The Biofore Company UPM

Interim report 1 January – 31 March 2012

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Q1 2012 compared with Q1 2011

- Earnings per share excluding special items were EUR 0.22 (0.32), and reported EUR 0.22 (0.33)
- EBITDA was EUR 347 million, 13.4% of sales (379 million, 16.1% of sales)
- Variable costs decreased and the Myllykoski cost synergies started to be visible
- Operating cash flow was EUR 210 million (166 million), net debt reduced by EUR 136 million from Q4 2011

Key figures

	Q1/2012	Q1/2011	Q4/2011	Q1–Q4/2011
Sales, EURm	2,591	2,356	2,686	10,068
EBITDA, EURm [1]	347	379	301	1,383
% of sales	13.4	16.1	11.2	13.7
Operating profit (loss), EURm	155	198	131	459
excluding special items, EURm	151	198	147	682
% of sales	5.8	8.4	5.5	6.8
Profit (loss) before tax, EURm	141	195	94	417
excluding special items, EURm	137	195	110	572
Net profit (loss) for the period, EURm	117	169	102	457
Earnings per share, EUR	0.22	0.33	0.20	0.88
excluding special items, EUR	0.22	0.32	0.16	0.93
Diluted earnings per share, EUR	0.22	0.32	0.19	0.87
Return on equity, %	6.4	9.4	5.5	6.3
excluding special items, %	6.1	9.3	4.6	6.7
Return on capital employed, %	6.0	7.8	4.1	4.4
excluding special items, %	5.9	7.8	4.6	5.8
Operating cash flow per share, EUR	0.40	0.32	0.59	1.99
Shareholders' equity per share at end of period, EUR	13.77	13.87	14.22	14.22
Gearing ratio at end of period, %	48	44	48	48
Net interest-bearing liabilities at end of period, EURm	3,456	3,197	3,592	3,592
Capital employed at end of period, EURm	11,266	11,046	12,110	12,110
Capital expenditure, EURm	61	98	116	1,179
Capital expenditure excluding acquisitions and shares, EURm	61	98	116	340
Personnel at end of period	23,112	21,831	23,909	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.

Results

Q1 2012 compared with Q1 2011

Sales for Q1 2012 were EUR 2,591 million, 10% higher than the EUR 2,356 million in Q1 2011. Sales increased due to the Myllykoski acquisition in Paper in August 2011, as well as higher delivery volumes in other UPM businesses.

EBITDA was EUR 347 million, 13.4% of sales (379 million, 16.1% of sales).

The main negative earnings drivers related to delivery volumes and decreased chemical pulp prices. Delivery volumes decreased in Paper on a comparable basis, but increased in other businesses.

UPM's cost level was slightly lower than in Q1 2011. Variable costs were lower than last year, mainly due to lower fibre and energy costs. Other variable costs were higher than last year. Fixed costs were EUR 15 million lower than last year, on a comparable basis.

Sales prices increased in Paper and Label and decreased in other businesses. The net impact of sales prices was neutral on UPM's earnings.

Operating profit was EUR 155 million, 6.0% of sales (198 million, 8.4%). The operating profit excluding special items was EUR 151 million, 5.8% of sales (198 million, 8.4%).

The decrease in the fair value of biological assets net of wood harvested was EUR 1 million compared with increase of EUR 3 million a year before.

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

Profit before tax was EUR 141 million (195 million) and excluding special items EUR 137 million (195 million). Interest and other financing costs net were EUR 26 million (1 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 8 million (a loss of EUR 2 million).

Income taxes were EUR 24 million (26 million). Special items in taxes were EUR 0 million (3 million positive).

Profit for Q1 was EUR 117 million (169 million) and earnings per share were EUR 0.22 (0.33). Earnings per share excluding special items were EUR 0.22 (0.32). Operating cash flow per share was EUR 0.40 (0.32).

Q1 2012 compared with Q4 2011

EBITDA was EUR 347 million, 13.4% of sales (301 million, 11.2% of sales).

Variable costs decreased. Fibre costs decreased by EUR 41 million. Energy costs were at about the same level as in Q4 2011. Other variable costs increased slightly.

Fixed costs decreased by EUR 63 million, partly due to seasonal factors and partly due to the Myllykoski cost synergies. The positive EBITDA impact was, however, more than offset by lower paper delivery volumes.

Operating profit excluding special items was EUR 151 million, 5.8% of sales (147 million, 5.5%).

The decrease in the fair value of biological assets net of wood harvested was EUR 1 million compared with increase of EUR 49 million in Q4 2011.

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

Financing

Cash flow from operating activities before capital expenditure and financing was EUR 210 million (166 million). Working capital increased by EUR 13 million during the period (increase of EUR 131 million). Cash flow included payments of EUR 60 million from restructuring provisions, mainly related to Paper business restructuring.

The gearing ratio as of 31 March 2012 was 48% (44%). Net interest-bearing liabilities at the end of the period came to EUR 3,456 million (3,197 million).

