has experience in such projects in various businesses and locations around the world, and applies vigorous planning, project management and follow-up processes. Participation in large projects involves risks such as cost overruns or delays, as well as achievement of the economic targets set for the investment.

Partnerships. UPM currently works together with many partners without control over strategic direction and operational output. The highly competitive market situation and, for example, new developments in biofuels or bioenergy are likely to increase the importance of partnerships in the search for higher efficiency or new products and businesses. Partnerships, however, may create risks to the profitability, for example, through changes occurring within the partner entity or changes in how the partnership operates.

Ability to recruit and retain skilled employees. To meet the challenges of sustaining growth and improving the effectiveness of operations, a skilled workforce is necessary. UPM is continuously evaluating its recruitment, compensation and career development policies and taking measures to attract and retain skilled personnel, thereby seeking to avoid shortages of appropriately skilled personnel in the future.

Availability and security of information systems. UPM business operations depend on the availability of supporting information system and network services. Unplanned interruptions in critical information services can potentially cause a major interruption of UPM business areas. UPM has implemented numerous technical, physical and process improvements to mitigate the availability and security risks and to reduce the service interruption related recovery time to acceptable level.

Risks related to non-compliance. The UPM Code of Conduct sets the standards of responsible behaviour towards UPM stakeholders. They apply to every employee. The code covers topics relating to legal compliance and disclosure, conflicts of interest, gifts and bribes, HR practices, human rights questions and environmental matters. UPM's environmental performance and social responsibility play a significant role in UPM's ability to operate and influence the long-term success of its businesses. Negligence or breach of Code of Conduct may lead to legal processes or serious reputational damages impacting the value of the company. UPM ensures that employees are aware of the Code by regular trainings, the company maintains a report misconduct channel and carries out regular audits in its supply chain.

Financial risks

Changes in exchange and interest rates. Exchange rate exposure primarily affects export operations when sales are denominated in currencies other than those in which manufacturing costs are incurred. Part of UPM's sales and purchases are denominated in currencies other than the euro (primarily the US dollar and the British pound sterling). To manage exposure to such exchange rate fluctuations, close monitoring of the exposure to currency risks is carried out simultaneously with the hedging of such risks, using financial instruments including forward foreign exchange agreements and currency swaps. Furthermore, changes in interest rates may have a considerable impact on the values of the company's assets (e.g. biological assets or available-for-sale investments, such as energy assets), which are valued on a discounted cash flow model.

Availability of capital and liquidity. Availability of capital to UPM is dependent on conditions of the financial markets and the Group's financial health. If either or both of these factors were to change dramatically for the worse, the cost and availability of capital would be at risk. To mitigate possible materialisation of these risks, the UPM has liquidity reserves in the form of committed multi-year loan facilities.

UPM's available-for-sale investments are recognised at fair value in the balance sheet. Changes in the assumptions used (e.g. electricity price estimate and start-up schedule of the Olkiluoto 3 nuclear power plant) might have a significant impact on UPM's financial position.

Payment defaults. There is a risk of non-payment or non-performance by the Group's customers in connection with the sale of products. UPM has various programmes in place to monitor and mitigate customer credit risk, and insurance policies cover most of the trade receivables.

Additional information about financial risks and the maturity of long term debt is disclosed in the consolidated financial statements (Notes 3 and 31).

Hazard risks

UPM operates a significant number of manufacturing facilities globally, mostly UPM-owned, and is also the largest private owner of forestland in Finland. UPM is exposed to risks in areas such as occupational health and safety, environment, fire, natural events and site security. These risks are managed through established management procedures and loss prevention programmes. UPM's insurance programme also provides coverage for insurable hazard risks, subject to terms and conditions.

Research and development

Innovations are at the forefront in the creation and development of new products that can be used to replace non-renewable materials with renewable, recyclable and low-impact alternatives and provide resource-efficient alternatives for the future.

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

By cooperating with selected value chain partners UPM aims to increase its speed, agility and effectiveness.

In 2015, UPM spent EUR 63 million (112 million) on research and development work equating to 5.3% (9.0%) of UPM's operating cash flow. The focus was on new technologies and developing businesses. On top of the direct R&D expenditure of approximately EUR 37 million (35 million), the figures include negative operating cash flow and capital expenditure in developing businesses.

Versatile use of wood biomass

UPM is seeking business development and innovation in various bioeconomy projects through collaboration. The special focus areas are development of by-product utilisation, resource efficiency and the circular economy.

UPM's Side stream efficiency research is looking for solutions to better utilise the side streams of UPM's integrated pulp and paper mills; sludge, ash, various rejects and waste heat. The aim is to reduce costs and increase the value of side streams by finding new business opportunities in industrial symbioses.

In UPM Kaukas mill, studies have been done to produce biogas from sludge in co-operation with the Lappeenranta city representatives and other external partners.

Fertilizer development and nutrient recirculation is also part of UPM's circular economy targets. Other studies relate to new end-uses for ash in construction applications. Also good saving ideas have been found in mills' heat efficiency.

UPM has a global network of research centres to support the businesses and their development goals. Environmental aspects are systematically integrated into product design at an early stage.

Wide-scale collaboration in new businesses

UPM is one of the founding members of the industrial consortium part of the European Joint Undertaking on Bio-based Industries (BBI). This Public Private Partnership (PPP) aims to trigger investments and create a competitive market for bio-based products and materials that are sourced locally. For UPM, the PPP is an important funding element for speeding up the implementation of future investments.

UPM is a shareholder in the Finnish CLIC Innovation, which focuses on bioeconomy and cleantech research. The Cluster's research programmes focus on bioeconomy as well as energy and environmental research, thus supporting UPM's internal R&D activities.

In 2015, UPM received approximately EUR 1.4 million (2.1 million) from Tekes (the Finnish Funding Agency for Technology and Innovation) for its research projects. These projects were carried out in co-operation with research institutes, universities and other companies.

UPM works together with a wide network of universities and research institutes as well as technology suppliers and startups. Partnerships enable us to develop new solutions and get to the market faster, especially in new businesses.

UPM's intellectual property rights applications remained on a significant level. The high level of patent registration highlights the progress made in new businesses. UPM actively manages its patent portfolio and evaluates the applicability and commercial value of its patents. As such, we are trying to seek new commercialisation partners for patents not suitable for our businesses.

Biocomposites combine best properties of natural fibres and high performance polymers

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

UPM ProFi's Design Deck range is one of the leading composite decking brands in Europe. Through patented recycling technology, UPM Biocomposites recovers the cellulose fibres and polymers found in label material waste, and gives them a second life.

UPM Formi is the engineered range of pure cellulose and virgin polymer compounds suitable for various applications from furniture to consumer electronics. The products have a considerably lower carbon foot print than those made with pure plastics.

Biochemicals offer a sustainable alternative to fossil-based solutions

UPM Biochemicals offers and develops innovative, sustainable and competitive wood-based biochemicals. The product segments are chemical building blocks, lignin products, biofibrils, and biomedical products.

Chemical building blocks are made from lignocellulosic biomass offering a cost competitive replacement for fossil-based monomers and chemicals such as intermediates to bioplastics.

Lignin is one of nature's most abundant materials and an ideal bio-based substitute for various petro-based products e.g. resins and binders. UPM BioPiva™, based on UPM's proprietary lignin-resin technology, allows resin producers to substitute up to 70% of their fossil-based raw materials with a non-toxic, 100% bio-based, and cost-effective alternative.

Biofibrils are cellulose micro- and nanofibril products that can be used for shaping materials and giving them new characteristics. Biofibrils products can be used as a suspension aid and rheology control agent or reinforcement and barrier element in different uses.

GrowDex is a novel wood-based cellulose nanofibril hydrogel for 3D cell culturing and other biomedical applications. It is highly biocompatible with human cells and tissues.

In 2015, UPM's ValChem project received a EUR 13.1 million funding from the European Union. ValChem stands for Value Added Chemical Building Blocks and Lignin from Wood. The aim is to demonstrate the technical and economic viability of an integrated biochemical process, covering the whole value chain from wood raw materials to a selected platform for chemical and lignin-based performance chemicals. The project is done in cooperation with Sekab, METabolic EXplorer and Technische Universität Darmstadt.

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

Research and development in businesses

UPM Biorefining

UPM Pulp has continued to focus in improving the environmental performance of its mills and its overall operational efficiency.

In UPM Fray Bentos, Uruguay, the consumption of process water has been among the lowest in the industry. In the past years, special focus has been in achieving a significant reduction of phosphor emissions. The achieved low emission level makes it also in this respect a benchmark in the industry. In all of its mills, UPM is now focusing on solid waste reduction through a number of internal and external joint research projects.

In Euca plantation operations in Uruguay, development work focuses on the tree breeding program and development of new eucalyptus clones in order to create more value and improve productivity. In Finland, special focus has been put on developing wood sourcing and wood handling activities in order to reduce wood consumption at the mills.

In the Pulp market side, UPM Pulp continued to focus, through its Technical Customer Service support, on joint development activities with customers, mainly in Europe and China, in order to enhance cooperation and assure the best possible results when using UPM Pulps.

In Biofuels, commercial production of UPM BioVerno renewable diesel started in Lappeenranta, Finland in January, and the product was launched successfully to the Finnish market together with St1 and ABC fuel distributors. In March, UPM Biofuels was awarded the Commercial Scale Plant of the year in the international WBM Bio Business 2015 competition.

As a product, UPM BioVerno was granted the Finnish Key Flag Symbol due to its high domestic origin. The product was tested further in several engine and fleet tests. UPM BioVerno was found to significantly reduce tailpipe emissions, such as particle mass, hydrocarbon, carbon dioxide, nitrogeous oxide and carbon monoxide emissions, compared to traditional fossil diesel.

All the tests showed also similar or improved efficiency of the engine, without compromising the engine power. The comprehensive emission, performance and wear tests were carried out with a number of key research institutes such as VTT Technical Research Centre of Finland Ltd and at FEV, internationally recognised vehicle engineering company based in Germany. To test UPM BioVerno in heavy duty vehicles, UPM started field tests in urban buses in the Helsinki region bus traffic.

In the long term, UPM aims to extend biofuel production to new raw materials and processes.

UPM Energy

UPM Energy focused on improving the efficiency and cost competitiveness of biomass-based energy technologies. To reach its target, UPM Energy participated in several research programmes. These programmes are creating knowledge to improve design and operation of UPM's large-scale energy conversion systems that use biomass fuel mixtures. UPM Energy has also been evaluating the effects of Industrial Emission Directive and BAT Reference Document which deal with large scale combustion installations.

UPM Raflatac

In standard filmic and paper products the focus continued on the re-engineering efforts for greater cost efficiency and product quality. In the special business area the main emphasis was on developing new high added value products for selected end-use segments, as well as tailored solutions for specific customer needs. New sustainable catalyst activated and UV curable adhesives were launched for the durable goods end-use segment.

The development of new proprietary filmic materials continued. Significant progress was made in the development of a shrink sleeve label film especially designed for recyclable clear PET packages used in the food and beverage end-uses.

UPM Paper Asia

R&D supports UPM Paper Asia businesses and operations in China and Finland through development activities in its research centers in Changshu and Lappeenranta. Main focus areas are in new product development and operational efficiency.

UPM Paper ENA

Key focus areas of R&D activities for Paper ENA relate to developing competitive products and product portfolios, top expertise in customer support, variable cost savings and operational efficiency improvements. R&D also supports in developing novel solutions for paper mill's waste & side streams management. Research centers serving Paper ENA businesses and operations are located in Lappeenranta and Augsburg and are equipped with state-of-the-art analytical capabilities.

UPM Plywood

UPM Plywood's product management and development work focused on creating new customer needs based solutions as well as piloting and commercializing new products and applications developed previously. One of the key areas was to improve the properties of plywood for end-uses such as the LNG carrier systems and Vehicle Flooring.

For concrete forming end uses, R&D work concentrated on creating a new product with innovative moisture barrier technology. Also several new economic segment formwork panels were developed to satisfy customer demands.

The development of fire retardant coated plywood was completed and the product was introduced to the market.

Responsibility

Responsibility is good business

Corporate responsibility is an integral part of all our operations and is seen as a source of competitive advantage. UPM is strongly committed to continuous improvement in economic, social and environmental performance. UPM promotes responsible practices throughout the value chain and is active in finding sustainable solutions in co-operation with its customers, suppliers and partners.

In 2015, the main focus of UPM's responsibility activities was the renewal of the company's Code of Conduct and responsibility targets. The safety of employees and contractors also remained an important focus area. UPM was invited to join the UN Global Compact LEAD group intended for global sustainability leaders.

Environmental performance

In 2015, UPM's environmental investments totalled EUR 28 million (12 million). The largest being the investment to waste water treatment and air protection at UPM Changshu paper mill.

UPM's environmental costs, which were mainly attributable to effluent treatment and waste management, totalled EUR 129 million (127 million), including depreciation.

No significant environmental incidents occurred in 2015. However, several minor temporary deviations from permit limits did arise. These deviations were reported to the relevant authorities immediately, and corrective and preventive measures were taken. These measures are part of UPM's internal Clean Run campaign that aims to improve the company's environmental performance further, sharing best practices and promoting and maintaining environmental awareness.

Prioritising product stewardship

UPM's products are made from renewable, biodegradable and recyclable raw materials. UPM businesses have adopted an eco-design approach in their product development processes, which means the systematic integration of environmental aspects into product design at an early stage, covering the whole lifecycle.

The majority of UPM's production sites, as well as its forestry operations, are covered by environmental, quality and health and safety systems, which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. UPM has certified all its European pulp and paper mills and the UPM Fray Bentos pulp mill in Uruguay and UPM Changshu paper mill in China in accordance with the voluntary EU Eco-Management and Audit Scheme (EMAS). In 2015, the EU awarded UPM a recognition certificate for being one of the pioneers of the 20-year-old EMAS scheme. UPM is the largest producer of EU Ecolabelled newsprint, graphic and office papers.

Reducing waste is part of circular economy

Today, approximately 90% of all UPM's production waste is recovered and recycled. UPM has developed innovative ways to reduce its own waste and reuse waste or residues in new products such as UPM BioVerno, UPM's renewable diesel and UPM ProFi composite which utilises partly waste from the production of self-adhesive label materials. UPM is also the world's largest user of recovered paper for the production of graphic papers, consuming 3.1 million tonnes of paper for recycling in 2015. The total amount of solid waste sent to landfill has decreased with 9% compared to the previous year.

Sustainable forestry

All of UPM's own forests and eucalyptus plantations are certified according to the FSC and/or PEFC certification schemes. All of UPM's wood supplies are covered by third-party-verified chains of custody. 84% (83%) of all wood used by UPM is sourced from certified forests. 84% (83%) of UPM's paper is produced using fibre that meets the criteria of either the FSC or the PEFC forest certification scheme. During the year, UPM participated in the CBD Business and Biodiversity Forum 2015 held in Helsinki. The CBD Business and Biodiversity Forum is part of the UN's Convention on Biological Diversity initiative.

Climate actions and energy efficiency

Since 1990, specific CO_2 (fossil carbon dioxide) emissions per tonne of paper have been reduced by approximately 21%. UPM has a wide range of energy sources and it maximises the use of carbon-neutral energy. Biomass-based fuels make up 83% of the fuels used by UPM in Finland and 67% of those used worldwide. UPM is the second largest generator of biomass-based electricity in Europe.

As the use of weather-dependent energy sources increases, the need for balancing power in energy systems will also grow. UPM is investing in hydropower, the most effective and sustainable method of producing balancing power. UPM strives to continuously improve its energy efficiency across all its operations. During the last 20 years, the energy efficiency of production has significantly improved due to energy audits, innovations and internal campaigns.

Water plays an increasingly important role

All of UPM's pulp and paper mills are required to have both a mechanical and a biological wastewater treatment facility. In order to ensure the best possible treatment result and share best practice, UPM's wastewater treatment facility team has continued its work. The results have been good and the number of incidents has decreased.

UPM has reduced wastewater volumes per tonne of paper by 16% and per tonne of chemical pulp by 16% over the last ten years. The COD load has decreased by 24% per tonne of paper, and by 41% per tonne of pulp, over the last ten years.

UPM was the first forest industry company to sign the WBCSD Water Cluster's WASH Pledge programme. During 2015, access to drinking and sanitary water has been determined at all UPM production plants. This work will continue in 2016.

Corporate Governance Statement

UPM presents the Corporate Governance Statement as a separate report which is available on the company's website www.upm.com.

Board of Directors' proposal for the distribution of profits

The Board of Directors proposes to the Annual General Meeting of UPM-Kymmene Corporation to be held on 7 April 2016 that a dividend of EUR 0.75 per share be paid based on the balance sheet to be adopted for the financial year ending 31 December 2015 and that the remaining portion of the distributable funds be retained in the Company's unrestricted shareholders' equity.

The dividend will be paid to a shareholder who is registered in the Company's shareholders' register held by Euroclear Finland Ltd on the dividend record date of 11 April 2016. The Board of Directors proposes that the dividend be paid on 21 April 2016.

On the date of the dividend proposal, 2 February 2016, the Company's registered number of shares is 533,735,699. The aforementioned number of shares includes 230,737 treasury shares which are not entitled to dividend. As a result, the proposed dividend would total EUR 400.1 million.

On 31 December 2015, the distributable funds of the parent company were EUR 3,532,842,453.74 including EUR 545,045,922.15 profit for the period. No material changes have taken place in respect of the Company's financial position after the balance sheet date. In the opinion of the Board of Directors, the proposed distribution of profits does not risk the solvency of the Company.

Signatures of the annual accounts and the report of the Board of Directors for the year 2015

Helsinki, 2 February 2016

Björn Wahlroos Chairman	Berndt Brunow	Henrik Ehrnrooth
Piia-Noora Kauppi	Wendy E. Lane	Jussi Pesonen President and CEO
Ari Puheloinen	Veli-Matti Reinikkala	Suzanne Thoma
Kim Wahl		

Consolidated financial statements, IFRS

Consolidated income statement

EURm	Note	Year ended 31 December 2015	2014
Sales	4	10,138	9,868
Other operating income	6	13	91
Costs and expenses	7	−8,840	−8,708
Change in fair value of biological assets and wood harvested	8	352	78
Share of results of associated companies and joint ventures	9	3	3
Depreciation, amortisation and impairment charges	10	−524	−658
Operating profit (loss)	4	1,142	674
Gains on available-for-sale investments, net	11	–	59
Exchange rate and fair value gains and losses	12	1	−4
Interest and other finance costs, net	12	−68	−62
Profit (loss) before tax		1,075	667
Income taxes	13	−159	−155
Profit (loss) for the period		916	512
Attributable to:			
Owners of the parent company		916	512
Non-controlling interests		–	–
		916	512
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	14	1.72	0.96
Diluted earnings per share, EUR	14	1.72	0.96

Consolidated statement of comprehensive income

EURm	Note	Year ended 31 December 2015	2014
Profit (loss) for the period		916	512
Other comprehensive income for the period, net of tax:			
Items that will not be reclassified to income statement:			
Actuarial gains and losses on defined benefit obligations		113	−181
Items that may be reclassified subsequently to income statement:			
Translation differences		221	291
Net investment hedge		−28	−41
Cash flow hedges		24	−107
Available-for-sale investments		−405	−164
		−188	−21
Other comprehensive income for the period, net of tax	13, 27	−75	−202
Total comprehensive income for the period		841	310
Total comprehensive income attributable to:			
Owners of the parent company		841	310
Non-controlling interests		–	–
		841	310

The income tax relating to each component of other comprehensive income is disclosed in Note 13.
Disclosure of components of other comprehensive income is presented in Note 27.
The notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

EURm	Note	As at 31 December 2015	2014
Assets			
Non-current assets			
Goodwill	16	241	230
Other intangible assets	17	329	340
Property, plant and equipment	18	4,895	4,707
Investment property	19	–	31
Biological assets	20	1,738	1,469
Investments in associated companies and joint ventures	21	28	25
Available-for-sale investments	22	2,085	2,510
Other non-current financial assets	23	332	334
Deferred tax assets	28	466	532
Other non-current assets	24	145	91
		10,259	10,269
Current assets			
Inventories	25	1,376	1,356
Trade and other receivables	26	1,876	1,856
Income tax receivables		56	14
Cash and cash equivalents	3	626	700
		3,934	3,926
Total assets		14,193	14,195

EURm	Note	As at 31 December 2015	2014
Equity and liabilities			
Equity attributable to owners of the parent company			
Share capital	27	890	890
Treasury shares		−2	−2
Translation differences		449	256
Fair value and other reserves	27	1,486	1,867
Reserve for invested non-restricted equity		1,273	1,273
Retained earnings		3,846	3,194
		7,942	7,478
Non-controlling interests	27	2	2
Total equity		7,944	7,480
Non-current liabilities			
Deferred tax liabilities	28	456	428
Retirement benefit obligations	29	747	867
Provisions	30	154	214
Interest-bearing liabilities	31	2,797	3,058
Other liabilities	32	174	150
		4,328	4,717
Current liabilities			
Current interest-bearing liabilities	31	269	406
Trade and other payables	33	1,619	1,549
Income tax payables		33	43
		1,921	1,998
Total liabilities		6,249	6,715
Total equity and liabilities		14,193	14,195

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

		Attributable to owners of the parent company								
EURm	Note	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	27	890	−2	6	2,256	1,226	3,073	7,449	6	7,455
Profit (loss) for the period		–	–	–	–	–	512	512	–	512
Actuarial gains and losses on defined benefit obligations, net of tax		–	–	–	–	–	−181	−181	–	−181
Translation differences		–	–	291	–	–	–	291	–	291
Net investment hedge, net of tax		–	–	−41	–	–	–	−41	–	−41
Cash flow hedges, net of tax		–	–	–	−107	–	–	−107	–	−107
Available-for-sale investments, net of tax		–	–	–	−164	–	–	−164	–	−164
Total comprehensive income for the period		–	–	250	−271	–	331	310	–	310
Share options exercised		–	–	–	–	47	–	47	–	47
Share-based compensation, net of tax		–	–	–	−15	–	16	1	–	1
Dividend distribution	15	–	–	–	–	–	−319	−319	–	−319
Acquisition of non-controlling interests	27	–	–	–	–	–	−1	−1	−4	−5
Other items		–	–	–	−103	–	94	−9	–	−9
Total transactions with owners for the period		–	–	–	−118	47	−210	−281	−4	−285
Balance at 31 December 2014	27	890	−2	256	1,867	1,273	3,194	7,478	2	7,480
Balance at 1 January 2015	27	890	−2	256	1,867	1,273	3,194	7,478	2	7,480
Profit (loss) for the period		–	–	–	–	–	916	916	–	916
Actuarial gains and losses on defined benefit obligations, net of tax		–	–	–	–	–	113	113	–	113
Translation differences		–	–	221	–	–	–	221	–	221
Net investment hedge, net of tax		–	–	−28	–	–	–	−28	–	−28
Cash flow hedges, net of tax		–	–	–	24	–	–	24	–	24
Available-for-sale investments, net of tax		–	–	–	−405	–	–	−405	–	−405
Total comprehensive income for the period		–	–	193	−381	–	1,029	841	–	841
Share-based compensation, net of tax		–	–	–	–	–	−4	−4	–	−4
Dividend distribution	15	–	–	–	–	–	−373	−373	–	−373
Total transactions with owners for the period		–	–	–	–	–	−377	−377	–	−377
Balance at 31 December 2015	27	890	−2	449	1,486	1,273	3,846	7,942	2	7,944

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

EURm	Note	Year ended 31 December 2015	2014
Cash flow from operating activities			
Profit (loss) for the period		916	512
Adjustments	5	449	779
Interest received		6	7
Interest paid		–22	–40
Dividends received		1	2
Other financial items, net		–17	–11
Income taxes paid		–140	–81
Change in working capital	5	–8	73
Net cash generated from operating activities		1,185	1,241
Cash flow from investing activities			
Capital expenditure		–432	–378
Acquisition of shares in associated companies and joint ventures		–1	–1
Acquisition of available-for-sale investments		–33	–31
Proceeds from sale of tangible and intangible assets		26	89
Proceeds from disposal of subsidiaries	5	8	1
Proceeds from disposal of available-for-sale investments		35	68
Change in other non-current assets		5	5
Net cash used in investing activities		–392	–247
Cash flow from financing activities			
Proceeds from non-current liabilities		22	–
Payments of non-current liabilities		–519	–836
Change in current liabilities		22	34
Share options exercised		–	47
Dividends paid		–373	–319
Other financing cash flow		–20	–22
Net cash used in financing activities		–868	–1,096
Change in cash and cash equivalents		–75	–102
Cash and cash equivalents at beginning of period		700	787
Foreign exchange effect on cash and cash equivalents		1	15
Change in cash and cash equivalents		–75	–102
Cash and cash equivalents at end of period		626	700

The notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

(In the notes all amounts are shown in millions of euros unless otherwise stated.)

1 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below:

Principal activities

UPM-Kymmene Corporation ("the parent company" or "the company") together with its consolidated subsidiaries ("UPM" or "the Group") is a global paper and forest products group, mainly engaged in the production of paper, with an emphasis on the manufacture and sale of printing and writing papers. UPM reports financial information for the following business areas (segments): UPM Biorefining, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA, UPM Plywood and Other operations. The Group's activities are centred in European Union countries, North and South America and Asia with production plants in 13 countries.

UPM-Kymmene Corporation is a Finnish limited liability company, domiciled in Helsinki in the Republic of Finland. The address of the company's registered office is Alvar Aallon katu 1, 00100 Helsinki, where a copy of the consolidated financial statements can be obtained.

The parent company is listed on NASDAQ OMX Helsinki Ltd.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 2 February 2016. According to the Finnish Companies Act, the General Meeting of Shareholders is entitled to decide on the adoption of the company's financial statements.

