The Biofore Company UPM

INTERIM REPORT 1 JANUARY – 31 MARCH 2013

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UPM interim report 1 January – 31 March 2013

Q1 2013 compared with Q1 2012

- Earnings per share excluding special items were EUR 0.18 (0.22), and reported EUR 0.09 (0.23)
- Operating profit excluding special items was EUR 144 million, 5.8 % of sales (156 million, 6.0%)
- EBITDA was EUR 284 million, 11.5% of sales (357 million, 13.7% of sales)
- Good performance in Pulp, Energy and Label
- Hard work in Paper continues, EUR 90 million savings programme proceeds as planned

Key figures

	Q1/2013	Q1/2012	Q4/2012	Q1–Q4/2012
Sales, EURm	2,474	2,608	2,657	10,492
EBITDA, EURm [1]	284	357	317	1,312
% of sales	11.5	13.7	11.9	12.5
Operating profit (loss), EURm	81	160	–1,659	–1,318
excluding special items, EURm	144	156	146	556
% of sales	5.8	6.0	5.5	5.3
Profit (loss) before tax, EURm	66	146	–1,690	–1,271
excluding special items, EURm	129	142	123	471
Net profit (loss) for the period, EURm	47	120	–1,486	–1,122
Earnings per share, EUR	0.09	0.23	–2.83	–2.14
excluding special items, EUR	0.18	0.22	0.20	0.74
Diluted earnings per share, EUR	0.09	0.23	–2.82	–2.13
Return on equity, %	2.5	5.0	neg.	neg.
excluding special items, %	5.1	4.9	4.6	4.2
Return on capital employed, %	2.9	5.1	neg.	neg.
excluding special items, %	5.1	5.0	4.3	4.2
Operating cash flow per share, EUR	0.20	0.42	0.69	1.98
Equity per share at end of period, EUR	14.30	17.87	14.18	14.18
Gearing ratio at end of period, %	42	39	43	43
Net interest-bearing liabilities at end of period, EURm	3,199	3,672	3,210	3,210
Capital employed at end of period, EURm	11,582	13,651	11,603	11,603
Capital expenditure, EURm	60	62	119	357
Capital expenditure excluding acquisitions and shares, EURm	60	62	119	347
Personnel at end of period	21,925	23,219	22,180	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.

Changes in accounting principles

As of 1 January 2013 UPM has adopted the new IFRS 10 and IFRS 11 standards. In the Energy business area, Pohjolan Voima Oy (PVO) hydropower (A) and nuclear power (B, B2) shares, as well as Kemijoki Oy and Länsi-Suomen Voima Oy (LSV) shares have been recognised as financial assets (available-for-sale investments) at fair value. In other business areas, PVO's combined heat and power plants (G shares), Madison Paper Industries and some other investments have been consolidated as joint operations. Previously, all PVO shares have been accounted for as an associated company, using the equity method. Kemijoki has been accounted for as an available-for-sale investment at cost. LSV has been accounted for as a subsidiary and Madison as a joint venture. Additionally, in accordance with the amended IAS 19 Employee Benefits, the corridor approach has been eliminated and the interest cost of defined benefit plans and the expected return of plan assets have been replaced by the net interest cost of the net defined benefit liability.

Comparative information has been restated accordingly.

The aggregate impact of the restatements to the consolidated financial statements is presented in pages 22-24.

Results

Q1 2013 compared with Q1 2012

Sales for Q1 2013 were EUR 2,474 million, 5% lower than the EUR 2,608 million in Q1 2012. Sales decreased due to a reduction in paper deliveries and prices.

EBITDA was EUR 284 million, 11.5% of sales (357 million, 13.7% 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 30 million from the comparison period. Also, variable costs were slightly lower than last year.

Operating profit excluding special items was EUR 144 million, 5.8% of sales (156 million, 6.0%). Reported operating profit was EUR 81 million, 3.3% of sales (160 million, 6.1% of sales). Depreciation totalled EUR 145 million (201 million).

Operating profit includes net charges totalling EUR 63 million as special items. The Paper business area recognised charges of EUR 54 million related to the on-going restructuring. Forest and Timber recognised restructuring charges of EUR 2 million in sawn timber operations. Charges of EUR 7 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 6 million (-1 million).

Profit before tax was EUR 66 million (146 million) and excluding special items EUR 129 million (142 million). Net interest and other financing costs were EUR 20 million (26 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 5 million (gain of EUR 8 million).

Income taxes were EUR 19 million (26 million). Special items in taxes were EUR 15 million positive (0 million).

Profit for Q1 2013 was EUR 47 million (120 million) and earnings per share were EUR 0.09 (0.23). Earnings per share excluding special items were EUR 0.18 (0.22).

