The Biofore Company UPM

Interim report 1 January – 30 June 2012

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Q2/2012

- Earnings per share excluding special items were EUR 0.14 (0.26), and reported EUR 0.17 (0.56)
- EBITDA was EUR 316 million, 12.1% of sales (372 million, 15.4% of sales)
- EBITDA was affected by seasonally higher fixed costs and fair value losses of cash flow hedges
- Net debt decreased by EUR 71 million to EUR 3,385 million after the dividend payment and asset sales

Q1–Q2/2012

- Earnings per share excluding special items were EUR 0.36 (0.58), and reported EUR 0.39 (0.89)
- EBITDA was EUR 663 million, 12.7% of sales (751 million, 15.7% of sales)
- EBITDA increased from H2 2011 driven by improved profitability of UPM's businesses
- Operating cash flow was EUR 343 million (446 million), after restructuring payments of EUR 140 million

Key figures

	Q2/2012	Q2/2011	Q1–Q2/2012	Q1–Q2/2011	Q1–Q4/2011
Sales, EURm	2,619	2,423	5,210	4,779	10,068
EBITDA, EURm [1]	316	372	663	751	1,383
% of sales	12.1	15.4	12.7	15.7	13.7
Operating profit (loss), EURm	92	289	247	487	459
excluding special items, EURm	118	201	269	399	682
% of sales	4.5	8.3	5.2	8.3	6.8
Profit (loss) before tax, EURm	101	316	242	511	417
excluding special items, EURm	92	160	229	355	572
Net profit (loss) for the period, EURm	87	295	204	464	457
Earnings per share, EUR	0.17	0.56	0.39	0.89	0.88
excluding special items, EUR	0.14	0.26	0.36	0.58	0.93
Diluted earnings per share, EUR	0.17	0.57	0.39	0.89	0.87
Return on equity, %	4.7	16.4	5.5	13.0	6.3
excluding special items, %	4.1	7.4	5.0	8.4	6.7
Return on capital employed, %	4.4	12.2	5.1	10.0	4.4
excluding special items, %	4.1	6.6	4.9	7.2	5.8
Operating cash flow per share, EUR	0.25	0.54	0.65	0.86	1.99
Shareholders' equity per share at end of period, EUR	14.11	13.81	14.11	13.81	14.22
Gearing ratio at end of period, %	46	44	46	44	48
Net interest-bearing liabilities at end of period, EURm	3,385	3,162	3,385	3,162	3,592
Capital employed at end of period, EURm	11,504	10,916	11,504	10,916	12,110
Capital expenditure, EURm	88	62	149	160	1,179
Capital expenditure excluding acquisitions and shares, EURm	88	58	149	156	340
Personnel at end of period	23,630	22,999	23,630	22,999	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

Q2 2012 compared with Q2 2011

Sales for Q2 2012 were EUR 2,619 million, 8% higher than the EUR 2,423 million in Q2 2011. Sales increased mainly due to the Myllykoski acquisition in Paper in August 2011.

EBITDA was EUR 316 million, 12.1% of sales (372 million, 15.4% of sales).

The main negative earnings driver was delivery volumes, which decreased in all UPM's businesses on a comparable basis.

UPM's cost level was lower than in Q2 2011. Variable costs were slightly lower than last year, mainly due to lower fibre and energy costs. Other variable costs were higher than last year. Fixed costs were EUR 10 million lower than last year, on a comparable basis.

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

Q2 2012 EBITDA includes net currency losses of EUR 11 million (3 million) mainly due to EUR 15 million fair value losses in currency cash flow hedges.

Operating profit was EUR 92 million, 3.5% of sales (289 million, 11.9%). Operating profit excluding special items was EUR 118 million, 4.5% of sales (201 million, 8.3%).

Operating profit included net charges totalling EUR 26 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 12 million were booked. In Paper, a gain of EUR 51 million was booked from the sale of the packaging paper operations and a charge of EUR 16 million from goodwill allocated to the operations sold. In addition, restructuring charges of EUR 14 million were recognised in relation to mill closures. In Other operations, special items amounted to net income of EUR 2 million.

The increase in the fair value of biological assets net of wood harvested was EUR 1 million (11 million).

The share of results of associated companies and joint ventures was EUR -13 million (84 million) and excluding special items EUR -7 million (-2 million).

Profit before tax was EUR 101 million (316 million) and excluding special items EUR 92 million (160 million). Profit 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 22 million (27 million). Exchange rate and fair value gains and losses resulted in a loss of EUR 3 million (loss of EUR 14 million).

Income taxes were EUR 14 million (21 million). Special items in taxes were EUR 3 million positive (5 million).

Profit for Q2 was EUR 87 million (295 million) and earnings per share were EUR 0.17 (0.56). Earnings per share excluding special items were EUR 0.14 (0.26).

Q2 2012 compared with Q1 2012

EBITDA was EUR 316 million, 12.1% of sales (347 million, 13.4% of sales).

Paper, plywood and sawn timber delivery volumes increased from Q1. Variable costs increased, mainly for fibre.

Fixed costs increased by EUR 24 million, mainly due to seasonal factors.

Q2 2012 EBITDA includes net currency losses of EUR 11 million (0 million) mainly due to EUR 15 million fair value losses in currency cash flow hedges.

Operating profit excluding special items was EUR 118 million, 4.5% of sales (151 million, 5.8%).

The increase in the fair value of biological assets net of wood harvested was EUR 1 million compared with a decrease of EUR 1 million in Q1 2012.

The share of results of associated companies and joint ventures, excluding special items, was EUR -7 million (-1 million).

January–June of 2012 compared with January–June 2011

Sales for Q1–Q2 2012 were EUR 5,210 million, 9% higher than the EUR 4,779 million in Q1–Q2 2011. Sales increased due to the Myllykoski acquisition in Paper in August 2011, as well as higher delivery volumes in most of the other UPM businesses.

EBITDA was EUR 663 million, 12.7% of sales (751 million, 15.7% of sales).

The main negative earnings drivers related to paper delivery volumes and decreased chemical pulp prices.

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 25 million lower than last year, on a comparable basis.

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

Operating profit was EUR 247 million, 4.7% of sales (487 million, 10.2%). Operating profit excluding special items was EUR 269 million, 5.2% of sales (399 million, 8.3%).