On 31 March 2012, UPM's cash funds and unused committed credit facilities totalled EUR 1.4 billion.

Personnel

In Q1 2012, UPM had an average of 23,383 employees (21,848). At the beginning of the year the number of employees was 23,909, and at the end of Q1 it was 23,112.

Capital expenditure

During the first three months of 2012, capital expenditure was EUR 61 million, 2.4% of sales (EUR 98 million, 4.2% of sales).

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 annually of advanced second generation biodiesel for transport. Construction of the biorefinery will begin in the summer of 2012 at UPM's Kaukas mill site and be completed 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 reconstruction of the Pietarsaari pulp mill's effluent treatment plant. The project is expected to be completed at the end of 2013. Total investment is approximately EUR 30 million.

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 February 2012, UPM agreed to sell its packaging paper production to the Swedish packaging paper company Billerud AB. The transaction includes two packaging paper machines; one in Pietarsaari and one in Tervasaari, Finland. The enterprise value of the transaction is EUR 130 million. UPM estimates to report a one-off gain from the transaction in excess of EUR 50 million. The transaction is subject to regulatory approval. The target is to close the transaction during Q2 of 2012.

Business area reviews

Energy

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	140	112	104	108	128	452
EBITDA, EURm [1)]	64	66	40	38	60	204
% of sales	45.7	58.9	38.5	35.2	46.9	45.1
Share of results of associated companies and joint ventures, EURm	–1	–5	–	81	1	77
Depreciation, amortisation and impairment charges, EURm	–1	–	–1	–1	–1	–3
Operating profit, EURm	62	61	39	118	60	278
% of sales	44.3	54.5	37.5	109.3	46.9	61.5
Special items, EURm [2)]	–	–	–	86	–	86
Operating profit excl. special items, EURm	62	61	39	32	60	192
% of sales	44.3	54.5	37.5	29.6	46.9	42.5
Electricity deliveries, GWh	2,405	2,322	2,057	2,178	2,354	8,911

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 Q2 2011, special income of EUR 86 million relates to the associated company Pohjolan Voima Oy's sale of Fingrid Oyj shares.

Q1 2012 compared with Q1 2011

The operating profit excluding special items for Energy was EUR 62 million (60 million). Sales increased by 9% to EUR 140 million (128 million). External sales were EUR 82 million (55 million). The volume of electricity sales was 2,405 GWh in the quarter (2,354 GWh).

Operating profit excluding special items improved compared with the same period last year, mainly due to higher hydropower volume.

The average electricity sales price decreased by 6% to EUR 47.4/MWh (50.4/MWh).

Q1 2012 compared with Q4 2011

The operating profit excluding special items for Energy was EUR 62 million (61 million).

The average electricity sales price increased by 5% to EUR 47.4/MWh (45.1/MWh). Hydro power generation volume was lower.

Market review

The average Finnish area spot price on the Nordic electricity exchange in Q1 was EUR 42.5/MWh, 34% lower than during the same period last year (64.8/MWh).

Oil prices increased from the same period last year. Coal prices were lower and CO_2 emission allowance prices were significantly lower.

The front year forward price in the Nordic electricity exchange was EUR 39.6/MWh on 31 March 2012, 21% lower than on the same date last year (50.2/MWh).

At the end of Q1 the Nordic hydro reservoirs were 11% above long-term median at this time of the year. The Finnish hydro reservoirs were 2% above long term median.

Pulp

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	430	349	396	446	457	1,648
EBITDA, EURm [1]	110	60	122	177	195	554
% of sales	25.6	17.2	30.8	39.7	42.7	33.6
Change in fair value of biological assets and wood harvested, EURm	–	7	–1	–	1	7
Share of results of associated companies and joint ventures, EURm	–	1	–	–	–	1
Depreciation, amortisation and impairment charges, EURm	–36	–32	–37	–34	–36	–139
Operating profit, EURm	74	36	84	143	160	423
% of sales	17.2	10.3	21.2	32.1	35.0	25.7
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	74	36	84	143	160	423
% of sales	17.2	10.3	21.2	32.1	35.0	25.7
Pulp deliveries, 1,000 t	884	720	722	770	780	2,992

[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 2012 compared with Q1 2011

The operating profit excluding special items for Pulp was EUR 74 million (160 million). Sales decreased by 6% to EUR 430 million (457 million). Deliveries increased by 13% to 884,000 tonnes (780,000).

Operating profit excluding special items decreased compared with the same period last year due to lower pulp sales prices.

Q1 2012 compared with Q4 2011

The operating profit excluding special items for Pulp was EUR 74 million (36 million).

The improvement was due to 23% higher delivery volumes and lower variable costs.

Market review

In Q1 2012, global chemical pulp prices decreased compared with the same period last year.

The average softwood pulp (NBSK) market price at EUR 636/tonne, was 9% lower than during the same period last year (EUR 700/tonne). At the end of Q1, the NBSK market price was EUR 637/tonne.