Operating cash flow per share was EUR 0.20 (0.42).

Q1 2013 compared with Q4 2012

EBITDA was EUR 284 million, 11.5% of sales (317 million, 11.9% of sales). EBITDA decreased in the Paper business area, as a result of lower paper delivery volumes and lower average paper prices. Pulp, Forest and Timber, Label and Plywood reported increases in EBITDA.

Fixed costs decreased, partly for seasonal reasons, whereas variable costs remained stable.

Operating profit excluding special items was EUR 144 million, 5.8% of sales (145 million, 5.5%). Depreciation excluding special items totalled EUR 146 million (202 million).

The increase in the fair value of biological assets net of wood harvested was EUR 6 million (32 million).

Financing

In Q1 2013, cash flow from operating activities before capital expenditure and financing totalled EUR 103 million (218 million). Working capital increased by EUR 96 million during the period (increase of EUR 14 million).

The gearing ratio as of 31 March 2013 was 42% (39%). Net interest-bearing liabilities at the end of the period came to EUR 3,199 million (3,672 million).

On 31 March 2013, UPM's cash funds and unused committed credit facilities totalled EUR 1.8 billion.

Personnel

In Q1 2013, UPM had an average of 21,907 employees (23,490). At the beginning of the year the number of employees was 22,180, and at the end of Q1 it was 21,925.

Capital expenditure

In Q1 2013, capital expenditure was EUR 60 million, 2.4% of sales (62 million, 2.4% 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 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 by the end of 2014.

Restructuring in Paper and streamlining of functions

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

The plans include the permanent closure of paper machine 3 at UPM Rauma mill in Finland, the permanent closure of paper machine 4 at UPM Ettringen in Germany, sale or other exit of the UPM Docelles mill in France, and streamlining in the Paper Business and global functions.

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

Employee negotiations concerning the closing of the paper machines in the UPM Rauma and UPM Ettringen mills were concluded in March 2013. The two paper machines will be permanently closed down by the end of April 2013. Both machines produce uncoated magazine paper; in total 420,000 tonnes annually. UPM has also concluded negotiations with the employee representatives concerning streamlining the Paper Business Group and global functions in Finland. Employee negotiations in global functions continue in several countries following local schedules and processes. The process of selling the UPM Docelles paper mill in France is ongoing. The process has been given a maximum of six months. Docelles produces 160,000 tonnes of uncoated woodfree papers annually.

On 7 January 2013, UPM announced it had finalised the employee information and consultation process and had ceased production at the UPM Stracel mill. The mill produced 270,000 tonnes of coated magazine paper annually. On 24 January 2013, UPM announced that it had signed an agreement on the sale of assets and part of the land of the UPM Stracel paper mill site with Blue Paper SAS.

Including UPM Stracel, 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.

Business area reviews

Energy

	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Sales, EURm	117	127	122	100	145	494
EBITDA, EURm [1]	61	65	56	45	66	232
% of sales	52.1	51.2	45.9	45.0	45.5	47.0
Share of results of associated companies and joint ventures, EURm	–	–	–	–	–	–
Depreciation, amortisation and impairment charges, EURm	–3	–3	–3	–2	–3	–11
Operating profit, EURm	58	62	53	43	63	221
% of sales	49.6	48.8	43.4	43.0	43.4	44.7
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	58	62	53	43	63	221
% of sales	49.6	48.8	43.4	43.0	43.4	44.7
Electricity deliveries, GWh	2,513	2,583	2,340	2,158	2,405	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.

Q1 2013 compared with Q1 2012

Operating profit excluding special items for Energy was EUR 58 million (63 million). Sales decreased to EUR 117 million (145 million). The total electricity sales volume was 2,513 GWh during the quarter (2,405 GWh).

Operating profit excluding special items decreased compared with the same period last year mainly due to a less favourable generation mix with lower hydro and higher condensing power volumes.

The average electricity sales price decreased by 1% to EUR 46.8/MWh (47.4/MWh).

Q1 2013 compared with Q4 2012

Operating profit excluding special items decreased from the previous quarter, mainly due to a lower hydro power volume.

The average electricity sales price increased by 1% to EUR 46.8/MWh (46.2/MWh).

Market review

The average Finnish area spot price on the Nordic electricity exchange in Q1 2013 was EUR 42.0/MWh, 1% lower than during the same period last year (42.5/MWh). Coal prices were lower than in the previous year. The CO_2 emission allowance price was EUR 4.8/tonne at the end of the period, 32% lower than at the end of Q1 2012 (7.1/tonne).

