The Biofore Company UPM

UPM financial statements release 2012

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Q4/2012

- Earnings per share excluding special items were EUR 0.19 (0.16), and reported EUR -2.84 (0.20)
- EBITDA was EUR 301 million, 11.4% of sales (301 million, 11.2% of sales)
- Impairment charges of EUR 1,779 million were recorded in the Paper business area
- Operating cash flow continued to be strong at EUR 352 million

Q1–Q4/2012

- Earnings per share excluding special items were EUR 0.70 (0.93), and reported EUR -2.39 (0.88)
- EBITDA was EUR 1,269 million, 12.2% of sales (1,383 million, 13.7% of sales)
- Net debt decreased by EUR 582 million to EUR 3,010 million
- Board's proposal for dividend per share EUR 0.60 (0.60)

Key figures

	Q4/2012	Q4/2011	Q1–Q4/2012	Q1–Q4/2011
Sales, EURm	2,650	2,686	10,438	10,068
EBITDA, EURm [1]	301	301	1,269	1,383
% of sales	11.4	11.2	12.2	13.7
Operating profit (loss), EURm	–1,666	131	–1,350	459
excluding special items, EURm	139	147	530	682
% of sales	5.2	5.5	5.1	6.8
Profit (loss) before tax, EURm	–1,697	94	–1,406	417
excluding special items, EURm	116	110	447	572
Net profit (loss) for the period, EURm	–1,491	102	–1,254	457
Earnings per share, EUR	–2.84	0.20	–2.39	0.88
excluding special items, EUR	0.19	0.16	0.70	0.93
Diluted earnings per share, EUR	–2.83	0.19	–2.38	0.87
Return on equity, %	neg.	5.5	neg.	6.3
excluding special items, %	5.4	4.6	5.0	6.7
Return on capital employed, %	neg.	4.1	neg.	4.4
excluding special items, %	4.8	4.6	4.7	5.8
Operating cash flow per share, EUR	0.67	0.59	1.93	1.99
Shareholders' equity per share at end of period, EUR	11.23	14.22	11.23	14.22
Gearing ratio at end of period, %	51	48	51	48
Net interest-bearing liabilities at end of period, EURm	3,010	3,592	3,010	3,592
Capital employed at end of period, EURm	9,838	12,110	9,838	12,110
Capital expenditure, EURm	118	116	352	1,179
Capital expenditure excluding acquisitions and shares, EURm	118	116	342	340
Personnel at end of period	22,068	23,909	22,068	23,909

[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.

The market in 2012

The global economy experienced a diverging development in 2012. The euro area fell into the second recession in four years. Meanwhile the US economy sustained moderate growth. In China, growth in the economy continued, but at a slower pace than before. The global GDP growth decreased to approximately 3% in 2012, compared to 4% in the previous year. Unlike in 2011, emerging markets did not pick up the slack in developed countries.

In Europe austerity measures, the ongoing sovereign debt crisis and fears about the euro area's future kept confidence low, and unemployment increased. In the US uncertainty regarding monetary and fiscal policy as well as the political gridlock relating to possible spending cuts and tax increases hindered further progress to reach sustainable growth. The unemployment rate in the US decreased only marginally.

In China, the economy began decelerating in 2011 as a result of tighter monetary policy, lower investment activity and declining export growth. In 2012, growth in China decreased to its slowest rate in three years. To counter the slowdown China's central bank took measures to boost lending, and the Chinese government approved new infrastructure projects to spur growth in 2012.

In UPM's businesses, market conditions stabilised in the beginning of 2012, after deteriorating during the second half of 2011. Stimulatory policies revived business conditions momentarily during the spring, before fading away as renewed concerns arose.

The Euro weakened against the US dollar during the first half of the year, before strengthening and finishing the year on approximately same level it had started on. Compared to the previous year, the Euro was on average 8% weaker which supported the competitiveness of European exporters.

Having experienced high cost increases for virtually all major raw materials in the previous year, development was fairly stable in 2012. Overall, raw material prices increased slightly during the first half of the year before decreasing gradually towards the end of the year.

In Finland, wood market prices decreased slightly compared to the previous year. In Central Europe, wood market prices were on average somewhat higher than the previous year.

Recovered fibre prices increased slightly during the first half of the year, before easing in the second half. On average prices were lower than in 2011.

The Nordic hydrological balance was well above the long-term average level during 2012 due to rainy weather conditions in the Nordic countries. By year end 2012, the Nordic hydrological situation had returned to close to the long-term average level. The average electricity market price on the Nordic electricity exchange in 2012 decreased, as the high availability of hydropower was also reflected in price developments.

Global chemical pulp shipments increased by 3% from the previous year. The increase in shipments was mainly attributed to China, where shipments grew by 10% from 2011. Shipments to the rest of Asia, Africa, Latin America and Eastern Europe also increased, whereas shipments to mature markets decreased compared with last year.

Global chemical pulp market prices fluctuated during 2012, but on average were lower than in 2011. USD-denominated market prices rose in the first half of the year, eased during the third quarter, then started to increase again towards year end. End-use demand remained fairly robust during the whole year.

The European paper market was negatively impacted by the recession in Europe. In 2012 graphic paper demand declined by 6% compared to the previous year. Graphic paper prices decreased slightly during the course of the year.

In North America, magazine paper demand decreased by 7%. Magazine paper prices were on average slightly lower than in 2011.

Paper demand growth continued in Asia, buoyed by a growing middle class and continued, although lower, economic growth. Fine paper demand increased in Asia by 4% in 2012. Market prices for fine paper increased slightly during the first half of 2012, but decreased in the second half of the year. On average prices were lower than in 2011.

From an end-use perspective, magazine publishers in Europe experienced a slight decrease in readerships and circulations. Advertising pages decreased, mainly due to the weak economy but also due to advertisers allocating spending from print to digital media, following changing consumer time usage. On the other hand, magazine advertising spending increased in emerging markets in 2012.

Year 2012 was also challenging for newspaper publishers. Both printed newspaper titles and circulation decreased in Europe. Expenditure on newspaper advertising in Europe decreased.

Direct mail end-use and demand from the retail sector remained stable in 2012.

Internet advertising spending continued to grow throughout the year and contributed to the slight positive development seen in total advertising expenditure in 2012. The role of printed media as an advertising medium decreased slightly.

Demand growth for label papers slowed globally during 2012, however still remaining healthy in China and other emerging markets.

Global demand growth for self-adhesive labelstock gradually decreased during the year. Demand in mature markets remained broadly stable whereas growth continued, but at a slower rate, in emerging markets. Private consumption driven products - e.g. food, beverage and personal care end-uses, fared better than products used in industrial production and logistics.

Demand for wood-based materials decreased in 2012. The decline was led by construction-related end-use segments, whereas demand remained more stable in industrial applications. Activity in the European construction industry weakened gradually during the year. Sawn timber demand remained stable in North Africa and the Middle East as well as in Asia.

Results

Q4 2012 compared with Q4 2011

Sales for Q4 2012 were EUR 2,650 million, 1% lower than the EUR 2,686 million in Q4 2011. Sales decreased mainly due to a reduction in paper deliveries and prices.

EBITDA was the same as last year, at EUR 301 million, 11.4% of sales (301 million, 11.2% of sales). Costs decreased, but this was offset by lower sales prices and deliveries, particularly in Paper.

Fixed costs decreased by EUR 38 million from the previous year, while variable costs were on the same level as the previous year.

Operating profit excluding special items was EUR 139 million, 5.2% of sales (147 million, 5.5%). Reported operating loss was EUR 1,666 million (profit of EUR 131 million, 4.9% of sales).

Operating loss includes net charges totalling EUR 1,805 million as special items. Impairment charges of EUR 1,771 million were booked in Paper, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations. In addition, special items in Paper include other impairment charges of EUR 8 million and other restructuring charges of EUR 21 million. Restructuring charges of EUR 1 million were recorded in Label, EUR 1 million in Forest and Timber, and EUR 3 million in Other operations.

The increase in the fair value of biological assets net of wood harvested was EUR 32 million (49 million), including gains on sales of forest land.

The share of results of associated companies and joint ventures was EUR 1 million (-2 million).

Loss before tax was EUR 1,697 million (profit of EUR 94 million) and profit excluding special items EUR 116 million (110 million). Interest and other financing costs net were EUR 31 million (29 million). Exchange rate and fair value gains and losses were a loss of EUR 2 million (loss of EUR 13 million).

Income taxes were EUR 206 million positive (8 million positive). Special items in taxes were EUR 222 million positive (33 million positive).

Loss for Q4 2012 was EUR 1,491 million (profit of EUR 102 million) and earnings per share were EUR -2.84 (0.20). Earnings per share excluding special items were EUR 0.19 (0.16).

Q4 2012 compared with Q3 2012
EBITDA was EUR 301 million, 11.4% of sales (305 million, 11.8% of sales).