Operating profit included net charges totalling EUR 22 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 12 million were booked. In Paper, a net gain of EUR 35 million was booked from the sale of the packaging paper operations. In addition, restructuring charges of EUR 16 million were recognised in relation to mill closures. In Other operations, special items amounted to net income of EUR 8 million.

The increase in the fair value of biological assets net of wood harvested was EUR 0 million (14 million).

The share of results of associated companies and joint ventures was EUR -14 million (83 million) and excluding special items EUR -8 million (-3 million).

Profit before tax was EUR 242 million (511 million) and excluding special items EUR 229 million (355 million). Profit 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 48 million (28 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 5 million (loss of EUR 16 million).

Income taxes were EUR 38 million (47 million). Special items in taxes were EUR 3 million positive (8 million).

Profit for the period was EUR 204 million (464 million) and earnings per share were EUR 0.39 (0.89). Earnings per share excluding special items were EUR 0.36 (0.58). Operating cash flow per share was EUR 0.65 (0.86).

Financing

In January–June 2012, cash flow from operating activities before capital expenditure and financing totalled EUR 343 million (446 million). Working capital increased by EUR 75 million during the period (increase of EUR 209 million). Cash flow included payments of EUR 140 million related to restructurings, mainly in Paper business.

The gearing ratio as of 30 June 2012 was 46% (44%). Net interest-bearing liabilities at the end of the period came to EUR 3,385 million (3,162 million).

On 30 June 2012, UPM's cash funds and unused committed credit facilities totalled EUR 1.4 billion.

Personnel

In January–June 2012, UPM had an average of 23,454 employees (22,177). At the beginning of the year the number of employees was 23,909, and at the end of Q2 it was 23,630.

Capital expenditure

During the first six months of 2012, capital expenditure was EUR 149 million, 2.9% of sales (EUR 160 million, 3.3% 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 per annum of advanced second generation biodiesel for transport. 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. Total investment is approximately EUR 30 million.

In June 2012, UPM signed an agreement to acquire the business operations of Gascogne Laminates Switzerland SA, which is the labelstock business of Gascogne Group. Gascogne's labelstock operations sales totalled EUR 44 million in 2011. The company employs approximately 110 people in its factory in Martigny, Switzerland. The closing of the transaction is subject to regulatory approvals.

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 May 2012, UPM signed an agreement to sell Papierfabrik Albbruck GmbH to Karl Unternehmensgruppe in Germany. UPM closed the unprofitable Albbruck paper mill in January 2012 and permanently ceased graphic paper production at the site. It is planned that the sale will be closed by August 2012.

On 1 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. UPM and Billerud announced the transaction on 1 February 2012. The enterprise value of the transaction was EUR 130 million.

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.

UPM has agreed to sell its Kajaani sawmill to Pölkky Oy. UPM's Aureskoski and Heinola further processing mills will be closed down by the end of 2012, resulting in a personnel reduction of 97 employees.

UPM's Timber business will relocate its common sales and management staff functions from Lahti to Tampere and to mill locations in Finland. The number of staff function jobs will be reduced by 42.

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 booked impairment charges of EUR 31 million and made a EUR 12 million provision for restructuring costs.

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. About 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 H1 2012, synergy benefits reduced Paper business' costs by about EUR 70 million. Following the reduction in delivery volumes in H1 2012, fixed costs per tonne in magazine paper production were on about the same level as before the synergy benefits in H2 2011. Variable costs in H1 2012 were lower than in H2 2011, partly due to the cost synergies.

The remaining part of the annualised synergy benefits is estimated to be realised mainly during the second half of 2012, and the full cost synergies of the EUR 200 million are expected to be visible in 2013.

At the end of June 2012, the measures taken so far had reduced UPM's number of employees by approximately 800.

The total permanent capacity removal of the plan 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 the 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.

In May 2012, UPM signed an agreement to sell the Albbruck mill to Karl Unternehmensgruppe in Germany.

Sales or other exit is planned for the Stracel paper mill in France (annual production capacity 280,000 tonnes of magazine papers). On July 3 2012, UPM announced it is negotiating on selling the assets and part of the land at the mill.

Business area reviews

Energy

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	99	140	112	104	108	128	239	236	452
EBITDA, EURm [1]	45	64	66	40	38	60	109	98	204
% of sales	45.5	45.7	58.9	38.5	35.2	46.9	45.6	41.5	45.1
Share of results of associated companies and joint ventures, EURm	–14	–1	–5	–	81	1	–15	82	77
Depreciation, amortisation and impairment charges, EURm	–1	–1	–	–1	–1	–1	–2	–2	–3
Operating profit, EURm	30	62	61	39	118	60	92	178	278
% of sales	30.3	44.3	54.5	37.5	109.3	46.9	38.5	75.4	61.5
Special items, EURm [2]	–6	–	–	–	86	–	–6	86	86
Operating profit excl. special items, EURm	36	62	61	39	32	60	98	92	192
% of sales	36.4	44.3	54.5	37.5	29.6	46.9	41.0	39.0	42.5
Electricity deliveries, GWh	2,158	2,405	2,322	2,057	2,178	2,354	4,563	4,532	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) 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.

Q2 2012 compared with Q2 2011

Operating profit excluding special items for Energy was EUR 36 million (32 million). Sales decreased by 8% to EUR 99 million (108 million). External sales were EUR 45 million (35 million). The volume of electricity sales was 2,158 GWh in the quarter (2,178 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 5% to EUR 42.9/MWh (45.3/MWh).

Q2 2012 compared with Q1 2012

Operating profit excluding special items decreased, mainly due to seasonally lower prices and volumes. The average electricity sales price decreased by 9% to EUR 42.9/MWh (47.4/MWh).

January–June 2012 compared to January–June 2011

Operating profit excluding special items for Energy was EUR 98 million (92 million). Sales increased by 1% to EUR 239 million (236 million). External sales were EUR 127 million (90 million). The volume of electricity sales was 4,563 GWh (4,532 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 5% to EUR 45.3/MWh (47.9/MWh).

