The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 31 MARCH 2010

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- Earnings per share for the first quarter were EUR 0.13 (–0.30), and excluding special items EUR 0.15 (–0.27)
- Operating profit excluding special items was EUR 116 million (loss of EUR 78 million)
- Operating cash flow was EUR 209 million (274 million)
- Positive development in delivery volumes in all businesses – sales grew by 10%

Key figures

	Q1/2010	Q1/2009	Q1–Q4/2009
Sales, EURm	2,039	1,857	7,719
EBITDA, EURm [1)]	288	128	1,062
% of sales	14.1	6.9	13.8
Operating profit (loss), EURm	107	–95	135
excluding special items, EURm	116	–78	270
% of sales	5.7	–4.2	3.5
Profit (loss) before tax, EURm	82	–162	187
excluding special items, EURm	91	–145	107
Net profit (loss) for the period, EURm	70	–158	169
Earnings per share, EUR	0.13	–0.30	0.33
excluding special items, EUR	0.15	–0.27	0.11
Diluted earnings per share, EUR	0.13	–0.30	0.33
Return on equity, %	4.2	neg.	2.8
excluding special items, %	4.6	neg.	1.0
Return on capital employed, %	4.0	neg.	3.2
excluding special items, %	4.3	neg.	2.5
Operating cash flow per share, EUR	0.40	0.53	2.42
Shareholders' equity per share at end of period, EUR	12.62	11.05	12.67
Gearing ratio at end of period, %	54	72	56
Net interest-bearing liabilities at end of period, EURm	3,569	4,139	3,730
Capital employed at end of period, EURm	10,953	10,501	11,066
Capital expenditure, EURm	30	67	913
Capital expenditure excluding acquisitions and shares, EURm	30	58	229
Personnel at end of period	22,840	24,039	23,213

[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

Q1 of 2010 compared with Q1 of 2009

Sales for the first quarter of 2010 were EUR 2,039 million, 10% higher than the EUR 1,857 million in the first quarter of 2009. Sales increased due to higher deliveries across all of UPM's business areas.

Operating profit was EUR 107 million, 5.2% of sales (loss of EUR 95 million, -5.1% of sales). The operating profit excluding special items was EUR 116 million, 5.7% of sales (loss of EUR 78 million, -4.2% of sales). Operating profit includes net charges of EUR 9 million (17 million) as special items, which mainly consist of employee-related restructuring charges in the Paper business area.

Profitability improved noticeably from the same period last year. The main reasons for the better profitability were higher delivery volumes in UPM's businesses and lower costs for wood and energy. The operations in Uruguay, acquired in December 2009, contributed positively to the operating profit.

Due to the stevedores' strike in Finland from 4 March to 19 March, the company's production volumes have been lower in Paper, Pulp, Timber and Plywood. The estimated loss due to strike is approximately EUR 20 million with an impact on first and second quarter results.

Wood costs increased from the latter part of 2009, but decreased by about EUR 40 million from the first quarter of last year. Energy costs were about EUR 30 million lower than last year. In addition, the comparison period included wood and pulp inventory write-downs of EUR 53 million.

Changes in sales prices in euro terms reduced operating profit by about EUR 100 million. The average paper price in euros decreased by approximately 10% from the same period last year. The average price for label materials in euros was slightly lower than last year and plywood prices decreased somewhat. Sawn timber sales prices increased by approximately 14%. The price for external electricity sales was noticeably higher, improving operating profit.

The increase in the fair value of biological assets net of wood harvested was EUR 19 million compared with EUR 11 million a year before.

The share of results of associated companies and joint ventures was EUR 3 million (53 million negative).

Profit before tax was EUR 82 million (loss of EUR 162 million) and excluding special items EUR 91 million (loss of EUR 145 million). Interest and other financing costs net were EUR 26 million (58 million). Exchange rate and fair value gains and losses were EUR 1 million (loss of EUR 9 million).

Income taxes were EUR 12 million (4 million positive). The impact on taxes from special items was EUR 3 million positive (3 million negative).

Profit for the first quarter was EUR 70 million (loss of EUR 158 million) and earnings per share were EUR 0.13 (-0.30). Earnings per share excluding special items were EUR 0.15 (-0.27). Operating cash flow per share was EUR 0.40 (0.53).

Financing

Cash flow from operating activities, before capital expenditure and financing, was EUR 209 million (274 million). Net working capital increased by EUR 18 million during the period (decrease of EUR 216 million).

The gearing ratio as of 31 March 2010, was 54% (72%). Net interest-bearing liabilities at the end of the period came to EUR 3,569 million (4,139 million).

On 31 March 2010, UPM's cash funds and unused committed credit facilities totalled EUR 2.2 billion.

Personnel

In the first quarter of 2010, UPM had an average of 22,889 employees (24,199). At the beginning of the year the number of employees was 23,213, and at the end of the first quarter it was 22,840.

Capital expenditure

During the first three months of 2010, capital expenditure was EUR 30 million, 1.5% of sales (EUR 67 million, 3.6% of sales).

The largest ongoing project is now the rebuild of the debarking plant at the Pietarsaari mill in Finland with total investment cost is estimated to be EUR 25 million.