Delivery volumes increased in all businesses except for Pulp. The positive earnings impact from higher deliveries was, to a large extent, offset by lower prices in Paper. Fixed costs increased mainly for seasonal reasons. Variable costs remained stable.

Operating profit excluding special items was EUR 139 million, 5.2% of sales (122 million, 4.7%).

The increase in the fair value of biological assets net of wood harvested was EUR 32 million (13 million).

The share of results of associated companies and joint ventures, excluding special items, was EUR 1 million (-1 million).

January–December 2012 compared with January–December 2011
Sales in 2012 were EUR 10,438 million, 4% higher than the EUR 10,068 million in 2011. Sales increased mainly due to higher external sales in Pulp and Energy business areas.

EBITDA was EUR 1,269 million, 12.2% of sales (1,383 million, 13.7% of sales).

The main negative earnings drivers related to paper delivery volumes and decreased sales prices in Paper and Pulp business areas.

Fixed costs were EUR 97 million lower than the previous year, on a comparable basis.

Variable costs were slightly lower than the previous year, mainly due to lower fibre and energy costs. Other variable costs were higher than the previous year.

Operating profit excluding special items was EUR 530 million, 5.1% of sales (682 million, 6.8%). Reported operating loss was EUR 1,350 million (profit of EUR 459 million, 4.6% of sales).

Operating loss included net charges totalling EUR 1,880 million (223 million) as special items. In Energy, special items of EUR -6 million relate to an adjustment in UPM's share of the capital gain from the Fingrid sale that was booked in 2011. In Forest and Timber, an impairment charge of EUR 31 million and restructuring charges of EUR 17 million were booked. Impairment charges of EUR 1,771 million were booked in Paper, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations. In addition, special items in Paper include other impairment charges of EUR 8 million, restructuring charges of EUR 80 million and a net gain of EUR 35 million from the sale of the packaging paper operations. In Label, restructuring charges of EUR 3 million were recognised. In Other operations, special items amounted to a net income of EUR 1 million.

The increase in the fair value of biological assets net of wood harvested was EUR 45 million (64 million), including gains on sales of forest land. The share of results of associated companies and joint ventures was EUR -14 million (82 million) and excluding special items EUR -8 million (-4 million).

Profit before tax excluding special items was EUR 447 million (572 million). Reported loss before tax was EUR 1,406 million (profit of EUR 417 million). Loss before tax includes a capital gain of EUR 34 million (68 million) from the sale of Metsä Fibre shares. Interest and other financing costs net were EUR 105 million (80 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 11 million (loss of EUR 33 million).

Income taxes were EUR 152 million positive (40 million positive). Special items in taxes were EUR 230 million positive (125 million positive).

Loss for the year was EUR 1,254 million (profit of EUR 457 million) and earnings per share were EUR -2.39 (0.88). Earnings per share excluding special items were EUR 0.70 (0.93). Operating cash flow per share was EUR 1.93 (1.99).

Financing
In 2012, cash flow from operating activities before capital expenditure and financing totalled EUR 1,014 million (1,041 million). Working capital decreased by EUR 44 million during the period (increase of EUR 73 million). Cash flow included payments of EUR 182 million related to restructurings, mainly in the Paper business area.

The gearing ratio as of 31 December 2012 was 51% (48%). Net interest-bearing liabilities at the end of the period came to EUR 3,010 million (3,592 million).

On 31 December 2012, UPM's cash funds and unused committed credit facilities totalled EUR 1.9 billion.

Personnel
In 2012, UPM had an average of 23,040 employees (23,067). At the beginning of the year the number of employees was 23,909, and at the end of 2012 it was 22,068.

Capital expenditure
During 2012, capital expenditure was EUR 352 million, 3.4% of sales (1,179 million, 11.7% of sales). Capital expenditure excluding acquisitions was EUR 342 million, 3.3% of sales (340 million, 3.4% of sales). Operational capital expenditure totalled EUR 248 million (237 million).

In February 2012, UPM announced that it will invest in a biorefinery, which produces biofuels from crude tall oil in Lappeenranta, Finland. The biorefinery will produce approximately 100,000 tonnes of advanced second generation biodiesel for transport every year. The biodiesel production is expected to begin in 2014. The total investment will amount to approximately EUR 150 million.

In February 2012, UPM announced that it will build a new combined heat and power plant at the UPM Schongau mill in Germany. The target is to significantly reduce energy costs as well as to secure energy supply. The start-up is planned by the end of 2014. Total investment is approximately EUR 85 million.

In March 2012, UPM began the rebuild of the Pietarsaari pulp mill's effluent treatment plant. The project is expected to be completed at the end of 2013. The total investment is approximately EUR 30 million.

In August 2012, UPM announced that it will grow in the Asian paper and label materials market by building a new woodfree speciality paper machine at the Changshu mill in China. The new paper machine will be capable of producing label papers and uncoated woodfree grades. The total investment cost is CNY 3,000 million (EUR 390 million), and the machine is expected to start up by the end of 2014.

In August 2012, UPM acquired the labelstock business operations in Switzerland from the Gascogne Group. The acquisition supports UPM's growth in special labelstock products in Europe. Gascogne's labelstock operations' sales totalled EUR 44 million in 2011.

In December 2012, the European Commission awarded UPM a grant under the NER 300-programme totalling EUR 170 million for a solid wood-based biorefinery (BTL) project in Strasbourg, France. The company will continue to clarify prerequisites of the investment. The final assessment on the investment will be made in 2014.

Divestments

In March 2012, UPM completed the sale of its RFID business to SMARTRAC N.V. UPM became an indirect shareholder of SMARTRAC with a 10.6% economic interest through the company OEP Technologie B.V., a holding company controlled by One Equity Partners and one of the major shareholders of SMARTRAC.

In April 2012, UPM sold its 11% share in Metsä Fibre Oy (formerly Oy Metsä-Botnia Ab) to Metsäliitto Cooperative for EUR 150 million. UPM reported a one-off gain of EUR 34 million from the transaction in Q2 2012.

In June 2012, UPM concluded the sale of its packaging paper operations at the Pietarsaari and Tervasaari mills to the Swedish paper company Billerud. UPM recorded a net gain of EUR 35 million from the disposed operations comprising the capital gain from the transaction of EUR 51 million and a charge of EUR 16 million related to goodwill allocated to the disposed operations. The enterprise value of the transaction was EUR 130 million.

In August 2012, UPM sold the closed Papierfabrik Albbruck GmbH to the German Karl Group. UPM permanently ceased graphic paper production at the mill in January 2012.

In August, UPM sold its 50% share in the export company Rets Timber Oy Ltd to the other owner Stora Enso.

In July 2012, UPM announced that VPK Packaging Group NV and Klingele Papierwerke had made an offer for the acquisition of assets and part of the land at the UPM Stracel paper mill site in Strasbourg, France. VPK and Klingele plan to convert the Stracel mill into a recycled fibre-based containerboard unit, producing fluting and test liner. On 7 January 2013 UPM announced that it had agreed on the social plan in negotiations with employees. The mill ceased production of coated magazine paper on 4 January 2013. In 2012, UPM booked charges of EUR 68 million for the Stracel mill restructuring.

Paper assets impaired to reflect the current profitability in the European paper business

The continuing challenges in the European economy have significantly impacted the consumption of paper, exacerbating the effect of structural changes in paper end-uses and resulting in further decline in the demand of graphic paper in Europe. High costs and significant overcapacity continue to challenge industry operators.

In these circumstances, UPM has not been able to improve the profitability of its European graphic paper business as much as targeted. As UPM management does not expect significant enough improvement in its Paper business profitability in the foreseeable future, the company recorded an impairment charge of EUR 1,771 million in the Paper business area in Q4 2012, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets.

The goodwill impairment charge relates to acquisitions made in 1997- 2001. After the charge, the Paper business area has no goodwill left. The fixed asset impairment charge relates to the mature European graphic paper operations.

Myllykoski acquisition synergies

On 1 August 2011, UPM completed the acquisition of Myllykoski Corporation and Rhein Papier GmbH. On 31 August 2011, UPM announced a plan to adjust its magazine paper production capacity and realise cost synergies from the acquisition.

The annual cost synergies of the Myllykoski acquisition including the restructuring measures are estimated to total approximately EUR 200 million from 2013 onwards. Approximately 60% of the total synergies are expected to come from fixed costs and 40% from variable costs.

The realisation of the synergies has proceeded according to the original plan. During 2012, synergy benefits reduced Paper business's costs by approximately EUR 170 million. Despite the reduction in delivery volumes, fixed costs per tonne in magazine paper production decreased slightly. Variable costs in 2012 were lower than in 2011, partly due to the cost synergies. The full cost synergies of EUR 200 million are expected to be visible in 2013.

At the end of 2012, the measures taken so far had reduced the Paper business area's number of employees by approximately 1,100.

