The Biofore Company UPM

# INTERIM REPORT 1 JANUARY – 30 JUNE 2013

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# UPM interim report 1 January – 30 June 2013

## Q2/2013 (compared with Q2/2012)

- Earnings per share excluding special items were EUR 0.20 (0.16), and reported EUR 0.22 (0.39)
- Operating profit excluding special items was EUR 138 million, 5.5% of sales (128 million, 4.9%)
- EBITDA was EUR 258 million, 10.2% of sales (325 million, 12.3% of sales)
- Fixed costs were EUR 36 million lower than last year.

## Q1–Q2/2013 (compared with Q1–Q2/2012)

- Earnings per share excluding special items were EUR 0.38 (0.38), and reported EUR 0.31 (0.62)
- Operating profit excluding special items was EUR 282 million, 5.6% of sales (284 million, 5.4%)
- EBITDA was EUR 542 million, 10.9% of sales (682 million, 13.0% of sales)
- Operating cash flow was EUR 187 million (360 million), impacted by a temporary increase in working capital.

### Key figures

| | Q2/2013 | Q2/2012 | Q1–Q2/2013 | Q1–Q2/2012 | Q1–Q4/2012 |
|---|---|---|---|---|---|
| Sales, EURm | 2,520 | 2,632 | 4,994 | 5,240 | 10,492 |
| EBITDA, EURm [1] | 258 | 325 | 542 | 682 | 1,312 |
| % of sales | 10.2 | 12.3 | 10.9 | 13.0 | 12.5 |
| Operating profit (loss), EURm | 146 | 108 | 227 | 268 | –1,318 |
| excluding special items, EURm | 138 | 128 | 282 | 284 | 556 |
| % of sales | 5.5 | 4.9 | 5.6 | 5.4 | 5.3 |
| Profit (loss) before tax, EURm | 128 | 221 | 194 | 367 | –1,271 |
| excluding special items, EURm | 120 | 101 | 249 | 243 | 471 |
| Net profit (loss) for the period, EURm | 114 | 208 | 161 | 328 | –1,122 |
| Earnings per share, EUR | 0.22 | 0.39 | 0.31 | 0.62 | –2.14 |
| excluding special items, EUR | 0.20 | 0.16 | 0.38 | 0.38 | 0.74 |
| Diluted earnings per share, EUR | 0.22 | 0.39 | 0.31 | 0.62 | –2.13 |
| Return on equity, % | 6.1 | 8.8 | 4.3 | 6.9 | neg. |
| excluding special items, % | 5.7 | 3.6 | 5.4 | 4.2 | 4.2 |
| Return on capital employed, % | 5.2 | 7.2 | 4.1 | 6.1 | neg. |
| excluding special items, % | 4.9 | 3.7 | 5.0 | 4.3 | 4.2 |
| Operating cash flow per share, EUR | 0.16 | 0.27 | 0.35 | 0.69 | 1.98 |
| Equity per share at end of period, EUR | 13.93 | 17.99 | 13.93 | 17.99 | 14.18 |
| Gearing ratio at end of period, % | 48 | 38 | 48 | 38 | 43 |
| Net interest-bearing liabilities at end of period, EURm | 3,524 | 3,593 | 3,524 | 3,593 | 3,210 |
| Capital employed at end of period, EURm | 11,557 | 13,767 | 11,557 | 13,767 | 11,603 |
| Capital expenditure, EURm | 108 | 89 | 168 | 151 | 357 |
| Capital expenditure excluding acquisitions and shares, EURm | 76 | 89 | 136 | 151 | 347 |
| Personnel at end of period | 22,606 | 23,741 | 22,606 | 23,741 | 22,180 |

[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 2013 compared with Q2 2012**

Sales for Q2 2013 were EUR 2,520 million, 4% lower than the EUR 2,632 million in Q2 2012. Sales decreased due to a reduction in paper deliveries and prices.

EBITDA was EUR 258 million, 10.2% of sales (325 million, 12.3% of sales). The decrease in EBITDA was mainly attributable to the Paper business area, as a result of lower average paper prices and lower delivery volumes.

Fixed costs decreased by EUR 36 million from the comparison period. Also, variable costs were slightly lower than last year.

Operating profit excluding special items was EUR 138 million, 5.5% of sales (128 million, 4.9%). Reported operating profit was EUR 146 million, 5.8% of sales (108 million, 4.1% of sales). Depreciation totalled EUR 134 million (230 million), and excluding special items EUR 135 million (199 million).

Operating profit includes net income of EUR 8 million as special items.

The increase in the fair value of biological assets net of wood harvested was EUR 14 million (1 million).

Profit before tax was EUR 128 million (221 million) and excluding special items EUR 120 million (101 million). Net interest and other financing costs were EUR 23 million (82 million positive including the dividend of EUR 105 million from Pohjolan Voima Oy as special income). Exchange rate and fair value gains and losses resulted in a gain of EUR 5 million (loss of EUR 3 million).

Income taxes were EUR 14 million (13 million). Special items in taxes were EUR 0 million (3 million positive).

Profit for Q2 2013 was EUR 114 million (208 million) and earnings per share were EUR 0.22 (0.39). Earnings per share excluding special items were EUR 0.20 (0.16).

### Q2 2013 compared with Q1 2013

EBITDA was EUR 258 million, 10.2% of sales (284 million, 11.5% of sales). EBITDA decreased in the Paper business area mainly as a result of negative impact from unrealised energy hedges. EBITDA in the Energy business area decreased seasonally. Pulp, Forest and Timber, Plywood and Label reported increases in EBITDA.

Fixed costs increased, mainly for seasonal reasons, whereas variable costs remained stable.

Operating profit excluding special items was EUR 138 million, 5.5% of sales (144 million, 5.8%). Depreciation excluding special items totalled EUR 135 million (146 million).

The increase in the fair value of biological assets net of wood harvested was EUR 14 million (6 million).

### January–June of 2013 compared with January–June 2012

Sales for Q1-Q2 2013 were EUR 4,994 million, 5% lower than the EUR 5,240 million in Q1-Q2 2012. Sales decreased due to a reduction in paper deliveries and prices.

EBITDA was EUR 542 million, 10.9% of sales (682 million, 13.0% of sales). The decrease in EBITDA was mainly attributable to the Paper business area, as a result of lower average paper prices and lower delivery volumes.

Fixed costs decreased by EUR 66 million from the comparison period. Also, variable costs were slightly lower than last year.

Operating profit excluding special items was EUR 282 million, 5.6% of sales (284 million, 5.4%). Reported operating profit was EUR 227 million, 4.5% of sales (268 million, 5.1% of sales). Depreciation totalled EUR 279 million (431 million), and excluding special items EUR 281 million (400 million).

Operating profit includes net charges totalling EUR 55 million as special items. The Paper business area recognised net charges of EUR 49 million related to the ongoing restructuring. Charges of EUR 9 million were recognised in Other operations, mainly related to the streamlining of global functions.

The increase in the fair value of biological assets net of wood harvested was EUR 20 million (0 million).

Profit before tax was EUR 194 million (367 million) and excluding special items EUR 249 million (243 million). Net interest and other financing costs were EUR 43 million (56 million positive including the dividend of EUR 105 million from Pohjolan Voima Oy as special income). Exchange rate and fair value gains and losses resulted in a gain of EUR 10 million (gain of EUR 5 million).

Income taxes were EUR 33 million (39 million). Special items in taxes were EUR 15 million positive (3 million positive).

Profit for Q1-Q2 2013 was EUR 161 million (328 million) and earnings per share were EUR 0.31 (0.62). Earnings per share excluding special items were EUR 0.38 (0.38).

Operating cash flow per share was EUR 0.35 (0.69).

## Financing

In January-June 2013, cash flow from operating activities before capital expenditure and financing totalled EUR 187 million (360 million). Working capital increased by EUR 215 million during the period (increase of EUR 77 million) mainly due to seasonal reasons.

The gearing ratio as of 30 June 2013 was 48% (38%). Net interest-bearing liabilities at the end of the period came to EUR 3,524 million (3,593 million).

On 30 June 2013, UPM's cash funds and unused committed credit facilities totalled EUR 1.6 billion.

## Personnel

In January-June 2013, UPM had an average of 22,189 employees (23,562). At the beginning of the year the number of employees was 22,180, and at the end of Q2 it was 22,606, including approximately 1,000 seasonal workers.

## Capital expenditure

In January-June 2013, capital expenditure excluding investments in shares was EUR 136 million, 2.7% of sales (151 million, 2.9% of sales).

UPM is investing in a biorefinery, which will produce renewable diesel from crude tall oil in Lappeenranta, Finland. The biorefinery will produce approximately 100,000 tonnes of advanced renewable diesel for transport each year. Biodiesel production is expected to begin in mid-2014. The total investment will amount to approximately EUR 150 million.

UPM is building 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 mill's energy supply. Start-up is planned for the end of 2014. Total investment is approximately EUR 85 million.

UPM is rebuilding the Pietarsaari pulp mill's effluent treatment plant. The project is expected to be completed by the end of 2013. Total investment is approximately EUR 30 million.

UPM is building a new woodfree speciality paper machine at the UPM Changshu mill in China. The new paper machine will be capable of producing label papers and uncoated woodfree grades. The total investment cost is CNY 3,000 million (approximately EUR 390 million), and the machine is expected to start up in H1 2015.

In June, UPM announced it is participating in the share issue from Pohjolan Voima Oy to finance the Olkiluoto 3 nuclear power plant project. UPM's share of the issue is EUR 119 million, of which EUR 31 million was paid in Q2 2013. The remaining part of the share issue will be implemented during the coming years based on the financing needs of the project.