The front year forward price in the Nordic electricity exchange was EUR 38.8/MWh at the end of the period, 3% lower than at the end of Q1 2012 (39.8/MWh).

Pulp

	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Sales, EURm	407	386	406	413	433	1,638
EBITDA, EURm [1]	114	86	104	127	111	428
% of sales	28.0	22.3	25.6	30.8	25.6	26.1
Change in fair value of biological assets and wood harvested, EURm	2	9	3	3	–	15
Share of results of associated companies and joint ventures, EURm	–	1	–	–	–	1
Depreciation, amortisation and impairment charges, EURm	–36	–37	–37	–37	–36	–147
Operating profit, EURm	80	59	70	93	75	297
% of sales	19.7	15.3	17.2	22.5	17.3	18.1
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	80	59	70	93	75	297
% of sales	19.7	15.3	17.2	22.5	17.3	18.1
Pulp deliveries, 1,000 t	790	730	759	755	884	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.

Q1 2013 compared with Q1 2012

Operating profit excluding special items for Pulp increased to EUR 80 million (75 million). Sales decreased by 6% to EUR 407 million (433 million). Deliveries decreased by 11% to 790,000 tonnes (884,000).

Operating profit excluding special items increased compared with the same period last year. Higher average pulp sales price offset the negative impact of lower deliveries and higher variable costs.

Q1 2013 compared with Q4 2012

Operating profit excluding special items increased, mainly due to increased production and delivery volumes. In the previous quarter scheduled maintenance shutdowns were carried out at two mills.

Market review

In Q1 2013, the average market price of softwood pulp (NBSK) was EUR 622/tonne, 2% lower than during Q1 2012 (EUR 636/tonne). At the end of Q1, the NBSK market price was EUR 646/tonne. The average market price of hardwood pulp (BHKP) was EUR 596/tonne, 12% higher than in the same period last year (EUR 534/tonne). At the end of Q1, the BHKP market price was EUR 619/tonne.

In January-February 2013 global chemical pulp shipments decreased by 2% compared to the same period last year. Shipments to China decreased by 14%, whereas shipments to Western Europe and North America increased.

Forest and Timber

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

Q1 2013 compared with Q1 2012

Operating profit excluding special items was EUR 3 million (2 million). Sales increased by 2% to EUR 436 million (426 million). In sawn timber, cost efficiency improved.

The increase in the fair value of biological assets net of wood harvested was EUR 4 million (decrease of EUR 1 million). The increase in the fair value of biological assets (growing trees) was EUR 17 million (16 million). The cost of wood harvested from own forests was EUR 13 million (17 million).

Q1 2013 compared with Q4 2012

The operating profit excluding special items decreased from Q4 2012 mainly due to the smaller increase in the fair value of biological assets and smaller gains on sales of forest land. Cost efficiency improved in sawn timber.

The increase in the fair value of biological assets net of wood harvested was EUR 4 million (increase of EUR 23 million). The increase in the fair value of biological assets (growing trees) was EUR 17 million (38 million). The cost of wood harvested from own forests was EUR 13 million (15 million).

Market review

In Q1 2013, Finnish wood market activity improved slightly compared with the same period last year. Wood purchases in the Finnish wood market totalled 6.7 million cubic metres (6.2 million). Wood purchases decreased by 12% compared to the previous quarter.

In Finland, wood market prices for log and pulpwood remained stable in Q1 2013 and were on average 4% higher than last year. In Central Europe, wood market prices increased slightly in 2012 and remained stable during Q1 2013.

In Western Europe demand for sawn timber remained low due to continued weak building activity during Q1 2013. In markets outside of Europe, such as North Africa and Japan, demand remained stable. In the US, signs of potentially improving demand emerged.

Paper

	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Sales, EURm	1,641	1,841	1,821	1,841	1,813	7,316
EBITDA, EURm [1]	89	137	135	146	160	578
% of sales	5.4	7.4	7.4	7.9	8.9	7.9
Share of results of associated companies and joint ventures, EURm	–	–	–	–	1	1
Depreciation, amortisation and impairment charges, EURm	–85	–1,921	–140	–139	–141	–2,341
Operating profit, EURm	–51	–1,805	–48	28	18	–1,807
% of sales	–3.1	–98.0	–2.6	1.5	1.0	–24.7
Special items, EURm [2]	–54	–1,800	–43	21	–2	–1,824
Operating profit excl. special items, EURm	3	–5	–5	7	20	17
% of sales	0.2	–0.3	–0.3	0.4	1.1	0.2
Deliveries, publication papers, 1,000 t	1,629	1,965	1,878	1,803	1,744	7,390
Deliveries, fine and speciality papers, 1,000 t	849	842	840	910	889	3,481
Paper deliveries total, 1,000 t	2,478	2,807	2,718	2,713	2,633	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 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.

