The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 30 JUNE 2011

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Q2/2011

- Earnings per share were EUR 0.56 (0.33), excluding special items EUR 0.26 (0.29)
- EBITDA was EUR 372 million, 15.4% of sales (353 million, 15.9% of sales)
- Strong operating cash flow at EUR 280 million (102 million)
- Took a major strategic step by completing the Myllykoski acquisition on 1 August

Q1–Q2/2011

- Earnings per share were EUR 0.89 (0.46), excluding special items EUR 0.58 (0.44)
- EBITDA was EUR 751 million, 15.7% of sales (641 million, 15.1% of sales)
- Profitability improved clearly – sales prices more than offset the rise in variable costs
- Net debt was EUR 675 million lower than a year ago

Key figures

	Q2/2011	Q2/2010	Q1–Q2/2011	Q1–Q2/2010	Q1–Q4/2010
Sales, EURm	2,423	2,216	4,779	4,255	8,924
EBITDA, EURm [1]	372	353	751	641	1,343
% of sales	15.4	15.9	15.7	15.1	15.0
Operating profit (loss), EURm	289	203	487	310	755
excluding special items, EURm	201	199	399	315	731
% of sales	8.3	9.0	8.3	7.4	8.2
Profit (loss) before tax, EURm	316	181	511	263	635
excluding special items, EURm	160	177	355	268	611
Net profit (loss) for the period, EURm	295	169	464	239	561
Earnings per share, EUR	0.56	0.33	0.89	0.46	1.08
excluding special items, EUR	0.26	0.29	0.58	0.44	0.99
Diluted earnings per share, EUR	0.57	0.33	0.89	0.46	1.08
Return on equity, %	16.4	10.0	13.0	7.1	8.2
excluding special items, %	7.4	8.9	8.4	6.7	7.5
Return on capital employed, %	12.2	7.4	10.0	5.6	6.6
excluding special items, %	6.6	7.3	7.2	5.7	6.4
Operating cash flow per share, EUR	0.54	0.20	0.86	0.60	1.89
Shareholders' equity per share at end of period, EUR	13.81	13.33	13.81	13.33	13.64
Gearing ratio at end of period, %	44	55	44	55	46
Net interest-bearing liabilities at end of period, EURm	3,162	3,837	3,162	3,837	3,286
Capital employed at end of period, EURm	10,916	11,551	10,916	11,551	11,087
Capital expenditure, EURm	62	55	160	85	257
Capital expenditure excluding acquisitions and shares, EURm	58	52	156	82	252
Personnel at end of period	22,999	23,458	22,999	23,458	21,869

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets, excluding the share of results of associated companies and joint ventures, and special items.

Results

Q2 of 2011 compared with Q2 of 2010

Sales for the second quarter of 2011 were EUR 2,423 million, 9% higher than the EUR 2,216 million in the second quarter of 2010. Sales grew mainly due to higher sales prices, especially in the Paper business area. Delivery volumes increased in external pulp sales, Label, Paper and Plywood.

EBITDA increased to EUR 372 million, 15.4% of sales, from EUR 353 million, 15.9% of sales in the same period last year. Sales prices increased in most businesses. The higher sales prices more than offset the negative impact from noticeably higher variable costs.

Higher sales prices improved EBITDA by approximately EUR 128 million. The average paper price in euros increased by approximately 6% compared with the same period last year. Sales prices also increased in Energy, Plywood and Timber and in local currencies in Label.

Variable costs were noticeably higher than last year. Fibre costs increased by about EUR 49 million from last year and energy costs by about EUR 18 million. Costs for chemicals and transportation also increased.

Changes in delivery volumes had a small positive impact on EBITDA.

Fixed costs were approximately EUR 5 million higher than last year.

Operating profit was EUR 289 million, 11.9% of sales (203 million, 9.2% of sales). The operating profit excluding special items was EUR 201 million, 8.3% of sales (199 million, 9.0% of sales).

The increase in the fair value of biological assets net of wood harvested was EUR 11 million compared with EUR 31 million a year before.

The share of results of associated companies and joint ventures was EUR 84 million (8 million). This includes a special income of EUR 86 million, derived from Pohjolan Voima Oy's sale of Fingrid Oyj shares.

Profit before tax was EUR 316 million (181 million) and excluding special items EUR 160 million (177 million). Profit before tax includes a capital gain of EUR 68 million as a special item from the sale of 6.7% of Oy Metsä-Botnia Ab shares. Interest and other finance costs net were EUR 27 million (27 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 14 million (gain of EUR 4 million).

Income taxes were EUR 21 million (12 million). The impact on taxes from special items was EUR 5 million positive (14 million positive).

Profit for the second quarter was EUR 295 million (169 million) and earnings per share were EUR 0.56 (0.33). Earnings per share excluding special items were EUR 0.26 (0.29).

January–June of 2011 compared with January–June 2010

Sales for January–June were EUR 4,779 million, 12% higher than the EUR 4,255 million in the same period in 2010. Sales grew due to higher sales prices and delivery volumes in most of UPM's business areas.

EBITDA was EUR 751 million, 15.7% of sales (641 million, 15.1% of sales). EBITDA increased clearly compared with the same period last year. Sales prices increased in most businesses, more than offsetting the negative impact from noticeably higher variable costs.

Higher sales prices improved EBITDA by approximately EUR 336 million. The average paper price in euros increased by approximately 8% compared with the same period last year. Sales prices increased in all businesses except Energy.

Variable costs were noticeably higher than last year. The costs of wood, recovered paper and chemical pulp increased by about EUR 144 million from last year. Costs for transportation, chemicals and coating materials also increased. Costs for energy increased by about EUR 17 million.

Delivery volumes increased in Paper, Plywood and Label, but decreased in Energy and sawn timber. Changes in delivery volumes had a positive impact on EBITDA.

Fixed costs were approximately EUR 34 million higher than last year.

Operating profit was EUR 487 million, 10.2% of sales (310 million, 7.3% of sales). The operating profit excluding special items was EUR 399 million, 8.3% of sales (315 million, 7.4% of sales).

The increase in the fair value of biological assets net of wood harvested was EUR 14 million compared with EUR 50 million a year before.

The share of results of associated companies and joint ventures was EUR 83 million (11 million). This includes a special income of EUR 86 million, derived from Pohjolan Voima Oy's sale of Fingrid Oyj shares.

Profit before tax was EUR 511 million (263 million) and excluding special items EUR 355 million (268 million). Profit before tax includes a capital gain of EUR 68 million as a special item from the sale of 6.7% of Metsä-Botnia shares. Interest and other finance costs net were EUR 28 million (53 million). This includes dividend income of EUR 25 million from Metsä-Botnia in the first quarter. Exchange rate and fair value gains and losses resulted in a loss of EUR 16 million (gain of EUR 5 million).

Income taxes were EUR 47 million (24 million). The impact on taxes from special items was EUR 8 million positive (17 million positive).

Profit for the period was EUR 464 million (239 million) and earnings per share were EUR 0.89 (0.46). Earnings per share excluding special items were EUR 0.58 (0.44). Operating cash flow per share was EUR 0.86 (0.60).

Financing

In January–June cash flow from operating activities, before investing and financing activities, was EUR 446 million (311 million). Net working capital increased by EUR 209 million during the period (increase of EUR 242 million).