## Restructuring in Paper and streamlining of functions

In January 2013, UPM announced that it is planning to permanently reduce paper production capacity in Europe by 850,000 tonnes during 2013. UPM also announced plans to streamline the Paper Business Group and the Group's global functions to remain cost competitive in the new business scale. The restructuring plans are estimated to result in annual fixed cost savings of EUR 90 million. The one-off cash restructuring cost is estimated to be EUR 100 million. EUR 46 million of the restructuring costs were recognised in the H1 2013 results.

If all plans are implemented, UPM's personnel would be reduced by approximately 860 people by the end of 2013. The plans affect several countries.

Production at the UPM Stracel mill was ceased in January. The mill produced 270,000 tonnes of coated magazine paper annually. The assets and part of the land at the mill site were sold to Blue Paper SAS in May. The new owner will convert the mill to produce recycled fibre-based fluting and test-liner.

Paper machine 3 at the UPM Rauma mill in Finland and paper machine 4 at the UPM Ettringen mill in Germany were permanently closed in April. Both machines produced uncoated magazine paper; in total 420,000 tonnes annually.

The process of selling the UPM Docelles paper mill in France is ongoing. Docelles produces 160,000 tonnes of uncoated woodfree papers annually. In July UPM initiated an employee information and consultation process with the Central Workers' Council of UPM France on two alternatives, i.e. the sale or permanent closure of the mill.

Negotiations with the employee representatives continue in France and have been concluded in other locations.

In Q2 2013, the actions under the restructuring plans reduced UPM's fixed costs by EUR 9 million, i.e. approximately 40% of the annualised savings had been achieved. The full reduction of EUR 90 million in fixed costs is expected to be reached from the beginning of 2014 onwards.

# Business area reviews

## Energy

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 124 | 117 | 127 | 122 | 100 | 145 | 241 | 245 | 494 |
| EBITDA, EURm [1] | 40 | 61 | 65 | 56 | 45 | 66 | 101 | 111 | 232 |
| % of sales | 32.3 | 52.1 | 51.2 | 45.9 | 45.0 | 45.5 | 41.9 | 45.3 | 47.0 |
| Share of results of associated companies and joint ventures, EURm | – | – | – | – | – | – | – | – | – |
| Depreciation, amortisation and impairment charges, EURm | –3 | –3 | –3 | –3 | –2 | –3 | –6 | –5 | –11 |
| Operating profit, EURm | 37 | 58 | 62 | 53 | 43 | 63 | 95 | 106 | 221 |
| % of sales | 29.8 | 49.6 | 48.8 | 43.4 | 43.0 | 43.4 | 39.4 | 43.3 | 44.7 |
| Special items, EURm | – | – | – | – | – | – | – | – | – |
| Operating profit excl. special items, EURm | 37 | 58 | 62 | 53 | 43 | 63 | 95 | 106 | 221 |
| % of sales | 29.8 | 49.6 | 48.8 | 43.4 | 43.0 | 43.4 | 39.4 | 43.3 | 44.7 |
| Electricity deliveries, GWh | 2,221 | 2,513 | 2,583 | 2,340 | 2,158 | 2,405 | 4,734 | 4,563 | 9,486 |

[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 2013 compared with Q2 2012

Operating profit excluding special items for Energy was EUR 37 million (43 million). Sales increased to EUR 124 million (100 million). The total electricity sales volume was 2,221 GWh during the quarter (2,158 GWh).

Operating profit excluding special items decreased compared with the same period last year, mainly due to negative impact from market value changes of electricity derivatives and lower hydropower generation volumes.

The average electricity sales price increased by 5% to EUR 45.0/MWh (42.9/MWh).

### Q2 2013 compared with Q1 2013

Operating profit excluding special items decreased, mainly due to seasonally lower volumes and prices. Also, market value changes of electricity derivatives impacted negatively.

The average electricity sales price decreased by 4% to EUR 45.0/MWh (46.8/MWh).

### January–June 2013 compared with January–June 2012

Operating profit excluding special items for Energy decreased to EUR 95 million (106 million). Sales decreased by 2% to EUR 241 million (245 million). The total electricity sales volume was 4,734 GWh (4,563 GWh).

Operating profit excluding special items decreased compared with the same period last year, mainly due to negative impact from market value changes of electricity derivatives and lower hydropower generation volumes. The average electricity sales price increased by 1% to EUR 45.9/MWh (45.3/MWh).

### Market review

The average Finnish area spot price on the Nordic electricity exchange in the first half of the year was EUR 41.1/MWh, 9% higher than during the same period last year (37.6/MWh). Coal prices were lower than in last year. The $CO_2$ emission allowance price was EUR 4.2/tonne at the end of the period, 49% lower than on the same date last year (EUR 8.3/tonne).

The Finnish area front-year forward price was EUR 39.9/MWh at the end of the period, 10% lower than on the same date last year (44.2/MWh).

## Pulp

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 414 | 407 | 386 | 406 | 413 | 433 | 821 | 846 | 1,638 |
| EBITDA, EURm [1] | 133 | 114 | 86 | 104 | 127 | 111 | 247 | 238 | 428 |
| % of sales | 32.1 | 28.0 | 22.3 | 25.6 | 30.8 | 25.6 | 30.1 | 28.1 | 26.1 |
| Change in fair value of biological assets and wood harvested, EURm | 6 | 2 | 9 | 3 | 3 | – | 8 | 3 | 15 |
| Share of results of associated companies and joint ventures, EURm | 1 | – | 1 | – | – | – | 1 | – | 1 |
| Depreciation, amortisation and impairment charges, EURm | –37 | –36 | –37 | –37 | –37 | –36 | –73 | –73 | –147 |
| Operating profit, EURm | 104 | 80 | 59 | 70 | 93 | 75 | 184 | 168 | 297 |
| % of sales | 25.1 | 19.7 | 15.3 | 17.2 | 22.5 | 17.3 | 22.4 | 19.9 | 18.1 |
| Special items, EURm [2] | 1 | – | – | – | – | – | 1 | – | – |
| Operating profit excl. special items, EURm | 103 | 80 | 59 | 70 | 93 | 75 | 183 | 168 | 297 |
| % of sales | 24.9 | 19.7 | 15.3 | 17.2 | 22.5 | 17.3 | 22.3 | 19.9 | 18.1 |
| Pulp deliveries, 1,000 t | 774 | 790 | 730 | 759 | 755 | 884 | 1,564 | 1,639 | 3,128 |

[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 2013, special income of EUR 1 million relate to restructuring measures.

### Q2 2013 compared with Q2 2012

Operating profit excluding special items for Pulp increased to EUR 103 million (93 million). Sales remained virtually unchanged at EUR 414 million (413 million). Deliveries increased by 2% to 774,000 tonnes (755,000).

Operating profit excluding special items increased compared with the same period last year, mainly due to higher delivery volumes.

### Q2 2013 compared with Q1 2013

Operating profit excluding special items increased, mainly due to higher average pulp prices.

### January–June 2013 compared with January–June 2012

Operating profit excluding special items for Pulp increased to EUR 183 million (168 million). Sales decreased by 3% to EUR 821 million (846 million). Deliveries decreased by 5% to 1,564,000 tonnes (1,639,000).

Operating profit excluding special items increased compared with the same period last year, mainly due to higher pulp sales prices. Variable costs increased.

### Market review

In the first half of 2013, the average market price of softwood pulp (NBSK) was EUR 637/tonne, 1% lower than during the same period last year (EUR 646/tonne). At the end of June, the NBSK market price was EUR 653/tonne. The average market price of hardwood pulp (BHKP) was EUR 610/tonne, 7% higher than in the same period last year (EUR 568/tonne). At the end of June, the BHKP market price was EUR 623/tonne.

In the first half of 2013 global chemical pulp shipments increased by 3% compared to the same period last year. Shipments to China decreased by 3%, whereas shipments to Western Europe and North America increased by 2% and 8% respectively.

## Forest and Timber

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 439 | 436 | 428 | 364 | 473 | 426 | 875 | 899 | 1,691 |
| EBITDA, EURm [1] | 11 | 3 | –5 | 3 | 7 | 8 | 14 | 15 | 13 |
| % of sales | 2.5 | 0.7 | –1.2 | 0.8 | 1.5 | 1.9 | 1.6 | 1.7 | 0.8 |
| Change in fair value of biological assets and wood harvested, EURm | 8 | 4 | 23 | 10 | –2 | –1 | 12 | –3 | 30 |
| Share of results of associated companies and joint ventures, EURm | – | – | – | – | 1 | – | – | 1 | 1 |
| Depreciation, amortisation and impairment charges, EURm | –3 | –4 | –3 | –6 | –35 | –5 | –7 | –40 | –49 |
| Operating profit, EURm | 20 | 1 | 15 | 3 | –41 | 2 | 21 | –39 | –21 |
| % of sales | 4.6 | 0.2 | 3.5 | 0.8 | –8.7 | 0.5 | 2.4 | –4.3 | –1.2 |
| Special items, EURm [2] | 4 | –2 | –1 | –4 | –43 | – | 2 | –43 | –48 |
| Operating profit excl. special items, EURm | 16 | 3 | 16 | 7 | 2 | 2 | 19 | 4 | 27 |
| % of sales | 3.6 | 0.7 | 3.7 | 1.9 | 0.4 | 0.5 | 2.2 | 0.4 | 1.6 |
| Sawn timber deliveries, 1,000 $m^3$ | 469 | 419 | 426 | 382 | 462 | 426 | 888 | 888 | 1,696 |

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 2013, special income of EUR 4 million relate to restructuring measures. In Q1 2013, special items of EUR 2 million relate to restructuring charges. In Q4 2012, special items of EUR 1 million relate to restructuring charges. In Q3 2012, special items include restructuring charges of EUR 4 million. In Q2 2012, special items of EUR 43 million comprise charges of EUR 41 million relating to the restructuring of sawn timber and further processing operations including an impairment charge of EUR 31 million and other charges of EUR 10 million, and restructuring charges of EUR 2 million in Wood sourcing and forestry operations.