The average hardwood pulp (BHKP) market price at EUR 534/tonne, was 14% lower than in the same period last year (EUR 622/tonne). At the end of Q1, the BHKP market price was EUR 568/tonne.

Global chemical pulp shipments increased from the last year. Growth was mainly driven by China and Eastern Europe. Market pulp producer inventories increased in softwood and decreased in hardwood pulp in comparison with last year.

Forest and Timber

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	426	414	403	440	394	1,651
EBITDA, EURm [1)]	8	–8	4	11	5	12
% of sales	1.9	–1.9	1.0	2.5	1.3	0.7
Change in fair value of biological assets and wood harvested, EURm	–1	42	2	11	2	57
Share of results of associated companies and joint ventures, EURm	–	1	–	1	–	2
Depreciation, amortisation and impairment charges, EURm	–5	–6	–5	–5	–5	–21
Operating profit, EURm	2	28	2	20	2	52
% of sales	0.5	6.8	0.5	4.5	0.5	3.1
Special items, EURm [2)]	–	–1	1	2	–	2
Operating profit excl. special items, EURm	2	29	1	18	2	50
% of sales	0.5	7.0	0.2	4.1	0.5	3.0
Sawn timber deliveries, 1,000 m^3	426	412	422	495	354	1,683

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 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.

Q1 2012 compared with Q1 2011

The operating profit excluding special items for Forest and Timber was EUR 2 million (2 million). Sales increased by 8% to EUR 426 million (394 million). Sawn timber deliveries increased by 20% to 426,000 cubic metres (354,000).

In sawn timber, the increase in delivery volumes was not high enough to offset the negative impact from lower sales prices.

The decrease in the fair value of biological assets net of wood harvested was EUR 1 million (increase of 2 million). The increase in the fair value of biological assets (growing trees) was EUR 16 million (15 million). The cost of wood harvested from own forests was EUR 17 million (13 million).

Q1 2012 compared with Q4 2011

The operating profit excluding special items for Forest and Timber was EUR 2 million (29 million).

The operating profit excluding special items decreased from Q4 2011 mainly due to the smaller increase in the fair value of biological assets.

Market review

In Q1 2012, Finnish wood market activity improved compared with the same period last year. Wood purchases in the Finnish wood market totalled 6.2 million cubic metres, and more than doubled from the same period last year (2.8 million cubic metres).

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

In Q1 2012, demand supply balance for sawn timber in Europe improved but demand in Southern Europe continued to be weak. In North Africa and Japan, demand remained stable.

Paper

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	1,762	1,976	1,895	1,666	1,647	7,184
EBITDA, EURm [1]	153	150	139	126	102	517
% of sales	8.7	7.6	7.3	7.6	6.2	7.2
Share of results of associated companies and joint ventures, EURm	–	1	1	–	–	2
Depreciation, amortisation and impairment charges, EURm	–136	–147	–205	–126	–125	–603
Operating profit, EURm	15	–8	–286	2	–23	–315
% of sales	0.9	–0.4	–15.1	0.1	–1.4	–4.4
Special items, EURm [2]	–2	–12	–289	2	–	–299
Operating profit excl. special items, EURm	17	4	3	0	–23	–16
% of sales	1.0	0.2	0.2	0.0	–1.4	–0.2
Deliveries, publication papers, 1,000 t	1,695	2,080	1,942	1,563	1,486	7,071
Deliveries, fine and speciality papers, 1,000 t	889	829	855	909	951	3,544
Paper deliveries total, 1,000 t	2,584	2,909	2,797	2,472	2,437	10,615

[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 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.

Q1 2012 compared with Q1 2011

Operating profit excluding special items for Paper was EUR 17 million (a loss of EUR 23 million). Sales were EUR 1,762 million (1,647 million). Paper deliveries increased by 6% to 2,584,000 tonnes (2,437,000). Deliveries of publication papers (magazine papers and newsprint) increased by 14%, mainly due to the acquisition of Myllykoski. Deliveries of fine and speciality papers decreased by 7%. Proforma paper deliveries decreased by 13%.

Operating profit excluding special items improved compared with last year, mainly due to lower fibre costs.

The average price for all paper deliveries in euros was about 1% higher than last year.

Q1 2012 compared with Q4 2011

Operating profit excluding special items for Paper was EUR 17 million (4 million).

Operating profit excluding special items improved compared with Q4 2011 mainly due to lower fixed and fibre costs. Delivery volumes decreased by 11%.

Compared with Q4 2011, the average paper price remained unchanged.

In December 2011, UPM ceased production at the Myllykoski Paper mill in Finland and permanently closed paper machine 3 at the Ettringen paper mill in Germany. In January 2012, UPM ceased production at the Albbruck paper mill in Germany.