The total permanent capacity removal is 1.2 million tonnes of magazine papers and 110,000 tonnes of newsprint. The Myllykoski paper mill in Finland (annual production capacity 600,000 tonnes of magazine papers) and paper machine 3 at the Ettringen paper mill in Germany (annual production capacity 110,000 tonnes of newsprint) were closed in December 2011. The Albbruck mill in Germany (annual production capacity 320,000 tonnes of magazine papers) was closed in January 2012. The Stracel mill in France (annual production capacity 270,000 tonnes of magazine papers) ceased production on 4 January 2013.

In August 2012, UPM sold the closed Papierfabrik Albbruck GmbH to the German Karl Group.

Restructuring of the sawn timber and further processing operations

In June 2012, UPM decided to restructure its sawn timber and further processing operations in Finland, and to renew its business strategy in the Timber and Living businesses.

In September 2012, UPM sold its Kajaani sawmill to Pölkky Oy.

In December 2012, UPM closed the Aureskoski and Heinola further processing mills, resulting in a personnel reduction of 97 employees.

The restructuring also includes the common sales and management staff functions, reducing staff function jobs by 42.

As part of the clarification of the Timber business strategy, on 10 January 2013, UPM announced starting a search for a buyer for the Pestovo mill production area for restructuring or reorientation of production. Negotiations began with the employees, affecting all of the approximately 180 sawmill employees.

In Q2 2012, UPM booked impairment charges of EUR 31 million and made a EUR 12 million provision for restructuring costs.

Business area reviews

Energy

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	122	119	99	140	112	104	108	128	480	452
EBITDA, EURm [1]	62	54	45	64	66	40	38	60	225	204
% of sales	50.8	45.4	45.5	45.7	58.9	38.5	35.2	46.9	46.9	45.1
Share of results of associated companies and joint ventures, EURm	–1	–2	–14	–1	–5	–	81	1	–18	77
Depreciation, amortisation and impairment charges, EURm	–	–1	–1	–1	–	–1	–1	–1	–3	–3
Operating profit, EURm	61	51	30	62	61	39	118	60	204	278
% of sales	50.0	42.9	30.3	44.3	54.5	37.5	109.3	46.9	42.5	61.5
Special items, EURm [2]	–	–	–6	–	–	–	86	–	–6	86
Operating profit excl. special items, EURm	61	51	36	62	61	39	32	60	210	192
% of sales	50.0	42.9	36.4	44.3	54.5	37.5	29.6	46.9	43.8	42.5
Electricity deliveries, GWh	2,583	2,340	2,158	2,405	2,322	2,057	2,178	2,354	9,486	8,911
Capital employed (average), EURm									939	956
ROCE (excl. special items), %									22.4	20.1

[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 –6 million in Q2 2012 relate to an adjustment in UPM's share of the capital gain reported in Q2 2011. In Q2 2011, special income of EUR 86 million relates to the associated company Pohjolan Voima Oy's sale of Fingrid Oyj shares.

Q4 2012 compared with Q4 2011

Operating profit excluding special items for Energy was EUR 61 million (61 million). Sales increased by 9% to EUR 122 million (112 million). External sales were EUR 64 million (52 million). The volume of electricity sales was 2,583 GWh in the quarter (2,322 GWh).

The average electricity sales price increased by 2% to EUR 46.2/MWh (45.1/MWh).

Q4 2012 compared with Q3 2012

Operating profit excluding special items increased from the previous quarter, mainly due to seasonally higher electricity sales prices and higher hydropower volume. The average electricity sales price increased by 5% to EUR 46.2/MWh (43.9/MWh).

January–December 2012 compared with January–December 2011

Operating profit excluding special items for Energy was EUR 210 million (192 million). Sales increased by 6% to EUR 480 million (452 million). External sales were EUR 250 million (177 million). The volume of electricity sales was 9,486 GWh (8,911 GWh).

Operating profit excluding special items improved compared with the previous year, mainly due to higher hydropower volume. The average electricity sales price decreased by 2% to EUR 45.2/MWh (46.2/MWh).

Market review

The average Finnish area spot price on the Nordic electricity exchange in 2012 was EUR 36.6/MWh, 26% lower than during the previous year (49.3/MWh), impacted by the exceptionally high water reservoirs and hydropower volumes in the Nordic countries. Coal prices were lower than the previous year. The CO_2 emission allowance price was EUR 6.7/tonne at the end of the period, 7% lower than on the same date the previous year (7.2/tonne).

The front year forward price in the Nordic electricity exchange was EUR 37.6/MWh at the end of the period, 9% lower than on the same date the previous year (41.5/MWh).

Pulp

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	381	403	410	430	349	396	446	457	1,624	1,648
EBITDA, EURm [1]	86	103	128	110	60	122	177	195	427	554
% of sales	22.6	25.6	31.2	25.6	17.2	30.8	39.7	42.7	26.3	33.6
Change in fair value of biological assets and wood harvested, EURm	9	3	3	–	7	–1	–	1	15	7
Share of results of associated companies and joint ventures, EURm	1	–	–	–	1	–	–	–	1	1
Depreciation, amortisation and impairment charges, EURm	–38	–36	–37	–36	–32	–37	–34	–36	–147	–139
Operating profit, EURm	58	70	94	74	36	84	143	160	296	423
% of sales	15.2	17.4	22.9	17.2	10.3	21.2	32.1	35.0	18.2	25.7
Special items, EURm	–	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, EURm	58	70	94	74	36	84	143	160	296	423
% of sales	15.2	17.4	22.9	17.2	10.3	21.2	32.1	35.0	18.2	25.7
Pulp deliveries, 1,000 t	730	759	755	884	720	722	770	780	3,128	2,992
Capital employed (average), EURm									2,566	2,396
ROCE (excl. special items), %									11.5	17.7

[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.

Q4 2012 compared with Q4 2011

Operating profit excluding special items for Pulp increased to EUR 58 million (36 million). Sales increased by 9% to EUR 381 million (349 million). Deliveries increased by 1% to 730,000 tonnes (720,000).

Operating profit excluding special items increased compared with the same period the previous year, mainly due to favourable EUR/USD exchange rate development.

Q4 2012 compared with Q3 2012

Operating profit excluding special items decreased, mainly due to scheduled maintenance shutdowns and lower deliveries.

January–December 2012 compared with January–December 2011

Operating profit excluding special items for Pulp decreased to EUR 296 million (423 million). Sales decreased by 1% to EUR 1,624 million (1,648 million). Deliveries grew by 5% to 3,128,000 tonnes (2,992,000).

Operating profit excluding special items decreased from the previous year, mainly due to lower pulp sales prices.

Market review

In 2012, the average softwood pulp (NBSK) market price was EUR 634/tonne, 8% lower than during 2011 (EUR 689/tonne). At the end of the year, the NBSK market price was EUR 613/tonne. The average hardwood pulp (BHKP) market price was EUR 585/tonne, 1% higher than in 2011 (EUR 581/tonne). At the end of the year, the BHKP market price was EUR 587/tonne.

Global chemical pulp shipments increased by 3% from the previous year. The increase in shipments was mainly attributed to China, where shipments grew 10% from 2011. Shipments to the rest of Asia, Africa, Latin America and Eastern Europe increased as well, whereas shipments to mature markets decreased in comparison with the previous year.

Forest and Timber

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	428	364	473	426	414	403	440	394	1,691	1,651
EBITDA, EURm [1]	–5	3	7	8	–8	4	11	5	13	12
% of sales	–1.2	0.8	1.5	1.9	–1.9	1.0	2.5	1.3	0.8	0.7
Change in fair value of biological assets and wood harvested, EURm	23	10	–2	–1	42	2	11	2	30	57
Share of results of associated companies and joint ventures, EURm	–	–	1	–	1	–	1	–	1	2
Depreciation, amortisation and impairment charges, EURm	–3	–6	–35	–5	–6	–5	–5	–5	–49	–21
Operating profit, EURm	15	3	–41	2	28	2	20	2	–21	52
% of sales	3.5	0.8	–8.7	0.5	6.8	0.5	4.5	0.5	–1.2	3.1
Special items, EURm [2]	–1	–4	–43	–	–1	1	2	–	–48	2
Operating profit excl. special items, EURm	16	7	2	2	29	1	18	2	27	50
% of sales	3.7	1.9	0.4	0.5	7.0	0.2	4.1	0.5	1.6	3.0
Sawn timber deliveries, 1,000 m^3	426	382	462	426	412	422	495	354	1,696	1,683
Capital employed (average), EURm									1,772	1,812
ROCE (excl. special items), %									1.5	2.8

[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 Q4 2012, special items of EUR 1 million relate to restructuring charges. In Q3 2012, special items include restructuring charges of EUR 4 million. In Q2 2012, special items of EUR 43 million comprise charges of EUR 41 million relating to the restructuring of sawn timber and further processing operations including an impairment charge of EUR 31 million and other charges of EUR 10 million, and restructuring charges of EUR 2 million in Wood sourcing and forestry operations. In Q4 2011, special items include a capital gain adjustment of EUR 1 million. In Q3 2011, special items include income of EUR 1 million related mainly to capital gains. Special items in Q2 2011 include an income of EUR 1 million from a change in UK pension schemes and income of EUR 1 million of reversed restructuring provisions.

