

REMUNERATION STATEMENT

This Remuneration Statement has been prepared according to the recommendation 47 of the Finnish Corporate Governance Code 2010.

FINANCIAL BENEFITS

Board of Directors

The annual fees of the Board and Committee members for the year 2010 were the following:*

	Annual fees (EUR)	of which shares (pcs)
Chairman	175,000	5,320
Deputy Chairman	120,000	3,648
Chairman of the Audit Committee	120,000	3,648
Members	95,000	2,888

* The President and CEO, who is a Board member, but belongs to the operative management of the company does not receive any financial benefits from the Board membership.

Of the annual fee, 60% was paid in cash and 40% in the company shares purchased on the members' behalf.

The 2011 Annual General Meeting resolved to retain the remuneration of the Board members unchanged.

According to the Board Charter, the Board members are encouraged to own company shares on a long-term basis.

In addition to annual fees the Board members do not receive any other financial benefits from their Board membership.

President and CEO

In 2010, the annual salary and other financial benefits of the President and CEO were the following:

Salaries and benefits	EUR 1,000
Salaries	1,044
Incentives	19
Share rewards	1,844 *
Benefits	22
Total	2,929
Pension costs	
Finnish statutory pension scheme	188
Voluntary pension plan	648
Total	836

* In accordance with the Share Ownership Plan.

In addition, 360,000 2007C stock options were distributed to the President and CEO in 2010.

In accordance with the service contract of the President and CEO the retirement age of the President and CEO is 60 years. For the President and CEO, the target pension is 60% of the average indexed earnings calculated according to the Finnish statutory pension scheme from the last ten years of employment. The costs of lowering the retirement age to 60 years is covered by supplementing statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company prior to the age of 60, immediate vesting right corresponding to 100% of earned pension (pro rata) will be applied.

In case the notice of termination is given to the President and CEO, a severance pay of 24 months' fixed salary will be paid in addition to the salary for the six months' notice period. Should the President and CEO give a notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period.

If there is a change of control in the company, the President and CEO may terminate his service contract within three months from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' basic salary.

DECISION-MAKING PROCESS AND MAIN PRINCIPLES OF REMUNERATION

Decision-making process of remuneration

The Board of Directors resolves on the remuneration of the President and CEO based on the proposal by the Human Resources Committee of the Board.

The President and CEO presents a proposal for the remuneration of the members of the Group Executive Team including the Group Executive Board to the Human Resources Committee of the Board, which makes a proposal to the Board of Directors for the resolution.

The terms and conditions of the share-based long-term incentive plans are approved by the Board, and the terms and conditions of stock option programmes are resolved by the General Meeting.

Main principles of remuneration

The total remuneration of the President and CEO and of the members of the Group Executive Team consists of base salary and benefits, short-term incentives and long-term incentives under the share reward plans and stock option programmes. The total com-

pensation is reviewed annually by the Board of Directors. The review includes benchmarking the different components of remuneration to corresponding positions.

Short-term incentive plans

The short-term incentive plan for the President and CEO and the members of the Group Executive Team is linked with achievement of the predetermined financial targets of the Group or Business Group (70% of the total maximum) and individual targets of the executive (30% of the total maximum) amounting to a maximum annual incentive of 100% of annual base salary to the members of the Group Executive Board and 70% of annual base salary to the members of the Group Executive Team. For the President and CEO the maximum annual incentive amounts to 150% of the annual base salary. In the annual incentive plan for 2010, the financial target was EBITDA, and it is also approved to be the financial target for 2011.

Long-term incentive plans

The company's long-term incentives consist of shares awarded under the Share Ownership Plan 2008–2010, stock options awarded under the stock option programme 2007, and shares awarded under the new Performance Share Plan and Deferred Bonus Plan approved by the Board in February 2011.

The Share Ownership Plan 2008–2010 included three earning periods for the years 2008, 2009 and 2010. The number of the reward shares was based on the predetermined financial targets, which were decided separately for each earning period by the Board of Directors. The maximum number of shares payable under the Share Ownership Plan to the key personnel was in aggregate 1,250,000 shares. In addition, a cash payment equivalent to taxes was paid by the company.

The reward shares are subject to two years' restriction period and, as a general rule, the holders of reward shares are obligated to return the reward shares, if the employment in the company is terminated during the restriction period. The terms and conditions of the Share Ownership Plan include a recommendation for the President and CEO and the members of the Group Executive Team not to dispose of the reward shares even after the two years' restriction period to the extent that the aggregate value of the company shares does not exceed half of his/her annual base salary before taxes.

The earning criterion for the earning period 2010 was based on the operating cash flow. Of the set target, 46.4% was achieved resulting to payout of 133,864 shares to the President and CEO and the members of the Group Executive Team.

The General Meeting has approved the stock option programme 2007 based on which the company has currently three option series: 2007A, 2007B and 2007C. These option series entitle holders to subscribe for a total maximum number of 15.0 million company shares. The 2007A stock options were distributed in January 2009, the 2007B stock options in September 2009 and the 2007C stock options in October 2010. Exercising of options requires employment in the company at the beginning of the subscription period of the options.

New long-term incentive plans, the Performance Share Plan for senior executives and the Deferred Bonus Plan for other key employees, have been approved by the Board of Directors in February 2011.

The Performance Share Plan consists of annually commencing three year plans. The plan is targeted to the Group Executive Team and other selected members of the management. Under the plan UPM shares are awarded based on the group level performance for a three-year earning period. The earned shares are delivered after the closing of the earning period. The earning criteria for the first earning period 2011–2013 under the plan are the operating cash flow and earnings per share (EPS). The maximum number of shares payable under the plan for the earning period 2011–2013 is approximately 900,000 shares.

The Deferred Bonus Plan is targeted to other key personnel of the company than the Performance Share Plan. The share incentives are based on the participants' short term incentive target. The Deferred Bonus Plan consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. During the restriction period, prior to the share delivery, the earned share rewards are adjusted with dividends and other capital distribution, if any, paid to all shareholders. The first plan commences at the beginning of 2011 and the earned shares will be delivered in the spring of 2014. The estimated maximum number of shares payable under the first plan for earning period 2011 is 1,200,000 shares.

The above indicated estimates of the maximum share rewards under the programmes commenced in the year 2011 represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

Ownership recommendation to the executive management

The Board encourages the Group Executive Team to a direct share ownership in the company. It is recommended that the President and CEO maintains a share ownership of UPM shares corresponding to a two-year gross base salary and the other persons belonging to the Group Executive Team a share ownership corresponding to a one-year gross base salary.

Pension agreements

The members of the Group Executive Team are covered by the statutory pension plan in the country of residence, Finland or Germany, supplemented with a voluntary pension plan. For the Finnish members of the Group Executive Team the voluntary pension plan is a defined contribution plan with a contribution rate of 15% of annual base salary. The retirement age is 63 years. The executives belonging to the Group Executive Team as of 1 January 2010 have a full vesting right corresponding to the 100% of the accumulated account. Executives becoming members of the Group Executive Team after 1 January 2010 will get a full vesting right in 5 years after becoming member of the Group Executive Team. The German executive is covered by a local book reserve pension arrangement, as is common in Germany, allowing retirement at the age of 63.