### Q2 2013 compared with Q2 2012

Operating profit excluding special items was EUR 16 million (2 million). Sales decreased by 7% to EUR 439 million (473 million). In sawn timber, sales mix was more favourable and cost efficiency improved as a result of restructuring.

The increase in the fair value of biological assets net of wood harvested was EUR 8 million (decrease of EUR 2 million). The increase in the fair value of biological assets (growing trees) was EUR 26 million (21 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 18 million (23 million).

### Q2 2013 compared with Q1 2013

In sawn timber, sales prices improved and delivery volumes increased seasonally.

The increase in the fair value of biological assets net of wood harvested was EUR 8 million (4 million). The increase in the fair value of biological assets (growing trees) was EUR 26 million (17 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 18 million (13 million).

### January–June 2013 compared with January–June 2012

Operating profit excluding special items for Forest and Timber was EUR 19 million (4 million). Sales decreased by 3% to EUR 875 million (899 million).

In sawn timber, sales mix improved and fixed costs decreased as a result of restructuring.

The increase in the fair value of biological assets net of wood harvested was EUR 12 million (decrease of EUR 3 million). The increase in the fair value of biological assets (growing trees) was EUR 42 million (37 million), including gains on sales of forest. The cost of wood harvested from own forests was EUR 30 million (40 million).

### Market review

In the first half of 2013, Finnish wood market activity improved slightly compared with the same period last year. Wood purchases in the Finnish wood market totalled 16.2 million cubic metres (15.0 million). Wood purchases increased compared to the previous quarter.

In Finland, wood market prices for log and pulpwood increased slightly in the first half of 2013 and were on average 3% higher than last year. In Central Europe, wood market prices remained stable during the first half of 2013 and were slightly higher than last year.

In Western Europe demand for sawn timber remained low due to continued weak building activity during the first half of 2013. In markets outside of Europe, such as North Africa, Japan and China, demand remained good.

## Paper

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 1,644 | 1,641 | 1,841 | 1,821 | 1,841 | 1,813 | 3,285 | 3,654 | 7,316 |
| EBITDA, EURm [1] | 60 | 89 | 137 | 135 | 146 | 160 | 149 | 306 | 578 |
| % of sales | 3.6 | 5.4 | 7.4 | 7.4 | 7.9 | 8.9 | 4.5 | 8.4 | 7.9 |
| Share of results of associated companies and joint ventures, EURm | – | – | – | – | – | 1 | – | 1 | 1 |
| Depreciation, amortisation and impairment charges, EURm | –75 | –85 | –1,921 | –140 | –139 | –141 | –160 | –280 | –2,341 |
| Operating profit, EURm | –11 | –51 | –1,805 | –48 | 28 | 18 | –62 | 46 | –1,807 |
| % of sales | –0.7 | –3.1 | –98.0 | –2.6 | 1.5 | 1.0 | –1.9 | 1.3 | –24.7 |
| Special items, EURm [2] | 5 | –54 | –1,800 | –43 | 21 | –2 | –49 | 19 | –1,824 |
| Operating profit excl. special items, EURm | –16 | 3 | –5 | –5 | 7 | 20 | –13 | 27 | 17 |
| % of sales | –1.0 | 0.2 | –0.3 | –0.3 | 0.4 | 1.1 | –0.4 | 0.7 | 0.2 |
| Deliveries, publication papers, 1,000 t | 1,698 | 1,629 | 1,965 | 1,878 | 1,803 | 1,744 | 3,327 | 3,547 | 7,390 |
| Deliveries, fine and speciality papers, 1,000 t | 837 | 849 | 842 | 840 | 910 | 889 | 1,686 | 1,799 | 3,481 |
| Paper deliveries total, 1,000 t | 2,535 | 2,478 | 2,807 | 2,718 | 2,713 | 2,633 | 5,013 | 5,346 | 10,871 |

[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 2013, special income of EUR 5 million relate to restructuring measures. In Q1 2013, special items of EUR 54 million relate to restructuring charges. In Q4 2012, special items include impairment charges of EUR 1,771 million, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations. In addition Q4 2012 special items include other restructuring charges of EUR 29 million of which impairment charges EUR 8 million. In Q3 2012, special items include restructuring charges of EUR 41 million related into planned Stracel mill closure and EUR 2 million related to other restructuring measures. In Q2 2012, special items comprise of a net gain of EUR 35 million including a capital gain of EUR 51 million from the sale the packaging paper operations of the Pietarsaari and Tervasaari mills and a charge of EUR 16 million from goodwill allocated to the operations sold, and of other restructuring charges of EUR 14 million related to mill closures. Special items in Q1 2012 include restructuring charges of EUR 2 million.

### Q2 2013 compared with Q2 2012

Excluding special items, the operating loss was EUR 16 million (profit of EUR 7 million).

Sales were EUR 1,644 million (1,841 million).

Paper deliveries decreased by 7% to 2,535,000 tonnes (2,713,000). Deliveries of publication papers (magazine papers and newsprint) decreased by 6%. Fine and speciality paper deliveries decreased by 8% mainly affected by the sale of packaging paper operations of the Tervasaari and Pietarsaari mills.

Operating profit excluding special items decreased from last year, mainly due to lower average paper prices. Costs decreased, but this was offset by a reduction in deliveries. Depreciation was lower than last year.

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

### Q2 2013 compared with Q1 2013

Operating profit excluding special items decreased, mainly due to the negative impact of unrealised energy hedges. The positive impact of increased delivery volumes was offset by seasonally higher fixed costs.

The average price for paper deliveries in euros decreased by approximately 1% compared to the previous quarter.

### January–June 2013 compared with January–June 2012

Excluding special items, the operating loss was EUR 13 million (profit of EUR 27 million).

Sales were EUR 3,285 million (3,654 million).

Paper deliveries decreased by 6% to 5,013,000 tonnes (5,346,000). Deliveries of publication papers (magazine papers and newsprint) decreased by 6%. Fine and speciality paper deliveries decreased also by 6%, mainly affected by the sale of packaging paper operations of the Tervasaari and Pietarsaari mills.

Operating profit excluding special items decreased from last year, mainly due to lower average paper prices. Costs decreased, but this was offset by a reduction in deliveries. Depreciation was lower than last year.

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

### Market review

In the first half of 2013, demand for publication papers in Europe was 5% lower, and for fine papers 7% lower, than in the same period last year. In North America, demand for magazine papers remained on last year's level. In Asia, demand for fine papers grew by approximately 2-3%.

In Europe, publication paper prices decreased in the second quarter of the year by 1% compared to the first quarter and in the first half of the year by 7% from the same period last year. Fine paper prices remained stable compared to the previous quarter, and in the first half of the year decreased by 3% compared to the same period last year.

In North America, the average US dollar price for magazine papers decreased in the second quarter by 2% compared to the previous quarter, and in the first half of the year by 2% from the same period last year. In Asia, market prices for fine papers increased in the second quarter by 1% from the previous quarter and in the first half of the year decreased by 2% compared to first half of 2012.

## Label

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 309 | 299 | 301 | 305 | 298 | 298 | 608 | 596 | 1,202 |
| EBITDA, EURm [1] | 28 | 26 | 23 | 30 | 31 | 31 | 54 | 62 | 115 |
| % of sales | 9.1 | 8.7 | 7.6 | 9.8 | 10.4 | 10.4 | 8.9 | 10.4 | 9.6 |
| Depreciation, amortisation and impairment charges, EURm | –9 | –8 | –9 | –8 | –9 | –8 | –17 | –17 | –34 |
| Operating profit, EURm | 19 | 18 | 13 | 20 | 22 | 23 | 37 | 45 | 78 |
| % of sales | 6.1 | 6.0 | 4.3 | 6.6 | 7.4 | 7.7 | 6.1 | 7.6 | 6.5 |
| Special items, EURm [2] | – | – | –1 | –2 | – | – | – | – | –3 |
| Operating profit excl. special items, EURm | 19 | 18 | 14 | 22 | 22 | 23 | 37 | 45 | 81 |
| % of sales | 6.1 | 6.0 | 4.7 | 7.2 | 7.4 | 7.7 | 6.1 | 7.6 | 6.7 |

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

[2] In Q4 2012, special items of EUR 1 million relate to restructuring charges. In Q3 2012, special items include restructuring charges of EUR 2 million.

### Q2 2013 compared with Q2 2012

Operating profit excluding special items for Label was EUR 19 million (22 million). Sales increased by 4% to EUR 309 million (298 million).

Operating profit decreased due to lower unit value added. Expanded operations in growth markets enabled volume growth, more than offsetting the increase in fixed costs.

### Q2 2013 compared with Q1 2013

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

### January–June 2013 compared with January–June 2012

Operating profit excluding special items for Label was EUR 37 million (45 million). Sales increased by 2% to EUR 608 million (596 million).

Operating profit decreased due to lower unit value added. Expanded operations in growth markets enabled volume growth, nearly offsetting the increase in fixed costs.

### Market review

In the first half of 2013, demand in Western Europe and North America is estimated to have grown slightly compared to the same period last year. In emerging markets, demand growth has continued on a good level.

