The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 31 MARCH 2011

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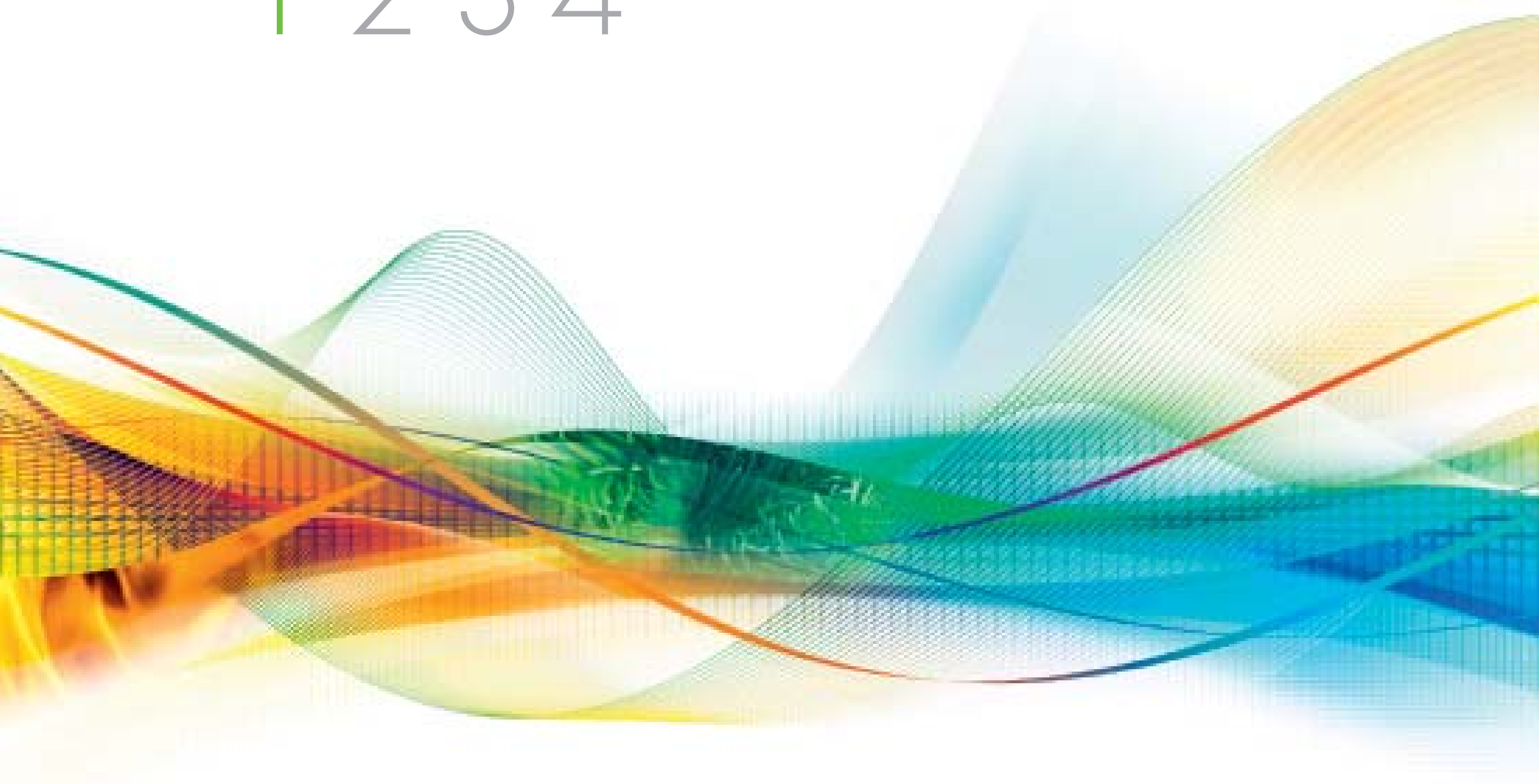


UPM INTERIM REPORT 1 JANUARY – 31 MARCH 2011

- Earnings per share for the first quarter were EUR 0.33 (0.13), and excluding special items EUR 0.32 (0.15)
- Operating profit excluding special items was EUR 198 million (116 million)
- Sales growth continued, driven by both sales prices and delivery volumes
- Earnings guidance for 2011 is unchanged

Key figures

	Q1/2011	Q1/2010	Q1–Q4/2010
Sales, EURm	2,356	2,039	8,924
EBITDA, EURm [1]	379	288	1,343
% of sales	16.1	14.1	15.0
Operating profit (loss), EURm	198	107	755
excluding special items, EURm	198	116	731
% of sales	8.4	5.7	8.2
Profit (loss) before tax, EURm	195	82	635
excluding special items, EURm	195	91	611
Net profit (loss) for the period, EURm	169	70	561
Earnings per share, EUR	0.33	0.13	1.08
excluding special items, EUR	0.32	0.15	0.99
Diluted earnings per share, EUR	0.32	0.13	1.08
Return on equity, %	9.4	4.2	8.2
excluding special items, %	9.3	4.6	7.5
Return on capital employed, %	7.8	4.0	6.6
excluding special items, %	7.8	4.3	6.4
Operating cash flow per share, EUR	0.32	0.40	1.89
Shareholders' equity per share at end of period, EUR	13.87	12.62	13.64
Gearing ratio at end of period, %	44	54	46
Net interest-bearing liabilities at end of period, EURm	3,197	3,569	3,286
Capital employed at end of period, EURm	11,046	10,953	11,087
Capital expenditure, EURm	98	30	257
Capital expenditure excluding acquisitions and shares, EURm	98	30	252
Personnel at end of period	21,831	22,840	21,869

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

Results

Q1 of 2011 compared with Q1 of 2010

Sales for the first quarter of 2011 were EUR 2,356 million, 16% higher than the EUR 2,039 million in the first quarter of 2010. Sales increased due to higher sales prices and delivery volumes, especially in the Paper business area.