Shares

In the first quarter of 2010, UPM shares worth EUR 2,118 million (1,503 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. The highest quotation was EUR 10.03 in March and the lowest EUR 7.37 in February.

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

The Annual General Meeting, held on 22 March 2010, authorised the Board of Directors to acquire no more than 51,000,000 of the company's own shares. The authorisation is valid for 18 months from the date of the decision.

The Board was authorised to decide on the issuance of shares and/or transfer the Company's own shares held by the Company and/or issue 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.

To date these authorisations have not been used.

The company has four option series that would entitle the holders to subscribe for a total of 18,000,000 shares. Share options 2005H may be subscribed for 3,000,000 shares, and share options 2007A, 2007B and 2007C may be subscribed for a total of 15,000,000 shares. The 2007C options have not been distributed yet.

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 31 March 2010 was 519,970,088. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 562,970,088.

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

Dividend

The Annual General Meeting of 22 March 2010 approved the Board's proposal to pay a dividend of EUR 0.45 per share for the 2009 financial year. The dividend of EUR 234 million was approved to be paid on 7 April 2010 and is included in the short-term non-interest bearing liabilities at the end of March.

Company directors

At the Annual General Meeting, nine members were elected to the Board of Directors. Mr Matti Alahuhta, President and CEO of KONE Corporation, Mr Berndt Brunow, Chairman of the Board of Oy Karl Fazer Ab, Mr Karl Grotenfelt, Chairman of the Board of Directors of Famigro Oy, Ms Wendy E. Lane, Chairman of the American investment firm Lane Holdings, Inc., Mr Jussi Pesonen, President and CEO of UPM, Ms Ursula Ranin, Board member of Finnair plc, Mr Veli-Matti Reinikkala, President of ABB Process Automation Division and Mr Björn Wahlroos, Chairman of the Board of Sampo plc were re-elected as members of the Board of Directors. Mr. Robert J. Routs, Vice Chairman of the supervisory board of Aegon N.V. was elected to the Board of Directors as a new member.

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, Mr Björn Wahlroos was re-elected as Chairman, and Mr Berndt Brunow was re-elected as Deputy Chairman.

In addition, the Board of Directors appointed from among its members an Audit Committee with Mr Karl Grotenfelt as Chairman, and Ms Wendy E. Lane and Mr Veli-Matti Reinikkala as members. A Human Resources Committee was appointed with Mr Berndt Brunow as Chairman, and Ms Ursula Ranin and Mr Robert J. Routs as members. Furthermore, a Nomination and Corporate Governance Committee was appointed with Mr Björn Wahlroos as Chairman, and Mr Matti Alahuhta and Mr Karl Grotenfelt as members.

Litigation

In Finland, UPM is participating in the building project 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 Oy ("TVO") with 58.28% of shares. UPM's indirect share of the capacity of the Olkiluoto 3 is approximately 29%. The original agreed timetable for the start-up was summer 2009 but the construction of the unit has been delayed. The latest anticipated start-up time is after June 2012. TVO has requested that the plant supplier, the AREVA-Siemens consortium, provide a re-analysis of the anticipated start-up time.

TVO has informed that the arbitration filed in December 2008 by AREVA-Siemens, concerning the delay at Olkiluoto 3 and related costs, amounted to EUR 1.0 billion. In response, TVO filed a counter-claim 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.

Events after the balance sheet date

On 20 April 2010, the International Court of Justice published its decision on the litigation action against the government of Uruguay related to the Fray Bentos pulp mill in Uruguay. The decision reduces the political risk related to the Fray Bentos pulp mill.

Risk factors

Expected decisions on the proposed EU Energy Package have increased uncertainties on how the proposed policies and measures will impact the availability and cost of wood fibre for wood processing industries in Europe. At the same time, global competition for fibres has already created disruptions in fibre availability resulting in volatile price developments.

Outlook for 2010

Gradual recovery in UPM's main markets is expected to continue and demand for consumer goods is forecast to improve. Recovery of advertising expenditure in print media is slow, and this will impede growth in demand for graphic papers. Investment activity, including construction, has shown signs of recovery, and demand for construction materials such as timber and plywood is expected to pick up. Growth is expected to continue in Asia, especially in China. Disruptions in supply of fibre and plywood from Chile continue to affect markets during the second quarter.

Low capacity utilisation rates at some of the company's timber, plywood and European paper mills will continue periodically. Necessary production curtailments will require continuing the flexible way of working in these operations.

For the rest of the year, the electricity generation volume will be about the same as last year, assuming that a lower than average hydrological balance continues in Finland. Based on current forward sale agreements and Nordpool forward prices, the average sales price for electricity is estimated to be about the same as last year.

Chemical pulp deliveries, on a comparable basis, are expected to be higher than last year. Current prices for both hardwood and softwood pulp are significantly higher than last year.

Paper demand in Europe is forecast to recover from 2009, and UPM's paper deliveries for 2010 are expected to be higher than last year. Deliveries for fine and speciality papers are expected to increase the most. The average price in euro for all paper deliveries for the second quarter is expected to improve slightly from the first quarter of this year. UPM's target is to increase prices in all new sales agreements.