Market review

Demand for publication papers in Europe in Q1 was 6% lower, and for fine papers 5% lower than a year ago. In North America, the demand for magazine papers decreased by 15% from last year. In Asia, demand for fine papers grew.

In Europe, publication paper prices increased in Q1 by about 2% from Q1 2011 and decreased by about 1% from Q4 2011. Fine paper prices decreased by about 4% from Q1 of 2011 and by about 2% from Q4 2011.

In North America, the average US dollar price for magazine papers was 1% higher than a year ago and 2% lower than in the previous quarter.

In Asia, market prices for fine papers decreased both from last year and from the previous quarter.

Label

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	298	287	292	293	278	1,150
EBITDA, EURm 1)	31	24	23	27	27	101
% of sales	10.4	8.4	7.9	9.2	9.7	8.8
Depreciation, amortisation and impairment charges, EURm	–8	–9	–8	–8	–8	–33
Operating profit, EURm	23	14	14	21	19	68
% of sales	7.7	4.9	4.8	7.2	6.8	5.9
Special items, EURm 2)	–	–1	–1	2	–	–
Operating profit excl. special items, EURm	23	15	15	19	19	68
% of sales	7.7	5.2	5.1	6.5	6.8	5.9

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) 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.

Q1 2012 compared with Q1 2011

Operating profit excluding special items for Label was EUR 23 million (19 million). Sales increased by 7% to EUR 298 million (278 million).

Operating profit excluding special items improved compared with last year, mainly due to higher sales prices and lower variable costs.

The average sales prices in local currencies increased in all markets. Fixed costs were higher due to expanded operations in North America and Brazil.

In Q1 2012, UPM started production at a new specialty product factory in Fletcher, North Carolina, as well as opened a new slitting and distribution terminal in Buenos Aires, Argentina.

Q1 2012 compared with Q4 2011

Operating profit excluding special items for Label was EUR 23 million (15 million).

Variable costs were lower and average sales prices were higher. Delivery volumes remained about the same.

Market review

In Q1 2012, due to the macro-economic weakness, demand for self-adhesive label materials in Western Europe and North America is estimated to have declined marginally compared to the same quarter of 2011. Demand in Eastern Europe, Asia and Latin America is estimated to have experienced moderate growth compared with last year.

Plywood

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	96	88	87	107	94	376
EBITDA, EURm [1]	4	6	0	8	4	18
% of sales	4.2	6.8	0.0	7.5	4.3	4.8
Depreciation, amortisation and impairment charges, EURm	–5	–5	–4	–4	–5	–18
Operating profit, EURm	–1	1	–8	1	–1	–7
% of sales	–1.0	1.1	–9.2	0.9	–1.1	–1.9
Special items, EURm [2]	–	–	–4	–3	–	–7
Operating profit excl. special items, EURm	–1	1	–4	4	–1	0
% of sales	–1.0	1.1	–4.6	3.7	–1.1	0.0
Deliveries, plywood, 1,000 m^3	170	148	155	191	162	656

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.

Q1 2012 compared with Q1 2011

Operating loss excluding special items for Plywood was EUR 1 million (a loss of EUR 1 million). Sales grew by 2% to EUR 96 million (94 million). Plywood deliveries increased by 5% to 170,000 cubic metres (162,000).

Delivery volumes were higher and fixed costs were lower. These offset the negative impact of lower sales prices due to changes in the product mix and higher wood costs.

Q1 2012 compared with Q4 2011

Operating loss excluding special items for Plywood was EUR 1 million (profit of EUR 1 million). Delivery volumes were higher but sales prices were lower mainly due to changes in the product mix.

Market review

In Q1 2012 plywood demand is estimated to have declined in Europe compared to the same period of 2011, but estimated to have remained stable compared to Q4 2011. The decline was driven by weakness in the construction sector which impacted both the distribution and the industrial segment.

The demand supply balance improved, however, in spruce plywood mainly due to some delivery problems from overseas and consequently lower spruce imports to European markets.

Other operations

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales, EURm	54	52	58	43	35	188
EBITDA, EURm [1)]	–23	3	3	–15	–14	–23
Share of results of associated companies and joint ventures, EURm	–	–	–	2	–2	–
Depreciation, amortisation and impairment charges, EURm	–3	–2	–4	–2	–3	–11
Operating profit, EURm	–20	–1	–4	–16	–19	–40
Special items, EURm [2)]	6	–2	–2	–1	–	–5
Operating profit excl. special items, EURm	–26	1	–2	–15	–19	–35

[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 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.

Q1 2012 compared with Q1 2011

Excluding special items, the operating loss for Other operations was EUR 26 million (a loss of EUR 19 million). Sales amounted to EUR 54 million (35 million).

UPM's sale of RFID business to SMARTRAC N.V. was completed on 31 March 2012 with a capital gain of EUR 5 million.

Outlook for 2012

Global economic growth is expected to continue in 2012. In Europe, however, economic growth is weak and uncertainty persists.