EBITDA was EUR 379 million, 16.1% of sales (288 million, 14.1% of sales).

EBITDA improved clearly compared with the same period last year. Sales prices increased in most businesses. Higher sales prices improved EBITDA by approximately EUR 208 million. The average paper price in euros increased by approximately 11% from last year. Sales prices also increased noticeably for label materials, pulp, sawn timber and plywood. The electricity sales price decreased.

Variable costs were noticeably higher than last year. Costs of wood, recovered paper and chemical pulp increased by EUR 95 million from last year. Costs for transportation, chemicals and coating materials increased as well. Energy costs were about the same as last year.

Delivery volumes grew in Paper, Pulp and Plywood, but decreased in Energy, Label and sawn timber.

Fixed costs were EUR 29 million higher than last year.

Operating profit was EUR 198 million, 8.4% of sales (107 million, 5.2% of sales). The operating profit excluding special items was EUR 198 million, 8.4% of sales (116 million, 5.7% of sales).

The increase in the fair value of biological assets net of wood harvested was EUR 3 million compared with EUR 19 million a year before.

The share of results of associated companies and joint ventures was EUR -1 million (3 million).

Profit before tax was EUR 195 million (82 million) and excluding special items EUR 195 million (91 million). Interest and other financing costs net were EUR 1 million (26 million). This includes dividend income of EUR 25 million from Oy Metsä-Botnia Ab. Exchange rate and fair value gains and losses resulted in a loss of EUR 2 million (gain of EUR 1 million).

Income taxes were EUR 26 million (12 million). Special items in taxes were EUR 3 million positive (3 million positive).

Profit for the first quarter was EUR 169 million (70 million) and earnings per share were EUR 0.33 (0.13). Earnings per share excluding special items were EUR 0.32 (0.15). Operating cash flow per share was EUR 0.32 (0.40).

Financing

Cash flow from operating activities before capital expenditure and financing was EUR 166 million (209 million). Working capital increased by EUR 131 million during the period (increase of EUR 18 million).

The gearing ratio as of 31 March 2011 was 44% (54%). Net interest-bearing liabilities at the end of the period came to EUR 3,197 million (3,569 million).

In March 2011, UPM completed the renewal of its committed credit facilities by replacing its EUR 1,000 million syndicated credit facility with a new EUR 500 million credit facility that will expire in March 2016. Current committed facilities amount to EUR 1.4 billion.

On 31 March 2011, UPM's cash funds and unused committed credit facilities totalled EUR 1.7 billion.

Personnel

In the first quarter of 2011, UPM had an average of 21,848 employees (22,889). At the beginning of the year the number of employees was 21,869, and at the end of the first quarter it was 21,831.

Capital expenditure

During the first three months of 2011, capital expenditure was EUR 98 million, 4.2% of sales (EUR 30 million, 1.5% of sales).

On 20 January 2011, UPM's plantation company, Forestal Oriental, acquired approximately 25,000 hectares of land in Uruguay for a total cost of about EUR 50 million.

The largest on-going investment is the EUR 20 million rebuild of Tervasaari release paper machine.

Pending acquisition of Myllykoski Corporation and Rhein Papier GmbH

On 21 December 2010, UPM entered into an agreement to acquire Myllykoski Corporation and Rhein Papier GmbH. The transaction is subject to customary closing conditions, including, among others, the approval of the regulatory authorities.

On 4 March 2011, the EU Commission announced that the regulatory investigation into UPM's acquisition of Myllykoski and Rhein Papier proceeded into the second phase, in line with the parties' expectations. The expected time of closing of the transaction is in the third quarter of 2011.

Annual General Meeting on 7 April 2011

The Annual General Meeting, held on 7 April 2011, decided that a dividend of EUR 0.55 per share, totalling to EUR 286 million, was to be paid on 20 April 2011. The dividend was paid to all shareholders who were registered on 12 April 2011 in the company's shareholder register maintained by Euroclear Finland Ltd. This is the record date for the dividend payment.

The current Board members were re-elected for a term continuing until the end of the next Annual General Meeting.

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

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

Shares

In the first quarter of 2011, UPM shares worth EUR 2,678 million (2,118 million) in total were traded on the NASDAQ OMX Helsinki stock exchange, representing roughly half of all trading volume in UPM shares. The highest quotation was EUR 15.38 in February and the lowest EUR 12.97 in January.

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

On 21 December 2010, UPM's Board of Directors decided on the issuance of five million new UPM shares as part of the consideration for the acquisition of Myllykoski Corporation and Rhein Papier GmbH ("Myllykoski"). The new UPM shares will be offered for subscription to certain holders of subordinated loan notes of Rhein Papier GmbH, who are shareholders of Myllykoski Corporation and who have agreed to subscribe for the new shares in connection with the completion of the acquisition of Myllykoski. The subscription price for the new UPM shares will be paid by contribution of such loan notes to UPM as part of the overall transaction. The share issue is subject to the closing of the transaction.