Q1 2013 compared with Q1 2012

Operating profit excluding special items was EUR 3 million (20 million). Sales were EUR 1,641 million (1,813 million).

Paper deliveries decreased by 6% to 2,478,000 tonnes (2,633,000). Deliveries of publication papers (magazine papers and newsprint) decreased by 7% and fine and speciality paper deliveries decreased by 4%.

Operating profit excluding special items decreased from last year, mainly due to lower average paper prices in euro terms. The reduction in fixed costs and gains from unrealised energy hedges offset the negative impact of lower delivery volumes. Depreciation was lower than last year.

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

Q1 2013 compared with Q4 2012

Operating profit excluding special items increased slightly. Lower fixed costs offset most of the negative impact of lower delivery volumes and prices. Depreciation excluding special items was lower than in the comparison period.

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

Market review

In Q1 2013, demand for publication papers in Europe was 4% lower, and for fine papers 6% lower, than in the same period last year. In North America, demand for magazine papers decreased by 2% from last year. In Asia, demand for fine papers grew by approximately 2-3%.

In Europe, publication paper prices decreased in Q1 2013 by 4% compared to the previous quarter and by 7% compared to first quarter of 2012. Fine paper prices decreased by 2% compared to the previous quarter and by 3% compared to the first quarter of 2012.

In North America, the average US dollar price for magazine papers decreased by 2% both compared to the previous quarter and the previous year. In Asia, market prices for fine papers increased by 1% from the previous quarter and decreased by 2% compared to Q1 2012.

Label

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

Q1 2013 compared with Q1 2012

Operating profit excluding special items for Label was EUR 18 million (23 million). Sales of EUR 299 million were on last year's level (298 million).

Operating profit decreased due to higher fixed costs. Expanded operations enabled volume growth, while unit value added decreased slightly.

Q1 2013 compared with Q4 2012

Operating profit excluding special items increased mainly due to increased unit value added. Product mix improved.

Market review

In Q1 2013, demand in Western Europe is estimated to have decreased slightly, whereas in North America demand is estimated to have remained stable. In emerging markets, demand growth continued on a good level.

Plywood

	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Sales, EURm	108	99	94	103	97	393
EBITDA, EURm [1)]	10	8	2	11	4	25
% of sales	9.3	8.1	2.1	10.7	4.1	6.4
Depreciation, amortisation and impairment charges, EURm	–6	–6	–5	–6	–5	–22
Operating profit, EURm	4	2	–3	5	–1	3
% of sales	3.7	2.0	–3.2	4.9	–1.0	0.8
Special items, EURm	–	–	–	–	–	–
Operating profit excl. special items, EURm	4	2	–3	5	–1	3
% of sales	3.7	2.0	–3.2	4.9	–1.0	0.8
Deliveries, plywood, 1,000 m^3	186	169	165	175	170	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.

Q1 2013 compared with Q1 2012

Operating profit excluding special items for Plywood was EUR 4 million (loss of EUR 1 million). Sales increased by 11% to EUR 108 million (97 million) and deliveries by 9% to 186,000 cubic metres (170,000).

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

Q1 2013 compared with Q4 2012

Operating profit increased due to higher delivery volumes and lower fixed costs. Spruce and birch plywood prices were stable.

Market review

In Q1 2013 plywood demand is estimated to have remained stable compared to Q4 2012. Demand for industrial applications continued slightly stronger, whereas demand for construction-related end-use segments in Europe remained weak. UPM Plywood's improved customer focus has produced results in increased delivery volumes. Market prices remained stable during Q1 2013.

Other operations

	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Sales, EURm	57	61	63	77	54	255
EBITDA, EURm [1)]	–18	–3	–14	–28	–16	–61
Share of results of associated companies and joint ventures, EURm	–	–2	1	–	–	–1
Depreciation, amortisation and impairment charges, EURm	–4	–4	–3	–2	–3	–12
Operating profit, EURm	–29	–11	–21	–28	–13	–73
Special items, EURm [2)]	–7	–3	–4	2	6	1
Operating profit excl. special items, EURm	–22	–8	–17	–30	–19	–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 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.

Q1 2013 compared with Q1 2012

Operating loss excluding special items for Other operations was EUR 22 million (19 million). Sales amounted to EUR 57 million (54 million).

Q1 2013 compared with Q4 2012

Operating loss excluding special items for Other operations was EUR 22 million (8 million).