In UPM's businesses, market conditions have stabilised in the early part of 2012, after deteriorating during the second half of 2011. The short term demand and price outlook for UPM's products is broadly stable in Q2 2012 compared to Q1 2012, taking into account seasonal variations.

UPM's cost level decreased in Q1 2012 and is expected to stay broadly on the same level during Q2 2012. Variable costs are expected to start increasing later during the year. The realisation of the Myllykoski cost synergies is expected to continue as planned, and more than EUR 100 million cost synergies are expected to contribute to UPM's full-year 2012 results.

Operating profit excluding special items in the first half of 2012 is expected to be slightly higher than in the second half of 2011. Earlier, UPM expected its operating profit in the first half of 2012 to be at around the same level as in the second half of 2011.

Capital expenditure for 2012 is forecast to be around EUR 350 million.

UPM's hydropower generation volume is expected to continue at a relatively good rate in the early part of the year. UPM's average electricity sales price in Q2 2012 is expected to be lower than in Q1 2012 due to seasonal variations.

Chemical pulp deliveries in Q2 2012 are expected to decrease somewhat from the high level in Q1 2012. The average price of UPM's pulp deliveries is estimated to be slightly higher in Q2 2012 than in Q1 2012.

In the sawn timber business, delivery volumes are expected improve seasonally in Q2 2012 from Q1 2012.

Graphic paper demand in Europe is expected to continue to be somewhat lower than last year. Solid demand is expected to continue in Asia. UPM's paper deliveries are expected to increase seasonally somewhat in Q2 2012 from Q1 2012. The average price of UPM's paper deliveries in euros is expected to be at about the same level in Q2 2012 as in Q1 2012.

Label materials deliveries are expected to be at about the same level in Q2 2012 as in Q1 2012. Sales prices in local currencies and variable costs are expected to be stable in Q2 2012 compared with Q1 2012.

Plywood deliveries are expected to increase somewhat in Q2 2012 from Q1 2012. Sales prices are expected to increase slightly for spruce plywood from Q1 2012.

Shares

In Q1 2012, UPM shares worth EUR 1,862 million (2,678 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent about two thirds of all trading volume in UPM shares. The highest quotation was EUR 10.98 in February and the lowest was EUR 8.53 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 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 in 2011, UPM issued five million new shares in a directed share issue.

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 3 April 2012 was 525,804,161, including subscriptions of 831,323 shares during January–March 2012 through exercising 2007B share options. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,970,088.

At the end of the period, the company held 211,481 of its own shares, 0.04% of the company's shares and voting rights.

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. Since 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.

Dividend

The Annual General Meeting, held on 30 March 2012, decided that a dividend of EUR 0.60 per share was to be paid on 13 April 2012. The dividend was paid to all shareholders who were registered on 4 April 2012 in the company's shareholder register maintained by Euroclear Finland Ltd. This is the record date for the dividend payment. The dividend of EUR 315 million is included in the short-term non-interest bearing liabilities at the end of March.

Litigation

In Finland, UPM is participating in the project to construct 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 58.47% 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. AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit on a fixed-price turnkey contract, has informed TVO that the unit is scheduled to be ready for regular electricity production in August 2014.

According to TVO, the supplier initiated arbitration proceedings concerning 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. TVO will update its counterclaim during the arbitration proceedings, which may continue for several years, and the claimed and counter-claimed amounts may change.

In Uruguay, there is one pending litigation against the government of Uruguay regarding the Fray Bentos 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. In addition to the state owned forest administrator Metsähallitus, also individuals and companies, as well as municipalities and parishes have filed claims. The capital amounts of all of the claims amount to EUR 232 million in the aggregate jointly and severally from UPM and two other companies, or alternatively and individually from UPM in the aggregate EUR 55 million. In addition to the claims on capital amounts, the claimants also claim for compensation relating to value added tax and interests.

UPM considers all the claims unfounded in their entirety. No provisions have been made in UPM's accounts for any of the claims.

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.

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 11 April 2012, UPM announced it clarifies the strategy of its Timber and Living business areas and plans to restructure the production operations in Finland. The plan includes a possible closing of the production of Kajaani sawmill and the Heinola and Aureskoski further processing plants by the end of 2012. UPM will begin co-determination negotiations with the employees in Kajaani, Aureskoski and Heinola, and later during April–May with the employees in the Finnish staff functions. Altogether 275 employees are included in the negotiations. Sale is an alternative option to closure of the production units.

As part of the clarification of the Timber business strategy, UPM will assess the operational preconditions and role of the Pestovo sawmill and planing mill in Russia by the end of 2012.

In Q2 2012, UPM will book impairment charges of approximately EUR 35 million and make a provision for restructuring costs of approximately EUR 10 million.

On 24 April 2012, UPM sold its 11% share in Metsä Fibre Oy (formerly Oy Metsä-Botnia Ab) to Metsäliitto Cooperative for EUR 150 million. UPM will report a one-off gain of EUR 34 million from the transaction in Q2 2012.