Market review

The average Finnish area spot price on the Nordic electricity exchange in the first half of the year was EUR 37.6/MWh, 36% lower than during the same period last year (58.4/MWh), mainly due to exceptionally high water reservoirs and hydropower volumes in the Nordic countries.

Oil prices have remained on last year's level. Coal prices were lower than the same period last year and CO_2 emission allowance prices were significantly lower. The CO_2 emission allowance price was EUR 8.3/t at the end of the period, 39% lower than on the same date last year (13.5/t).

The front year forward price in the Nordic electricity exchange was EUR 38.4/MWh at the end of the period, 18% lower than on the same date last year (46.9/MWh).

Pulp

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	410	430	349	396	446	457	840	903	1,648
EBITDA, EURm [1]	128	110	60	122	177	195	238	372	554
% of sales	31.2	25.6	17.2	30.8	39.7	42.7	28.3	41.2	33.6
Change in fair value of biological assets and wood harvested, EURm	3	–	7	–1	–	1	3	1	7
Share of results of associated companies and joint ventures, EURm	–	–	1	–	–	–	–	–	1
Depreciation, amortisation and impairment charges, EURm	–37	–36	–32	–37	–34	–36	–73	–70	–139
Operating profit, EURm	94	74	36	84	143	160	168	303	423
% of sales	22.9	17.2	10.3	21.2	32.1	35.0	20.0	33.6	25.7
Special items, EURm	–	–	–	–	–	–	–	–	–
Operating profit excl. special items, EURm	94	74	36	84	143	160	168	303	423
% of sales	22.9	17.2	10.3	21.2	32.1	35.0	20.0	33.6	25.7
Pulp deliveries, 1,000 t	755	884	720	722	770	780	1,639	1,550	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.

Q2 2012 compared with Q2 2011

Operating profit excluding special items for Pulp decreased to EUR 94 million (143 million). Sales decreased by 8% to EUR 410 million (446 million). Deliveries decreased by 2% to 755,000 tonnes (770,000).

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

Q2 2012 compared with Q1 2012

Operating profit excluding special items increased as higher sales prices more than offset the impact of lower volumes and increased wood costs.

January–June 2012 compared to January–June 2011

Operating profit excluding special items for Pulp decreased to EUR 168 million (303 million). Sales decreased by 7% to EUR 840 million (903 million). Deliveries grew by 6% to 1,639,000 tonnes (1,550,000).

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

Market review

In the first half of 2012, the average softwood pulp (NBSK) market price was EUR 646/tonne, 8% lower than during the same period last year (EUR 700/tonne). At the end of June, the NBSK market price was EUR 663/tonne. The average hardwood pulp (BHKP) market price was EUR 568/tonne, 7% lower than in the same period last year (EUR 614/tonne). At the end of June, the BHKP market price was EUR 626/tonne.

Global chemical pulp shipments increased from last year. Demand growth was mainly driven by growth markets, especially China, while the mature markets of Western Europe, North America and Japan posted declines.

Forest and Timber

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	473	426	414	403	440	394	899	834	1,651
EBITDA, EURm [1]	7	8	–8	4	11	5	15	16	12
% of sales	1.5	1.9	–1.9	1.0	2.5	1.3	1.7	1.9	0.7
Change in fair value of biological assets and wood harvested, EURm	–2	–1	42	2	11	2	–3	13	57
Share of results of associated companies and joint ventures, EURm	1	–	1	–	1	–	1	1	2
Depreciation, amortisation and impairment charges, EURm	–35	–5	–6	–5	–5	–5	–40	–10	–21
Operating profit, EURm	–41	2	28	2	20	2	–39	22	52
% of sales	–8.7	0.5	6.8	0.5	4.5	0.5	–4.3	2.6	3.1
Special items, EURm [2]	–43	–	–1	1	2	–	–43	2	2
Operating profit excl. special items, EURm	2	2	29	1	18	2	4	20	50
% of sales	0.4	0.5	7.0	0.2	4.1	0.5	0.4	2.4	3.0
Sawn timber deliveries, 1,000 m^3	462	426	412	422	495	354	888	849	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 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.

Q2 2012 compared with Q2 2011

Operating profit excluding special items for Forest and Timber was EUR 2 million (18 million). Sales increased by 8% to EUR 473 million (440 million).

Sawn timber deliveries and sales prices decreased. Fixed costs were lower.

The decrease in the fair value of biological assets net of wood harvested was EUR 2 million (increase of 11 million). The increase in the fair value of biological assets (growing trees) was EUR 21 million (36 million). The cost of wood harvested from own forests was EUR 23 million (25 million).

Q2 2012 compared with Q1 2012

Sawn timber deliveries grew seasonally and sales prices increased. Fixed costs were seasonally higher.

The decrease in the fair value of biological assets net of wood harvested was EUR 2 million (decrease of 1 million). The increase in the fair value of biological assets (growing trees) was EUR 21 million (16 million). The cost of wood harvested from own forests was EUR 23 million (17 million).

January–June 2012 compared to January–June 2011

Operating profit excluding special items for Forest and Timber was EUR 4 million (20 million). Sales increased by 8% to EUR 899 million (834 million).

In sawn timber, lower fixed costs and an increase in deliveries were not enough to fully offset the negative impact of lower prices.

The decrease in the fair value of biological assets net of wood harvested was EUR 3 million (increase of 13 million). The increase in the fair value of biological assets (growing trees) was EUR 37 million (51 million). The cost of wood harvested from own forests was EUR 40 million (38 million).

Market review

In the first half of 2012, Finnish wood market activity improved compared with the same period last year. Wood purchases in the Finnish wood market totalled 14.8 million cubic metres, well above last year's level (9.3 million cubic metres).

Wood market prices for log and pulpwood increased gradually during spring and retreated in June. Prices were on average slightly lower compared with the same period last year.

In the first half of 2012, sawn timber demand was stable in Northern Europe and North Africa. Weak demand continued in Southern Europe.

