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UPM

Interim Report 1 January – 30 June 2007

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- Earnings per share excluding special items for the second quarter were € 0.28 (€ 0.04 for the second quarter of 2006)
- EBITDA was € 411 million, 16.2% of sales (€ 398 million, 16.0%)
- Operating profit excluding special items was € 225 million (€ 79 million)
- Result improved due to increased efficiency of operations

Key figures

	Q2/2007	Q2/2006	Q1–Q2/2007	Q1–Q2/2006	Q1–Q4/2006
Sales, €m	2,537	2,484	5,056	4,944	10,022
EBITDA, €m [1]	411	398	829	784	1,678
% of sales	16.2	16.0	16.4	15.9	16.7
Operating profit, €m	–75	–54	146	116	536
excluding special items, €m	225	79	446	264	725
Profit before tax, €m	–121	–101	56	35	367
excluding special items, €m	179	32	356	183	550
Net profit for the period, €m	–198	–103	–67	–4	338
Earnings per share, €	–0.38	–0.20	–0.13	–0.01	0.65
excluding special items, €	0.28	0.04	0.53	0.25	0.80
Diluted earnings per share, €	–0.38	–0.20	–0.13	–0.01	0.65
Return on equity, %	neg.	neg.	neg.	neg.	4.6
excluding special items, %	8.5	1.1	7.9	3.6	5.7
Return on capital employed, %	neg.	neg.	2.8	2.2	4.7
excluding special items, %	8.3	2.7	8.1	4.6	6.2
Gearing ratio at end of period, %	58	69	58	69	56
Shareholders' equity per share at end of period, €	13.11	13.29	13.11	13.29	13.90
Net interest-bearing liabilities at end of period, €m	4,015	4,812	4,015	4,812	4,048
Capital employed at end of period, €m	11,120	12,037	11,120	12,037	11,634
Capital expenditure, €m	160	154	353	331	699
Personnel at end of period	29,344	32,918	29,344	32,918	28,704

[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 2007 compared with Q2 of 2006

Sales for the second quarter of 2007 were € 2,537 million (€ 2,484 million). Paper deliveries increased by 5%.

Operating loss was € 75 million, -3.0% of sales (loss of € 54 million, -2.2% of sales). Excluding special items operating profit improved and came to € 225 million, 8.9% of sales (€ 79 million, 3.2% of sales). Special items of € -300 million, net, were included in the second quarter operating profit. Gains reported as special items were a gain of € 29 million from the sale of Walki Wisa and a gain of € 42 million from that of UPM-Asunnot. An income of € 11 million from the impairment reversal of previously impaired assets was recorded as a special item.

In June, a decision was made to close the Miramichi coated magazine paper mill in Canada for nine to twelve months starting late August. The remaining carrying value of € 22 million of the production facilities was written off as a special item. The mill's profitability has declined due to strengthening of the Canadian dollar and low US paper prices. Additionally, due to the temporary shut down of the mill, a charge of approximately € 10 million for personnel expenses was recorded as a special item. The Magazine Papers Division recorded a € 350 million impairment charge of the division's goodwill as a special item. The primary drivers for the impairment relate to lower-than-forecast realised magazine paper price and the adverse development of exchange rates, especially that of the US dollar.

Operating profit excluding special items for the second quarter increased. Efficiency of operations improved from last year and delivery volumes were higher. Cost increase was moderate, although wood raw material costs increased considerably both in Finland and in Central Europe. Wood supply to Finnish mills was affected by mild winter and announcement of increases in export duties on Russian wood. Also recycled fibre costs were higher. On the other hand, energy costs were lower than a year ago. The average price for all paper deliveries translated into euros was slightly lower than a year ago. Profitability of exports weakened due to the strengthening of the euro and the Canadian dollar against the US dollar, which both have appreciated approximately 10% during the past 12 months.

Increase in the fair value of biological assets net of wood harvested was € 14 million (decrease of € 102 million). The share of results of associated companies and joint ventures was € 6 million (€ 8 million).

Loss before tax was € 121 million (loss of € 101 million). Excluding special items profit before tax was € 179 million (€ 32 million). Interest and other finance costs, net, were € 54 million (€ 52 million). Exchange rate and fair value gains and losses resulted in a gain of € 8 million (gain of € 5 million).

Income taxes were € 77 million (€ 2 million). These included € 25 million in income from a decrease of deferred tax liabilities relating to the goodwill impairment charge and a € 57 million charge from a reduction of deferred tax assets in Canada.

Loss for the second quarter was € 198 million (loss of € 103 million). Earnings per share were € -0.38 (€ -0.20) and excluding special items € 0.28 (€ 0.04).

First six months of 2007 compared with first six months of 2006

Sales for January-June were € 5,056 million, 2% higher than the € 4,944 million in the same period in 2006. Paper deliveries increased by 5%.

Operating profit came to € 146 million, 2.9% of sales (€ 116 million, 2.3% of sales) and excluding special items € 446 million, 8.8% of sales (€ 264 million, 5.3% of sales).

