The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 30 JUNE 2010

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Q2/2010

- Earnings per share were EUR 0.33 (–0.02), excluding special items EUR 0.29 (0.03)
- EBITDA was EUR 353 million, 15.9% of sales (238 million, 12.9% of sales)
- Delivery volumes increased in all businesses – sales grew by 20%
- Sales prices started to increase during the quarter following increasing demand

Q1–Q2/2010

- Earnings per share were EUR 0.46 (–0.32), excluding special items EUR 0.44 (–0.24)
- EBITDA was EUR 641 million, 15.1% of sales (366 million, 9.9% of sales)
- Operating cash flow was EUR 311 million (580 million)
- Sales increased as economic activity improved

Key figures

	Q2/2010	Q2/2009	Q1-Q2/2010	Q1-Q2/2009	Q1–Q4/2009
Sales, EURm	2,216	1,841	4,255	3,698	7,719
EBITDA, EURm [1]	353	238	641	366	1,062
% of sales	15.9	12.9	15.1	9.9	13.8
Operating profit (loss), EURm	203	8	310	–87	135
excluding special items, EURm	199	31	315	–47	270
% of sales	9.0	1.7	7.4	–1.3	3.5
Profit (loss) before tax, EURm	181	–26	263	–188	187
excluding special items, EURm	177	–3	268	–148	107
Net profit (loss) for the period, EURm	169	–8	239	–166	169
Earnings per share, EUR	0.33	–0.02	0.46	–0.32	0.33
excluding special items, EUR	0.29	0.03	0.44	–0.24	0.11
Diluted earnings per share, EUR	0.33	–0.02	0.46	–0.32	0.33
Return on equity, %	10.0	neg.	7.1	neg.	2.8
excluding special items, %	8.9	0.8	6.7	neg.	1.0
Return on capital employed, %	7.4	0.4	5.6	neg.	3.2
excluding special items, %	7.3	1.3	5.7	neg.	2.5
Operating cash flow per share, EUR	0.20	0.59	0.60	1.12	2.42
Shareholders' equity per share at end of period, EUR	13.33	11.08	13.33	11.08	12.67
Gearing ratio at end of period, %	55	70	55	70	56
Net interest-bearing liabilities at end of period, EURm	3,837	4,036	3,837	4,036	3,730
Capital employed at end of period, EURm	11,551	10,294	11,551	10,294	11,066
Capital expenditure, EURm	55	66	85	133	913
Capital expenditure excluding acquisitions and shares, EURm	52	66	82	133	229
Personnel at end of period	23,458	23,792	23,458	23,792	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

Q2 of 2010 compared with Q2 of 2009

Sales for the second quarter of 2010 were EUR 2,216 million, 20% higher than the EUR 1,841 million in the second quarter of 2009. Sales increased due to higher deliveries across all of UPM's business areas.

EBITDA was EUR 353 million, 15.9% of sales (238 million, 12.9% of sales).

EBITDA improved noticeably from the same period last year. Higher delivery volumes in all of UPM's businesses and the inclusion of the acquired Uruguayan operations were the main contributors to the improvement.

Variable costs were higher than last year, even though energy and wood costs decreased slightly from last year. Fixed costs (comparable) were EUR 36 million higher than last year.

Changes in sales prices in euro terms reduced EBITDA by about EUR 30 million. The average paper price in euros decreased by approximately 3% from the same period last year. Plywood sales prices were slightly lower than last year. Average sales prices increased for sawn timber and label materials, as well as for electricity and pulp. In most business areas sales prices increased from the first quarter of 2010.

Operating profit was EUR 203 million, 9.2% of sales (8 million, 0.4% of sales). The operating profit excluding special items was EUR 199 million, 9.0% of sales (31 million, 1.7% of sales).

The increase in the fair value of biological assets net of wood harvested was EUR 31 million compared with EUR 10 million a year before.

The share of results of associated companies and joint ventures was EUR 8 million (22 million negative). As of December 2009, Metsä-Botnia is no longer an associated company of UPM.

Profit before tax was EUR 181 million (loss of EUR 26 million) and excluding special items EUR 177 million (loss of EUR 3 million). Interest and other finance costs net were EUR 27 million (37 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 4 million (3 million).

Income taxes were EUR 12 million (18 million positive). The impact on taxes from special items was EUR 14 million positive (3 million positive), including an income of EUR 15 million from estimated utilisation of tax credits in Poland.

Profit for the second quarter was EUR 169 million (loss of EUR 8 million) and earnings per share were EUR 0.33 (-0.02). Earnings per share excluding special items were EUR 0.29 (0.03).

January–June of 2010 compared with January–June 2009

Sales for January–June were EUR 4,255 million, 15% higher than the EUR 3,698 million in the same period in 2009. Sales increased due to higher deliveries across all of UPM's business areas.

EBITDA was EUR 641 million, 15.1% of sales (366 million, 9.9% of sales).

EBITDA improved clearly from the same period last year. Higher delivery volumes in all of UPM's businesses and the inclusion of the Uruguayan operations, acquired in December 2009, were the main contributors to the improvement.

Variable costs were higher than last year, even though wood and energy costs were lower. Wood costs increased from the latter part of 2009, but were still approximately EUR 70 million lower than the peak levels of the comparison period. Energy costs decreased by about EUR 45 million.

Fixed costs (comparable) increased by about EUR 37 million from last year, mainly due to higher operating rates at UPM's production units, which reduced the need for temporary shutdowns.

Changes in sales prices in euro terms reduced EBITDA by about EUR 130 million. The average paper price in euros decreased by approximately 7% from the same period last year. Plywood sales prices were lower than last year. Average sales prices increased for sawn timber and label materials, as well as for external electricity and pulp sales.