Q4 2012 compared with Q4 2011

Operating profit excluding special items was EUR 16 million (29 million). Sales increased by 3% to EUR 428 million (414 million).

Fixed costs decreased in sawn timber.

The increase in the fair value of biological assets net of wood harvested was EUR 23 million (increase of EUR 42 million). The increase in the fair value of biological assets (growing trees) was EUR 38 million (56 million), including gains on sales of forest land. The cost of wood harvested from own forests was EUR 15 million (14 million).

Q4 2012 compared with Q3 2012

Deliveries increased in sawn timber.

The increase in the fair value of biological assets net of wood harvested was EUR 23 million (increase of EUR 10 million). The increase in the fair value of biological assets (growing trees) was EUR 38 million (26 million) including gains on sales of forest land. The cost of wood harvested from own forests was EUR 15 million (16 million).

January–December 2012 compared with January–December 2011

Operating profit excluding special items for Forest and Timber was EUR 27 million (50 million). Sales increased by 2% to EUR 1,691 million (1,651 million).

In sawn timber, fixed costs decreased significantly. Sawn timber prices decreased.

The increase in the fair value of biological assets net of wood harvested was EUR 30 million (increase of EUR 57 million). The increase in the fair value of biological assets (growing trees) was EUR 101 million (129 million), including gains on sales of forest land. The cost of wood harvested from own forests was EUR 71 million (72 million).

In August, UPM sold its 50% share in the export company Rets Timber Oy Ltd to the other owner, Stora Enso.

In September 2012, Kajaani sawmill was sold to Pölkky Oy.

In December, UPM ceased glue lam production in Heinola and further processing in Aureskoski.

In July 2012, UPM sold the UPM Tilhill Landscape and Arboricultural businesses in the United Kingdom to Ground Control.

In 2012, UPM sold 31,000 hectares of forest land. Among the biggest deals were the sales of 7,200 hectares to the German fund Latifundium in July and 6,000 hectares to the Finnish wealth management company Taaleritehdas in December.

Market review

In Finland, total wood purchases in the Finnish private wood market were 28.2 million cubic metres, 11% higher than in 2011 (25.3 million) but 10% lower than the long-term average. Market activity was higher in the first half of 2012 and slowed during the second half of the year.

Finnish wood market prices decreased slightly compared to the previous year. Log market prices remained high in comparison with the long-term average prices, whereas pulpwood prices were in line with long-term average levels.

In Central Europe, wood market prices developed somewhat unevenly, but on average prices were slightly higher.

In Western Europe, the demand for sawn timber decreased gradually during 2012 due to the slowing economy and weakening building activity in particular. Demand remained stable in North Africa and the Middle East, as well as in Asia.

The average price of sawn timber decreased in 2012.

Paper

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	1,815	1,776	1,797	1,762	1,976	1,895	1,666	1,647	7,150	7,184
EBITDA, EURm [1]	124	129	136	153	150	139	126	102	542	517
% of sales	6.8	7.3	7.6	8.7	7.6	7.3	7.6	6.2	7.6	7.2
Share of results of associated companies and joint ventures, EURm	3	–	–	–	1	1	–	–	3	2
Depreciation, amortisation and impairment charges, EURm	–1,916	–136	–134	–136	–147	–205	–126	–125	–2,322	–603
Operating profit, EURm	–1,810	–50	23	15	–8	–286	2	–23	–1,822	–315
% of sales	–99.7	–2.8	1.3	0.9	–0.4	–15.1	0.1	–1.4	–25.5	–4.4
Special items, EURm [2]	–1,800	–43	21	–2	–12	–289	2	–	–1,824	–299
Operating profit excl. special items, EURm	–10	–7	2	17	4	3	0	–23	2	–16
% of sales	–0.6	–0.4	0.1	1.0	0.2	0.2	0.0	–1.4	0.0	–0.2
Deliveries, publication papers, 1,000 t	1,948	1,828	1,759	1,695	2,080	1,942	1,563	1,486	7,230	7,071
Deliveries, fine and speciality papers, 1,000 t	842	840	910	889	829	855	909	951	3,481	3,544
Paper deliveries total, 1,000 t	2,790	2,668	2,669	2,584	2,909	2,797	2,472	2,437	10,711	10,615
Capital employed (average), EURm									5,470	5,437
ROCE (excl. special items), %									0.0	–0.3

[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 Q4 2012, special items include impairment charges of EUR 1,771 million, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations. In addition Q4 2012 special items include other restructuring charges of EUR 29 million of which impairment charges EUR 8 million. In Q3 2012, special items include restructuring charges of EUR 41 million related into planned Stracel mill closure and EUR 2 million related to other restructuring measures. In Q2 2012, special items comprise of a net gain of EUR 35 million including a capital gain of EUR 51 million from the sale the packaging paper operations of the Pietarsaari and Tervasaari mills and a charge of EUR 16 million from goodwill allocated to the operations sold, and of other restructuring charges of EUR 14 million related to mill closures. Special items in Q1 2012 include restructuring charges of EUR 2 million. In Q4 2011, special items include restructuring charges of EUR 12 million. In Q3 2011, special items comprise of a one-off gain of EUR 28 million and transaction and other costs of EUR 27 million related to the acquisition of Myllykoski Corporation and Rhein Papier GmbH. In addition, restructuring charges of EUR 290 million were recorded relating to the planned closures of the Myllykoski and Albbruck mills and other restructuring measures, including write-offs of EUR 68 million from non-current assets. Special items in Q2 2011 include transaction costs of EUR 2 million related to Myllykoski acquisition, an income of EUR 5 million from a change in UK pension schemes and EUR 1 million of restructuring charges.

Q4 2012 compared with Q4 2011

Excluding special items, the operating loss was EUR 10 million (profit of EUR 4 million). Sales were EUR 1,815 million (1,976 million). Paper deliveries decreased by 4% to 2,790,000 tonnes (2,909,000). Deliveries of publication papers (magazine papers and newsprint) decreased by 6%, and fine and speciality paper deliveries increased by 2%.

Operating profit excluding special items decreased slightly from the previous year due to lower prices and deliveries. Fixed and variable costs were lower. The packaging paper operations of the Tervasaari and Pietarsaari mills were sold in June 2012.

The average price for paper deliveries in euros was approximately 4% lower than the previous year.

Q4 2012 compared with Q3 2012

Operating profit excluding special items decreased slightly. Lower average prices and unfavourable exchange rate development offset the impact of lower variable costs. The average paper price decreased by 3%, mainly due to unfavourable currency development.

January–December 2012 compared with January–December 2011

Operating profit excluding special items was EUR 2 million (loss of EUR 16 million). Sales were EUR 7,150 million (7,184 million). Paper deliveries increased by 1% to 10,711,000 tonnes (10,615,000).

Deliveries of publication papers (magazine papers and newsprint) increased by 2%, mainly due to the acquisition of Myllykoski. Deliveries of fine and speciality papers decreased by 2%. Proforma paper deliveries decreased by 10%.

Operating profit excluding special items improved by EUR 18 million from the previous year. On a comparable basis, fibre costs and fixed costs decreased. This was largely offset by lower delivery volumes.

The average price for all paper deliveries in euros decreased by 1% from the previous year.

In January 2012, UPM ceased production at the Albbruck paper mill in Germany.

In June 2012, UPM sold the packaging paper operations of the Tervasaari and Pietarsaari mills.

In July 2012, UPM announced that VPK Packaging Group NV and Klingele Papierwerke had made an offer for the acquisition of assets and part of the land at the UPM Stracel paper mill site in Strasbourg, France. On 7 January 2013 UPM announced that it had agreed on the social plan in negotiations with employees. The mill ceased production of coated magazine paper on 4 January 2013.

Market review

In 2012, demand for publication papers in Europe was 8% lower, and for fine papers 4% lower, than in 2011. In North America, demand for magazine papers decreased by 7% from the previous year. In Asia, demand for fine papers grew.

In Europe, publication paper prices decreased by 1% compared to 2011, and decreased in the fourth quarter of 2012 by 1% compared to the third quarter of 2012.

Fine paper prices decreased in 2012 by 3%, and decreased in the fourth quarter of 2012 by 1% compared to the third quarter of 2012.

In North America, the average US dollar price for magazine papers decreased in 2012 by 2% from the previous year and increased in the fourth quarter of 2012 by 2% compared to the third quarter of 2012. In Asia, market prices for fine papers decreased 7% compared to 2011, and remained stable in the fourth quarter compared to the third quarter of 2012.