The gearing ratio as of 30 June 2011 was 44% (55% on 30 June 2010). Net interest-bearing liabilities at the end of the period came to EUR 3,162 million (3,837 million).

On 30 June 2011, UPM's cash funds and unused committed credit facilities totalled EUR 1.7 billion.

Personnel

In January–June, UPM had an average of 22,177 employees (23,035). At the beginning of the year, the number of employees was 21,869 and at the end of June it was 22,999. Excluding around 1,100 seasonal workers, at the end of June, the number of employees was practically unchanged from the beginning of the year.

Capital expenditure

During January–June, capital expenditure was EUR 160 million, 3.3% of sales (EUR 85 million, 2.0% of sales).

In June, UPM sold approximately 6.7 % of Metsä-Botnia's shares to Metsä-Botnia for EUR 141 million. UPM recorded a tax exempt capital gain of EUR 68 million from the sale of the shares. After the redemption and cancellation of the redeemed shares, UPM owns 11% of Metsä-Botnia. UPM also gave a call option to the Finnish Metsäliitto Group for the remaining Metsä-Botnia shares still owned by UPM.

In January, UPM's plantation company, Forestal Oriental, acquired approximately 25,000 hectares of land in Uruguay for a total cost of about EUR 50 million.

Shares

UPM shares worth EUR 4,953 million (4,499 million) in total were traded on the NASDAQ OMX Helsinki stock exchange during January–June of 2011. This represents about half of all trading volume in UPM shares. The highest quotation was EUR 15.73 in April and the lowest EUR 11.59 in June.

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 7 April 2011, authorised the Board of Directors to acquire no more than 51,000,000 of the company's own shares. This authorisation is valid for 18 months from the date of the decision.

The Annual General Meeting amended the terms and conditions of the company's stock options 2007 so that either new shares or existing shares held by the company may be subscribed for based on the stock options. The approved amendment does not affect the maximum total number of shares that may be subscribed for or acquired based on the stock options.

The Annual General Meeting, held on 22 March 2010, authorised the Board to decide on the issuance of shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights entitling holders to shares in the company as follows: (i) The maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is, in total, 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of the special rights. (ii) The new shares and special rights entitling holders to shares in the company may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their existing shareholdings in the company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription right. This authorisation is valid until 22 March 2013.

As part of Myllykoski transaction UPM issued five million new shares in directed share issue. These shares are expected to be registered with the Trade Register on 3 August 2011.

UPM has three option series that would entitle the holders to subscribe for a total of 15,000,000 shares. Share options 2007A, 2007B and 2007C may each be subscribed for a total of 5,000,000 shares.

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

The number of shares entered in the Trade Register on 30 June 2011 was 519,970,388. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,970,088.

At the end of the period, the company did not hold any of its own shares.

Dividend

The Annual General Meeting, held on 7 April 2011, approved the Board's proposal to pay a dividend of EUR 0.55 per share for the financial year 2010. The dividend of EUR 286 million was paid on 20 April 2011.

Company directors

At the Annual General Meeting held on 7 April 2011, the following nine members were re-elected to the Board of Directors: Matti Alahuhta, Berndt Brunow, Karl Grotenfelt, Wendy E. Lane, Jussi Pesonen, Ursula Ranin, Veli-Matti Reinikkala, Robert J. Routs and Björn Wahlroos.

The term of office of the members of the Board of Directors will last until the end of the next Annual General Meeting.

At the organisation meeting of the Board of Directors, Björn Wahlroos was re-elected as Chairman and Berndt Brunow was re-elected as Deputy Chairman.

In addition, the Board of Directors re-elected from among its members Karl Grotenfelt as Chairman of the Audit Committee and Wendy E. Lane and Veli-Matti Reinikkala as members of the committee. Berndt Brunow was re-elected as Chairman of the Human Resources Committee and Ursula Ranin and Robert J. Routs were re-elected as members. Furthermore, Björn Wahlroos was re-elected as Chairman of the Nomination and Corporate Governance Committee and Matti Alahuhta and Karl Grotenfelt were re-elected as members.

Litigation and other legal actions

In Finland, UPM is participating in the project for construction of a new nuclear power plant, Olkiluoto 3, through its associated company Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj ("TVO"), holding 58.39% of the shares. UPM's indirect share of the capacity of the Olkiluoto 3, including Myllykoski's ownership, is approximately 30%. The original agreed timetable for the start-up of the power plant was summer 2009 but the construction of the unit has been delayed. In November 2010, TVO informed that the plant supplier, the AREVA-Siemens Consortium, had reported that most of the works are expected to be completed in 2012 and regular operation of the plant is estimated to start in the second half of 2013.

According to TVO, the Supplier initiated arbitration proceedings concerning the delay at Olkiluoto 3 and related costs in December 2008, and in June 2011 the Supplier has submitted its updated claim, which includes updated claimed amounts with specified sums of indirect items and interest. The said updated monetary claim amounts to approximately EUR 1.9 billion. TVO has considered and found the Supplier's claim to be without merit. In response, TVO filed a counterclaim in April 2009 for costs and losses that TVO is incurring due to the delay and other defaults on the part of the supplier. The value of TVO's counterclaim was approximately EUR 1.4 billion. TVO will update its counterclaim during the arbitration proceedings, which may continue for several years, and the claimed and counter-claimed amounts may change.

In Uruguay, there is one pending litigation against the government of Uruguay related to the Fray Bentos pulp mill.

On 31 March 2011, Metsähallitus filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the roundwood market. Metsähallitus claims jointly and severally from the three companies an aggregate capital amount of approximately EUR 282.6 million, of which alternatively and independently from UPM approximately EUR 41 million, in maximum as damages it allegedly incurred. In addition to the claims on capital amounts, Metsähallitus also claims for compensation relating to value added tax and interests. UPM considers the claims unfounded in their entirety.

Events after the balance sheet date

On 1 August 2011, UPM completed the acquisition of Myllykoski Oyj and Rhein Papier GmbH ("Myllykoski"). The agreement was announced on 21 December 2010 and the Competition Directorate-General of the EU Commission approved the transaction on 13 July 2011.

Myllykoski Oyj and Rhein Papier GmbH consist of seven publication paper mills in Germany, Finland and the United States. The total annual paper production capacity is 2.8 million tonnes. The transaction also includes Myllykoski Oyj's 0.8 % ownership of the Finnish energy company Pohjolan Voima Oy.

The approximate enterprise value of all businesses acquired is EUR 900 million. UPM estimates that the transaction will have a positive impact on cash flow immediately, and a positive impact on earnings per share in 2012. Preliminarily, the annual cost synergies were estimeted to exceed EUR 100 million.

For the financing, UPM has issued five million UPM shares to the owners of Myllykoski Oyj and Rhein Papier GmbH and raised EUR 800 in long-term debt.

The impact on UPM's gearing ratio is estimated to be about 11 percentage points. At the end of June 2011, the gearing ratio was 44%. In the third quarter, UPM will report a one-off gain from the transaction of approximately EUR 40 million.

If the transaction had occurred on 1 January 2011, UPM's sales would have been EUR 5,501 million for January–June 2011 and operating profit would have been EUR 480 million (excluding special items EUR 392 million). Profit for the period would have been EUR 447 million.