## Plywood

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 111 | 108 | 99 | 94 | 103 | 97 | 219 | 200 | 393 |
| EBITDA, EURm [1] | 12 | 10 | 8 | 2 | 11 | 4 | 22 | 15 | 25 |
| % of sales | 10.8 | 9.3 | 8.1 | 2.1 | 10.7 | 4.1 | 10.0 | 7.5 | 6.4 |
| Depreciation, amortisation and impairment charges, EURm | –5 | –6 | –6 | –5 | –6 | –5 | –11 | –11 | –22 |
| Operating profit, EURm | 7 | 4 | 2 | –3 | 5 | –1 | 11 | 4 | 3 |
| % of sales | 6.3 | 3.7 | 2.0 | –3.2 | 4.9 | –1.0 | 5.0 | 2.0 | 0.8 |
| Special items, EURm | – | – | – | – | – | – | – | – | – |
| Operating profit excl. special items, EURm | 7 | 4 | 2 | –3 | 5 | –1 | 11 | 4 | 3 |
| % of sales | 6.3 | 3.7 | 2.0 | –3.2 | 4.9 | –1.0 | 5.0 | 2.0 | 0.8 |
| Deliveries, plywood, 1,000 $m^3$ | 191 | 186 | 169 | 165 | 175 | 170 | 377 | 345 | 679 |

[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 2013 compared with Q2 2012

Operating profit excluding special items for Plywood was EUR 7 million (EUR 5 million). Sales increased by 8% to EUR 111 million (103 million) and deliveries by 9% to 191,000 cubic metres (175,000) supported by increased exports outside Europe. Plywood's improved customer focus has produced results in increased delivery volumes.

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

### Q2 2013 compared with Q1 2013

Operating profit excluding special items increased, mainly due to seasonally higher delivery volumes.

### January–June 2013 compared with January–June 2012

Operating profit excluding special items for Plywood was EUR 11 million (EUR 4 million). Sales increased by 10% to EUR 219 million (200 million) and deliveries by 9% to 377,000 cubic metres (345,000).

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

### Market review

In the first half of 2013 plywood demand is estimated to have remained stable compared to the same period last year. Demand for industrial applications continued slightly stronger, whereas demand for construction-related end-use segments in Europe remained low. In the second quarter, demand for construction-related end-use segments in Europe increased seasonally. Market prices remained stable during the first half of 2013.

## Other operations

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Sales, EURm | 53 | 57 | 61 | 63 | 77 | 54 | 110 | 131 | 255 |
| EBITDA, EURm 1) | –24 | –18 | –3 | –14 | –28 | –16 | –42 | –44 | –61 |
| Share of results of associated companies and joint ventures, EURm | – | – | –2 | 1 | – | – | – | – | –1 |
| Depreciation, amortisation and impairment charges, EURm | –2 | –4 | –4 | –3 | –2 | –3 | –6 | –5 | –12 |
| Operating profit, EURm | –28 | –29 | –11 | –21 | –28 | –13 | –57 | –41 | –73 |
| Special items, EURm 2) | –2 | –7 | –3 | –4 | 2 | 6 | –9 | 8 | 1 |
| Operating profit excl. special items, EURm | –26 | –22 | –8 | –17 | –30 | –19 | –48 | –49 | –74 |

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 2013, special items of EUR 2 million relate to restructuring charges. In Q1 2013, special items of EUR 7 million relate to restructuring charges mainly related to the streamlining of global functions. In Q4 2012, special items of EUR 3 million relate to restructuring charges. In Q3 2012, special items include restructuring charges of EUR 4 million. In Q2 2012, special items include restructuring charges of EUR 11 million, reimbursement of fine of EUR 6 million, and a sales price adjustment of EUR 7 million from the sale of RFID business. In Q1 2012, special items include a capital gain of EUR 5 million from the sale of RFID business and an income of EUR 1 million from restructuring measures.

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

### Q2 2013 compared with Q2 2012

Operating loss excluding special items for Other operations was EUR 26 million (30 million). Sales totalled EUR 53 million (77 million).

### Q2 2013 compared with Q1 2013

Operating loss excluding special items for Other operations was EUR 26 million (22 million).

### January–June 2013 compared with January–June 2012

Excluding special items, the operating loss for Other operations was EUR 48 million (a loss of 49 million). Sales totalled EUR 110 million (131 million).

## Outlook for 2013

Economic growth in Europe is expected to remain very low in the latter part of 2013. This will continue to have a negative impact on the European graphic paper markets in particular. Growth market economies are expected to fare better, which is supportive for the global pulp and label materials markets as well as paper markets in Asia and wood products markets outside Europe. The current hydrological situation in the Nordic countries is slightly weaker than the long-term average. The forward electricity prices in Finland for the rest of 2013 are slightly lower than the realised market prices in H1 2013.

In H2 2013 compared with H1 2013, the Paper business area is expected to benefit from lower costs, driven partly by the on-going cost reduction measures, and seasonally stronger demand. Pulp business area will be impacted by annual maintenance stops in three of the four pulp mills.

Capital expenditure for 2013 is forecast to be approximately EUR 400 million.

## Shares

In January-June 2013, UPM shares worth EUR 2,500 million (3,286 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent approximately two-thirds of all trading volume in UPM shares. The highest quotation was EUR 9.66 in January and the lowest was EUR 7.30 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 4 April 2013, 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 4 April 2013 authorised the Board to decide on the issuance of new shares and/or the transfer of the company's own shares held by the company and/or the issue of special rights entitling to shares of 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 to shares of 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 4 April 2016.

UPM has two option series that would entitle holders to subscribe for a total of 10,000,000 shares. Share options 2007B and 2007C may both be subscribed for a total of 5,000,000 shares.

Aside 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 2013 was 528,198,947, including subscriptions of 2,074,537 shares through exercising 2007B share options. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,970,388.

At the end of Q2 2013, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of the company shares and voting rights.

## Dividend

In accordance with the decision of the Annual General Meeting, held on 4 April 2013, the dividend of EUR 317 million (EUR 0.60 per share) was paid on 19 April 2013.

## Company directors

At the Annual General Meeting held on 4 April 2013, the number of members of the Board of Directors was increased from nine to ten and Matti Alahuhta, Berndt Brunow, Karl Grotenfelt, Wendy E. Lane, Jussi Pesonen, Ursula Ranin, Veli-Matti Reinikkala, Kim Wahl and Björn Wahlroos were re-elected to the Board for a term continuing until the end of the next Annual General Meeting. Piia-Noora Kauppi was elected as a new Board member.

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

In addition, the Board of Directors elected Karl Grotenfelt as Chairman of the Audit Committee, and Piia-Noora Kauppi, Wendy E. Lane and Kim Wahl as other members of the Committee from among its members. Berndt Brunow was elected as Chairman of the Human Resources Committee, and Ursula Ranin and Veli-Matti Reinikkala were elected as members. Björn Wahlroos was elected as Chairman of the Nomination and Corporate Governance Committee, and Matti Alahuhta and Karl Grotenfelt were elected as members.

## Litigation

On 31 March 2011, Metsähallitus (a Finnish state enterprise which administers state-owned land) filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Finnish Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the Finnish roundwood market. In addition to Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims total EUR 217 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 41 million in the aggregate. In addition to the claims on capital amounts, the claimants are also requesting compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

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

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

Neste Oil Oyj, a Finnish company producing traffic fuels (Neste), has filed an action for declaratory judgment against UPM in June 2013 in the Helsinki District Court. Neste seeks court's declaration that Neste enjoys protection on the basis of its patent against the technology Neste alleges UPM intends to use at the biorefinery which is being constructed at UPM's Kaukas mill site. The said action relates to the same patent of Neste concerning which UPM has filed an invalidation claim in December 2012. The invalidation claim was filed as a procedural precautionary measure to avoid unfounded legal processes. UPM considers Neste's action to be without merit.

In Finland, UPM is participating in the project to construct a new nuclear power plant unit (Olkiluoto 3) through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj (TVO), holding 58.47% of its shares. UPM's indirect share of Olkiluoto 3 is approximately 30%. The start-up of Olkiluoto 3 was originally scheduled for the end of April 2009; however, the construction of the unit has been delayed. Based on the recent progress reports received from the AREVA-Siemens Consortium (Supplier), which is constructing Olkiluoto 3 under a fixed-price turnkey contract, TVO is preparing for the possibility that the start of the regular electricity production of Olkiluoto 3 may be postponed until 2016. The Supplier is responsible for the schedule. In December 2008, the Supplier initiated arbitration proceedings before an International Chamber of Commerce (ICC) arbitration tribunal in relation to the delay of Olkiluoto 3 and related costs. The Supplier's latest monetary claim including indirect items and interest is approximately EUR 1.9 billion. TVO has considered and found the Supplier's claim to be without merit. TVO has submitted a claim and defence in the arbitration proceedings concerning the delay and the ensuing costs incurred at the Olkiluoto 3 project. The quantification estimate of TVO's costs and losses was approximately EUR 1.8 billion which included TVO's actual claim and estimated part. The arbitration proceedings may continue for several years, and the claimed and counterclaimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

## Risks and near term uncertainties

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

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

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

The main earnings sensitivities and the Group's cost structure are presented in the Annual Report of 2012, on page 10. Risks and risk management are presented in the Annual Report of 2012, pages 74-75.

## Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 30 June 2013.