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

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

The number of shares entered in the Trade Register on 31 March 2011 was 519,970,088. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,970,088.

In March 2011, 300 shares were subscribed for through execising 2007A share options. The shares were registered in the Trade Register on 12 April 2011.

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

Company directors

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

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

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

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

Litigation

In Finland, UPM is participating in the project for construction of a new nuclear power plant, Olkiluoto 3, through its associated company Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj ("TVO"), holding 58.39% of the shares. UPM's indirect share of the capacity of the Olkiluoto 3 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 November 2010, TVO informed that the plant supplier, the AREVA-Siemens Consortium, had reported that most of the works are expected to be completed in 2012 and regular operation of the plant is estimated to start in the second half of 2013. According to TVO, the 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 case against the government of Uruguay on 20 April 2010 in a dispute between the governments of Uruguay and Argentina. In Uruguay, there is one pending litigation against the government of Uruguay related to the Fray Bentos pulp mill, and in Argentina, one such litigation against the company operating the pulp mill.

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

Events after the balance sheet date

The decisions of the Annual General Meeting held on 7 April 2011 are presented separately in this report.

On 13 April 2011, UPM and International Paper signed an agreement concerning the sale of UPM's ownership in the Russian logging company ZAO Tikhvinsky Komplexny Lespromkhoz. According to the agreement, the operations, permanent personnel and logging license covering 184,000 hectares of forest area in Tikhvin in the Leningrad oblast will transfer to International Paper Russia Holding B.V. The final closure of the transaction is subject to the approval of Russian Federal Antimonopoly Service.

On 19 April 2011, UPM's associated company Pohjolan Voima Oy sold its 25% shareholding of Fingrid Oyj. The government of Finland bought 81% of the shares and the Mutual Pension Insurance Company Ilmarinen respectively 19% of shares. Fingrid is the Finnish electricity transmission system operator. The transaction price is EUR 325 million, and Pohjolan Voima will record a capital gain of EUR 200 million for the transaction. UPM owns 43.12% of Pohjolan Voima. UPM will recognise a special income of EUR 86 million from the sale in the associated company results in the second quarter.

Outlook for 2011

Earnings guidance for 2011 is unchanged. UPM operating profit excluding special items for 2011 is expected to improve on last year. In the first half of 2011, operating profit excluding special items is expected to be clearly higher than that of the first half of 2010.

The favourable delivery volume development seen in the first quarter is expected to continue. Sales prices are expected to remain stable or improve, depending on the business area.

Variable cost inflation has turned out to be higher than expected at the start of the year, especially in chemical pulp and recovered paper as well as oil-related costs, such as logistics and chemicals. The cost of wood raw material is expected to be stable at the level seen in the first quarter and latter part of 2010. Overall cost inflation in 2011 is now estimated to be about the same as in 2010.

UPM's electricity generation volume in 2011 is estimated to be about the same as in 2010. Based on current forward agreements and Nordpool forward prices, the average sales price for electricity is estimated to be slightly lower than last year.

Chemical pulp deliveries in 2011 are expected to increase moderately from last year. Market prices in USD are expected to increase from the first quarter, but prices in euros are estimated to remain stable.

Weak market conditions are expected to continue in sawn timber, but some improvement in delivery volumes is forecast in the second quarter.

UPM's paper deliveries are expected to increase seasonally in the second quarter from the first quarter. The average price for UPM's paper deliveries is expected to be stable in the second quarter compared with the first quarter.

Label materials deliveries in 2011 are expected to increase slightly from last year, driven by growth in markets outside Europe. Sales prices in local currencies are expected to increase from the first quarter. Variable cost inflation continues.

In Plywood, delivery volumes and sales prices are expected to increase from last year and from the first quarter. Demand is foreseen to grow especially in industrial end-uses. Construction activity in Europe is however expected to remain subdued.

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

BUSINESS AREA REVIEWS

Energy

	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Sales, EURm	128	153	124	116	174	567
EBITDA, EURm [1)]	60	70	48	39	79	236
% of sales	46.9	45.8	38.7	33.6	45.4	41.6
Share of results of associated companies and joint ventures, EURm	1	–	–3	6	4	7
Depreciation, amortisation and impairment charges, EURm	–1	–2	–1	–1	–2	–6
Operating profit, EURm	60	68	44	44	81	237
% of sales	46.9	44.4	35.5	37.9	46.6	41.8
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	60	68	44	44	81	237
% of sales	46.9	44.4	35.5	37.9	46.6	41.8
Electricity deliveries, GWh	2,354	2,436	2,276	2,303	2,411	9,426

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

Q1 of 2011 compared with Q1 of 2010

The operating profit excluding special items for Energy was EUR 60 million, EUR 21 million lower than last year (81 million). Sales decreased by 26% to EUR 128 million (174 million), of which EUR 55 million was external sales (94 million). The electricity sales volume was 2.4 TWh in the quarter (2.4 TWh).

Operating profit weakened compared with the same period last year, mainly due to the lower sales price.

The average electricity sales price decreased by 11% to EUR 50.6/MWh (57.0/MWh).

Market review

The average electricity Finnish area spot price on the Nordic electricity exchange in the first quarter was EUR 64.8/MWh, 9% lower than in the same period last year (71.6/MWh).

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

The front year forward price in the Nordic electricity exchange was EUR 50.2/MWh on 31 March 2011, 28% higher than on the same date last year (39.2/MWh).