Group - Pro forma key figures

EURm	Reported 1–6/2011	Pro forma adjustments	Pro forma 1–6/2011
Sales	4,779	722	5,501
EBITDA	751	33	784
Operating profit	487	–7	480
excluding special items	399	–7	392
Profit before tax	511	–24	487
excluding special items	355	–24	331
Profit for the period	464	–17	447

Paper Business Area - Pro forma key figures

EURm	Reported 1–6/2011	Pro forma adjustments	Pro forma 1–6/2011
Sales	3,313	722	4,035
EBITDA	228	33	261
Operating profit	–21	–7	–28
excluding special items	–23	–7	–30
Paper deliveries, 1,000 t	4,909	1,169	6,078

Outlook for 2011

Earnings guidance for 2011 is unchanged. UPM operating profit excluding special items for 2011 is expected to improve from last year. In the second half of 2011, operating profit excluding special items is expected to be on about the same level as in the first half of 2011. The earnings guidance includes the acquired Myllykoski operations.

The broad-based solid demand growth in UPM's products experienced in the previous quarters has leveled off. The demand outlook in UPM's products is largely stable in the second half of 2011.

Variable cost increases seem to be moderating and only minor cost increases are expected in the second half of the year compared with the first half. UPM has achieved some price increases in the third quarter in publication papers, self-adhesive labelstock and plywood, which are expected to broadly offset the increases in variable costs.

Capital expenditure, excluding acquisitions, for 2011 is forecast to be about EUR 350 million.

UPM's hydropower generation volume is expected to continue low in the second half of 2011, due to currently low water reservoirs in Finland. The average sales price for electricity in the second half of 2011 is estimated to be about the same as in the first half.

Chemical pulp deliveries in the second half of 2011 are expected to increase slightly from the same period last year. Market prices in USD are expected to decrease moderately from the second quarter of 2011.

Weak market conditions are expected to continue in sawn timber.

In Europe, some seasonal demand increase is expected for publication papers in the second half of 2011, while in fine papers, demand is expected to continue weak. Solid demand is expected to continue in Asia.

UPM has increased prices for newsprint and magazine papers in Europe by approximately 2% in the beginning of the third quarter from the second quarter. On average, UPM's fine and speciality paper prices are expected to remain about the same in the third quarter as in the second quarter.

Label materials deliveries in the second half of 2011 are expected to increase slightly from last year. Sales prices in local currencies are expected to increase from the second quarter. Variable cost increase is estimated to continue at a moderate pace.

In Plywood, delivery volumes in the second half of 2011 are expected to increase from last year. Sales prices are expected to increase from the second quarter. Demand is foreseen to continue strong in industrial end-uses. Construction activity in Europe is, however, expected to remain subdued.

BUSINESS AREA REVIEWS

Energy

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	108	128	153	124	116	174	236	290	567
EBITDA, EURm [1]	38	60	70	48	39	79	98	118	236
% of sales	35.2	46.9	45.8	38.7	33.6	45.4	41.5	40.7	41.6
Share of results of associated companies and joint ventures, EURm	81	1	–	–3	6	4	82	10	7
Depreciation, amortisation and impairment charges, EURm	–1	–1	–2	–1	–1	–2	–2	–3	–6
Operating profit, EURm	118	60	68	44	44	81	178	125	237
% of sales	109.3	46.9	44.4	35.5	37.9	46.6	75.4	43.1	41.8
Special items, EURm [2]	86	–	–	–	–	–	86	–	–
Operating profit excl. special items, EURm	32	60	68	44	44	81	92	125	237
% of sales	29.6	46.9	44.4	35.5	37.9	46.6	39.0	43.1	41.8
Electricity deliveries, GWh	2,178	2,354	2,436	2,276	2,303	2,411	4,532	4,714	9,426

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2] In the second quarter of 2011, special income of EUR 86 million relates to the associated company Pohjolan Voima Oy's sale of Fingrid Oyj shares.

Q2 of 2011 compared with Q2 of 2010

Operating profit excluding special items was EUR 32 million, EUR 12 million lower than last year (44 million). Sales decreased by 7% to EUR 108 million (116 million). External sales were EUR 35 million (35 million). The electricity sales volume was 2,178 GWh in the quarter (2,303 GWh).

Operating profit excluding special items decreased compared with the same period last year as variable costs increased and electricity sales volume was lower. This was due to lower hydro production as a result of the weak hydrological situation in Finland. However, the negative impact of the lower sales volume was offset by higher average electricity sales price, which increased by 9% to EUR 45.3/MWh (41.5/MWh).

In April 2011, UPM's associated company Pohjolan Voima Oy sold its 25% shareholding of Fingrid Oyj to the State of Finland and the Mutual Pension Insurance Company Ilmarinen. The transaction price was EUR 325 million, and Pohjolan Voima recorded a capital gain of EUR 200 million for the transaction. UPM recorded a special income of EUR 86 million, derived from Pohjolan Voima Oy's sale of Fingrid Oyj shares.

January–June 2011 compared with January–June 2010

Operating profit excluding special items was EUR 92 million, EUR 33 million lower than last year (125 million). Sales decreased by almost 19% to EUR 236 million (290 million). External sales were EUR 90 million (129 million). The electricity sales volume was 4,532 GWh (4,714 GWh).

Operating profit excluding special items decreased compared with the same period last year, mainly due to the lower sales volume, which was impacted by lower hydro power generation due to the weak hydrological situation in Finland. The average electricity sales price decreased by 3% to EUR 47.9/MWh (49.4/MWh).

Market review

The average electricity spot price on the Nordic electricity exchange in the first half of the year was EUR 59.2/MWh, almost 14% higher than in the same period last year (52.1/MWh).

Oil and coal market prices increased compared with the same period last year. The CO_2 emission allowance price was EUR 13.5/t on 30 June, 12% lower than on the same date last year (15.3/t).

The front year forward price in the Nordic electricity exchange was EUR 46.9/MWh on 30 June, 3% lower than on the same date last year (48.2/MWh).

At the end of the first half of the year, the Nordic water reservoirs were almost 12% below their long-term average at this time of the year.

Pulp

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	446	457	413	489	455	341	903	796	1,698
EBITDA, EURm [1]	177	195	165	239	199	120	372	319	723
% of sales	39.7	42.7	40.0	48.9	43.7	35.2	41.2	40.1	42.6
Change in fair value of biological assets and wood harvested, EURm	–	1	4	–2	–	–	1	–	2
Share of results of associated companies and joint ventures, EURm	–	–	–	–	–	–	–	–	–
Depreciation, amortisation and impairment charges, EURm	–34	–36	–37	–38	–37	–36	–70	–73	–148
Operating profit, EURm	143	160	132	199	163	83	303	246	577
% of sales	32.1	35.0	32.0	40.7	35.8	24.3	33.6	30.9	34.0
Special items, EURm	–	–	–	–	1	–1	–	–	–
Operating profit excl. special items, EURm	143	160	132	199	162	84	303	246	577
% of sales	32.1	35.0	32.0	40.7	35.6	24.6	33.6	30.9	34.0
Pulp deliveries, 1,000 t	770	780	699	752	768	700	1,550	1,468	2,919

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

Q2 of 2011 compared with Q2 of 2010

Operating profit excluding special items was EUR 143 million, EUR 19 million lower than last year (162 million). Sales decreased by 2% to EUR 446 million (455 million). Deliveries were 770,000 tonnes (768,000).

Operating profit excluding special items decreased in comparison with last year mainly due to lower pulp sales price.