Operating profit was EUR 310 million, 7.3% of sales (loss of EUR 87 million, -2.4% of sales). The operating profit excluding special items was EUR 315 million, 7.4% of sales (loss of EUR 47 million, 1.3% of sales). Operating profit includes net restructuring charges of EUR 5 million (40 million) as special items.

The increase in the fair value of biological assets net of wood harvested was EUR 50 million compared with EUR 21 million a year before.

The share of results of associated companies and joint ventures was EUR 11 million (75 million negative). As of December 2009, Metsä-Botnia is no longer an associated company of UPM.

Profit before tax was EUR 263 million (loss of EUR 188 million) and excluding special items EUR 268 million (loss of EUR 148 million). Interest and other finance costs net were EUR 53 million (95 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 5 million (loss of EUR 6 million).

Income taxes were EUR 24 million (22 million positive). The impact on taxes from special items was EUR 17 million positive (0 million), including an income of EUR 15 million from estimated utilisation of tax credits in Poland.

Profit for the period was EUR 239 million (loss of EUR 166 million) and earnings per share were EUR 0.46 (-0.32). Earnings per share excluding special items were EUR 0.44 (-0.24). Operating cash flow per share was EUR 0.60 (1.12).

Financing

In January–June cash flow from operating activities, before capital expenditure and financing, was EUR 311 million (580 million). Net working capital increased by EUR 242 million during the period (decreased by EUR 355 million), driven by the increase in business activity.

The gearing ratio as of 30 June 2010 was 55% (70% on 30 June 2009). Net interest-bearing liabilities at the end of the period came to EUR 3,837 million (4,036 million).

On 30 June 2010, UPM's cash funds and unused committed credit facilities totalled EUR 2.1 billion.

Personnel

In January–June, UPM had an average of 23,035 employees (24,043). At the beginning of the year, the number of employees was 23,213 and at the end of June it was 23,458. The number of employees decreased by around 800 from the beginning of the year, taking into account the around 1,000 seasonal workers in June.

Capital expenditure

During January–June, capital expenditure was EUR 85 million, 2.0% of sales (EUR 133 million, 3.6% of sales).

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

Shares

UPM shares worth EUR 4,499 million (3,086 million) in total were traded on the NASDAQ OMX Helsinki stock exchange during January–June of 2010. The highest quotation was EUR 12.00 in June and the lowest EUR 7.37 in February.

The company's ADRs 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 30 June 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.

On 23 June 2010, BlackRock Inc. announced its ownership in UPM had declined below 5% of the company's shares and voting rights.

Litigation and other legal actions

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 of the power plant was summer 2009 but the construction of the unit has been delayed. In June 2010 the AREVA-Siemens Consortium announced that the majority of the work is expected to be completed in 2012 and electricity production at Olkiluoto 3 is scheduled to start in 2013.

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 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.

The International Court of Justice published its final decision on a litigation against the government of Uruguay on 20 April 2010 in a dispute between the governments of Uruguay and Argentina. In Uruguay there are still two litigations against the government of Uruguay and in Argentina one such litigation against the company operating the pulp mill.

Events after the balance sheet date

At the beginning of July, the Finnish Parliament voted on decisions-in-principle to build two new nuclear power plants in Finland. The voting was favourable for the fourth reactor of Teollisuuden Voima Oy ("OL4"). Through its associate company Pohjolan Voima Oy, UPM has an indirect share of the OL4 project about 30 %.

On 8 July 2010 UPM sold a conservation easement on 76,000 hectares of UPM-owned forest land in Northern Minnesota to the State of Minnesota Department of Natural Resources. UPM received USD 44 million for the easement and will record a pre-tax capital gain of USD 42 million in the Company's third quarter result.

Under the conservation easement, UPM retains ownership of the land and will continue to use it as a working forest.

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 the second half of 2010
Comparisons against the first half of the year

Economic recovery in Europe and Asia is expected to continue, while the US shows signs of a slower pace of recovery. Demand for consumer goods continues positive development particularly in emerging markets. In Europe, recovery of advertising expenditure in print media is expected to improve demand for graphic papers. Improved investment activity, including construction, is expected to have a slightly positive impact on demand for construction materials such as timber and plywood.

The electricity generation volume is estimated to be higher than during the first half of the year. Based on current forward sale agreements and Nordpool forward prices, the average sales price for electricity is estimated to be somewhat lower.

Chemical pulp price on average is expected to be higher while a moderate correction in market prices for both hardwood and softwood pulp is expected towards the end of the year. Deliveries are expected to be slightly higher.

The cost of procured wood will be clearly higher; both log and fibre wood prices have risen from the beginning of the year. Sawn timber deliveries are estimated to be higher but no material improvement in prices is expected.

Paper prices for the agreed deliveries during the second half are higher; UPM has increased prices practically in all new contracts. Based on the current good order book, paper deliveries are expected to be higher.

Demand growth for self-adhesive labelstock in the main markets is expected to continue, albeit at a more moderate pace. Prices are expected to be higher but intense cost pressure will challenge current sales margins.

Plywood deliveries are expected to be slightly higher. Limited improvement in the business environment and prices is foreseen.

For the Group average sales prices in euro are expected to be higher. Volume development is positive across all businesses. A material increase in variable costs is expected; in addition to the cost of fibre, costs of various other raw materials are expected to increase. Operating profit excluding special items is estimated to be higher than in the first half of the year.