Helsinki, 6 August 2013

UPM-Kymmene Corporation

*Board of Directors*

# Financial information

## Consolidated income statement

| EURm | Q2/2013 | Q2/2012 Restated *) | Q1–Q2/2013 | Q1–Q2/2012 Restated *) | Q1–Q4/2012 Restated *) |
|---|---|---|---|---|---|
| **Sales** | 2,520 | 2,632 | 4,994 | 5,240 | 10,492 |
| Other operating income | –10 | 41 | 27 | 59 | 110 |
| Costs and expenses | –2,245 | –2,337 | –4,536 | –4,602 | –9,353 |
| Change in fair value of biological assets and wood harvested | 14 | 1 | 20 | – | 45 |
| Share of results of associated companies and joint ventures | 1 | 1 | 1 | 2 | 2 |
| Depreciation, amortisation and impairment charges | –134 | –230 | –279 | –431 | –2,614 |
| **Operating profit (loss)** | 146 | 108 | 227 | 268 | –1,318 |
| Gains on available-for-sale investments, net | – | 34 | – | 38 | 38 |
| Exchange rate and fair value gains and losses | 5 | –3 | 10 | 5 | 11 |
| Interest and other finance costs, net | –23 | 82 | –43 | 56 | –2 |
| **Profit (loss) before tax** | 128 | 221 | 194 | 367 | –1,271 |
| Income taxes | –14 | –13 | –33 | –39 | 149 |
| **Profit (loss) for the period** | 114 | 208 | 161 | 328 | –1,122 |
| **Attributable to:** | | | | | |
| Owners of the parent company | 114 | 208 | 161 | 328 | –1,122 |
| Non-controlling interests | – | – | – | – | – |
| | 114 | 208 | 161 | 328 | –1,122 |
| **Earnings per share for profit (loss) attributable to owners of the parent company** | | | | | |
| Basic earnings per share, EUR | 0.22 | 0.39 | 0.31 | 0.62 | –2.14 |
| Diluted earnings per share, EUR | 0.22 | 0.39 | 0.31 | 0.62 | –2.13 |

## Consolidated statement of comprehensive income

| EURm | Q2/2013 | Q2/2012 Restated *) | Q1–Q2/2013 | Q1–Q2/2012 Restated *) | Q1–Q4/2012 Restated *) |
|---|---|---|---|---|---|
| **Profit (loss) for the period** | 114 | 208 | 161 | 328 | –1,122 |
| **Other comprehensive income for the period, net of tax:** | | | | | |
| **Items that will not be reclassified to income statement:** | | | | | |
| Actuarial gains and losses on defined benefit obligations | 75 | – | 75 | – | –98 |
| **Items that may be reclassified subsequently to income statement:** | | | | | |
| Translation differences | –115 | 175 | –44 | 114 | –14 |
| Net investment hedge | 37 | –20 | 20 | –16 | 4 |
| Cash flow hedges | 8 | –31 | –14 | –5 | 46 |
| Available-for-sale investments | – | –268 | 7 | –272 | –672 |
| | –70 | –144 | –31 | –179 | –636 |
| **Other comprehensive income for the period, net of tax** | 5 | –144 | 44 | –179 | –734 |
| **Total comprehensive income for the period** | 119 | 64 | 205 | 149 | –1,856 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent company | 119 | 64 | 205 | 149 | –1,856 |
| Non-controlling interests | – | – | – | – | – |
| | 119 | 64 | 205 | 149 | –1,856 |

*) Retrospective application of new and revised IFRS

## Consolidated balance sheet

| EURm | 30.6.2013 | 30.6.2012 Restated *) | 31.12.2012 Restated *) | 1.1.2012 Restated *) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | 223 | 1,009 | 222 | 1,022 |
| Other intangible assets | 353 | 469 | 366 | 467 |
| Property, plant and equipment | 4,958 | 6,254 | 5,089 | 6,505 |
| Investment property | 41 | 40 | 39 | 39 |
| Biological assets | 1,471 | 1,508 | 1,476 | 1,513 |
| Investments in associated companies and joint ventures | 22 | 30 | 20 | 28 |
| Available-for-sale investments | 2,627 | 2,999 | 2,587 | 3,345 |
| Non-current financial assets | 371 | 476 | 441 | 423 |
| Deferred tax assets | 698 | 551 | 739 | 529 |
| Other non-current assets | 88 | 95 | 87 | 81 |
| | 10,852 | 13,431 | 11,066 | 13,952 |
| **Current assets** | | | | |
| Inventories | 1,420 | 1,465 | 1,388 | 1,439 |
| Trade and other receivables | 1,986 | 2,175 | 1,982 | 2,016 |
| Income tax receivables | 39 | 11 | 21 | 26 |
| Cash and cash equivalents | 314 | 107 | 486 | 512 |
| | 3,759 | 3,758 | 3,877 | 3,993 |
| Assets classified as held for sale | – | 61 | – | 24 |
| **Total assets** | 14,611 | 17,250 | 14,943 | 17,969 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to owners of the parent company** | | | | |
| Share capital | 890 | 890 | 890 | 890 |
| Treasury shares | –2 | –2 | –2 | –2 |
| Translation differences | 124 | 256 | 148 | 158 |
| Fair value and other reserves | 2,222 | 2,584 | 2,232 | 2,857 |
| Reserve for invested non-restricted equity | 1,219 | 1,204 | 1,207 | 1,199 |
| Retained earnings | 2,901 | 4,525 | 2,980 | 4,511 |
| | 7,354 | 9,457 | 7,455 | 9,613 |
| **Non-controlling interests** | 6 | 6 | 6 | 6 |
| **Total equity** | 7,360 | 9,463 | 7,461 | 9,619 |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 597 | 697 | 612 | 702 |
| Retirement benefit obligations | 633 | 624 | 745 | 641 |
| Provisions | 205 | 181 | 207 | 327 |
| Interest-bearing liabilities | 3,617 | 3,947 | 3,724 | 3,972 |
| Other liabilities | 168 | 132 | 142 | 79 |
| | 5,220 | 5,581 | 5,430 | 5,721 |
| **Current liabilities** | | | | |
| Current interest-bearing liabilities | 580 | 357 | 417 | 906 |
| Trade and other payables | 1,392 | 1,745 | 1,566 | 1,682 |
| Income tax payables | 59 | 49 | 69 | 37 |
| | 2,031 | 2,151 | 2,052 | 2,625 |
| Liabilities related to assets classified as held for sale | – | 55 | – | 4 |
| **Total liabilities** | 7,251 | 7,787 | 7,482 | 8,350 |
| **Total equity and liabilities** | 14,611 | 17,250 | 14,943 | 17,969 |

*) Retrospective application of new and revised IFRS

## 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 2012** | 890 | –2 | 161 | 129 | 1,199 | 5,084 | 7,461 | 16 | 7,477 |
| Effect of new and revised IFRS, net of tax | – | – | –3 | 2,728 | – | –573 | 2,152 | –10 | 2,142 |
| **Balance at 1 January 2012 (restated [*])** | 890 | –2 | 158 | 2,857 | 1,199 | 4,511 | 9,613 | 6 | 9,619 |
| Profit (loss) for the period | – | – | – | – | – | 328 | 328 | – | 328 |
| 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, net of tax | – | – | – | –272 | – | – | –272 | – | –272 |
| **Total comprehensive income for the period** | – | – | 98 | –277 | – | 328 | 149 | – | 149 |
| Share options exercised | – | – | – | – | 5 | – | 5 | – | 5 |
| Share-based compensation, net of tax | – | – | – | 4 | – | 2 | 6 | – | 6 |
| Dividend distribution | – | – | – | – | – | –315 | –315 | – | –315 |
| Other items | – | – | – | – | – | –1 | –1 | – | –1 |
| **Total transactions with owners for the period** | – | – | – | 4 | 5 | –314 | –305 | – | –305 |
| **Balance at 30 June 2012** | 890 | –2 | 256 | 2,584 | 1,204 | 4,525 | 9,457 | 6 | 9,463 |
| **Balance at 1 January 2013** | 890 | –2 | 148 | 2,232 | 1,207 | 2,980 | 7,455 | 6 | 7,461 |
| Profit (loss) for the period | – | – | – | – | – | 161 | 161 | – | 161 |
| Actuarial gains and losses on defined benefit obligations, net of tax | – | – | – | – | – | 75 | 75 | – | 75 |
| Translation differences | – | – | –44 | – | – | – | –44 | – | –44 |
| Net investment hedge, net of tax | – | – | 20 | – | – | – | 20 | – | 20 |
| Cash flow hedges, net of tax | – | – | – | –14 | – | – | –14 | – | –14 |
| Available-for-sale investments, net of tax | – | – | – | 7 | – | – | 7 | – | 7 |
| **Total comprehensive income for the period** | – | – | –24 | –7 | – | 236 | 205 | – | 205 |
| Share options exercised | – | – | – | – | 12 | – | 12 | – | 12 |
| Share-based compensation, net of tax | – | – | – | –4 | – | 6 | 2 | – | 2 |
| Dividend distribution | – | – | – | – | – | –317 | –317 | – | –317 |
| Other items | – | – | – | – | – | –3 | –3 | – | –3 |
| **Total transactions with owners for the period** | – | – | – | –4 | 12 | –314 | –306 | – | –306 |
| **Balance at 30 June 2013** | 890 | –2 | 124 | 2,221 | 1,219 | 2,902 | 7,354 | 6 | 7,360 |

[*] Retrospective application of new and revised IFRS

## Condensed consolidated cash flow statement

| EURm | Q1–Q2/2013 | Q1–Q2/2012 Restated *) | Q1–Q4/2012 Restated *) |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit (loss) for the period | 161 | 328 | –1,122 |
| Adjustments | 341 | 182 | 2,278 |
| Change in working capital | –215 | –77 | 34 |
| Cash generated from operations | 287 | 433 | 1,190 |
| Finance costs, net | –34 | –40 | –77 |
| Income taxes paid | –66 | –33 | –73 |
| **Net cash generated from operating activities** | 187 | 360 | 1,040 |
| | | | |
| **Cash flow from investing activities** | | | |
| Capital expenditure | –167 | –197 | –379 |
| Acquisitions and share purchases | –32 | – | –10 |
| Asset sales and other investing cash flow | –4 | 340 | 317 |
| **Net cash used in investing activities** | –203 | 143 | –72 |
| | | | |
| **Cash flow from financing activities** | | | |
| Change in loans and other financial items | 148 | –599 | –687 |
| Share options exercised | 13 | 5 | 8 |
| Dividends paid | –317 | –315 | –315 |
| **Net cash used in financing activities** | –156 | –909 | –994 |
| | | | |
| **Change in cash and cash equivalents** | –172 | –406 | –26 |
| | | | |
| Cash and cash equivalents at beginning of period | 486 | 512 | 512 |
| Foreign exchange effect on cash and cash equivalents | – | 1 | – |
| Change in cash and cash equivalents | –172 | –406 | –26 |
| **Cash and cash equivalents at end of period** | 314 | 107 | 486 |