January–June 2011 compared with January–June 2010

Operating profit excluding special items was EUR 303 million, EUR 57 million higher than last year (246 million). Sales increased by 13% to EUR 903 million (796 million) and deliveries by 6% to 1,550,000 tonnes (1,468,000).

Operating profit excluding special items increased from last year due to higher pulp sales prices and volumes. Higher wood costs had a negative impact on profitability.

Market review

In the first half of 2011, global chemical pulp market prices increased from the same period last year. Global chemical pulp shipments increased from last year. Growth in shipments was mainly driven by China. Shipments grew in all pulp grades and especially in softwood. Market pulp producer inventories increased from last year.

The average softwood pulp (NBSK) market price in euro terms, at EUR 700/tonne, was 3% higher than in the same period last year (EUR 678/tonne). At the end of the period, the NBSK market price was EUR 720/tonne (EUR 794/tonne).

The average hardwood pulp (BHKP) market price in euro terms was EUR 614/tonne, which was at the same level as last year (EUR 614/tonne). At the end of the period, the BHKP market price was EUR 615/tonne (EUR 747/tonne).

Forest and Timber

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	440	394	402	387	393	339	834	732	1,521
EBITDA, EURm [1)]	11	5	5	18	26	3	16	29	52
% of sales	2.5	1.3	1.2	4.7	6.6	0.9	1.9	4.0	3.4
Change in fair value of biological assets and wood harvested, EURm	11	2	81	16	31	19	13	50	147
Share of results of associated companies and joint ventures, EURm	1	–	–1	2	1	1	1	2	3
Depreciation, amortisation and impairment charges, EURm	–5	–5	–6	–5	–6	–4	–10	–10	–21
Operating profit, EURm	20	2	79	68	52	19	22	71	218
% of sales	4.5	0.5	19.7	17.6	13.2	5.6	2.6	9.7	14.3
Special items, EURm [2)]	2	–	–	37	–	–	2	–	37
Operating profit excl. special items, EURm	18	2	79	31	52	19	20	71	181
% of sales	4.1	0.5	19.7	8.0	13.2	5.6	2.4	9.7	11.9
Sawn timber deliveries, 1,000 m^3	495	354	426	428	504	371	849	875	1,729

[1)] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2)] Special items in the second quarter of 2011 include an income of EUR 1 million from a change in UK pension schemes and income of EUR 1 million of reversed restructuring provisions. Special items of EUR 33 million in the third quarter of 2010, relate to a capital gain from selling a conservation easement in Minnesota. Other special items of EUR 4 million relate to a capital gain and reversals of restructuring provisions of Timber operations in Finland.

Q2 of 2011 compared with Q2 of 2010

Operating profit excluding special items was EUR 18 million (EUR 52 million). Sales increased by 12% to EUR 440 million (393 million). Sawn timber deliveries decreased by 2% to 495,000 cubic metres (504,000).

The increase in the fair value of biological assets net of wood harvested was EUR 11 million (31 million). The increase in the fair value of biological assets (growing trees) was EUR 36 million (60 million). The cost of wood raw material harvested from the Group's own forests was EUR 25 million (29 million).

January–June 2011 compared with January–June 2010

Operating profit excluding special items was EUR 20 million (EUR 71 million). Sales increased by 14% to EUR 834 million (732 million). Sawn timber deliveries decreased by 3% to 849,000 cubic metres (875,000).

Operating profit excluding special items decreased from the same period last year, mainly due to a smaller increase in the fair value of biological assets. Sawn timber sales prices were higher compared with last year. In the first quarter of 2011 sawn timber prices were higher compared to the same period last year but during the second quarter of 2011 the prices decreased to the previous year level due to changes in demand-supply balance.

The increase in the fair value of biological assets net of wood harvested was EUR 13 million (50 million). The increase in the fair value of biological assets (growing trees) was EUR 51 million (93 million). The cost of wood raw material harvested from the Group's own forests was EUR 38 million (43 million).

Market review

During the first half of the year, wood purchases in the Finnish wood market were 9.3 million cubic metres, about 11% below last year (10.5 million).

Wood market prices increased towards the end of the first half of 2011 being above the long-term average prices. Pulpwood market prices increased by 4–6% and log market prices by 3–8% from the same period last year.

Uncertainty in North African markets continued and had a negative impact on sawn timber shipments.

Sawn timber market prices decreased during the first half of the year. A weak demand-supply balance increased the downward pressure towards the end of the period.

Paper

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	1,666	1,647	1,656	1,672	1,540	1,401	3,313	2,941	6,269
EBITDA, EURm 1)	126	102	61	67	72	75	228	147	275
% of sales	7.6	6.2	3.7	4.0	4.7	5.4	6.9	5.0	4.4
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	–	–	–	1
Depreciation, amortisation and impairment charges, EURm	–126	–125	–130	–131	–130	–136	–251	–266	–527
Operating profit, EURm	2	–23	–75	–71	–57	–69	–21	–126	–272
% of sales	0.1	–1.4	–4.5	–4.2	–3.7	–4.9	–0.6	–4.3	–4.3
Special items, EURm 2)	2	–	–7	–7	4	–8	2	–4	–18
Operating profit excl. special items, EURm	0	–23	–68	–64	–61	–61	–23	–122	–254
% of sales	0.0	–1.4	–4.1	–3.8	–4.0	–4.4	–0.7	–4.1	–4.1
Deliveries, publication papers, 1,000 t	1,563	1,486	1,680	1,633	1,446	1,364	3,049	2,810	6,123
Deliveries, fine and speciality papers, 1,000 t	909	951	913	947	994	937	1,860	1,931	3,791
Paper deliveries total, 1,000 t	2,472	2,437	2,593	2,580	2,440	2,301	4,909	4,741	9,914

1) EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

2) Special items in the second quarter of 2011 include transaction costs of EUR 2 million related to Myllykoski acquisition, an income of EUR 5 million from a change in UK pension schemes and EUR 1 million of restructuring charges. In the fourth quarter of 2010, special items include transaction costs of EUR 4 million related to Myllykoski acquisition and EUR 3 million of restructuring charges. Special items for the third quarter of 2010, relate to restructuring charges. In 2010, special items in the second quarter include impairment reversals of EUR 3 million. Other special items in the first and second quarter of 2010, include mainly employee-related restructuring charges.

Q2 of 2011 compared with Q2 of 2010

Operating profit excluding special items was EUR 0 million (loss of EUR 61 million). Sales increased by 8% to EUR 1,666 million (1,540 million). Paper deliveries increased by 1% to 2,472,000 tonnes (2,440,000). Paper deliveries for publication papers (magazine papers and newsprint) increased by 8% and for fine and speciality papers decreased by 9% from last year. Deliveries grew mainly in North America and Asia.

Operating profit excluding special items increased from last year mainly due to higher average sales prices.

The average paper price for all paper deliveries when translated into euros was 6% higher than last year. Compared with the first quarter of 2011, however, the average paper price was approximately the same.

January–June 2011 compared with January–June 2010

Operating loss excluding special items was EUR 23 million (loss of EUR 122 million). Sales increased by 13% to EUR 3,313 million (2,941 million). Paper deliveries increased by 4% to 4,909,000 tonnes (4,741,000). Paper deliveries for publication papers (magazine papers and newsprint) increased by 9% and for fine and speciality papers decreased by 4% from last year. Deliveries grew mainly in markets outside Europe.