Label

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	301	305	298	298	287	292	293	278	1,202	1,150
EBITDA, EURm [1]	23	30	31	31	24	23	27	27	115	101
% of sales	7.6	9.8	10.4	10.4	8.4	7.9	9.2	9.7	9.6	8.8
Depreciation, amortisation and impairment charges, EURm	–9	–8	–9	–8	–9	–8	–8	–8	–34	–33
Operating profit, EURm	13	20	22	23	14	14	21	19	78	68
% of sales	4.3	6.6	7.4	7.7	4.9	4.8	7.2	6.8	6.5	5.9
Special items, EURm [2]	–1	–2	–	–	–1	–1	2	–	–3	–
Operating profit excl. special items, EURm	14	22	22	23	15	15	19	19	81	68
% of sales	4.7	7.2	7.4	7.7	5.2	5.1	6.5	6.8	6.7	5.9
Capital employed (average), EURm									524	486
ROCE (excl. special items), %									15.5	14.0

[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 Q4 2012, special items of EUR 1 million relate to restructuring charges. In Q3 2012, special items include restructuring charges of EUR 2 million. Special items in Q4 2011 include charges of EUR 1 million related to restructuring of European operations. Special items in Q3 2011 include charges of EUR 1 million related to restructuring of European operations. Special items Q2 2011 include an income of EUR 2 million from a change in UK pension schemes.

Q4 2012 compared with Q4 2011

Operating profit excluding special items for Label was EUR 14 million (15 million). Sales increased by 5% to EUR 301 million (287 million).

Operating profit decreased slightly due to higher fixed costs, mainly due to expanded operations. Sales volumes and unit value added increased.

Q4 2012 compared with Q3 2012

Raw material costs increased, affecting unit value added. Fixed costs increased, mainly due to expanded operations. This impact was largely offset by higher volumes.

January–December 2012 compared with January–December 2011

Operating profit excluding special items for Label was EUR 81 million (68 million). Sales increased by 5% to EUR 1,202 million (1,150 million).

Operating profit increased from the previous year, mainly due to lower raw material costs and an improved product mix. Fixed costs increased due to expanded operations.

At the end of August 2012, UPM Raflatac completed the acquisition of the labelstock business operations of Gascogne Laminates Switzerland.

Market review

Growth in the global demand for self-adhesive labelstock gradually decreased over the year. Demand in Western Europe is estimated to have decreased slightly, whereas in North America demand is estimated to have experienced a small growth. In Asia, demand was soft around the summer period but growth strengthened towards the end of the year. In Latin America, the year started out with robust growth but a clear slow-down was experienced around the middle of the year. Over the whole year, growth in global demand was moderate.

Plywood

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	97	93	101	96	88	87	107	94	387	376
EBITDA, EURm [1]	8	2	10	4	6	0	8	4	24	18
% of sales	8.2	2.2	9.9	4.2	6.8	0.0	7.5	4.3	6.2	4.8
Depreciation, amortisation and impairment charges, EURm	–6	–5	–5	–5	–5	–4	–4	–5	–21	–18
Operating profit, EURm	2	–3	5	–1	1	–8	1	–1	3	–7
% of sales	2.1	–3.2	5.0	–1.0	1.1	–9.2	0.9	–1.1	0.8	–1.9
Special items, EURm [2]	–	–	–	–	–	–4	–3	–	–	–7
Operating profit excl. special items, EURm	2	–3	5	–1	1	–4	4	–1	3	0
% of sales	2.1	–3.2	5.0	–1.0	1.1	–4.6	3.7	–1.1	0.8	0.0
Deliveries, plywood, 1,000 m^3	169	165	175	170	148	155	191	162	679	656
Capital employed (average), EURm									267	253
ROCE (excl. special items), %									1.1	0.2

[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 Q3 2011, special items include charges of EUR 4 million related to restructuring of operations in Finland. Special items of EUR 3 million in Q2 2011 relate to a net loss from asset sales.

Q4 2012 compared with Q4 2011

Excluding special items, the operating profit for Plywood was EUR 2 million (1 million). Sales increased by 10% to EUR 97 million (88 million) and deliveries by 14% to 169,000 cubic metres (148,000).

Operating profit excluding special items increased slightly due to higher delivery volumes.

Q4 2012 compared with Q3 2012

Operating profit increased due to higher delivery volumes and lower maintenance costs.

January–December 2012 compared with January–December 2011

Operating profit excluding special items for Plywood was EUR 3 million (0 million). Sales increased by 3% to EUR 387 million (376 million).

Operating profit excluding special items increased due to higher delivery volumes and lower fixed costs. Variable costs increased.

The extension and modernisation work at the Savonlinna mill was completed during the second quarter.

Market review

In 2012, plywood demand is estimated to have declined in Europe compared to the same period of 2011. As in the previous year, demand in industrial applications was slightly stronger, whereas the market decline was led by construction-related end-use segments. Due to challenging market conditions, price competition intensified in Europe.

Other operations

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales, EURm	61	63	77	54	52	58	43	35	255	188
EBITDA, EURm [1]	3	–16	–41	–23	3	3	–15	–14	–77	–23
Share of results of associated companies and joint ventures, EURm	–2	1	–	–	–	–	2	–2	–1	–
Depreciation, amortisation and impairment charges, EURm	–4	–2	–2	–3	–2	–4	–2	–3	–11	–11
Operating profit, EURm	–5	–22	–41	–20	–1	–4	–16	–19	–88	–40
Special items, EURm [2]	–3	–4	2	6	–2	–2	–1	–	1	–5
Operating profit excl. special items, EURm	–2	–18	–43	–26	1	–2	–15	–19	–89	–35
Capital employed (average), EURm									195	287
ROCE (excl. special items), %									neg.	neg.

[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 Q4 2012, special items of EUR 3 million relate to restructuring charges. In Q3 2012, special items include restructuring charges of EUR 4 million. In Q2 2012, special items include restructuring charges of EUR 11 million, reimbursement of fine of EUR 6 million, and a sales price adjustment of EUR 7 million from the sale of RFID business. In Q1 2012, special items include a capital gain of EUR 5 million from the sale of RFID business and an income of EUR 1 million from restructuring measures. In Q4 2011, special items include restructuring charges of EUR 2 million. In Q3 2011, special items include restructuring charges of EUR 2 million.

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

Q4 2012 compared with Q4 2011

Excluding special items, the operating loss for Other operations was EUR 2 million (profit of EUR 1 million). Sales amounted to EUR 61 million (52 million).

The period included net currency gains of EUR 11 million (10 million).

Q4 2012 compared with Q3 2012

Excluding special items, the operating loss for Other operations was EUR 2 million (18 million). Sales amounted to EUR 61 million (63 million).

January–December 2012 compared with January–December 2011

Excluding special items, the operating loss for Other operations was EUR 89 million (35 million). Sales amounted to EUR 255 million (188 million).

UPM's sale of RFID business to SMARTRAC N.V. was completed on 31 March 2012.

Outlook for 2013

Economic growth in Europe is expected to remain very low in the early part of 2013. This will have a negative impact on the European graphic paper markets in particular. The hydrological situation in the Nordic countries is normalising and the forward electricity prices for 2013 are slightly higher than the realised market prices in 2012. Growth market economies are expected to fare better, which is supportive for the global pulp and label materials markets as well as paper markets in Asia and wood products markets outside Europe.

In H1 2013, UPM's performance will be underpinned by continued stable overall outlook for growth businesses such as energy, pulp and label, as compared to H2 2012. However, slightly lower publication paper prices, adverse currency development and lower delivery volumes are expected to have a clear negative impact on the European paper business profitability, as compared with H2 2012. UPM's cost level is expected to be stable.

Shares

In 2012, UPM shares worth EUR 5,534 million (8,835 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent approximately 60% of all trading volume in UPM shares. The highest quotation was EUR 10.98 in February and the lowest was EUR 7.82 in June.

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

The Annual General Meeting, held on 30 March 2012, 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, 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) 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 rights. This authorisation is valid until 22 March 2013.

As part of the Myllykoski transaction UPM issued five million new shares in a directed share issue in August 2011.

UPM has two option series that would entitle the holders to subscribe for a total of 10,000,000 shares. Share options 2007B and 2007C may both 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 December 2012 was 526,124,410, including subscriptions of 1,151,572 shares during 2012 through exercising 2007B share options. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 554,970,388.

At the end of 2012, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of the company's shares and voting rights. Of these shares, 19,256 shares have been returned to the company in accordance with the Group's share reward scheme due to the termination of employment contracts.

The listing of 2007C share options on the NASDAQ OMX Helsinki stock exchange commenced on 1 October 2012.

The share subscription period for share options 2007A ended on 31 October 2012. During the entire share subscription period 300 shares were subscribed for through exercising 2007A share options.

Company directors

At the Annual General Meeting held on 30 March 2012, the following eight 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 and Björn Wahlroos. As Robert J. Routs had informed the company that he would not be available for a new term, Kim Wahl was elected as a new Board member.