BUSINESS AREA REVIEWS

Energy

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	116	174	128	108	100	136	290	236	472
EBITDA, EURm [1]	39	79	57	35	41	57	118	98	190
% of sales	33.6	45.4	44.5	32.4	41.0	41.9	40.7	41.5	40.3
Share of results of associated companies and joint ventures, EURm	6	4	−8	−24	−4	−4	10	−8	−40
Depreciation, amortisation and impairment charges, EURm	−1	−2	−2	−1	−1	−2	−3	−3	−6
Operating profit, EURm	44	81	47	10	36	51	125	87	144
% of sales	37.9	46.6	36.7	9.3	36.0	37.5	43.1	36.9	30.5
Special items, EURm [2]	–	–	−1	−17	–	–	–	–	−18
Operating profit excl. special items, EURm	44	81	48	27	36	51	125	87	162
% of sales	37.9	46.6	37.5	25.0	36.0	37.5	43.1	36.9	34.3
Electricity deliveries, 1,000 MWh	2,303	2,411	2,277	2,103	1,999	2,486	4,714	4,485	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.

Q2 of 2010 compared with Q2 of 2009

Operating profit excluding special items was EUR 44 million, EUR 8 million higher than last year (36 million). Sales increased by 16% to EUR 116 million (100 million), of which EUR 35 million was external sales (24 million). The electricity sales volume was 2.3 TWh in the quarter (2.0 TWh).

Profitability improved compared with the same period last year, due to the higher electricity sales volume and average electricity sales price. The average electricity sales price increased by 3% to EUR 42.8/MWh (41.7/MWh). Hydropower volume was 27% higher in comparison with last year.

January–June 2010 compared with January–June 2009

Operating profit excluding special items was EUR 125 million, EUR 38 million higher than last year (87 million). Sales increased by 23% to EUR 290 million (236 million), of which EUR 129 million was external sales (73 million). The electricity sales volume was 4.7 TWh (4.5 TWh).

Profitability improved compared with the same period last year, due to the higher average electricity sales price and volume. The average electricity sales price increased by 20% to EUR 52.4/MWh (43.6/MWh). Hydropower volume was 2% lower in comparison with last year.

Market review

The average electricity spot price on the Nordic electricity exchange in the first half of the year was EUR 52.1/MWh, 44% higher than in the same period last year (36.1/MWh) due to a poor hydrological situation and increased consumption.

Oil and coal market prices increased compared with the same period last year. The CO_2 emission allowance price was EUR 15.3/t on 30 June, 11% higher than on the same date last year (13.8/t). In the first half of the year Nordic water reservoirs were 24% below their long-term average.

The electricity system forward price for the rest of the year on the Nordic electricity exchange was EUR 48.2/MWh on 30 June, 20% higher than on the same date last year (40.3/MWh).

Pulp

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	455	341	226	156	132	139	796	271	653
EBITDA, EURm [1]	199	120	53	8	–24	–55	319	–79	–18
% of sales	43.7	35.2	23.5	5.1	–18.2	–39.6	40.1	–29.2	–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	–	–63	–52
Depreciation, amortisation and impairment charges, EURm	–37	–36	–24	–21	–20	–20	–73	–40	–85
Operating profit, EURm	163	83	35	–9	–60	–122	246	–182	–156
% of sales	35.8	24.3	15.5	–5.8	–45.5	–87.8	30.9	–67.2	–23.9
Special items, EURm [2]	1	–1	–	–	–	–29	–	–29	–29
Operating profit excl. special items, EURm	162	84	35	–9	–60	–93	246	–153	–127
% of sales	35.6	24.6	15.5	–5.8	–45.5	–66.9	30.9	–56.5	–19.4
Pulp deliveries, 1,000 t	768	700	550	446	391	372	1,468	763	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.

Q2 of 2010 compared with Q2 of 2009

As of December 2009, the Fray Bentos pulp mill and Forestal Oriental eucalyptus plantation forestry company in Uruguay have been included in the Pulp business area and Metsä-Botnia is no longer an associated company of UPM.

Operating profit excluding special items was EUR 162 million (loss of EUR 60 million). Sales increased to EUR 455 million (132 million) and deliveries to 768,000 tonnes (391,000).

Profitability improved in comparison with last year due to higher average pulp sales prices and volumes.

January–June 2010 compared with January–June 2009

Operating profit excluding special items was EUR 246 million (loss of EUR 153 million). Sales increased to EUR 796 million (271 million) and deliveries to 1,468,000 tonnes (763,000).

Profitability improved noticeably from last year due to significantly higher pulp sales prices and volumes. Wood costs were lower.

Market review

In the first half of 2010, global chemical pulp market prices increased substantially due to tight market balance. The global chemical market pulp supply was reduced temporarily due to the earthquake in Chile, along with other occasional supply constrains. By the end of the first half of 2010, most of the Chilean capacity was back in operation. Global chemical pulp shipments increased from last year.

The average softwood pulp (NBSK) market price in euro terms, at EUR 678/tonne, was 52% higher than in the same period last year (EUR 446/tonne). At the end of the period the NBSK market price was EUR 794/ tonne.

The average hardwood pulp (BHKP) market price in euro terms increased by 57% from last year, to EUR 614/tonne (EUR 390/tonne). At the end of the period the BHKP market price was EUR 747/tonne.