Paper

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	1,797	1,762	1,976	1,895	1,666	1,647	3,559	3,313	7,184
EBITDA, EURm [1]	136	153	150	139	126	102	289	228	517
% of sales	7.6	8.7	7.6	7.3	7.6	6.2	8.1	6.9	7.2
Share of results of associated companies and joint ventures, EURm	–	–	1	1	–	–	–	–	2
Depreciation, amortisation and impairment charges, EURm	–134	–136	–147	–205	–126	–125	–270	–251	–603
Operating profit, EURm	23	15	–8	–286	2	–23	38	–21	–315
% of sales	1.3	0.9	–0.4	–15.1	0.1	–1.4	1.1	–0.6	–4.4
Special items, EURm [2]	21	–2	–12	–289	2	–	19	2	–299
Operating profit excl. special items, EURm	2	17	4	3	0	–23	19	–23	–16
% of sales	0.1	1.0	0.2	0.2	0.0	–1.4	0.5	–0.7	–0.2
Deliveries, publication papers, 1,000 t	1,759	1,695	2,080	1,942	1,563	1,486	3,454	3,049	7,071
Deliveries, fine and speciality papers, 1,000 t	910	889	829	855	909	951	1,799	1,860	3,544
Paper deliveries total, 1,000 t	2,669	2,584	2,909	2,797	2,472	2,437	5,253	4,909	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] 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.

Q2 2012 compared with Q2 2011

Operating profit excluding special items was EUR 2 million (0 million). Sales were EUR 1,797 million (1,666 million). Paper deliveries increased by 8% to 2,669,000 tonnes (2,472,000). Deliveries of publication papers (magazine papers and newsprint) increased by 13%, mainly due to the acquisition of Myllykoski in August 2011. Deliveries of fine and speciality papers were on last year's level. Proforma (UPM and Myllykoski) paper deliveries decreased by 12%.

Operating profit excluding special items remained on last year's level. On a comparable basis, fibre and fixed costs decreased, but this was offset by a reduction in deliveries.

The average price for all paper deliveries in euros was slightly higher than last year.

Q2 2012 compared with Q1 2012

Operating profit excluding special items decreased compared with Q1 2012, mainly due to higher fixed costs. A small decline in paper prices was offset by higher delivery volumes.

Compared with Q1 2012, the average paper price decreased by nearly 1%.

January–June 2012 compared to January–June 2011

Operating profit excluding special items was EUR 19 million (a loss of EUR 23 million). Sales were EUR 3,559 million (3,313 million). Paper deliveries increased by 7% to 5,253,000 tonnes (4,909,000). Deliveries of publication papers (magazine papers and newsprint) increased by 13%, mainly due to the acquisition of Myllykoski. Deliveries of fine and speciality papers decreased by 3%. Proforma paper deliveries decreased by 12%.

Operating profit excluding special items improved by EUR 42 million compared with last year's level. 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 was approximately 1% higher than last year.

Market review

In January–June, demand for publication papers in Europe was 8% lower, and for fine papers 3% lower, than a year ago. In North America, demand for magazine papers decreased 12% from last year. In Asia, demand for fine papers grew.

In Europe, publication paper prices decreased in the first half of the year by 3% from the same period last year, and in the second quarter of 2012 remained approximately on the same level as in the first quarter of 2012.

Fine paper prices decreased in the first half of the year by 2% from the same period last year, and in the second quarter of 2012 remained approximately on the same level as in the first quarter of 2012.

In North America, the average US dollar price for magazine papers decreased in the first half of the year by 2% from the same period last year. Prices decreased in the second quarter by 2% compared to the first quarter of 2012.

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

Label

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	298	298	287	292	293	278	596	571	1,150
EBITDA, EURm [1]	31	31	24	23	27	27	62	54	101
% of sales	10.4	10.4	8.4	7.9	9.2	9.7	10.4	9.5	8.8
Depreciation, amortisation and impairment charges, EURm	–9	–8	–9	–8	–8	–8	–17	–16	–33
Operating profit, EURm	22	23	14	14	21	19	45	40	68
% of sales	7.4	7.7	4.9	4.8	7.2	6.8	7.6	7.0	5.9
Special items, EURm [2]	–	–	–1	–1	2	–	–	2	–
Operating profit excl. special items, EURm	22	23	15	15	19	19	45	38	68
% of sales	7.4	7.7	5.2	5.1	6.5	6.8	7.6	6.7	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.

Q2 2012 compared with Q2 2011

Operating profit excluding special items for Label was EUR 22 million (19 million). Sales increased by 2% to EUR 298 million (293 million).

Operating profit excluding special items improved compared with last year, mainly due to lower variable costs and higher sales prices. Volumes decreased in standard products from last year's very high levels. Fixed costs were higher, mainly due to expanded operations in North America and Brazil.

Q2 2012 compared with Q1 2012

Reduction in raw material costs and favourable currency development more than offset the impact of small price decreases in local currencies. Fixed costs increased.

January–June 2012 compared to January–June 2011

Operating profit excluding special items for Label was EUR 45 million (38 million). Sales increased by 4% to EUR 596 million (571 million).

Operating profit excluding special items improved, mainly due to lower variable costs. Fixed costs increased, mainly due to expanded operations in North America and Brazil.

Market review

In January-June, due to the macro-economic weakness, demand for self-adhesive label materials in Western Europe is estimated to have declined slightly compared to the same period last year. Demand in North America is estimated to have increased slightly. Demand in Eastern Europe, Asia and Latin America is estimated to have experienced moderate growth compared with last year.

Plywood

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	101	96	88	87	107	94	197	201	376
EBITDA, EURm [1]	10	4	6	0	8	4	14	12	18
% of sales	9.9	4.2	6.8	0.0	7.5	4.3	7.1	6.0	4.8
Depreciation, amortisation and impairment charges, EURm	–5	–5	–5	–4	–4	–5	–10	–9	–18
Operating profit, EURm	5	–1	1	–8	1	–1	4	0	–7
% of sales	5.0	–1.0	1.1	–9.2	0.9	–1.1	2.0	0.0	–1.9
Special items, EURm [2]	–	–	–	–4	–3	–	–	–3	–7
Operating profit excl. special items, EURm	5	–1	1	–4	4	–1	4	3	0
% of sales	5.0	–1.0	1.1	–4.6	3.7	–1.1	2.0	1.5	0.0
Deliveries, plywood, 1,000 m^3	175	170	148	155	191	162	345	353	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.

Q2 2012 compared with Q2 2011

Operating profit excluding special items for Plywood was EUR 5 million (4 million). Sales decreased by 6% to EUR 101 million (107 million). Plywood deliveries decreased by 8% to 175,000 cubic metres (191,000).