*) Retrospective application of new and revised IFRS

## Quarterly information

| EURm | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | 2,520 | 2,474 | 2,657 | 2,595 | 2,632 | 2,608 | 4,994 | 5,240 | 10,492 |
| Other operating income | –10 | 37 | 37 | 14 | 41 | 18 | 27 | 59 | 110 |
| Costs and expenses | –2,245 | –2,291 | –2,401 | –2,350 | –2,337 | –2,265 | –4,536 | –4,602 | –9,353 |
| Change in fair value of biological assets and wood harvested | 14 | 6 | 32 | 13 | 1 | –1 | 20 | – | 45 |
| Share of results of associated companies and joint ventures | 1 | – | –1 | 1 | 1 | 1 | 1 | 2 | 2 |
| Depreciation, amortisation and impairment charges | –134 | –145 | –1,983 | –200 | –230 | –201 | –279 | –431 | –2,614 |
| **Operating profit (loss)** | 146 | 81 | –1,659 | 73 | 108 | 160 | 227 | 268 | –1,318 |
| Gains on available-for-sale investments, net | – | – | 2 | –2 | 34 | 4 | – | 38 | 38 |
| Exchange rate and fair value gains and losses | 5 | 5 | –2 | 8 | –3 | 8 | 10 | 5 | 11 |
| Interest and other finance costs, net | –23 | –20 | –31 | –27 | 82 | –26 | –43 | 56 | –2 |
| **Profit (loss) before tax** | 128 | 66 | –1,690 | 52 | 221 | 146 | 194 | 367 | –1,271 |
| Income taxes | –14 | –19 | 204 | –16 | –13 | –26 | –33 | –39 | 149 |
| **Profit (loss) for the period** | 114 | 47 | –1,486 | 36 | 208 | 120 | 161 | 328 | –1,122 |
| **Attributable to:** | | | | | | | | | |
| Owners of the parent company | 114 | 47 | –1,486 | 36 | 208 | 120 | 161 | 328 | –1,122 |
| Non-controlling interests | – | – | – | – | – | – | – | – | – |
| | 114 | 47 | –1,486 | 36 | 208 | 120 | 161 | 328 | –1,122 |
| Basic earnings per share, EUR | 0.22 | 0.09 | –2.83 | 0.07 | 0.39 | 0.23 | 0.31 | 0.62 | –2.14 |
| Diluted earnings per share, EUR | 0.22 | 0.09 | –2.82 | 0.07 | 0.39 | 0.23 | 0.31 | 0.62 | –2.13 |
| Earnings per share, excluding special items, EUR | 0.20 | 0.18 | 0.20 | 0.16 | 0.16 | 0.22 | 0.38 | 0.38 | 0.74 |
| Average number of shares basic (1,000) | 527,922 | 526,252 | 525,649 | 525,592 | 525,592 | 524,903 | 527,087 | 525,248 | 525,434 |
| Average number of shares diluted (1,000) | 528,158 | 526,631 | 526,264 | 526,703 | 526,408 | 526,528 | 527,394 | 526,468 | 526,476 |
| Special items in operating profit (loss) | 8 | –63 | –1,805 | –53 | –20 | 4 | –55 | –16 | –1,874 |
| Operating profit (loss), excl. special items | 138 | 144 | 146 | 126 | 128 | 156 | 282 | 284 | 556 |
| % of sales | 5.5 | 5.8 | 5.5 | 4.9 | 4.9 | 6.0 | 5.6 | 5.4 | 5.3 |
| Special items in financial items | – | – | –8 | – | 140 | – | – | 140 | 132 |
| Special items before tax | 8 | –63 | –1,813 | –53 | 120 | 4 | –55 | 124 | –1,742 |
| Profit (loss) before tax, excl. special items | 120 | 129 | 123 | 105 | 101 | 142 | 249 | 243 | 471 |
| % of sales | 4.8 | 5.2 | 4.6 | 4.0 | 3.8 | 5.4 | 5.0 | 4.6 | 4.5 |
| Impact on taxes from special items | – | 15 | 222 | 5 | 3 | – | 15 | 3 | 230 |
| Return on equity, excl. special items, % | 5.7 | 5.1 | 4.6 | 3.5 | 3.6 | 4.9 | 5.4 | 4.2 | 4.2 |
| Return on capital employed, excl. special items, % | 4.9 | 5.1 | 4.3 | 3.7 | 3.7 | 5.0 | 5.0 | 4.3 | 4.2 |
| EBITDA | 258 | 284 | 317 | 313 | 325 | 357 | 542 | 682 | 1,312 |
| % of sales | 10.2 | 11.5 | 11.9 | 12.1 | 12.3 | 13.7 | 10.9 | 13.0 | 12.5 |
| **Share of results of associated companies and joint ventures** | | | | | | | | | |
| Pulp | 1 | – | 1 | – | – | – | 1 | – | 1 |
| Forest and Timber | – | – | – | – | 1 | – | – | 1 | 1 |
| Paper | – | – | – | – | – | 1 | – | 1 | 1 |
| Other operations | – | – | –2 | 1 | – | – | – | – | –1 |
| **Total** | 1 | – | –1 | 1 | 1 | 1 | 1 | 2 | 2 |

## Deliveries

| | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| Electricity, GWh | 2,221 | 2,513 | 2,583 | 2,340 | 2,158 | 2,405 | 4,734 | 4,563 | 9,486 |
| Pulp, 1,000 t | 774 | 790 | 730 | 759 | 755 | 884 | 1,564 | 1,639 | 3,128 |
| Sawn timber, 1,000 $m^3$ | 469 | 419 | 426 | 382 | 462 | 426 | 888 | 888 | 1,696 |
| Publication papers, 1,000 t | 1,698 | 1,629 | 1,965 | 1,878 | 1,803 | 1,744 | 3,327 | 3,547 | 7,390 |
| Fine and speciality papers, 1,000 t | 837 | 849 | 842 | 840 | 910 | 889 | 1,686 | 1,799 | 3,481 |
| Paper deliveries total, 1,000 t | 2,535 | 2,478 | 2,807 | 2,718 | 2,713 | 2,633 | 5,013 | 5,346 | 10,871 |
| Plywood, 1,000 $m^3$ | 191 | 186 | 169 | 165 | 175 | 170 | 377 | 345 | 679 |

## Quarterly segment information

| EURm | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | |
| Energy | 124 | 117 | 127 | 122 | 100 | 145 | 241 | 245 | 494 |
| Pulp | 414 | 407 | 386 | 406 | 413 | 433 | 821 | 846 | 1,638 |
| Forest and Timber | 439 | 436 | 428 | 364 | 473 | 426 | 875 | 899 | 1,691 |
| Paper | 1,644 | 1,641 | 1,841 | 1,821 | 1,841 | 1,813 | 3,285 | 3,654 | 7,316 |
| Label | 309 | 299 | 301 | 305 | 298 | 298 | 608 | 596 | 1,202 |
| Plywood | 111 | 108 | 99 | 94 | 103 | 97 | 219 | 200 | 393 |
| Other operations | 53 | 57 | 61 | 63 | 77 | 54 | 110 | 131 | 255 |
| Internal sales | −560 | −576 | −571 | −561 | −658 | −642 | −1,136 | −1,300 | −2,432 |
| Eliminations | −14 | −15 | −15 | −19 | −15 | −16 | −29 | −31 | −65 |
| **Sales, total** | 2,520 | 2,474 | 2,657 | 2,595 | 2,632 | 2,608 | 4,994 | 5,240 | 10,492 |
| | | | | | | | | | |
| **EBITDA** | | | | | | | | | |
| Energy | 40 | 61 | 65 | 56 | 45 | 66 | 101 | 111 | 232 |
| Pulp | 133 | 114 | 86 | 104 | 127 | 111 | 247 | 238 | 428 |
| Forest and Timber | 11 | 3 | −5 | 3 | 7 | 8 | 14 | 15 | 13 |
| Paper | 60 | 89 | 137 | 135 | 146 | 160 | 149 | 306 | 578 |
| Label | 28 | 26 | 23 | 30 | 31 | 31 | 54 | 62 | 115 |
| Plywood | 12 | 10 | 8 | 2 | 11 | 4 | 22 | 15 | 25 |
| Other operations | −24 | −18 | −3 | −14 | −28 | −16 | −42 | −44 | −61 |
| Eliminations | −2 | −1 | 6 | −3 | −14 | −7 | −3 | −21 | −18 |
| **EBITDA, total** | 258 | 284 | 317 | 313 | 325 | 357 | 542 | 682 | 1,312 |
| | | | | | | | | | |
| **Operating profit (loss)** | | | | | | | | | |
| Energy | 37 | 58 | 62 | 53 | 43 | 63 | 95 | 106 | 221 |
| Pulp | 104 | 80 | 59 | 70 | 93 | 75 | 184 | 168 | 297 |
| Forest and Timber | 20 | 1 | 15 | 3 | −41 | 2 | 21 | −39 | −21 |
| Paper | −11 | −51 | −1,805 | −48 | 28 | 18 | −62 | 46 | −1,807 |
| Label | 19 | 18 | 13 | 20 | 22 | 23 | 37 | 45 | 78 |
| Plywood | 7 | 4 | 2 | −3 | 5 | −1 | 11 | 4 | 3 |
| Other operations | −28 | −29 | −11 | −21 | −28 | −13 | −57 | −41 | −73 |
| Eliminations | −2 | – | 6 | −1 | −14 | −7 | −2 | −21 | −16 |
| **Operating profit (loss), total** | 146 | 81 | −1,659 | 73 | 108 | 160 | 227 | 268 | −1,318 |
| % of sales | 5.8 | 3.3 | −62.4 | 2.8 | 4.1 | 6.1 | 4.5 | 5.1 | −12.6 |
| | | | | | | | | | |
| **Special items in operating profit** | | | | | | | | | |
| Energy | – | – | – | – | – | – | – | – | – |
| Pulp | 1 | – | – | – | – | – | 1 | – | – |
| Forest and Timber | 4 | −2 | −1 | −4 | −43 | | 2 | −43 | −48 |
| Paper | 5 | −54 | −1,800 | −43 | 21 | −2 | −49 | 19 | −1,824 |
| Label | – | – | −1 | −2 | – | – | – | – | −3 |
| Plywood | – | – | – | – | – | – | – | – | – |
| Other operations | −2 | −7 | −3 | −4 | 2 | 6 | −9 | 8 | 1 |
| Eliminations | – | – | – | – | – | – | – | – | – |
| **Special items in operating profit, total** | 8 | −63 | −1,805 | −53 | −20 | 4 | −55 | −16 | −1,874 |
| | | | | | | | | | |
| **Operating profit (loss) excl. special items** | | | | | | | | | |
| Energy | 37 | 58 | 62 | 53 | 43 | 63 | 95 | 106 | 221 |
| Pulp | 103 | 80 | 59 | 70 | 93 | 75 | 183 | 168 | 297 |
| Forest and Timber | 16 | 3 | 16 | 7 | 2 | 2 | 19 | 4 | 27 |
| Paper | −16 | 3 | −5 | −5 | 7 | 20 | −13 | 27 | 17 |
| Label | 19 | 18 | 14 | 22 | 22 | 23 | 37 | 45 | 81 |
| Plywood | 7 | 4 | 2 | −3 | 5 | −1 | 11 | 4 | 3 |
| Other operations | −26 | −22 | −8 | −17 | −30 | −19 | −48 | −49 | −74 |
| Eliminations | −2 | – | 6 | −1 | −14 | −7 | −2 | −21 | −16 |
| **Operating profit (loss) excl. special items, total** | 138 | 144 | 146 | 126 | 128 | 156 | 282 | 284 | 556 |
| % of sales | 5.5 | 5.8 | 5.5 | 4.9 | 4.9 | 6.0 | 5.6 | 5.4 | 5.3 |