Increase in costs was slightly above 1% compared with last year. Fixed costs decreased and energy costs were lower. Recycled fibre costs were higher than a year ago and cost of wood raw material increased both in Finland and in Central Europe. The average price for newsprint and uncoated fine paper translated into euros increased but the average price for magazine paper declined from the corresponding period last year. Profitability of exports weakened due to the strengthening of the euro and the Canadian dollar against the US dollar.

The increase in the fair value of biological assets net of wood harvested was € 11 million (decrease of € 106 million). The share of results of associated companies and joint ventures was € 27 million (€ 34 million).

Profit before tax was € 56 million (€ 35 million) and excluding special items € 356 million (€ 183 million). Interest and other finance costs, net were € 103 million (€ 98 million). Net interest bearing liabilities decreased from last year but the average interest rate of borrowings was higher than a year ago. Exchange rate and fair value gains and losses resulted in a gain of € 11 million (gain of € 17 million).

Income taxes were € 123 million (€ 39 million) and the effective tax rate excluding the impact of special items was 24% (29%).

Loss for the period was € 67 million (loss of € 4 million). Earnings per share were € -0.13 (€ -0.01), and excluding special items € 0.53 (€ 0.25). Operating cash flow per share was € 0.75 (€ 0.83).

Paper deliveries

Paper deliveries for the first six months amounted to 5,585,000 (5,325,000) tonnes. Magazine paper deliveries were 2,344,000 tonnes (2,246,000 tonnes), newsprint 1,313,000 tonnes (1,314,000 tonnes) and fine and speciality papers 1,928,000 tonnes (1,765,000 tonnes).

Financing

In January-June, cash flow from operating activities, before capital expenditure and financing, was € 392 million (€ 434 million). The increase in working capital amounted to € 207 million (€ 80 million).

As of 30 June, gearing ratio was 58% (69% as of 30 June 2006). Equity to assets ratio at 30 June was 50.0% (47.1%). Net interest-bearing liabilities at the end of the period were € 4,015 million (€ 4,812 million).

Personnel

In January-June, UPM had an average of 28,966 employees (31,730 employees for this period last year). The number of employees at the end of June was 29,344 (32,918).

Capital expenditure

For the first half of the year, gross capital expenditure was € 353 million, 7.0% of sales (€ 331 million, 6.7% of sales).

At the Jämsänkoski mill, the € 45 million conversion of coated magazine paper machine 4 into label papers was completed with the paper machine making the first customer deliveries in May.

The largest ongoing investment, a € 325 million rebuild of the recovery plant at the Kymi pulp mill, is proceeding according to plan.

In April UPM announced a € 90 million investment in a new self-adhesive label materials factory in Poland. The factory is scheduled for start-up in Q4 of 2008.

In Uruguay, UPM's associated company, Metsä-Botnia, is constructing a pulp mill with an annual capacity of 1 million tonnes. The construction is on schedule and the mill is estimated to start up in Q3 of 2007.

Changes in the Group's structure

The sale of Walki Wisa was completed in June, resulting in a capital gain of € 29 million. In 2006 Walki Wisa had sales of € 287 million and it employed approximately 950 people.

The sale of UPM-Asunnot Oy was concluded in April. The gain on the sale was € 42 million. UPM-Asunnot Oy owned approximately 2,000 rental apartments and employed 15 people.

Profitability programme

In March 2006, UPM announced an extensive programme for 2006-2008 to restore its profitability. The profitability programme includes a reduction of approximately 3,600 employees over the three year period and closures of uncompetitive paper production capacity. When finalised, the programme is estimated to result in annual cost savings of approximately € 200 million.

The profitability programme has proceeded according to plan. By the end of June, reduction in the number of personnel as a result of actions under the profitability programme was approximately

2,400. Cost savings from the profitability programme have materialised as planned. In 2007 cost savings have been estimated to be € 110 million.

Shares

UPM shares worth, in total, € 8,615 million were traded on the Helsinki Stock Exchange (€ 9,259 million) during January-June. The highest quotation was € 20.59 in February and the lowest €17.67 in May. On the New York Stock Exchange, the company's shares were traded to a total value of USD 130 million (182 million).

The Annual General Meeting held on 27 March 2007 approved a proposal by the Board of Directors to buy back not more than 52,000,000 own shares. The authorisation is valid for 18 months. The meeting authorised the board to decide on the disposal of shares so acquired as well as on a free issue of shares to the company itself so that the total number of shares to be issued to the company combined with the number of own shares bought back under the buy-back authorisation may not exceed 1/10 of the total number of shares of the company. By the end of June this authorisation has not been exercised.

Additionally, the Annual General Meeting authorised the Board of Directors to decide to issue shares and special rights entitling to shares of the company. The number of new shares to be issued, including the shares to be obtained under special rights, will be no more than 250,000,000. Of that amount, the maximum number that can be issued to the company's shareholders based on their pre-emptive rights is 250,000,000 shares and the maximum amount that can be issued deviating from the shareholders' pre-emptive rights in a directed share issue is 100,000,000 shares. The maximum number of new shares to be issued as part of the company's incentive programmes is 5,000,000 shares. This authorisation is valid for no more than three years from the date of the decision. To date, this authorisation has not been exercised.