Higher sales prices and lower fixed costs offset the impact of lower delivery volumes.

Q2 2012 compared with Q1 2012

Sales prices increased and delivery volumes increased seasonally.

January–June 2012 compared to January–June 2011

Operating profit excluding special items for Plywood was EUR 4 million (3 million). Sales decreased by 2% to EUR 197 million (201 million).

Fixed costs decreased, more than offsetting the impact of lower deliveries. Sales prices and wood costs increased.

The extension and the modernisation work at the Savonlinna mill was completed during the second quarter and the improved mill was officially opened in June.

Market review

In first half of 2012, plywood demand is estimated to have declined in Europe compared to the same period of 2011. Construction related end-use segments weakened in particular.

The demand-supply balance improved in spruce plywood, however, mainly due to some delivery problems from overseas resulting in lower spruce imports to European markets. Plywood prices increased during the period and on average were slightly higher than last year.

Other operations

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales, EURm	77	54	52	58	43	35	131	78	188
EBITDA, EURm [1]	−41	−23	3	3	−15	−14	−64	−29	−23
Share of results of associated companies and joint ventures, EURm	–	–	–	–	2	−2	–	–	–
Depreciation, amortisation and impairment charges, EURm	−2	−3	−2	−4	−2	−3	−5	−5	−11
Operating profit, EURm	−41	−20	−1	−4	−16	−19	−61	−35	−40
Special items, EURm [2]	2	6	−2	−2	−1	–	8	−1	−5
Operating profit excl. special items, EURm	−43	−26	1	−2	−15	−19	−69	−34	−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 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.

Q2 2012 compared with Q2 2011

Excluding special items, the operating loss for Other operations was EUR 43 million (a loss of EUR 15 million). Sales amounted to EUR 77 million (43 million).

Operating loss includes net currency losses of EUR 11 million (3 million) mainly due to EUR 15 million fair value losses in currency cash flow hedges. Change in inventory margins from inter-business deliveries was EUR -12 million (-5 million).

Q2 2012 compared with Q1 2012

Excluding special items, the operating loss for Other operations was EUR 43 million (a loss of EUR 26 million). Sales amounted to EUR 77 million (54 million).

Operating loss includes net currency losses of EUR 11 million (0 million) mainly due to EUR 15 million fair value losses in currency cash flow hedges. Change in inventory margins from inter-business deliveries was EUR -12 million (-8 million).

January–June 2012 compared to January–June 2011

Excluding special items, the operating loss for Other operations was EUR 69 million (a loss of EUR 34 million). Sales amounted to EUR 131 million (78 million).

Operating loss includes net currency losses of EUR 11 million (4 million) from currency cash flow hedges. Change in inventory margins from inter-business deliveries was EUR -20 million (-3 million).

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

Outlook for 2012

Global economic growth is expected to continue in 2012. In Europe, economic growth is weak and uncertainty persists. During the summer, there has been an increase in the risks related both to the European sovereign debt problems and to the growth prospects of the Chinese economy.

Profitability in UPM's businesses improved in H1 2012 compared with H2 2011. In H2 2012, profitability in UPM's businesses is not expected to improve materially compared with H1 2012. Operating profit excluding special items for the full year 2012 is expected to be lower than in 2011.

UPM's cost level decreased in H1 2012. Variable costs are expected to remain largely on the same level in Q3 2012. The realisation of the Myllykoski cost synergies is expected to continue as planned, and cost synergies of more than EUR 150 million are expected to affect UPM's full-year 2012 results.

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

UPM's hydropower generation volume is expected to continue at a relatively good rate in Q3 2012. UPM's average electricity sales price in Q3 2012 is expected to be on about the same level as in Q2 2012.

Chemical pulp deliveries are expected to be on about the same level in Q3 2012 as in Q2 2012. The average price of UPM's pulp deliveries is estimated to be slightly lower in Q3 2012 than in Q2 2012.

In the sawn timber business, delivery volumes are expected to decrease seasonally in Q3 2012 from Q2 2012. Prices are expected to remain stable.

UPM's paper deliveries are expected to be on about the same level in Q3 2012 as in Q2 2012. The average price of UPM's paper deliveries in euros is expected to be on about the same level in Q3 2012 as in Q2 2012.

Label materials deliveries are expected to be seasonally slightly lower in Q3 2012 than in Q2 2012. Sales prices in local currencies are expected to be stable in Q3 2012 compared with Q2 2012. Variable costs are expected to increase slightly from Q2.

Plywood deliveries are expected to decrease seasonally in Q3 2012 from Q2 2012. Sales prices are expected to remain stable.

Shares

In Q1–Q2 2012, UPM shares worth EUR 3,286 million (4,953 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent about 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 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 30 June 2012 was 525,807,161, including subscriptions of 834,323 shares during January–June 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 217,049 of its own shares, representing approximately 0.04% of the total number of the company's shares and voting rights. Of these shares, 5,568 shares have been returned to the company in accordance with the Group's share reward scheme due to the termination of employment contracts.

Dividend

In accordance with the decision of the Annual General Meeting, held on 30 March 2012, the dividend of EUR 315 million was paid on 13 April 2012.

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.

Based on the information submitted by AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit on 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. TVO will update its counterclaim during the arbitration proceedings, which may continue for several years, and the claimed and counterclaimed amounts may change.

TVO has received an ICC arbitration tribunal decision made in June 2012, according to which a few partial payments, totalling approximately EUR 100 million, previously made to a blocked account by TVO under the plant contract, will be released to the Supplier and TVO will pay interest, the net amount of which is approximately EUR 23 million. The decision takes no position on the delay of the plant unit and the cost resulting from the delay.

In Uruguay, there is one pending litigation case 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, individuals and companies, as well as municipalities and parishes, have filed claims. The capital amounts of all of the claims amount to EUR 238 million in the aggregate jointly and severally from UPM and two other companies, or alternatively and individually from UPM in the aggregate EUR 56 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 provisions have been made in UPM's accounts for any of these 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.