At the end of the first quarter of the year, the Nordic water reservoirs were almost 30% below their long-term average at this time of the year.

Pulp

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

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

Q1 of 2011 compared with Q1 of 2010

The operating profit excluding special items for Pulp was EUR 160 million (84 million). Sales increased by 34% to EUR 457 million (341 million) and deliveries by 11% to 780,000 tonnes (700,000).

Profitability improved clearly from the previous year. The main reasons for the improvement were higher pulp sales prices and volumes than last year.

Market review

In the first quarter of 2011, global chemical pulp prices increased from the same period last year. Softwood markets in particular were tight. Global producer inventories were on a normal level.

The average softwood pulp (NBSK) market price in euro terms, at EUR 700/tonne, was 14% higher than in the same period last year (EUR 613/tonne). At the end of the first quarter, the NBSK market price was EUR 692/tonne. The average hardwood pulp (BHKP) market price in euro terms increased by 15% from last year, to EUR 622/tonne (EUR 543/tonne). At the end of the first quarter, the BHKP market price was EUR 602/tonne.

Forest and Timber

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

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
[2] Special items of EUR 33 million in the third quarter of 2010, relate to a capital gain from selling a conservation easement in Minnesota. Other special items of EUR 4 million relate to a capital gain and reversals of restructuring provisions of Timber operations in Finland.

Q1 of 2011 compared with Q1 of 2010

The operating profit excluding special items for Forest and Timber was EUR 2 million (19 million). Sales increased by 16% to EUR 394 million (339 million). Sawn timber deliveries decreased by 5% to 354,000 cubic metres (371,000 cubic metres).

The operating profit excluding special items decreased from the same period last year, mainly due to a smaller increase in the fair value of biological assets. Sawn timber sales prices increased, but delivery volumes were lower and wood costs higher.

The increase in the fair value of biological assets net of wood harvested was EUR 2 million (19 million). The increase in the fair value of biological assets (growing trees) was EUR 15 million (33 million). The cost of wood raw material harvested from own forests was EUR 13 million (14 million).

Market review

In the first quarter of 2011, Finnish wood market activity was low. Wood purchases in the Finnish wood market were 2.8 million cubic metres, a decrease of about 20% from the same period last year. Log purchases were about 30% below last year and pulpwood purchases were 17% lower.

Wood market prices for log and pulpwood increased compared with the same period last year.

In the first quarter of 2011, demand for both redwood and whitewood sawn timber in Europe was weak as construction activity remained at a low level. Unrest in North Africa had a negative impact on European export volumes.

Paper

	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Sales, EURm	1,647	1,656	1,672	1,540	1,401	6,269
EBITDA, EURm [1)]	102	61	67	72	75	275
% of sales	6.2	3.7	4.0	4.7	5.4	4.4
Share of results of associated companies and joint ventures, EURm	–	1	–	–	–	1
Depreciation, amortisation and impairment charges, EURm	–125	–130	–131	–130	–136	–527
Operating profit, EURm	–23	–75	–71	–57	–69	–272
% of sales	–1.4	–4.5	–4.2	–3.7	–4.9	–4.3
Special items, EURm [2)]	–	–7	–7	4	–8	–18
Operating profit excl. special items, EURm	–23	–68	–64	–61	–61	–254
% of sales	–1.4	–4.1	–3.8	–4.0	–4.4	–4.1
Deliveries, publication papers, 1,000 t	1,486	1,680	1,633	1,446	1,364	6,123
Deliveries, fine and speciality papers, 1,000 t	951	913	947	994	937	3,791
Paper deliveries total, 1,000 t	2,437	2,593	2,580	2,440	2,301	9,914

[1)] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
[2)] In the fourth quarter of 2010, special items include transaction costs of EUR 4 million related to Myllykoski acquisition and EUR 3 million of restructuring charges. Special items for the third quarter of 2010, relate to restructuring charges. In 2010, special items in the second quarter include impairment reversals of EUR 3 million. Other special items in the first and second quarter of 2010, include mainly employee-related restructuring charges.

Q1 of 2011 compared with Q1 of 2010

Operating loss excluding special items for Paper was EUR 23 million (loss of EUR 61 million). Sales were EUR 1,647 million (1,401 million). Paper deliveries increased by 6% to 2,437,000 tonnes (2,301,000). Paper deliveries for publication papers (magazine papers and newsprint) increased by 9%, and for fine and speciality papers by 1%, from last year. Deliveries grew mainly in markets outside Europe.

Operating loss decreased from last year, mainly due to higher paper prices. The average price for all paper deliveries in euros was about 11% higher than last year. Compared with the fourth quarter of 2010, the average paper price increased by about 6%.

Higher delivery volumes also had a positive impact on operating profit.

Despite higher prices and deliveries, the Paper business area continued to incur an operating loss due to increased variable costs. The biggest increase took place in chemical pulp and recovered paper but logistics and chemical costs also increased.

Market review

Demand for publication papers in Europe in the first quarter was 2% lower, and for fine papers 1% lower than a year ago. In North America, the demand for magazine papers decreased by 4% from last year. In Asia, demand for fine papers grew. Demand also grew for speciality papers.

In Europe, publication paper prices increased in the first quarter by about 10% from the previous quarter, or about 12% from the first quarter of 2010. Fine paper prices decreased by about 1% from the last quarter of 2010, but were about 15% higher than last year.