The meeting also decided on granting share options in connection with the company's share-based incentive plans. In the option programmes 2007 A, 2007 B and 2007 C, the total number of share options is no more than 15,000,000, and they will entitle to subscribe in total for no more than 15,000,000 new shares of the company.

In the second quarter of 2007, 5,707,290 shares were subscribed for through exercising of outstanding share options. The number of shares entered in the Trade Register as of 30 June 2007 was 528,969,320. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 812,451,130.

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

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

Litigation

Certain competition authorities are continuing investigations into alleged antitrust activities with respect to various products of the company.

The U.S. Department of Justice, the EU authorities and the authorities in several EU Member States, Canada and certain other countries have granted UPM conditional full immunity with respect to certain conduct disclosed to them. The U.S. and Canadian investigations are now closed, and the European Commission has tentatively closed its investigation of the European fine paper, newsprint, magazine paper, label paper and self-adhesive labelstock markets.

UPM has been named as a defendant in multiple class-action lawsuits against labelstock and magazine paper manufacturers in the United States. The remaining litigation matters may last several years. No provisions have been made in relation to these investigations or litigations.

Outlook for the third quarter

In Europe, demand for printing papers is forecast to grow slightly from the corresponding quarter of last year, while in North America demand is expected to decrease. Strong growth in demand is expected to continue in the emerging markets. UPM estimates its paper deliveries to increase slightly from last year and average price for all paper deliveries to be about the same as in the second quarter of 2007.

Demand for self-adhesive label materials is forecast to continue to be good, and prices are expected to remain stable.

In wood products, strong demand for plywood and sawn timber will continue during the third quarter. Shortage of birch logs may cause reduction in birch plywood production during the latter part of the year.

The company's overall cost inflation for 2007 is estimated to be approximately 2% including the expected cost savings from the ongoing profitability programme.

Divisional reviews

Magazine Papers

	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Sales, €m	798	793	905	861	817	771	1,591	1,588	3,354
EBITDA, €m [1]	114	113	157	155	145	113	227	258	570
% of sales	14.3	14.2	17.3	18.0	17.7	14.7	14.3	16.2	17.0
Depreciation, amortisation and impairment charges, €m	–443	–86	–88	–209	–210	–97	–529	–307	–604
Operating profit, €m	–339	27	75	–62	–85	16	–312	–69	–56
% of sales	–42.5	3.4	8.3	–7.2	–10.4	2.1	–19.6	–4.3	–1.7
Special items, €m [2]	–371	–	6	–126	–133	–	–371	–133	–253
Operating profit excl. special items, €m	32	27	69	64	48	16	59	64	197
% of sales	4.0	3.4	7.6	7.4	5.9	2.1	3.7	4.0	5.9
Deliveries, 1,000 t	1,189	1,155	1,288	1,227	1,148	1,098	2,344	2,246	4,761

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

[2] Special items in the second quarter 2007 include a goodwill impairment charge of € 350 million, an impairment charge of € 22 million and personnel costs of € 10 million related to the Miramichi paper mill, and an income of € 11 million related to impairment reversals. Special items in the second quarter 2006 include personnel charges of € 20 million related to the profitability programme, and impairment charges of € 113 million related to the closure of the Voikkaa paper mill. In the third quarter, special items include personnel charges of € 8 million and impairment charges of € 3 million at Voikkaa, and impairment charges of € 115 million for Miramichi. In the fourth quarter, special items relate primarily to the capital gain on the sale of the Rauma power plant.

Q2 of 2007 compared with Q2 of 2006

Operating profit, excluding special items, for Magazine Papers declined to € 32 million (€ 48 million). Sales were € 798 million (€ 817 million). Paper deliveries had a volume of 1,189,000 (1,148,000) tonnes.

The average price for all magazine paper deliveries translated into euros was about 6% lower than a year ago. A stronger euro and Canadian dollar weakened profitability of exports.

In June a decision was made to close the Miramichi coated magazine paper mill for nine to twelve months starting in late August. The remaining carrying value of € 22 million of the production facilities was written off as a special item. Additionally, due to the temporary shut down of the mill, a charge of approximately € 10 million for personnel expenses was recorded as a special item.

Also, the division recorded a € 350 million impairment charge of the division's goodwill. The primary drivers for the impairment relate to lower–than–forecast realised magazine paper price and the adverse development of exchange rates.

An income of € 11 million from the impairment reversal of previously impaired assets was recorded as a special item.

January–June of 2007 compared with January–June of 2006

Operating profit, excluding special items, for Magazine Papers was € 59 million (€ 64 million). Sales of € 1,591 million were about the same as last year (€ 1,588 million). Paper deliveries had a volume of 2,344,000 (2,246,000) tonnes.

Profitability of the division declined. The average price for all magazine paper deliveries translated into euros was almost 5 % lower than year ago. Prices were lower in all main markets (in local currencies). A stronger euro and Canadian dollar weakened the profitability of exports. Cost of wood and recycled paper increased. Fixed costs, energy and logistic costs were lower than last year.