Demand for self-adhesive labelstock is estimated to improve from last year in all the main markets. Raw material costs, especially in paper and oil-based raw materials, have increased. This puts pressure on sales margins.

The operating profit (excluding special items) for the year 2010 is expected to clearly improve from last year. Variable costs are expected to increase by about 2% from last year.

BUSINESS AREA REVIEWS

Energy

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	174	128	108	100	136	472
EBITDA, EURm [1]	79	57	35	41	57	190
% of sales	45.4	44.5	32.4	41.0	41.9	40.3
Share of results of associated companies and joint ventures, EURm	4	–8	–24	–4	–4	–40
Depreciation, amortisation and impairment charges, EURm	–2	–2	–1	–1	–2	–6
Operating profit, EURm	81	47	10	36	51	144
% of sales	46.6	36.7	9.3	36.0	37.5	30.5
Special items, EURm [2]	–	–1	–17	–	–	–18
Operating profit excl. special items, EURm	81	48	27	36	51	162
% of sales	46.6	37.5	25.0	36.0	37.5	34.3
Electricity deliveries, 1,000 MWh	2,411	2,277	2,103	1,999	2,486	8,865

[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 2009, special items relate to impairments of associated company Pohjolan Voima's two power plants.

Q1 of 2010 compared with Q1 of 2009

The operating profit excluding special items for Energy was EUR 81 million, EUR 30 million higher than last year (51 million). Sales increased by 28% to EUR 174 million (136 million), of which EUR 94 million was external sales (49 million). The electricity sales volume was 2.4 TWh in the quarter (2.5 TWh).

Profitability improved compared with the same period last year, due to the higher average electricity sales price and temporarily higher external sales as less electricity was consumed internally in the Finnish paper mills during the stevedores' strike in March.

The average electricity sales price increased by 36% to EUR 61.3/MWh (45.2/MWh). Hydropower volume was 29% lower in comparison with the previous year but it was partly compensated with higher condensing power generation.

Market review

The average electricity spot price on the Nordic electricity exchange in the first quarter was EUR 59.5/MWh, 56% higher than in the same period last year (38.2/MWh) due to a cold and dry winter.

Oil and coal prices increased compared with the same period last year. CO_2 emission allowance prices were higher.

The rest of the year electricity system forward price on the Nordic electricity exchange was EUR 42.2/MWh on 31 March, 26% higher than on the same date last year (33.4/MWh).

In the first quarter of the year, the Nordic water reservoirs were below their long-term average at this time of the year.

Pulp

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	341	226	156	132	139	653
EBITDA, EURm [1]	120	53	8	−24	−55	−18
% of sales	35.2	23.5	5.1	−18.2	−39.6	−2.8
Change in fair value of biological assets and wood harvested, EURm	–	−1	–	–	–	−1
Share of results of associated companies and joint ventures, EURm [3]	–	7	4	−16	−47	−52
Depreciation, amortisation and impairment charges, EURm	−36	−24	−21	−20	−20	−85
Operating profit, EURm	83	35	−9	−60	−122	−156
% of sales	24.3	15.5	−5.8	−45.5	−87.8	−23.9
Special items, EURm [2]	−1	–	–	–	−29	−29
Operating profit excl. special items, EURm	84	35	−9	−60	−93	−127
% of sales	24.6	15.5	−5.8	−45.5	−66.9	−19.4
Pulp deliveries, 1,000 t	700	550	446	391	372	1,759

[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 2009, special items of EUR 29 million relate to the associated company Metsä-Botnia's Kaskinen pulp mill closure.
[3] In the balance sheet in the interim report for January–June, on 30 June 2009, UPM has regrouped the 30% transferable share of Botnia's book value as assets held for sale. Consequently, from July 2009, UPM has not included the share of the transferable Botnia operations in the share of results of associated companies.

Q1 of 2010 compared with Q1 of 2009

The Fray Bentos pulp mill and Forestal Oriental eucalyptus plantation forestry company in Uruguay were included in the Pulp business area as of December 2009.

The operating profit excluding special items for Pulp was EUR 84 million (loss of EUR 93 million). Sales increased by 145% to EUR 341 million (139 million) and deliveries by 88% to 700,000 tonnes (372,000).

Profitability improved substantially from the previous year. The main reasons for the improvement were significantly higher pulp prices and higher sales volumes than last year. Wood costs were lower.

Comparison period also included a wood inventory write-down of EUR 28 million and a pulp inventory write-down of EUR 10 million.

Market review

In the first quarter of 2010, global chemical pulp prices increased substantially due to the tight market balance. The earthquake in Chile has reduced the global chemical market pulp supply temporarily, whilst strong market demand, driven by China, continued.

The average softwood pulp (NBSK) market price in euro terms, at EUR 613/tonne, was almost 35% higher than in the same period last year (EUR 455/tonne). At the end of the first quarter, the NBSK market price was EUR 666/tonne. The average hardwood pulp (BHKP) market price in euro terms increased by almost 33% from last year, to EUR 543/tonne (EUR 409/tonne). At the end of the first quarter the BHKP market price was EUR 591/tonne.