Outlook for 2013

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

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

Annual General Meeting on 4 April 2013

The Annual General Meeting held on 4 April 2013 decided that a dividend of EUR 0.60 per share (totalling EUR 317 million) was to be paid on 19 April 2013. The dividend was paid to the shareholders who were registered in the Company's shareholders' register maintained by Euroclear Finland Ltd on 9 April 2013, which is the record date for the dividend payment.

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.

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.

Shares

In Q1 2013, UPM shares worth EUR 1,302 million (1,862 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 8.56 in February.

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

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 31 March 2013 was 526,618,355, including subscriptions of 493,945 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 Q1 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.

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 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 Finnish roundwood market. In addition to the state-owned forest administrator Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amount of all of the claims total EUR 237 million in the aggregate jointly and severally against UPM and two other companies; alternatively and individually against UPM, this represents EUR 54 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.

In Finland, UPM is participating in the project to construct a new nuclear power plant, Olkiluoto 3, through its shareholdings in Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj ("TVO"), holding 58.47% of its shares. UPM's indirect share of Olkiluoto 3 capacity is approximately 30%. The agreed start-up of the power plant was originally scheduled for summer 2009; however, the construction of the unit has been delayed. Based on the information submitted by the AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit under a fixed-price turnkey contract, TVO estimates that the nuclear power plant unit will not be ready for regular electricity production in 2014. According to TVO, it is preparing for the possibility that regular electricity production at the nuclear power plant unit may not start 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 decisions of the Annual General Meeting held on 4 April 2013 are presented separately in this report.

Helsinki, 25 April 2013

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

EURm	Q1/2013	Q1/2012 Restated *)	Q1–Q4/2012 Restated *)
Sales	2,474	2,608	10,492
Other operating income	37	18	110
Costs and expenses	–2,291	–2,265	–9,353
Change in fair value of biological assets and wood harvested	6	–1	45
Share of results of associated companies and joint ventures	–	1	2
Depreciation, amortisation and impairment charges	–145	–201	–2,614
Operating profit (loss)	81	160	–1,318
Gains on available-for-sale investments, net	–	4	38
Exchange rate and fair value gains and losses	5	8	11
Interest and other finance costs, net	–20	–26	–2
Profit (loss) before tax	66	146	–1,271
Income taxes	–19	–26	149
Profit (loss) for the period	47	120	–1,122
Attributable to:			
Owners of the parent company	47	120	–1,122
Non-controlling interests	–	–	–
	47	120	–1,122
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	0.09	0.23	–2.14
Diluted earnings per share, EUR	0.09	0.23	–2.13

Consolidated statement of comprehensive income

EURm	Q1/2013	Q1/2012 Restated *)	Q1–Q4/2012 Restated *)
Profit (loss) for the period	47	120	–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	–	–	–98
Items that may be reclassified subsequently to income statement:			
Translation differences	71	–61	–14
Net investment hedge	–17	4	4
Cash flow hedges	–22	26	46
Available-for-sale investments	7	–4	–672
	39	–35	–636
Other comprehensive income for the period, net of tax	39	–35	–734
Total comprehensive income for the period	86	85	–1,856
Total comprehensive income attributable to:			
Owners of the parent company	86	85	–1,856
Non-controlling interests	–	–	–
	86	85	–1,856