Basis of preparation

These consolidated financial statements of UPM are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and IFRIC Interpretations.

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets, available-for-sale investments and certain other financial assets and financial liabilities, defined benefit plan assets and obligations and share-based payment arrangements.

The preparation of financial statements requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates are employed in the financial statements to determine reported amounts, including the realisable value of certain assets, the useful lives of tangible and intangible assets, income tax and other items. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from them. The preparation of financial statements also requires management to exercise its judgement in the process of applying the Group's accounting policies. The most significant critical judgements are summarised in Note 2.

Consolidation principles

Subsidiaries

The consolidated financial statements of UPM include the financial statements of the parent company, UPM-Kymmene Corporation, and its subsidiaries. Subsidiaries are those entities in which the Group has control. The Group has control over an entity if it has power over the entity; it is exposed or has rights to variable returns from its involvement with the entity and has the ability to use its power to affect the amount of its returns from the entity.

Business combinations are accounted for by using the acquisition method of accounting. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred and the equity instruments issued at the acquisition date. The consideration transferred includes the fair value of any assets or liabilities resulting from a contingent consideration arrangement. Transaction costs related to an acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (see below "Intangible assets" for goodwill accounting policy).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control in subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in income statement.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts in relation to its interest for the assets, liabilities, revenues and expenses related to a joint operation in accordance with IFRS applicable for the particular item. Transactions with joint operations are recognised in the consolidated financial statements only to the extent of other parties' interests in the joint operation.

Associated companies and joint ventures

Associated companies are entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Interests in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Under this method the Group's share of the associated company and joint venture profit or loss for the period is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The Group's interest in an associated company and joint venture is carried on the balance sheet at an amount that reflects its share of the net assets of the associated company and joint venture together with goodwill on acquisition (net of any accumulated impairment loss), less any impairment in the value of individual investments. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associated company and joint venture, unless the loss provides evidence of an impairment of the asset transferred. Associated company and joint venture accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. Equity accounting is discontinued when the carrying amount of the investment in an associated company or interest in a joint venture reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company or joint venture.

Non-controlling interests
The profit or loss attributable to owners of the parent company and non-controlling interests is presented on the face of the income statement. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to owners of the parent company.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses of disposals to non-controlling interests are also recorded in equity.

Foreign currency transactions
Items included in the financial statements of each Group subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange differences relating to ordinary business operations of the Group are included in the appropriate line items above operating profit and those relating to financial items are included in a separate line item in the income statement and as a net amount in total finance costs.

Income and expenses for each income statement of subsidiaries that have a functional currency different from the Group's presentation currency are translated into euros at quarterly average exchange rates. Assets and liabilities of subsidiaries for each balance sheet presented are translated at the closing rate at the date of that balance sheet. All resulting translation differences are recognised as a separate component in other comprehensive income. On consolidation, exchange differences arising from the translation of net investment in foreign operations and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign entity is partially disposed of, sold or liquidated, translation differences accrued in equity are recognised in the income statement as part of the gain or loss on sale.

Derivative financial instruments and hedging activities
Derivatives are initially recognised on the balance sheet at fair value and thereafter remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised assets or liabilities or a firm commitment (fair value hedge), hedges of a highly probable forecasted transaction or cash flow variability in functional currency (cash flow hedge), or hedges of net investment in a foreign operation (net investment hedge). The fair value of derivative financial instrument is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability when the remaining maturity is less than 12 months.

The Group applies fair value hedge accounting for hedging fixed interest risk on interest-bearing liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded in the income statement under financial items, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The carrying amounts of hedged items and the fair values of hedging instruments are included in interest-bearing assets or liabilities. Derivatives that are designated and qualify as fair value hedges mature at the same time as hedged items. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Amounts deferred in equity are transferred to the income statement and classified as income or expense in the same period as that in which the hedged item affects the income statement (for example, when the forecast external sale to the Group that is hedged takes place). The period when the hedging reserve is released to sales after each derivative has matured is approximately one month. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecast transaction is ultimately recognised in the income statement. However, if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The fair value changes of forward exchange contracts that reflect the change in spot exchange rates are recognised in other comprehensive income. Any gain or loss relating to the interest portion of forward exchange contracts is recognised immediately in the income statement under financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an on-going basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Certain derivative transactions, while providing effective hedges under the Group Treasury Policy, do not qualify for hedge accounting. Such derivatives are classified held for trading, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as other operating income or under financial items.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and CEO.

The accounting policies used in segment reporting are the same as those used in the consolidated accounts, except for that the joint operation Madison Paper Industries (MPI) is presented as subsidiary in UPM Paper ENA reporting. The costs and revenues as well as assets and liabilities are allocated to segments on a consistent basis. All inter-segment sales are based on market prices, and they are eliminated on consolidation.

Revenue recognition
Group's sales mainly comprises of sale of energy, pulp, sawn timber, papers, self-adhesive label materials and plywood.

Sales are recognised when it is probable that future economic benefits will flow to the entity, the associated costs and the amount of revenue can be measured reliably, the risks and rewards of ownership have transferred to the buyer and the Group has neither continuing managerial involvement with the goods nor a continuing right to dispose of the goods nor effective control of those goods. The timing of revenue recognition is largely dependent on delivery terms. Group terms of delivery are based on Incoterms 2010, the official rules for interpretation of trade terms issued by the International Chamber of Commerce. Revenue is recorded when the product is delivered to the destination point for terms designated Delivered Duty Paid ("DDP") or Delivered at Place ("DAP"). For sales transactions designated Free on Carrier ("FCA"), Carriage paid to ("CPT") or Carriage and Insurance Paid to ("CIP"), revenue is recorded at the time of shipment.

Revenues from services are recorded when the service has been performed.

Sales are recognised net of indirect sales taxes, discounts, rebates and exchange differences on sales under hedge accounting. The costs of distributing products sold are included in costs and expenses.

Dividend income is recognised when the right to receive a payment is established.

Interest income is recognised by applying the effective interest rate method.

Income taxes
The Group's income taxes include current income taxes of Group companies based on taxable profit for the financial period, together with tax adjustments for previous periods and the change of deferred income taxes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income taxes are not recognised if they arise from initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that there will be future taxable profits against which the temporary differences can be utilised.

Special items
Certain financial performance indicators have been reported excluding special items. These indicators are non-GAAP measures applied in the Group's financial statements to eliminate the income statement impact of certain significant transactions which are unusual or infrequent in nature. The Group believes that non-GAAP measures enhance the understanding of the historical performance. Any measures derived with eliminating special items are not measures of financial reporting under the IFRS, and they may not be comparable to other similarly titled measures of other companies.

In the UPM Biorefining, UPM Paper Asia and UPM Paper ENA the transaction (income or expense) is considered to be special item, if the impact is one cent (EUR 0.01) after tax per share or more, and if it arises from asset impairments, asset sales or restructuring measures, or relate to changes in legislation or legal proceedings. In other business areas the impact is considered to be significant if it exceeds EUR 1 million pre-tax.

Intangible assets
Intangible assets with finite lives are carried at historical cost less amortisation. Amortisation is based on the following estimated useful lives:

Computer software	3–5 years
Other intangible assets	5–10 years

Goodwill and other intangible assets that are deemed to have an indefinite life are not amortised, but are tested annually for impairment.

Goodwill
Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the acquired subsidiary, associated company or joint arrangement at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint ventures is included in investments in associated companies and joint ventures and is tested for impairment as part of the overall balance. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the difference is an impairment loss, which is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Research and development
Research and development costs are expensed as incurred, except for certain development costs, which are capitalised when it is probable that a development project will generate future economic benefits, and the cost can be measured reliably. Capitalised development costs are amortised on a systematic basis over their expected useful lives, usually not exceeding five years.

Computer software
Costs associated with maintaining computer software programmes and costs related to the preliminary project phase of internally developed software are recognised as an expense as incurred. Development costs relating to the application development phase of internally developed software are capitalised as intangible assets. Capitalised costs include external direct costs of material and services and an appropriate portion of the software development teams' relevant overheads. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

Other intangible assets
Separately acquired patents, trademarks and licences with a finite useful life are recognised at cost less accumulated amortisation and impairment. Contractual customer relationships or other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Amortisation is calculated using the straight-line method over their estimated useful lives. Other intangible assets that are deemed to have an indefinite life are not amortised and are tested annually for impairment.

Emission rights
The Group participates in government schemes aimed at reducing greenhouse gas emissions. Emission rights received from governments free of charge are initially recognised as intangible assets based on market value at the date of initial recognition. Emission rights are not amortised but are recognised at an amount not exceeding their market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as emission rights and are recognised in other operating income in the income statement, systematically, over the compliance period to which the

corresponding emission rights relate. The emissions realised are expensed under other operating costs and expenses in the income statement and presented as a provision in the balance sheet. Emission rights and associated provisions are derecognised when disposed. Any profit or loss on disposal is recognised in the income statement.

Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost. Assets of acquired subsidiaries are stated at fair value at the date of acquisition. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. The carrying value of property, plant and equipment on the balance sheet represents the cost less accumulated depreciation and any impairment charges.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Land is not depreciated. Depreciation of other assets is based on the following estimated useful lives:

Buildings	25–40 years
Heavy machinery	15–20 years
Light machinery and equipment	5–15 years

Expected useful lives of assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed prospectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets accounted under IFRS 5 that are to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and recognised as a reduction to the depreciation charge of the related asset. Other government grants are recognised in the income statement in the period necessary to match them with the costs they are intended to compensate.

Biological assets

Biological assets (i.e. living trees) are measured at their fair value less estimated costs to sell. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. The fair value of young seedling stands is the actual reforestation cost of those stands. Continuous operations, the maintenance of currently existing seedling stands and the felling of forests during one rotation, are based on the Group's forest management guidelines. The calculation takes into account growth potential, environmental restrictions and other forests conditions. Felling revenues and maintenance costs are calculated on the basis of actual costs and prices, taking into account the Group's projection of future price development.

Periodic changes resulting from growth, felling, prices, discount rate, costs and other premise changes are included in operating profit on the income statement.

Financial assets

Financial assets have been classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are categorised as held for trading, unless they are designated as hedges. These are measured at fair value and any gains or losses from subsequent measurement are recognised in the income statement. The Group has not used the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets unless they mature within 12 months of the balance sheet date. Loan receivables that have a fixed maturity are measured at amortised cost using the effective interest method. Loan receivables without fixed maturity date are measured at amortised cost. Loan receivables are impaired if the carrying amount is greater than the estimated recoverable amount.

Trade receivables are non-derivatives that are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Provision for impairment is charged to the income statement when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, or default or delinquency in payments more than 90 days overdue are considered indicators that the trade receivable may be irrecoverable. Subsequent recoveries of amounts previously written off are credited to the income statement.

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless they are intended to be disposed of within 12 months of the balance sheet date. Purchases and sales of financial investments are recognised on the settlement date, which is the date that the asset is delivered to or by the Group. Investments are initially recognised at cost, including transaction costs, and subsequently carried at fair value.

Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in other comprehensive income. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in equity are included in the income statement as gains and losses from available-for-sale investments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered when determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not subsequently reversed through the income statement.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation (or depreciation) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Leases

Leases of property, plant and equipment where the Group, as a lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised as assets and liabilities in the balance sheet at the commencement of lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made as a lessee under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the method most appropriate to the particular nature of inventory, the first-in, first-out (FIFO) or weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within current interest-bearing liabilities in the balance sheet.

Treasury shares

Where any Group company purchases the parent company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the parent company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the parent company.

Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, interest-bearing liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the interest-bearing liabilities. The Group has not used the option of designating financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Most non-current interest-bearing liabilities are designated as hedged items in a fair value hedge relationship. Fair value variations resulting from hedged interest rate risk are recorded to adjust the carrying amount of the hedged item and reported in the income statement under finance income and expenses. If hedge accounting is discontinued, the carrying amount of the hedged item is no longer adjusted for fair value changes attributable to the hedged risk and the cumulative fair value adjustment recorded during the hedge relationship is amortised based on a new effective interest recalculation through the income statement under finance income and expenses.

Interest-bearing liabilities are classified as non-current liabilities unless they are due for settlement within 12 months of the balance sheet date.

Trade payables

Trade payables are obligations due to acquisition of inventories, fixed assets, goods and services in the ordinary course of business from suppliers. Such operating items are classified as current liabilities if they are due to be settled within the normal operating cycle of the business or within 12 months from the balance sheet date. Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Employee benefits

Pension obligations

The Group operates a mixture of pension schemes in accordance with local conditions and practices in the countries in which it operates. These programmes include defined benefit pension schemes with retirement, disability and termination benefits. Retirement benefits are usually a function of years of employment and final salary with the company. Generally, the schemes are either funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. In addition, the Group also operates defined contribution pension arrangements. Most Finnish pension arrangements are defined contribution plans.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the term of the related pension liability. The cost of providing pensions is charged to the income statement as personnel expenses so as to spread the cost over the service lives of employees. Changes in actuarial assumptions and actuarial gains and losses arising from experience adjustments are charged or credited in other comprehensive income in the period in which they arise. Past service costs and gains or losses on settlement are recognised immediately in income when they occur.

For defined contribution plans, contributions are paid to pension insurance companies. Once the contributions have been paid, there are no further payment obligations. Contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

Other post-employment obligations

Some Group companies provide post-employment medical and other benefits to their retirees. The entitlement to healthcare benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

Share-based compensation

The Group's long term incentive plans are long-term share incentive plans, the Performance Share Plan for senior executives and the Deferred Bonus Plan for other key employees. These compensation plans are recognised as equity-settled or cash-settled share-based payment transactions depending on the settlement.

Under the Performance Share Plans the UPM shares are awarded based on the Group's financial performance or total shareholder return during a three-year earning period and under the Deferred Bonus Plans share incentives are based on achievement of Group and /or business area EBITDA targets.

Shares are valued using the market rate on the grant date. The settlement is a combination of shares and cash. The Group may obtain the necessary shares by using its treasury shares or may purchase shares from the market.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when such reimbursement is virtually certain.

Restructuring and termination provisions

Restructuring provisions are recognised in the period in which the Group becomes legally or constructively committed to payment and when the restructuring plan has been announced publicly. Employee termination charges are recognised when the Group has communicated the plan to the employees affected. Costs related to the ongoing activities of the Group are not provisioned in advance.

Environmental provisions

Expenditures that result from remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. The recognition of environmental provisions is based on current interpretations of environmental laws and regulations. Such provisions are recognised when it is likely that the liability has been incurred and the amount of such liability can be reasonably estimated. Amounts provisioned do not include third-party recoveries.

Emission rights

Emission obligations are recognised in provisions when the obligation to return emission rights has incurred, based on realised emissions. The provision is recognised based on the carrying amount of emission rights held. In case of deficit in emission rights, the shortage is valued at the market value at the balance sheet date.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale and represents a separate major line of business or geographical area of operations, or is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The post-tax profit or loss from discontinued operations is shown separately in the consolidated income statement.

Dividends

Dividend distribution to the owners of the parent company is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the parent company's shareholders.

Earnings per share

The basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of share options.

Adoption of new International Financial Reporting Standards, interpretations and amendments to existing standards

New standards, interpretations and amendments to existing standards effective in 2015

Annual improvements to IFRSs 2010–2012 cycle and 2011–2013 cycle. The adoption of improvements did not have any impact on the the Group's financial statements.

Amendments to IAS 19 Defined benefit plans: employee contributions. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. The amendments did not have any impact on the Group's financial statements.

New standards, interpretations and amendments to existing standards that are not yet effective and have not yet been early adopted by the Group

IFRS 9 Financial Instruments includes requirements for classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income without recycling. The Group does not expect material impact from the new classification and measurement rules on the Group's financial statements.

There is a new expected credit loss model in IFRS 9 that replaces the incurred loss impairment model used in IAS 39. The new model will most likely not cause a major increase in credit loss allowances.

The accounting and presentation for financial liabilities remained under IFRS 9 the same except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. Currently the Group does not have any financial liabilities that are designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. The Group is currently assessing impact of its hedging arrangements on the financial statements.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The standard is not yet endorsed by the EU.

IFRS 15 Revenues from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related Interpretations. Based on assessment made, the Group does not expect significant changes in the measurement of revenue and timing of recognition. IFRS 15 is effective for periods beginning on or after 1 January 2018. The standard is not yet endorsed by the EU.

Annual Improvements to IFRSs 2012–2014 cycle, a collection of amendments to IFRSs, in response to issues raised during the 2012-2014 cycle are effective for annual periods beginning on or after 1 January 2016. Four standards are affected by the amendments. The amendments are not expected to have material impacts on the Group's financial statements.

Amendment to IFRS 11 Joint arrangements is effective for annual periods beginning on or after 1 January 2016. The amendment provides guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendment to IAS 16 Property, plant and equipment and IAS 38 Intangible assets regarding depreciation and amortisation are effective for annual periods beginning on or after 1 January 2016. The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The amendments have no impact on the Group's financial statements.

Amendment to IFRS 10 and IAS 28 address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments are prospective and are effective from 1 January 2016.

Amendment to IAS 1 Presentation of financial statements is part of IASB major initiative to improve presentation and disclosures in financial reports. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments are not expected to have material impacts on the Group's financial statements.

IFRS 16 Leases standard has been issued in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019 and will most likely to have an impact on Group's financial statements. The standard is not yet endorsed by the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have an impact on the Group.

2 Critical judgements in applying accounting policies and key sources of estimation uncertainty

Impairment of non-current assets

Goodwill, intangible assets not yet available for use and intangible assets with indefinite useful lives are tested at least annually for impairment. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. If the balance sheet carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. Actual cash flows could vary from estimated discounted future cash flows. The long useful lives of assets, changes in estimated future sales prices of products, changes in product costs and changes in the discount rates used could lead to significant impairment charges. Details of the impairment tests are provided in Note 16.

Biological assets

The Group owns about 1.0 million hectares of forest land and plantations. Biological assets (i.e. living trees) are measured at their fair value at each balance sheet date. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. The fair value of biological assets is determined based among other estimates on growth potential, harvesting, price development and discount rate. Changes in any estimates could lead to recognition of significant fair value changes in income statement. Biological assets are disclosed in Note 20.

Employee benefits

The Group operates a mixture of pension and other post-employment benefit schemes. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. These factors include, among others, assumptions about the discount rate and changes in future compensation. Statistical information used may differ materially from actual results due to, among others, changing market and economic conditions, or changes in service period of plan participants. Significant differences in actual experience or significant changes in assumptions may affect the future amounts of the defined benefit obligation and future expense. Retirement benefit obligations are disclosed in Note 29.

Environmental provisions

Operations of the Group are based on heavy process industry which requires large production facilities. In addition to basic raw materials, considerable amount of chemicals, water and energy is used in processes. The Group's operations are subject to several environmental laws and regulations. The Group aims to operate in compliance with regulations related to the treatment of waste water, air emissions and landfill sites. The Group has provisions for normal environmental remediation costs. Unexpected events occurred during production processes and waste treatment could cause material losses and additional costs in the Group's operations. Provisions are disclosed in Note 30.

Income taxes

Management judgement is required for the calculation of provision for income taxes and deferred tax assets and liabilities. The Group reviews at each balance sheet date the carrying amount of deferred tax assets. The Group considers whether it is probable that the subsidiaries will have sufficient taxable profits against which the unused tax losses or unused tax credits can be utilised. The factors used in estimates may differ from actual outcome which could lead to significant adjustment to deferred tax assets recognised in the income statement. Income taxes are disclosed in Note 13 and deferred income taxes in Note 28.

Legal contingencies

Management judgement is required in measurement and recognition of provisions related to pending litigation. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past event, an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to inherent uncertain nature of litigation, the actual losses may differ significantly from the originally estimated provision. Details of legal contingencies are presented in Note 39.

Available-for-sale investments

Group's available-for-sale investments include investments in unlisted equity shares that are measured at fair value in the balance sheet. The fair valuation requires management's assumptions and estimates of number of factors (e.g. discount rates, electricity price, start-up schedule of Olkiluoto 3 nuclear power plant), that may differ from the actual outcome which could lead to significant adjustment to the carrying amount of the available-for-sale investment and equity. Fair value estimation of financial assets is disclosed in Note 3 and available-for-sale investments in Note 22.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The objective of financial risk management is to protect the Group from unfavourable changes in financial markets and thus help to secure profitability. The objectives and limits for financing activities are defined in the Group Treasury Policy approved by the company's Board of Directors.

In financial risk management various financial instruments are used within the limits specified in the Group Treasury Policy. Only such instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

Financial services are provided and financial risk management carried out by a central treasury department, Treasury and Risk Management (TRM). The centralisation of Treasury functions enables efficient financial risk management, cost-efficiency and efficient cash management.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and the GBP. Foreign exchange risk arises from future commercial transactions, from recognised assets and liabilities and from translation exposure.

The objective of foreign exchange risk management is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings as well as in the Group's balance sheet by hedging foreign exchange risk in forecast cash flows and balance sheet exposures.

Transaction exposure

The Group hedges transaction exposure related to highly probable future commercial foreign currency cash flows on a rolling basis over the next 12-month period based on forecasts by the respective Business areas. According to the Group's Treasury Policy 50% hedging is considered risk neutral. Some highly probable cash flows have been hedged for longer than 12 months ahead while deviating from the risk neutral hedging level at the same time. Forward contracts are used in transaction exposure management. Most of the derivatives entered into to hedge foreign currency cash flows meet the hedge accounting requirements. At 31 December 2015, 49% (47%) of the forecast 12-month currency flow was hedged.

The table below shows the nominal values of all cash flow hedging instruments at 31 December 2015 and 2014.

Nominal values of hedging instruments

Currency	2015 EURm	2014 EURm
USD	472	439
GBP	285	288
JPY	189	134
AUD	36	45
Others	5	1
Total	987	907

External forwards are designated at group level as hedges of foreign exchange risk of specific future foreign currency sales on gross basis.

The Group has several currency denominated assets and liabilities on its balance sheet such as foreign currency loans and deposits, accounts payable and receivable and cash in other currencies than functional currencies. The aim is to hedge this balance sheet exposure fully using financial instruments. The Group might, however, within the limits set in the Group Treasury Policy have unhedged balance sheet exposures. At 31 December 2015 unhedged balance sheet exposures in interest-bearing assets and liabilities amounted to EUR 11 million (18 million). In addition the Group has non-interest-bearing accounts receivable and payable balances denominated in foreign currencies. The nominal values of the hedging instruments used in accounts payable and receivable hedging were EUR 770 million (575 million).

Translation exposure

The Group has net investments in foreign subsidiaries that are subject to foreign currency translation differences. These risks are generally not hedged. At 31 December 2015 a part of the exchange rate risk associated with the net investment in Uruguay was hedged.

Foreign exchange risk sensitivity

At 31 December 2015, if Euro had weakened/strengthened by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been EUR 10 million (11 million) lower/higher due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 41 million (36 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2015, if Euro had weakened/strengthened by 10% against the GBP with all other variables held constant, pre-tax profit for the year would have been EUR 0 million (0 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 28 million (29 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2015, if Euro had weakened/strengthened by 10% against the JPY with all other variables held constant, pre-tax profit for the year would have been EUR 2 million (2 million) higher/lower. The effect in equity would have been EUR 19 million (13 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

The following assumptions were made when calculating the sensitivity to changes in the foreign exchange risk:

- The variation in exchange rates is 10%.
- Major part of non-derivative financial instruments (such as cash and cash equivalents, trade receivables, interest bearing-liabilities and trade payables) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives i.e. the balance sheet position is close to zero. Exchange rate fluctuations have therefore minor or no effects on profit or loss.
- The position includes foreign currency forward contracts that are part of the effective cash flow hedge having an effect on equity.
- The position includes also foreign currency forward contracts that are not part of the effective cash flow hedge having an effect on profit.
- The position excludes foreign currency denominated future cash flows and effects of translation exposure and related hedges.

Interest rate risk

The interest-bearing debt exposes the Group to interest rate risk, namely repricing and fair value interest rate risk caused by interest rate movements. The objective of interest rate risk management is to reduce the fluctuation of the interest expenses caused by the interest rate movements.

The management of interest rate risk is based on duration of the net debt portfolio as defined in the Group Treasury Policy. The Group uses interest rate derivatives to change the duration of the net debt. At 31 December 2015 the average duration was 2.2 years (2.2 years).

The Group's net debt per currency corresponds to the parent company's and subsidiaries' loan portfolios in their functional currencies. The nominal values of the Group's interest-bearing net debts including derivatives by currency at 31 December 2015 and 2014 were as follows:

Currency	2015 EURbn	2014 EURbn
EUR	1.9	3.1
USD	0.5	0.4
GBP	–0.2	–0.2
CAD	–	–0.7
Others	–0.1	–0.2
Total	2.1	2.4

Most of the long-term loans and the interest rate derivatives related to them meet hedge accounting requirements.

Interest rate risk sensitivity

At 31 December 2015, if the interest rate of net debt had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been EUR 5 million (4 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate interest-bearing liabilities. Effect to equity would be lower/higher 40 million (45 million) as a result of an decrease/increase in the fair value of derivatives designated as cash flow hedges of floating rate borrowing.