| EURm | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q1–Q2/13 | Q1–Q2/12 | Q1–Q4/12 |
|---|---|---|---|---|---|---|---|---|---|
| **External sales** | | | | | | | | | |
| Energy | 66 | 59 | 69 | 62 | 46 | 87 | 125 | 133 | 264 |
| Pulp | 247 | 238 | 208 | 215 | 201 | 191 | 485 | 392 | 815 |
| Forest and Timber | 194 | 179 | 188 | 172 | 199 | 189 | 373 | 388 | 748 |
| Paper | 1,569 | 1,572 | 1,796 | 1,787 | 1,799 | 1,756 | 3,141 | 3,555 | 7,138 |
| Label | 308 | 298 | 301 | 305 | 298 | 298 | 606 | 596 | 1,202 |
| Plywood | 104 | 102 | 93 | 89 | 97 | 92 | 206 | 189 | 371 |
| Other operations | 29 | 27 | 7 | –16 | 7 | 11 | 56 | 18 | 9 |
| Eliminations | 3 | –1 | –5 | –19 | –15 | –16 | 2 | –31 | –55 |
| **External sales, total** | 2,520 | 2,474 | 2,657 | 2,595 | 2,632 | 2,608 | 4,994 | 5,240 | 10,492 |
| | | | | | | | | | |
| **Internal sales** | | | | | | | | | |
| Energy | 58 | 58 | 58 | 60 | 54 | 58 | 116 | 112 | 230 |
| Pulp | 167 | 169 | 178 | 191 | 212 | 242 | 336 | 454 | 823 |
| Forest and Timber | 245 | 257 | 240 | 192 | 274 | 237 | 502 | 511 | 943 |
| Paper | 75 | 69 | 45 | 34 | 42 | 57 | 144 | 99 | 178 |
| Label | 1 | 1 | – | – | – | – | 2 | – | – |
| Plywood | 7 | 6 | 6 | 5 | 6 | 5 | 13 | 11 | 22 |
| Other operations | 24 | 30 | 54 | 79 | 70 | 43 | 54 | 113 | 246 |
| Eliminations | –17 | –14 | –10 | – | – | – | –31 | – | –10 |
| **Internal sales, total** | 560 | 576 | 571 | 561 | 658 | 642 | 1,136 | 1,300 | 2,432 |

| EURm | 30.6.2013 | 31.3.2013 | 31.12.2012 | 30.9.2012 | 30.6.2012 | 31.3.2012 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Energy | 2,951 | 2,921 | 2,917 | 3,329 | 3,327 | 3,567 |
| Pulp | 2,737 | 2,777 | 2,676 | 2,713 | 2,786 | 2,678 |
| Forest and Timber | 1,825 | 1,880 | 1,851 | 1,861 | 1,927 | 1,993 |
| Paper | 4,044 | 4,079 | 4,138 | 6,162 | 6,310 | 6,342 |
| Label | 652 | 660 | 654 | 664 | 642 | 629 |
| Plywood | 298 | 301 | 295 | 308 | 311 | 305 |
| Other operations | 308 | 293 | 291 | 235 | 234 | 334 |
| Eliminations | –248 | –244 | –208 | –223 | –228 | –237 |
| Unallocated assets | 2,044 | 2,201 | 2,329 | 2,130 | 1,941 | 1,692 |
| **Assets, total** | 14,611 | 14,868 | 14,943 | 17,179 | 17,250 | 17,303 |

## Changes in property, plant and equipment

| EURm | Q1–Q2/2013 | Q1–Q2/2012 | Q1–Q4/2012 |
|---|---|---|---|
| Book value at beginning of period | 5,089 | 6,505 | 6,505 |
| Capital expenditure | 133 | 123 | 312 |
| Companies acquired | – | – | 5 |
| Companies sold | – | – | –19 |
| Decreases | –10 | –31 | –35 |
| Depreciation | –250 | –361 | –716 |
| Impairment charges | 1 | –31 | –954 |
| Translation difference and other changes | –5 | 49 | –9 |
| **Book value at end of period** | 4,958 | 6,254 | 5,089 |

## Fair value of financial instruments

### Financial assets and liabilities measured at fair value

| | 30.6.2013 | | | | 31.12.2012 | | | |
|---|---|---|---|---|---|---|---|---|
| EURm | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | | | | |
| Trading derivatives | 2 | 69 | – | 71 | 1 | 92 | – | 93 |
| Derivatives used for hedging | 96 | 357 | – | 453 | 78 | 417 | – | 495 |
| Available-for-sale investments | – | – | 2,618 | 2,618 | – | – | 2,580 | 2,580 |
| **Total** | 98 | 426 | 2,618 | 3,142 | 79 | 509 | 2,580 | 3,168 |
| **Liabilities** | | | | | | | | |
| Trading derivatives | 22 | 148 | – | 170 | 12 | 124 | – | 136 |
| Derivatives used for hedging | 95 | 47 | – | 142 | 66 | 38 | – | 104 |
| **Total** | 117 | 195 | – | 312 | 78 | 162 | – | 240 |

There have been no transfers between Levels.

Fair values of Level 2 derivative financial instruments have been estimated as follows: Interest forward rate agreements and futures contracts are fair valued based on quoted market rates on the balance sheet date; forward foreign exchange contracts are fair valued based on the contract forward rates in effect on the balance sheet date; foreign currency options are fair valued based on quoted market rates on the balance sheet date; interest and currency swap agreements are fair valued based on discounted cash flows. The fair values of non-traded derivatives such as embedded derivatives are assessed by using valuation methods and assumptions that are based on market quotations existing at each balance sheet date.

### Fair value measurements using significant unobservable inputs, Level 3

| | Q1–Q2/2013 | Q1–Q4/2012 | | |
|---|---|---|---|---|
| EURm | Available-for-sale investments | Available-for-sale investments | Other receivables | Total |
| Opening balance | 2,580 | 3,338 | 3 | 3,341 |
| Additions | 31 | 33 | – | 33 |
| Transfers into Level 3 | – | – | – | – |
| Transfers from Level 3 | – | – | – | – |
| Gains and losses | | | | |
| Recognised in income statement, under gains on available-for-sale investments | – | −109 | −3 | −112 |
| Recognised in statement of comprehensive income, under available-for-sale investments | 7 | −682 | – | −682 |
| **Closing balance** | 2,618 | 2,580 | – | 2,580 |

Fair valuation of available-for-sale investments in the Energy segment (Pohjolan Voima Oy's A, B, B2, C, C2, H, M and V-shares, Kemijoki Oy shares, and Länsi-Suomen Voima Oy shares) is based on discounted cash flows model. The electricity price used in the model is based on the company's estimates. A change of +/-5% in the electricity price used in the model would change the total value of the assets by +/- EUR 360 million. The discount rate of 5.7% used in the valuation model is determined using the weighted average cost of capital method. A change of +/- 0.5% in the discount rate would change the total value of the assets by approximately -/+ EUR 340 million. Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 nuclear power plant project and the on-going arbitration proceedings between the plant supplier AREVA-Siemens Consortium (Supplier) and the plant owner Teollisuuden Voima Oyj (TVO). UPM's indirect share of the capacity of Olkiluoto 3 is approximately 30%, through its PVO B2 shares. The possible outcome of the arbitration proceedings has not been taken into account in the valuation. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

Fair value of the OEP Technologie B.V. shares is based on the discounted value of sales option related to the shareholding.

## Fair value of financial assets and liabilities measured at carrying amount

| EURm | 30.6.2013 | 31.12.2012 |
|---|---|---|
| Non-current interest bearing liabilities, excl. derivative financial instruments | 3,463 | 3,345 |

The fair values of all other financial assets and liabilities approximate their carrying amount.