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 July 3 2012, UPM announced it had entered into exclusive negotiations with VPK Packaging Group NV and Klingele Papierwerke for the sale of assets and part of the land at the UPM Stracel paper mill site in Strasbourg, France. VPK and Klingele have made an offer for the acquisition of assets from UPM. The offer is subject to finalisation of a review by the bank mandated for the financing.

VPK and Klingele plan to convert the Stracel mill into a recycled fibre-based containerboard unit, producing fluting and test liner. The new converted mill would create 140 jobs.

This transaction is subject to completion of the employee information and consultation process on the planned closure of Stracel and the social plan implemented by UPM. This process is expected to be completed during the second half of 2012.

Helsinki, 7 August 2012

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q2/2012	Q2/2011	Q1–Q2/2012	Q1–Q2/2011	Q1–Q4/2011
Sales	2,619	2,423	5,210	4,779	10,068
Other operating income	40	15	58	35	86
Costs and expenses	–2,332	–2,064	–4,590	–4,061	–9,013
Change in fair value of biological assets and wood harvested	1	11	–	14	64
Share of results of associated companies and joint ventures	–13	84	–14	83	82
Depreciation, amortisation and impairment charges	–223	–180	–417	–363	–828
Operating profit (loss)	92	289	247	487	459
Gains on available-for-sale investments, net	34	68	38	68	71
Exchange rate and fair value gains and losses	–3	–14	5	–16	–33
Interest and other finance costs, net	–22	–27	–48	–28	–80
Profit (loss) before tax	101	316	242	511	417
Income taxes	–14	–21	–38	–47	40
Profit (loss) for the period	87	295	204	464	457
Attributable to:					
Owners of the parent company	87	295	204	464	457
Non-controlling interests	–	–	–	–	–
	87	295	204	464	457
Earnings per share for profit (loss) attributable to owners of the parent company					
Basic earnings per share, EUR	0.17	0.56	0.39	0.89	0.88
Diluted earnings per share, EUR	0.17	0.57	0.39	0.89	0.87

Consolidated statement of comprehensive income

EURm	Q2/2012	Q2/2011	Q1–Q2/2012	Q1–Q2/2011	Q1–Q4/2011
Profit (loss) for the period	87	295	204	464	457
Other comprehensive income for the period, net of tax:					
Translation differences	175	–47	114	–209	112
Net investment hedge	–20	7	–16	26	–6
Cash flow hedges	–31	20	–5	76	22
Available-for-sale investments	–35	–24	–39	5	2
Share of other comprehensive income of associated companies	2	–4	2	–1	–
Other comprehensive income for the period, net of tax	91	–48	56	–103	130
Total comprehensive income for the period	178	247	260	361	587
Total comprehensive income attributable to:					
Owners of the parent company	178	247	260	361	587
Non-controlling interests	–	–	–	–	–
	178	247	260	361	587

This interim report is unaudited

Consolidated balance sheet

EURm	30.6.2012	30.6.2011	31.12.2011
ASSETS			
Non-current assets			
Goodwill	1,009	1,013	1,022
Other intangible assets	460	420	458
Property, plant and equipment	6,000	5,504	6,242
Investment property	40	33	39
Biological assets	1,508	1,459	1,513
Investments in associated companies and joint ventures	601	647	717
Available-for-sale investments	147	263	260
Non-current financial assets	468	270	415
Deferred tax assets	531	370	508
Other non-current assets	252	229	238
	11,016	10,208	11,412
Current assets			
Inventories	1,455	1,380	1,429
Trade and other receivables	2,172	1,764	2,003
Income tax receivables	11	6	26
Cash and cash equivalents	89	250	495
	3,727	3,400	3,953
Assets classified as held for sale	61	–	24
Total assets	14,804	13,608	15,389
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	890	890	890
Treasury shares	–2	–	–2
Translation differences	259	–128	161
Fair value and other reserves	89	180	129
Reserve for invested non-restricted equity	1,204	1,145	1,199
Retained earnings	4,977	5,093	5,084
	7,417	7,180	7,461
Non-controlling interests	16	16	16
Total equity	7,433	7,196	7,477
Non-current liabilities			
Deferred tax liabilities	669	650	675
Retirement benefit obligations	476	423	490
Provisions	180	115	326
Interest-bearing liabilities	3,737	2,768	3,750
Other liabilities	133	65	79
	5,195	4,021	5,320
Current liabilities			
Current interest-bearing liabilities	334	952	883
Trade and other payables	1,738	1,376	1,667
Income tax payables	49	63	38
	2,121	2,391	2,588
Liabilities related to assets classified as held for sale	55	–	4
Total liabilities	7,371	6,412	7,912
Total equity and liabilities	14,804	13,608	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-controlling 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	–	–	–	–	–	464	464	–	464
Translation differences	–	–	–209	–	–	–	–209	–	–209
Net investment hedge, net of tax	–	–	26	–	–	–	26	–	26
Cash flow hedges, net of tax	–	–	–	76	–	–	76	–	76
Available-for-sale investments	–	–	–	5	–	–	5	–	5
Share of other comprehensive income of associated companies	–	–	–	–	–	–1	–1	–	–1
Total comprehensive income for the period	–	–	–183	81	–	463	361	–	361
Share-based compensation, net of tax	–	–	–	11	–	–	11	–	11
Dividend distribution	–	–	–	–	–	–286	–286	–	–286
Other items	–	–	–	–2	–	3	1	–	1
Total transactions with owners for the period	–	–	–	9	–	–283	–274	–	–274
Balance at 30 June 2011	890	–	–128	180	1,145	5,093	7,180	16	7,196
Balance at 1 January 2012	890	–2	161	129	1,199	5,084	7,461	16	7,477
Profit (loss) for the period	–	–	–	–	–	204	204	–	204
Translation differences	–	–	114	–	–	–	114	–	114
Net investment hedge, net of tax	–	–	–16	–	–	–	–16	–	–16
Cash flow hedges, net of tax	–	–	–	–5	–	–	–5	–	–5
Available-for-sale investments	–	–	–	–39	–	–	–39	–	–39
Share of other comprehensive income of associated companies	–	–	–	–	–	2	2	–	2
Total comprehensive income for the period	–	–	98	–44	–	206	260	–	260
Share options exercised	–	–	–	–	5	–	5	–	5
Share-based compensation, net of tax	–	–	–	4	–	2	6	–	6
Dividend distribution	–	–	–	–	–	–315	–315	–	–315
Total transactions with owners for the period	–	–	–	4	5	–313	–304	–	–304
Balance at 30 June 2012	890	–2	259	89	1,204	4,977	7,417	16	7,433