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

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

In addition, the Board of Directors elected from among its members Karl Grotenfelt as Chairman of the Audit Committee, and Wendy E. Lane and Kim Wahl as members of the Committee. Berndt

Brunow was elected as Chairman of the Human Resources Committee, and Ursula Ranin and Veli-Matti Reinikkala were elected as members. Furthermore, Björn Wahlroos was elected as Chairman of the Nomination and Corporate Governance Committee, and Matti Alahuhta and Karl Grotenfelt were elected as members.

Litigation

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. In addition to the state-owned forest administrator Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amounts of all of the claims amount to EUR 237 million in the aggregate jointly and severally against UPM and two other companies, or alternatively and individually against UPM in the aggregate EUR 55 million. In addition to the claims on capital amounts, the claimants are also claiming for compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

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

In November 2012, UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along rights under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of the shares in Metsä Fibre to Itochu Corporation. UPM claims jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million in damages. Metsäliitto and Metsä Board sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto exercised a call option to purchase UPM's remaining 11% ownership in Metsä Fibre for EUR 150 million. No receivables have been recorded by UPM on the basis of claims presented in the arbitration proceedings.

In Finland, UPM is participating in the project to construct a new nuclear power plant, Olkiluoto 3, through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj ("TVO"), holding 58.47% of the shares. UPM's indirect share of the capacity of Olkiluoto 3 is approximately 30%. The agreed start-up of the power plant was originally scheduled for summer 2009 but the construction of the unit has been delayed.

Based on the information submitted by AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit under a fixed-price turnkey contract, TVO estimates that the nuclear power plant unit will not be ready for regular electricity production in 2014. The Supplier is responsible for the schedule.

The Supplier initiated arbitration proceedings before an International Chamber of Commerce (ICC) arbitration tribunal in relation to the delay at Olkiluoto 3 and related costs in December 2008, and in June 2011, the Supplier submitted its updated claim, which includes updated claimed amounts with specified sums of indirect items and interest. The said updated monetary claim amounts to approximately EUR 1.9 billion.

TVO has considered and found the Supplier's claim to be without merit. In response, TVO filed a counterclaim in April 2009 for costs and losses that TVO is incurring due to the delay and other defaults on the part of the Supplier. The value of TVO's counterclaim was approximately EUR 1.4 billion. In 2012 TVO has submitted its updated claim and defense in the arbitration proceedings. The updated quantification estimate of TVO's costs and losses is approximately EUR 1.8 billion. The arbitration proceedings may continue for several years, and the claimed and counterclaimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

During the second quarter of 2012, the arbitration tribunal made a decision regarding an interpretation dispute in treating the plant delivery installments already paid. In accordance with the decision, parts of a few installments, totaling approximately EUR 100 million, previously transferred to a blocked account by TVO under the plant contract have been released to the Supplier, and TVO has paid interest the net amount of which is approximately EUR 23 million. The decision did not take position on the delay of the plant unit and the costs resulting from the delay.

Risks and near term uncertainties

The main near term uncertainties in UPM's earnings relate to sales prices and delivery volumes of the Group's products, as well as to changes in the main input cost items and exchange rates. Most of these items are dependent on general economic developments.

Currently, the main near term uncertainties relate to the development of the European economy. The EU is the most significant market for UPM's businesses, particularly for paper products. There are also uncertainties related to the Chinese economy, which may have a significant influence on global economy overall and on many of UPM's products in particular.

Given the weak and uncertain economic outlook in Europe, combined with changing consumer behaviour, there is a risk that profitability in the European graphic paper industry will not recover in the near term.

The main earnings sensitivities and the Group's cost structure are presented in the Annual Report of 2011, on page 12. Risks and risk management are presented in the Annual Report of 2011, pages 103–105.

Events after the balance sheet date

On 17 January 2013, UPM announced that it has adopted the new IFRS standards IFRS 10 (Consolidated Financial Statements) and IFRS 11 (Joint Arrangements) from Q1 2013 onwards.

In the Energy business area, Pohjolan Voima Oy (PVO) hydropower (A) and nuclear power (B, B2) shares, as well as Kemijoki Oy and Länsi-Suomen Voima Oy (LSV) shares, will be recognised as financial assets (available-for-sale investments) at fair value from Q1 2013 onwards. In other business areas, PVO's combined heat and power plants (G shares) and some other investments will be consolidated under IFRS 10 and 11. Previously, all PVO shares have been accounted for as an associated company, using the equity method. Kemijoki has been accounted for as an available-for-sale investment at cost. LSV has been accounted for as a subsidiary.

The adoption of the new IFRS 10 and IFRS 11 standards is estimated to increase UPM's equity by approximately EUR 1,870 million. The reclassification increases the Energy business area's capital employed by approximately EUR 1,950 million to approximately EUR 2,850 million.

From Q1 2013 onwards, comparison financial figures for 2012 will be revised according to the new standards.

On 17 January 2013 UPM announced that it is planning to permanently reduce paper capacity in Europe by a further 580,000 tonnes. The business environment also makes evident the need for streamlining of the Paper Business Group and UPM's global functions to remain cost-competitive in the new business scale.

UPM plans a permanent closure of paper machine 3 at UPM Rauma mill in Finland, a permanent closure of paper machine 4 at UPM Ettringen in Germany, a sale or other exit of UPM Docelles mill in France, and subject to further analysis, streamlining in the Paper Business and UPM's global functions.

If all plans were implemented, UPM's personnel would be reduced by approximately 860 persons. The plans would affect several countries.

According to the plan, the Rauma and Ettringen machine lines would be permanently closed by the end of the first half of 2013. Both machines produce uncoated magazine paper, in total 420,000 tonnes annually.

The employee information and consultation processes will start in line with the local legislation. In the case of Ettringen and Rauma the process will start immediately.

The process for selling the UPM Docelles mill will start immediately. The process will be given a maximum of six months. Docelles produces uncoated woodfree papers, 160,000 tonnes annually.

As for the streamlining of the Paper Business Group and global functions, the process will start following further analysis as of the beginning of February 2013.

Including UPM Stracel, the plans are estimated to result in annual fixed cost savings of EUR 90 million, and one-off cash costs of EUR 100 million.

On 7 January 2013, UPM announced it had finalised the employee information and consultation process and had ceased coated magazine paper production at the UPM Stracel mill. On 24 January 2013, UPM announced that it has signed an agreement on the sale of assets and part of the land of the UPM Stracel paper mill site with Blue Paper SAS, the joint venture company of VPK Packaging Group NV and Klingele Papierwerke. The transaction is expected to be closed during March 2013 once all legal and administrative conditions will be fulfilled. The impact of the sale on 2013 result is estimated to be insignificant.

Dividend

The Board of Directors will propose to the Annual General Meeting, to be held on 4 April 2013, that a dividend of EUR 0.60 per share be paid in respect of the 2012 financial year (EUR 0.60). It is proposed that the dividend be paid on 19 April 2013.

Financial information in 2013

In 2013, UPM will publish the following financial reports:

Interim Report January–March 2013: 25 April 2013

Interim Report January–June 2013: 6 August 2013

Interim Report January–September 2013: 24 October 2013

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Helsinki, 31 January 2013

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q4/2012	Q4/2011	Q1–Q4/2012	Q1–Q4/2011
Sales	2,650	2,686	10,438	10,068
Other operating income	37	24	108	86
Costs and expenses	–2,410	–2,425	–9,340	–9,013
Change in fair value of biological assets and wood harvested	32	49	45	64
Share of results of associated companies and joint ventures	1	–2	–14	82
Depreciation, amortisation and impairment charges	–1,976	–201	–2,587	–828
Operating profit (loss)	–1,666	131	–1,350	459
Gains on available-for-sale investments, net	2	5	38	71
Exchange rate and fair value gains and losses	–2	–13	11	–33
Interest and other finance costs, net	–31	–29	–105	–80
Profit (loss) before tax	–1,697	94	–1,406	417
Income taxes	206	8	152	40
Profit (loss) for the period	–1,491	102	–1,254	457
Attributable to:				
Owners of the parent company	–1,491	102	–1,254	457
Non-controlling interests	–	–	–	–
	–1,491	102	–1,254	457
Earnings per share for profit (loss) attributable to owners of the parent company				
Basic earnings per share, EUR	–2.84	0.20	–2.39	0.88
Diluted earnings per share, EUR	–2.83	0.19	–2.38	0.87

Consolidated statement of comprehensive income

EURm	Q4/2012	Q4/2011	Q1–Q4/2012	Q1–Q4/2011
Profit (loss) for the period	–1,491	102	–1,254	457
Other comprehensive income for the period, net of tax:				
Translation differences	–93	183	–14	112
Net investment hedge	26	–38	4	–6
Cash flow hedges	28	–15	46	22
Available-for-sale investments	1	–5	–37	2
Share of other comprehensive income of associated companies	–1	2	–	–
Other comprehensive income for the period, net of tax	–39	127	–1	130
Total comprehensive income for the period	–1,530	229	–1,255	587
Total comprehensive income attributable to:				
Owners of the parent company	–1,530	229	–1,255	587
Non-controlling interests	–	–	–	–
	–1,530	229	1,255	587