## Commitments and contingencies

| EURm | 30.6.2013 | 30.6.2012 | 31.12.2012 |
|---|---|---|---|
| **Own commitments** | | | |
| Mortgages | 425 | 639 | 570 |
| **On behalf of associated companies and joint ventures** | | | |
| Guarantees for loans | – | 2 | – |
| **On behalf of others** | | | |
| Other guarantees | 5 | 5 | 5 |
| **Other own commitments** | | | |
| Leasing commitments for the next 12 months | 56 | 54 | 57 |
| Leasing commitments for subsequent periods | 355 | 343 | 365 |
| Other commitments | 139 | 81 | 123 |

## Capital commitments

| EURm | Completion | Total cost | By 31.12.2012 | Q1–Q2/2013 | After 30.6.2013 |
|---|---|---|---|---|---|
| Changshu PM3 | April 2015 | 390 | 2 | 4 | 384 |
| Biorefinery/Kaukas | May 2014 | 150 | 27 | 31 | 92 |
| Power plant/Schongau | December 2014 | 85 | 11 | 10 | 64 |
| Modernisation of fibreline/Pietarsaari | June 2014 | 13 | – | – | 13 |

## Notional amounts of derivative financial instruments

| EURm | 30.6.2013 | 30.6.2012 | 31.12.2012 |
|---|---|---|---|
| Forward foreign exchange contracts | 4,928 | 4,389 | 4,994 |
| Currency options, bought | – | 21 | 9 |
| Currency options, written | – | 20 | 14 |
| Interest rate forward contracts | 2,656 | 3,173 | 3,755 |
| Interest rate swaps | 1,535 | 1,702 | 1,629 |
| Cross currency swaps | 837 | 937 | 882 |
| Commodity contracts | 485 | 361 | 400 |

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

| EURm | Q1–Q2/2013 | Q1–Q2/2012 | Q1–Q4/2012 |
|---|---|---|---|
| Sales | 1 | 31 | 4 |
| Purchases | 38 | 38 | 80 |
| Non-current receivables at end of period | 7 | 5 | 7 |
| Trade and other receivables at end of period | 1 | 8 | 4 |
| Trade and other payables at end of period | 2 | 4 | 4 |

## Basis of preparation and accounting policies

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 2012 except as described below. Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The Group has adopted and early adopted on 1 January 2013 the following new and revised standards that have had impact on the Group's consolidated interim financial statements:

The amendment to IAS 19 Employee Benefits eliminates the corridor approach and calculates interest costs on a net funding basis. Upon the adoption the Group has retrospectively recognised all actuarial gains and losses arising from its defined benefit plans and replaced interest cost and expected return of plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.

New IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. New IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, proportional consolidation of joint ventures is no longer allowed. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Revised IAS 27 standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10 and revised IAS 28 standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The adoption of the new and revised standards resulted into a change the accounting treatment of Pohjolan Voima Oy (PVO) hydropower (A), nuclear power (B, B2) and thermal power (C, C2, H, M and V) shares, Kemijoki Oy and Länsi-Suomen Voima Oy (LSV) shares that are recognised as financial assets (available-for-sale investments) at fair value. PVO's combined heat and power plant Wisapower Oy (G7 shares) is consolidated as subsidiary under IFRS 10. UPM's interest in other PVO's combined heat and power plants (G, G2, G3, G4 and G9 shares), 50% interest in Madison Paper Industries (MPI), a paper mill in the United States and some other investments are consolidated as joint operations under IFRS 11. Previously, all PVO shares have been accounted for as an associated company and MPI as joint venture, using equity method and LSV has been accounted for as a subsidiary.

The amendment IAS 1 Presentation of Financial Statements – Other Comprehensive Income requires entities to group items presented in 'other comprehensive income' (OCI) based on whether they are potentially reclassifiable to profit or loss subsequently. The amended standard has changed the presentation of items of OCI in Group's financial statements.

New IFRS 13 Fair Value Measurement standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 has consequently amended IAS 34 with new disclosure requirements about fair value of financial instruments.

The Group has changed the measures reported in Paper segment reporting to the chief operating decision maker regarding MPI. Previously Group's 50% direct interest in MPI has been consolidated as joint venture using the equity method of accounting. Due to adoption of IFRS 11 as of 1 January 2013, MPI has been classified as joint operation and consolidated in proportion to the direct ownership of 50% (UPM's interest in assets and liabilities, revenues and expenses). For the Paper segment reporting MPI is consolidated on 100% basis similarly as a subsidiary. The deviation of segment reporting from the IFRS requirement is included in eliminations in segment reconciliation disclosures. Previously reported information is restated accordingly.

The impact (+ increase/- decrease) of the changes in accounting policies on the Group consolidated financial statements are presented below:

## Impact on consolidated income statement

| EURm | Q2/2012 | Q1–Q2/2012 | Q1–Q4/2012 |
|---|---|---|---|
| Sales | 13 | 30 | 54 |
| Other operating income | 1 | 1 | 2 |
| Costs and expenses | –5 | –12 | –13 |
| Share of results of associated companies and joint ventures | 14 | 16 | 16 |
| Depreciation, amortisation and impairment charges | –7 | –14 | –27 |
| **Operating profit (loss)** | 16 | 21 | 32 |
| Interest and other finance costs, net | 104 | 104 | 103 |
| **Profit (loss) before tax** | 120 | 125 | 135 |
| Income taxes | 1 | –1 | –3 |
| **Profit (loss) for the period** | 121 | 124 | 132 |
| Basic earnings per share, EUR | 0.22 | 0.23 | 0.25 |
| Diluted earnings per share, EUR | 0.22 | 0.23 | 0.25 |

## Impact on consolidated statement of comprehensive income

| EURm | Q2/2012 | Q1–Q2/2012 | Q1–Q4/2012 |
|---|---|---|---|
| **Profit (loss) for the period** | 121 | 124 | 132 |
| Actuarial gains and losses on defined benefit obligations | – | – | –98 |
| Available-for-sale investments | –233 | –233 | –635 |
| Share of other comprehensive income of associated companies | –2 | –2 | – |
| **Other comprehensive income for the period, net of tax** | –235 | –235 | –733 |
| **Total comprehensive income for the period** | –114 | –111 | –601 |

## Impact on consolidated balance sheet

| EURm | 30.6.2012 | 31.12.2012 | 1.1.2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Other intangible assets | 9 | 9 | 9 |
| Property, plant and equipment | 254 | 243 | 263 |
| Investments in associated companies and joint ventures | –571 | –569 | –689 |
| Available-for-sale investments | 2,852 | 2,440 | 3,085 |
| Non-current financial assets | 8 | 10 | 8 |
| Deferred tax assets | 20 | 53 | 21 |
| Other non-current assets | –157 | –163 | –157 |
| | 2,415 | 2,023 | 2,540 |
| **Current assets** | | | |
| Inventories | 10 | 11 | 10 |
| Trade and other receivables | 3 | –2 | 13 |
| Cash and cash equivalents | 18 | 18 | 17 |
| | 31 | 27 | 40 |
| **Total assets** | 2,446 | 2,050 | 2,580 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent company** | | | |
| Translation differences | –3 | –3 | –3 |
| Fair value and other reserves | 2,495 | 2,093 | 2,728 |
| Retained earnings | –452 | –540 | –573 |
| | 2,040 | 1,550 | 2,152 |
| **Non-controlling interests** | –10 | –10 | –10 |
| **Total equity** | 2,030 | 1,540 | 2,142 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 28 | 15 | 27 |
| Retirement benefit obligations | 148 | 269 | 151 |
| Provisions | 1 | 2 | 1 |
| Interest-bearing liabilities | 210 | 203 | 222 |
| Other liabilities | –1 | –2 | – |
| | 386 | 487 | 401 |
| **Current liabilities** | | | |
| Current interest-bearing liabilities | 23 | 21 | 23 |
| Trade and other payables | 7 | 2 | 15 |
| Income tax payables | – | – | –1 |
| | 30 | 23 | 37 |
| **Total liabilities** | 416 | 510 | 438 |
| **Total equity and liabilities** | 2,446 | 2,050 | 2,580 |

## Impact on condensed consolidated cash flow statement

| EURm | Q1–Q2/2012 | Q1–Q4/2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit (loss) for the period | 124 | 132 |
| Adjustments | –104 | –93 |
| Change in working capital | –2 | –10 |
| Cash generated from operations | 18 | 29 |
| Finance costs, net | –1 | –3 |
| **Net cash generated from operating activities** | 17 | 26 |
| | | |
| **Cash flow from investing activities** | | |
| Capital expenditure | –3 | –5 |
| Asset sales and other investing cash flow | – | –2 |
| **Net cash used in investing activities** | –3 | –7 |
| | | |
| **Cash flow from financing activities** | | |
| Change in loans and other financial items | –13 | –18 |
| **Net cash used in financing activities** | –13 | –18 |
| | | |
| **Change in cash and cash equivalents** | 1 | 1 |
| | | |
| Cash and cash equivalents at beginning of period | 17 | 17 |
| Change in cash and cash equivalents | 1 | 1 |
| **Cash and cash equivalents at end of period** | 18 | 18 |

## Calculation of key indicators

**Return on equity, %:**

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

**Return on capital employed, %:**

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

**Earnings per share:**

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

## Key exchange rates for the euro at end of period

| | 30.6.2013 | 31.3.2013 | 31.12.2012 | 30.9.2012 | 30.6.2012 | 31.3.2012 |
|---|---|---|---|---|---|---|
| USD | 1.3080 | 1.2805 | 1.3194 | 1.2930 | 1.2590 | 1.3356 |
| CAD | 1.3714 | 1.3021 | 1.3137 | 1.2684 | 1.2871 | 1.3311 |
| JPY | 129.39 | 120.87 | 113.61 | 100.37 | 100.13 | 109.56 |
| GBP | 0.8572 | 0.8456 | 0.8161 | 0.7981 | 0.8068 | 0.8339 |
| SEK | 8.7773 | 8.3553 | 8.5820 | 8.4498 | 8.7728 | 8.8455 |

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 74–75 of the company's annual report 2012.

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