Helsinki, 26 April 2012

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2012	Q1/2011	Q1–Q4/2011
Sales	2,591	2,356	10,068
Other operating income	18	20	86
Costs and expenses	–2,258	–1,997	–9,013
Change in fair value of biological assets and wood harvested	–1	3	64
Share of results of associated companies and joint ventures	–1	–1	82
Depreciation, amortisation and impairment charges	–194	–183	–828
Operating profit (loss)	155	198	459
Gains on available-for-sale investments, net	4	–	71
Exchange rate and fair value gains and losses	8	–2	–33
Interest and other finance costs, net	–26	–1	–80
Profit (loss) before tax	141	195	417
Income taxes	–24	–26	40
Profit (loss) for the period	117	169	457
Attributable to:			
Owners of the parent company	117	169	457
Non-controlling interests	–	–	–
	117	169	457
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	0.22	0.33	0.88
Diluted earnings per share, EUR	0.22	0.32	0.87

Consolidated statement of comprehensive income

EURm	Q1/2012	Q1/2011	Q1–Q4/2011
Profit (loss) for the period	117	169	457
Other comprehensive income for the period, net of tax:			
Translation differences	–61	–162	112
Net investment hedge	4	19	–6
Cash flow hedges	26	56	22
Available-for-sale investments	–4	29	2
Share of other comprehensive income of associated companies	–	3	–
Other comprehensive income for the period, net of tax	–35	–55	130
Total comprehensive income for the period	82	114	587
Total comprehensive income attributable to:			
Owners of the parent company	82	114	587
Non-controlling interests	–	–	–
	82	114	587

Consolidated balance sheet

EURm	31.3.2012	31.3.2011	31.12.2011
ASSETS			
Non-current assets			
Goodwill	1,020	1,016	1,022
Other intangible assets	469	443	458
Property, plant and equipment	6,046	5,657	6,242
Investment property	38	31	39
Biological assets	1,499	1,456	1,513
Investments in associated companies and joint ventures	714	575	717
Available-for-sale investments	289	363	260
Non-current financial assets	402	241	415
Deferred tax assets	505	358	508
Other non-current assets	241	219	238
	11,223	10,359	11,412
Current assets			
Inventories	1,398	1,324	1,429
Trade and other receivables	1,951	1,772	2,003
Income tax receivables	28	28	26
Cash and cash equivalents	92	312	495
	3,469	3,436	3,953
Assets classified as held for sale	41	–	24
Total assets	14,733	13,795	15,389
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Treasury shares	–2	–	–2
Translation differences	104	–88	161
Fair value and other reserves	151	179	129
Reserve for invested non-restricted equity	1,204	1,145	1,199
Retained earnings	4,888	5,085	5,084
	7,235	7,211	7,461
Non-controlling interests	16	16	16
Total equity	7,251	7,227	7,477
Non-current liabilities			
Deferred tax liabilities	672	649	675
Retirement benefit obligations	487	423	490
Provisions	266	130	326
Interest-bearing liabilities	3,684	2,853	3,750
Other liabilities	98	63	79
	5,207	4,118	5,320
Current liabilities			
Current interest-bearing liabilities	331	966	883
Trade and other payables	1,893	1,437	1,667
Income tax payables	49	47	38
	2,273	2,450	2,588
Liabilities related to assets classified as held for sale	2	–	4
Total liabilities	7,482	6,568	7,912
Total equity and liabilities	14,733	13,795	15,389

Consolidated statement of changes in equity

EURm	Share capital	Treasury shares	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 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 distribution	–	–	–	–	–	–	–	–	–
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
Balance at 1 January 2012	890	–2	161	129	1,199	5,084	7,461	16	7,477
Profit (loss) for the period	–	–	–	–	–	117	117	–	117
Translation differences	–	–	–61	–	–	–	–61	–	–61
Net investment hedge, net of tax	–	–	4	–	–	–	4	–	4
Cash flow hedges, net of tax	–	–	–	26	–	–	26	–	26
Available-for-sale investments	–	–	–	–4	–	–	–4	–	–4
Share of other comprehensive income of associated companies	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–57	22	–	117	82	–	82
Share options exercised	–	–	–	–	5	–	5	–	5
Share-based compensation, net of tax	–	–	–	–	–	2	2	–	2
Dividend distribution	–	–	–	–	–	–315	–315	–	–315
Total transactions with owners for the period	–	–	–	–	5	–313	–308	–	–308
Balance at 31 March 2012	890	–2	104	151	1,204	4,888	7,235	16	7,251