Market review

In the first six months of the year, magazine paper demand in Europe continued to be good, driven by a strong increase in demand in Eastern Europe. Demand for both coated and uncoated magazine paper increased by about 3% compared with the same period in 2006. Export of magazine paper from Europe decreased compared with the previous year. In North America, demand for coated magazine paper remained the same as a year ago, while uncoated magazine paper demand increased by about 5%. The average market price for magazine papers in Europe was about 2% down from last year. In North America, USD prices decreased by about 10%.

Newsprint

	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Sales, €m	379	348	380	360	351	345	727	696	1,436
EBITDA, €m [1]	100	92	89	98	86	72	192	158	345
% of sales	26.4	26.4	23.4	27.2	24.5	20.9	26.4	22.7	24.0
Depreciation, amortisation and impairment charges, €m	−47	−48	−48	−48	−47	−47	−95	−94	−190
Operating profit, €m	53	44	39	50	34	25	97	59	148
% of sales	14.0	12.6	10.3	13.9	9.7	7.2	13.3	8.5	10.3
Special items, €m [2]	–	–	−2	–	−5	–	–	−5	−7
Operating profit excl. special items, €m	53	44	41	50	39	25	97	64	155
% of sales	14.0	12.6	10.8	13.9	11.1	7.2	13.3	9.2	10.8
Deliveries, 1,000 t	683	630	697	666	660	654	1,313	1,314	2,677

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
2) The special items booked for 2006 relate mainly to the profitability programme.

Q2 of 2007 compared with Q2 of 2006

Operating profit, excluding special items, for Newsprint improved from € 39 million to € 53 million. Sales were € 379 million (€ 351 million). Paper deliveries were 683,000 tonnes (660,000 tonnes).

The average price for all newsprint deliveries translated into euros was about 4% up from the corresponding period in 2006.

January–June of 2007 compared with January–June of 2006

Operating profit, excluding special items, for Newsprint increased from € 64 million to € 97 million. Sales were 727 million (€ 696 million). Paper deliveries were 1,313,000 tonnes (1,314,000 tonnes).

The main contributor to the improved profitability was the higher price of newsprint. The average price for all newsprint deliveries translated into euros was over 4% up. Energy costs were lower mainly due to the new biofuel power plants at the Shotton and Chapelle Darblay mills. On the other hand, the prices of recycled fibre and wood raw material were higher than a year ago.

Market review

In Europe, demand for standard and improved newsprint was the same as in the first half of last year. Net exports from Europe decreased. In Europe, the average market prices for standard newsprint were about 5% up. In the other markets, with the exception of North America, demand increased but prices were lower than in the same period last year.

Fine and Speciality Papers

	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Sales, €m	686	699	667	626	627	640	1,385	1,267	2,560
EBITDA, €m [1]	92	85	104	106	76	82	177	158	368
% of sales	13.4	12.2	15.6	16.9	12.1	12.8	12.8	12.5	14.4
Depreciation, amortisation and impairment charges, €m	−53	−53	−56	−55	−71	−55	−106	−126	−237
Operating profit, €m	39	32	44	50	−13	27	71	14	108
% of sales	5.7	4.6	6.6	8.0	−2.1	4.2	5.1	1.1	4.2
Special items, €m [2]	–	–	−3	−2	−36	–	–	−36	−41
Operating profit excl. special items, €m	39	32	47	52	23	27	71	50	149
% of sales	5.7	4.6	7.0	8.3	3.7	4.2	5.1	3.9	5.8
Deliveries, 1,000 t	960	968	907	878	884	881	1,928	1,765	3,550

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
2) In 2006, special items include personnel and impairment charges related to the profitability programme.

Q2 of 2007 compared with Q2 of 2006
Operating profit, excluding special items, for Fine and Speciality Papers improved by € 16 million to € 39 million (€ 23 million). Sales increased from € 627 million to € 686 million. Paper deliveries were 960,000 (884,000) tonnes.

The average price for all fine and speciality paper deliveries translated into euros was about 1% higher than year ago.

January–June of 2007 compared with January–June of 2006
Operating profit, excluding special items, for Fine and Speciality Papers improved from € 50 million to € 71 million. Sales increased from € 1,267 million to 1,385 million. Paper deliveries increased by 163,000 tonnes to 1,928,000 (1,765,000). More efficient use of capacity and recent investments at the Changshu mill were the main contributors to the higher volumes.

The profitability of the division improved from last year. Paper deliveries were higher and the average price for all fine and speciality paper deliveries increased by about 1%. Higher wood fibre costs and tightened availibility of wood in Finland had a negative effect on profitability.

Market review
In Europe, demand for coated fine paper increased by about 2% compared with the same period last year. Demand for uncoated fine paper remained the same as a year ago. Good demand for label and packaging papers continued. In Europe, average market price for coated fine paper was about 2% up and the price for uncoated fine paper increased by about 7% compared with the same period last year. In Asia, demand and prices for fine paper increased from last year.