Forest and timber

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	339	348	295	309	385	1,337
EBITDA, EURm [1]	3	30	24	–15	–15	24
% of sales	0.9	8.6	8.1	–4.9	–3.9	1.8
Change in fair value of biological assets and wood harvested, EURm	19	10	–13	10	11	18
Share of results of associated companies and joint ventures, EURm	1	1	–1	1	1	2
Depreciation, amortisation and impairment charges, EURm	–4	–11	–4	–14	–5	–34
Operating profit, EURm	19	21	6	–18	–18	–9
% of sales	5.6	6.0	2.0	–5.8	–4.7	–0.7
Special items, EURm [2]	–	–14	1	–8	–10	–31
Operating profit excl. special items, EURm	19	35	5	–10	–8	22
% of sales	5.6	10.1	1.7	–3.2	–2.1	1.6
Sawn timber deliveries, 1,000 m^3	371	413	355	366	363	1,497

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 14 million including impairment charges of EUR 5 million, in the fourth quarter of 2009 relate to restructuring of Timber operations in Finland. Special items for the second quarter of 2009 include impairment charges of EUR 8 million related to wood procurement operations. In the first quarter of 2009, special items of EUR 10 million relate to the sales loss of Miramichi's forestry and sawmilling operations' assets.

Q1 of 2010 compared with Q1 of 2009

The operating profit excluding special items for Forest and timber was EUR 19 million (loss of EUR 8 million). Sales decreased by 12% to EUR 339 million (385 million). Sawn timber deliveries increased by 2% to 371,000 cubic metres (363,000 cubic metres).

Profitability improved from the same period last year, mainly due to the average sawn timber price being approximately 14% higher than last year. Wood costs were lower.

The increase in the fair value of biological assets net of wood harvested was EUR 19 million (11 million). The increase in the fair value of biological assets (growing trees) was EUR 33 million (21 million). The cost of wood raw material harvested from the Group's own forests was EUR 14 million (10 million).

Market review

In the first quarter of 2010, Finnish wood market activity remained at a low level, representing about half of the long term average purchasing volumes. However, wood purchases in the Finnish wood market increased almost by 59% from the very low level in the same period last year.

Wood market prices declined by an average of about 2% compared with the same period in last year but increased slightly from the fourth quarter of 2009.

Log market prices for pine and spruce increased from last year, mainly due to weakened supply of wood. Log market prices for birch declined.

In the first quarter of 2010, demand for both redwood and whitewood sawn timber in Europe improved slightly in comparison with last year even though the construction activity remained still very low.

Paper

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	1,401	1,558	1,454	1,388	1,367	5,767
EBITDA, EURm [1)]	75	221	274	247	187	929
% of sales	5.4	14.2	18.8	17.8	13.7	16.1
Share of results of associated companies and joint ventures, EURm	–	1	–	−1	−1	−1
Depreciation, amortisation and impairment charges, EURm	−136	−140	−142	−147	−149	−578
Operating profit, EURm	−69	74	126	85	60	345
% of sales	−4.9	4.7	8.7	6.1	4.4	6.0
Special items, EURm [2)]	−8	−8	−6	−10	23	−1
Operating profit excl. special items, EURm	−61	82	132	95	37	346
% of sales	−4.4	5.3	9.1	6.8	2.7	6.0
Deliveries, publication papers, 1,000 t	1,364	1,576	1,464	1,323	1,304	5,667
Deliveries, fine and speciality papers, 1,000 t	937	945	872	813	724	3,354
Paper deliveries total, 1,000 t	2,301	2,521	2,336	2,136	2,028	9,021

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 2010, special items include mainly employee-related restructuring charges. In the fourth and third quarter of 2009, special items of EUR 8 million and EUR 6 million relate to restructuring charges. Special items for the second quarter of 2009 include charges of EUR 9 million related to personnel reduction in Nordland mill, impairment reversals of EUR 4 million and other restructuring charges of EUR 5 million. In the first quarter of 2009, special items include an income of EUR 31 million related to the sale of the assets of the former Miramichi paper mill and charges of EUR 8 million related to restructuring measures.

Q1 of 2010 compared with Q1 of 2009

Operating loss excluding special items for Paper was EUR 61 million (profit of EUR 37 million). Sales were EUR 1,401 million (1,367 million). Paper deliveries increased by 13% to 2,301,000 tonnes (2,028,000). Paper deliveries for publication papers (magazine papers and newsprint) increased by 5%, and for fine and speciality papers by 29%, from last year. Delivery growth was highest in Asia and in North America.

The Paper business area incurred an operating loss, as the average paper price decreased significantly from the same period last year and the cost of fibre increased. Higher paper deliveries had a positive impact on operating profit, even though delivery volumes were negatively affected by the stevedores' strike in Finland. The average price for all paper deliveries when translated into euros was 10% lower than last year. Compared with the fourth quarter of 2009, prices decreased for all publication paper grades, but increased for fine papers and speciality papers.

Market review

Demand for publication papers in Europe was 3% higher, and for fine papers 4% higher, than a year ago. In North America, the demand for magazine papers increased by 10% from last year. In Asia, demand for fine papers grew.

In Europe, magazine paper prices decreased in the first quarter by about 4% from the previous quarter, or about 10% from the first quarter of 2009. Newsprint prices decreased by about 14% both compared with the previous quarter and with the same period last year. Fine paper prices were about the same as in the last quarter of 2009, but were about 5% lower than in the same period last year.