Condensed consolidated cash flow statement

EURm	Q1/2012	Q1/2011	Q1–Q4/2011
Cash flow from operating activities			
Profit (loss) for the period	117	169	457
Adjustments	150	149	792
Change in working capital	–13	–131	–73
Cash generated from operations	254	187	1,176
Finance costs, net	–23	4	–41
Income taxes paid	–21	–25	–94
Net cash generated from operating activities	210	166	1,041
Cash flow from investing activities			
Capital expenditure	–87	–80	–286
Acquisitions and share purchases	–	–	–18
Asset sales and other investing cash flow	–1	3	173
Net cash used in investing activities	–88	–77	–131
Cash flow from financing activities			
Change in loans and other financial items	–531	–44	–385
Share options exercised	5	–	–
Dividends paid	–	–	–286
Net cash used in financing activities	–526	–44	–671
Change in cash and cash equivalents	–404	45	239
Cash and cash equivalents at beginning of period	495	269	269
Foreign exchange effect on cash and cash equivalents	1	–2	–13
Change in cash and cash equivalents	–404	45	239
Cash and cash equivalents at end of period	92	312	495

Quarterly information

EURm	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales	2,591	2,686	2,603	2,423	2,356	10,068
Other operating income	18	24	27	15	20	86
Costs and expenses	–2,258	–2,425	–2,527	–2,064	–1,997	–9,013
Change in fair value of biological assets and wood harvested	–1	49	1	11	3	64
Share of results of associated companies and joint ventures	–1	–2	1	84	–1	82
Depreciation, amortisation and impairment charges	–194	–201	–264	–180	–183	–828
Operating profit (loss)	155	131	–159	289	198	459
Gains on available-for-sale investments, net	4	5	–2	68	–	71
Exchange rate and fair value gains and losses	8	–13	–4	–14	–2	–33
Interest and other finance costs, net	–26	–29	–23	–27	–1	–80
Profit (loss) before tax	141	94	–188	316	195	417
Income taxes	–24	8	79	–21	–26	40
Profit (loss) for the period	117	102	–109	295	169	457
Attributable to:						
Owners of the parent company	117	102	–109	295	169	457
Non-controlling interests	–	–	–	–	–	–
	117	102	–109	295	169	457
Basic earnings per share, EUR	0.22	0.20	–0.21	0.56	0.33	0.88
Diluted earnings per share, EUR	0.22	0.19	–0.21	0.57	0.32	0.87
Earnings per share, excluding special items, EUR	0.22	0.16	0.19	0.26	0.32	0.93
Average number of shares basic (1,000)	524,903	524,790	523,128	519,970	519,970	521,965
Average number of shares diluted (1,000)	526,528	526,154	523,184	523,080	523,182	523,900
Special items in operating profit (loss)	4	–16	–295	88	–	–223
Operating profit (loss), excl. special items	151	147	136	201	198	682
% of sales	5.8	5.5	5.2	8.3	8.4	6.8
Special items in financial items	–	–	–	68	–	68
Special items before tax	4	–16	–295	156	–	–155
Profit (loss) before tax, excl. special items	137	110	107	160	195	572
% of sales	5.3	4.1	4.1	6.6	8.3	5.7
Impact on taxes from special items	–	33	84	5	3	125
Return on equity, excl. special items, %	6.1	4.6	5.6	7.4	9.3	6.7
Return on capital employed, excl. special items, %	5.9	4.6	4.6	6.6	7.8	5.8
EBITDA	347	301	331	372	379	1,383
% of sales	13.4	11.2	12.7	15.4	16.1	13.7
Share of results of associated companies and joint ventures						
Energy	–1	–5	–	81	1	77
Pulp	–	1	–	–	–	1
Forest and Timber	–	1	–	1	–	2
Paper	–	1	1	–	–	2
Other operations	–	–	–	2	–2	–
Total	–1	–2	1	84	–1	82

Deliveries

	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Electricity, GWh	2,405	2,322	2,057	2,178	2,354	8,911
Pulp, 1,000 t	884	720	722	770	780	2,992
Sawn timber, 1,000 m³	426	412	422	495	354	1,683
Publication papers, 1,000 t	1,695	2,080	1,942	1,563	1,486	7,071
Fine and speciality papers, 1,000 t	889	829	855	909	951	3,544
Paper deliveries total, 1,000 t	2,584	2,909	2,797	2,472	2,437	10,615
Plywood, 1,000 m³	170	148	155	191	162	656