The following assumptions were made when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be 100 basis points parallel shift in applicable interest rate curves.
- In the case of fair value hedges designated for hedging interest rate risk, the changes in the fair values of the hedged items and the hedging instruments attributable to the interest rate movements balance out almost completely in the income statement in the same period. However, the possible ineffectiveness has an effect on the profit of the year.
- Fixed rate interest-bearing liabilities that are measured at amortised cost and which are not designated to fair value hedge relationship are not subject to interest rate risk sensitivity.
- In case of variable to fixed interest rate swaps which are included in cashflow hedge accounting, fair value changes of hedging swaps are booked to equity.
- Variable rate interest-bearing liabilities that are measured at amortised cost and which are not designated as hedged items are included in interest rate sensitivity analysis.
- Changes in the market interest rate of interest rate derivatives (interest rate futures, swaps and cross currency swaps) that are not designated as hedging instruments in hedge accounting affect the financial income or expenses (net gains or losses from remeasurement of the financial assets and liabilities to fair value) and are therefore included in the income-related sensitivity analysis.

Liquidity and refinancing risk

The Group seeks to maintain adequate liquidity under all circumstances by means of efficient cash management and restricting investments to those that can be readily converted into cash. The Group utilises commercial paper programmes for short term financing purposes. Committed credit facilities are used to secure financing under all circumstances and as a backup for commercial paper programmes.

Refinancing risks are minimised by ensuring a balanced loan portfolio maturing schedule and sufficient long maturities. The average loan maturity at 31 December 2015 was 5.5 years (4.9 years).

UPM has some financial agreements which have Gearing as financial covenant. According to this covenant gearing should not exceed 110% (31.12.2015 gearing was 26%).

Liquidity

EURm	2015	2014
Cash at bank	545	535
Cash equivalents	81	165
Committed facilities	1,025	925
of which used	–	–
Loan commitments	–	–25
Used uncommitted credit lines	–103	–76
Long-term loan repayment cash flow	–145	–291
Liquidity	1,403	1,233

The most important financial programmes in use are:

Committed:

- Bilateral revolving credit facilities

Uncommitted:

- Domestic commercial paper programme, EUR 1,000 million.

The contractual maturity analysis for financial liabilities is presented in Note 31.

Credit risk

Financial counterparty risk

The financial instruments the Group has agreed with banks and financial institutions contain an element of risk of the counterparties being unable to meet their obligations. According to the Group Treasury Policy derivative instruments and investments of cash funds may be made only with counterparties meeting certain creditworthiness criteria. The Group minimises counterparty risk also by using a number of major banks and financial institutions. Creditworthiness of counterparties is constantly monitored by TRM.

Operational credit risk

With regard to operating activities, the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Open trade receivables, days of sales outstanding (DSO) and overdue trade receivables are followed on monthly basis.

Potential concentrations of credit risk with respect to trade and other receivables are limited due to the large number and geographic dispersion of companies that comprise the Group's customer base. Customer credit limits are established and monitored, and ongoing evaluations of customers' financial condition are performed. Most of the receivables are covered by trade credit insurances. In certain market areas, measures to reduce credit risks include letters of credit, prepayments and bank guarantees. The ageing analysis of trade receivables is disclosed in Note 26. The Group considers that no significant concentration of customer credit risk exists. The ten largest customers accounted for approximately 20% (17%) of the Group's trade receivables as at 31 December 2015 – i.e., approximately EUR 285 million (240 million). The credit risk relating to the commitments is disclosed in Note 39.

Electricity price risk

UPM is hedging both power production and consumption in the markets. UPM's sensitivity to electricity market price is dependent on the electricity production and consumption levels and the hedging levels.

In the Nordic and Central European market areas the operative risk management is done by entering into electricity derivatives contracts. In addition to hedging UPM is also trading electricity forwards and futures. As well as hedging, proprietary trading risks are monitored on a daily basis. Value-At-Risk levels are set to limit the maximum risk at any given time. Cumulative maximum loss is limited by stop-loss limits.

Electricity derivatives price sensitivity

Sensitivity analysis for financial electricity derivatives is based on position on 31 December 2015. Sensitivities change over time as the overall hedging and trading positions change. Underlying physical positions are not included in the sensitivity analysis. Sensitivity analysis is calculated separately for the hedge accounted and non-hedge accounted volumes. In the analysis it is assumed that forward quotation in NASDAQ OMX Commodities and EEX would change EUR 1/MWh throughout the period UPM has derivatives.

EURm	Effect	2015	2014
+/- EUR 1/MWh in electricity forward quotations			
Effect on profit before taxes	+ / -	13.2	8.6
Effect on equity	+ / -	5.6	5.0

Capital risk management

The Group's objective in managing its capital is to ensure maintenance of flexible capital structure to enable the Group to operate in capital markets.

To measure a satisfactory capital balance between equity investors and financial institutions the Group has set a target for the ratio of net interest-bearing liabilities and total equity (gearing). To ensure sufficient flexibility, the aim is to keep the gearing ratio well below 90%.

The following capitalisation table sets out the Group's total equity and interest-bearing liabilities and gearing ratios.

EURm	As at 31 December 2015	2014
Equity attributable to owners of the parent company	7,942	7,478
Non-controlling interests	2	2
Total equity	7,944	7,480
Non-current interest-bearing liabilities	2,797	3,058
Current interest-bearing liabilities	269	406
Interest-bearing liabilities, total	3,066	3,464
Total capitalisation	11,010	10,944
Interest-bearing liabilities, total	3,066	3,464
Less: Interest-bearing financial assets, total	–966	–1,063
Net interest-bearing liabilities	2,100	2,401
Gearing ratio, %	26	32

Fair value estimation

The different levels of fair value hierarchy used in fair value estimation have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair values of commodity derivatives traded in active markets are based on quoted market rates and included in Level 1.

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

The Group's fair valuation procedures and processes are set by the Group management. Fair valuations are performed quarterly by respective business areas or functions. Fair valuations are reviewed by the Group's Finance & Control management and overseen by the Audit Committee.

Available-for-sale investments categorised in Level 3 are disclosed in Note 22 and biological assets categorised in Level 3 in Note 20.

The following table analyses financial instruments carried at fair value, by valuation method.

Financial assets and liabilities measured at fair value

EURm	Fair values as at 31 December 2015 Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	6	63	–	69
Derivatives used for hedging	88	283	–	371
Available-for-sale investments	–	–	2,085	2,085
At 31 Dec.	94	346	2,085	2,525
Liabilities				
Trading derivatives	59	62	–	121
Derivatives used for hedging	109	89	–	198
At 31 Dec.	168	151	–	319

EURm	Fair values as at 31 December 2014 Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	1	61	–	62
Derivatives used for hedging	52	328	–	380
Available-for-sale investments	–	–	2,510	2,510
At 31 Dec.	53	389	2,510	2,952
Liabilities				
Trading derivatives	22	111	–	133
Derivatives used for hedging	81	156	–	237
At 31 Dec.	103	267	–	370

There have been no transfers between levels.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2015

EURm	Available-for-sale investments
Opening balance	2,510
Additions	33
Disposals	–35
Transfers into Level 3	1
Gains and losses	
Recognised in statement of comprehensive income, under available-for-sale investments	–424
Closing balance	2,085

The following table presents the changes in Level 3 instruments for the year ended 31 December 2014

EURm	Available-for-sale investments
Opening balance	2,661
Additions	31
Disposals	–1
Transfers from Level 3	–10
Translation differences	2
Gains and losses	
Recognised in statement of comprehensive income, under available-for-sale investments	–173
Closing balance	2,510

4 Segment Information

The Group's management has determined the operating segments based on management reporting regularly reviewed by the Group's chief operating decision maker. The chief operating decision maker has been identified as the Group's President and CEO.

The operating segments are organised on a product basis.

UPM's business structure consists of the following business areas and reporting segments: UPM Biorefining, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA (Europe and North America) and UPM Plywood. Wood sourcing and forestry, UPM Biocomposites, UPM Biochemicals business units and Group services are reported in Other operations.

Reportable segments

UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM has three pulp mills in Finland, one pulp mill and plantation operations in Uruguay and four sawmills in Finland. UPM's biorefinery for producing wood-based renewable diesel has started up in January 2015 in Finland.

UPM Energy

UPM Energy operates in power generation and physical and derivatives trading. The segment consists of UPM's hydro power assets in Finland and shareholdings in energy companies.

UPM Raflatac

UPM Raflatac manufactures self-adhesive label materials for product and information labelling.

UPM Paper Asia

UPM Paper Asia consists of UPM Changshu paper mill in China and label paper operations in the Tervasaari and Jämsänkoski mills in Finland.

UPM Paper ENA

UPM Paper ENA produces magazine paper, newsprint and fine paper in Europe and North America.

UPM Plywood

UPM Plywood produces plywood and veneer products in Finland, Estonia and Russia.

Other operations

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

The information reported for each segment is the measure of what the Group's President and CEO uses internally for evaluating segment performance and deciding on how to allocate resources to operating segments.

The performance of an operating segment is evaluated primarily based on the segment's operating profit. The joint operation Madison Paper Industries (MPI) is reported as subsidiary in UPM Paper ENA reporting. In addition, the changes in fair value of unrealised commodity hedges are not allocated to segments. Otherwise the segment's operating profit is measured on a basis consistent with the consolidated financial statements. Sales between the segments are based on market prices.

The amounts provided to the President and CEO in respect of segment assets and liabilities are measured on a basis consistent with consolidated financial statements. Assets and liabilities are allocated to the segments based on segment operations. Unallocated assets and liabilities comprise other than energy shares under available-for-sale investments, non-current financial assets, deferred tax assets and liabilities, other non-current assets, income tax receivables and payables, cash and cash equivalents, assets classified as held for sale and related liabilities, retirement benefit obligations, provisions, interest-bearing liabilities and other liabilities and payables.

Segment information for the year ended 31 December 2015

EURm	UPM Biorefining	UPM Energy	UPM Raflatac	UPM Paper Asia	UPM Paper ENA	UPM Plywood	Other operations	Eliminations and reconciliations [8]	Group
External sales	1,668	237	1,409	962	5,036	418	403	5	10,138
Internal sales	604	178	–	206	20	21	3	–1,032	–
Total sales [1]	2,272	415	1,409	1,168	5,056	439	406	–1,027	10,138
Share of results of associates and joint ventures	1	–	–	–	1	–	1	–	3
Operating profit	466	155	99	55	32	53	306	–24	1,142
Finance costs, net									–67
Income taxes									–159
Profit (loss) for the period									916
Special items in operating profit [2]	–1	–26	–3	–	8	–2	3	–	–21
Operating profit excluding special items	467	181	102	55	24	55	303	–24	1,163
Assets [3]	3,384	2,425	697	1,200	2,637	284	1,720	–218	12,129
Unallocated assets									2,064
Total assets									14,193
Liabilities [4]	197	12	140	141	435	31	145	–164	937
Unallocated liabilities									5,312
Total liabilities									6,249
Other items									
Depreciation and amortisation	169	11	35	86	190	23	13	–3	524
Impairment charge	–	–	–	–	–	–	–	–	–
Capital expenditure [5]	161	35	22	211	57	23	11	–	520
Capital expenditure, excluding acquisitions and shares	159	3	22	211	57	23	11	–	486
Capital employed, 31 December [6]	3,187	2,413	557	1,059	2,202	253	1,575	–236	11,010
Capital employed, average	3,191	2,716	581	1,012	2,289	263	1,483	–558	10,977
Return on capital employed, excluding special items % [7]	14.6	6.7	17.6	5.4	1.0	20.9	20.4	–	10.5
Personnel at year end	2,593	73	2,894	1,738	9,472	2,469	443	–104	19,578
Personnel, average	2,640	78	2,891	1,729	10,020	2,504	491	–107	20,246

1) The Group's sales comprise mainly of product sales.

2) In 2015, special items of EUR 1 million in the UPM Biorefining relate to increase of pension obligations due to Finnish employee pension reform. In the UPM Energy special items of EUR 7 million relate to restructuring charges regarding PVO Thermal closure and EUR 19 million relate to project expenses of Olkiluoto 4 nuclear power plant. In the UPM Raflatac special items of EUR 3 million mainly relate to net restructuring charges. In the UPM Paper ENA special items include net income of EUR 10 million related to restructurings and special charge of EUR 2 million related to increase of pension obligation due to Finnish employee pension reform. In the UPM Plywood special item of EUR 2 million relates to Lahti estate restructuring charges. In the Other operations special items include capital gains of EUR 3 million from the sale of Tilhill Forestry Ltd shares, capital gains of EUR 3 million from the sale of other assets and EUR 3 million of restructuring charges.

3) Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

4) Segment liabilities include trade payables and advances received.

5) Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures and other shares.

6) Capital employed is segment assets less segment liabilities. Eliminations and reconciliations include unallocated assets and unallocated non-interest-bearing liabilities.

7) Formulae for calculation of the return on capital employed; for segments: Operating profit excluding special items/Capital employed (average) x 100, for the Group: (Profit before tax + interest expenses and other financial expenses – special items)/(Total equity + interest bearing liabilities (average)) x 100.

8) Eliminations and reconciliations include the elimination of internal sales and internal inventory margin and the consolidation of MPI as a joint operation. In addition the changes in fair value of unrealised cash flow and commodity hedges that are not allocated to segments are included in reconciliations.

Segment information for the year ended 31 December 2014

EURm	UPM Biorefining	UPM Energy	UPM Raflatac	UPM Paper Asia	UPM Paper ENA	UPM Plywood	Other operations	Eliminations and reconciliations [8]	Group
External sales	1,374	251	1,248	939	5,216	415	442	–17	9,868
Internal sales	563	213	–	185	68	25	5	–1,059	–
Total sales [1]	1,937	464	1,248	1,124	5,284	440	447	–1,076	9,868
Share of results of associates and joint ventures	1	–	–	–	1	–	1	–	3
Operating profit	223	202	69	108	–32	44	82	–22	674
Finance costs, net									–7
Income taxes									–155
Profit (loss) for the period									512
Special items in operating profit [2]	6	–	–11	–	–213	–	45	–	–173
Operating profit excluding special items	217	202	80	108	181	44	37	–22	847
Assets [3]	3,171	2,826	678	1,008	2,754	284	1,605	–246	12,080
Unallocated assets									2,115
Total assets									14,195
Liabilities [4]	170	8	125	86	451	26	188	–191	863
Unallocated liabilities									5,852
Total liabilities									6,715
Other items									
Depreciation and amortisation	151	11	32	80	213	24	11	–2	520
Impairment charge	–1	–	3	–	136	–	–	–	138
Capital expenditure [5]	151	35	24	84	102	8	8	–1	411
Capital expenditure, excluding acquisitions and shares	147	3	24	84	102	8	8	–1	375
Capital employed, 31 December [6]	3,002	2,818	553	922	2,303	257	1,417	–328	10,944
Capital employed, average	2,862	2,903	530	861	2,511	268	1,445	–117	11,263
Return on capital employed, excluding special items % [7]	7.6	7.0	15.1	12.5	7.2	16.4	2.6	–	7.5
Personnel at year end	2,529	80	2,847	1,652	10,467	2,441	509	–111	20,414
Personnel, average	2,612	85	2,845	1,663	10,735	2,463	559	–110	20,852

1) The Group's sales comprise mainly of product sales.

2) In 2014, special income of EUR 5 million in the UPM Biorefining relate to a gain on sale of property, plant and equipment and income of EUR 1 million relate to restructuring measures. In the UPM Raflatac special items of EUR 11 million relate to restructuring charges, including impairments of EUR 3 million. In the UPM Paper ENA special items include write-offs totalling EUR 135 million and restructuring charges totalling EUR 73 million related to planned capacity closures and charges of EUR 5 million related to other restructuring measures, mainly to the closure of the UPM Docelles mill in France, including impairment charges of EUR 1 million. In the Other operations special items relate to a capital gain of EUR 45 million from the sale of forestland in the UK.

3) Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

4) Segment liabilities include trade payables and advances received.

5) Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures and other shares.

6) Capital employed is segment assets less segment liabilities. Eliminations and reconciliations include unallocated assets and unallocated non-interest-bearing liabilities.

7) Formulae for calculation of the return on capital employed; for segments: Operating profit excluding special items/Capital employed (average) x 100, for the Group: (Profit before tax + interest expenses and other financial expenses – special items)/(Total equity + interest bearing liabilities (average)) x 100.

8) Eliminations and reconciliations include the elimination of internal sales and internal inventory margin and the consolidation of MPI as a joint operation. In addition the changes in fair value of unrealised cash flow and commodity hedges that are not allocated to segments are included in reconciliations.

Geographical information

External sales by destination

EURm	Year ended 31 December 2015	2014
Germany	1,658	1,694
Finland	900	980
United Kingdom	916	919
France	421	414
Other EU countries	2,103	2,052
Other European countries	436	508
United States	1,253	1,006
Canada	57	50
China	852	637
Uruguay	61	41
Rest of world	1,481	1,567
Total	10,138	9,868

Total assets by country

EURm	As at 31 December 2015	2014
Germany	1,148	1,222
Finland	8,524	8,753
United Kingdom	211	250
France	63	67
Other EU countries	325	335
Other European countries	71	79
United States	491	464
Canada	–	11
China	1,037	913
Uruguay	2,004	1,790
Rest of world	319	311
Total	14,193	14,195

Capital expenditure by country

EURm	Year ended 31 December 2015	2014
Germany	20	59
Finland	218	236
United Kingdom	8	9
France	2	2
Poland	6	11
Other European countries	18	2
United States	5	5
China	215	77
Uruguay	26	8
Rest of world	2	2
Total	520	411

5 Acquisitions and disposals and notes to the cash flow statement

Acquisitions

In 2015 and 2014, no acquisitions were made.

Disposals

In 2015, UPM sold 100% of its shares of Tilhill Forestry Ltd to BSW Timber Ltd in the United Kingdom. The following table summarises the amount of assets and liabilities related to disposal during 2015. In 2014, UPM had minor company disposals.

EURm	2015
Inventories	5
Trade and other receivables	24
Cash and cash equivalents	3
Provisions (Note 30)	–2
Trade and other payables	–22
Net assets	8
Gain on disposals	3
Total consideration	11
Settled in cash and cash equivalents	11
Cash in subsidiaries disposed	–3
Net cash arising from disposals	8

Notes to the consolidated cash flow statement

Adjustments

EURm	Year ended 31 December 2015	2014
Change in fair value of biological assets and wood harvested	–352	–78
Share of results of associated companies and joint ventures	–3	–3
Depreciation, amortisation and impairment charges	524	658
Capital gains on sale of non-current assets, net	–18	–117
Finance costs, net	67	66
Taxes	159	155
Change in restructuring provisions	–62	14
Other adjustments	134	84
Total	449	779

Change in working capital

EURm	Year ended 31 December 2015	2014
Inventories	15	18
Current receivables	–30	59
Current non-interest-bearing liabilities	7	–4
Total	–8	73

According to the consolidated cash flow statement the total amount of taxes paid in 2015 amounted to EUR 143 million (81 million), of which taxes of EUR 140 million (81 million) are included in operating activities and EUR 3 million in investing activities.

6 Other operating income

EURm	Year ended 31 December 2015	2014
Gains on sale of non-current assets	20	62
Rental income, investment property	4	4
Rental income, other	11	11
Emission rights received (Note 7)	22	27
Derivatives held for trading	–78	–53
Exchange rate gains and losses	18	23
Other	16	17
Total	13	91

7 Costs and expenses

EURm	Year ended 31 December 2015	2014
Change in inventories of finished goods and work in progress	21	–12
Production for own use	–5	–6
Materials and services		
Raw materials, consumables and goods	5,675	5,559
Derivatives designated as cash flow hedges	93	47
External services and charges [1]	856	913
	6,624	6,519
Personnel expenses		
Salaries and fees	967	1,020
Share-based payments (Note 37)	16	10
Indirect employee costs		
Pension costs, defined benefit plans (Note 29)	33	16
Pension costs, defined contribution plans	117	116
Other post-employment benefits (Note 29)	–1	2
Other indirect employee costs [2]	125	126
	274	260
Other operating costs and expenses		
Rents and lease expenses	51	52
Emission expenses (Note 6)	14	15
Losses on sale of non-current assets	2	4
Other operating expenses [3]	876	846
	943	917
Costs and expenses, total	8,840	8,708

[1] External services and charges mainly comprise delivery costs of products sold.

[2] Other indirect employee expenses primarily include other statutory social expenses, excluding pension expenses.

[3] Other operating expenses include, among others, energy and maintenance expenses as well as expenses relating to services and the Group's administration.

The research and development costs included in costs and expenses were EUR 37 million (35 million).

Government grants

In 2015, the Group recognised government grants of EUR 0 million (3 million) as reduction of non-current assets. Government grants recognised as deduction of costs and expenses totalled to EUR 6 million (7 million) in 2015. In addition, the Group received emission rights from governments, Note 17.

Remuneration paid to members of the Board of Directors and the Group Executive Team

The Annual General Meeting 2015 resolved that the annual fee to the Board Chairman is EUR 175,000, to the Board Deputy Chairman and Chairman of the Audit Committee EUR 120,000 and to other members of the Board EUR 95,000. Of the annual fee, 60% was paid in cash to cover withholding tax and 40% in company shares purchased on the Board members' behalf. The company was to pay any costs and transfer tax related to the purchase of the shares. No annual fee was paid to the President and CEO for his role as a member of the Board.

In 2015, 4,193 (5,595) company shares were paid to the Chairman, 2,875 (3,836) shares to the Deputy Chairman and the Chairman of the Audit Committee respectively and 2,276 (3,037) shares to each of the other members of the Board.

Shareholdings (no. of shares) and fees of the Board of Directors

	Shareholdings 31 Dec. 2015 [1]	Fees (EUR 1,000) 2015	2014
Board members			
Björn Wahlroos, Chairman	254,442	175	175
Berndt Brunow, Deputy Chairman	303,578	120	120
Henrik Ehrnrooth	2,276	95	–
Piia-Noora Kauppi	11,856	120	120
Wendy E. Lane	32,925	95	95
Ari Puheloinen	4,301	95	63
Veli-Matti Reinikkala	36,097	95	95
Suzanne Thoma	2,276	95	–
Kim Wahl	14,075	95	95
Jussi Pesonen, President and CEO	220,275	–	–
Former Board members			
Matti Alahuhta	–	–	95
Total	882,101	985	858

[1] The above shareholdings include shares held by the Board members' closely associated persons and controlled entities.

Salaries, fees and other benefits of the Group Executive Team

EUR 1,000	Year ended 31 December 2015	2014
President and CEO Jussi Pesonen		
Salaries and benefits		
Salary	1,052	1,052
Incentives	856	627
Share rewards	824	–
Benefits	27	27
Total	2,759	1,706

In 2015, costs under the Finnish statutory pension scheme for the President and CEO amounted to EUR 353,000 (303,000) and payments under the voluntary pension plan were EUR 1,000,000 (682,000). In 2015, no premium was paid into the President and CEO´s voluntary group pension plan to cover past service pension liabilities (premium of EUR 268,000 was paid in 2014).

EUR 1,000	Year ended 31 December 2015	2014
Group Executive Team (excluding the President and CEO) [1]		
Salaries and benefits		
Salaries	3,455	3,457
Incentives	1,733	869
Share rewards	1,805	–
Benefits	238	249
Total	7,231	4,575

[1] 11 members in 2015 and in 2014.

In 2015, costs under the Finnish and German statutory pension schemes for Group Executive Team members (excluding the President and CEO) amounted to EUR 900,000 (752,000) and payments under the voluntary pension plan were EUR 651,000 (686,000).

The total remuneration of the President and CEO and the members of the Group Executive Team consists of base salary and benefits, short-term incentives, share-based long-term incentives and pension benefits.

The short-term incentive plan for the President and CEO and the members of the Group Executive Team has been linked with achievement of the predetermined financial targets of the Group or Business Areas and individual targets. The incentives amount to a total maximum of 100% of annual base salary to the Business Area Executives and to a total maximum of 70% of annual base salary to the other members of the Group Executive Team. For the President and CEO the maximum annual incentive amounts to 150% of the annual base salary.

The expenses recognised in income statement in respect of share-based payments for the Group Executive Team were EUR 5.4 million (2.8 million).

In accordance with the service contract, the retirement age of the President and CEO Jussi Pesonen is 60. For the President and CEO, the target pension is 60% of the average indexed earnings from the last ten years of employment calculated according to the Finnish statutory pension scheme. The costs of lowering the retirement age to 60 is covered by supplementing the statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company before reaching the age of 60, an immediate vesting right corresponding to 100% of earned pension (pro rata) will be applied. The retirement age of the other members of the Group Executive Team is 63. The expenses of the President and CEO's defined benefit pension plan in 2015 were EUR 0.6 million (0.5 million), and the plan assets amounted to EUR 1.6 million (6.6 million) and obligation to EUR 0.9 million (5.1 million). Other Group Executive Team members are under defined contribution plans.

In case the notice of termination is given to the President and CEO, a severance pay of 24 months' base salary will be paid in addition to the salary for six months' notice period. Should the President and CEO give a notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period. For other members of the Group Executive Team, the period for severance pay is 12 months, in addition to the six months' salary for the notice period, unless notice is given for reasons that are solely attributable to the executive.

If there is a change in the control over the company, the President and CEO may terminate his service contract within three months and each member of the Group Executive Team may terminate his/her service contract within one month from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' base salary.

Auditor's fees

EURm	Year ended 31 December 2015	2014
Audit	2.3	2.0
Tax consulting	0.8	0.6
Other services	0.5	0.5
Total	3.6	3.1

8 Change in fair value of biological assets and wood harvested

EURm	Year ended 31 December 2015	2014
Wood harvested	–91	–91
Change in fair value	443	169
Total	352	78

9 Share of results of associated companies and joint ventures

EURm	Year ended 31 December 2015	2014
Associated companies	2	3
Joint ventures	1	–
Total	3	3

10 Depreciation, amortisation and impairment charges

EURm	Year ended 31 December 2015	2014
Amortisation of intangible assets		
Intangible rights	8	16
Other intangible assets	25	30
	33	46
Depreciation of property, plant and equipment		
Buildings	82	81
Machinery and equipment	388	373
Other tangible assets	17	17
	487	471
Depreciation of investment property		
Buildings	3	3
Other assets	1	1
	4	4
Impairment charges of intangible assets		
Emission allowances	–	–1
	–	–1
Impairment charges of property, plant and equipment		
Land areas	–	1
Buildings	–	42
Machinery and equipment	–	93
Other tangible assets	–	2
	–	138
Total	524	658

In 2015, no impairment charges were recognised in property, plant and equipment.