In North America, the average US dollar price for magazine papers was 2% lower than in the previous quarter, or 17% lower than a year ago. In Asia, market prices for fine papers increased both from last year and from the previous quarter.

Label

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	260	252	242	226	223	943
EBITDA, EURm [1)]	31	25	29	18	6	78
% of sales	11.9	9.9	12.0	8.0	2.7	8.3
Depreciation, amortisation and impairment charges, EURm	–7	–8	–9	–11	–9	–37
Operating profit, EURm	24	16	18	4	–3	35
% of sales	9.2	6.3	7.4	1.8	–1.3	3.7
Special items, EURm [2)]	1	–1	–2	–5	–	–8
Operating profit excl. special items, EURm	23	17	20	9	–3	43
% of sales	8.8	6.7	8.3	4.0	–1.3	4.6

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 2010, special items relate to impairment reversals. In the fourth and third quarter of 2009, special items relate to restructuring charges. In the second quarter of 2009, special items include impairment charges of EUR 2 million and other restructuring charges of EUR 3 million.

Q1 of 2010 compared with Q1 of 2009

Operating profit excluding special items for Label was EUR 23 million (loss of EUR 3 million). Sales increased by 17% to EUR 260 million (223 million).

Profitability improved mainly due to lower raw material costs and higher sales volumes. Delivery volumes of self-adhesive label materials increased in all regions. Volume increase was highest in growth markets of Asia and Eastern Europe.

The average price for label materials in local currencies decreased marginally from the same period last year. Prices in local currencies increased during the first quarter of 2010 and on average were higher than in the fourth quarter of 2009.

Market review

Demand for self-adhesive label materials grew noticeably in the first quarter from the depressed levels seen in the same period last year. Demand growth was strongest in Asia Pacific, Eastern Europe and Latin America, where demand is estimated to have exceeded pre-recession levels. In mature markets in Western Europe and North America demand recovered, but not yet to pre-recession levels.

Plywood

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	76	81	73	77	75	306
EBITDA, EURm [1]	−2	3	−5	−5	−23	−30
% of sales	−2.6	3.7	−6.8	−6.5	−30.7	−9.8
Depreciation, amortisation and impairment charges, EURm	−5	−12	−5	−5	−5	−27
Operating profit, EURm	−7	−33	−10	−10	−29	−82
% of sales	−9.2	−40.7	−13.7	−13.0	−38.7	−26.8
Special items, EURm [2]	–	−30	–	–	−1	−31
Operating profit excl. special items, EURm	−7	−3	−10	−10	−28	−51
% of sales	−9.2	−3.7	−13.7	−13.0	−37.3	−16.7
Deliveries, plywood, 1,000 m^3	140	150	143	141	133	567

[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 fourth quarter of 2009 include impairment charges of EUR 6 million and other restructuring charges of EUR 24 million.

Q1 of 2010 compared with Q1 of 2009

Operating loss excluding special items for Plywood was EUR 7 million (loss of EUR 28 million). Sales were EUR 76 million (75 million). Plywood deliveries increased by 5% to 140,000 m^3.

Operating loss for Plywood decreased from last year due to lower raw material costs. Plywood sales prices were lower than last year. Delivery volumes were negatively affected by the stevedores' strike in Finland. The comparison period also included a wood inventory write-down of EUR 15 million.

Market review

In Europe, plywood demand increased slightly from the first quarter of 2009. Construction activity continued at a very low level and was further limited by the cold winter in Europe. Demand for engineered end products in transportation and other industrial end-uses showed only weak signs of improvement. The market prices of plywood were lower than in the same quarter last year, but increased slightly from the fourth quarter of 2009.

Other operations

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales, EURm	40	35	21	21	34	111
EBITDA, EURm [1)]	–18	–27	–31	–24	–29	–111
Share of results of associated companies and joint ventures, EURm	–2	–	–	–2	–2	–4
Depreciation, amortisation and impairment charges, EURm	–3	–3	–3	–3	–3	–12
Operating profit, EURm	–24	–34	–45	–29	–34	–142
Special items, EURm [2)]	–1	–6	–11	–	–	–17
Operating profit excl. special items, EURm	–23	–28	–34	–29	–34	–125

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 2009, special items in the fourth quarter include impairment charges of EUR 2 million and other charges of EUR 4 million both relating to terminated activities. Special items of EUR 11 million in the third quarter of 2009 relate mainly to estates of closed industrial sites in Finland.

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

Q1 of 2010 compared with Q1 of 2009

Excluding special items, the operating loss for Other operations was EUR 23 million (loss of EUR 34 million). Sales amounted to EUR 40 million (34 million). The development units incurred a smaller operating loss than last year.