Quarterly segment information

EURm	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
Sales						
Energy	140	112	104	108	128	452
Pulp	430	349	396	446	457	1,648
Forest and Timber	426	414	403	440	394	1,651
Paper	1,762	1,976	1,895	1,666	1,647	7,184
Label	298	287	292	293	278	1,150
Plywood	96	88	87	107	94	376
Other operations	54	52	58	43	35	188
Internal sales	−615	−592	−632	−680	−677	−2,581
Sales, total	2,591	2,686	2,603	2,423	2,356	10,068
EBITDA						
Energy	64	66	40	38	60	204
Pulp	110	60	122	177	195	554
Forest and Timber	8	−8	4	11	5	12
Paper	153	150	139	126	102	517
Label	31	24	23	27	27	101
Plywood	4	6	–	8	4	18
Other operations	−23	3	3	−15	−14	−23
EBITDA, total	347	301	331	372	379	1,383
Operating profit (loss)						
Energy	62	61	39	118	60	278
Pulp	74	36	84	143	160	423
Forest and Timber	2	28	2	20	2	52
Paper	15	−8	−286	2	−23	−315
Label	23	14	14	21	19	68
Plywood	−1	1	−8	1	−1	−7
Other operations	−20	−1	−4	−16	−19	−40
Operating profit (loss), total	155	131	−159	289	198	459
% of sales	6.0	4.9	−6.1	11.9	8.4	4.6
Special items in operating profit						
Energy	–	–	–	86	–	86
Pulp	–	–	–	–	–	–
Forest and Timber	–	−1	1	2	–	2
Paper	−2	−12	−289	2	–	−299
Label	–	−1	−1	2	–	–
Plywood	–	–	−4	−3	–	−7
Other operations	6	−2	−2	−1	–	−5
Special items in operating profit, total	4	−16	−295	88	–	−223
Operating profit (loss) excl.special items						
Energy	62	61	39	32	60	192
Pulp	74	36	84	143	160	423
Forest and Timber	2	29	1	18	2	50
Paper	17	4	3	0	−23	−16
Label	23	15	15	19	19	68
Plywood	−1	1	−4	4	−1	0
Other operations	−26	1	−2	−15	−19	−35
Operating profit (loss) excl. special items, total	151	147	136	201	198	682
% of sales	5.8	5.5	5.2	8.3	8.4	6.8

EURm	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/11
External sales						
Energy	82	52	35	35	55	177
Pulp	197	117	123	152	151	543
Forest and Timber	189	196	190	214	171	771
Paper	1,721	1,932	1,841	1,605	1,606	6,984
Label	298	287	291	293	278	1,149
Plywood	92	82	83	102	90	357
Other operations	12	20	40	22	5	87
External sales, total	2,591	2,686	2,603	2,423	2,356	10,068
Internal sales						
Energy	58	60	69	73	73	275
Pulp	233	232	273	294	306	1,105
Forest and Timber	237	218	213	226	223	880
Paper	41	44	54	61	41	200
Label	–	–	1	–	–	1
Plywood	4	6	4	5	4	19
Other operations	42	32	18	21	30	101
Internal sales, total	615	592	632	680	677	2,581

Changes in property, plant and equipment

EURm	Q1/2012	Q1/2011	Q1–Q4/2011
Book value at beginning of period	6,242	5,860	5,860
Capital expenditure	51	90	302
Companies acquired	–	–	658
Decreases	–3	–4	–30
Depreciation	–176	–168	–684
Impairment charges	–1	–	–64
Translation difference and other changes	–67	–121	200
Book value at end of period	6,046	5,657	6,242

Commitments and contingencies

EURm	31.3.2012	31.3.2011	31.12.2011
Own commitments			
Mortgages	668	725	709
On behalf of associated companies and joint ventures			
Guarantees for loans	5	6	6
On behalf of others			
Other guarantees	5	2	5
Other own commitments			
Leasing commitments for the next 12 months	55	29	54
Leasing commitments for subsequent periods	344	107	343
Other commitments	99	134	87

Capital commitments

EURm	Completion	Total cost	By 31.12.2011	Q1/2012	After 31.3.2012
Biorefinery/Kaukas	May 2014	150	–	–	150
Power plant/Schongau	December 2014	85	–	–	85
Waste water treatment plant/Pietarsaari	October 2013	30	–	–	30
New folio sheeting plant/Plattling	June 2012	19	–	2	17
Oxygen delignification stage for HW/Kymi pulp	September 2012	13	1	1	11

Notional amounts of derivative financial instruments

EURm	31.3.2012	31.3.2011	31.12.2011
Currency derivatives			
Forward contracts	4,503	3,750	4,560
Options, bought	33	2	10
Options, written	61	2	18
Swaps	882	758	841
Interest rate derivatives			
Forward contracts	3,250	2,156	3,456
Swaps	1,693	2,447	2,315
Other derivatives			
Forward contracts	367	358	278

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

EURm	Q1/2012	Q1/2011	Q1–Q4/2011
Sales	41	31	153
Purchases	93	94	356
Non-current receivables at end of period	11	5	5
Trade and other receivables at end of period	25	21	24
Trade and other payables at end of period	27	46	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. 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, %:

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

Earnings per share:

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

Key exchange rates for the euro at end of period

	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
USD	1.3356	1.2939	1.3503	1.4453	1.4207
CAD	1.3311	1.3215	1.4105	1.3951	1.3785
JPY	109.56	100.20	103.79	116.25	117.61
GBP	0.8339	0.8353	0.8667	0.9026	0.8837
SEK	8.8455	8.9120	9.2580	9.1739	8.9329

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 103–105 of the company's annual report 2011.

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