Operating loss excluding special items decreased from last year, mainly due to higher paper prices. The average paper price for all paper deliveries when translated into euros was 8% higher than last year. Higher paper deliveries also had a positive impact on profitability.

Despite higher paper prices and delivery volumes, the Paper business area incurred an operating loss due to increased variable costs. The cost inflation was highest in recovered paper, chemical pulp and energy costs.

Market review

In January–June, demand for publication papers in Europe was approximately the same as last year, and for fine papers 5% lower than a year ago. In North America, demand for magazine papers decreased by 5% from last year. In Asia, demand for fine papers grew.

In Europe, publication paper prices increased in the first half of the year by about 11% from the same period last year and in the second quarter of 2011 by about 1% from the first quarter of 2011.

Fine paper prices increased in the first half of the year by about 10% from the same period last year and in the second quarter of 2011 remained approximately the same as in the first quarter of 2011.

In North America, the average US dollar price for magazine papers was 15% higher than last year. In Asia, market prices for fine papers increased during the first half of the year.

Label

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	293	278	276	284	280	260	571	540	1,100
EBITDA, EURm [1]	27	27	25	33	34	31	54	65	123
% of sales	9.2	9.7	9.1	11.6	12.1	11.9	9.5	12.0	11.2
Depreciation, amortisation and impairment charges, EURm	–8	–8	–9	–8	–10	–7	–16	–17	–34
Operating profit, EURm	21	19	15	25	24	24	40	48	88
% of sales	7.2	6.8	5.4	8.8	8.6	9.2	7.0	8.9	8.0
Special items, EURm [2]	2	–	–1	1	–	1	2	1	1
Operating profit excl. special items, EURm	19	19	16	24	24	23	38	47	87
% of sales	6.5	6.8	5.8	8.5	8.6	8.8	6.7	8.7	7.9

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

[2] Special items in the second quarter of 2011 include an income of EUR 2 million from a change in UK pension schemes. In 2010, special items of EUR 2 million relate to impairment reversals and EUR 1 million relates to restructuring charges.

Q2 of 2011 compared with Q2 of 2010

Operating profit excluding special items was EUR 19 million (24 million). Sales increased by 5% to EUR 293 million (280 million).

Operating profit excluding special items decreased from last year due to significantly higher raw material costs and unfavourable product mix. Sales prices in local currencies increased clearly and delivery volumes were somewhat higher in comparison with last year. This partly offset the negative impact of variable cost inflation.

In May 2011, UPM completed the acquisition of Gumtac, the Brazilian labelstock coating and slitting business of the BIC Group. Gumtac is located in Rio de Janeiro and employs 35 people.

January–June 2011 compared with January–June 2010

Operating profit excluding special items was EUR 38 million (47 million). Sales increased by 6% to EUR 571 million (540 million).

Operating profit excluding special items decreased from last year, mainly due to higher raw material costs.

Sales prices of self-adhesive label materials in local currencies increased clearly compared to the previous year, and delivery volumes were marginally higher.

Market review

Demand development for self-adhesive label materials slowed down during the second quarter. As a whole, in the first half of the year, demand is expected to have increased slightly in Europe and North America in comparison with the same period last year. In Asia and Latin America demand growth is expected to have continued but at a clearly slower pace than earlier.

Plywood

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	107	94	91	83	97	76	201	173	347
EBITDA, EURm [1]	8	4	–1	2	2	–2	12	0	1
% of sales	7.5	4.3	–1.1	2.4	2.1	–2.6	6.0	0.0	0.3
Depreciation, amortisation and impairment charges, EURm	–4	–5	–4	–5	–5	–5	–9	–10	–19
Operating profit, EURm	1	–1	–5	–4	–1	–7	0	–8	–17
% of sales	0.9	–1.1	–5.5	–4.8	–1.0	–9.2	0.0	–4.6	–4.9
Special items, EURm [2]	–3	–	–	–1	2	–	–3	2	1
Operating profit excl. special items, EURm	4	–1	–5	–3	–3	–7	3	–10	–18
% of sales	3.7	–1.1	–5.5	–3.6	–3.1	–9.2	1.5	–5.8	–5.2
Deliveries, plywood, 1,000 m^3	191	162	160	156	182	140	353	322	638

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
[2] Special items of EUR 3 million in the second quarter of 2011 relate to a net loss from asset sales. Special items in 2010, include mainly a capital gain from asset sale in Finland.

Q2 of 2011 compared with Q2 of 2010

Operating profit excluding special items was EUR 4 million (loss of EUR 3 million). Sales increased by 10% to EUR 107 million (97 million). Plywood deliveries grew by 5% to 191,000 cubic metres (182,000).

Operating profit excluding special items increased from last year due to higher sales prices and delivery volumes.

January–June 2011 compared with January–June 2010

Operating profit excluding special items was EUR 3 million (loss of EUR 10 million). Sales increased by 16% to EUR 201 million (173 million). Plywood deliveries increased almost by 10% to 353,000 cubic metres (322,000).

Operating profit excluding special items increased from last year due to higher delivery volumes and sales prices.

Market review

In the first half of the year, plywood demand increased from the same period last year in Europe.

The growth in demand in Europe was driven especially by industrial end uses such as transport end use. Demand also increased in the distribution segment compared with last year. Growth in demand was particularly strong in birch plywood, but also the spruce plywood market grew.

Plywood market prices rose markedly from last year.

Other operations

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales, EURm	43	35	42	45	51	40	78	91	178
EBITDA, EURm [1]	–15	–14	–7	–23	–19	–18	–29	–37	–67
Share of results of associated companies and joint ventures, EURm	2	–2	–1	–1	1	–2	–	–1	–3
Depreciation, amortisation and impairment charges, EURm	–2	–3	–2	–2	–3	–3	–5	–6	–10
Operating profit, EURm	–16	–19	–7	–23	–22	–24	–35	–46	–76
Special items, EURm [2]	–1	–	3	4	–3	–1	–1	–4	3
Operating profit excl. special items, EURm	–15	–19	–10	–27	–19	–23	–34	–42	–79

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
[2] Special items in the third quarter of 2010, include mainly a capital gain of EUR 3 million from asset sale in Finland. Other special items relate to net restructuring charges.

Other operations include development units (RFID tags, the wood plastic composite unit UPM ProFi and biofuels), logistic services and the Group services.

Q2 of 2011 compared with Q2 of 2010
Excluding special items, operating loss was EUR 15 million (loss of EUR 19 million). Sales amounted to EUR 43 million (51 million).

January–June 2011 compared with January–June 2010
Excluding special items, operating loss was EUR 34 million (loss of EUR 42 million). Sales amounted to EUR 78 million (91 million).