In 2014, the Group recognised impairment charges of EUR 135 million in UPM Paper ENA related to the plan to permanently close four of its paper machines: PM3 at UPM Chapelle, PM1 at UPM Shotton, PM5 at UPM Jämsänkoski and PM2 at UPM Kaukas. In addition, impairment charges of EUR 3 million related to restructuring in the UPM Raflatac were recognised in property, plant and equipment.

11 Gains on available-for-sale investments, net

EURm	Year ended 31 December 2015	2014
Net gains and losses on disposals [1]	–	59
Total	–	59

[1] In 2014, includes a gain of EUR 59 million related to the sale of Metsä Fibre Oy shares in 2012.

12 Finance costs

EURm	Year ended 31 December 2015	2014
Exchange rate and fair value gains and losses		
Derivatives held for trading	85	96
Fair value gains on derivatives designated as fair value hedges	–13	51
Fair value adjustment of interest-bearing liabilities attributable to interest rate risk	5	–50
Fair value adjustment of firm commitments attributable to foreign exchange risk	3	5
Foreign exchange gains/losses on financial liabilities measured at amortised cost	–105	–123
Foreign exchange gains/losses on loans and receivables	13	17
Other exchange rate and fair value gains and losses	13	–
	1	–4
Interest and other finance costs, net		
Interest expense on financial liabilities measured at amortised cost	–122	–148
Interest income on derivative financial instruments	75	90
Interest income on loans and receivables	5	15
Other financial expenses	–26	–19
	–68	–62
Total	–67	–66

Net gains and losses on derivative financial instruments included in the operating profit

EURm	Year ended 31 December 2015	2014
Derivatives designated as cash flow hedges	–101	30
Derivatives held for trading	–78	–53
Total	–179	–23

The aggregate foreign exchange gains and losses included in the consolidated income statement

EURm	Year ended 31 December 2015	2014
Sales	–100	11
Other operating income	18	23
Net financial items	6	–11
Total	–76	23

13 Income taxes

EURm	Year ended 31 December 2015	2014
Current tax expense	95	100
Change in deferred taxes (Note 28)	64	55
Income taxes, total	159	155

Income tax reconciliation statement

	2015	2014
Profit (loss) before tax	1,075	667
Computed tax at Finnish statutory rate of 20%	215	133
Difference between Finnish and foreign rates	16	9
Non-deductible expenses and tax-exempt income	–63	–27
Tax loss with no tax benefit	11	25
Results of associated companies	–1	–1
Change in tax legislation	–1	1
Change in recoverability of deferred tax assets	–	19
Utilisation of previously unrecognised tax losses	–6	–5
Other	–12	1
Income taxes, total	159	155
Effective tax rate	14.8%	23.2%

Profit before taxes for 2015 and 2014 include income not subject to tax from subsidiary operating in tax free zone.

In 2015, other items include EUR 9 million tax benefit related to capital gain from sale of forestland in UK in 2014 where tax authorities accepted treatment of the gain as tax-exempt in 2015.

In 2014, change in recoverability of deferred tax assets relates to reassessment of estimated recoverability of deferred tax assets in France.

Tax effects of components of other comprehensive income

EURm	2015 Before tax	2015 Tax	2015 After tax	2014 Before tax	2014 Tax	2014 After tax
Actuarial gains and losses on defined benefit obligations	153	–40	113	–235	54	–181
Translation differences	221	–	221	291	–	291
Net investment hedge	–26	–2	–28	–51	10	–41
Cash flow hedges	30	–6	24	–133	26	–107
Available-for-sale investments	–424	19	–405	–173	9	–164
Other comprehensive income	–46	–29	–75	–301	99	–202

14 Earnings per share

	Year ended 31 December 2015	2014
Profit (loss) attributable to owners of the parent company, EURm	916	512
Weighted average number of shares (1,000)	533,505	531,574
Basic earnings per share, EUR	1.72	0.96

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

	2015	2014
Profit (loss) attributable to owners of the parent company, EURm	916	512
Profit (loss) used to determine diluted earnings per share, EURm	916	512
Weighted average number of shares (1,000)	533,505	531,574
Weighted average number of shares for diluted earnings per share (1,000)	533,505	531,574
Diluted earnings per share, EUR	1.72	0.96

15 Dividend per share

The dividends paid in 2015 were EUR 373 million (EUR 0.70 per share) and in 2014 EUR 319 million (EUR 0.60 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 400 million, EUR 0.75 per share, will be paid in respect of 2015.

16 Goodwill

EURm	As at 31 December 2015	2014
Carrying value at 1 Jan.	230	219
Translation differences	11	11
Carrying value at 31 Dec.	241	230

Goodwill by reporting segment

EURm	As at 31 December 2015	2014
UPM Biorefining	220	209
UPM Raflatac	7	7
UPM Plywood	13	13
Other operations	1	1
Total	241	230

Impairment tests

The Group prepares impairment test calculations at operating segment or at lower business unit level annually. The key assumptions for calculations are those regarding business growth outlook, product prices, cost development, and discount rate.

The business growth outlook is based on general forecasts for the business in question. Ten-year forecasts are used in these calculations as the nature of the Group's business is long-term, due to its capital intensity, and is exposed to cyclical changes. In estimates of product prices and cost development, forecasts prepared by management for the next three years and estimates made for the following seven years are taken into consideration. The Group's recent profitability trend is taken into account in the forecasts. In addition, when preparing estimates, consideration is given to the investment decisions made by the Group as well as the profitability programmes that the Group has implemented and the views of knowledgeable industry experts on the long-term development of demand and prices.

In annual impairment tests, the recoverable amount of groups of cash generating units is determined based on value in use calculations.

The discount rate is estimated using the weighted average cost of capital on the calculation date adjusted for risks specific to the business in question. The pre-tax discount rate used in 2015 for pulp operations Finland was 11.02% (9.86%), and for pulp operations Uruguay 10.38% (9.62%). The recoverable amount is most sensitive to pulp sales prices and the cost of wood raw material. As at 31 December 2015, for pulp operations Finland, a decrease of more than 19.4% in pulp prices would result in recognition of impairment loss against goodwill. The Group believes that no reasonable change in wood cost would cause the aggregate carrying amount to exceed the recoverable amount. For pulp operations Uruguay, a decrease of more than 4.5% in pulp prices or an increase of more than 13% in wood cost would result in recognition of impairment loss against goodwill. A decrease of more than 6.3% in pulp prices or an increase of more than 18% in wood cost would result in a write-down of the entire goodwill.

17 Other intangible assets

EURm	As at 31 December 2015	2014
Intangible rights		
Acquisition cost at 1 Jan.	549	536
Additions	4	3
Disposals	–28	–2
Translation differences	11	12
Acquisition cost at 31 Dec.	536	549
Accumulated amortisation and impairment at 1 Jan.	–323	–300
Amortisation	–8	–16
Disposals	28	2
Translation differences	–9	–9
Accumulated amortisation and impairment at 31 Dec.	–312	–323
Carrying value at 1 Jan.	226	236
Carrying value at 31 Dec.	224	226

EURm	As at 31 December 2015	2014
Other intangible assets [1]		
Acquisition cost at 1 Jan.	685	673
Additions	4	6
Disposals	–32	–10
Reclassifications	1	11
Translation differences	7	5
Acquisition cost at 31 Dec.	665	685
Accumulated amortisation and impairment at 1 Jan.	–616	–591
Amortisation	–25	–30
Disposals	32	10
Translation differences	–7	–5
Accumulated amortisation and impairment at 31 Dec.	–616	–616
Carrying value at 1 Jan.	69	82
Carrying value at 31 Dec.	49	69
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	2	13
Additions	3	2
Reclassifications	–1	–13
Acquisition cost at 31 Dec.	4	2
Carrying value at 1 Jan.	2	13
Carrying value at 31 Dec.	4	2
Emission rights		
Acquisition cost 1 Jan.	47	18
Additions [2]	24	42
Disposals and settlements	–17	–13
Acquisition cost 31 Dec.	54	47
Accumulated amortisation and impairment at 1 Jan.	–4	–7
Impairment reversal	–	1
Disposals	2	2
Accumulated amortisation and impairment at 31 Dec.	–2	–4
Carrying value at 1 Jan.	43	11
Carrying value at 31 Dec.	52	43
Other intangible assets, total	329	340

[1] Other intangible assets consist primarily of capitalised software assets.

[2] Additions include emission rights received free of charge.

Water rights

Intangible rights include EUR 189 million (189 million) in respect of the water rights of hydropower plants belonging to the UPM Energy that are deemed to have an indefinite useful life as the company has a contractual right to exploit water resources in the energy production of these power plants. The values of these water rights are tested annually for impairment based on expected future cash flows of each separate hydropower plant.

18 Property, plant and equipment

EURm	As at 31 December 2015	2014
Land and water areas		
Acquisition cost at 1 Jan.	708	670
Additions	9	2
Disposals	–12	–15
Reclassifications	7	3
Translation differences	46	48
Acquisition cost at 31 Dec.	758	708
Accumulated depreciation and impairment at 1 Jan.	–34	–34
Impairment charges	–	–1
Translation differences	–	1
Accumulated depreciation and impairment at 31 Dec.	–34	–34
Carrying value at 1 Jan.	674	636
Carrying value at 31 Dec.	724	674
Buildings		
Acquisition cost at 1 Jan.	3,611	3,489
Additions	36	22
Disposals	–96	–17
Reclassifications	113	43
Translation differences	73	74
Acquisition cost at 31 Dec.	3,737	3,611
Accumulated depreciation and impairment at 1 Jan.	–2,478	–2,333
Depreciation	–82	–81
Impairment charges	–	–42
Disposals	95	17
Reclassifications	–26	–8
Translation differences	–33	–31
Accumulated depreciation and impairment at 31 Dec.	–2,524	–2,478
Carrying value at 1 Jan.	1,133	1,156
Carrying value at 31 Dec.	1,213	1,133
Machinery and equipment		
Acquisition cost at 1 Jan.	14,598	14,504
Additions	150	115
Disposals	–760	–374
Companies sold	–2	–
Reclassifications	472	50
Translation differences	282	303
Acquisition cost at 31 Dec.	14,740	14,598
Accumulated depreciation and impairment at 1 Jan.	–12,178	–11,900
Depreciation	–388	–373
Impairment charges	–	–93
Disposals	759	369
Companies sold	2	–
Reclassifications	–1	19
Translation differences	–190	–200
Accumulated depreciation and impairment at 31 Dec.	–11,996	–12,178
Carrying value at 1 Jan.	2,420	2,604
Carrying value at 31 Dec.	2,744	2,420
Other tangible assets		
Acquisition cost at 1 Jan.	897	873
Additions	7	5
Disposals	–42	–3
Reclassifications	28	10
Translation differences	12	12
Acquisition cost at 31 Dec.	902	897

EURm	As at 31 December 2015	2014
Accumulated depreciation and impairment at 1 Jan.	–783	–752
Depreciation	–17	–17
Impairment charges	–	–2
Disposals	42	2
Reclassifications	–2	–6
Translation differences	–8	–8
Accumulated depreciation and impairment at 31 Dec.	–768	–783
Carrying value at 1 Jan.	114	121
Carrying value at 31 Dec.	134	114
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	366	240
Additions	269	225
Reclassifications	–563	–103
Translation differences	8	4
Acquisition cost at 31 Dec.	80	366
Carrying value at 1 Jan.	366	240
Carrying value at 31 Dec.	80	366
Property, plant and equipment, total	4,895	4,707

Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease contracts.

EURm	As at 31 December 2015	2014
Buildings		
Acquisition cost	2	2
Accumulated depreciation	–1	–1
Carrying value at 31 Dec.	1	1
Machinery and equipment		
Acquisition cost	151	265
Accumulated depreciation	–45	–95
Carrying value at 31 Dec.	106	170
Leased assets, total	107	171

Capitalised borrowing costs

In 2015, the borrowing costs capitalised as part of non-current assets amounted to EUR 8 million (5 million). In 2015, amortisation of capitalised borrowing was EUR 4 million (3 million).

The average interest rate used was 4.99% (2.34%), which represents the costs of the loan used to finance the projects.

19 Investment property

EURm	As at 31 December 2015	2014
Acquisition cost at 1 Jan.	58	71
Additions	–	1
Reclassifications	–58	–14
Acquisition cost at 31 Dec.	–	58
Accumulated depreciation and impairment at 1 Jan.	–27	–31
Depreciation	–4	–4
Reclassifications	31	8
Accumulated depreciation and impairment at 31 Dec.	–	–27
Carrying value at 1 Jan.	31	40
Carrying value at 31 Dec.	–	31

In 2015, reclassifications include transfers to property, plant and equipment.

The amounts recognised in the income statement

EURm	Year ended 31 December 2015	2014
Rental income	4	4
Direct operating expenses arising from investment properties that generate rental income	–3	–3

20 Biological assets

EURm	As at 31 December 2015	2014
At 1 Jan.	1,469	1,458
Additions	16	8
Disposals	–72	–65
Wood harvested	–91	–91
Change in fair value	377	120
Translation differences	39	39
At 31 Dec.	1,738	1,469

The Group owns approximately 704,000 and 75,000 hectares forests in Finland and in the United States, respectively, and 236,000 hectares plantations in Uruguay. Biological assets (living trees) are measured at fair value less costs to sell. The fair value is determined using discounted cash flow models. Main factors used in the valuation are estimates for growth and wood harvested, stumpage prices and discount rates. Stumpage price forecasts are based on the current prices adjusted by the management's estimates for the full remaining productive lives of the trees, up to 100 years for forests in Finland and in the US and up to 10 years for plantations in Uruguay. The cash flows are adjusted by selling costs and risks related to the future growth. Young saplings are valued at cost.

In 2015, the fair value of biological assets in Finland was increased by EUR 265 million due to adjustment of long-term wood price estimates and change in discount rate. UPM continues to estimate a declining trend of real wood prices in Finland, although with a slightly slower rate than previously. In addition, the pre-tax discount rate used to determine the fair value of the Finnish forests was lowered from 7.5% to 7.0%.

The pre-tax discount rates used to determine fair value for Uruguayan plantations in 2015 was 10.0% (10.0%).

A decrease (increase) of one percentage point in discount rate would increase (decrease) the fair value of biological assets by approximately EUR 260 million (200 million).

21 Investments in associated companies and joint ventures

EURm	As at 31 December 2015	2014
At 1 Jan.	25	22
Additions	1	1
Reclassifications	–1	–
Share of results after tax (Note 9)	3	3
Dividends received	–1	–2
Translation differences	1	1
At 31 Dec.	28	25

Investments in associated companies at 31 December 2015 include goodwill of EUR 1 million (1 million).

Associated companies and joint ventures

EURm	As at 31 December 2015	2014
Associated companies	20	17
Joint ventures	8	8
At 31 Dec.	28	25

UPM has no individually material associated companies or joint ventures.

Transactions and balances with associated companies and joint ventures

EURm	Year ended 31 December 2015	2014
Sales	1	2
Purchases	89	83
Non-current receivables	9	8
Trade and other receivables	1	1
Trade and other payables	1	2

Loan receivables from associated companies and joint ventures

EURm	Year ended 31 December 2015	2014
At 1 Jan.	8	8
Loans granted	1	1
Repayments	–	–1
At 31 Dec.	9	8

22 Available-for-sale investments

EURm	As at 31 December 2015	2014
At 1 Jan.	2,510	2,661
Additions	33	31
Disposals	–35	–1
Reclassification	1	–10
Changes in fair values	–424	–173
Translation differences	–	2
At 31 Dec.	2,085	2,510

At 31 December 2015 and 2014, the available-for-sale investments include only investments in unlisted shares.

Principal available-for-sale investments

	Number of shares	Group holding %	Carrying value, EURm 2015	2014
Pohjolan Voima Oy, A serie	8,176,191	61.24	324	381
Pohjolan Voima Oy, B serie	4,140,132	58.11	1,166	1,370
Pohjolan Voima Oy, B2 serie	2,414,940	51.13	169	187
Kemijoki Oy	179,189	7.33	314	401
Länsi-Suomen Voima Oy	10,220	51.10	92	107
OEP Technologie B.V.	–	–	–	35
Other [1]	–	–	20	29
At 31 Dec.			2,085	2,510

[1] 2015 includes C, M and V series of Pohjolan Voima Oy. 2014 includes C, H, M and V series of Pohjolan Voima Oy.

Available-for-sale investments of UPM Energy are mainly partly owned energy companies, where UPM does not have control, joint control or significant influence. These energy companies supply energy or both energy and heat to their shareholders at cost pursuant to the so called "Mankala-principle" set forth in the respective articles of association, i.e. the energy and/or heath is supplied to the shareholders in proportion to their ownership and each shareholder is responsible for its respective share of the costs and liabilities related to generated energy and/or heat by the energy company concerned, as specified in the articles of association.

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. UPM's indirect share of the capacity of Olkiluoto 3 is approximately 31%, through its Pohjolan Voima Oy´s 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.

In Q4 2015, UPM sold its 10.6% share of the OEP Technologie B.V. (SMARTRAC).

Pohjolan Voima Oy B and B2 series relate to shareholdings in Teollisuuden Voima Oyj, which operates and constructs nuclear power plants in Olkiluoto, Finland. The operation of a nuclear power plant involves potential costs and liabilities related to decommissioning and dismantling of the nuclear power plant and storage and disposal of spent fuel and, furthermore, is governed by international, European Union and local nuclear regulatory regimes. Pursuant to the Finnish Nuclear Liability Act, the operator of a nuclear facility is strictly liable for damage resulting from a nuclear incident at the operator's installation or occurring in the course of transporting nuclear fuels. Shareholders of power companies that own and operate nuclear power plants are not subject to liability under the Nuclear Liability Act. In Finland, the future costs of conditioning, storage and final disposal of spent fuel, management of low and intermediate level radioactive waste and nuclear power plant decommissioning are the responsibility of the operator. Reimbursement of the operators' costs related to decommissioning and dismantling of the power plant and storage and disposal of spent fuel are provided for by state-established funds funded by annual contributions from nuclear power plant operators. The contributions to such funds are intended to be sufficient to cover estimated future costs which have been taken into consideration in the fair value of the related available-for-sale investments.

23 Other non-current financial assets

EURm	As at 31 December 2015	2014
Loan receivables from associated companies (Note 21)	9	8
Other loan receivables	11	35
Derivative financial instruments	312	291
At 31 Dec.	332	334

The maximum exposure to credit risk in regard to other loan receivables is their carrying amount.

24 Other non-current assets

EURm	As at 31 December 2015	2014
Defined benefit plans (Note 29)	93	40
Other non-current assets	52	51
At 31 Dec.	145	91

25 Inventories

EURm	As at 31 December 2015	2014
Raw materials and consumables	646	548
Work in progress	54	55
Finished products and goods	642	713
Advance payments	34	40
At 31 Dec.	1,376	1,356

26 Trade and other receivables

EURm	As at 31 December 2015	2014
Trade receivables	1,436	1,412
Loan receivables	5	6
Prepayments and accrued income	134	143
Derivative financial instruments	128	151
Other receivables	173	144
At 31 Dec.	1,876	1,856

Ageing analysis of trade receivables

EURm	As at 31 December 2015	2014
Undue	1,193	1,225
Past due up to 30 days	159	133
Past due 31–90 days	45	32
Past due over 90 days	39	22
At 31 Dec.	1,436	1,412

In determining the recoverability of trade receivables the Group considers any change to the credit quality of trade receivables. There are no indications that the debtors will not meet their payment obligations with regard to trade receivables that are not overdue or impaired at 31 December 2015. In 2015, impairment of trade receivables amounted to EUR 18 million (8 million) and is recorded under other costs and expenses. Impairment is recognised when there is objective evidence that the Group is not able to collect the amounts due.

Maximum exposure to credit risk, without taking into account any credit enhancements, is the carrying amount of trade and other receivables.

Main items included in prepayments and accrued income

EURm	As at 31 December 2015	2014
Personnel expenses	9	14
Interest income	3	5
Energy and other excise taxes	66	70
Other items	56	54
At 31 Dec.	134	143

27 Equity and reserves

Share capital

EURm	Number of shares (1,000)	Share capital
At 1 Jan. 2014	529,302	890
Exercise of share options	4,434	–
At 31 Dec. 2014	533,736	890
At 31 Dec. 2015	533,736	890

Shares

At 31 December 2015, the number of the company's shares was 533,735,699. Each share carries one vote. The shares do not have any nominal counter value. The shares are included within the book entry system for securities.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes, under the Companies' Act, the exercise value of shareholders' investments in the company unless otherwise decided by the company.

Treasury shares

The Annual General Meeting held on 9 April 2015 authorised the Board of Directors to acquire no more than 50,000,000 of the company's own shares. The authorisation is valid for 18 months from the date of the decision.

As at 31 December 2015, the company held 230,737 (230,737) of its own shares, 0.04% (0.04%) of the total number of shares. 211,481 of the shares were returned upon their issue in 2011 to UPM without consideration as part of the contractual arrangements relating to the Myllykoski transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts in 2012.

Authorisations to increase the number of shares

The Annual General Meeting, held on 4 April 2013, authorised the Board of Directors to decide on the issuance of shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights entitling holders to shares in the company as follows: (i) the maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is, in total, 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of the special rights. (ii) new shares and special rights to shares in the company may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their existing shareholdings or in a directed share issue, deviating from the shareholder's pre-emptive subscription rights. This authorisation is valid until 4 April 2016.

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

The shares available for subscription under the Board's share issue authorisation may increase the total number of the company's shares by 4.68%, i.e. by 25,000,000 shares, to 558,735,699 shares.

Redemption clause

Under § 12 of UPM-Kymmene Corporation's Articles of Association, a shareholder who, alone or jointly with another shareholder owns 33 1/3 percent or 50 percent or more of all the company's shares or their associated voting rights shall, at the request of other shareholders, be liable to redeem their shares and any securities that, under the Companies Act, carry the right to such shares, in the manner prescribed in § 12.

A resolution of a general meeting of shareholders to amend or delete this redemption clause must be carried by shareholders representing not less than three-quarters of the votes cast and shares represented at the meeting.

Fair value and other reserves

EURm	As at 31 December 2015	2014
Fair value reserve of available-for-sale investments	1,582	1,988
Hedging reserve	–104	–128
Share-based compensation	8	7
At 31 Dec.	1,486	1,867

Changes in hedging reserve

EURm	Year ended 31 December 2015	2014
At 1 Jan.	–128	–21
Gains and losses on cash flow hedges	–85	–102
Transfers to sales	26	–85
Transfers to costs and expenses	81	51
Transfers to financial costs	8	3
Tax on gains and losses on cash flow hedges	17	20
Tax on transfers to income statement	–23	6
At 31 Dec.	–104	–128

Components of other comprehensive income

EURm	Year ended 31 December 2015	2014
Actuarial gains and losses on defined benefit obligations	113	–181
Translation differences	221	291
Net investment hedge	–28	–41
Cash flow hedges		
Fair value gains/losses arising during the year	–68	–82
Reclassification adjustments	92	–25
	24	–107
Available-for-sale investments		
Fair value gains/losses arising during the year	–405	–164
	–405	–164
Other comprehensive income	–75	–202

Non-controlling interests

On 11 December 2014, the Group acquired the remaining 10% of the issued shares of Wisapower Oy for a purchase consideration of EUR 4 million. The carrying amount of the non-controlling interests in Wisapower Oy on the date of acquisition was EUR 3 million. The Group derecognised non-controlling interests of EUR 3 million and recorded a decrease in equity attributable to owners of the parent of EUR 1 million. The effect of changes in the ownership interest of Wisapower Oy on the equity attributable to owners of the parent company during the year is summarised as follows:

EURm	Year ended 31 December 2015	2014
Carrying amount of non-controlling interests acquired	–	3
Consideration paid to non-controlling interests	–	–4
Excess of consideration paid recognised in equity attributable to owners of the parent company	–	–1

28 Deferred income taxes

Reconciliation of the movements of deferred tax asset and liability balances during the year 2015

EURm	As at 1 Jan. 2015	Charged to the income statement	Charged to OCI	Translation differences	As at 31 Dec. 2015
Deferred tax assets					
Intangible assets and property, plant and equipment	160	–27	–	–1	132
Inventories	35	2	–	–	37
Retirement benefit obligations and provisions	158	–1	–28	–	129
Other temporary differences	37	13	–	–	50
Tax losses and tax credits carried forward	241	–	–	–	241
Deferred tax assets, total	631	–13	–28	–1	589
Deferred tax liabilities					
Intangible assets and property, plant and equipment	211	6	–	–	217
Biological assets	205	51	–	–	256
Retirement benefit obligations and provisions	9	–2	12	–	19
Other temporary differences	102	–4	–11	–	87
Deferred tax liabilities, total	527	51	1	–	579
The amounts recognised in the balance sheet					
Deferred tax assets	532	–37	–28	–1	466
Deferred tax liabilities	428	27	1	–	456
Deferred tax liabilities, less deferred tax assets	–104	64	29	1	–10

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Reconciliation of the movements of deferred tax asset and liability balances during the year 2014

EURm	As at 1 Jan. 2014	Charged to the income statement	Charged to OCI	Translation differences	As at 31 Dec. 2014
Deferred tax assets					
Intangible assets and property, plant and equipment	213	–53	–	–	160
Inventories	27	8	–	–	35
Retirement benefit obligations and provisions	135	–23	46	–	158
Other temporary differences	30	7	–	–	37
Tax losses and tax credits carried forward	252	–12	–	1	241
Deferred tax assets, total	657	–73	46	1	631
Deferred tax liabilities					
Intangible assets and property, plant and equipment	239	–28	–	–	211
Biological assets	198	3	–	4	205
Retirement benefit obligations and provisions	18	–1	–8	–	9
Other temporary differences	139	8	–45	–	102
Deferred tax liabilities, total	594	–18	–53	4	527
The amounts recognised in the balance sheet					
Deferred tax assets	564	–79	46	1	532
Deferred tax liabilities	501	–24	–53	4	428
Deferred tax liabilities, less deferred tax assets	–63	55	–99	3	–104

At 31 December 2015, net operating loss carry-forwards for which the Group has recognised a deferred tax asset amounted to EUR 797 million (782 million), of which EUR 665 million (630 million) was attributable to German subsidiaries and EUR 0 million (39 million) to a Canadian subsidiary. In Germany the net operating loss carry-forwards do not expire. In other countries net operating loss carry-forwards expire at various dates and in varying amounts. The net operating loss carry-forwards for which no deferred tax is recognised due to uncertainty of their utilisation amounted to EUR 1,071 million (1,088 million) in 2015. These net operating loss carry-forwards are mainly attributable to a Canadian subsidiary and certain German and French subsidiaries.

