

# CORPORATE GOVERNANCE STATEMENT

UPM complies with the Finnish Corporate Governance Code of 2010 issued by the Securities Market Association which entered into force on 1 October 2010 and which is publicly available on the website of the Securities Market Association [www.cgfinland.fi](http://www.cgfinland.fi). UPM complies with all recommendations of the code.

The statement has been prepared in accordance with the recommendation 54 of the Finnish Corporate Governance Code. UPM presents the statement as a separate report which is available on the company's website [www.upm.com](http://www.upm.com). Report of the Board of Directors is presented on page 84 of the Annual Report 2010.

## Composition and operations of the Board of Directors

The company's Board of Directors is composed of at least five but not more than 12 directors elected by the Annual General Meeting. The following nine members were elected by the Annual General Meeting held on 22 March 2010:

Björn Wahlroos, Chairman, independent of the company and significant shareholders, born 1952, Ph.D.(Econ.), Chairman of the Board of Directors of Sampo Plc.

Berndt Brunow, Deputy Chairman, independent of the company and significant shareholders, born 1950, B.Sc.(Econ.), Chairman of the Board of Directors of Oy Karl Fazer Ab.

Matti Alahuhta, independent of the company and significant shareholders, born 1952, D.Sc.(Eng.), President and CEO of KONE Corporation.

Karl Grotenfelt, independent of the company and significant shareholders, born 1944, LL.M., Chairman of the Board of Directors of Famigro Oy.

Wendy E. Lane, independent of the company and significant shareholders, born 1951, MBA (Harvard Graduate School of Business Administration), Chairman of the Board of Directors of Lane Holdings, Inc.

Jussi Pesonen, non-independent of the company, born 1960, M.Sc.(Eng.), President and CEO of UPM-Kymmene Corporation.

Ursula Ranin, independent of the company and significant shareholders, born 1953, LL.M., B.Sc.(Econ.), member of the Board of Directors of Finnair Plc.

Veli-Matti Reinikkala, independent of the company and significant shareholders, born 1957, eMBA, President of ABB Process Automation Division.

Robert J. Routs, independent of the company and significant shareholders, born 1946, Ph.D.(Tech.), Chairman of the Supervisory Board of Aegon N.V.

The Board held ten meetings in 2010. On average, the Directors attended 99% of the meetings.

Pursuant to its charter the Board of Directors will deal with all the matters pertaining to its area according to the Finnish legislation. Under the Finnish Companies Act the Board of Directors is responsible for the appropriate arrangement of the control of the company accounts and finances. Further responsibilities of the Board of Directors include:

- establishing and evaluating the strategic direction
- approving and evaluating business and strategic plans
- reviewing and approving financial objectives and major corporate plans
- establishing acceptance limits for capital expenditures, investments, divestures and financial commitments
- overseeing strategic and operational risk management and internal control
- appointing the President and CEO and the members of the Group Executive Board and the Group Executive Team, and determining the dividend policy and making proposal for the Annual General Meeting for the payment of the dividend.

## Composition and operations of the Committees of the Board of Directors

The Board of Directors has established an Audit Committee, a Human Resources Committee and a Nomination and Corporate Governance Committee composed of its members.

### Audit Committee

In 2010, the Audit Committee had Karl Grotenfelt as Chairman, and Wendy E. Lane and Veli-Matti Reinikkala as members.

The Board has defined the duties of the Audit Committee in accordance with the recommendation 27 of the Finnish Corporate Governance Code.

The Audit Committee held four meetings in 2010. The members attended all of the committee meetings.

In accordance with the Audit Committee Charter desirable qualifications for committee members include appropriate understanding of accounting practices and financial reporting through education or experience in performing or overseeing related functions.

Pursuant to the charter, the main responsibilities of the Audit Committee are to oversee the financial reporting processes, to monitor the statutory audits of the financial statements and to assist the Board of Directors in its oversight of matters pertaining to financial reporting, internal control and risk management.