Helsinki, 28 April 2010

UPM-Kymmene Corporation

Board of Directors

FINANCIAL INFORMATION

Consolidated income statement

EURm	Q1/2010	Q1/2009	Q1–Q4/2009
Sales	2,039	1,857	7,719
Other operating income	9	17	47
Costs and expenses	−1,770	−1,734	−6,774
Change in fair value of biological assets and wood harvested	19	11	17
Share of results of associated companies and joint ventures	3	−53	−95
Depreciation, amortisation and impairment charges	−193	−193	−779
Operating profit (loss)	107	−95	135
Gains on available-for-sale investments, net	–	–	−1
Exchange rate and fair value gains and losses	1	−9	−9
Interest and other finance costs, net	−26	−58	62
Profit (loss) before tax	82	−162	187
Income taxes	−12	4	−18
Profit (loss) for the period	70	−158	169
Attributable to:			
Owners of the parent company	70	−158	169
Non-controlling interests	–	–	–
	70	−158	169
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	0.13	−0.30	0.33
Diluted earnings per share, EUR	0.13	−0.30	0.33

Consolidated statement of comprehensive income

EURm	Q1/2010	Q1/2009	Q1–Q4/2009
Profit (loss) for the period	70	−158	169
Other comprehensive income for the period, net of tax:			
Translation differences	217	29	165
Net investment hedge	−53	−8	−56
Cash flow hedges	−23	−18	−4
Available-for-sale investments	5	–	21
Share of other comprehensive income of associated companies	−1	4	30
Other comprehensive income for the period, net of tax	145	7	156
Total comprehensive income for the period	215	−151	325
Total comprehensive income attributable to:			
Owners of the parent company	215	−151	325
Non-controlling interests	–	–	–
	215	−151	325

Condensed consolidated balance sheet

EURm	31.03.2010	31.03.2009	31.12.2009
ASSETS			
Non-current assets			
Goodwill	1,025	934	1,017
Other intangible assets	452	409	423
Property, plant and equipment	6,166	5,584	6,192
Biological assets	1,324	1,144	1,293
Investments in associated companies and joint ventures	555	1,219	553
Deferred tax assets	314	260	287
Other non-current assets	865	726	816
	10,701	10,276	10,581
Current assets			
Inventories	1,204	1,198	1,112
Trade and other receivables	1,557	1,447	1,474
Cash and cash equivalents	365	197	438
	3,126	2,842	3,024
Total assets	13,827	13,118	13,605
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Fair value and other reserves	125	−151	−23
Reserve for invested non-restricted equity	1,145	1,145	1,145
Retained earnings	4,403	3,864	4,574
	6,563	5,748	6,586
Non-controlling interests	16	14	16
Total equity	6,579	5,762	6,602
Non-current liabilities			
Deferred tax liabilities	589	612	608
Non-current interest-bearing liabilities	4,005	4,189	4,164
Other non-current liabilities	661	605	660
	5,255	5,406	5,432
Current liabilities			
Current interest-bearing liabilities	369	550	365
Trade and other payables	1,624	1,400	1,206
	1,993	1,950	1,571
Total liabilities	7,248	7,356	7,003
Total equity and liabilities	13,827	13,118	13,605

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 2009	890	–295	130	1,145	4,236	6,106	14	6,120
Profit (loss) for the period	–	–	–	–	–158	–158	–	–158
Translation differences	–	29	–	–	–	29	–	29
Net investment hedge, net of tax	–	–8	–	–	–	–8	–	–8
Cash flow hedges, net of tax	–	–	–18	–	–	–18	–	–18
Available-for-sale investments	–	–	–	–	–	–	–	–
Share of other comprehensive income of associated companies	–	10	–	–	–6	4	–	4
Total comprehensive income for the period	–	31	–18	–	–164	–151	–	–151
Share-based compensation, net of tax	–	–	1	–	–	1	–	1
Dividend paid	–	–	–	–	–208	–208	–	–208
Other items	–	–	–	–	–	–	–	–
Total transactions with owners for the period	–	–	1	–	–208	–207	–	–207
Balance at 31 March 2009	890	–264	113	1,145	3,864	5,748	14	5,762
Balance at 1 January 2010	890	–164	141	1,145	4,574	6,586	16	6,602
Profit (loss) for the period	–	–	–	–	70	70	–	70
Translation differences	–	217	–	–	–	217	–	217
Net investment hedge, net of tax	–	–53	–	–	–	–53	–	–53
Cash flow hedges, net of tax	–	–	–23	–	–	–23	–	–23
Available-for-sale investments	–	–	5	–	–	5	–	5
Share of other comprehensive income of associated companies	–	–	–	–	–1	–1	–	–1
Total comprehensive income for the period	–	164	–18	–	69	215	–	215
Share-based compensation, net of tax	–	–	2	–	–	2	–	2
Dividend paid	–	–	–	–	–234	–234	–	–234
Other items	–	–	–	–	–6	–6	–	–6
Total transactions with owners for the period	–	–	2	–	–240	–238	–	–238
Balance at 31 March 2010	890	–	125	1,145	4,403	6,563	16	6,579

