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 fees of the Board members are decided by the Annual General Meeting. The fees have been unchanged since 2007. Of the annual fee, 60% is paid in cash and 40% in the company shares purchased on the members' behalf.

The annual fees of the Board and Committee members for the year 2011 were the following:*

	Annual fees (EUR)	of which shares (pcs)
Chairman	175,000	4,976
Deputy Chairman	120,000	3,412
Chairman of the Audit Committee	120,000	3,412
Members	95,000	2,701

* The President and CEO receives no financial benefits for his role as a member of the Board.

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 the last two accounting periods, the annual salary and other financial benefits of the President and CEO were the following:

Salaries and benefits (EUR 1,000)	2011	2010
Salaries	1,034	1,044
Incentives	1,140	19
Share rewards	899*	1,844*
Benefits	23	22
Total	3,096	2,929
Pension costs		
Finnish statutory pension scheme	396	188
Voluntary pension plan	663	648
Total	1,059	836

* In accordance with the Share Ownership Plan.

The President and CEO participates in the Performance Share Plan *(see Long-term incentive plans).*

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' base 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, which prepares a proposal to the Board of Directors for resolution.

Terms and conditions of all share-based long-term incentive plans are prepared by the Human Resources Committee in consultancy with independent advisors and approved by the Board. 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 equity-based long-term incentives under the share reward plans and stock option programmes. The total compensation is reviewed annually by the Board of Directors. The review includes benchmarking the different components of total 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 to 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 2011 the financial target was EBITDA, and it was also approved to be the financial target for 2012.

Long-term incentive plans

The company's long-term incentives as of 2011 consist of the Performance Share Plan for senior executives and the Deferred Bonus Plan for other key employees. These two plans replace the earlier Share Ownership Plan for 2008–2010 and the stock option programme 2007.

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 periods of 2011–2013 and 2012–2014 are based on operating cash flow and earnings per share (EPS). The maximum number of shares payable under the plan for the earning period 2011–2013 is 872,500 shares of which up to 150,000 is payable to the President and CEO, and 337,500 to the other members of the Group Executive Team. In 2011, 38 persons were included in the plan. For the earning period of 2012–2014, the maximum number of shares payable under the plan is 1,369,000 shares of which up to 219,000 is payable to the President and CEO, and 505,000 to the other members of the Group Executive Team. For 2012, 41 persons are included in the plan.

The Deferred Bonus Plan is targeted to other key personnel of the company not participating in the Performance Share Plan. The share incentives are based on the participants' short-term incentive targets. The Deferred Bonus Plan consists of annually commencing plans. Each plan consists of the one-year earning period and the 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 commenced at the beginning of 2011 and the earned shares will be delivered in the spring of 2014. The estimated number of shares under the plan for the earning period 2011 is approximately 250,000 shares. In 2011, 521 persons were included in the plan. For the earning period 2012, the estimated maximum number of shares is approximately 1,800,000 shares. For 2012, approximately 580 persons are included in the plan.

The above indicated estimates of the maximum share rewards under the Performance Share Plan and the Deferred Bonus Plan represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

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 predetermined financial targets, which were decided separately for each earning period by the Board of Directors. The earning criterion for the last earning period 2010 was based on the operating cash flow. Of the set target, 46.4% was achieved resulting to a payout of 133,864 shares to the President and CEO and the members of the Group Executive Team. 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 stock option programme 2007 includes 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. Each of the series has a two-year subscription period, ending on 31 October of 2012, 2013 and 2014, respectively.

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.