Helsinki, 3 August 2011

UPM-Kymmene Corporation

Board of Directors

FINANCIAL INFORMATION

Consolidated income statement

EURm	Q2/2011	Q2/2010	Q1–Q2/2011	Q1–Q2/2010	Q1–Q4/2010
Sales	2,423	2,216	4,779	4,255	8,924
Other operating income	15	17	35	26	76
Costs and expenses	–2,064	–1,877	–4,061	–3,647	–7,637
Change in fair value of biological assets and wood harvested	11	31	14	50	149
Share of results of associated companies and joint ventures	84	8	83	11	8
Depreciation, amortisation and impairment charges	–180	–192	–363	–385	–765
Operating profit (loss)	289	203	487	310	755
Gains on available-for-sale investments, net	68	1	68	1	1
Exchange rate and fair value gains and losses	–14	4	–16	5	–4
Interest and other finance costs, net	–27	–27	–28	–53	–117
Profit (loss) before tax	316	181	511	263	635
Income taxes	–21	–12	–47	–24	–74
Profit (loss) for the period	295	169	464	239	561
Attributable to:					
Owners of the parent company	295	169	464	239	561
Non-controlling interests	–	–	–	–	–
	295	169	464	239	561
Earnings per share for profit (loss) attributable to owners of the parent company					
Basic earnings per share, EUR	0.56	0.33	0.89	0.46	1.08
Diluted earnings per share, EUR	0.57	0.33	0.89	0.46	1.08

Consolidated statement of comprehensive income

EURm	Q2/2011	Q2/2010	Q1–Q2/2011	Q1–Q2/2010	Q1–Q4/2010
Profit (loss) for the period	295	169	464	239	561
Other comprehensive income for the period, net of tax:					
Translation differences	–47	282	–209	499	288
Net investment hedge	7	–35	26	–88	–69
Cash flow hedges	20	–56	76	–79	–70
Available-for-sale investments	–24	–	5	5	15
Share of other comprehensive income of associated companies	–4	3	–1	2	9
Other comprehensive income for the period, net of tax	–48	194	–103	339	173
Total comprehensive income for the period	247	363	361	578	734
Total comprehensive income attributable to:					
Owners of the parent company	247	363	361	578	734
Non-controlling interests	–	–		–	–
	247	363	361	578	734

Consolidated balance sheet

EURm	30.6.2011	30.6.2010	31.12.2010
ASSETS			
Non-current assets			
Goodwill	1,013	1,034	1,022
Other intangible assets	420	448	424
Property, plant and equipment	5,504	6,230	5,860
Investment property	33	22	22
Biological assets	1,459	1,355	1,430
Investments in associated companies and joint ventures	647	568	573
Available-for-sale investments	263	324	333
Non-current financial assets	270	424	323
Deferred tax assets	370	358	359
Other non-current assets	229	217	211
	10,208	10,980	10,557
Current assets			
Inventories	1,380	1,285	1,299
Trade and other receivables	1,764	1,680	1,661
Income tax receivables	6	22	26
Cash and cash equivalents	250	263	269
	3,400	3,250	3,255
Total assets	13,608	14,230	13,812
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Translation differences	–128	247	55
Fair value and other reserves	180	72	90
Reserve for invested non-restricted equity	1,145	1,145	1,145
Retained earnings	5,093	4,579	4,913
	7,180	6,933	7,093
Non-controlling interests	16	16	16
Total equity	7,196	6,949	7,109
Non-current liabilities			
Deferred tax liabilities	650	596	629
Retirement benefit obligations	423	423	424
Provisions	115	154	150
Interest-bearing liabilities	2,768	4,218	3,649
Other liabilities	65	60	70
	4,021	5,451	4,922
Current liabilities			
Current interest-bearing liabilities	952	384	330
Trade and other payables	1,376	1,368	1,417
Income tax payables	63	78	34
	2,391	1,830	1,781
Total liabilities	6,412	7,281	6,703
Total equity and liabilities	13,608	14,230	13,812

Consolidated statement of changes in equity

EURm	Share capital	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to owners of the parent company							
Balance at 1 January 2010	890	−164	141	1,145	4,574	6,586	16	6,602
Profit (loss) for the period	–	–	–	–	239	239	–	239
Translation differences	–	499	–	–	–	499	–	499
Net investment hedge, net of tax	–	−88	–	–	–	−88	–	−88
Cash flow hedges, net of tax	–	–	−79	–	–	−79	–	−79
Available-for-sale investments	–	–	5	–	–	5	–	5
Share of other comprehensive income of associated companies	–	–	–	–	2	2	–	2
Total comprehensive income for the period	–	411	−74	–	241	578	–	578
Share-based compensation, net of tax	–	–	5	–	–	5	–	5
Dividend paid	–	–	–	–	−234	−234	–	−234
Other items	–	–	–	–	−2	−2	–	−2
Total transactions with owners for the period	–	–	5	–	−236	−231	–	−231
Balance at 30 June 2010	890	247	72	1,145	4,579	6,933	16	6,949
Balance at 1 January 2011	890	55	90	1,145	4,913	7,093	16	7,109
Profit (loss) for the period	–	–	–	–	464	464	–	464
Translation differences	–	−209	–	–	–	−209	–	−209
Net investment hedge, net of tax	–	26	–	–	–	26	–	26
Cash flow hedges, net of tax	–	–	76	–	–	76	–	76
Available-for-sale investments	–	–	5	–	–	5	–	5
Share of other comprehensive income of associated companies	–	–	–	–	−1	−1	–	−1
Total comprehensive income for the period	–	−183	81	–	463	361	–	361
Share-based compensation, net of tax	–	–	11	–	–	11	–	11
Dividend paid	–	–	–	–	−286	−286	–	−286
Other items	–	–	−2	–	3	1	–	1
Total transactions with owners for the period	–	–	9	–	−283	−274	–	−274
Balance at 30 June 2011	890	−128	180	1,145	5,093	7,180	16	7,196

Condensed consolidated cash flow statement

EURm	Q1–Q2/2011	Q1–Q2/2010	Q1–Q4/2010
Cash flow from operating activities			
Profit (loss) for the period	464	239	561
Adjustments	220	371	740
Change in working capital	–209	–242	–139
Cash generated from operations	475	368	1,162
Finance costs, net	–2	–49	–103
Income taxes paid	–27	–8	–77
Net cash generated from operating activities	446	311	982
Cash flow from investing activities			
Capital expenditure	–131	–97	–241
Acquisitions and share purchases	–1	–3	–4
Asset sales and other investing cash flow	154	14	50
Net cash used in investing activities	22	–86	–195
Cash flow from financing activities			
Change in loans and other financial items	–199	–183	–732
Dividends paid	–286	–234	–234
Net cash used in financing activities	–485	–417	–966
Change in cash and cash equivalents	–17	–192	–179
Cash and cash equivalents at beginning of period	269	438	438
Foreign exchange effect on cash	–2	17	10
Change in cash and cash equivalents	–17	–192	–179
Cash and cash equivalents at end of period	250	263	269