Condensed consolidated cash flow statement

EURm	Q1/2010	Q1/2009	Q1–Q4/2009
Cash flow from operating activities			
Profit (loss) for the period	70	–158	169
Adjustments	180	289	772
Change in working capital	–18	216	532
Cash generated from operations	232	347	1,473
Finance costs, net	–13	–59	–183
Income taxes paid	–10	–14	–31
Net cash generated from operating activities	209	274	1,259
Cash flow from investing activities			
Acquisitions and share purchases	–	–	–586
Capital expenditure	–49	–78	–236
Asset sales and other investing cash flow	9	14	608
Net cash used in investing activities	–40	–64	–214
Cash flow from financing activities			
Change in loans and other financial items	–250	–342	–732
Dividends paid	–	–	–208
Net cash used in financing activities	–250	–342	–940
Change in cash and cash equivalents	–81	–132	105
Cash and cash equivalents at the beginning of period	438	330	330
Foreign exchange effect on cash	8	–1	3
Change in cash and cash equivalents	–81	–132	105
Cash and cash equivalents at end of period	365	197	438

Quarterly information

EURm	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Sales	2,039	2,108	1,913	1,841	1,857	7,719
Other operating income	9	18	5	7	17	47
Costs and expenses	–1,770	–1,810	–1,603	–1,627	–1,734	–6,774
Change in fair value of biological assets and wood harvested	19	9	–13	10	11	17
Share of results of associated companies and joint ventures	3	1	–21	–22	–53	–95
Depreciation, amortisation and impairment charges	–193	–200	–185	–201	–193	–779
Operating profit (loss)	107	126	96	8	–95	135
Gains on available-for-sale investments, net	–	–	–1	–	–	–1
Exchange rate and fair value gains and losses	1	–	–3	3	–9	–9
Interest and other finance costs, net	–26	185	–28	–37	–58	62
Profit (loss) before tax	82	311	64	–26	–162	187
Income taxes	–12	–16	–24	18	4	–18
Profit (loss) for the period	70	295	40	–8	–158	169
Attributable to:						
Owners of the parent company	70	295	40	–8	–158	169
Non-controlling interests	–	–	–	–	–	–
	70	295	40	–8	–158	169
Basic earnings per share, EUR	0.13	0.57	0.08	–0.02	–0.30	0.33
Diluted earnings per share, EUR	0.13	0.57	0.08	–0.02	–0.30	0.33
Earnings per share, excluding special items, EUR	0.15	0.21	0.14	0.03	–0.27	0.11
Average number of shares basic (1,000)	519,970	519,958	519,954	519,954	519,954	519,955
Average number of shares diluted (1,000)	520,018	518,876	521,036	519,954	519,954	519,955
Special items in operating profit (loss)	–9	–60	–35	–23	–17	–135
Operating profit (loss), excl. special items	116	186	131	31	–78	270
% of sales	5.7	8.8	6.8	1.7	–4.2	3.5
Special items before tax	–9	155	–35	–23	–17	80
Profit (loss) before tax, excl. special items	91	156	99	–3	–145	107
% of sales	4.5	7.4	5.2	–0.2	–7.8	1.4
Return on equity, excl. special items, %	4.6	7.4	5.0	0.8	neg.	1.0
Return on capital employed, excl. special items, %	4.3	7.2	4.9	1.3	neg.	2.5
EBITDA	288	362	334	238	128	1,062
% of sales	14.1	17.2	17.5	12.9	6.9	13.8
Share of results of associated companies and joint ventures						
Energy	4	–8	–24	–4	–4	–40
Pulp	–	7	4	–16	–47	–52
Forest and timber	1	1	–1	1	1	2
Paper	–	1	–	–1	–1	–1
Other operations	–2	–	–	–2	–2	–4
Total	3	1	–21	–22	–53	–95

Deliveries

	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4/09
Electricity, 1,000 MWh	2,411	2,277	2,103	1,999	2,486	8,865
Pulp, 1,000 t	700	550	446	391	372	1,759
Sawn timber, 1,000 m^3	371	413	355	366	363	1,497
Publication papers, 1,000 t	1,364	1,576	1,464	1,323	1,304	5,667
Fine and speciality papers, 1,000 t	937	945	872	813	724	3,354
Paper deliveries total, 1,000 t	2,301	2,521	2,336	2,136	2,028	9,021
Plywood, 1,000 m^3	140	150	143	141	133	567

Quarterly segment information

EURm	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4 /09
Sales						
Energy	174	128	108	100	136	472
Pulp	341	226	156	132	139	653
Forest and timber	339	348	295	309	385	1,337
Paper	1,401	1,558	1,454	1,388	1,367	5,767
Label	260	252	242	226	223	943
Plywood	76	81	73	77	75	306
Other operations	40	35	21	21	34	111
Internal sales	–592	–520	–436	–412	–502	–1,870
Sales, total	2,039	2,108	1,913	1,841	1,857	7,719
EBITDA						
Energy	79	57	35	41	57	190
Pulp	120	53	8	–24	–55	–18
Forest and timber	3	30	24	–15	–15	24
Paper	75	221	274	247	187	929
Label	31	25	29	18	6	78
Plywood	–2	3	–5	–5	–23	–30
Other operations	–18	–27	–31	–24	–29	–111
EBITDA, total	288	362	334	238	128	1,062
Operating profit (loss)						
Energy	81	47	10	36	51	144
Pulp	83	35	–9	–60	–122	–156
Forest and timber	19	21	6	–18	–18	–9
Paper	–69	74	126	85	60	345
Label	24	16	18	4	–3	35
Plywood	–7	–33	–10	–10	–29	–82
Other operations	–24	–34	–45	–29	–34	–142
Operating profit (loss), total	107	126	96	8	–95	135
% of sales	5.2	6.0	5.0	0.4	–5.1	1.7
Special items in operating profit						
Energy	–	–1	–17	–	–	–18
Pulp	–1	–	–	–	–29	–29
Forest and timber	–	–14	1	–8	–10	–31
Paper	–8	–8	–6	–10	23	–1
Label	1	–1	–2	–5	–	–8
Plywood	–	–30	–	–	–1	–31
Other operations	–1	–6	–11	–	–	–17
Special items in operating profit, total	–9	–60	–35	–23	–17	–135
Operating profit (loss) excl.special items						
Energy	81	48	27	36	51	162
Pulp	84	35	–9	–60	–93	–127
Forest and timber	19	35	5	–10	–8	22
Paper	–61	82	132	95	37	346
Label	23	17	20	9	–3	43
Plywood	–7	–3	–10	–10	–28	–51
Other operations	–23	–28	–34	–29	–34	–125
Operating profit (loss) excl. special items, total	116	186	131	31	–78	270
% of sales	5.7	8.8	6.8	1.7	–4.2	3.5