Further responsibilities include:

- monitoring the effectiveness of the internal control, internal audit and risk management systems
- evaluating the qualifications and independence of the statutory auditor
- preparing the proposal for the election of the statutory auditor, and
- evaluating the performance of the internal audit.

#### Human Resources Committee

In 2010, the Human Resources Committee had Berndt Brunow as Chairman, and Ursula Ranin and Robert J. Routs as members.

The Human Resources Committee held seven meetings in 2010. The members attended all of the committee meetings.

Pursuant to its charter, the main responsibilities of the Human Resources Committee are to assist the Board of Directors with regard to the appointment, assessment and remuneration of the President and CEO and employees reporting to the President and CEO, to oversee human resources policies, compensation plans and programmes and to review procedures for appropriate succession plan for senior management.

#### Nomination and Corporate Governance Committee

In 2010, the Nomination and Corporate Governance Committee had Björn Wahlroos as Chairman, and Matti Alahuhta and Karl Grotenfelt as members.

The Nomination and Corporate Governance Committee held three meetings during 2010. The members attended all of the committee meetings.

Pursuant to its charter, the main responsibilities of the Nomination and Corporate Governance Committee are to prepare a proposal for the election of the members of the Board of Directors and their remuneration for consideration of the Annual General Meeting, to develop and recommend a set of corporate governance principles (i.e. Board Charter) to the Board of Directors, and to review the general corporate governance of the company.

## President and CEO

Jussi Pesonen  
President and Chief Executive Officer  
Born 1960  
M.Sc.(Eng.)

The President and CEO is responsible for the day-to-day management of the company's affairs. The President and CEO sees to the executive management of the company in accordance with the instructions and orders given by the Board of Directors.

The President and CEO ensures that the company's accounting practices conform to the law and makes sure that the company's financial administration and management is reliably organised. The President and CEO supplies the Board of Directors with the information necessary for the performance of its duties.

Measures that are unusual or extensive in view of the scope and nature of the company's business may be taken by the President and CEO only if approved by the Board of Directors, unless the time required to obtain such approval would cause the company to suffer a substantial disadvantage, in which case the President and CEO pursues a prior communication with the chairman of the Board of Directors.

### Internal control and risk management pertaining to financial reporting

UPM's Board of Directors has approved the Risk Management Policy, which sets out the principles, roles and responsibilities for the risk management within the Group's organisation and defines the risk management process.

UPM's internal control framework includes the main elements from the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The risk management process for financial reporting is based on the internal control framework. The process-level internal control structure has been created by using a top-down risk-based approach. Internal control pertaining to financial reporting is a category of internal control in UPM.

The five main (COSO) components in the internal control framework are:

#### Control environment

The company's values and Code of Conduct set the foundation and the tone for the internal control framework in UPM.

The framework consists of

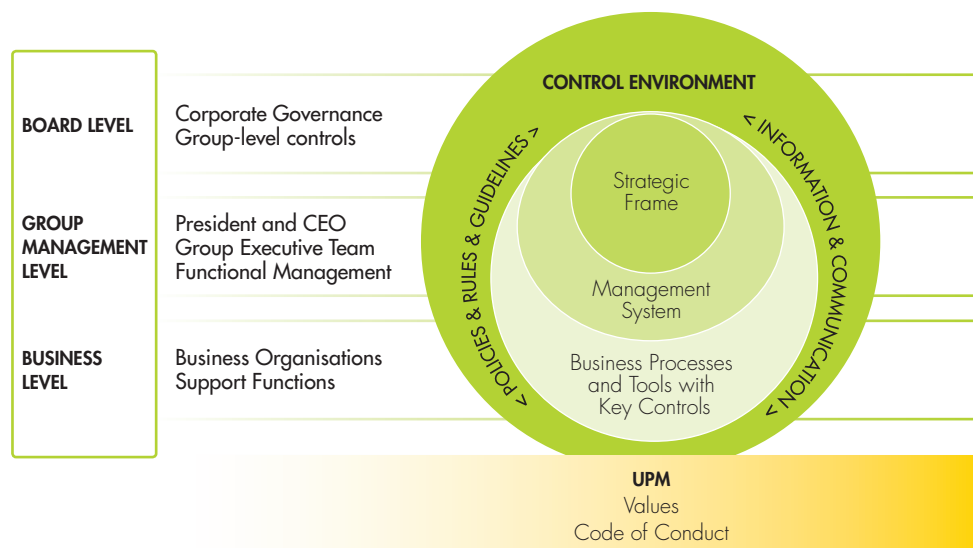
- A Group-level structure
- Group-level processes
- Group-level controls
- Business and support function controls