Label Materials

	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4 /06
Sales, €m	260	261	251	240	245	251	521	496	987
EBITDA, €m [1]	21	26	25	20	24	24	47	48	93
% of sales	8.1	10.0	10.0	8.3	9.8	9.6	9.0	9.7	9.4
Depreciation, amortisation and impairment charges, €m	–8	–8	–8	–9	–8	–7	–16	–15	–32
Operating profit, €m	13	18	17	11	16	17	31	33	61
% of sales	5.0	6.9	6.8	4.6	6.5	6.8	6.0	6.7	6.2
Special items, €m	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, €m	13	18	17	11	16	17	31	33	61
% of sales	5.0	6.9	6.8	4.6	6.5	6.8	6.0	6.7	6.2

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

Q2 of 2007 compared with Q2 of 2006
Operating profit, excluding special items, for the Label Division was € 13 million (€ 16 million). Sales increased by 6% from € 245 million to € 260 million.

Delivery volumes grew in the European and North American markets. In Asia, volumes increased due to the start-up of the new factory in China at the end of 2006.

January–June of 2007 compared with January–June of 2006
Operating profit, excluding special items, for the Label Division was € 31 million (€ 33 million). Sales increased by 5% from € 496 million to € 521 million.

The profitability of the division continued to be good even though costs increased due to expansion of operations. Sales were affected by the stronger euro and change in the sales and product mix. The average price of labelstock in local currencies remained stable. There were no marked changes in raw material prices. The strong growth in the RFID business continued.

Market review
During the first six months of the year good demand for labelstock continued.

Wood Products

	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Sales, €m	326	314	287	310	378	346	640	724	1,321
EBITDA, €m [1]	51	42	24	22	33	25	93	58	104
% of sales	15.6	13.4	8.4	7.1	8.7	7.2	14.5	8.0	7.9
Depreciation, amortisation and impairment charges, €m	–11	–10	–10	–11	–11	–11	–21	–22	–43
Operating profit, €m	41	32	14	104	22	4	73	26	144
% of sales	12.6	10.2	4.9	33.5	5.8	1.2	11.4	3.6	10.9
Special items, €m [2]	–	–	–	93	–	–10	–	–10	83
Operating profit excl. special items, €m	41	32	14	11	22	14	73	36	61
% of sales	12.6	10.2	4.9	3.5	5.8	4.0	11.4	5.0	4.6
Deliveries, plywood 1,000 m^3	247	255	243	205	232	251	502	483	931
Deliveries, sawn timber 1,000 m^3	637	587	598	517	622	580	1,224	1,202	2,317

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
2) Special items in the first quarter 2006 include a loss of € 10 million from the sale of the Loulay plywood mill, and in the third quarter, a capital gain of € 93 million on the sale of Puukeskus.

Q2 of 2007 compared with Q2 of 2006

Operating profit, excluding special items, for Wood Products increased from € 22 million to € 41 million. Sales came to € 326 million (€ 378 million). Excluding Puukeskus Oy, which was sold in August 2006, sales increased from the second quarter of 2006. Plywood deliveries were 247,000 (232,000) cubic metres and sawn timber deliveries 637,000 (622,000) cubic metres.

January–June of 2007 compared with January–June of 2006

Operating profit, excluding special items, for Wood Products increased from € 36 million to € 73 million. Sales came to € 640 million (€ 724 million). Plywood deliveries were 502,000 (483,000) cubic metres and sawn timber deliveries 1,224,000 (1,202,000) cubic metres.

The profitability of the division improved especially in sawmilling operations despite the increase in wood raw material costs and tight supply of birch logs.

Market review

In the first half of the year, birch and spruce plywood demand continued strong in all markets. Plywood prices were higher than a year ago. The markets for veneers and further processed goods were solid. Redwood and whitewood sawn timber demand was strong and prices increased clearly. The supply of birch logs was tight. Cost of wood raw material increased.

Other Operations

€m	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Sales [1]	214	234	224	206	189	204	448	393	823
EBITDA [2]	32	60	69	27	33	70	92	103	199
Depreciation, amortisation and impairment charges	–5	–10	–9	–9	–9	–5	–15	–14	–32
Operating profit									
Forestry [3]	34	28	23	20	–82	20	62	–62	–19
Energy Department, Finland	19	28	36	–	18	40	47	58	94
Other and eliminations [4]	59	–9	–10	–18	28	–5	50	23	–5
Operating profit, total	112	47	49	2	–36	55	159	19	70
Special items [4]	71	–	–6	–1	41	–5	71	36	29
Operating profit excl. special items	41	47	55	3	–77	60	88	–17	41

1) Includes sales outside the Group.
2) EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and special items.
3) The second quarter of 2006 includes a change of € 102 million of the decrease in the fair value of biological assets and wood harvested.
4) Special items in the second quarter 2007 include capital gains of € 42 million related to the sale of UPM-Asunnot and € 29 million related to the sale of Walki Wisa. Special items in 2006 include in the first quarter the donation of € 5 million to UPM-Kymmene Cultural Foundation, and in the second quarter the capital gain of € 41 million for the sale of the Group head office real estate.

Q2 of 2007 compared with Q2 of 2006

Excluding special items, operating profit for Other Operations was € 41 million (€ -77 million). Sales were € 214 million (€ 189 million).

Operating profit of Forestry was € 34 million (€ -82 million). The increase in the fair value of biological assets (growing trees) was € 49 million (decrease € 76 million). The cost of wood raw material harvested from the Group's forests was € 35 million (€ 26 million).

Operating profit of the Energy Department in Finland was € 19 million (€ 18 million). Hydropower availability was good. The price of electricity at Nord Pool was significantly lower than in the corresponding period a year ago.