Forest and timber

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	393	339	348	295	309	385	732	694	1,337
EBITDA, EURm 1)	26	3	30	24	–15	–15	29	–30	24
% of sales	6.6	0.9	8.6	8.1	–4.9	–3.9	4.0	–4.3	1.8
Change in fair value of biological assets and wood harvested, EURm	31	19	10	–13	10	11	50	21	18
Share of results of associated companies and joint ventures, EURm	1	1	1	–1	1	1	2	2	2
Depreciation, amortisation and impairment charges, EURm	–6	–4	–11	–4	–14	–5	–10	–19	–34
Operating profit, EURm	52	19	21	6	–18	–18	71	–36	–9
% of sales	13.2	5.6	6.0	2.0	–5.8	–4.7	9.7	–5.2	–0.7
Special items, EURm 2)	–	–	–14	1	–8	–10	–	–18	–31
Operating profit excl. special items, EURm	52	19	35	5	–10	–8	71	–18	22
% of sales	13.2	5.6	10.1	1.7	–3.2	–2.1	9.7	–2.6	1.6
Sawn timber deliveries, 1,000 m^3	504	371	413	355	366	363	875	729	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.

Q2 of 2010 compared with Q2 of 2009

Operating profit excluding special items was EUR 52 million (loss of EUR 10 million). Sales increased by 27% to EUR 393 million (309 million). Sawn timber deliveries increased by 38% to 504,000 cubic metres (366,000).

The increase in the fair value of biological assets net of wood harvested was EUR 31 million (10 million). The increase in the fair value of biological assets (growing trees) was EUR 60 million (14 million). The cost of wood raw material harvested from the Group's own forests was EUR 29 million (4 million).

January–June 2010 compared with January–June 2009

Operating profit excluding special items was EUR 71 million (loss of EUR 18 million). Sales increased by 5% to EUR 732 million (694 million). Sawn timber deliveries increased by 20% to 875,000 cubic metres (729,000).

Profitability improved from the same period last year, mainly due to higher average sawn timber prices and higher delivery volumes of timber goods.

The increase in the fair value of biological assets net of wood harvested was EUR 50 million (21 million). The increase in the fair value of biological assets (growing trees) was EUR 93 million (35 million). The cost of wood raw material harvested from the Group's own forests was EUR 43 million (14 million).

Market review

During the first half of the year, wood purchases in the Finnish wood market increased significantly from the very low level in the same period last year. However, wood purchases still remained 14% below long term average purchasing volumes.

Wood market prices increased towards the end of the first half of 2010 being above the long-term average prices. In particular, log market prices for pine and spruce increased compared with the same period last year.

The European supply-demand balance of sawn softwood timber is still challenging although, in comparison with last year, slight improvement has been seen.

Paper

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	1,540	1,401	1,558	1,454	1,388	1,367	2,941	2,755	5,767
EBITDA, EURm [1)]	72	75	221	274	247	187	147	434	929
% of sales	4.7	5.4	14.2	18.8	17.8	13.7	5.0	15.8	16.1
Share of results of associated companies and joint ventures, EURm	–	–	1	–	−1	−1	–	−2	−1
Depreciation, amortisation and impairment charges, EURm	−130	−136	−140	−142	−147	−149	−266	−296	−578
Operating profit, EURm	−57	−69	74	126	85	60	−126	145	345
% of sales	−3.7	−4.9	4.7	8.7	6.1	4.4	−4.3	5.3	6.0
Special items, EURm [2)]	4	−8	−8	−6	−10	23	−4	13	−1
Operating profit excl. special items, EURm	−61	−61	82	132	95	37	−122	132	346
% of sales	−4.0	−4.4	5.3	9.1	6.8	2.7	−4.1	4.8	6.0
Deliveries, publication papers, 1,000 t	1,446	1,364	1,576	1,464	1,323	1,304	2,810	2,627	5,667
Deliveries, fine and speciality papers, 1,000 t	994	937	945	872	813	724	1,931	1,537	3,354
Paper deliveries total, 1,000 t	2,440	2,301	2,521	2,336	2,136	2,028	4,741	4,164	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 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. 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.

Q2 of 2010 compared with Q2 of 2009

Operating loss excluding special items was EUR 61 million (profit of EUR 95 million). Sales were EUR 1,540 million (1,388 million). Paper deliveries increased by 14% to 2,440,000 tonnes (2,136,000). Paper deliveries for publication papers (magazine papers and newsprint) increased by 9% and for fine and speciality papers by 22% from last year. Deliveries grew in all main markets, with higher growth rates outside Europe.

The Paper business area incurred an operating loss, as the cost of fibre increased significantly from last year and paper prices decreased. The average paper price for all paper deliveries when translated into euros was 3% lower than last year. Compared with the first quarter of 2010, however, the average paper price increased by around 4%, with more weight on fine and speciality papers.

Higher paper deliveries had a positive impact on operating profit.

January–June 2010 compared with January–June 2009

Operating loss excluding special items was EUR 122 million (profit of EUR 132 million). Sales were EUR 2,941 million (2,755 million). Paper deliveries increased by 14% to 4,741,000 tonnes (4,164,000). Paper deliveries for publication papers (magazine papers and newsprint) increased by 7% and for fine and speciality papers by 26% from last year. Deliveries grew in all main markets, with highest growth rates in Asia and North America.

The Paper business area incurred an operating loss, as the cost of fibre increased from last year and paper prices decreased significantly. The average paper price for all paper deliveries when translated into euros was 7% lower than last year.

Higher paper deliveries had a positive impact on operating profit.

Market review

In January-June, demand for publication papers in Europe was 4% higher, and for fine papers, 8% higher, than a year ago. In North America, the demand for magazine papers increased by 8% from last year. In Asia, demand for fine papers grew.

In Europe, magazine paper prices decreased in the beginning of the year and on average were 10% lower than in the comparison period last year. Newsprint prices also decreased in the beginning of the year and on average were 17% lower than last year. Fine paper prices increased during the first half of the year, but still remained 1% lower than a year ago.