Quarterly information

EURm	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales	2,423	2,356	2,357	2,312	2,216	2,039	4,799	4,255	8,924
Other operating income	15	20	8	42	17	9	35	26	76
Costs and expenses	−2,064	−1,997	−2,052	−1,938	−1,877	−1,770	−4,061	−3,647	−7,637
Change in fair value of biological assets and wood harvested	11	3	85	14	31	19	14	50	149
Share of results of associated companies and joint ventures	84	−1	−1	−2	8	3	83	11	8
Depreciation, amortisation and impairment charges	−180	−183	−190	−190	−192	−193	−363	−385	−765
Operating profit (loss)	289	198	207	238	203	107	487	310	755
Gains on available-for-sale investments, net	68	–	–	–	1	–	68	1	1
Exchange rate and fair value gains and losses	−14	−2	2	−11	4	1	−16	5	−4
Interest and other finance costs, net	−27	−1	−36	−28	−27	−26	−28	−53	−117
Profit (loss) before tax	316	195	173	199	181	82	511	263	635
Income taxes	−21	−26	−29	−21	−12	−12	−47	−24	−74
Profit (loss) for the period	295	169	144	178	169	70	464	239	561
Attributable to:									
Owners of the parent company	295	169	144	178	169	70	464	239	561
Non-controlling interests	–	–	–	–	–	–	–	–	–
	295	169	144	178	169	70	464	239	561
Basic earnings per share, EUR	0.56	0.33	0.28	0.34	0.33	0.13	0.89	0.46	1.08
Diluted earnings per share, EUR	0.57	0.32	0.28	0.34	0.33	0.13	0.89	0.46	1.08
Earnings per share, excluding special items, EUR	0.26	0.32	0.27	0.28	0.29	0.15	0.58	0.44	0.99
Average number of shares basic (1,000)	519,970	519,970	519,970	519,970	519,970	519,970	519,970	519,970	519,970
Average number of shares diluted (1,000)	523,080	523,182	522,193	521,742	521,333	520,018	523,131	520,676	521,321
Special items in operating profit (loss)	88	–	−5	34	4	−9	88	−5	24
Operating profit (loss), excl. special items	201	198	212	204	199	116	399	315	731
% of sales	8.3	8.4	9.0	8.8	9.0	5.7	8.3	7.4	8.2
Special items before tax	156	–	−5	34	4	−9	156	−5	24
Profit (loss) before tax, excl. special items	160	195	178	165	177	91	355	268	611
% of sales	6.6	8.3	7.6	7.1	8.0	4.5	7.4	6.3	6.8
Return on equity, excl. special items, %	7.4	9.3	8.0	8.6	8.9	4.6	8.4	6.7	7.5
Return on capital employed, excl. special items, %	6.6	7.8	7.5	6.8	7.3	4.3	7.2	5.7	6.4
EBITDA	372	379	318	384	353	288	751	641	1,343
% of sales	15.4	16.1	13.5	16.6	15.9	14.1	15.7	15.1	15.0
Share of results of associated companies and joint ventures									
Energy	81	1	–	−3	6	4	82	10	7
Pulp	–	–	–	–	–	–	–	–	–
Forest and Timber	1	–	−1	2	1	1	1	2	3
Paper	–	–	1	–	–	–	–	–	1
Other operations	2	−2	−1	−1	1	−2	–	−1	−3
Total	84	−1	−1	−2	8	3	83	11	8

Deliveries

	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Electricity, GWh	2,178	2,354	2,436	2,276	2,303	2,411	4,532	4,714	9,426
Pulp, 1,000 t	770	780	699	752	768	700	1,550	1,468	2,919
Sawn timber, 1,000 m^3	495	354	426	428	504	371	849	875	1,729
Publication papers, 1,000 t	1,563	1,486	1,680	1,633	1,446	1,364	3,049	2,810	6,123
Fine and speciality papers, 1,000 t	909	951	913	947	994	937	1,860	1,931	3,791
Paper deliveries total, 1,000 t	2,472	2,437	2,593	2,580	2,440	2,301	4,909	4,741	9,914
Plywood, 1,000 m^3	191	162	160	156	182	140	353	322	638

Quarterly segment information

EURm	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
Sales									
Energy	108	128	153	124	116	174	236	290	567
Pulp	446	457	413	489	455	341	903	796	1,698
Forest and Timber	440	394	402	387	393	339	834	732	1,521
Paper	1,666	1,647	1,656	1,672	1,540	1,401	3,313	2,941	6,269
Label	293	278	276	284	280	260	571	540	1,100
Plywood	107	94	91	83	97	76	201	173	347
Other operations	43	35	42	45	51	40	78	91	178
Internal sales	–680	–677	–676	–772	–716	–592	–1,357	–1,308	–2,756
Sales, total	2,423	2,356	2,357	2,312	2,216	2,039	4,779	4,255	8,924
EBITDA									
Energy	38	60	70	48	39	79	98	118	236
Pulp	177	195	165	239	199	120	372	319	723
Forest and Timber	11	5	5	18	26	3	16	29	52
Paper	126	102	61	67	72	75	228	147	275
Label	27	27	25	33	34	31	54	65	123
Plywood	8	4	–1	2	2	–2	12	–	1
Other operations	–15	–14	–7	–23	–19	–18	–29	–37	–67
EBITDA, total	372	379	318	384	353	288	751	641	1,343
Operating profit (loss)									
Energy	118	60	68	44	44	81	178	125	237
Pulp	143	160	132	199	163	83	303	246	577
Forest and Timber	20	2	79	68	52	19	22	71	218
Paper	2	–23	–75	–71	–57	–69	–21	–126	–272
Label	21	19	15	25	24	24	40	48	88
Plywood	1	–1	–5	–4	–1	–7	0	–8	–17
Other operations	–16	–19	–7	–23	–22	–24	–35	–46	–76
Operating profit (loss), total	289	198	207	238	203	107	487	310	755
% of sales	11.9	8.4	8.8	10.3	9.2	5.2	10.2	7.3	8.5
Special items in operating profit									
Energy	86	–	–	–	–	–	86	–	–
Pulp	–	–	–	–	1	–1	–	–	–
Forest and Timber	2	–	–	37	–	–	2	–	37
Paper	2	–	–7	–7	4	–8	2	–4	–18
Label	2	–	–1	1	–	1	2	1	1
Plywood	–3	–	–	–1	2	–	–3	2	1
Other operations	–1	–	3	4	–3	–1	–1	–4	3
Special items in operating profit, total	88	–	–5	34	4	–9	88	–5	24
Operating profit (loss) excl.special items									
Energy	32	60	68	44	44	81	92	125	237
Pulp	143	160	132	199	162	84	303	246	577
Forest and Timber	18	2	79	31	52	19	20	71	181
Paper	0	–23	–68	–64	–61	–61	–23	–122	–254
Label	19	19	16	24	24	23	38	47	87
Plywood	4	–1	–5	–3	–3	–7	3	–10	–18
Other operations	–15	–19	–10	–27	–19	–23	–34	–42	–79
Operating profit (loss) excl. special items, total	201	198	212	204	199	116	399	315	731
% of sales	8.3	8.4	9.0	8.8	9.0	5.7	8.3	7.4	8.2

EURm	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q2/11	Q1–Q2/10	Q1–Q4/10
External sales									
Energy	35	55	71	31	35	94	90	129	231
Pulp	152	151	103	102	106	86	303	192	397
Forest and Timber	214	171	193	181	193	154	385	347	721
Paper	1,605	1,606	1,621	1,636	1,499	1,353	3,211	2,852	6,109
Label	293	278	276	283	280	259	571	539	1,098
Plywood	102	90	87	79	93	73	192	166	332
Other operations	22	5	6	–	10	20	27	30	36
External sales, total	2,423	2,356	2,357	2,312	2,216	2,039	4,779	4,255	8,924
Internal sales									
Energy	73	73	82	93	81	80	146	161	336
Pulp	294	306	310	387	349	255	600	604	1,301
Forest and Timber	226	223	209	206	200	185	449	385	800
Paper	61	41	35	36	41	48	102	89	160
Label	–	–	–	1	–	1	–	1	2
Plywood	5	4	4	4	4	3	9	7	15
Other operations	21	30	36	45	41	20	51	61	142
Internal sales, total	680	677	676	772	716	592	1,357	1,308	2,756

Business combinations

On 10 May 2011, UPM acquired the Gumtac, the Brazilian labelstock coating and slitting business of the BIC Group. The acquisition was announced in February 2011. Gumtac employs approximately 35 people in its operations in Rio de Janeiro. By combining Gumtac's operations with UPM Raflatac the Group expects to further grow the business with label printer partners in Brazil and throughout South America.