In North America, the average US dollar price for magazine papers was 2% higher than in the previous quarter or 15% higher than a year ago. In Asia, market prices for fine papers increased both from last year and from the previous quarter.

Label

	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Sales, EURm	278	276	284	280	260	1,100
EBITDA, EURm [1]	27	25	33	34	31	123
% of sales	9.7	9.1	11.6	12.1	11.9	11.2
Depreciation, amortisation and impairment charges, EURm	–8	–9	–8	–10	–7	–34
Operating profit, EURm	19	15	25	24	24	88
% of sales	6.8	5.4	8.8	8.6	9.2	8.0
Special items, EURm [2]	–	–1	1	–	1	1
Operating profit excl. special items, EURm	19	16	24	24	23	87
% of sales	6.8	5.8	8.5	8.6	8.8	7.9

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
[2] In 2010, special items of EUR 2 million relate to impairment reversals and EUR 1 million relates to restructuring charges.

Q1 of 2011 compared with Q1 of 2010
Operating profit excluding special items for Label was EUR 19 million (23 million). Sales increased by 7% to EUR 278 million (260 million).

Operating profit decreased from last year, mainly due to materially higher raw material costs. UPM increased sales prices both in comparison to the same period last year and to the fourth quarter of 2010 and this covered most of the cost of inflation relating to raw materials. Partly due to the price increases, delivery volumes decreased from last year.

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

The closing of the acquisition is subject to obtaining appropriate licences from local authorities.

Market review
Demand for self-adhesive label materials in Europe and in North America in the first quarter is estimated to have remained about the same as in the same period last year. Demand continued to increase in Asia and Latin America.

Plywood

	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Sales, EURm	94	91	83	97	76	347
EBITDA, EURm [1)]	4	–1	2	2	–2	1
% of sales	4.3	–1.1	2.4	2.1	–2.6	0.3
Depreciation, amortisation and impairment charges, EURm	–5	–4	–5	–5	–5	–19
Operating profit, EURm	–1	–5	–4	–1	–7	–17
% of sales	–1.1	–5.5	–4.8	–1.0	–9.2	–4.9
Special items, EURm [2)]	–	–	–1	2	–	1
Operating profit excl. special items, EURm	–1	–5	–3	–3	–7	–18
% of sales	–1.1	–5.5	–3.6	–3.1	–9.2	–5.2
Deliveries, plywood, 1,000 m^3	162	160	156	182	140	638

1) EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.
2) Special items in 2010, include mainly a capital gain from asset sale in Finland.

Q1 of 2011 compared with Q1 of 2010

Operating loss excluding special items for Plywood was EUR 1 million (loss of EUR 7 million). Sales grew by 24% to EUR 94 million (76 million). Plywood deliveries increased by 16% to 162,000 m^3 (140,000).

Operating loss for Plywood decreased from last year due to higher delivery volumes and increased sales prices.

Market review

In Europe, plywood demand grew from the first quarter of 2010. Demand growth was stronger in industrial end-uses than in construction-related end-uses. Rebound was particularly strong in the European transportation segment.

Plywood market prices were higher than last year, and also increased from the fourth quarter of 2010.

Other operations

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

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

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

Q1 of 2011 compared with Q1 of 2010
Excluding special items, the operating loss for Other operations was EUR 19 million (loss of EUR 23 million). Sales amounted to EUR 35 million (40 million).

Helsinki, 28 April 2011

UPM-Kymmene Corporation

Board of Directors

FINANCIAL INFORMATION

Consolidated income statement

EURm	Q1/2011	Q1/2010	Q1–Q4/2010
Sales	2,356	2,039	8,924
Other operating income	20	9	76
Costs and expenses	−1,997	−1,770	−7,637
Change in fair value of biological assets and wood harvested	3	19	149
Share of results of associated companies and joint ventures	−1	3	8
Depreciation, amortisation and impairment charges	−183	−193	−765
Operating profit (loss)	198	107	755
Gains on available-for-sale investments, net	–	–	1
Exchange rate and fair value gains and losses	−2	1	−4
Interest and other finance costs, net	−1	−26	−117
Profit (loss) before tax	195	82	635
Income taxes	−26	−12	−74
Profit (loss) for the period	169	70	561
Attributable to:			
Owners of the parent company	169	70	561
Non-controlling interests	–	–	–
	169	70	561
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	0.33	0.13	1.08
Diluted earnings per share, EUR	0.32	0.13	1.08

Consolidated statement of comprehensive income

EURm	Q1/2011	Q1/2010	Q1–Q4/2010
Profit (loss) for the period	169	70	561
Other comprehensive income for the period, net of tax:			
Translation differences	−162	217	288
Net investment hedge	19	−53	−69
Cash flow hedges	56	−23	−70
Available-for-sale investments	29	5	15
Share of other comprehensive income of associated companies	3	−1	9
Other comprehensive income for the period, net of tax	−55	145	173
Total comprehensive income for the period	114	215	734
Total comprehensive income attributable to:			
Owners of the parent company	114	215	734
Non-controlling interests	–	–	–
	114	215	734