No deferred tax liability has been recognised for the undistributed profits of Finnish subsidiaries and associated companies as such earnings can be distributed without any tax consequences.

In addition, the Group does not recognise a deferred tax liability in respect of undistributed earnings of non-Finnish subsidiaries to the extent that it is probable that the temporary difference will not reverse in the foreseeable future.

29 Retirement benefit obligations

The Group operates a number of defined benefit and contribution plans in accordance with local conditions and practices in the countries of those respective plans. About 90% of the Group's defined benefit arrangements exist in Finland, in the UK and in Germany. The Group has defined benefit obligations also in Austria, Holland, France, Canada and in US. One quarter of Group´s employees are active members of defined benefit arrangement plans.

In Finland employers have to insure their employees for statutory benefits, as determined in Employee's Pension Act (TyEL). TyEL provides the employee with insurance protection for old age, disability and death. The benefits can be insured with an insurance company or the employer can establish a fund or a foundation to manage the statutory benefits. Approximately 90% of Group´s Finnish employees are insured with an insurance company and these arrangements are regarded as defined contribution plans. In addition, the Group operates a TyEL Foundation to fulfil the requirement for approximately 10% of employees. The TyEL Foundation, Kymin Eläkesäätiö, is regarded as a defined benefit plan for the benefits that are based on employee's average salary. The TyEL Foundation is administered by the representatives of both the employer and the employees. The Foundation has named an authorised representative to take care of its regular operations. The Plan is supervised by Financial Supervisory Authority.

In Finland there will be reform to the Employee´s Pension Act (TyEL) that will come into effect as of beginning of 2017. The effect of the reform to Group´s defined benefit obligation in TyEL Foundation, Kymin eläkesäätiö, in 2015 is EUR 4 million, which is recognised as past service cost.

In the UK, the Group operates a legacy defined benefit scheme, which is closed both to new members and future accrual. A defined contribution section also exists and is open to all current employees. The UK Pension Scheme operates under a single Trust which is independent from the Group.

In Germany employees within defined benefit arrangements are entitled to annual pensions on retirement based on their service and final salary. The members also receive benefits on disability and on death.

Post-employment and other long-term benefits as at 31 December 2015

EURm	Pension benefits	Other post-employment benefits	Other long-term employee benefits	Total
Present value of funded obligations	888	–	–	888
Present value of unfunded obligations	551	31	–	582
Fair value of plan assets	–851	–	–	–851
Net defined benefit liability	588	31	–	619
Other long-term employee benefits	–	–	35	35
Defined benefit asset reported in the assets (Note 24)	93	–	–	93
Total liability in the balance sheet	681	31	35	747

Post-employment and other long-term benefits as at 31 December 2014

EURm	Pension benefits	Other post-employment benefits	Other long-term employee benefits	Total
Present value of funded obligations	923	–	–	923
Present value of unfunded obligations	625	33	–	658
Fair value of plan assets	–794	–	–	–794
Net defined benefit liability	754	33	–	787
Other long-term employee benefits	–	–	40	40
Defined benefit asset reported in the assets (Note 24)	40	–	–	40
Total liability in the balance sheet	794	33	40	867

The net liability of pension and other post-employment benefits by country as at 31 December 2015

EURm	Finland	Germany	UK	Other countries	Total
Present value of funded obligations	314	29	504	41	888
Present value of unfunded obligations	–	490	–	92	582
Fair value of plan assets	–406	–2	–409	–34	–851
Net liability	–92	517	95	99	619

The net liability of pension and other post-employment benefits by country as at 31 December 2014

EURm	Finland	Germany	UK	Other countries	Total
Present value of funded obligations	355	33	494	41	923
Present value of unfunded obligations	–	559	–	99	658
Fair value of plan assets	–394	–2	–363	–35	–794
Net liability	–39	590	131	105	787

Present value of obligation and fair value of plan assets 2015

	Present value of obligation			Fair value of plan assets			
EURm	Pension benefits	Other post-employment benefits	Total	Pension benefits	Other post-employment benefits	Total	Net
At 1 Jan. 2015	1,548	33	1,581	–794	–	–794	787
Current service cost	14	1	15	–	–	–	15
Curtailments	–	–	–	–	–	–	–
Past service cost and gains and losses from settlements	4	–2	2	–	–	–	2
Interest expense (+) income (–)	36	–	36	–21	–	–21	15
Total included in personnel expenses (Note 7)	54	–1	53	–21	–	–21	32
Actuarial gains and losses on defined benefit obligation arising from changes in demographic assumptions	13	–	13	–	–	–	13
Actuarial gains and losses on defined benefit obligation arising from changes in financial assumptions	–158	–	–158	–	–	–	–158
Actuarial gains and losses on defined benefit obligation arising from experience adjustments	7	1	8	–	–	–	8
Actuarial gains and losses on plan assets	–	–	–	–16	–	–16	–16
Total remeasurement gains (–) and losses (+) included in other comprehensive income	–138	1	–137	–16	–	–16	–153
Benefits paid	–56	–3	–59	56	3	59	–
Settlements	–	–	–	–	–	–	–
Contributions by the employer	–	–	–	–52	–3	–55	–55
Translation differences	31	1	32	–24	–	–24	8
At 31 Dec. 2015	1,439	31	1,470	–851	–	–851	619

Present value of obligation and fair value of plan assets 2014

	Present value of obligation			Fair value of plan assets			
EURm	Pension benefits	Other post-employment benefits	Total	Pension benefits	Other post-employment benefits	Total	Net
At 1 Jan. 2014	1,239	29	1,268	–717	–	–717	551
Current service cost	11	1	12	–	–	–	12
Curtailments	–4	–	–4	–	–	–	–4
Past service cost and gains and losses from settlements	–7	–	–7	–	–	–	–7
Interest expense (+) income (–)	43	1	44	–27	–	–27	17
Total included in personnel expenses (Note 7)	43	2	45	–27	–	–27	18
Actuarial gains and losses on defined benefit obligation arising from changes in demographic assumptions	1	–	1	–	–	–	1
Actuarial gains and losses on defined benefit obligation arising from changes in financial assumptions	276	3	279	–	–	–	279
Actuarial gains and losses on defined benefit obligation arising from experience adjustments	6	–	6	–	–	–	6
Actuarial gains and losses on plan assets	–	–	–	–51	–	–51	–51
Total remeasurement gains (–) and losses (+) included in other comprehensive income	283	3	286	–51	–	–51	235
Benefits paid	–47	–3	–50	47	3	50	–
Settlements	–	–	–	–	–	–	–
Contributions by the employer	–	–	–	–23	–3	–26	–26
Translation differences	30	2	32	–23	–	–23	9
At 31 Dec. 2014	1,548	33	1,581	–794	–	–794	787

The significant weighted actuarial assumptions used as at 31 December

	Finland		Germany		UK		Other countries	
	2015	2014	2015	2014	2015	2014	2015	2014
Discount rate %	2.13	1.56	2.20	1.62	3.60	3.50	2.94	2.42
Inflation rate %	1.59	1.25	1.70	2.00	3.25	3.35	2.05	2.12
Rate of salary increase %	1.59	1.50	2.50	2.50	N/A	N/A	2.42	2.46
Rate of pension increase %	0.88	2.21	1.70	2.00	3.10	3.20	1.01	1.00
Expected average remaining working years of participants	13.7	10.3	11.0	12.8	13.0	12.0	10.5	10.9

The sensitivity analysis of the defined benefit obligation to changes in the significant weighted assumptions

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate %	0.5%	Decrease by 7.6%	Increase by 8.5%
Rate of salary increase %	0.5%	Increase by 1.2%	Decrease by 1.0%
Rate of pension increase %	0.5%	Increase by 4.7%	Decrease by 4.3%
Life expectancy	Increase by 1 year	Increase by 3.1%	–

The weighted average duration of defined benefit obligation at the end of 2015 is 17 years.

The above analyses assume that assumption changes occur in isolation, holding all other assumptions constant. The same method (projected unit method) has been applied when calculating the pension liability as well as these sensitivities.

The main categories of pension and other post-employment benefit plan assets

	2015			2014		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Money market						
Europe	1	–	1	1	–	1
Debt instruments						
Europe	25	–	25	28	–	28
US	3	–	3	2	–	2
Other	6	–	6	7	–	7
Equity instruments						
Europe	13	–	13	12	–	12
US	8	–	8	11	–	11
Other	34	–	34	32	–	32
Property						
Europe	6	4	10	3	4	7
Total	96	4	100	96	4	100

In Finland, plan assets include the company's ordinary shares with a fair value of EUR 1 million (0.7 million). In 2016 contributions to the Group's defined pension plans are expected to be EUR 32 million and to other post-employment plans EUR 4 million.

Main risk areas related to defined benefit plans

The main risks related to the Group's defined benefit plans are changes in discount rate, asset volatility, inflation, changes in salaries and longevities of the beneficiaries.

Discount rates

The discount rates are based on corporate bond yields as at reporting date. A decrease in yields increases the defined benefit obligation. An increase of 0.5% in discount rate would decrease Group's defined benefit obligation by EUR 112 million. Respectively, a decrease of 0.5% in discount rate would increase the obligation by EUR 126 million.

Asset volatility

The Group is exposed to changes of assets' values especially in the investments of the foundations and schemes in Finland and in the UK. The asset values of these arrangements constitute 96% of total asset values in defined benefit plans within Group.

Inflation risk

In Finland, the plan's benefits in payment are tied to TyEL index which depends 80% on inflation and 20% on common salary index. Higher inflation increases the TyEL index which increases the employer's payments to the pooling system. Index increments do not increase directly the plan's liabilities as they are covered through the pooling system.

In the UK the pensions in payment are tied to Retail Price Index whilst being tied to Consumer Price Index during deferment. An increase of 0.5% in indexes will increase the liabilities by some EUR 34 million.

In Germany the pensions have to be adjusted in accordance with the Consumer Price Index.

Salary risk

In Finland the salary risk is related to 10% of employees that are insured through the TyEL Foundation.

As all UK defined benefit arrangements are closed to future accrual, changes in salary levels have no impact on the funding position.

In Germany the salaries affect directly to benefit cost in part of the plans and to part of the plans salary changes have no impact.

Life expectancy

Adjustments in mortality assumption have an impact on Group's defined benefit obligation. An increase in life expectancy by one year will increase the obligation in Finland by EUR 12 million, in the UK by EUR 12 million and in Germany by EUR 19 million.

30 Provisions

EURm	Restructuring provisions	Termination provisions	Environmental provisions	Emission rights provision	Other provisions	Total
At 1 Jan. 2015	50	109	26	12	17	214
Additional provisions and increases to existing provisions	3	9	–	14	6	32
Companies sold	–	–	–	–	–2	–2
Reclassifications	6	–6	–	–	–	–
Utilised during year	–8	–55	–1	–11	–2	–77
Unused amounts reversed	–4	–6	–1	–1	–1	–13
At 31 Dec. 2015	47	51	24	14	18	154
At 1 Jan. 2014	50	93	20	9	17	189
Additional provisions and increases to existing provisions	15	76	8	11	5	115
Utilised during year	–10	–55	–2	–8	–3	–78
Unused amounts reversed	–5	–5	–	–	–2	–12
At 31 Dec. 2014	50	109	26	12	17	214

Provisions

At 31 December 2015, restructuring provisions and termination provisions relate mainly to mill closures and operational restructuring in Finland and France. In Finland provisions include also unemployment arrangements and disability pensions. Unemployment pension provisions are recognised 2–3 years before the granting and settlement of the pension.

In 2014, additions in provisions relate mainly to capacity closures in UPM Paper ENA. In November 2014, UPM announced the plan to permanently close four of its paper machines: PM3 at UPM Chapelle, PM1 at UPM Shotton, PM5 at UPM Jämsänkoski and PM2 at UPM Kaukas. In addition, the restructuring measures have started in the UPM Raflatac.

Environmental provisions include expenses relating to closed mills and the remediation of industrial landfills.

The Group takes part in government programmes aimed at reducing greenhouse gas emissions. In 2015, the Group has recognised provisions amounting to EUR 14 million (12 million) to cover the obligation to return emission rights. The Group possesses emission rights worth EUR 52 million (43 million) as intangible assets.

Allocation between non-current and current provisions

EURm	As at 31 December 2015	2014
Non-current provisions	92	112
Current provisions	62	102
Total	154	214

31 Interest-bearing liabilities

EURm	As at 31 December 2015	2014
Non-current interest-bearing liabilities		
Bonds	1,165	1,081
Loans from financial institutions	1,013	1,335
Pension loans	158	241
Finance lease liabilities	167	100
Derivative financial instruments	71	99
Other loans	213	191
Other liabilities	10	11
	2,797	3,058
Current interest-bearing liabilities		
Current portion of non-current liabilities	144	290
Derivative financial instruments	21	41
Other liabilities	104	75
	269	406
Total interest-bearing liabilities	3,066	3,464

As of 31 December 2015 the contractual maturity of interest-bearing liabilities

EURm	2016	2017	2018	2019	2020	2021+	Total
Bonds							
Repayments	–	340	230	–	–	421	991
Interests	64	64	35	28	28	207	426
	64	404	265	28	28	628	1,417
Loans from financial institutions							
Repayments	37	208	313	453	19	26	1,056
Committed facilities	–	–	–	–	–	–	–
Interests	15	14	13	2	1	1	46
	52	222	326	455	20	27	1,102
Pension loans							
Repayments	74	74	74	–	–	–	222
Interests	10	6	3	–	–	–	19
	84	80	77	–	–	–	241
Finance lease liabilities							
Repayments	32	86	5	6	47	22	198
Interests	5	5	1	1	1	2	15
	37	91	6	7	48	24	213
Other loans							
Repayments	2	2	2	–	1	163	170
Interests	7	7	4	11	7	61	97
	9	9	6	11	8	224	267
Interest rate swaps (liabilities)							
Repayments	–	28	–	–	–	12	40
Interests	4	5	5	6	3	9	32
	4	33	5	6	3	21	72
Current loans							
Repayments	103						103
Interests	–						–
	103						103
Guarantees, repayments	4						4
Non-current loans repayments excl. committed facilities	145	710	624	459	67	632	2,637

As of 31 December 2014 the contractual maturity of interest-bearing liabilities

EURm	2015	2016	2017	2018	2019	2020+	Total
Bonds							
Repayments	–	–	321	206	–	378	905
Interests	58	58	58	31	25	211	441
	58	58	379	237	25	589	1,346
Loans from financial institutions							
Repayments	45	233	316	302	451	44	1,391
Committed facilities	–	–	–	–	–	–	–
Interests	20	19	18	15	2	1	75
	65	252	334	317	453	45	1,466
Pension loans							
Repayments	74	74	74	74	–	–	296
Interests	13	10	6	3	–	–	32
	87	84	80	77	–	–	328
Finance lease liabilities							
Repayments	171	30	4	4	5	58	272
Interests	6	1	1	–	–	2	10
	177	31	5	4	5	60	282
Other loans							
Repayments	2	2	2	2	1	148	157
Interests	7	7	7	3	10	62	96
	9	9	9	5	11	210	253
Interest rate swaps (liabilities)							
Repayments	–	–	48	–	–	19	67
Interests	4	3	4	4	6	16	37
	4	3	52	4	6	35	104
Current loans							
Repayments	74						74
Interests	–						–
	74						74
Guarantees, repayments	5						5
Non-current loans repayments excl. committed facilities	292	339	717	588	457	628	3,021

Amounts are based on the exchange rates and interest rates on the reporting date.

The difference between the above listed cash-based repayment amounts and the respective balance sheet values mainly arise from fair value adjustments to balance sheet items.

Bonds in interest-bearing liabilities

Fixed rate	Interest rate %		Nominal value issued m	As at 31 Dec. 2015 EURm	2014 EURm
1997–2027	7.450	USD	375	470	424
2000–2030	3.550	JPY	10,000	95	85
2002–2017	6.625	GBP	250	355	346
2003–2018	5.500	USD	250	245	226
Total at 31 Dec.				1,165	1,081
Current portion				–	–
Non-current portion				1,165	1,081

Fair value hedge of non-current interest-bearing liabilities

Fair value hedge accounting results in a cumulative fair value adjustment totalling EUR 256 million (261 million), which has increased the carrying amount of the liabilities.

Accordingly, the positive fair value of the hedging instruments, excluding accrued interests, amounts EUR 266 million (279 million) in assets, and negative fair value of EUR 0 million (0 million) in liabilities. The effect of the fair value hedge ineffectiveness on the income statement was loss EUR 8 million (profit 1 million).

Net interest-bearing liabilities

EURm	As at 31 December 2015	2014
Total interest-bearing liabilities	3,066	3,464
Interest-bearing financial assets		
Non-current		
Loan receivables	10	11
Derivative financial instruments	278	281
Other receivables	30	29
	318	321
Current		
Loan receivables	5	4
Derivative financial instruments	9	25
Other receivables	8	13
Cash and cash equivalents	626	700
	648	742
Interest-bearing financial assets	966	1,063
Net interest-bearing liabilities	2,100	2,401

Finance lease liabilities

As at 31 December 2015 the Group has one sale and leaseback agreement and three finance lease agreements regarding power plant machinery. The Group uses the energy generated by these plants for its own production. The Group also has a finance lease arrangement over the usage of a waste water treatment plant. In addition, the Group leases certain production assets and buildings under long term arrangements.

Finance lease liabilities – minimum lease payments

EURm	As at 31 December 2015	2014
No later than 1 year	37	177
1–5 years	152	45
Later than 5 years	24	60
	213	282
Future finance charges	–15	–10
Finance lease liabilities – the present value of minimum lease payments	198	272

Finance lease liabilities – the present value of minimum lease payments

EURm	As at 31 December 2015	2014
No later than 1 year	32	171
1–5 years	144	43
Later than 5 years	22	58
Total	198	272

32 Other liabilities

EURm	As at 31 December 2015	2014
Derivative financial instruments	71	51
Other [1]	103	99
Total	174	150

[1] Consists mainly of non-current advances received and a put liability that is not estimated to mature within 12 months.

33 Trade and other payables

EURm	As at 31 December 2015	2014
Advances received	20	8
Trade payables	917	854
Accrued expenses and deferred income	430	429
Derivative financial instruments	156	179
Other current liabilities	96	79
Total	1,619	1,549

Trade and other payables mature within 12 months.

Main items included in accrued expenses and deferred income

EURm	As at 31 December 2015	2014
Personnel expenses	203	194
Interest expenses	35	33
Indirect taxes	4	8
Other items [1]	188	194
Total	430	429

[1] Consists mainly of customer rebates.

34 Financial instruments by category

2015 EURm Balance sheet item	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives used for hedging	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair values	Note
Non-current financial assets								
Available-for-sale investments	–	–	2,085	–	–	2,085	2,085	22
Non-current financial assets								
Loan receivables	–	20	–	–	–	20	20	23
Derivative financial instruments	20	–	–	292	–	312	312	23
						332	332	23
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,614	–	–	–	1,614	1,614	26
Prepayments and accrued income	–	134	–	–	–	134	134	26
Derivative financial instruments	49	–	–	79	–	128	128	26
						1,876	1,876	
Carrying amount by category	69	1,768	2,085	371	–	4,293	4,293	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	2,726	2,726	2,755	31
Derivative financial instruments	30	–	–	41	–	71	71	31
						2,797	2,826	31
Other liabilities								
Other liabilities	–	–	–	–	103	103	103	32
Derivative financial instruments	30	–	–	41	–	71	71	32
						174	174	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	248	248	248	31
Derivative financial instruments	21	–	–	–	–	21	21	31
						269	269	31
Trade and other payables								
Trade and other payables	–	–	–	–	1,033	1,033	1,033	33
Accrued expenses and deferred income	–	–	–	–	430	430	430	33
Derivative financial instruments	40	–	–	116	–	156	156	33
						1,619	1,619	
Carrying amount by category	121	–	–	198	4,540	4,859	4,888	

2014 EURm Balance sheet item	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives used for hedging	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair values	Note
Non-current financial assets								
Available-for-sale investments	–	–	2,510	–	–	2,510	2,510	22
Non-current financial assets								
Loan receivables	–	43	–	–	–	43	43	23
Derivative financial instruments	9	–	–	282	–	291	291	23
						334	334	23
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,562	–	–	–	1,562	1,562	26
Prepayments and accrued income	–	143	–	–	–	143	143	26
Derivative financial instruments	53	–	–	98	–	151	151	26
						1,856	1,856	
Carrying amount by category	62	1,748	2,510	380	–	4,700	4,700	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	2,959	2,959	3,037	31
Derivative financial instruments	50	–	–	49	–	99	99	31
						3,058	3,136	31
Other liabilities								
Other liabilities	–	–	–	–	99	99	99	32
Derivative financial instruments	12	–	–	39	–	51	51	32
						150	150	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	365	365	365	31
Derivative financial instruments	41	–	–	–	–	41	41	31
						406	406	31
Trade and other payables								
Trade and other payables	–	–	–	–	941	941	941	33
Accrued expenses and deferred income	–	–	–	–	429	429	429	33
Derivative financial instruments	30	–	–	149	–	179	179	33
						1,549	1,549	
Carrying amount by category	133	–	–	237	4,793	5,163	5,241	

Fair values of long-term loans, have been estimated as follows:

- The fair value of quoted bonds is based on the quoted market value as of 31 December. The fair value of fixed rate and market-based floating rate loans is estimated using the expected future payments discounted at market interest rates and it is within level 2 of the fair value hierarchy.
- The carrying amounts of current financial assets and liabilities approximate their fair value.

35 Derivative financial instruments

Net fair values of derivative financial instruments

EURm	2015 Positive fair values	2015 Negative fair values	2015 Net fair values	2014 Positive fair values	2014 Negative fair values	2014 Net fair values
Interest rate swaps						
Cash flow hedges	–	–18	–18	–	–23	–23
Fair value hedges	181	–	181	201	–	201
Held for trading	31	–2	29	31	–2	29
Forward foreign exchange contracts						
Cash flow hedges	17	–27	–10	49	–77	–28
Net equity hedges	–	–21	–21	–	–30	–30
Held for trading	14	–14	–	24	–18	6
Currency options						
Held for trading, bought	–	–	–	–	–	–
Held for trading, written	–	–	–	–	–	–
Cross currency swaps						
Cash flow hedges	–	–23	–23	–	–26	–26
Fair value hedges	85	–	85	78	–	78
Held for trading	16	–46	–30	6	–90	–84
Commodity Contracts						
Cash flow hedges	88	–109	–21	52	–81	–29
Held for trading	8	–59	–51	1	–23	–22
Interest rate forward contracts						
Held for trading	–	–	–	–	–	–
Total	440	–319	121	442	–370	72

No derivative financial instruments are subject to offsetting in the Group's financial statements. All derivative financial instruments are under ISDA or similar master netting agreement.

Net fair values calculated by counterparty

EURm	As at 31 December 2015 Positive fair values	Negative fair values	Net fair values
Derivative financial instruments	250	–129	121

Notional amounts of derivative financial instruments

EURm	As at 31 December 2015	2014
Interest rate forward contracts	1,906	2,310
Interest rate swaps	2,131	2,134
Forward foreign exchange contracts	2,949	4,465
Currency options	73	38
Cross currency swaps	669	617
Commodity contracts	400	442

Cash collaterals pledged for derivative contracts totalled EUR 7 million of which EUR 5 million relate to commodity contracts and EUR 2 million to interest rate forward contracts.