January–June of 2007 compared with January–June of 2006

Excluding special items, operating profit for Other Operations was € 88 million (€ -17 million). Sales were € 448 million (€ 393 million).

The increase in the fair value of biological assets (growing trees) was € 72 million (decrease € 60 million). The cost of wood raw material harvested from the Group's forests was € 61 million (€ 46 million).

Associated companies and joint ventures

€m	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Share of result after tax									
Oy Metsä-Botnia Ab	12	21	18	24	13	14	33	27	69
Pohjolan Voima Oy	–5	–	–9	–7	–5	7	–5	2	–14
Other	–1	–	–	1	–	5	–1	5	6
Total	6	21	9	18	8	26	27	34	61

Deliveries

	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Paper deliveries									
Magazine papers, 1,000 t	1,189	1,155	1,288	1,227	1,148	1,098	2,344	2,246	4,761
Newsprint, 1,000 t	683	630	697	666	660	654	1,313	1,314	2,677
Fine and speciality papers, 1,000 t	960	968	907	878	884	881	1,928	1,765	3,550
Paper deliveries total	2,832	2,753	2,892	2,771	2,692	2,633	5,585	5,325	10,988
Wood products deliveries									
Plywood 1,000 m^3	247	255	243	205	232	251	502	483	931
Sawn timber 1,000 m^3	666	617	621	557	663	616	1,283	1,279	2,457

Helsinki, 26 July 2007

UPM-Kymmene Corporation

Board of Directors

Financial information

Condensed consolidated income statement

€m	Q2/2007	Q2/2006	Q1–Q2/2007	Q1–Q2/2006	Q1–Q4/2006
Sales	2,537	2,484	5,056	4,944	10,022
Other operating income	80	67	98	108	231
Costs and expenses	–2,145	–2,155	–4,264	–4,285	–8,514
Change in fair value of biological assets and wood harvested	14	–102	11	–106	–126
Share of results of associated companies and joint ventures	6	8	27	34	61
Depreciation, amortisation and impairment charges	–567	–356	–782	–579	–1,138
Operating profit	–75	–54	146	116	536
Gains/losses on available-for-sale investments, net	–	–	2	–	–2
Exchange rate and fair value gains and losses	8	5	11	17	18
Interest and other finance costs	–54	–52	–103	–98	–185
Profit before tax	–121	–101	56	35	367
Income taxes	–77	–2	–123	–39	–29
Profit for the period	–198	–103	–67	–4	338
Attributable to:					
Equity holders of the parent company	–198	–103	–67	–4	340
Minority interest	–	–	–	–	–2
	–198	–103	–67	–4	338
Basic earnings per share, €	–0.38	–0.20	–0.13	–0.01	0.65
Diluted earnings per share, €	–0.38	–0.20	–0.13	–0.01	0.65

Condensed consolidated balance sheet

€m	30.06.2007	30.06.2006	31.12.2006
ASSETS			
Non-current assets			
Goodwill	1,163	1,514	1,514
Other intangible assets	419	510	461
Property, plant and equipment	6,375	6,742	6,500
Biological assets	1,032	1,063	1,037
Investments in associated companies and joint ventures	1,185	1,140	1,177
Deferred tax assets	339	307	362
Other non-current assets	252	270	304
	10,765	11,546	11,355
Current assets			
Inventories	1,294	1,272	1,255
Trade and other receivables	1,771	1,764	1,660
Cash and cash equivalents	104	151	199
	3,169	3,187	3,114
Assets held for sale	–	124	–
Total assets	13,934	14,857	14,469
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent company			
Share capital	890	890	890
Share premium reserve	825	826	826
Fair value and other reserves	325	216	189
Retained earnings	4,893	5,021	5,366
	6,933	6,953	7,271
Minority interest	16	21	18
Total equity	6,949	6,974	7,289
Non-current liabilities			
Deferred tax liabilities	762	836	790
Non-current interest-bearing liabilities	3,053	4,082	3,353
Other non-current liabilities	613	654	627
	4,428	5,572	4,770
Current liabilities			
Current interest-bearing liabilities	1,118	981	992
Trade and other payables	1,439	1,286	1,418
	2,557	2,267	2,410
Liabilities related to assets held for sale	–	44	–
Total liabilities	6,985	7,883	7,180
Total equity and liabilities	13,934	14,857	14,469