Consolidated balance sheet

EURm	31.12.2012	31.12.2011
ASSETS		
Non-current assets		
Goodwill	222	1,022
Other intangible assets	357	458
Property, plant and equipment	4,846	6,242
Investment property	39	39
Biological assets	1,476	1,513
Investments in associated companies and joint ventures	589	717
Available-for-sale investments	147	260
Non-current financial assets	431	415
Deferred tax assets	686	508
Other non-current assets	250	238
	9,043	11,412
Current assets		
Inventories	1,377	1,429
Trade and other receivables	1,984	2,003
Income tax receivables	21	26
Cash and cash equivalents	468	495
	3,850	3,953
Assets classified as held for sale	–	24
Total assets	12,893	15,389
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent company		
Share capital	890	890
Treasury shares	–2	–2
Translation differences	151	161
Fair value and other reserves	139	129
Reserve for invested non-restricted equity	1,207	1,199
Retained earnings	3,520	5,084
	5,905	7,461
Non-controlling interests	16	16
Total equity	5,921	7,477
Non-current liabilities		
Deferred tax liabilities	597	675
Retirement benefit obligations	476	490
Provisions	205	326
Interest-bearing liabilities	3,521	3,750
Other liabilities	144	79
	4,943	5,320
Current liabilities		
Current interest-bearing liabilities	396	883
Trade and other payables	1,564	1,667
Income tax payables	69	38
	2,029	2,588
Liabilities related to assets classified as held for sale	–	4
Total liabilities	6,972	7,912
Total equity and liabilities	12,893	15,389

Consolidated statement of changes in equity

	Attributable to owners of the parent company								
EURm	Share capital	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-control-ling interests	Total equity
Balance at 1 January 2011	890	–	55	90	1,145	4,913	7,093	16	7,109
Profit (loss) for the period	–	–	–	–	–	457	457	–	457
Translation differences	–	–	112	–	–	–	112	–	112
Net investment hedge, net of tax	–	–	–6	–	–	–	–6	–	–6
Cash flow hedges, net of tax	–	–	–	22	–	–	22	–	22
Available-for-sale investments	–	–	–	2	–	–	2	–	2
Total comprehensive income for the period	–	–	106	24	–	457	587	–	587
Share issue	–	–2	–	–	54	–	52	–	52
Share-based compensation, net of tax	–	–	–	16	–	–3	13	–	13
Dividend distribution	–	–	–	–	–	–286	–286	–	–286
Other items	–	–	–	–1	–	3	2	–	2
Total transactions with owners for the period	–	–2	–	15	54	–286	–219	–	–219
Balance at 31 December 2011	890	–2	161	129	1,199	5,084	7,461	16	7,477
Balance at 1 January 2012	890	–2	161	129	1,199	5,084	7,461	16	7,477
Profit (loss) for the period	–	–	–	–	–	–1,254	–1,254	–	–1,254
Translation differences	–	–	–14	–	–	–	–14	–	–14
Net investment hedge, net of tax	–	–	4	–	–	–	4	–	4
Cash flow hedges, net of tax	–	–	–	46	–	–	46	–	46
Available-for-sale investments	–	–	–	–37	–	–	–37	–	–37
Total comprehensive income for the period	–	–	–10	9	–	–1,254	–1,255	–	–1,255
Share options exercised	–	–	–	–	8	–	8	–	8
Share-based compensation, net of tax	–	–	–	1	–	5	6	–	6
Dividend distribution	–	–	–	–	–	–315	–315	–	–315
Total transactions with owners for the period	–	–	–	1	8	–310	–301	–	–301
Balance at 31 December 2012	890	–2	151	139	1,207	3,520	5,905	16	5,921

Consolidated cash flow statement

EURm	2012	2011
Cash flow from operating activities		
Profit (loss) for the period	–1,254	457
Adjustments	2,371	792
Interest received	7	7
Interest paid	–80	–72
Dividends received	15	37
Other financial items, net	–16	–13
Income taxes paid	–73	–94
Change in working capital	44	–73
Net cash generated from operating activities	1,014	1,041
Cash flow from investing activities		
Capital expenditure	–374	–286
Acquisition of businesses and subsidiaries, net of cash acquired	–10	–17
Acquisition of shares in associated companies	–	–1
Proceeds from sale of tangible and intangible assets	100	32
Proceeds from disposal of subsidiaries	–7	3
Proceeds from disposal of shares in associated companies	3	1
Proceeds from disposal of available-for-sale investments	150	141
Increase in other non-current assets	–37	–4
Dividends received	110	–
Net cash used in investing activities	–65	–131
Cash flow from financing activities		
Proceeds from non-current liabilities	126	801
Payments of non-current liabilities	–910	–1,149
Change in current liabilities	115	–7
Share options exercised	8	–
Dividends paid	–315	–286
Other financing cash flow	–	–30
Net cash used in financing activities	–976	–671
Change in cash and cash equivalents	–27	239
Cash and cash equivalents at beginning of year	495	269
Foreign exchange effect on cash and cash equivalents	–	–13
Change in cash and cash equivalents	–27	239
Cash and cash equivalents at end of year	468	495

Quarterly information

EURm	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales	2,650	2,578	2,619	2,591	2,686	2,603	2,423	2,356	10,438	10,068
Other operating income	37	13	40	18	24	27	15	20	108	86
Costs and expenses	–2,410	–2,340	–2,332	–2,258	–2,425	–2,527	–2,064	–1,997	–9,340	–9,013
Change in fair value of biological assets and wood harvested	32	13	1	–1	49	1	11	3	45	64
Share of results of associated companies and joint ventures	1	–1	–13	–1	–2	1	84	–1	–14	82
Depreciation, amortisation and impairment charges	–1,976	–194	–223	–194	–201	–264	–180	–183	–2,587	–828
Operating profit (loss)	–1,666	69	92	155	131	–159	289	198	–1,350	459
Gains on available-for-sale investments, net	2	–2	34	4	5	–2	68	–	38	71
Exchange rate and fair value gains and losses	–2	8	–3	8	–13	–4	–14	–2	11	–33
Interest and other finance costs, net	–31	–26	–22	–26	–29	–23	–27	–1	–105	–80
Profit (loss) before tax	–1,697	49	101	141	94	–188	316	195	–1,406	417
Income taxes	206	–16	–14	–24	8	79	–21	–26	152	40
Profit (loss) for the period	–1,491	33	87	117	102	–109	295	169	–1,254	457
Attributable to:										
Owners of the parent company	–1,491	33	87	117	102	–109	295	169	–1,254	457
Non-controlling interests	–	–	–	–	–	–	–	–	–	–
	–1,491	33	87	117	102	–109	295	169	–1,254	457
Basic earnings per share, EUR	–2.84	0.06	0.17	0.22	0.20	–0.21	0.56	0.33	–2.39	0.88
Diluted earnings per share, EUR	–2.83	0.06	0.17	0.22	0.19	–0.21	0.57	0.32	–2.38	0.87
Earnings per share, excluding special items, EUR	0.19	0.15	0.14	0.22	0.16	0.19	0.26	0.32	0.70	0.93
Average number of shares basic (1,000)	525,649	525,592	525,592	524,903	524,790	523,128	519,970	519,970	525,434	521,965
Average number of shares diluted (1,000)	526,264	526,703	526,408	526,528	526,154	523,184	523,080	523,182	526,476	523,900
Special items in operating profit (loss)	–1,805	–53	–26	4	–16	–295	88	–	–1,880	–223
Operating profit (loss), excl. special items	139	122	118	151	147	136	201	198	530	682
% of sales	5.2	4.7	4.5	5.8	5.5	5.2	8.3	8.4	5.1	6.8
Special items in financial items	–8	–	35	–	–	–	68	–	27	68
Special items before tax	–1,813	–53	9	4	–16	–295	156	–	–1,853	–155
Profit (loss) before tax, excl. special items	116	102	92	137	110	107	160	195	447	572
% of sales	4.4	4.0	3.5	5.3	4.1	4.1	6.6	8.3	4.3	5.7
Impact on taxes from special items	222	5	3	–	33	84	5	3	230	125
Return on equity, excl. special items, %	5.4	4.4	4.1	6.1	4.6	5.6	7.4	9.3	5.0	6.7
Return on capital employed, excl. special items, %	4.8	4.3	4.1	5.9	4.6	4.6	6.6	7.8	4.7	5.8
EBITDA	301	305	316	347	301	331	372	379	1,269	1,383
% of sales	11.4	11.8	12.1	13.4	11.2	12.7	15.4	16.1	12.2	13.7
Share of results of associated companies and joint ventures										
Energy	–1	–2	–14	–1	–5	–	81	1	–18	77
Pulp	1	–	–	–	1	–	–	–	1	1
Forest and Timber	–	–	1	–	1	–	1	–	1	2
Paper	3	–	–	–	1	1	–	–	3	2
Other operations	–2	1	–	–	–	–	2	–2	–1	–
Total	1	–1	–13	–1	–2	1	84	–1	–14	82