36 Principal subsidiaries and joint operations as at 31 December 2015

Subsidiaries, country of incorporation	Group holding %
Blandin Paper Company, US	100.00
Forestal Oriental S.A., UY	100.00
Gebrüder Lang GmbH Papierfabrik, DE	100.00
LLC UPM Ukraine, UA	100.00
MD Papier GmbH, DE	100.00
Nordland Papier GmbH, DE	100.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
OOO UPM-Kymmene, RU	100.00
OOO UPM-Kymmene Chudovo, RU	100.00
PT UPM Raflatac Indonesia, ID	100.00
Rhein Papier GmbH, DE	100.00
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	100.00
UPM (China) Co., Ltd, CN	100.00
UPM (Vietnam) Ltd, VN	100.00
UPM AS, EE	100.00
UPM Asia Pacific Pte. Ltd, SG	100.00
UPM France S.A.S., FR	100.00
UPM GmbH, DE	100.00
UPM Manufatura e Comércio de Produtos Florestais Ltda, BR	100.00
UPM Raflatac (Changshu) Co., Ltd, CN	100.00
UPM Raflatac (S) Pte Ltd, SG	100.00
UPM Raflatac Canada Holdings Inc., CA	100.00
UPM Raflatac Co., Ltd, TH	100.00
UPM Raflatac Iberica S.A., ES	100.00
UPM Raflatac Inc., US	100.00
UPM Raflatac Mexico S.A. de C.V., MX	100.00
UPM Raflatac NZ Limited, NZ	100.00
UPM Raflatac Oy, FI	100.00
UPM Raflatac Pty Ltd, AU	100.00
UPM Raflatac s.r.l., AR	100.00
UPM Raflatac Sdn. Bhd., MY	100.00
UPM Raflatac South Africa (Pty) Ltd, ZA	100.00
UPM Raflatac Sp.z.o.o., PL	100.00
UPM S.A., UY	91.00
UPM Sales GmbH, DE	100.00
UPM Sales Oy, FI	100.00
UPM Silvesta Oy, FI	100.00
UPM Sähkönsiirto Oy, FI	100.00
UPM-Kymmene (UK) Ltd, GB	100.00
UPM-Kymmene AB, SE	100.00
UPM-Kymmene Austria GmbH, AT	100.00
UPM-Kymmene B.V., NL	100.00
UPM-Kymmene Inc., US	100.00
UPM-Kymmene India Private Limited, IN	100.00
UPM-Kymmene Japan K.K., JP	100.00
UPM-Kymmene Kagit Urunleri Sanayi ve Ticaret Ltd. Sti, TR	99.99
UPM-Kymmene Otepää AS, EE	100.00
UPM-Kymmene Pty Limited, AU	100.00
UPM-Kymmene S.A., ES	100.00
UPM-Kymmene Seven Seas Oy, FI	100.00
UPM-Kymmene S.r.l., IT	100.00
UPM-Kymmene Wood Oy, FI	100.00
Werla Insurance Company Ltd, MT	100.00
Wisapower Oy, FI	100.00

The table includes subsidiaries with sales exceeding EUR 2 million.

Joint operations, country of incorporation	Group holding %
Oy Alholmens Kraft Ab (Pohjolan Voima Oy, G serie), FI	27.88
EEVG Entsorgungs- und Energieverwertungs-gesellschaft m.b.H., AT	50.00
Järvi-Suomen Voima Oy, FI	50.00
Kainuun Voima Oy, FI	50.00
Kaukaan Voima Oy (Pohjolan Voima Oy, G9 serie), FI	54.00
Kymin Voima Oy (Pohjolan Voima Oy, G2 serie), FI	76.00
Madison Paper Industries, US	50.00
Rauman Biovoima Oy (Pohjolan Voima Oy, G4 serie), FI	71.95

37 Share-based payments

Share-based rewards

The Group's long-term incentives consist of the Performance Share Plan (PSP) for senior executives and the Deferred Bonus Plan (DBP) for other key employees. In both PSP and DBP, earning of shares is subject to achievement of predetermined earning criteria. PSP and DBP share deliveries are executed by using already existing shares and the plans, therefore, have no dilutive effect.

The Performance Share Plan consists of annually commencing three-year plans. The plan is targeted at Group Executive Team (GET) members and other selected members of the management and it consists of a three-year earning period. The earned shares are delivered after the earning period has ended. Under the plans, UPM shares are awarded based either on group-level performance or total shareholder return during a three-year earning period. Total shareholder return takes into account share price appreciation and paid dividends. The number of shares earned under Performance Share Plans as well as other key figures of the plans are presented in the table below.

Performance share plans	PSP 2012-2014	PSP 2013-2015	PSP 2014-2016	PSP 2015-2017
No. of participants (31 Dec. 2015)	32	33	25	25
Actual achievement	22.3%	90.4%	–	–
Max no. of shares to be delivered 1):				
to the President and CEO	48,837	197,976	125,000	125,000
to other members of GET	103,695	397,760	370,000	370,000
to other key individuals	85,855	402,280	347,500	345,000
Total max no. of shares to be delivered	238,387	998,016	842,500	840,000
Share delivery (year)	2015	2016	2017	2018
Earning criteria (weighting)	Operating cash flow (60%) and EPS (40%)	Operating cash flow (60%) and EPS (40%)	Total shareholder return (100%)	Total shareholder return (100%)

1) For PSP 2012–2014 and PSP 2013–2015 the gross amount of the actual no. of shares earned.

The Deferred Bonus Plan is targeted at other selected key employees of the Group and it consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. UPM shares are awarded based on achievement of group and/or business area EBITDA targets. Prior to share delivery, the share rewards earned are adjusted with dividends and other capital distribution, if any, paid to all shareholders during the restriction period. Key figures related to the Deferred Bonus Plans are presented in the table below.

Deferred bonus plans	DBP 2012	DBP 2013	DBP 2014	DBP 2015
No. of participants (at grant)	580	560	395	350
No. of participants (31 Dec. 2015)	489	505	380	348
Max no. of shares to be delivered (at grant)	1,800,000	1,640,000	950,000	800,000
Estimated no. of shares to be delivered as at 31 Dec. 2015 1)	616,584	255,451	312,637	302,869
Share delivery (year)	2015	2016	2017	2018
Earning criteria	Financial STI targets	Group/Business Area EBITDA	Group/Business Area EBITDA	Group/Business Area EBITDA

1) For DBP 2012 the gross amount of the actual no. of shares earned.

The indicated actuals and estimates of the share rewards under the Performance Share Plan and the Deferred Bonus Plan represent the gross amount of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants. The amount of estimated payroll tax accruals at 31 December 2015 recognised as liabilities were EUR 14.7 million (9.9 million).

38 Related party transactions

The Board of Directors and the Group Executive Team

There have not been any material transactions between UPM and its members of the Board of Directors or the Group Executive Team (key management personnel) or persons closely associated with these members or organisations in which these individuals have control or significant influence. There are no loans granted to any members of the Board of Directors or the Group Executive Team at 31 December 2015 and 2014. Shares held by members of the Board of Directors and members of the Group Executive Team are disclosed in pages 65 and 69. Remuneration to members of the Board of Directors and the Group Executive Team are disclosed in Note 7.

Associated companies and joint ventures

The Group's recovered paper purchases in 2015 from associated companies and joint ventures were close to 620,000 tonnes (620,000 tonnes). In Finland, the Group organises its producer's responsibility of recovered paper collection through Paperinkeräys Oy, in which the Group has 33.1% interest. Austria Papier Recycling GmbH purchases recovered paper in Austria, in which the Group has a 33.3% equity interest. L.C.I s.r.l. is an Italian recovered paper purchasing company in which the Group has a 50.0% interest. ASD Altpapier Sortierung Dachau GmbH is a German recovered paper sorting company in which the Group has a 50.0% interest. The purchases from those four companies represented approximately 81% (80%) of total recovered paper purchase amount from associated companies and joint ventures. Recovered paper purchases are based on market prices.

The balances with the Group's associated companies and joint ventures are presented in Note 21.

Pension Funds

In Finland, Group has a pension foundation, Kymin Eläkesäätiö, which is a separate legal entity. Pensions for about 10% of the Group's Finnish employees are arranged through the foundation. In 2015 the contributions paid by UPM to the Foundation amounted to EUR 10 million (7 million). The Foundation manages and invests the contributions paid to the plan. The fair value of the Foundation's assets at 31 December 2015 was EUR 357 million (351 million), of which 49% was in the form of equity instruments, 40% in the form of debt instruments and 11% invested in property and money market.

In the UK, the single UPM Pension Scheme operates under a Trust which is independent from the Company. The Trust consists of various Defined Benefit sections, all of which are closed to future accrual and one common Defined Contribution section which is open to all UPM employees in the UK. The Group made contributions of EUR 28 million (6 million) to the Defined Benefit sections of the Scheme in 2015. The next UK actuarial valuation will be in April 2016. The fair value of the UK Defined Benefit fund assets at 31 December 2015 was EUR 409 million (363 million), of which 62% was invested in equity instruments, 28% in debt instruments and 10% in property and money market.

Subsidiaries and joint operations

The Group's principal subsidiaries and joint operations are disclosed in Note 36.

39 Commitments and contingencies

Contingent liabilities

The Group is a defendant or plaintiff in a number of legal proceedings incidental to its operations. These lawsuits primarily involve claims arising from commercial law issues.

Group companies

In 2011, Metsähallitus (a Finnish state enterprise which administers state-owned land) filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Finnish Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the Finnish roundwood market. In addition to Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims totals EUR 196 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 34 million in the aggregate. It is expected that the amounts claimed will change as a result of new claims, which have not yet been served. In addition to the claims on capital amounts, the claimants are also requesting compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

In 2012 UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along right under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of shares in Metsä Fibre to Itochu Corporation. UPM claimed jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million. Metsäliitto and Metsä Board had sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto had exercised a call option to purchase UPM's remaining 11% shareholding in Metsä Fibre for EUR 150 million. The arbitral tribunal rendered its final decision (arbitral award) in February 2014 and ordered Metsäliitto and Metsä Board to pay UPM the capital amount of EUR 58.5 million and penalty interest and compensate UPM for its legal fees. As a result, UPM recorded an income of EUR 67 million as a special item in Q1 2014. In May 2014 Metsäliitto and Metsä Board commenced litigation proceedings in the Helsinki District Court challenging the arbitral award and requesting the District Court to set aside the arbitral award or to declare it null and void. 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 is not final.

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. The judgement is not final.

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. According to TVO, the proposed schedule is currently undergoing detailed scrutiny.

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 July 2015, is in total approximately EUR 3.4 billion. The claim covers events occurred during the construction period until the end of June 2011. The sum includes penalty interest (until 31 July 2015) and payments allegedly delayed by TVO under the plant contract together amounting to approximately EUR 1.4 billion as well as approximately EUR 140 million in alleged lost of profit. Having considered and found the earlier claims by the Supplier to be without merit, TVO will scrutinize the updated claim and respond to it in due course. According to TVO, the quantification estimate of its costs and losses related to its claim in the arbitration proceedings is approximately EUR 2.6 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.

Commitments

In the normal course of business, UPM enters into various agreements providing financial or performance assurance to third parties. The maximum amounts of future payments for which UPM is liable is disclosed in the table below under “Other commitments”.

Commitments

EURm	As at 31 December 2015	2014
On own behalf		
Mortgages and pledges	220	289
On behalf of others		
Guarantees	4	5
Other commitments, own		
Operating leases, due within 12 months	65	60
Operating leases, due after 12 months	355	339
Other commitments	180	160
Total	824	853
Mortgages and pledges	220	289
Guarantees	4	5
Operating leases	420	399
Other commitments	180	160
Total	824	853

Property under mortgages given as collateral for own commitments include property, plant and equipment, industrial estates and forest land.

In addition, UPM has committed to participate in the share issue from Pohjolan Voima Oy to finance the Olkiluoto 3 nuclear power plant project. UPM's total commitment of the share issue is EUR 119 million, of which EUR 31 million was paid in 2015, EUR 31 million in 2014 and EUR 31 million in 2013. The remaining part of the share issue will be implemented during the coming years based on the financing needs of the project.

Operating lease commitments, where a Group company is the lessee

The Group leases office, manufacturing and warehouse space through various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

The future aggregate minimum lease payments under non-cancellable operating lease contracts

EURm	As at 31 December 2015	2014
No later than 1 year	65	60
1–2 years	50	47
2–3 years	45	39
3–4 years	36	35
4–5 years	34	31
Later than 5 years	190	187
Total	420	399

Capital commitments at the balance sheet date but not recognised in the financial statements; major commitments under construction listed below

EURm	Total cost	Commitment as at 31 December 2015	2014
Debottlenedking / Kaukas pulp mill	52	49	–
Mill expansion / Otepää	42	30	–

40 Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 31 December 2015.

Parent company accounts

(Finnish Accounting Standards, FAS)

Income statement

EURm	Note	Year ended 31 Dec. 2015	2014
Sales	1	3,298	3,395
Change in inventories of finished goods and work in progress		2	−33
Production for own use		4	5
Other operating income	2	169	186
Materials and services			
Materials and consumables			
Purchases during the financial period		−1,992	−2,079
Change in inventories		−26	−7
External services		−38	−36
		−2,056	−2,122
Personnel expenses	3		
Wages and salaries		−363	−361
Social security expenses			
Pension expenses		−64	−59
Other social security expenses		−18	−22
		−445	−442
Depreciation and value adjustments	4		
Depreciation according to plan		−220	−227
Value adjustments to goods held as non-current assets		–	−50
		−220	−277
Other operating costs and expenses	3	−163	−499
Operating profit		589	213
Financial income and expenses			
Income from investments held as non-current assets			
Dividends from Group companies		182	559
Interest income from Group companies		6	8
Other interest and financial income			
Other interest income from Group companies		3	3
Other interest income from other companies		–	11
Other financial income from Group companies		29	8
Other financial income from other companies		–	1
Value adjustments on investments		–	−10
Interest and other financial expenses			
Interest expenses to Group companies		−34	−37
Interest expenses to other companies		−26	−37
Other financial expenses to other companies		−97	−101
Total financial income and expenses		63	405
Profit before extraordinary items		652	618
Extraordinary items	5		
Extraordinary income		4	70
Extraordinary expenses		−6	−9
Total extraordinary items		−2	61
Profit before appropriations and taxes		650	679
Appropriations			
Increase or decrease in accumulated depreciation difference		−44	117
Income taxes	6	−61	−86
Profit for the financial period		545	710

Cash flow statement

EURm	Note	Year ended 31 Dec. 2015	2014
Operating activities			
Profit before extraordinary items		652	618
Financial income and expenses		−63	−405
Adjustments to operating profit	1	−39	384
Change in working capital	2	108	99
Interest paid		−60	−75
Dividends received		182	560
Interest received		12	23
Other financial items		−25	25
Income taxes paid	3	−90	−63
Net cash generated from operating activities		677	1,166
Investing activities			
Investments in tangible and intangible assets		−180	−181
Proceeds from sale of tangible and intangible assets		135	100
Investments in shares and holdings		−69	−29
Proceeds from sale of shares and holdings		818	59
Increase in other investments		−71	−9
Decrease in other investments		15	39
Net cash used in investing activities		648	−21
Financing activities			
Decrease in non-current liabilities		−386	−766
Increase or decrease in current liabilities		−614	−223
Share options exercised		–	47
Dividends paid		−373	−319
Group contributions received and paid		61	4
Net cash used in financing activities		−1,312	−1,257
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		464	576
Change in cash and cash equivalents		13	−112
Cash and cash equivalents at end of year		477	464

Notes to the cash flow statement

	2015	2014
1 Adjustments to operating profit		
Depreciation	220	227
Gains and losses on sale of non-current assets	−251	102
Value adjustments on non-current assets	–	50
Change in provisions	−8	5
Total	−39	384
2 Change in working capital		
Inventories	30	37
Current receivables	27	77
Current non-interest-bearing liabilities	51	−15
Total	108	99

3 Taxes from sales of non-current assets are reported here on a net basis.

Balance sheet

EURm	Note	As at 31 December 2015	2014
Assets			
Non-current assets			
Intangible assets	7		
Intangible rights		5	5
Other capitalised expenditure		178	198
Advance payments		4	3
Total intangible assets		187	206
Tangible assets	8		
Land and water areas		891	934
Buildings		443	441
Machinery and equipment		868	720
Other tangible assets		37	38
Advance payments and construction in progress		23	209
Total tangible assets		2,262	2,342
Investments	9		
Holdings in Group companies		3,984	4,648
Receivables from Group companies		723	666
Holdings in participating interest companies		93	99
Receivables from participating interest companies		6	6
Other shares and holdings		614	582
Other receivables		7	30
Total investments		5,427	6,031
Total non-current assets		7,876	8,579
Current assets			
Inventories			
Raw materials and consumables		203	229
Finished products and goods		80	77
Advance payments		31	38
Total inventories		314	344
Current receivables	10		
Trade receivables		135	121
Receivables from Group companies		868	953
Receivables from participating interest companies		11	11
Loan receivables		–	2
Other receivables		82	79
Prepayments and accrued income		121	91
Total current receivables		1,217	1,257
Cash and cash equivalents		477	464
Total current assets		2,008	2,065
Total assets		9,884	10,644

EURm	Note	As at 31 December 2015	2014
Equity and liabilities			
Shareholders' equity	11		
Share capital		890	890
Revaluation reserve		427	463
Reserve for invested non-restricted equity		1,273	1,273
Retained earnings		1,714	1,378
Profit for the financial period		545	710
Total equity		4,849	4,714
Appropriations			
Accumulated depreciation difference		608	564
Provisions	12		
Provisions for pensions		13	17
Other provisions		47	51
Total provisions		60	68
Non-current liabilities	13		
Bonds		991	905
Loans from financial institutions		911	1,223
Pension loans		135	202
Other liabilities		161	145
Total non-current liabilities		2,198	2,475
Current liabilities	14		
Loans from financial institutions		13	16
Pension loans		68	68
Advances received		1	1
Trade payables		300	280
Payables to Group companies		1,489	2,123
Payables to participating interest companies		3	6
Other liabilities		55	37
Accruals and deferred income		240	292
Total current liabilities		2,169	2,823
Total liabilities		4,367	5,298
Total equity and liabilities		9,884	10,644

Notes to the parent company financial statements

(All amounts in millions of euros unless otherwise stated.)

Accounting policies

The parent company financial statements are prepared in accordance with Finnish Accounting Standards. The main differences in accounting policies between the Group and the parent company relate to the measurement of derivative financial instruments and biological assets and the recognition of defined benefit obligations, revaluations and deferred income taxes. See Notes to the consolidated financial statements, Note 1.

1 Sales

Owing to the corporate structure of the Group, the sales of the parent company has not been divided by segment and destination. See Notes to the consolidated financial statements, Note 4.

2 Other operating income

EURm	Year ended 31 Dec. 2015	2014
Gains on sale of non-current assets	148	163
Rental income	16	17
Other	5	6
Total	169	186

3 Personnel expenses and other operating costs and expenses

EURm	Year ended 31 Dec. 2015	2014
Wages and salaries		
President and CEO, and members of the Board of Directors [1]	4	3
Other wages and salaries	359	358
Total	363	361

[1] See Notes to the consolidated financial statements, Note 7.

	Year ended 31 Dec. 2015	2014
Average number of personnel	5,747	5,880

Owing to the corporate structure of the Group, the average number of personnel has not been divided by segment. See Notes to the consolidated financial statements, Note 4.

EURm	Year ended 31 Dec. 2015	2014
Auditor's fees	0.8	0.8

4 Depreciation and value adjustments

EURm	Year ended 31 Dec. 2015	2014
Depreciation according to plan		
Intangible rights	2	2
Other capitalised expenditure	24	32
Buildings	33	35
Machinery and equipment	155	151
Other tangible assets	6	7
Total	220	227
Value adjustments		
Intangible and tangible assets	–	50
Total	220	277

5 Extraordinary items

EURm	Year ended 31 Dec. 2015	2014
Extraordinary income		
Group contributions received	4	70
Extraordinary expenses		
Group contributions paid	–6	–9
Total extraordinary items	–2	61

6 Income taxes

EURm	Year ended 31 Dec. 2015	2014
Income taxes for the financial period	61	86
Total	61	86

Deferred income taxes

Deferred income tax assets and liabilities of the parent company are not recorded on the balance sheet. Deferred tax liability mainly comprises depreciation differences, for which the deferred tax liability at 31 December 2015 was EUR 122 million at 20% tax rate (113 million). Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued asset is EUR 117 million at 20% tax rate (124 million). Deferred tax asset mainly comprises provisions, for which the deferred tax asset at 31 December 2015 was EUR 12 million at 20% tax rate (14 million).

7 Intangible assets

EURm	As at 31 Dec. 2015	2014
Intangible rights		
Acquisition cost at 1 Jan.	20	19
Increases	7	3
Decreases	–8	–2
Acquisition cost at 31 Dec.	19	20
Accumulated depreciation at 1 Jan.	–15	–14
Accumulated depreciation on decreases and transfers	3	1
Depreciation for the period	–2	–2
Accumulated depreciation at 31 Dec.	–14	–15
Book value at 31 Dec.	5	5
Other capitalised expenditure		
Acquisition cost at 1 Jan.	544	535
Increases	4	5
Decreases	–26	–2
Transfers between balance sheet items	1	6
Acquisition cost at 31 Dec.	523	544
Accumulated depreciation at 1 Jan.	–346	–316
Accumulated depreciation on decreases and transfers	25	2
Depreciation for the period	–24	–32
Accumulated depreciation at 31 Dec.	–345	–346
Book value at 31 Dec.	178	198
Advance payments		
Acquisition cost at 1 Jan.	3	6
Increases	3	3
Decreases	–1	–
Transfers between balance sheet items	–1	–6
Book value at 31 Dec.	4	3

8 Tangible assets

EURm	As at 31 Dec. 2015	2014
Land and water areas		
Acquisition cost at 1 Jan.	476	487
Increases	8	3
Decreases	–15	–14
Transfers between balance sheet items	1	–
Acquisition cost at 31 Dec.	470	476
Revaluations at 1 Jan.	458	488
Reversal of revaluation	–37	–30
Revaluations at 31 Dec.	421	458
Book value at 31 Dec.	891	934
Buildings		
Acquisition cost at 1 Jan.	1,240	1,206
Increases	12	12
Decreases	–34	–2
Transfers between balance sheet items	24	24
Acquisition cost at 31 Dec.	1,242	1,240
Accumulated depreciation at 1 Jan.	–799	–746
Accumulated depreciation on decreases and transfers	33	3
Depreciation for the period	–33	–35
Value adjustments	–	–21
Accumulated depreciation at 31 Dec.	–799	–799
Book value at 31 Dec.	443	441

EURm	As at 31 Dec. 2015	2014
Machinery and equipment		
Acquisition cost at 1 Jan.	5,068	5,013
Increases	64	45
Decreases	–343	–3
Transfers between balance sheet items	238	13
Acquisition cost at 31 Dec.	5,027	5,068
Accumulated depreciation at 1 Jan.	–4,348	–4,172
Accumulated depreciation on decreases and transfers	344	3
Depreciation for the period	–155	–151
Value adjustments	–	–28
Accumulated depreciation at 31 Dec.	–4,159	–4,348
Book value at 31 Dec.	868	720
Other tangible assets		
Acquisition cost at 1 Jan.	203	200
Increases	3	3
Decreases	–11	–1
Transfers between balance sheet items	3	1
Acquisition cost at 31 Dec.	198	203
Accumulated depreciation at 1 Jan.	–165	–159
Accumulated depreciation on decreases and transfers	10	2
Depreciation for the period	–6	–7
Value adjustments	–	–1
Accumulated depreciation at 31 Dec.	–161	–165
Book value at 31 Dec.	37	38
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	209	142
Increases	78	105
Transfers between balance sheet items	–264	–38
Book value at 31 Dec.	23	209

9 Investments

EURm	As at 31 Dec. 2015	2014
Holdings in Group companies		
Acquisition cost at 1 Jan.	6,070	6,109
Increases	37	–
Decreases	–714	–39
Acquisition cost at 31 Dec.	5,393	6,070
Accumulated depreciation at 1 Jan.	–1,422	–1,187
Accumulated depreciation on decreases and transfers	–92	–
Value adjustments	105	–235
Accumulated depreciation at 31 Dec.	–1,409	–1,422
Book value at 31 Dec.	3,984	4,648

Value adjustments relate to holdings in Group companies in Finland and in foreign countries. Value adjustments are included in other operating costs and expenses. The Group subsidiaries are disclosed in the consolidated financial statements, Note 36.

EURm	As at 31 Dec. 2015	2014
Receivables from Group companies		
Acquisition cost at 1 Jan.	666	693
Increases	69	7
Decreases	–12	–34
Book value at 31 Dec.	723	666

EURm	As at 31 Dec. 2015	2014
Holdings in participating interest companies		
Acquisition cost at 1 Jan.	99	99
Decreases	–6	–
Acquisition cost at 31 Dec.	93	99
Book value at 31 Dec.	93	99
Receivables from participating interest companies		
Acquisition cost at 1 Jan.	6	5
Increases	–	2
Decreases	–	–1
Book value at 31 Dec.	6	6
Other shares and holdings		
Acquisition cost at 1 Jan.	418	398
Increases	32	30
Value adjustments	–	–10
Acquisition cost at 31 Dec.	450	418
Revaluations at 1 Jan.	164	164
Revaluations at 31 Dec.	164	164
Book value at 31 Dec.	614	582
Other receivables		
Acquisition cost at 1 Jan.	30	31
Decreases	–21	–1
Transfers between balance sheet items	–2	–
Book value at 31 Dec.	7	30

There were no loans granted to the company's President and CEO, and members of the Board of Directors at 31 December 2015 or 2014.