EURm	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q4 /09
External sales						
Energy	94	38	24	24	49	135
Pulp	86	34	9	10	10	63
Forest and timber	154	171	145	150	152	618
Paper	1,353	1,500	1,409	1,355	1,327	5,591
Label	259	252	243	225	222	942
Plywood	73	77	69	73	72	291
Other operations	20	36	14	4	25	79
External sales, total	2,039	2,108	1,913	1,841	1,857	7,719
Internal sales						
Energy	80	90	84	76	87	337
Pulp	255	192	147	122	129	590
Forest and timber	185	177	150	159	233	719
Paper	48	58	45	33	40	176
Label	1	–	–1	1	1	1
Plywood	3	4	4	4	3	15
Other operations	20	–1	7	17	9	32
Internal sales, total	592	520	436	412	502	1,870

Changes in property, plant and equipment

EURm	Q1/2010	Q1/2009	Q1–Q4/2009
Book value at beginning of period	6,192	5,688	5,688
Capital expenditure	25	65	181
Companies acquired	–	–	1,013
Decreases	–3	–11	–20
Depreciation	–178	–178	–696
Impairment charges	–	–	–14
Impairment reversal	1	–	5
Translation difference and other changes	129	20	35
Book value at end of period	6,166	5,584	6,192

Commitments and contingencies

EURm	31.03.2010	31.03.2009	31.12.2009
Own commitments			
Mortgages [1)]	1,056	760	1,043
On behalf of associated companies and joint ventures			
Guarantees for loans	8	9	8
On behalf of others			
Other guarantees	1	2	1
Other own commitments			
Leasing commitments for the next 12 months	26	20	24
Leasing commitments for subsequent periods	84	51	60
Other commitments	68	68	69

[1)] Mortgages and pledges relate mainly to Uruguayan operations, and to giving mandatory security for borrowing from Finnish pension insurance companies.

Capital commitments

EURm	Completion	Total cost	By 31.12.2009	Q1/2010	After 31.03.2010
Materials recovery facility (MRF), Shotton	January 2011	19	–	–	19
Plywood development	December 2011	18	–	–	18
Energy saving TMP plant, Steyrermühl	January 2011	16	–	–	16
Waste water treatment plant, Blandin	July 2011	19	–	6	13
Power plant rebuild, Schongau	January 2011	12	–	1	11

Notional amounts of derivative financial instruments

EURm	31.03.2010	31.03.2009	31.12.2009
Currency derivatives			
Forward contracts	3,654	3,824	3,791
Options, bought	19	–	20
Options, written	27	–	20
Swaps	527	505	514
Interest rate derivatives			
Forward contracts	2,110	2,718	3,259
Swaps	2,511	2,809	2,701
Other derivatives			
Forward contracts	119	161	25
Options, bought	41	78	73
Options, written	41	78	73
Swaps	3	8	4

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

EURm	Q1/2010	Q1/2009	Q1–Q4/2009
Sales to associated companies	34	27	114
Purchases from associated companies	63	103	560
Non-current receivables at end of period	2	2	2
Trade and other receivables at end of period	11	22	23
Trade and other payables at end of period	31	30	32

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 2009. 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:

Amendment to IAS 27 Consolidated and Separate Financial Statements requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of the amended standard has changed the name of previous minority interests to non-controlling interests, and in addition the adoption has amended the presentation of consolidated statement of changes in equity.

Calculation of key indicators

Return on equity, %:

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

Return on capital employed, %:

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

Earnings per share:

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

Key exchange rates for the euro at end of period

	31.03.2010	31.12.2009	30.09.2009	30.06.2009	31.03.2009
USD	1.3479	1.4406	1.4643	1.4134	1.3308
CAD	1.3687	1.5128	1.5709	1.6275	1.6685
JPY	125.93	133.16	131.07	135.51	131.17
GBP	0.8898	0.8881	0.9093	0.8521	0.9308
SEK	9.7135	10.2520	10.2320	10.8125	10.9400

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 87–88 of the company's annual report 2009

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