If the Gumtac business had been included in the Group from 1 January 2011, it would have increased the Group's sales by EUR 4 million. Arising from the acquisition, Group recognised as other operating income an insignificant one-time bargain purchase gain.

The following table summarises the consideration paid for business and the amounts of the net assets acquired recognised at the acquisition date:

Consideration at 10 May 2011

EURm	
Total consideration transferred, cash	3
Intagible assets	1
Property, plant and equipment and other assets	2
Total identifiable net assets	3
Gain on bargain purchase	0

The fair value of the acquired net assets is provisional pending on the final valuations.

Changes in property, plant and equipment

EURm	Q1–Q2/2011	Q1–Q2/2010	Q1–Q4/2010
Book value at beginning of period	5,860	6,192	6,192
Capital expenditure	140	60	217
Companies acquired	2	–	–
Decreases	–13	–6	–18
Depreciation	–335	–358	–707
Impairment reversal	–	3	4
Translation difference and other changes	–150	339	172
Book value at end of period	5,504	6,230	5,860

Commitments and contingencies

EURm	30.6.2011	30.6.2010	31.12.2010
Own commitments			
Mortgages	736	1,067	764
On behalf of associated companies and joint ventures			
Guarantees for loans	6	8	7
On behalf of others			
Other guarantees	4	–	2
Other own commitments			
Leasing commitments for the next 12 months	26	23	28
Leasing commitments for subsequent periods	111	83	80
Other commitments	118	89	164

Capital commitments

For 2011, total capital expenditure, excluding acquisitions, is forecast to be about EUR 350 million.

Notional amounts of derivative financial instruments

EURm	30.6.2011	30.6.2010	31.12.2010
Currency derivatives			
Forward contracts	3,857	4,044	3,993
Options, bought	1	4	4
Options, written	1	4	4
Swaps	751	754	800
Interest rate derivatives			
Forward contracts	2,568	2,692	2,442
Swaps	2,314	2,590	2,478
Other derivatives			
Forward contracts	402	136	275
Options, bought	–	41	–
Options, written	–	41	–
Swaps	–	2	–

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

EURm	Q1–Q2/2011	Q1–Q2/2010	Q1–Q4/2010
Sales to associated companies	74	77	153
Purchases from associated companies	163	170	341
Non-current receivables at end of period	5	4	5
Trade and other receivables at end of period	18	13	17
Trade and other payables at end of period	35	31	38

Basis of preparation

This unaudited interim report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting and in the Group's Consolidated Financial Statements for 2010. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Calculation of key indicators

Return on equity, %:

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

Return on capital employed, %:

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

Earnings per share:

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

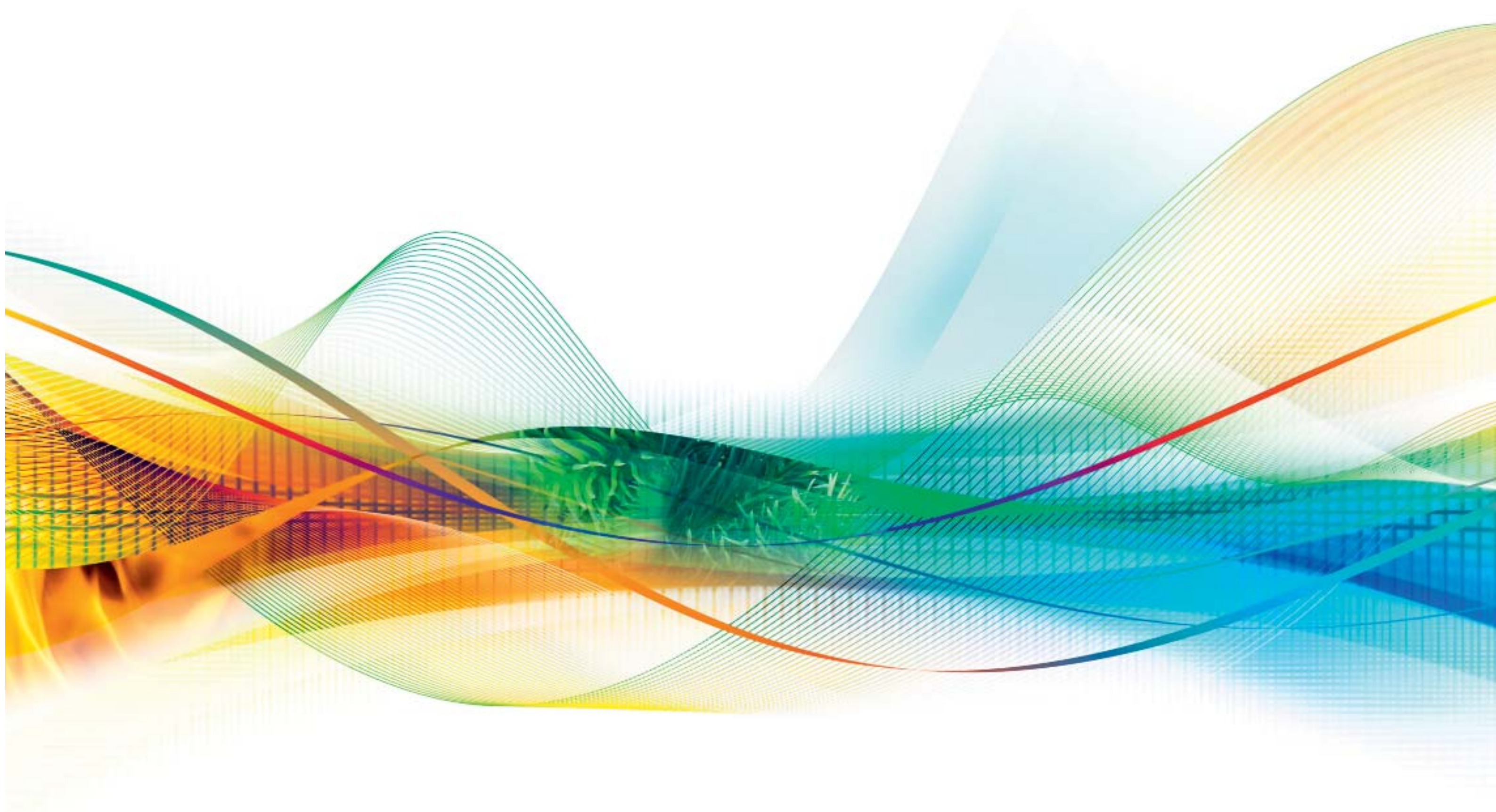
Key exchange rates for the euro at end of period

	30.6.2011	31.3.2011	31.12.2010	30.9.2010	30.6.2010	31.3.2010
USD	1.4453	1.4207	1.3362	1.3648	1.2271	1.3479
CAD	1.3951	1.3785	1.3322	1.4073	1.2890	1.3687
JPY	116.25	117.61	108.65	113.68	108.79	125.93
GBP	0.9026	0.8837	0.8608	0.8600	0.8175	0.8898
SEK	9.1739	8.9329	8.9655	9.1421	9.5259	9.7135

It should be noted that certain statements herein, which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates. For more detailed information about risk factors, see pages 86–88 of the company's annual report 2010.

UPM – The Biofore Company

UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future.



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