In North America, the average US dollar price for magazine papers was 13% lower than last year. In Asia, market prices for fine papers increased during the first half of the year and on average were noticeably higher than a year ago.

Label

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	280	260	252	242	226	223	540	449	943
EBITDA, EURm [1]	34	31	25	29	18	6	65	24	78
% of sales	12.1	11.9	9.9	12.0	8.0	2.7	12.0	5.3	8.3
Depreciation, amortisation and impairment charges, EURm	−10	−7	−8	−9	−11	−9	−17	−20	−37
Operating profit, EURm	24	24	16	18	4	−3	48	1	35
% of sales	8.6	9.2	6.3	7.4	1.8	−1.3	8.9	0.2	3.7
Special items, EURm [2]	–	1	−1	−2	−5	–	1	−5	−8
Operating profit excl. special items, EURm	24	23	17	20	9	−3	47	6	43
% of sales	8.6	8.8	6.7	8.3	4.0	−1.3	8.7	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.

Q2 of 2010 compared with Q2 of 2009

Operating profit excluding special items was EUR 24 million (9 million). Sales increased by 24% to EUR 280 million (226 million).

Profitability improved noticeably from last year, mainly due to higher sales volumes. Delivery volumes of self-adhesive label materials increased in all regions from last year. Volume growth was highest in Asia and Eastern Europe.

Raw material costs increased markedly in the second quarter from the first quarter of 2010, but this was offset by higher sales prices.

January–June 2010 compared with January–June 2009

Operating profit excluding special items was EUR 47 million (6 million). Sales increased by 20% to EUR 540 million (449 million).

Profitability improved noticeably from last year, mainly due to higher sales volumes. Delivery volumes of self-adhesive label materials increased in all regions from last year. Raw material costs were still slightly lower in comparison with the high level last year.

Market review

Demand for self-adhesive label materials grew noticeably in the first six months 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 to pre-recession levels.

Plywood

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	97	76	81	73	77	75	173	152	306
EBITDA, EURm [1)]	2	–2	3	–5	–5	–23	0	–28	–30
% of sales	2.1	–2.6	3.7	–6.8	–6.5	–30.7	0.0	–18.4	–9.8
Depreciation, amortisation and impairment charges, EURm	–5	–5	–12	–5	–5	–5	–10	–10	–27
Operating profit, EURm	–1	–7	–33	–10	–10	–29	–8	–39	–82
% of sales	–1.0	–9.2	–40.7	–13.7	–13.0	–38.7	–4.6	–25.7	–26.8
Special items, EURm [2)]	2	–	–30	–	–	–1	2	–1	–31
Operating profit excl. special items, EURm	–3	–7	–3	–10	–10	–28	–10	–38	–51
% of sales	–3.1	–9.2	–3.7	–13.7	–13.0	–37.3	–5.8	–25.0	–16.7
Deliveries, plywood, 1,000 m^3	182	140	150	143	141	133	322	274	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 second quarter of 2010, include mainly capital gain from asset sale in Finland. Special items in the fourth quarter of 2009, include impairment charges of EUR 6 million and other restructuring charges of EUR 24 million.

Q2 of 2010 compared with Q2 of 2009

Operating loss excluding special items was EUR 3 million (loss of EUR 10 million). Sales grew by 26% to EUR 97 million (77 million), as plywood deliveries grew by 29% to 182,000 cubic metres (141,000).

Operating loss for Plywood decreased from last year mainly due to higher delivery volumes. The average plywood sales price was slightly lower than last year, mainly due to changes in product mix.

January–June 2010 compared with January–June 2009

Operating loss excluding special items was EUR 10 million (loss of EUR 38 million). Sales increased by 14% to EUR 173 million (152 million), as plywood deliveries increased by 18% to 322,000 cubic metres (274,000).

Operating loss for Plywood decreased from last year mainly due to higher delivery volumes and lower raw material costs. The average plywood sales price was lower than last year, mainly due to higher share of spruce products.

Market review

In Europe, in January-June, plywood demand increased from last year. Market activity increased in the second quarter after a slow winter season. In spruce plywood supply to Europe was temporarily restricted by the earthquake in Chile. Construction activity continued at a low level.

The overall plywood market prices remained low during the first half of the year but price development turned positive in the second quarter.

Other operations

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales, EURm	51	40	35	21	21	34	91	55	111
EBITDA, EURm [1)]	–19	–18	–27	–31	–24	–29	–37	–53	–111
Share of results of associated companies and joint ventures, EURm	1	–2	–	–	–2	–2	–1	–4	–4
Depreciation, amortisation and impairment charges, EURm	–3	–3	–3	–3	–3	–3	–6	–6	–12
Operating profit, EURm	–22	–24	–34	–45	–29	–34	–46	–63	–142
Special items, EURm [2)]	–3	–1	–6	–11	–	–	–4	–	–17
Operating profit excl. special items, EURm	–19	–23	–28	–34	–29	–34	–42	–63	–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 2010, special items relate to net restructuring charges. 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.

Q2 of 2010 compared with Q2 of 2009
Excluding special items, operating loss was EUR 19 million (loss of EUR 29 million). Sales amounted to EUR 51 million (21 million).

The development units incurred a smaller operating loss than last year.

January–June 2010 compared with January–June 2009
Excluding special items, operating loss was EUR 42 million (loss of EUR 63 million). Sales amounted to EUR 91 million (55 million).

The development units incurred a smaller operating loss than last year.