Condensed consolidated cash flow statement

EURm	Q1–Q2/2012	Q1–Q2/2011	Q1–Q4/2011
Cash flow from operating activities			
Profit (loss) for the period	204	464	457
Adjustments	286	220	792
Change in working capital	–75	–209	–73
Cash generated from operations	415	475	1,176
Finance costs, net	–39	–2	–41
Income taxes paid	–33	–27	–94
Net cash generated from operating activities	343	446	1,041
Cash flow from investing activities			
Capital expenditure	–194	–131	–286
Acquisitions and share purchases	–	–1	–18
Asset sales and other investing cash flow [1]	340	154	173
Net cash used in investing activities	146	22	–131
Cash flow from financing activities			
Change in loans and other financial items	–586	–199	–385
Share options exercised	5	–	–
Dividends paid	–315	–286	–286
Net cash used in financing activities	–896	–485	–671
Change in cash and cash equivalents	–407	–17	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	–407	–17	239
Cash and cash equivalents at end of period	89	250	495

[1] Asset sales and other investing cash flow in Q1–Q2 2012 includes the dividend of EUR 105 million from Pohjolan Voima Oy.

Quarterly information

EURm	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales	2,619	2,591	2,686	2,603	2,423	2,356	5,210	4,799	10,068
Other operating income	40	18	24	27	15	20	58	35	86
Costs and expenses	−2,332	−2,258	−2,425	−2,527	−2,064	−1,997	−4,590	−4,061	−9,013
Change in fair value of biological assets and wood harvested	1	−1	49	1	11	3	–	14	64
Share of results of associated companies and joint ventures	−13	−1	−2	1	84	−1	−14	83	82
Depreciation, amortisation and impairment charges	−223	−194	−201	−264	−180	−183	−417	−363	−828
Operating profit (loss)	92	155	131	−159	289	198	247	487	459
Gains on available-for-sale investments, net	34	4	5	−2	68	–	38	68	71
Exchange rate and fair value gains and losses	−3	8	−13	−4	−14	−2	5	−16	−33
Interest and other finance costs, net	−22	−26	−29	−23	−27	−1	−48	−28	−80
Profit (loss) before tax	101	141	94	−188	316	195	242	511	417
Income taxes	−14	−24	8	79	−21	−26	−38	−47	40
Profit (loss) for the period	87	117	102	−109	295	169	204	464	457
Attributable to:									
Owners of the parent company	87	117	102	−109	295	169	204	464	457
Non-controlling interests	–	–	–	–	–	–	–	–	–
	87	117	102	−109	295	169	204	464	457
Basic earnings per share, EUR	0.17	0.22	0.20	−0.21	0.56	0.33	0.39	0.89	0.88
Diluted earnings per share, EUR	0.17	0.22	0.19	−0.21	0.57	0.32	0.39	0.89	0.87
Earnings per share, excluding special items, EUR	0.14	0.22	0.16	0.19	0.26	0.32	0.36	0.58	0.93
Average number of shares basic (1,000)	525,592	524,903	524,790	523,128	519,970	519,970	525,248	519,970	521,965
Average number of shares diluted (1,000)	526,408	526,528	526,154	523,184	523,080	523,182	526,468	523,131	523,900
Special items in operating profit (loss)	−26	4	−16	−295	88	–	−22	88	−223
Operating profit (loss), excl. special items	118	151	147	136	201	198	269	399	682
% of sales	4.5	5.8	5.5	5.2	8.3	8.4	5.2	8.3	6.8
Special items in financial items	35	–	–	–	68	–	35	68	68
Special items before tax	9	4	−16	−295	156	–	13	156	−155
Profit (loss) before tax, excl. special items	92	137	110	107	160	195	229	355	572
% of sales	3.5	5.3	4.1	4.1	6.6	8.3	4.4	7.4	5.7
Impact on taxes from special items	3	–	33	84	5	3	3	8	125
Return on equity, excl. special items, %	4.1	6.1	4.6	5.6	7.4	9.3	5.0	8.4	6.7
Return on capital employed, excl. special items, %	4.1	5.9	4.6	4.6	6.6	7.8	4.9	7.2	5.8
EBITDA	316	347	301	331	372	379	663	751	1,383
% of sales	12.1	13.4	11.2	12.7	15.4	16.1	12.7	15.7	13.7
Share of results of associated companies and joint ventures									
Energy	−14	−1	−5	–	81	1	−15	82	77
Pulp	–	–	1	–	–	–	–	–	1
Forest and Timber	1	–	1	–	1	–	1	1	2
Paper	–	–	1	1	–	–	–	–	2
Other operations	–	–	–	–	2	−2	–	–	–
Total	−13	−1	−2	1	84	−1	−14	83	82

Deliveries

	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Electricity, GWh	2,158	2,405	2,322	2,057	2,178	2,354	4,563	4,532	8,911
Pulp, 1,000 t	755	884	720	722	770	780	1,639	1,550	2,992
Sawn timber, 1,000 m^3	462	426	412	422	495	354	888	849	1,683
Publication papers, 1,000 t	1,759	1,695	2,080	1,942	1,563	1,486	3,454	3,049	7,071
Fine and speciality papers, 1,000 t	910	889	829	855	909	951	1,799	1,860	3,544
Paper deliveries total, 1,000 t	2,669	2,584	2,909	2,797	2,472	2,437	5,253	4,909	10,615
Plywood, 1,000 m^3	175	170	148	155	191	162	345	353	656