10 Current receivables

EURm	As at 31 Dec. 2015	2014
Trade receivables	228	229
Loan receivables	783	848
Other receivables	82	79
Prepayments and accrued income	124	101
Total at 31 Dec.	1,217	1,257
Main items included in prepayments and accrued income		
Personnel expenses	4	6
Interest income	39	42
Derivative financial instruments	4	8
Income taxes	37	–
Other items	40	45
At 31 Dec.	124	101
Receivables from Group companies		
Trade receivables	83	97
Loan receivables	783	846
Prepayments and accrued income	2	10
At 31 Dec.	868	953
Receivables from participating interest companies		
Trade receivables	10	11
Prepayments and accrued income	1	–
At 31 Dec.	11	11

11 Shareholders' equity

EURm	Share capital	Revaluation reserve	Reserve for invested non-restricted equity	Retained earnings	Total shareholders' equity
Balance at 1 January 2015	890	463	1,273	2,088	4,714
Dividend distribution	–	–	–	–373	–373
Revaluations	–	–36	–	–	–36
Other changes	–	–	–	–1	–1
Profit for the financial period	–	–	–	545	545
Balance at 31 December 2015	890	427	1,273	2,259	4,849
Balance at 1 January 2014	890	493	1,226	1,697	4,306
Share options exercised	–	–	47	–	47
Dividend distribution	–	–	–	–319	–319
Revaluations	–	–30	–	–	–30
Profit for the financial period	–	–	–	710	710
Balance at 31 December 2014	890	463	1,273	2,088	4,714

EURm	As at 31 Dec. 2015	2014
Distributable funds at 31 Dec.		
Reserve for invested non-restricted equity	1,272.8	1,272.8
Retained earnings from previous years	1,714.9	1,378.1
Profit for the financial period	545.1	710.3
Distributable funds at 31 Dec.	3,532.8	3,361.2

12 Provisions

EURm	As at 31 Dec. 2015	2014
Provisions for pensions	13	17
Restructuring provisions	15	17
Environmental provisions	12	13
Other provisions	20	21
Total at 31 Dec.	60	68

Changes of provisions are included in personnel and other operating expenses. Information of provisions is disclosed in the consolidated financial statements, Note 30.

13 Non-current liabilities

EURm	As at 31 Dec. 2015	2014
Bonds	991	905
Loans from financial institutions	911	1,223
Pension loans	135	202
Other liabilities	161	145
Total at 31 Dec.	2,198	2,475
Maturity of non-current liabilities		
In 2–5 years		
Bonds	570	527
Loans from financial institutions	911	1,215
Pension loans	135	202
Other liabilities	1	–
	1,617	1,944
Later than 5 years		
Bonds	421	378
Loans from financial institutions	–	8
Other liabilities	160	145
	581	531
Total at 31 Dec.	2,198	2,475

Bonds

Fixed-rate	Interest rate %		Nominal value issued m	As at 31 Dec. 2015 EURm	2014 EURm
1997–2027	7.450	USD	375	344	309
2000–2030	3.550	JPY	10,000	76	69
2002–2017	6.625	GBP	250	341	321
2003–2018	5.500	USD	250	230	206
Total at 31 Dec.				991	905
Current portion				–	–
Non-current portion				991	905

14 Current liabilities

EURm	As at 31 Dec. 2015	2014
Loans from financial institutions	13	16
Pension loans	68	68
Advances received	1	1
Trade payables	353	331
Other liabilities	1,474	2,080
Accruals and deferred income	260	327
Total at 31 Dec.	2,169	2,823

EURm	As at 31 Dec. 2015	2014
Main items included in accruals and deferred income		
Personnel expenses	116	102
Interest expenses	36	40
Income taxes	–	20
Derivative financial instruments	97	160
Customer rebates	8	4
Other items	3	1
At 31 Dec.	260	327
Payables to Group companies		
Trade payables	51	45
Other liabilities	1,418	2,043
Accruals and deferred income	20	35
At 31 Dec.	1,489	2,123
Payables to participating interest companies		
Trade payables	2	6
Other liabilities	1	–
At 31 Dec.	3	6

15 Contingent liabilities

EURm	As at 31 Dec. 2015	2014
Mortgages [1]		
As security against own debts	220	289
Guarantees		
Guarantees for loans		
On behalf of Group companies	159	903
Other guarantees		
On behalf of Group companies	53	120
Other commitments [2]		
Leasing commitments for next year	25	104
Leasing commitments for subsequent years	147	66
Other commitments	175	111
Total	779	1,593

1) The mortgages given relate mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

2) Other commitments relate mainly to procurement of commodities.

Pension commitments of the President and CEO and the members of the Group Executive Team
See Notes to the consolidated financial statements, Note 7.

Other commitments
The commitment to participate in the share issue from Pohjolan Voima Oy would total EUR 25 million (55 million).

Derivative contracts
Fair values and notional values are disclosed in the consolidated financial statements, Notes 35. All derivatives disclosed have been contracted by the parent Company.

Related party transactions
See Notes to the consolidated financial statements, Note 38.

Information on shares

Changes in number of shares 1 January 2011 – 31 December 2015

		Number of shares
2010	Number of shares at 31 Dec. 2010	519,970,088
2011	Share issue	5,000,000
	Options exercised	2,750
	Number of shares at 31 Dec. 2011	524,972,838
2012	Options exercised	1,151,572
	Number of shares at 31 Dec. 2012	526,124,410
2013	Options exercised	3,177,487
	Number of shares at 31 Dec. 2013	529,301,897
2014	Options exercised	4,433,802
	Number of shares at 31 Dec. 2014	533,735,699
2015	Number of shares at 31 Dec. 2015	533,735,699

Stock exchange trading
UPM's shares are listed on NASDAQ OMX Helsinki Ltd. The company's ADSs are traded on the U.S. over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt programme.

A total of 456.1 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2015 (508.3 million). This represented 85.5% (95.2%) of the total number of shares. The highest quotation was EUR 19.26 in April and the lowest EUR 13.19 in September. The total value of shares traded in 2015 was EUR 7,469 million (6,233 million).

Treasury shares
As at 31 December 2015, the company held 230,737 (230,737) of its own shares, 0.04% (0.04%) of the total number of shares. Of these shares 211,481 were returned upon their issue to UPM without consideration as part of Myllykoski transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts.

Shares and options held by the Board of Directors and the Group Executive Team
At the end of the year, the members of the Board of Directors including President and CEO owned a total of 882,101 (892,498) UPM-Kymmene Corporation shares, including shares held by persons closely associated with him or her or by organisations of which the person has control. These represent 0.16% (0.17%) of the shares and 0.16% (0.17%) of the voting rights. At the end of the year, President and CEO Jussi Pesonen owned 220,275 shares. At the end of the year, the other members of the Group Executive Team owned a total of 288,747 shares.

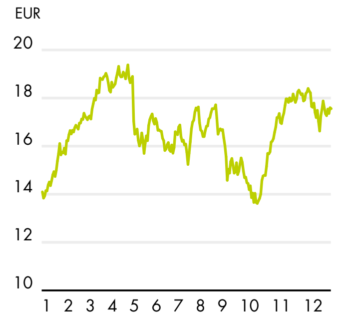
Biggest registered shareholders at 31 December 2015

	Shares at 31 December 2015	% of shares	% of votes
Ilmarinen Mutual Pension Insurance Company	7,114,789	1.33	1.33
Varma Mutual Pension Insurance Company	7,074,488	1.33	1.33
ELO Mutual Pension Insurance Company	4,600,000	0.86	0.86
Mandatum Life Insurance Company	4,535,320	0.85	0.85
The Local Government Pensions Institution	4,461,749	0.84	0.84
The State Pension Fund	4,230,000	0.79	0.79
The Society of Swedish Literature in Finland	3,870,780	0.73	0.73
Swiss National Bank	3,500,033	0.66	0.66
Skagen Global Verdipapirfond	3,099,638	0.58	0.58
Kymin Osakeyhtiön 100-vuotissäätiö	1,696,186	0.32	0.32
Nominees & registered foreign owners	360,306,023	67.51	67.51
Others	129,246,693	24.20	24.20
Total	533,735,699	100.00	100.00

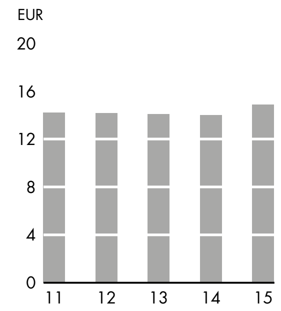
During 2015, the company received the following notifications of changes in holdings pursuant to Chapter 9, Section 5 of the Securities Market Act:

UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM has gone above the threshold of 5 per cent on 3 February 2015. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM has gone below the threshold of 5 per cent on 11 February 2015. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM has gone above the threshold of 5 per cent on 6 March 2015. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM has gone below the threshold of 5 per cent on 20 March 2015. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which Norges Bank's (The Central Bank of Norway) holding in UPM has fallen below the threshold of 5 per cent on 7 April 2015 after a share lending transaction where Norges Bank is the lender. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which Norges Bank's (The Central Bank of Norway) holding in UPM has gone above the threshold of 5 per cent on 23 April 2015 after a share lending transaction where Norges Bank is the lender. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM shares has gone above the threshold of 5 per cent on 1 December 2015 as a result of an acquisition of the company shares. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM shares has gone below the threshold of 5 per cent on 2 December 2015. UPM received an announcement under Chapter 9, Section 5 of the Securities Markets Act, according to which BlackRock, Inc.'s indirect holding in UPM shares has gone above the threshold of 5 per cent on 29 December 2015.

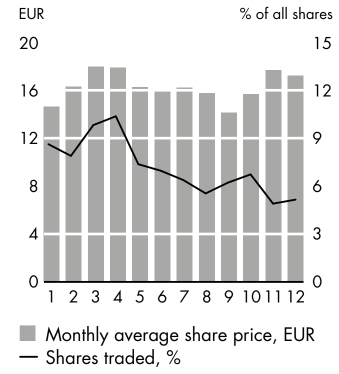
Share price in 2015



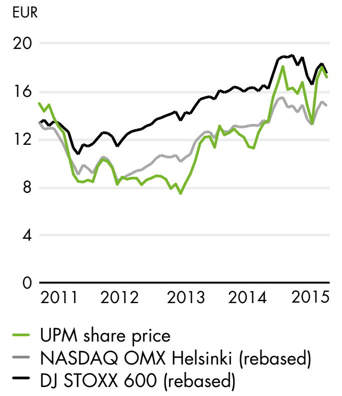
Equity per share



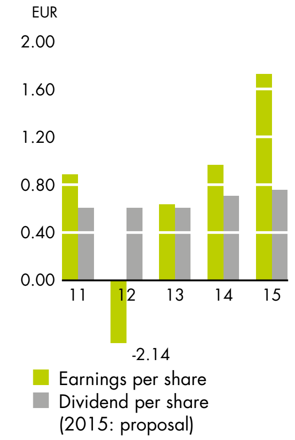
Monthly average share price and shares traded 1–12/2015



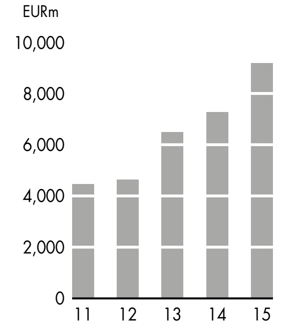
UPM share price 2011–2015 compared with indices



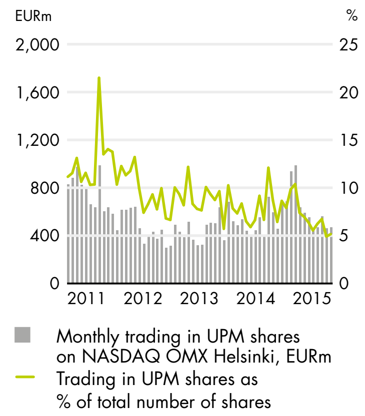
Earnings and dividend per share



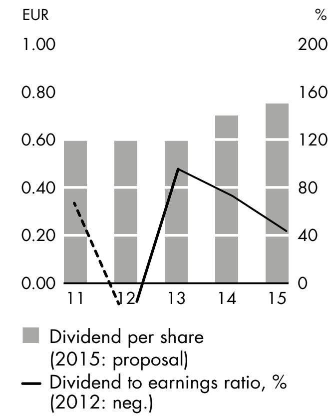
Market capitalisation



Shares traded on Helsinki stock exchange 2011–2015



Dividend per share (EUR) and dividend to earnings ratio (%)



Charts on this page are unaudited.

Distribution of shareholders at 31 December 2015

Size of shareholding	Number of shareholders	% of share-holders	Number of shares, million	% of shares
1 – 100	20,331	23.96	1.2	0.2
101 – 1,000	47,092	55.49	19.7	3.7
1,001 – 10,000	16,042	18.91	44.2	8.3
10,001 – 100,000	1,254	1.48	30.2	5.7
100,001 –	133	0.16	88.2	16.5
Total	84,852	100.00	183.5	34.4
Nominee-registered			350.0	65.6
Not registered as book entry units			0.2	0.0
Total			533.7	100.0

Shareholder breakdown by sector at 31 December, %

	2015	2014	2013	2012	2011
Companies	2.3	2.8	3.2	4.3	4.2
Financial institutions and insurance companies	3.4	4.3	4.1	5.4	6.5
Public bodies	6.0	8.0	7.8	7.9	11.3
Non-profit organisations	5.0	5.3	5.7	6.2	6.3
Households	15.8	17.2	18.7	19.9	19.9
Non-Finnish nationals	67.5	62.4	60.5	56.3	51.8
Total	100.0	100.0	100.0	100.0	100.0

Key figures 2006–2015

Adjusted share-related indicators

		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Earnings per share, EUR (diluted 2015: 1.72)		1.72	0.96	0.63	−2.14	0.88	1.08	0.33	−0.35	0.16	0.65
Equity per share, EUR		14.89	14.02	14.08	14.18	14.22	13.64	12.67	11.74	13.21	13.90
Dividend per share, EUR	1)	0.75	0.70	0.60	0.60	0.60	0.55	0.45	0.40	0.75	0.75
Dividend to earnings ratio, %		43.6	72.9	95.2	neg.	68.2	50.9	136.4	neg.	468.8	115.4
Effective dividend yield, %		4.4	5.1	4.9	6.8	7.1	4.2	5.4	4.4	5.4	3.9
P/E ratio		10.0	14.2	19.5	neg.	9.7	12.2	25.2	neg.	86.4	29.4
Operating cash flow per share, EUR		2.22	2.33	1.39	1.98	1.99	1.89	2.42	1.21	1.66	2.32
Dividend distribution, EURm	1)	400	373	317	317	315	286	234	208	384	392
Share price at 31 Dec., EUR		17.23	13.62	12.28	8.81	8.51	13.22	8.32	9.00	13.82	19.12
Market capitalisation, EURm		9,192	7,266	6,497	4,633	4,466	6,874	4,326	4,680	7,084	10,005
Shares traded, EURm 2)		7,469	6,233	5,308	5,534	8,835	8,243	5,691	10,549	16,472	16,021
Shares traded (1,000)		456,168	508,318	563,382	600,968	790,967	790,490	805,904	932,136	952,300	876,023
Shares traded, % of all shares		85.5	95.6	106.7	114.4	151.5	152.0	155.0	180.1	182.1	167.4
Lowest quotation, EUR		13.19	10.07	7.30	7.82	7.34	7.37	4.33	8.15	13.01	15.36
Highest quotation, EUR		19.26	13.99	13.02	10.98	15.73	13.57	9.78	13.87	20.59	20.91
Average quotation for the period, EUR		16.37	12.26	9.42	9.21	11.17	10.43	7.06	11.32	17.30	18.29
Number of shares, average (1,000)		533,505	531,574	527,818	525,434	521,965	519,970	519,955	517,545	522,867	523,220
Number of shares at end of period (1,000)		533,736	533,736	529,302	526,124	524,973	519,970	519,970	519,970	512,569	523,259

Formulae for calculating indicators are given on page 143.

1) Proposal.

2) Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

Financial indicators 2006–2015

EURm	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Sales	10,138	9,868	10,054	10,492	10,068	8,924	7,719	9,461	10,035	10,022
EBITDA	1,350	1,306	1,161	1,325	1,383	1,343	1,062	1,206	1,546	1,678
% of sales	13.3	13.2	11.5	12.6	13.7	15.0	13.8	12.7	15.4	16.7
Operating profit, excluding special items	1,163	847	683	556	682	731	270	513	835	725
% of sales	11.5	8.6	6.8	5.3	6.8	8.2	3.5	5.4	8.3	7.2
Operating profit	1,142	674	548	–1,318	459	755	135	24	483	536
% of sales	11.3	6.8	5.5	–12.6	4.6	8.5	1.7	0.3	4.8	5.3
Profit (loss) before tax	1,075	667	475	–1,271	417	635	187	–201	292	367
% of sales	10.6	6.8	4.7	–12.1	4.1	7.1	2.4	–2.1	2.9	3.7
Profit (loss) for the period	916	512	335	–1,122	457	561	169	–180	81	338
% of sales	9.0	5.2	3.3	–10.69	4.5	6.3	2.2	–1.9	0.8	3.4
Exports from Finland and foreign operations	9,268	8,923	9,089	9,565	9,252	8,139	7,054	8,515	9,170	9,102
Exports from Finland	4,714	4,340	4,118	4,248	4,313	3,882	3,442	4,371	4,546	4,644
Non-current assets	10,259	10,269	10,487	11,066	11,412	10,557	10,581	10,375	10,639	11,355
Inventories	1,376	1,356	1,327	1,388	1,429	1,299	1,112	1,354	1,342	1,255
Other current assets	2,558	2,570	2,785	2,489	2,548	1,956	1,912	2,052	1,972	1,859
Assets, total	14,193	14,195	14,599	14,943	15,389	13,812	13,605	13,781	13,953	14,469
Total equity	7,944	7,480	7,455	7,461	7,477	7,109	6,602	6,120	6,783	7,289
Non-current liabilities	4,328	4,717	5,019	5,430	5,320	4,922	5,432	5,816	4,753	4,770
Current liabilities	1,921	1,998	2,125	2,052	2,588	1,781	1,571	1,828	2,417	2,410
Total equity and liabilities	14,193	14,195	14,599	14,943	15,389	13,812	13,605	13,781	13,953	14,469
Capital employed at year end	11,010	10,944	11,583	11,603	12,110	11,087	11,066	11,193	11,098	11,634
Return on equity, %	11.9	6.9	4.5	neg.	6.3	8.2	2.8	neg.	1.2	4.6
Return on capital employed, %	10.3	6.5	4.8	neg.	4.4	6.6	3.2	0.2	4.3	4.7
Cash flow from operating activities	1,185	1,241	735	1,040	1,041	982	1,259	628	867	1,215
Equity to assets ratio, %	56.1	52.7	51.1	50.0	48.6	51.5	48.6	44.5	48.8	50.4
Gearing ratio, %	26	32	41	43	48	46	56	71	59	56
Net interest-bearing liabilities	2,100	2,401	3,040	3,210	3,592	3,286	3,730	4,321	3,973	4,048
Capital expenditure	520	411	362	357	1,179	257	913	551	708	699
% of sales	5.1	4.2	3.6	3.4	11.7	2.9	11.8	5.8	7.1	7.0
Capital expenditure excluding acquisitions	486	375	329	347	340	252	229	532	683	631
% of sales	4.8	3.8	3.3	3.3	3.4	2.8	3.0	5.6	6.8	6.3
Personnel at year end	19,578	20,414	20,950	22,180	23,909	21,869	23,213	24,983	26,352	28,704

Formulae for calculating indicators are given on page 143.

Deliveries

	Deliveries									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Pulp (1,000 t)	3,224	3,287	3,163	3,128	2,992	2,919	1,759	1,982	1,927	
Electricity (GWh)	8,966	8,721	8,925	9,486	8,911	9,426	8,865	10,167	10,349	
Papers, total (1,000 t)	9,771	10,028	10,288	10,871	10,615	9,914	9,021	10,641	11,389	10,988
Plywood (1,000 m^3)	740	731	737	679	656	638	567	806	945	931
Sawn timber (1,000 m^3)	1,731	1,609	1,661	1,696	1,683	1,729	1,497	2,132	2,325	2,457

Quarterly figures 2014–2015

EURm	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q1–Q4/15	Q1–Q4/14
Sales	2,574	2,530	2,548	2,486	2,531	2,415	2,441	2,481	10,138	9,868
Other operating income	–29	10	25	7	61	14	9	7	13	91
Costs and expenses	–2,209	–2,186	–2,270	–2,175	–2,286	–2,082	–2,161	–2,179	–8,840	–8,708
Change in fair value of biological assets and wood harvested	16	289	31	16	32	17	17	12	352	78
Share of results of associated companies and joint ventures	–	2	1	–	–	1	2	–	3	3
Depreciation, amortisation and impairment charges	–132	–132	–129	–131	–267	–129	–132	–130	–524	–658
Operating profit (loss)	220	513	206	203	71	236	176	191	1,142	674
Gains on available-for-sale investments, net	–	–	–	–	–	–	–	59	–	59
Exchange rate and fair value gains and losses	11	–	–3	–7	3	–3	–1	–3	1	–4
Interest and other finance costs, net	–17	–15	–21	–15	–17	–19	–16	–10	–68	–62
Profit (loss) before tax	214	498	182	181	57	214	159	237	1,075	667
Income taxes	–21	–90	–22	–26	–49	–32	–30	–44	–159	–155
Profit (loss) for the period	193	408	160	155	8	182	129	193	916	512
Attributable to:										
Owners of the parent company	193	408	160	155	8	182	129	193	916	512
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
	193	408	160	155	8	182	129	193	916	512
Basic earnings per share, EUR	0.36	0.77	0.30	0.29	0.01	0.34	0.25	0.36	1.72	0.96
Diluted earnings per share, EUR	0.36	0.77	0.30	0.29	0.01	0.34	0.25	0.36	1.72	0.96
Earnings per share, excluding special items, EUR	0.37	0.76	0.33	0.29	0.32	0.32	0.26	0.27	1.75	1.17
Average number of shares basic (1,000)	533,505	533,505	533,505	533,505	532,916	531,932	531,932	529,514	533,505	531,574
Average number of shares diluted (1,000)	533,505	533,505	533,505	533,505	532,202	532,114	532,201	529,777	533,505	531,574
Special items in operating profit (loss)	–5	6	–21	–1	–159	1	–10	–5	–21	–173
Operating profit (loss), excl. special items	225	507	227	204	230	235	186	196	1,163	847
% of sales	8.7	20.0	8.9	8.2	9.1	9.7	7.6	7.9	11.5	8.6
Special items in financial items	–	–	–	–	–	–	–	66	–	66
Special items before tax	–5	6	–21	–1	–159	1	–10	61	–21	–107
Profit (loss) before tax, excl. special items	219	492	203	182	216	213	169	176	1,096	774
% of sales	8.5	19.4	8.0	7.3	8.5	8.8	6.9	7.1	10.8	7.8
Impact on taxes from special items	1	–1	5	1	–6	11	4	–13	6	–4
Return on equity, excl. special items, %	9.9	20.7	9.1	8.1	9.2	9.1	7.3	7.7	12.1	8.3
Return on capital employed, excl. special items, %	8.4	18.2	8.1	7.0	8.2	8.0	6.5	6.6	10.5	7.5
EBITDA	363	345	317	325	334	344	305	323	1,350	1,306
% of sales	14.1	13.6	12.4	13.1	13.2	14.2	12.5	13.0	13.3	13.2
Sales by segment										
UPM Biorefining	584	554	601	533	484	480	477	496	2,272	1,937
UPM Energy	110	112	94	99	115	113	112	124	415	464
UPM Raflatac	363	353	351	342	330	312	306	300	1,409	1,248
UPM Paper Asia	284	286	300	298	288	274	285	277	1,168	1,124
UPM Paper ENA	1,311	1,279	1,210	1,256	1,361	1,303	1,286	1,334	5,056	5,284
UPM Plywood	102	105	113	119	107	101	118	114	439	440
Other operations	76	97	119	114	113	102	113	119	406	447
Internal sales	–248	–239	–219	–267	–248	–248	–241	–263	–973	–1,000
Eliminations and reconciliations	–8	–17	–21	–8	–19	–22	–15	–20	–54	–76
Sales, total	2,574	2,530	2,548	2,486	2,531	2,415	2,441	2,481	10,138	9,868
Operating profit (loss) excl.special items by segment										
UPM Biorefining	130	122	118	97	67	63	31	56	467	217
UPM Energy	58	45	40	38	57	43	46	56	181	202
UPM Raflatac	28	29	24	21	22	21	17	20	102	80
UPM Paper Asia	10	12	11	22	27	29	27	25	55	108
UPM Paper ENA	18	9	–8	5	30	62	47	42	24	181
UPM Plywood	12	11	13	19	14	7	12	11	55	44
Other operations	–3	279 [1)]	20	7	19	14	6	–2	303 [1)]	37
Eliminations and reconciliations	–28	–	9	–5	–6	–4	–	–12	–24	–22
Operating profit (loss) excl. special items, total	225	507	227	204	230	235	186	196	1,163	847
% of sales	8.7	20.0	8.9	8.2	9.1	9.7	7.6	7.9	11.5	8.6

1) 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.