The Board's Audit Committee monitors the Group's internal control.

#### Risk assessment

UPM's risk assessment as regards financial reporting aims to identify and evaluate the most significant risks that affect internal control over financial reporting in the Group companies, business

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT PROCESS IN UPM



areas and processes. The risk assessment results in control targets that ensure that the fundamental demands placed on financial reporting are fulfilled and comprise the basis for how risks are to be managed within the various control structures. The risk assessment is updated annually along with the planned control actions and control targets based on the assessment. Development of risk assessment and the planned and executed actions are reported regularly to the Audit Committee.

**Control activities**

The Group Executive Team has approved the internal control rules. In accordance with these rules, the head of each unit or function shall organise the internal control of his or her unit or organisation. The company has developed and implemented a comprehensive internal control system that covers business and financial reporting processes. The internal control activities are led centrally by Group Finance and Control with an annual schedule and defined roles and responsibilities in the control process. This central task force is responsible for monitoring the business, function and unit level control processes. Control set-up, uniform testing and monitoring processes ensure that potential errors or deviations are prevented or detected and corrected.

An essential part of the internal control environment is the control over the UPM's IT applications and IT infrastructure. A special set of internal controls has been designed to guarantee the reliability of UPM's IT and the segregation of duties in the IT environment.

Regarding financial reporting, the Group Accounting Manual sets out the instructions and guidelines for the preparation of the consolidated financial statements. The Group Finance and Control defines the design of the control points in the business processes and the internal controls are implemented in the financial reporting process. Periodic controls are an essential part of the monthly and interim reporting process and the controls include the necessary reconciliations and analytical reviews to ensure the correct reporting data.

The results of the control risk assessment and the process-level controls are analysed and reported to the Audit Committee.

**Information and communication of internal controls**

Internal controls are documented and filed in the internal control database. The internal control procedure is reviewed on continuous basis including possible changes in the internal controls. Regular communication is done by internal control process owners giving the detailed definitions of the controls and minimum requirements for the effective internal control.

**Monitoring**

Monitoring to ensure the effectiveness of internal control as regards financial reporting is conducted by the Board of Directors, the Audit Committee, the President and CEO, Group Management, the Internal Control function and by the business areas and group companies. The effectiveness of the process for assessing risks and the execution of control activities are reviewed continuously at various levels. Monitoring and reviewing includes the follow-up of monthly and quarterly financial reports in relation to budget and targets, key performance indicators and other analytical procedures.

Internal audit monitors and utilises the risk assessment and the test results of the management's control work. The internal control planning procedure and results are documented and made available for the internal and external auditors and for the management during the annual process. The results are reported to the Audit Committee, the business management and the control owners.

In the performance review also the internal controls are assessed. The corporate and business level controller teams are accountable for assessing the effectiveness of internal controls for which they are responsible. Key controls are regularly tested by independent parties. A self-assessment procedure is used for a specific set of the controls. The internal audit compares its audit work with the evaluation and monitoring of the internal control test results. Recommendations and observations given by the external auditor are considered in maintaining and developing the internal control.