Condensed consolidated statement of changes in equity

	Attributable to equity holders of the parent								
€m	Share capital	Treasury shares	Translation differences	Share premium reserve	Fair value and other reserves	Retained earnings	Total	Minority interest	Equity total
Balance at 1 January 2006	890	–3	–34	826	233	5,415	7,327	21	7,348
Transactions with equity holders									
Share options exercised	–	–	–	–	–	–	–	–	–
Reissuance of treasury shares	–	3	–	–	–	1	4	–	4
Share-based compensation	–	–	–	–	4	–	4	–	4
Dividend paid	–	–	–	–	–	–392	–392	–	–392
Income and expenses recognised directly in equity									
Translation differences	–	–	–42	–	–	–	–42	–	–42
Other items	–	–	–	–	–1	1	–	–	–
Net investment hedge, net of tax	–	–	8	–	–	–	8	–	8
Cash flow hedges									
recorded in equity, net of tax	–	–	–	–	39	–	39	–	39
transferred to income statement, net of tax	–	–	–	–	9	–	9	–	9
Available-for-sale investments									
transferred to income statement, net of tax	–	–	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	–	–4	–4	–	–4
Balance at 30 June 2006	890	–	–68	826	284	5,021	6,953	21	6,974
Balance at 1 January 2007	890	–	–89	826	278	5,366	7,271	18	7,289
Transactions with equity holders									
Share options exercised	–	–	–	–	104	–	104	–	104
Share-based compensation, net of tax	–	–	–	–	6	–	6	–	6
Dividend paid	–	–	–	–	–	–392	–392	–	–392
Transfers and other	–	–	–	–1	16	–16	–1	–2	–3
Income and expenses recognised directly in equity									
Translation differences	–	–	12	–	–	–	12	–	12
Other items	–	–	–	–	–1	2	1	–	1
Cash flow hedges									
recorded in equity, net of tax	–	–	–	–	17	–	17	–	17
transferred to income statement, net of tax	–	–	–	–	–16	–	–16	–	–16
Available-for-sale investments									
transferred to income statement, net of tax	–	–	–	–	–2	–	–2	–	–2
Profit for the period	–	–	–	–	–	–67	–67	–	–67
Balance at 30 June 2007	890	–	–77	825	402	4,893	6,933	16	6,949

Condensed consolidated cash flow statement

€m	Q1–Q2/2007	Q1–Q2/2006	Q1–Q4/2006
Cash flow from operating activities			
Profit for the period	–67	–4	338
Adjustments, total	864	657	1,195
Change in working capital	–207	–80	21
Cash generated from operations	590	573	1,554
Finance costs, net	–105	–88	–180
Income taxes paid	–93	–51	–159
Net cash from operating activities	392	434	1,215
Cash flow from investing activities			
Acquisitions and share purchases	–11	–41	–68
Purchases of intangible and tangible assets	–359	–301	–635
Asset sales and other investing cash flow	182	91	389
Net cash used in investing activities	–188	–251	–314
Cash flow from financing activities			
Change in loans and other financial items	–11	111	–559
Share options exercised	104	–	–
Dividends paid	–392	–392	–392
Net cash used in financing activities	–299	–281	–951
Change in cash and cash equivalents	–95	–98	–50
Cash and cash equivalents at beginning of period	199	251	251
Foreign exchange effect on cash	–	–2	–2
Change in cash and cash equivalents	–95	–98	–50
Cash and cash equivalents at end of period	104	151	199
Operating cash flow per share, €	0.75	0.83	2.32

Quarterly information

€m	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q2/07	Q1–Q2/06	Q1–Q4/06
Sales by segment									
Magazine Papers	798	793	905	861	817	771	1,591	1,588	3,354
Newsprint	379	348	380	360	351	345	727	696	1,436
Fine and Speciality Papers	686	699	667	626	627	640	1,385	1,267	2,560
Label Materials	260	261	251	240	245	251	521	496	987
Wood Products	326	314	287	310	378	346	640	724	1,321
Other Operations	214	234	224	206	189	204	448	393	823
Internal sales	–126	–130	–131	–108	–123	–97	–256	–220	–459
Sales, total	2,537	2,519	2,583	2,495	2,484	2,460	5,056	4,944	10,022
Operating profit by segment									
Magazine Papers	–339	27	75	–62	–85	16	–312	–69	–56
Newsprint	53	44	39	50	34	25	97	59	148
Fine and Speciality Papers	39	32	44	50	–13	27	71	14	108
Label Materials	13	18	17	11	16	17	31	33	61
Wood Products	41	32	14	104	22	4	73	26	144
Other Operations	112	47	49	2	–36	55	159	19	70
Share of results of associated companies and joint ventures	6	21	9	18	8	26	27	34	61
Operating profit (loss), total	–75	221	247	173	–54	170	146	116	536
% of sales	–3.0	8.8	9.6	6.9	–2.2	6.9	2.9	2.3	5.3
Gains on available-for-sale investments, net	–	2	–2	–	–	–	2	–	–2
Exchange rate and fair value gains and losses	8	3	4	–3	5	12	11	17	18
Interest and other finance costs, net	–54	–49	–46	–41	–52	–46	–103	–98	–185
Profit (loss) before tax	–121	177	203	129	–101	136	56	35	367
Income taxes	–77	–46	–8	18	–2	–37	–123	–39	–29
Profit (loss) for the period	–198	131	195	147	–103	99	–67	–4	338
Basic earnings per share, €	–0.38	0.25	0.37	0.29	–0.20	0.19	–0.13	–0.01	0.65
Diluted earnings per share, €	–0.38	0.25	0.38	0.28	–0.20	0.19	–0.13	–0.01	0.65
Average number of shares basic (1,000)	527,111	523,261	523,258	523,256	523,256	523,108	525,186	523,182	523,220
Average number of shares diluted (1,000)	530,980	527,086	526,416	525,938	525,874	525,936	529,033	525,905	526,041
Special items in operating profit									
Special items in operating profit are specified in the divisional reviews on pages 5–8.									
Magazine Papers	–371	–	6	–126	–133	–	–371	–133	–253
Newsprint	–	–	–2	–	–5	–	–	–5	–7
Fine and Speciality papers	–	–	–3	–2	–36	–	–	–36	–41
Label Materials	–	–	–	–	–	–	–	–	–
Wood Products	–	–	–	93	–	–10	–	–10	83
Other Operations	71	–	–6	–1	41	–5	71	36	29
Share of results of associated companies and joint ventures	–	–	–	–	–	–	–	–	–
Special items in operating profit, total	–300	–	–5	–36	–133	–15	–300	–148	–189
Special items after operating profit	–	–	6	–	–	–	–	–	6
Special items reported in taxes (see page 3)	–32	–	35	20	–29	–	–32	–29	26
Special items, total	–332	–	36	–16	–162	–15	–332	–177	–157
Operating profit, excluding special items	225	221	252	209	79	185	446	264	725
% of sales	8.9	8.8	9.8	8.4	3.2	7.5	8.8	5.3	7.2
Profit before tax, excluding special items	179	177	202	165	32	151	356	183	550
% of sales	7.1	7.0	7.8	6.6	1.3	6.1	7.0	3.7	5.5
Earnings per share, excluding special items, €	0.28	0.25	0.30	0.25	0.04	0.21	0.53	0.25	0.80
Return on equity excl. special items, %	8.5	7.3	8.7	7.2	1.1	6.1	7.9	3.6	5.7
Return of capital empl. excl. special items, %	8.3	7.9	8.7	7.1	2.7	6.4	8.1	4.6	6.2