Consolidated balance sheet

EURm	31.03.2011	31.03.2010	31.12.2010
ASSETS			
Non-current assets			
Goodwill	1,016	1,025	1,022
Other intangible assets	443	452	424
Property, plant and equipment	5,657	6,166	5,860
Investment property	31	23	22
Biological assets	1,456	1,324	1,430
Investments in associated companies and joint ventures	575	555	573
Available-for-sale investments	363	324	333
Non-current financial assets	241	307	323
Deferred tax assets	358	314	359
Other non-current assets	219	211	211
	10,359	10,701	10,557
Current assets			
Inventories	1,324	1,204	1,299
Trade and other receivables	1,772	1,527	1,661
Income tax receivables	28	30	26
Cash and cash equivalents	312	365	269
	3,436	3,126	3,255
Total assets	13,795	13,827	13,812
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Translation differences	–88	–	55
Fair value and other reserves	179	125	90
Reserve for invested non-restricted equity	1,145	1,145	1,145
Retained earnings	5,085	4,403	4,913
	7,211	6,563	7,093
Non-controlling interests	16	16	16
Total equity	7,227	6,579	7,109
Non-current liabilities			
Deferred tax liabilities	649	589	629
Retirement benefit obligations	423	420	424
Provisions	130	181	150
Interest-bearing liabilities	2,853	4,005	3,649
Other liabilities	63	60	70
	4,118	5,255	4,922
Current liabilities			
Current interest-bearing liabilities	966	369	330
Trade and other payables	1,437	1,554	1,417
Income tax payables	47	70	34
	2,450	1,993	1,781
Total liabilities	6,568	7,248	6,703
Total equity and liabilities	13,795	13,827	13,812

Consolidated statement of changes in equity

EURm	Share capital	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to owners of the parent company							
Balance at 1 January 2010	890	−164	141	1,145	4,574	6,586	16	6,602
Profit (loss) for the period	–	–	–	–	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
Balance at 1 January 2011	890	55	90	1,145	4,913	7,093	16	7,109
Profit (loss) for the period	–	–	–	–	169	169	–	169
Translation differences	–	−162	–	–	–	−162	–	−162
Net investment hedge, net of tax	–	19	–	–	–	19	–	19
Cash flow hedges, net of tax	–	–	56	–	–	56	–	56
Available-for-sale investments	–	–	29	–	–	29	–	29
Share of other comprehensive income of associated companies	–	–	–	–	3	3	–	3
Total comprehensive income for the period	–	−143	85	–	172	114	–	114
Share-based compensation, net of tax	–	–	4	–	–	4	–	4
Dividend paid	–	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–	–
Total transactions with owners for the period	–	–	4	–	–	4	–	4
Balance at 31 March 2011	890	−88	179	1,145	5,085	7,211	16	7,227

Condensed consolidated cash flow statement

EURm	Q1/2011	Q1/2010	Q1–Q4/2010
Cash flow from operating activities			
Profit (loss) for the period	169	70	561
Adjustments	149	180	740
Change in working capital	–131	–18	–139
Cash generated from operations	187	232	1,162
Finance costs, net	4	–13	–103
Income taxes paid	–25	–10	–77
Net cash generated from operating activities	166	209	982
Cash flow from investing activities			
Capital expenditure	–80	–49	–241
Acquisitions and share purchases	–	–	–4
Asset sales and other investing cash flow	3	9	50
Net cash used in investing activities	–77	–40	–195
Cash flow from financing activities			
Change in loans and other financial items	–44	–250	–732
Dividends paid	–	–	–234
Net cash used in financing activities	–44	–250	–966
Change in cash and cash equivalents	45	–81	–179
Cash and cash equivalents at beginning of period	269	438	438
Foreign exchange effect on cash	–2	8	10
Change in cash and cash equivalents	45	–81	–179
Cash and cash equivalents at end of period	312	365	269

Quarterly information

EURm	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Sales	2,356	2,357	2,312	2,216	2,039	8,924
Other operating income	20	8	42	17	9	76
Costs and expenses	–1,997	–2,052	–1,938	–1,877	–1,770	–7,637
Change in fair value of biological assets and wood harvested	3	85	14	31	19	149
Share of results of associated companies and joint ventures	–1	–1	–2	8	3	8
Depreciation, amortisation and impairment charges	–183	–190	–190	–192	–193	–765
Operating profit (loss)	198	207	238	203	107	755
Gains on available-for-sale investments, net	–	–	–	1	–	1
Exchange rate and fair value gains and losses	–2	2	–11	4	1	–4
Interest and other finance costs, net	–1	–36	–28	–27	–26	–117
Profit (loss) before tax	195	173	199	181	82	635
Income taxes	–26	–29	–21	–12	–12	–74
Profit (loss) for the period	169	144	178	169	70	561
Attributable to:						
Owners of the parent company	169	144	178	169	70	561
Non-controlling interests	–	–	–	–	–	–
	169	144	178	169	70	561
Basic earnings per share, EUR	0.33	0.28	0.34	0.33	0.13	1.08
Diluted earnings per share, EUR	0.32	0.28	0.34	0.33	0.13	1.08
Earnings per share, excluding special items, EUR	0.32	0.27	0.28	0.29	0.15	0.99
Average number of shares basic (1,000)	519,970	519,970	519,970	519,970	519,970	519,970
Average number of shares diluted (1,000)	523,182	522,193	521,742	521,333	520,018	521,321
Special items in operating profit (loss)	–	–5	34	4	–9	24
Operating profit (loss), excl. special items	198	212	204	199	116	731
% of sales	8.4	9.0	8.8	9.0	5.7	8.2
Special items before tax	–	–5	34	4	–9	24
Profit (loss) before tax, excl. special items	195	178	165	177	91	611
% of sales	8.3	7.6	7.1	8.0	4.5	6.8
Return on equity, excl. special items, %	9.3	8.0	8.6	8.9	4.6	7.5
Return on capital employed, excl. special items, %	7.8	7.5	6.8	7.3	4.3	6.4
EBITDA	379	318	384	353	288	1,343
% of sales	16.1	13.5	16.6	15.9	14.1	15.0
Share of results of associated companies and joint ventures						
Energy	1	–	–3	6	4	7
Pulp	–	–	–	–	–	–
Forest and Timber	–	–1	2	1	1	3
Paper	–	1	–	–	–	1
Other operations	–2	–1	–1	1	–2	–3
Total	–1	–1	–2	8	3	8