Helsinki, 3 August 2010

UPM-Kymmene Corporation

Board of Directors

FINANCIAL INFORMATION

Consolidated income statement

EURm	Q2/2010	Q2/2009	Q1–Q2/2010	Q1–Q2/2009	Q1–Q4/2009
Sales	2,216	1,841	4,255	3,698	7,719
Other operating income	17	7	26	24	47
Costs and expenses	–1,877	–1,627	–3,647	–3,361	–6,774
Change in fair value of biological assets and wood harvested	31	10	50	21	17
Share of results of associated companies and joint ventures	8	–22	11	–75	–95
Depreciation, amortisation and impairment charges	–192	–201	–385	–394	–779
Operating profit (loss)	203	8	310	–87	135
Gains on available-for-sale investments, net	1	–	1	–	–1
Exchange rate and fair value gains and losses	4	3	5	–6	–9
Interest and other finance costs, net	–27	–37	–53	–95	62
Profit (loss) before tax	181	–26	263	–188	187
Income taxes	–12	18	–24	22	–18
Profit (loss) for the period	169	–8	239	–166	169
Attributable to:					
Owners of the parent company	169	–8	239	–166	169
Non-controlling interests	–	–	–	–	–
	169	–8	239	–166	169
Earnings per share for profit (loss) attributable to owners of the parent company					
Basic earnings per share, EUR	0.33	–0.02	0.46	–0.32	0.33
Diluted earnings per share, EUR	0.33	–0.02	0.46	–0.32	0.33

Consolidated statement of comprehensive income

EURm	Q2/2010	Q2/2009	Q1–Q2/2010	Q1–Q2/2009	Q1–Q4/2009
Profit (loss) for the period	169	–8	239	–166	169
Other comprehensive income for the period, net of tax:					
Translation differences	282	37	499	66	165
Net investment hedge	–35	–12	–88	–20	–56
Cash flow hedges	–56	9	–79	–9	–4
Available-for-sale investments	–	–	5	–	21
Share of other comprehensive income of associated companies	3	–12	2	–8	30
Other comprehensive income for the period, net of tax	194	22	339	29	156
Total comprehensive income for the period	363	14	578	–137	325
Total comprehensive income attributable to:					
Owners of the parent company	363	14	578	–137	325
Non-controlling interests	–	–	–	–	–
	363	14	578	–137	325

Condensed consolidated balance sheet

EURm	30.06.2010	30.06.2009	31.12.2009
ASSETS			
Non-current assets			
Goodwill	1,034	933	1,017
Other intangible assets	448	394	423
Property, plant and equipment	6,230	5,439	6,192
Biological assets	1,355	1,152	1,293
Investments in associated companies and joint ventures	568	829	553
Deferred tax assets	358	247	287
Other non-current assets	987	622	816
	10,980	9,616	10,581
Current assets			
Inventories	1,285	1,062	1,112
Trade and other receivables	1,702	1,422	1,474
Cash and cash equivalents	263	192	438
	3,250	2,676	3,024
Assets classified as held for sale	–	327	–
Total assets	14,230	12,619	13,605
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Fair value and other reserves	319	−132	−23
Reserve for invested non-restricted equity	1,145	1,145	1,145
Retained earnings	4,579	3,860	4,574
	6,933	5,763	6,586
Non-controlling interests	16	14	16
Total equity	6,949	5,777	6,602
Non-current liabilities			
Deferred tax liabilities	596	592	608
Non-current interest-bearing liabilities	4,218	4,003	4,164
Other non-current liabilities	637	591	660
	5,451	5,186	5,432
Current liabilities			
Current interest-bearing liabilities	384	514	365
Trade and other payables	1,446	1,142	1,206
	1,830	1,656	1,571
Total liabilities	7,281	6,842	7,003
Total equity and liabilities	14,230	12,619	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	–	–	–	–	–166	–166	–	–166
Translation differences	–	66	–	–	–	66	–	66
Net investment hedge, net of tax	–	–20	–	–	–	–20	–	–20
Cash flow hedges, net of tax	–	–	–9	–	–	–9	–	–9
Available-for-sale investments	–	–	–	–	–	–	–	–
Share of other comprehensive income of associated companies	–	–5	–	–	–3	–8	–	–8
Total comprehensive income for the period	–	41	–9	–	–169	–137	–	–137
Share-based compensation, net of tax	–	–	1	–	–	1	–	1
Dividend paid	–	–	–	–	–208	–208	–	–208
Other items	–	–	–	–	1	1	–	1
Total transactions with owners for the period	–	–	1	–	–207	–206	–	–206
Balance at 30 June 2009	890	–254	122	1,145	3,860	5,763	14	5,777
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

Condensed consolidated cash flow statement

EURm	Q1–Q2/2010	Q1–Q2/2009	Q1–Q4 /2009
Cash flow from operating activities			
Profit (loss) for the period	239	–166	169
Adjustments	371	493	772
Change in working capital	–242	355	532
Cash generated from operations	368	682	1,473
Finance costs, net	–49	–85	–183
Income taxes paid	–8	–17	–31
Net cash generated from operating activities	311	580	1,259
Cash flow from investing activities			
Acquisitions and share purchases	–3	–	–586
Capital expenditure	–97	–143	–236
Asset sales and other investing cash flow	14	20	608
Net cash used in investing activities	–86	–123	–214
Cash flow from financing activities			
Change in loans and other financial items	–183	–387	–732
Dividends paid	–234	–208	–208
Net cash used in financing activities	–417	–595	–940
Change in cash and cash equivalents	–192	–138	105
Cash and cash equivalents at the beginning of period	438	330	330
Foreign exchange effect on cash	17	–	3
Change in cash and cash equivalents	–192	–138	105
Cash and cash equivalents at end of period	263	192	438