*) Retrospective application of new and revised IFRS

Consolidated balance sheet

EURm	31.3.2013	31.3.2012 Restated *)	31.12.2012 Restated *)	1.1.2012 Restated *)
ASSETS				
Non-current assets				
Goodwill	225	1,020	222	1,022
Other intangible assets	364	478	366	467
Property, plant and equipment	5,054	6,303	5,089	6,505
Investment property	39	38	39	39
Biological assets	1,485	1,499	1,476	1,513
Investments in associated companies and joint ventures	21	29	20	28
Available-for-sale investments	2,596	3,374	2,587	3,345
Non-current financial assets	423	410	441	423
Deferred tax assets	730	526	739	529
Other non-current assets	89	83	87	81
	11,026	13,760	11,066	13,952
Current assets				
Inventories	1,433	1,407	1,388	1,439
Trade and other receivables	1,990	1,956	1,982	2,016
Income tax receivables	29	28	21	26
Cash and cash equivalents	390	111	486	512
	3,842	3,502	3,877	3,993
Assets classified as held for sale	–	41	–	24
Total assets	14,868	17,303	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	202	101	148	158
Fair value and other reserves	2,213	2,879	2,232	2,857
Reserve for invested non-restricted equity	1,219	1,204	1,207	1,199
Retained earnings	3,028	4,318	2,980	4,511
	7,550	9,390	7,455	9,613
Non-controlling interests	6	6	6	6
Total equity	7,556	9,396	7,461	9,619
Non-current liabilities				
Deferred tax liabilities	600	700	612	702
Retirement benefit obligations	735	636	745	641
Provisions	239	267	207	327
Interest-bearing liabilities	3,680	3,895	3,724	3,972
Other liabilities	137	98	142	79
	5,391	5,596	5,430	5,721
Current liabilities				
Current interest-bearing liabilities	346	360	417	906
Trade and other payables	1,512	1,900	1,566	1,682
Income tax payables	63	49	69	37
	1,921	2,309	2,052	2,625
Liabilities related to assets classified as held for sale	–	2	–	4
Total liabilities	7,312	7,907	7,482	8,350
Total equity and liabilities	14,868	17,303	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	–	–	–	–	–	120	120	–	120
Translation differences	–	–	–61	–	–	–	–61	–	–61
Net investment hedge, net of tax	–	–	4	–	–	–	4	–	4
Cash flow hedges, net of tax	–	–	–	26	–	–	26	–	26
Available-for-sale investments, net of tax	–	–	–	–4	–	–	–4	–	–4
Total comprehensive income for the period	–	–	–57	22	–	120	85	–	85
Share options exercised	–	–	–	–	5	–	5	–	5
Share-based compensation, net of tax	–	–	–	–	–	2	2	–	2
Dividend distribution	–	–	–	–	–	–315	–315	–	–315
Total transactions with owners for the period	–	–	–	–	5	–313	–308	–	–308
Balance at 31 March 2012	890	–2	101	2,879	1,204	4,318	9,390	6	9,396
Balance at 1 January 2013	890	–2	148	2,232	1,207	2,980	7,455	6	7,461
Profit (loss) for the period	–	–	–	–	–	47	47	–	47
Translation differences	–	–	71	–	–	–	71	–	71
Net investment hedge, net of tax	–	–	–17	–	–	–	–17	–	–17
Cash flow hedges, net of tax	–	–	–	–22	–	–	–22	–	–22
Available-for-sale investments, net of tax	–	–	–	7	–	–	7	–	7
Total comprehensive income for the period	–	–	54	–15	–	47	86	–	86
Share options exercised	–	–	–	–	12	–	12	–	12
Share-based compensation, net of tax	–	–	–	–4	–	4	–	–	–
Other items	–	–	–	–	–	–3	–3	–	–3
Total transactions with owners for the period	–	–	–	–4	12	1	9	–	9
Balance at 31 March 2013	890	–2	202	2,213	1,219	3,028	7,550	6	7,556

[*] Retrospective application of new and revised IFRS

Condensed consolidated cash flow statement

EURm	Q1/2013	Q1/2012 Restated *)	Q1–Q4/2012 Restated *)
Cash flow from operating activities			
Profit (loss) for the period	47	120	–1,122
Adjustments	187	157	2,278
Change in working capital	–96	–14	34
Cash generated from operations	138	263	1,190
Finance costs, net	–13	–24	–77
Income taxes paid	–22	–21	–73
Net cash generated from operating activities	103	218	1,040
Cash flow from investing activities			
Capital expenditure	–98	–88	–379
Acquisitions and share purchases	–	–	–10
Asset sales and other investing cash flow	–7	–1	317
Net cash used in investing activities	–105	–89	–72
Cash flow from financing activities			
Change in loans and other financial items	–109	–536	–687
Share options exercised	12	5	8
Dividends paid	–	–	–315
Net cash used in financing activities	–97	–531	–994
Change in cash and cash equivalents	–99	–402	–26
Cash and cash equivalents at beginning of period	486	512	512
Foreign exchange effect on cash and cash equivalents	3	1	–
Change in cash and cash equivalents	–99	–402	–26
Cash and cash equivalents at end of period	390	111	486

*) Retrospective application of new and revised IFRS

Quarterly information

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

Deliveries

	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Electricity, GWh	2,513	2,583	2,340	2,158	2,405	9,486
Pulp, 1,000 t	790	730	759	755	884	3,128
Sawn timber, 1,000 m^3	419	426	382	462	426	1,696
Publication papers, 1,000 t	1,629	1,965	1,878	1,803	1,744	7,390
Fine and speciality papers, 1,000 t	849	842	840	910	889	3,481
Paper deliveries total, 1,000 t	2,478	2,807	2,718	2,713	2,633	10,871
Plywood, 1,000 m^3	186	169	165	175	170	679