Calculation of key indicators

Formulae for calculation of financial indicators

Return on equity, %:

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

Return on capital employed, %:

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

Equity to assets ratio, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Net interest-bearing liabilities:

Interest-bearing liabilities – interest-bearing assets

Gearing ratio, %:

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

EBITDA 2012-2015:

Operating profit + depreciation + impairment charges
+/– change in fair value of biological assets and wood harvested
+/– change in fair value of unrealised cash flow and commodity hedges
+/– share of results of associated companies and joint ventures
+/– special items

EBITDA 2006–2011:

Operating profit + depreciation + impairment charges
+/– change in fair value of biological assets and wood harvested
+/– share of results of associated companies and joint ventures
+/– special items

Return on capital employed (ROCE) for the segments (operating capital), %:

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

Formulae for calculation of adjusted share-related indicators

Earnings per share:

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

Equity per share:

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

Dividend per share:

$$\frac{\text{Dividend distribution}}{\text{Adjusted number of shares at end of period}}$$

Dividend to earnings ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12.}} \times 100$$

P/E ratio:

$$\frac{\text{Adjusted share price at 31.12.}}{\text{Earnings per share}}$$

Market capitalisation:

Total number of shares x share price at end of at period

Adjusted share price at end of period:

$$\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$$

Adjusted average share price:

$$\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$$

Operating cash flow per share:

$$\frac{\text{Cash from operating activities}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Key exchange rates for the euro at end of period

	31.12.2015	30.9.2015	30.6.2015	31.3.2015	31.12.2014	30.9.2014	30.6.2014	31.3.2014
USD	1.0887	1.1203	1.1189	1.0759	1.2141	1.2583	1.3658	1.3788
CAD	1.5116	1.5034	1.3839	1.3738	1.4063	1.4058	1.4589	1.5225
JPY	131.07	134.69	137.01	128.95	145.23	138.11	138.44	142.42
GBP	0.7340	0.7385	0.7114	0.7273	0.7789	0.7773	0.8015	0.8282
SEK	9.1895	9.4083	9.2150	9.2901	9.3930	9.1465	9.1762	8.9483

Auditor's report

(Translation from the Finnish Original)

To the Annual General Meeting of UPM-Kymmene Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of UPM-Kymmene Corporation for the year ended 31 December, 2015. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

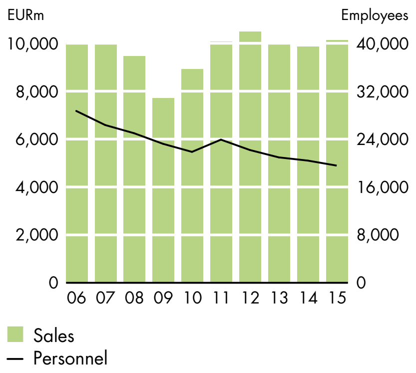
Helsinki 18 February 2016

PricewaterhouseCoopers Oy
Authorised Public Accountants

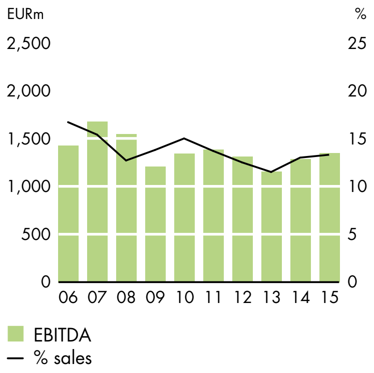
Merja Lindh
Authorised Public Accountant

Financial information 2006-2015

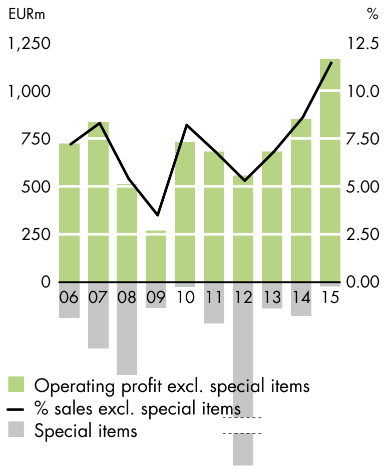
Sales and personnel



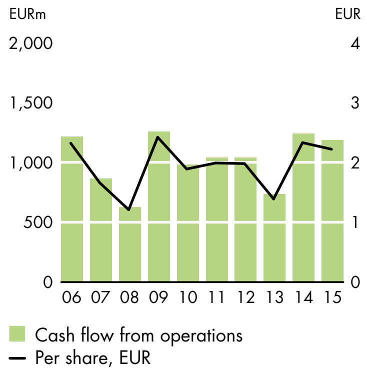
EBITDA



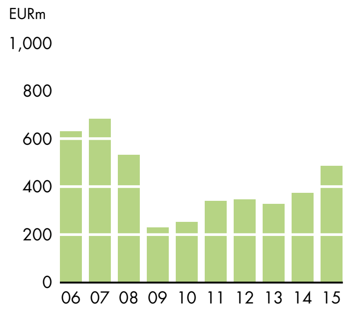
Operating profit



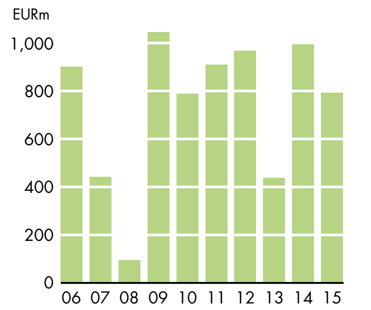
Cash flow from operations



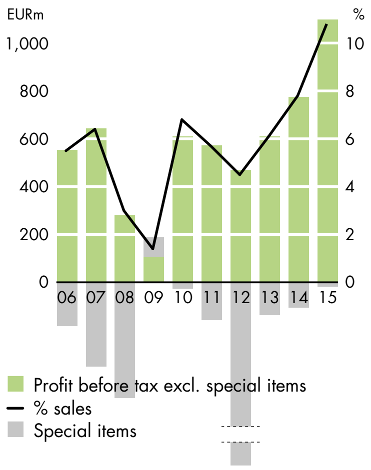
Capital expenditure excluding acquisitions



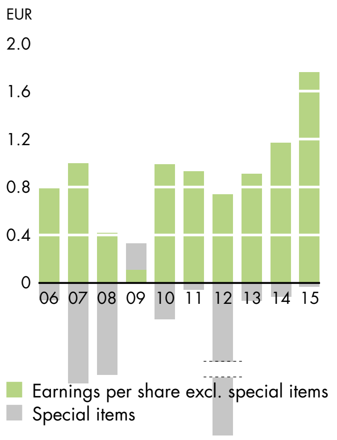
Cash flow after investing activities



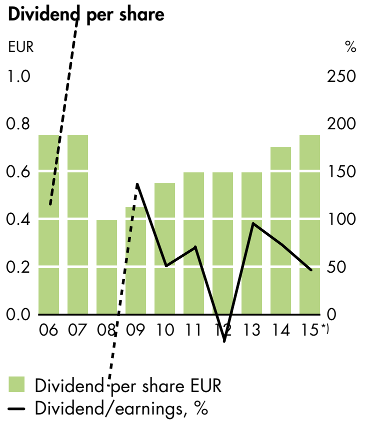
Profit before tax



Earnings per share

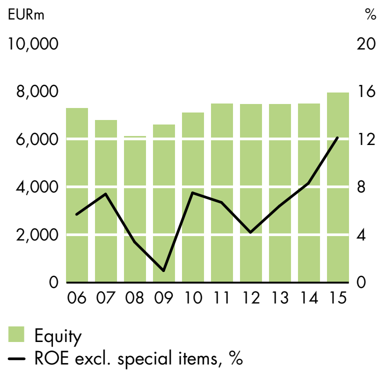


Dividend per share

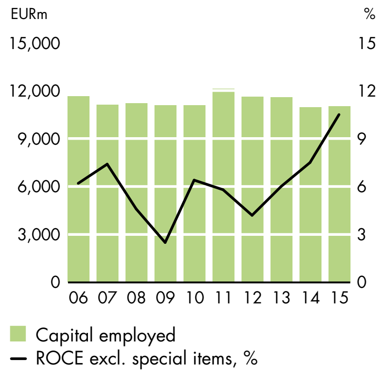


*) 2015: Board's proposal

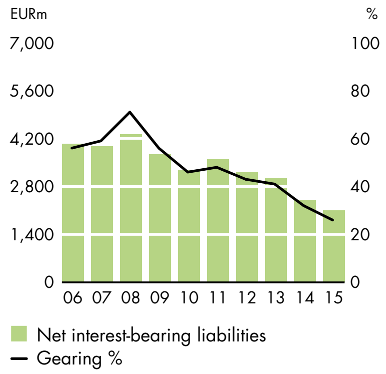
Equity and ROE



Capital employed and ROCE



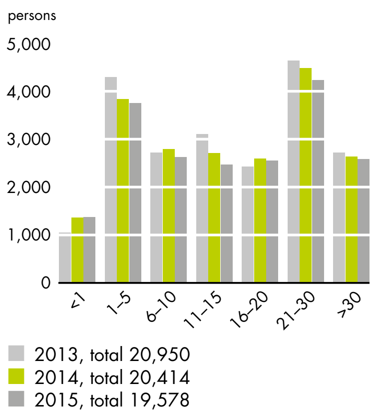
Net interest-bearing liabilities and gearing



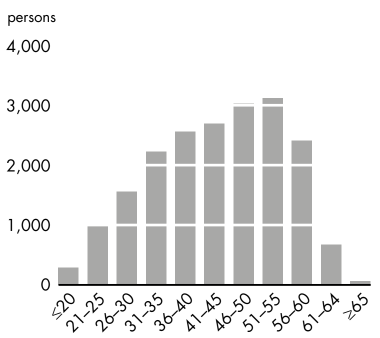
More on responsibility

UPM has launched an Interactive Analyst tool on the company website. The easy to use charting function allows you to compare a wide selection of UPM's responsibility data and create your own reports based on your preferred indicators.

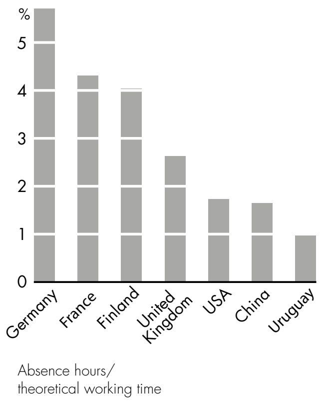
Employees' years of service with UPM 2013–2015



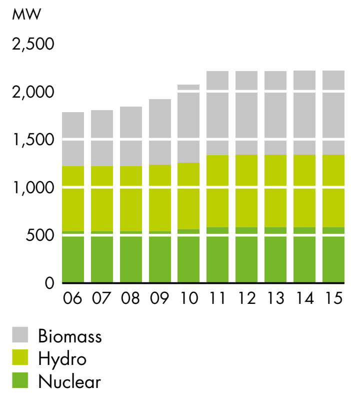
Age structure of UPM employees 2015



Absenteeism due to sickness and accidents at work, UPM workforce

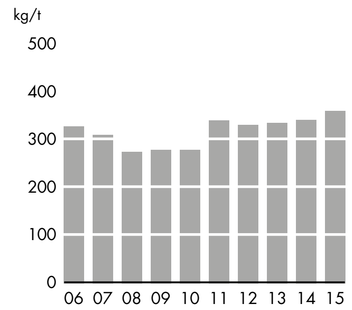


UPM's CO_2 emission-free power generation capacity



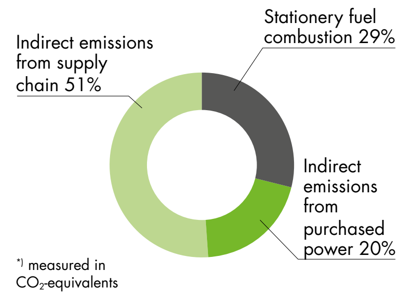
UPM's capacity for CO_2 emission-free power generation has increased over the last ten years.

UPM's fossil CO_2 emissions per tonne of paper



Since 1990, specific CO_2 emissions per tonne of paper have been reduced by approximately 21%. In 2011, the acquisition of paper mills with a high share of fossil fuels increased the CO_2 (carbon dioxide) emissions significantly. Closure of four paper machines resulted in increase of average fossil CO_2 emission in 2015

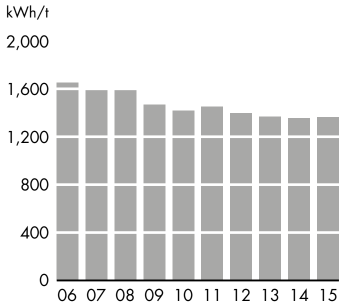
Sources of UPM's greenhouse gas emissions[*]



[*] measured in CO_2-equivalents

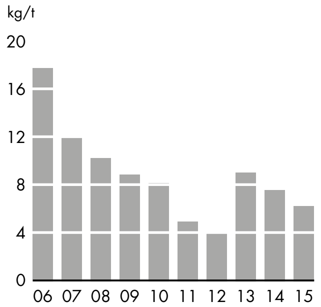
Compared to the previous year, UPM's overall greenhouse gas emissions increased by approximately 1%. According to the calculation, approximately 50% of the direct and indirect greenhouse gas emissions are related to UPM's energy use, but raw materials, transportation and processing of sold products also have a significant impact. More details are available at www.upm.com/responsibility.

UPM's electricity consumption per tonne of paper



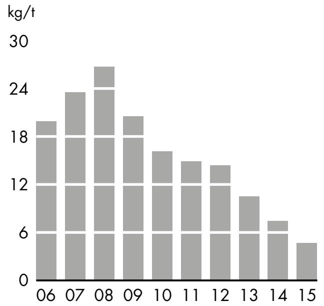
The electricity consumption per tonne of paper has decreased by 17% over the last ten years due to continuous improvements of energy efficiency.

UPM's solid waste to landfills per tonne of paper



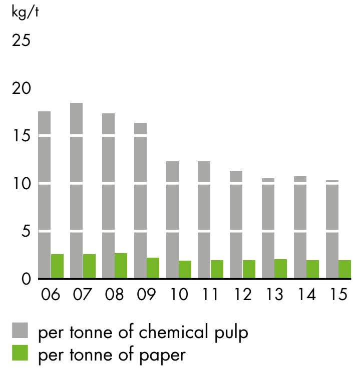
The amount of solid waste sent to landfills has decreased by 65% over the last ten years. However, from 2012 to 2013, the amount increased significantly. This is due to the fact that former reuse possibilities for ash ceased at one of UPM's paper mills. Starting from 2014, new methods of recycling were established, with further options for recycling still being investigated.

UPM's solid waste to landfills per tonne of converted products



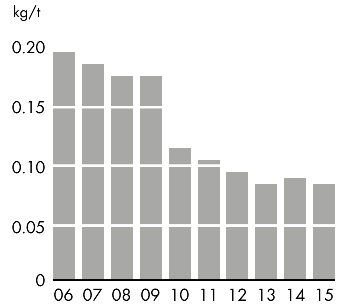
Solid waste to landfills per tonne of converted product decreased by 76% over the last ten years. Since 2007, the figure includes UPM Raflatac's label products only.

UPM's COD load



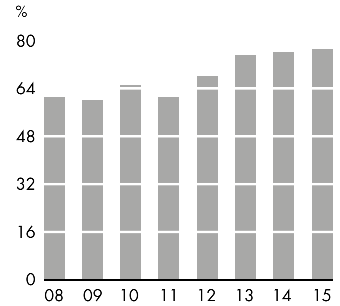
The COD load has decreased by 24% per tonne of paper, and by 41% per tonne of chemical pulp, over the last ten years.

UPM's AOX load per tonne of bleached chemical pulp



AOX indicates the amount of halogens bound to the organic compounds present in the effluent. Over the last ten years, the AOX load per tonne of bleached chemical pulp has decreased by 59%.

Development of UPM's ecolabelled sales 2008–2015



From 2008 (61 %) sales of ecolabelled paper, chemical pulp, plywood, timber and biocomposite products have increased by 16% till 2015 (77%). The figure includes FSC, PEFC and EU Ecolabels as well as national ecolabels.

Read more:
www.upm.com/responsibility

UPM businesses on a world map

Our 19,600 people work in 45 countries across six continents. With head office in Finland, our most important markets are in Europe, North America and Asia, China in particular.

UPM BIOREFINING

- A versatile range of chemical pulp for many growing end uses with annual production capacity of 3.5 million tonnes produced in Finland and in Uruguay
- Annual capacities in tonnes by mills: UPM Fray Bentos 1.3 million; UPM Pietarsaari 800,000; UPM Kaukas 740,000 and UPM Kymi 700,000 tonnes
- Certified sawn timber with annual capacity of 1.5 million cubic metres, produced in Finland
- Wood-based renewable diesel with the annual capacity of 120 million litres produced in Finland

Pulp mills
Finland: UPM Kaukas (Lappeenranta), UPM Kymi (Kouvola) and UPM Pietarsaari

Uruguay: UPM Fray Bentos

Sawmills
Finland: UPM Alholma (Pietarsaari), UPM Kaukas (Lappeenranta), UPM Korkeakoski (Juupajoki) and UPM Seikku (Pori)

Biorefinery
Finland: UPM Lappeenranta biorefinery (Lappeenranta)

UPM ENERGY

- Cost competitive low-emission electricity generation in Finland consisting of hydro, nuclear and condensing power. The total electricity generation capacity is 1,480 MW, including UPM's own hydropower plants and shareholdings in other energy companies
- Largest shareholdings:
  - 44.3% of Pohjolan Voima Oy (PVO), which is a majority shareholder (58.5%) in Teollisuuden Voima Oyj (TVO)
  - 19% of Kemijoki Oy's hydropower shares

Hydropower plants:
Finland: Harjavalta, Kallioinen (Sotkamo), Kaltimo (Joensuu), Katerma (Kuhmo), Keltti (Kouvola), Kuusankoski (Kouvola), Tyrvää (Sastamala), Voikkaa (Kouvola) and Äetsä

UPM RAFLATAC

- Self-adhesive label materials for product and information labelling
- 11 factories and 24 slitting and distribution terminals in all continents

Labelstock factories
Brazil: São Paulo

China: Changshu

Finland: Tampere

France: Nancy

Malaysia: Johor

Poland: Kobierzyce (Wroclaw) and Nowa Wieś (Wroclaw)

United Kingdom: Scarborough

USA: Mills River, NC; Fletcher, NC and Dixon, IL

Slitting and distribution terminals
Argentina: Buenos Aires
Australia: Adelaide, Brisbane and Melbourne
China: Chengdu, Guangzhou and Tianjin
India: Bangalore and Navi Mumbai
Indonesia: Jakarta
Italy: Osnago
México: Ciudad de México and Guadalajara
New Zealand: Auckland
Russia: Moscow and St Petersburg
South Africa: Cape Town and Pinetown
Spain: Barcelona
Thailand: Bangkok
Turkey: Istanbul
Ukraine: Kiev
USA: Ontario, CA
Vietnam: Binh Thang Ward Di An District

UPM PAPER ASIA

- Labelling materials for global markets and fine papers for Asian markets
- Annual production capacity of 1.0 million tonnes of fine papers and 0.7 million tonnes of labelling and packaging materials

Paper mills
China: UPM Changshu

Finland: UPM Jämsänkoski (Jämsä) and UPM Tervasaari (Valkeakoski)

UPM PAPER ENA

- Magazine papers, newsprint and fine papers for a wide range of end uses
- Annual paper production capacity of 9.3 million tonnes, manufactured in 17 paper mills
- Capacities: Annual production capacity of 4.7 million tonnes of magazine papers, 2.4 million tonnes of newsprint and 2.2 million tonnes of fine papers
- The combined heat and power (CHP) plants operating on paper mill sites included in the business area

Paper mills
Austria: UPM Steyrermühl

Finland: UPM Jämsä River Mills (Jämsänkoski and Kaipola), UPM Kaukas (Lappeenranta), UPM Kymi (Kouvola) and UPM Rauma

France: UPM Chapelle Darblay (Grand-Couronne)

Germany: UPM Augsburg, UPM Ettringen, UPM Hürth, UPM Nordland Papier (Dörpen), UPM Plattling, UPM Schongau and UPM Schwedt

United Kingdom: UPM Caledonian Paper (Irvine), UPM Shotton Paper

USA: UPM Blandin (Grand Rapids, MN) and UPM Madison (Madison, ME) (50%)

UPM PLYWOOD

- Plywood and veneer products, mainly for construction, vehicle flooring, LNG shipbuilding and other manufacturing industries
- Annual production capacity approximately one million cubic metres.
- Production in 9 mills in Finland, Estonia and Russia

Plywood mills
Estonia: UPM Otepää

Finland: UPM Joensuu, UPM Jyväskylä, UPM Pellos (three mills, Ristiina) and UPM Savonlinna

Russia: UPM Chudovo

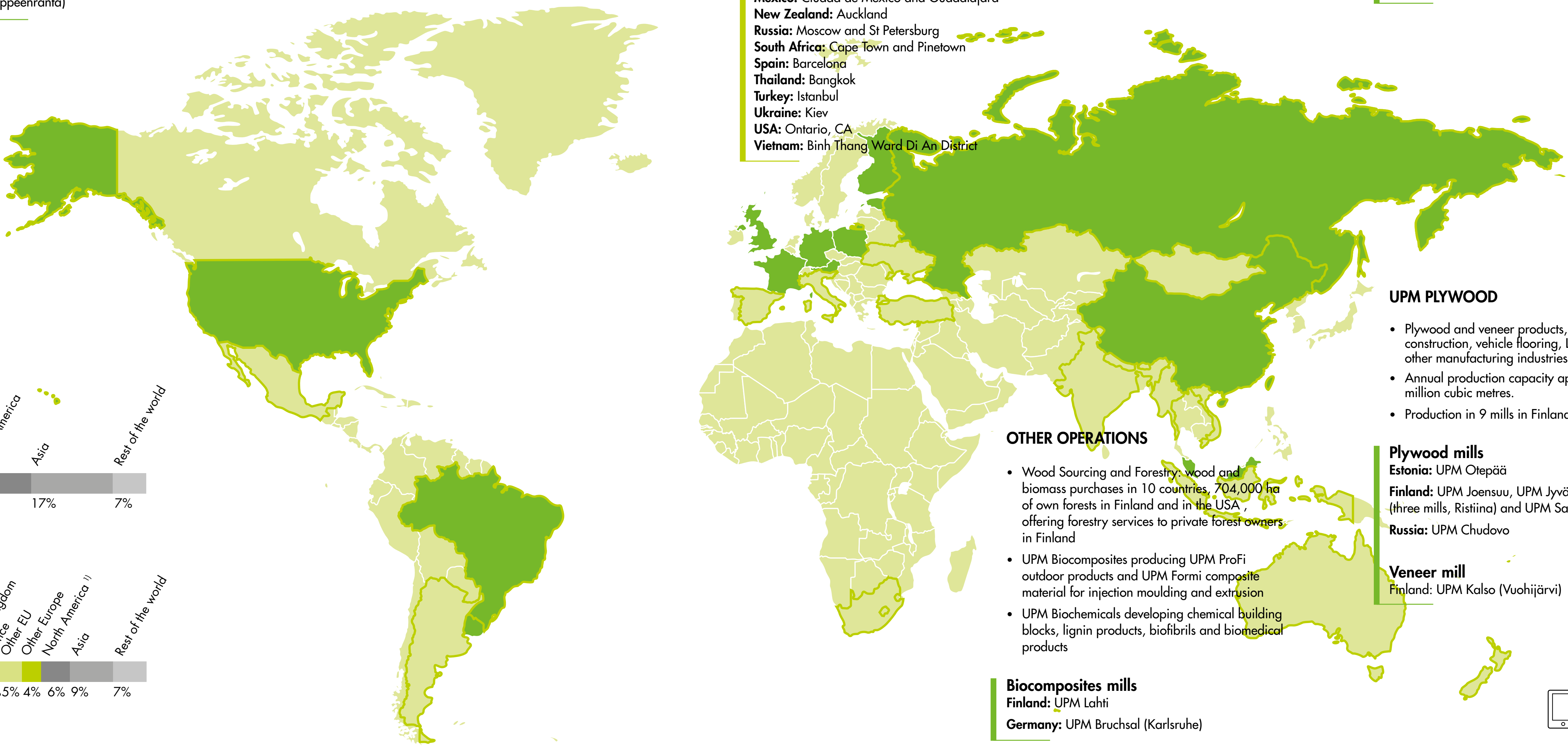
Veneer mill
Finland: UPM Kalso (Vuohijärvi)

OTHER OPERATIONS

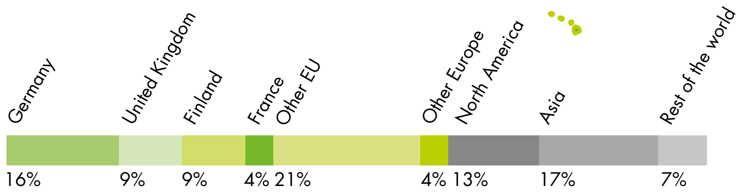
- Wood Sourcing and Forestry: wood and biomass purchases in 10 countries, 704,000 ha of own forests in Finland and in the USA , offering forestry services to private forest owners in Finland
- UPM Biocomposites producing UPM ProFi outdoor products and UPM Formi composite material for injection moulding and extrusion
- UPM Biochemicals developing chemical building blocks, lignin products, biofibrils and biomedical products

Biocomposites mills
Finland: UPM Lahti

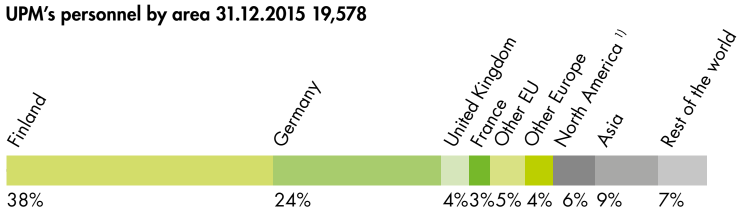
Germany: UPM Bruchsal (Karlsruhe)



UPM's sales by market 2015 EUR 10,138 million



UPM's personnel by area 31.12.2015 19,578



1) USA, Canada and Mexico

Read more: www.upm.com

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Annual General Meeting

UPM-Kymmene Corporation will hold its Annual General Meeting on Thursday 7 April 2016 at 14:00, at the Exhibition and Convention Centre, Messuaukio 1, 00520 Helsinki, Finland. Instructions for those wishing to attend are given in the notice to the meeting, which is available on the company's website at **www.upm.com.**

Dividend

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.75 per share be paid for the 2015 financial year. The dividend will be paid to the shareholders who are registered in the company's shareholder register held by Euroclear Finland Ltd. on 11 April 2016, which is the record date for the dividend payment. The Board of Directors proposes that the dividend will be paid on 21 April 2016.

Financial information in 2016

UPM will publish the interim reports in 2016 as follows:

The Interim Report for January–March (Q1) on 26 April 2016
The Interim Report for January–June (Q2) on 26 July 2016
The Interim Report for January–September (Q3) on 25 October 2016

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