

Corporate Governance Statement

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

The statement has been prepared in accordance with 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. The report of the Board of Directors is presented on page 96 of the Annual Report 2011.

Composition and operations of the Board of Directors

The company's Board of Directors is composed of at least five but not more than twelve directors elected by the Annual General Meeting. The following nine members were elected by the Annual General Meeting held on 7 April 2011:

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, Vice 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 twelve meetings in 2011. On average, the Directors attended 96% of the meetings.

Pursuant to its charter, the Board of Directors will deal with all matters pertaining to its area of responsibility as defined by 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 Group Executive Team, and
- Determining the dividend policy and presenting a proposal for the payment of the dividend to the Annual General Meeting.

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 2011, the Audit Committee comprised 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 Recommendation 27 of the Finnish Corporate Governance Code.

The Audit Committee held four meetings in 2011. 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, which may have been gained 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, monitor the statutory audits of the financial statements and assist the Board of Directors in overseeing 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 2011, the Human Resources Committee comprised Berndt Brunow as Chairman and Ursula Ranin and Robert J. Routs as members.

The Human Resources Committee held four meetings in 2011. 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 planning for senior management.

Nomination and Corporate Governance Committee

In 2011, the Nomination and Corporate Governance Committee comprised Björn Wahlroos as Chairman and Matti Alahuhta and Karl Grotenfelt as members.

The Nomination and Corporate Governance Committee held five meetings during 2011. 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 at 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 manage-

ment of the company's affairs in accordance with the instructions and orders given by the Board of Directors.

The President and CEO is responsible for the compliance of the accounts of the company with the law and that the company's financial administration and management is organised in a reliable manner. The President and CEO supplies the Board of Directors with the information required for the performance of its duties.

The President and CEO may undertake such measures that are considered unusual or extensive in view of the scope and nature of the company's business only with the authorization of the Board of Directors, unless the time required to obtain such authorization would cause substantial harm to the company, in which case the President and CEO pursues prior consultation 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 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 using a top-down, risk-based approach. Internal control pertaining to financial reporting is a category of internal control at 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 at UPM.

The framework consists of

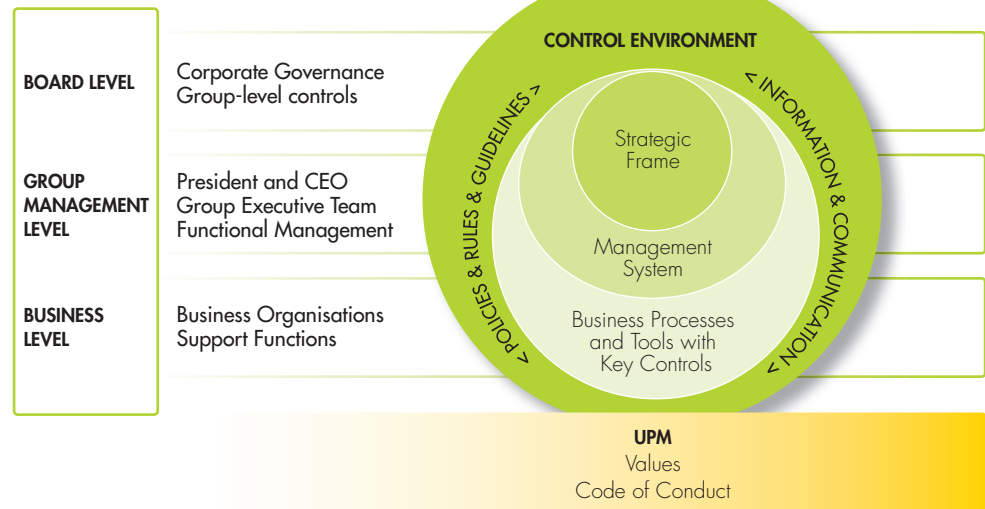
- A group-level structure
- Group-level processes
- Group-level controls
- Business and support function controls

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

Risk assessment

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

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



managed within the various control structures. The risk assessment is updated annually together with the planned control actions and control targets that are based on the assessment. The development of the risk assessment and the planned and executed actions are reported to the Audit Committee on a regular basis.

Control activities

The Group Executive Team has approved the internal control rules. In accordance with these rules, the head of each unit or function will 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. Internal control activities are led centrally by Group Finance with an annual schedule and defined roles and responsibilities in the control process. This central task force is responsible for monitoring business, function and unit-level control processes. Establishing control measures and setting up uniform testing and monitoring processes aims to ensure that potential errors or deviations are prevented or are detected and corrected accordingly.

An essential part of the internal control environment is the control over UPM’s IT applications and IT infrastructure. A special set of internal controls aims to ensure the reliability of UPM’s IT systems and the segregation of duties in the IT environment.

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

The results of the control risk assessment and testing of 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 process is reviewed on an ongoing

basis, including possible changes to the internal controls. Regular communication from internal control process owners provides detailed definitions of the controls and states the minimum requirements for the relevant internal control.

Monitoring

Monitoring work to ensure the effectiveness of internal controls regarding financial reporting is conducted by the Board of Directors, the Audit Committee, the President and CEO, Group Management, Group Finance and by the business areas and Group companies. The effectiveness of the process for assessing risks and of the execution of control activities are reviewed on an ongoing basis at various levels. Monitoring and reviewing includes following up monthly and quarterly financial reports in relation to budgets and targets, key performance indicators and other analytical procedures.

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

The internal controls are also assessed in the performance review. The corporate and business-level controller teams are accountable for assessing the effectiveness of the internal controls for which they are responsible. Self-assessment and self-testing procedures are widely used in management testing. In addition, key controls are regularly tested by independent parties. The internal audit compares its audit work with the evaluation and monitoring of internal control test results. External auditors evaluate and test UPM’s internal controls as part of their audit work, and recommendations and observations made by them are taken into consideration when maintaining and developing the internal control.