Changes in property, plant and equipment

€m	Q1–Q2/2007	Q1–Q2/2006	Q1–Q4/2006
Book value at beginning of period	6,500	7,316	7,316
Capital expenditure	325	284	604
Decreases	–46	–237	–325
Depreciation	–381	–412	–804
Impairment charges	–22	–128	–243
Impairment reversal	11	–	–
Translation difference and other changes	–13	–81	–48
Book value at end of period	6,374	6,742	6,500

Commitments and contingencies

€m	30.06.2007	30.06.2006	31.12.2006
Own commitments			
Mortgages	94	93	92
On behalf of associated companies and joint ventures			
Guarantees for loans	11	14	12
On behalf of others			
Guarantees for loans	–	2	1
Other guarantees	5	6	5
Other own commitments			
Leasing commitments for the next 12 months	21	23	23
Leasing commitments for subsequent periods	90	107	94
Other commitments	77	68	69

Capital commitments

€m	Completion	Total cost	By 31.12.2006	Q1–Q2/2007	After 30.6.2007
Pulp mill rebuild, Kymi	June 2008	325	25	113	187
New Poland mill, UPM Raflatac	November 2008	90	–	4	86
New USA mill, UPM Raflatac, Dixon	March 2008	75	8	21	46
New Bioboiler, Caledonian	September 2009	72	–	4	68
PM5 quality upgrade, Jämsänkoski	June 2008	38	–	2	36

Notional amounts of derivative financial instruments

€m	30.06.2007	30.06.2006	31.12.2006
Currency derivatives			
Forward contracts	3,557	5,880	4,293
Options, bought	37	10	20
Options, written	37	10	10
Swaps	557	574	570
Interest rate derivatives			
Forward contracts	2,646	2,448	2,500
Swaps	2,496	2,651	2,566
Other derivatives			
Forward contracts	14	28	13
Swaps	8	25	16

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

€m	Q1–Q2/2007	Q1–Q2/2006	Q1–Q4/2006
Sales to associated companies	41	23	61
Purchases from associated companies	215	191	448
Non-current receivables at end of period	–	4	–
Trade and other receivables at end of period	19	13	20
Trade and other payables at end of period	33	27	23

Key exchange rates for the euro at end of period

	30.6.2007	31.3.2007	31.12.2006	30.9.2006	30.6.2006	31.3.2006
USD	1.3505	1.3318	1.3170	1.2660	1.2713	1.2104
CAD	1.4245	1.5366	1.5281	1.4136	1.4132	1.4084
JPY	166.63	157.32	156.93	149.34	145.75	142.42
GBP	0.6740	0.6798	0.6715	0.6777	0.6921	0.6964
SEK	9.2525	9.3462	9.0404	9.2797	9.2385	9.4315

Basis of preparation

This unaudited financial 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 2006. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The Group has adopted the following standard:

IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures, effective for annual periods beginning on or after 1 January 2007. IFRS 7 introduces new disclosures to improve the information about financial instruments. The amendment to IAS 1 introduces disclosures about how an entity manages its capital. Adoption of IFRS 7 and the amendment to IAS 1 will expand disclosures presented in the annual financial statements.

Calculation of key indicators

Return on equity, %:

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

Return on capital employed, %:

$$\frac{\text{Profit before tax} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (average)}} \times 100$$

Earnings per share:

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

It should be noted that certain statements herein, which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates. For more detailed information about risk factors, see pages 15-17 of the company's annual report 2006.

UPM

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