Quarterly segment information

EURm	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
Sales						
Energy	117	127	122	100	145	494
Pulp	407	386	406	413	433	1,638
Forest and Timber	436	428	364	473	426	1,691
Paper	1,641	1,841	1,821	1,841	1,813	7,316
Label	299	301	305	298	298	1,202
Plywood	108	99	94	103	97	393
Other operations	57	61	63	77	54	255
Internal sales	–576	–571	–561	–658	–642	–2,432
Eliminations	–15	–15	–19	–15	–16	–65
Sales, total	2,474	2,657	2,595	2,632	2,608	10,492
EBITDA						
Energy	61	65	56	45	66	232
Pulp	114	86	104	127	111	428
Forest and Timber	3	–5	3	7	8	13
Paper	89	137	135	146	160	578
Label	26	23	30	31	31	115
Plywood	10	8	2	11	4	25
Other operations	–18	–3	–14	–28	–16	–61
Eliminations	–1	6	–3	–14	–7	–18
EBITDA, total	284	317	313	325	357	1,312
Operating profit (loss)						
Energy	58	62	53	43	63	221
Pulp	80	59	70	93	75	297
Forest and Timber	1	15	3	–41	2	–21
Paper	–51	–1,805	–48	28	18	–1,807
Label	18	13	20	22	23	78
Plywood	4	2	–3	5	–1	3
Other operations	–29	–11	–21	–28	–13	–73
Eliminations	–	6	–1	–14	–7	–16
Operating profit (loss), total	81	–1,659	73	108	160	–1,318
% of sales	3.3	–62.4	2.8	4.1	6.1	–12.6
Special items in operating profit						
Energy	–	–	–	–	–	–
Pulp	–	–	–	–	–	–
Forest and Timber	–2	–1	–4	–43		–48
Paper	–54	–1,800	–43	21	–2	–1,824
Label	–	–1	–2	–	–	–3
Plywood	–	–	–	–	–	–
Other operations	–7	–3	–4	2	6	1
Eliminations	–	–	–	–	–	–
Special items in operating profit, total	–63	–1,805	–53	–20	4	–1,874
Operating profit (loss) excl. special items						
Energy	58	62	53	43	63	221
Pulp	80	59	70	93	75	297
Forest and Timber	3	16	7	2	2	27
Paper	3	–5	–5	7	20	17
Label	18	14	22	22	23	81
Plywood	4	2	–3	5	–1	3
Other operations	–22	–8	–17	–30	–19	–74
Eliminations	–	6	–1	–14	–7	–16
Operating profit (loss) excl. special items, total	144	146	126	128	156	556
% of sales	5.8	5.5	4.9	4.9	6.0	5.3

EURm	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12	Q1–Q4/12
External sales						
Energy	59	69	62	46	87	264
Pulp	238	208	215	201	191	815
Forest and Timber	179	188	172	199	189	748
Paper	1,572	1,796	1,787	1,799	1,756	7,138
Label	298	301	305	298	298	1,202
Plywood	102	93	89	97	92	371
Other operations	27	7	−16	7	11	9
Eliminations	−1	−5	−19	−15	−16	−55
External sales, total	2,474	2,657	2,595	2,632	2,608	10,492
Internal sales						
Energy	58	58	60	54	58	230
Pulp	169	178	191	212	242	823
Forest and Timber	257	240	192	274	237	943
Paper	69	45	34	42	57	178
Label	1	–	–	–	–	–
Plywood	6	6	5	6	5	22
Other operations	30	54	79	70	43	246
Eliminations	−14	−10	–	–	–	−10
Internal sales, total	576	571	561	658	642	2,432

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

Changes in property, plant and equipment

EURm	Q1/2013	Q1/2012	Q1–Q4/2012
Book value at beginning of period	5,089	6,505	6,505
Capital expenditure	62	52	312
Companies acquired	–	–	5
Companies sold	–	–	−19
Decreases	−2	−3	−35
Depreciation	−126	−183	−716
Impairment charges	−1	−1	−954
Translation difference and other changes	32	−67	−9
Book value at end of period	5,054	6,303	5,089

Fair value of financial instruments

Financial assets and liabilities measured at fair value

	31.3.2013				31.12.2012			
EURm	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading derivatives	9	91	–	100	1	92	–	93
Derivatives used for hedging	54	399	–	453	78	417	–	495
Available-for-sale investments	–	–	2,587	2,587	–	–	2,580	2,580
Total	63	490	2,587	3,140	79	509	2,580	3,168
Liabilities								
Trading derivatives	3	128	–	131	12	124	–	136
Derivatives used for hedging	57	60	–	117	66	38	–	104
Total	60	188	–	248	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

	Q1/2013	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	–	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	2,587	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	31.3.2013	31.12.2012
Non-current interest bearing liabilities, excl. derivative financial instruments	3,546	3,345