Deliveries

	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Electricity, GWh	2,583	2,340	2,158	2,405	2,322	2,057	2,178	2,354	9,486	8,911
Pulp, 1,000 t	730	759	755	884	720	722	770	780	3,128	2,992
Sawn timber, 1,000 m^3	426	382	462	426	412	422	495	354	1,696	1,683
Publication papers, 1,000 t	1,948	1,828	1,759	1,695	2,080	1,942	1,563	1,486	7,230	7,071
Fine and speciality papers, 1,000 t	842	840	910	889	829	855	909	951	3,481	3,544
Paper deliveries total, 1,000 t	2,790	2,668	2,669	2,584	2,909	2,797	2,472	2,437	10,711	10,615
Plywood, 1,000 m^3	169	165	175	170	148	155	191	162	679	656

Quarterly segment information

EURm	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales										
Energy	122	119	99	140	112	104	108	128	480	452
Pulp	381	403	410	430	349	396	446	457	1,624	1,648
Forest and Timber	428	364	473	426	414	403	440	394	1,691	1,651
Paper	1,815	1,776	1,797	1,762	1,976	1,895	1,666	1,647	7,150	7,184
Label	301	305	298	298	287	292	293	278	1,202	1,150
Plywood	97	93	101	96	88	87	107	94	387	376
Other operations	61	63	77	54	52	58	43	35	255	188
Internal sales	–555	–545	–636	–615	–592	–632	–680	–677	–2,351	–2,581
Sales, total	2,650	2,578	2,619	2,591	2,686	2,603	2,423	2,356	10,438	10,068
EBITDA										
Energy	62	54	45	64	66	40	38	60	225	204
Pulp	86	103	128	110	60	122	177	195	427	554
Forest and Timber	–5	3	7	8	–8	4	11	5	13	12
Paper	124	129	136	153	150	139	126	102	542	517
Label	23	30	31	31	24	23	27	27	115	101
Plywood	8	2	10	4	6	–	8	4	24	18
Other operations	3	–16	–41	–23	3	3	–15	–14	–77	–23
EBITDA, total	301	305	316	347	301	331	372	379	1,269	1,383
Operating profit (loss)										
Energy	61	51	30	62	61	39	118	60	204	278
Pulp	58	70	94	74	36	84	143	160	296	423
Forest and Timber	15	3	–41	2	28	2	20	2	–21	52
Paper	–1,810	–50	23	15	–8	–286	2	–23	–1,822	–315
Label	13	20	22	23	14	14	21	19	78	68
Plywood	2	–3	5	–1	1	–8	1	–1	3	–7
Other operations	–5	–22	–41	–20	–1	–4	–16	–19	–88	–40
Operating profit (loss), total	–1,666	69	92	155	131	–159	289	198	–1,350	459
% of sales	–62.9	2.7	3.5	6.0	4.9	–6.1	11.9	8.4	–12.9	4.6
Special items in operating profit										
Energy	–	–	–6	–	–	–	86	–	–6	86
Pulp	–	–	–	–	–	–	–	–	–	–
Forest and Timber	–1	–4	–43	–	–1	1	2	–	–48	2
Paper	–1,800	–43	21	–2	–12	–289	2	–	–1,824	–299
Label	–1	–2	–	–	–1	–1	2	–	–3	–
Plywood	–	–	–	–	–	–4	–3	–	–	–7
Other operations	–3	–4	2	6	–2	–2	–1	–	1	–5
Special items in operating profit, total	–1,805	–53	–26	4	–16	–295	88	–	–1,880	–223
Operating profit (loss) excl.special items										
Energy	61	51	36	62	61	39	32	60	210	192
Pulp	58	70	94	74	36	84	143	160	296	423
Forest and Timber	16	7	2	2	29	1	18	2	27	50
Paper	–10	–7	2	17	4	3	0	–23	2	–16
Label	14	22	22	23	15	15	19	19	81	68
Plywood	2	–3	5	–1	1	–4	4	–1	3	0
Other operations	–2	–18	–43	–26	1	–2	–15	–19	–89	–35
Operating profit (loss) excl. special items, total	139	122	118	151	147	136	201	198	530	682
% of sales	5.2	4.7	4.5	5.8	5.5	5.2	8.3	8.4	5.1	6.8

EURm	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
External sales										
Energy	64	59	45	82	52	35	35	55	250	177
Pulp	212	220	206	197	117	123	152	151	835	543
Forest and Timber	188	172	199	189	196	190	214	171	748	771
Paper	1,784	1,751	1,766	1,721	1,932	1,841	1,605	1,606	7,022	6,984
Label	301	305	298	298	287	291	293	278	1,202	1,149
Plywood	92	90	96	92	82	83	102	90	370	357
Other operations	9	–19	9	12	20	40	22	5	11	87
External sales, total	2,650	2,578	2,619	2,591	2,686	2,603	2,423	2,356	10,438	10,068
Internal sales										
Energy	58	60	54	58	60	69	73	73	230	275
Pulp	169	183	204	233	232	273	294	306	789	1,105
Forest and Timber	240	192	274	237	218	213	226	223	943	880
Paper	31	25	31	41	44	54	61	41	128	200
Label	–	–	–	–	–	1	–	–	–	1
Plywood	5	3	5	4	6	4	5	4	17	19
Other operations	52	82	68	42	32	18	21	30	244	101
Internal sales, total	555	545	636	615	592	632	680	677	2,351	2,581

Notes to the consolidated cash flow statement

Adjustments

EURm	Q1–Q4/2012	Q1–Q4/2011
Change in fair value of biological assets and wood harvested	–45	–64
Share of results of associated companies and joint ventures	14	–82
Depreciation, amortisation and impairment charges	2,587	828
Capital gains on sale of non-current assets, net	–87	–81
Gain on bargain purchase	–	–28
Finance costs, net	94	113
Taxes	–152	–40
Change in restructuring provisions	–77	177
Other adjustments	37	–31
Total	2,371	792

Change in working capital

EURm	Q1–Q4/2012	Q1–Q4/2011
Inventories	50	13
Current receivables	–74	–109
Current non-interest-bearing liabilities	68	23
Total	44	–73

Changes in property, plant and equipment

EURm	Q1–Q4/2012	Q1–Q4/2011
Book value at beginning of period	6,242	5,860
Capital expenditure	307	302
Companies acquired	5	658
Companies sold	–19	–
Decreases	–35	–30
Depreciation	–691	–684
Impairment charges	–954	–64
Translation difference and other changes	–9	200
Book value at end of period	4,846	6,242

Commitments and contingencies

EURm	31.12.2012	31.12.2011
Own commitments		
Mortgages	570	709
On behalf of associated companies and joint ventures		
Guarantees for loans	3	6
On behalf of others		
Other guarantees	5	5
Other own commitments		
Leasing commitments for the next 12 months	57	54
Leasing commitments for subsequent periods	365	343
Other commitments	123	87

Capital commitments

EURm	Completion	Total cost	By 31.12.2011	Q1–Q4/2012	After 31.12.2012
Changshu PM3	September 2014	390	–	2	388
Biorefinery/Kaukas	May 2014	150	–	27	123
Power plant/Schongau	December 2014	85	–	11	74
Waste water treatment plant/Pietarsaari	October 2013	30	–	16	14
Heating plant/Korkeakoski	May 2013	7	–	1	6

Notional amounts of derivative financial instruments

EURm	31.12.2012	31.12.2011
Currency derivatives		
Forward contracts	4,994	4,560
Options, bought	9	10
Options, written	14	18
Swaps	882	841
Interest rate derivatives		
Forward contracts	3,755	3,456
Swaps	1,629	2,315
Other derivatives		
Forward contracts	400	278

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

EURm	Q1–Q4/2012	Q1–Q4/2011
Sales	127	153
Purchases	391	356
Non-current receivables at end of period	23	5
Trade and other receivables at end of period	25	24
Trade and other payables at end of period	42	36

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 2011.

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

	31.12.2012	30.9.2012	30.6.2012	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
USD	1.3194	1.2930	1.2590	1.3356	1.2939	1.3503	1.4453	1.4207
CAD	1.3137	1.2684	1.2871	1.3311	1.3215	1.4105	1.3951	1.3785
JPY	113.61	100.37	100.13	109.56	100.20	103.79	116.25	117.61
GBP	0.8161	0.7981	0.8068	0.8339	0.8353	0.8667	0.9026	0.8837
SEK	8.5820	8.4498	8.7728	8.8455	8.9120	9.2580	9.1739	8.9329

UPM-Kymmene Corporation
Eteläesplanadi 2
PO Box 380
FI-00101 Helsinki, Finland
tel. +358 2041 5111
fax +358 2041 5110
info@upm.com
ir@upm.com

UPM

www.upm.com