Quarterly information

EURm	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales	2,216	2,039	2,108	1,913	1,841	1,857	4,255	3,698	7,719
Other operating income	17	9	18	5	7	17	26	24	47
Costs and expenses	–1,877	–1,770	–1,810	–1,603	–1,627	–1,734	–3,647	–3,361	–6,774
Change in fair value of biological assets and wood harvested	31	19	9	–13	10	11	50	21	17
Share of results of associated companies and joint ventures	8	3	1	–21	–22	–53	11	–75	–95
Depreciation, amortisation and impairment charges	–192	–193	–200	–185	–201	–193	–385	–394	–779
Operating profit (loss)	203	107	126	96	8	–95	310	–87	135
Gains on available-for-sale investments, net	1	–	–	–1	–	–	1	–	–1
Exchange rate and fair value gains and losses	4	1	–	–3	3	–9	5	–6	–9
Interest and other finance costs, net	–27	–26	185	–28	–37	–58	–53	–95	62
Profit (loss) before tax	181	82	311	64	–26	–162	263	–188	187
Income taxes	–12	–12	–16	–24	18	4	–24	22	–18
Profit (loss) for the period	169	70	295	40	–8	–158	239	–166	169
Attributable to:									
Owners of the parent company	169	70	295	40	–8	–158	239	–166	169
Non-controlling interests	–	–	–	–	–	–	–	–	–
	169	70	295	40	–8	–158	239	–166	169
Basic earnings per share, EUR	0.33	0.13	0.57	0.08	–0.02	–0.30	0.46	–0.32	0.33
Diluted earnings per share, EUR	0.33	0.13	0.57	0.08	–0.02	–0.30	0.46	–0.32	0.33
Earnings per share, excluding special items, EUR	0.29	0.15	0.21	0.14	0.03	–0.27	0.44	–0.24	0.11
Average number of shares basic (1,000)	519,970	519,970	519,958	519,954	519,954	519,954	519,970	519,954	519,955
Average number of shares diluted (1,000)	521,333	520,018	518,876	521,036	519,954	519,954	520,676	519,954	519,955
Special items in operating profit (loss)	4	–9	–60	–35	–23	–17	–5	–40	–135
Operating profit (loss), excl. special items	199	116	186	131	31	–78	315	–47	270
% of sales	9.0	5.7	8.8	6.8	1.7	–4.2	7.4	–1.3	3.5
Special items before tax	4	–9	155	–35	–23	–17	–5	–40	80
Profit (loss) before tax, excl. special items	177	91	156	99	–3	–145	268	–148	107
% of sales	8.0	4.5	7.4	5.2	–0.2	–7.8	6.3	–4.0	1.4
Return on equity, excl. special items, %	8.9	4.6	7.4	5.0	0.8	neg.	6.7	neg.	1.0
Return on capital employed, excl. special items, %	7.3	4.3	7.2	4.9	1.3	neg.	5.7	neg.	2.5
EBITDA	353	288	362	334	238	128	641	366	1,062
% of sales	15.9	14.1	17.2	17.5	12.9	6.9	15.1	9.9	13.8
Share of results of associated companies and joint ventures									
Energy	6	4	–8	–24	–4	–4	10	–8	–40
Pulp	–	–	7	4	–16	–47	–	–63	–52
Forest and timber	1	1	1	–1	1	1	2	2	2
Paper	–	–	1	–	–1	–1	–	–2	–1
Other operations	1	–2	–	–	–2	–2	–1	–4	–4
Total	8	3	1	–21	–22	–53	11	–75	–95

Deliveries

	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Electricity, 1,000 MWh	2,303	2,411	2,277	2,103	1,999	2,486	4,714	4,485	8,865
Pulp, 1,000 t	768	700	550	446	391	372	1,468	763	1,759
Sawn timber, 1,000 m^3	504	371	413	355	366	363	875	729	1,497
Publication papers, 1,000 t	1,446	1,364	1,576	1,464	1,323	1,304	2,810	2,627	5,667
Fine and speciality papers, 1,000 t	994	937	945	872	813	724	1,931	1,537	3,354
Paper deliveries total, 1,000 t	2,440	2,301	2,521	2,336	2,136	2,028	4,741	4,164	9,021
Plywood, 1,000 m^3	182	140	150	143	141	133	322	274	567