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

Commitments and contingencies

EURm	31.3.2013	31.3.2012	31.12.2012
Own commitments			
Mortgages	481	668	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	53	55	57
Leasing commitments for subsequent periods	357	344	365
Other commitments	113	99	123

Capital commitments

EURm	Completion	Total cost	By 31.12.2012	Q1/2013	After 31.3.2013
Changshu PM3	December 2014	390	2	2	386
Biorefinery/Kaukas	May 2014	150	27	12	111
Power plant/Schongau	December 2014	85	11	1	73
Waste water treatment plant/Pietarsaari	October 2013	30	16	4	10

Notional amounts of derivative financial instruments

EURm	31.3.2013	31.3.2012	31.12.2012
Forward foreign exchange contracts	5,131	4,503	4,994
Currency options, bought	13	33	9
Currency options, written	13	61	14
Interest rate forward contracts	2,677	3,250	3,755
Interest rate swaps	1,597	1,693	1,629
Cross currency swaps	864	882	882
Commodity contracts	475	367	400

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

EURm	Q1/2013	Q1/2012	Q1–Q4/2012
Sales	–	15	4
Purchases	17	21	80
Non-current receivables at end of period	7	4	7
Trade and other receivables at end of period	3	7	4
Trade and other payables at end of period	1	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	Q1/2012	Q1–Q4/2012
Sales	17	54
Other operating income	–	2
Costs and expenses	–7	–13
Share of results of associated companies and joint ventures	2	16
Depreciation, amortisation and impairment charges	–7	–27
Operating profit (loss)	5	32
Interest and other finance costs, net	–	103
Profit (loss) before tax	5	135
Income taxes	–2	–3
Profit (loss) for the period	3	132
Basic earnings per share, EUR	0.01	0.25
Diluted earnings per share, EUR	0.01	0.25

Impact on consolidated statement of comprehensive income

EURm	Q1/2012	Q1–Q4/2012
Profit (loss) for the period	3	132
Actuarial gains and losses on defined benefit obligations	–	–98
Available-for-sale investments	–	–635
Other comprehensive income for the period, net of tax	–	–733
Total comprehensive income for the period	3	–601

Impact on consolidated balance sheet

EURm	31.3.2012	31.12.2012	1.1.2012
ASSETS			
Non-current assets			
Other intangible assets	9	9	9
Property, plant and equipment	257	243	263
Investments in associated companies and joint ventures	–685	–569	–689
Available-for-sale investments	3,085	2,440	3,085
Non-current financial assets	8	10	8
Deferred tax assets	21	53	21
Other non-current assets	–158	–163	–157
	2,537	2,023	2,540
Current assets			
Inventories	9	11	10
Trade and other receivables	5	–2	13
Cash and cash equivalents	19	18	17
	33	27	40
Total assets	2,570	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	2,728	2,093	2,728
Retained earnings	–570	–540	–573
	2,155	1,550	2,152
Non-controlling interests	–10	–10	–10
Total equity	2,145	1,540	2,142
Non-current liabilities			
Deferred tax liabilities	28	15	27
Retirement benefit obligations	149	269	151
Provisions	1	2	1
Interest-bearing liabilities	211	203	222
Other liabilities	–	–2	–
	389	487	401
Current liabilities			
Current interest-bearing liabilities	29	21	23
Trade and other payables	7	2	15
Income tax payables	–	–	–1
	36	23	37
Total liabilities	425	510	438
Total equity and liabilities	2,570	2,050	2,580

Impact on condensed consolidated cash flow statement

EURm	Q1/2012	Q1–Q4/2012
Cash flow from operating activities		
Profit (loss) for the period	3	132
Adjustments	7	–93
Change in working capital	–1	–10
Cash generated from operations	9	29
Finance costs, net	–1	–3
Net cash generated from operating activities	8	26
Cash flow from investing activities		
Capital expenditure	–1	–5
Asset sales and other investing cash flow	–	–2
Net cash used in investing activities	–1	–7
Cash flow from financing activities		
Change in loans and other financial items	–5	–18
Net cash used in financing activities	–5	–18
Change in cash and cash equivalents	2	1
Cash and cash equivalents at beginning of period	17	17
Change in cash and cash equivalents	2	1
Cash and cash equivalents at end of period	19	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

	31.3.2013	31.12.2012	30.9.2012	30.6.2012	31.3.2012
USD	1.2805	1.3194	1.2930	1.2590	1.3356
CAD	1.3021	1.3137	1.2684	1.2871	1.3311
JPY	120.87	113.61	100.37	100.13	109.56
GBP	0.8456	0.8161	0.7981	0.8068	0.8339
SEK	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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