Deliveries

	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Electricity, GWh	2,354	2,436	2,276	2,303	2,411	9,426
Pulp, 1,000 t	780	699	752	768	700	2,919
Sawn timber, 1,000 m^3	354	426	428	504	371	1,729
Publication papers, 1,000 t	1,486	1,680	1,633	1,446	1,364	6,123
Fine and speciality papers, 1,000 t	951	913	947	994	937	3,791
Paper deliveries total, 1,000 t	2,437	2,593	2,580	2,440	2,301	9,914
Plywood, 1,000 m^3	162	160	156	182	140	638

Quarterly segment information

EURm	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
Sales						
Energy	128	153	124	116	174	567
Pulp	457	413	489	455	341	1,698
Forest and Timber	394	402	387	393	339	1,521
Paper	1,647	1,656	1,672	1,540	1,401	6,269
Label	278	276	284	280	260	1,100
Plywood	94	91	83	97	76	347
Other operations	35	42	45	51	40	178
Internal sales	–677	–676	–772	–716	–592	–2,756
Sales, total	2,356	2,357	2,312	2,216	2,039	8,924
EBITDA						
Energy	60	70	48	39	79	236
Pulp	195	165	239	199	120	723
Forest and Timber	5	5	18	26	3	52
Paper	102	61	67	72	75	275
Label	27	25	33	34	31	123
Plywood	4	–1	2	2	–2	1
Other operations	–14	–7	–23	–19	–18	–67
EBITDA, total	379	318	384	353	288	1,343
Operating profit (loss)						
Energy	60	68	44	44	81	237
Pulp	160	132	199	163	83	577
Forest and Timber	2	79	68	52	19	218
Paper	–23	–75	–71	–57	–69	–272
Label	19	15	25	24	24	88
Plywood	–1	–5	–4	–1	–7	–17
Other operations	–19	–7	–23	–22	–24	–76
Operating profit (loss), total	198	207	238	203	107	755
% of sales	8.4	8.8	10.3	9.2	5.2	8.5
Special items in operating profit						
Energy	–	–	–	–	–	–
Pulp	–	–	–	1	–1	–
Forest and Timber	–	–	37	–	–	37
Paper	–	–7	–7	4	–8	–18
Label	–	–1	1	–	1	1
Plywood	–	–	–1	2	–	1
Other operations	–	3	4	–3	–1	3
Special items in operating profit, total	–	–5	34	4	–9	24
Operating profit (loss) excl.special items						
Energy	60	68	44	44	81	237
Pulp	160	132	199	162	84	577
Forest and Timber	2	79	31	52	19	181
Paper	–23	–68	–64	–61	–61	–254
Label	19	16	24	24	23	87
Plywood	–1	–5	–3	–3	–7	–18
Other operations	–19	–10	–27	–19	–23	–79
Operating profit (loss) excl. special items, total	198	212	204	199	116	731
% of sales	8.4	9.0	8.8	9.0	5.7	8.2

EURm	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/10
External sales						
Energy	55	71	31	35	94	231
Pulp	151	103	102	106	86	397
Forest and Timber	171	193	181	193	154	721
Paper	1,606	1,621	1,636	1,499	1,353	6,109
Label	278	276	283	280	259	1,098
Plywood	90	87	79	93	73	332
Other operations	5	6	–	10	20	36
External sales, total	2,356	2,357	2,312	2,216	2,039	8,924
Internal sales						
Energy	73	82	93	81	80	336
Pulp	306	310	387	349	255	1,301
Forest and Timber	223	209	206	200	185	800
Paper	41	35	36	41	48	160
Label	–	–	1	–	1	2
Plywood	4	4	4	4	3	15
Other operations	30	36	45	41	20	142
Internal sales, total	677	676	772	716	592	2,756

Changes in property, plant and equipment

EURm	Q1/2011	Q1/2010	Q1–Q4/2010
Book value at beginning of period	5,860	6,192	6,192
Capital expenditure	90	25	217
Companies acquired	–	–	–
Decreases	–4	–3	–18
Depreciation	–168	–178	–707
Impairment reversal	–	1	4
Translation difference and other changes	–121	129	172
Book value at end of period	5,657	6,166	5,860

Commitments and contingencies

EURm	31.03.2011	31.03.2010	31.12.2010
Own commitments			
Mortgages	725	1,056	764
On behalf of associated companies and joint ventures			
Guarantees for loans	6	8	7
On behalf of others			
Other guarantees	2	1	2
Other own commitments			
Leasing commitments for the next 12 months	29	26	28
Leasing commitments for subsequent periods	107	84	80
Other commitments	134	68	164

Capital commitments

For 2011, total capital expenditure, excluding acquisitions, is forecast to be about EUR 350 million. The largest on-going investment is the EUR 20 million rebuild of the Tervasaari release paper machine.