Quarterly segment information

EURm	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
Sales									
Energy	116	174	128	108	100	136	290	236	472
Pulp	455	341	226	156	132	139	796	271	653
Forest and timber	393	339	348	295	309	385	732	694	1,337
Paper	1,540	1,401	1,558	1,454	1,388	1,367	2,941	2,755	5,767
Label	280	260	252	242	226	223	540	449	943
Plywood	97	76	81	73	77	75	173	152	306
Other operations	51	40	35	21	21	34	91	55	111
Internal sales	–716	–592	–520	–436	–412	–502	–1,308	–914	–1,870
Sales, total	2,216	2,039	2,108	1,913	1,841	1,857	4,255	3,698	7,719
EBITDA									
Energy	39	79	57	35	41	57	118	98	190
Pulp	199	120	53	8	–24	–55	319	–79	–18
Forest and timber	26	3	30	24	–15	–15	29	–30	24
Paper	72	75	221	274	247	187	147	434	929
Label	34	31	25	29	18	6	65	24	78
Plywood	2	–2	3	–5	–5	–23	–	–28	–30
Other operations	–19	–18	–27	–31	–24	–29	–37	–53	–111
EBITDA, total	353	288	362	334	238	128	641	366	1,062
Operating profit (loss)									
Energy	44	81	47	10	36	51	125	87	144
Pulp	163	83	35	–9	–60	–122	246	–182	–156
Forest and timber	52	19	21	6	–18	–18	71	–36	–9
Paper	–57	–69	74	126	85	60	–126	145	345
Label	24	24	16	18	4	–3	48	1	35
Plywood	–1	–7	–33	–10	–10	–29	–8	–39	–82
Other operations	–22	–24	–34	–45	–29	–34	–46	–63	–142
Operating profit (loss), total	203	107	126	96	8	–95	310	–87	135
% of sales	9.2	5.2	6.0	5.0	0.4	–5.1	7.3	–2.4	1.7
Special items in operating profit									
Energy	–	–	–1	–17	–	–	–	–	–18
Pulp	1	–1	–	–	–	–29	–	–29	–29
Forest and timber	–	–	–14	1	–8	–10	–	–18	–31
Paper	4	–8	–8	–6	–10	23	–4	13	–1
Label	–	1	–1	–2	–5	–	1	–5	–8
Plywood	2	–	–30	–	–	–1	2	–1	–31
Other operations	–3	–1	–6	–11	–	–	–4	–	–17
Special items in operating profit, total	4	–9	–60	–35	–23	–17	–5	–40	–135
Operating profit (loss) excl.special items									
Energy	44	81	48	27	36	51	125	87	162
Pulp	162	84	35	–9	–60	–93	246	–153	–127
Forest and timber	52	19	35	5	–10	–8	71	–18	22
Paper	–61	–61	82	132	95	37	–122	132	346
Label	24	23	17	20	9	–3	47	6	43
Plywood	–3	–7	–3	–10	–10	–28	–10	–38	–51
Other operations	–19	–23	–28	–34	–29	–34	–42	–63	–125
Operating profit (loss) excl. special items, total	199	116	186	131	31	–78	315	–47	270
% of sales	9.0	5.7	8.8	6.8	1.7	–4.2	7.4	–1.3	3.5

EURm	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1–Q2/10	Q1–Q2/09	Q1–Q4/09
External sales									
Energy	35	94	38	24	24	49	129	73	135
Pulp	106	86	34	9	10	10	192	20	63
Forest and timber	193	154	171	145	150	152	347	302	618
Paper	1,499	1,353	1,500	1,409	1,355	1,327	2,852	2,682	5,591
Label	280	259	252	243	225	222	539	447	942
Plywood	93	73	77	69	73	72	166	145	291
Other operations	10	20	36	14	4	25	30	29	79
External sales, total	2,216	2,039	2,108	1,913	1,841	1,857	4,255	3,698	7,719
Internal sales									
Energy	81	80	90	84	76	87	161	163	337
Pulp	349	255	192	147	122	129	604	251	590
Forest and timber	200	185	177	150	159	233	385	392	719
Paper	41	48	58	45	33	40	89	73	176
Label	–	1	–	–1	1	1	1	2	1
Plywood	4	3	4	4	4	3	7	7	15
Other operations	41	20	–1	7	17	9	61	26	32
Internal sales, total	716	592	520	436	412	502	1,308	914	1,870

Changes in property, plant and equipment

EURm	Q1–Q2/2010	Q1–Q2/2009	Q1–Q4/2009
Book value at beginning of period	6,192	5,688	5,688
Capital expenditure	60	109	181
Companies acquired	–	–	1,013
Decreases	–6	–11	–20
Depreciation	–358	–358	–696
Impairment charges	–	–7	–14
Impairment reversal	3	4	5
Translation difference and other changes	339	14	35
Book value at end of period	6,230	5,439	6,192

Commitments and contingencies

EURm	30.06.2010	30.06.2009	31.12.2009
Own commitments			
Mortgages [1]	1,067	765	1,043
On behalf of associated companies and joint ventures			
Guarantees for loans	8	9	8
On behalf of others			
Other guarantees	–	1	1
Other own commitments			
Leasing commitments for the next 12 months	23	20	24
Leasing commitments for subsequent periods	83	58	60
Other commitments	89	65	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–Q2/2010	After 30.06.2010
Materials recovery facility (MRF), Shotton	January 2011	19	–	1	18
Plywood development	December 2011	18	–	1	17
Energy saving TMP plant, Steyrermühl	January 2011	16	–	1	15
Power plant rebuild, Schongau	January 2011	12	–	2	10
Rebuild of debarking plant, Pietarsaari	October 2010	25	15	1	9

Notional amounts of derivative financial instruments

EURm	30.06.2010	30.06.2009	31.12.2009
Currency derivatives			
Forward contracts	4,044	4,049	3,791
Options, bought	4	20	20
Options, written	4	25	20
Swaps	754	522	514
Interest rate derivatives			
Forward contracts	2,692	2,206	3,259
Swaps	2,590	2,996	2,701
Other derivatives			
Forward contracts	136	164	25
Options, bought	41	78	73
Options, written	41	78	73
Swaps	2	6	4

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

EURm	Q1–Q2/2010	Q1–Q2/2009	Q1–Q4/2009
Sales to associated companies	77	54	114
Purchases from associated companies	170	229	560
Non-current receivables at end of period	4	2	2
Trade and other receivables at end of period	13	22	23
Trade and other payables at end of period	31	28	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

	30.06.2010	31.03.2010	31.12.2009	30.09.2009	30.06.2009	31.03.2009
USD	1.2271	1.3479	1.4406	1.4643	1.4134	1.3308
CAD	1.2890	1.3687	1.5128	1.5709	1.6275	1.6685
JPY	108.79	125.93	133.16	131.07	135.51	131.17
GBP	0.8175	0.8898	0.8881	0.9093	0.8521	0.9308
SEK	9.5259	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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