Quarterly segment information

EURm	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
Sales									
Energy	99	140	112	104	108	128	239	236	452
Pulp	410	430	349	396	446	457	840	903	1,648
Forest and Timber	473	426	414	403	440	394	899	834	1,651
Paper	1,797	1,762	1,976	1,895	1,666	1,647	3,559	3,313	7,184
Label	298	298	287	292	293	278	596	571	1,150
Plywood	101	96	88	87	107	94	197	201	376
Other operations	77	54	52	58	43	35	131	78	188
Internal sales	–636	–615	–592	–632	–680	–677	–1,251	–1,357	–2,581
Sales, total	2,619	2,591	2,686	2,603	2,423	2,356	5,210	4,779	10,068
EBITDA									
Energy	45	64	66	40	38	60	109	98	204
Pulp	128	110	60	122	177	195	238	372	554
Forest and Timber	7	8	–8	4	11	5	15	16	12
Paper	136	153	150	139	126	102	289	228	517
Label	31	31	24	23	27	27	62	54	101
Plywood	10	4	6	–	8	4	14	12	18
Other operations	–41	–23	3	3	–15	–14	–64	–29	–23
EBITDA, total	316	347	301	331	372	379	663	751	1,383
Operating profit (loss)									
Energy	30	62	61	39	118	60	92	178	278
Pulp	94	74	36	84	143	160	168	303	423
Forest and Timber	–41	2	28	2	20	2	–39	22	52
Paper	23	15	–8	–286	2	–23	38	–21	–315
Label	22	23	14	14	21	19	45	40	68
Plywood	5	–1	1	–8	1	–1	4	0	–7
Other operations	–41	–20	–1	–4	–16	–19	–61	–35	–40
Operating profit (loss), total	92	155	131	–159	289	198	247	487	459
% of sales	3.5	6.0	4.9	–6.1	11.9	8.4	4.7	10.2	4.6
Special items in operating profit									
Energy	–6	–	–	–	86	–	–6	86	86
Pulp	–	–	–	–	–	–	–	–	–
Forest and Timber	–43	–	–1	1	2	–	–43	2	2
Paper	21	–2	–12	–289	2	–	19	2	–299
Label	–	–	–1	–1	2	–	–	2	–
Plywood	–	–	–	–4	–3	–	–	–3	–7
Other operations	2	6	–2	–2	–1	–	8	–1	–5
Special items in operating profit, total	–26	4	–16	–295	88	–	–22	88	–223
Operating profit (loss) excl.special items									
Energy	36	62	61	39	32	60	98	92	192
Pulp	94	74	36	84	143	160	168	303	423
Forest and Timber	2	2	29	1	18	2	4	20	50
Paper	2	17	4	3	0	–23	19	–23	–16
Label	22	23	15	15	19	19	45	38	68
Plywood	5	–1	1	–4	4	–1	4	3	0
Other operations	–43	–26	1	–2	–15	–19	–69	–34	–35
Operating profit (loss) excl. special items, total	118	151	147	136	201	198	269	399	682
% of sales	4.5	5.8	5.5	5.2	8.3	8.4	5.2	8.3	6.8

EURm	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q2/12	Q1–Q2/11	Q1–Q4/11
External sales									
Energy	45	82	52	35	35	55	127	90	177
Pulp	206	197	117	123	152	151	403	303	543
Forest and Timber	199	189	196	190	214	171	388	385	771
Paper	1,766	1,721	1,932	1,841	1,605	1,606	3,487	3,211	6,984
Label	298	298	287	291	293	278	596	571	1,149
Plywood	96	92	82	83	102	90	188	192	357
Other operations	9	12	20	40	22	5	21	27	87
External sales, total	2,619	2,591	2,686	2,603	2,423	2,356	5,210	4,779	10,068
Internal sales									
Energy	54	58	60	69	73	73	112	146	275
Pulp	204	233	232	273	294	306	437	600	1,105
Forest and Timber	274	237	218	213	226	223	511	449	880
Paper	31	41	44	54	61	41	72	102	200
Label	–	–	–	1	–	–	–	–	1
Plywood	5	4	6	4	5	4	9	9	19
Other operations	68	42	32	18	21	30	110	51	101
Internal sales, total	636	615	592	632	680	677	1,251	1,357	2,581

Changes in property, plant and equipment

EURm	Q1–Q2/2012	Q1–Q2/2011	Q1–Q4/2011
Book value at beginning of period	6,242	5,860	5,860
Capital expenditure	120	140	302
Companies acquired	–	2	658
Decreases	–31	–13	–30
Depreciation	–349	–335	–684
Impairment charges	–31	–	–64
Translation difference and other changes	49	–150	200
Book value at end of period	6,000	5,504	6,242

Commitments and contingencies

EURm	30.6.2012	30.6.2011	31.12.2011
Own commitments			
Mortgages	639	736	709
On behalf of associated companies and joint ventures			
Guarantees for loans	5	6	6
On behalf of others			
Other guarantees	5	4	5
Other own commitments			
Leasing commitments for the next 12 months	54	26	54
Leasing commitments for subsequent periods	343	111	343
Other commitments	81	118	87

Capital commitments

EURm	Completion	Total cost	By 31.12.2011	Q1–Q2/2012	After 30.6.2012
Biorefinery/Kaukas	May 2014	150	–	3	147
Power plant/Schongau	December 2014	85	–	1	84
Waste water treatment plant/Pietarsaari	October 2013	30	–	1	29
New folio sheeting plant/Plattling	July 2012	19	–	8	11
Oxygen delignification stage for HW/Kymi pulp	September 2012	13	1	3	9

Notional amounts of derivative financial instruments

EURm	30.6.2012	30.6.2011	31.12.2011
Currency derivatives			
Forward contracts	4,389	3,857	4,560
Options, bought	21	1	10
Options, written	20	1	18
Swaps	937	751	841
Interest rate derivatives			
Forward contracts	3,173	2,568	3,456
Swaps	1,702	2,314	2,315
Other derivatives			
Forward contracts	361	402	278

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

EURm	Q1–Q2/2012	Q1–Q2/2011	Q1–Q4/2011
Sales	85	74	153
Purchases	176	163	356
Non-current receivables at end of period	12	5	5
Trade and other receivables at end of period	24	18	24
Trade and other payables at end of period	25	35	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

	30.6.2012	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
USD	1.2590	1.3356	1.2939	1.3503	1.4453	1.4207
CAD	1.2871	1.3311	1.3215	1.4105	1.3951	1.3785
JPY	100.13	109.56	100.20	103.79	116.25	117.61
GBP	0.8068	0.8339	0.8353	0.8667	0.9026	0.8837
SEK	8.7728	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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