Notional amounts of derivative financial instruments

EURm	31.03.2011	31.03.2010	31.12.2010
Currency derivatives			
Forward contracts	3,750	3,654	3,993
Options, bought	2	19	4
Options, written	2	27	4
Swaps	758	527	800
Interest rate derivatives			
Forward contracts	2,156	2,110	2,442
Swaps	2,447	2,511	2,478
Other derivatives			
Forward contracts	358	119	275
Options, bought	–	41	–
Options, written	–	41	–
Swaps	–	3	–

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

EURm	Q1/2011	Q1/2010	Q1–Q4/2010
Sales to associated companies	31	34	153
Purchases from associated companies	94	63	341
Non-current receivables at end of period	5	2	5
Trade and other receivables at end of period	21	11	17
Trade and other payables at end of period	46	31	38

Basis of preparation

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

Calculation of key indicators

Return on equity, %:

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

Return on capital employed, %:

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

Earnings per share:

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

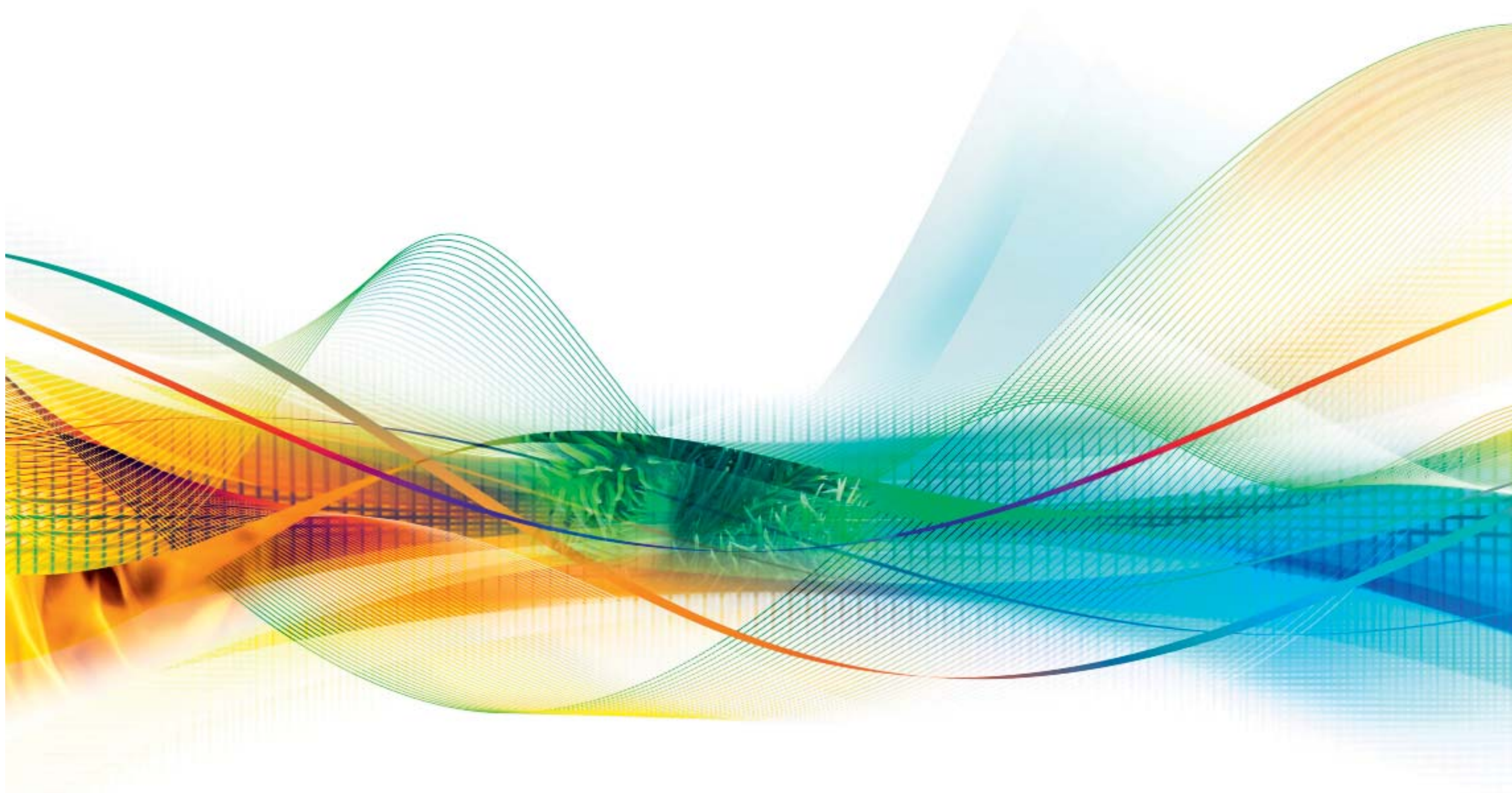
Key exchange rates for the euro at end of period

	31.03.2011	31.12.2010	30.09.2010	30.06.2010	31.03.2010
USD	1.4207	1.3362	1.3648	1.2271	1.3479
CAD	1.3785	1.3322	1.4073	1.2890	1.3687
JPY	117.61	108.65	113.68	108.79	125.93
GBP	0.8837	0.8608	0.8600	0.8175	0.8898
SEK	8.9329	8.9655	9.1421	9.5259	9.7135

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

UPM – The Biofore Company

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



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