The Biofore Company

UPM

# Annual Report 2009

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## ANNUAL GENERAL MEETING

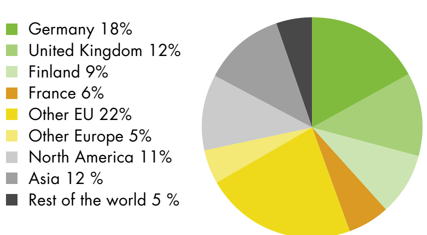
UPM-Kymmene Corporation will hold its Annual General Meeting on Monday 22 March 2010 at 14:30 at the Helsinki Exhibition and Convention Centre, at Messuaukio 1, 00520 Helsinki. Instructions for participation are given in the notice of the meeting and can also be found on the company's web pages at www.upm.com/agm.

## DIVIDEND

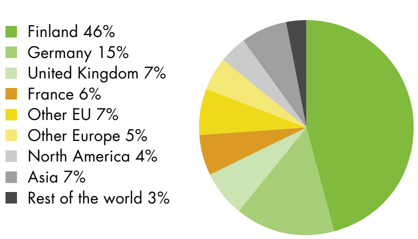
The Board of Directors has decided to propose to the Annual General Meeting that a dividend of € 0.45 per share be paid in respect of the 2009 financial year. To receive dividend, shareholders must be registered in the shareholder register maintained by Euroclear Finland Ltd. on 25 March 2010, the record date for dividend payment. The Board of Directors will propose to the Annual General Meeting that the dividend be paid on 7 April 2010.

# MARKET PRESENCE

**SALES BY MARKET 2009**
**€ 7,719 MILLION**




**PERSONNEL BY AREA 31.12.2009**
**23,213**




# IN BRIEF

UPM IS THE BIOFORE COMPANY AND CREATES VALUE FROM RENEWABLE AND RECYCLABLE MATERIALS.

In 2009, UPM's sales totalled € 7.7 billion. UPM has production plants in 15 countries and a global sales network. UPM employs approximately 23,000 employees worldwide. UPM shares are listed on the NASDAQ OMX Helsinki stock exchange and it has more than 83,000 shareholders.

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## energy & pulp

UPM is a significant generator of low-carbon energy and a leading producer of chemical pulp with its modern, well invested pulp mills. UPM develops its energy and pulp operations as market driven businesses. It seeks growth in pulp and low-carbon energy, ranging from electricity and heat to biofuels.

## paper

UPM is the world's leading producer of graphic papers. Its large and cost competitive paper mills are located in Europe, China and the USA. The Paper business group aims for competitive advantage with cost efficiency, sustainable products, reliability and innovative customer services.

## engineered materials

The Engineered materials business group comprises of high value-added growth businesses which are based on UPM's proprietary materials know-how. UPM is the second-largest producer of self-adhesive label materials globally and the largest supplier of plywood in Europe.

UPM does not publish a separate environmental and corporate social responsibility report but has intergrated the contents into this annual report.

# UPM – The Biofore Company

## UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future.

• The Energy business area generates low -carbon electricity for internal use and to electricity markets.

• The Pulp business area produces chemical pulp for internal use and for the global market.

• The Forest and timber business area sources forest biomass for the Group. It also produces WISA sawn timber products.

• Wood, the primary raw material, is renewable. Biodiversity is an integral part of UPM's sustainable forest management.

| Energy | | Share of Group[1)] |
|---|---|---|
| Sales, €m | 472 | 2% |
| Capital employed on 31 Dec., €m | 886 | 8% |
| Personnel on 31 Dec. | 92 | 0% |

| Pulp | | Share of Group[1)] |
|---|---|---|
| Sales, €m | 653 | 1% |
| Capital employed on 31 Dec., €m | 2,364 | 21% |
| Personnel on 31 Dec. | 1,516 | 7% |

| Forest and timber | | Share of Group[1)] |
|---|---|---|
| Sales, €m | 1,337 | 8% |
| Capital employed on 31 Dec., €m | 1,638 | 14% |
| Personnel on 31 Dec. | 3,067 | 13% |

1) Sales % represents share of external sales

• The Paper business area offers a wide range of papers including magazine papers and newsprint as well as fine and speciality papers.

• The main customers are publishers and printers as well as merchants and paper converters.

• UPM paper is a sustainable choice. In paper production UPM uses mostly bioenergy and nearly one third of fibre raw material is recycled fibre.

| Paper | | Share of Group[1)] |
|---|---|---|
| Sales, €m | 5,767 | 72% |
| Capital employed on 31 Dec., €m | 5,499 | 48% |
| Personnel on 31 Dec. | 12,161 | 53% |

1) Sales % represents share of external sales

• The Label business area provides self-adhesive label materials for product and information labelling.

• The Plywood business area offers WISA plywood and veneer, mainly for construction and transport equipment.

• In addition to the well established businesses, UPM has developed products such as RFID tags and inlays and UPM ProFi wood plastic composite.

| Label | | Share of Group[1)] |
|---|---|---|
| Sales, €m | 943 | 12% |
| Capital employed on 31 Dec., €m | 484 | 4% |
| Personnel on 31 Dec. | 2,595 | 11% |

| Plywood | | Share of Group[1)] |
|---|---|---|
| Sales, €m | 306 | 4% |
| Capital employed on 31 Dec., €m | 242 | 2% |
| Personnel on 31 Dec. | 3,292 | 14% |

1) Sales % represents share of external sales

# THE YEAR IN BRIEF

The year 2009 was marked by a severe global recession and UPM's sales decreased by 18%. Strong cost saving measures were implemented to ensure profitability.

## KEY FIGURES 2007–2009

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 7,719 | 9,461 | 10,035 |
| Operating profit, €m | 135 | 24 | 483 |
| excl. special items, €m | 270 | 513 | 835 |
| Profit loss before tax, €m | 187 | -201 | 292 |
| Earnings per share, € | 0.33 | -0.35 | 0.16 |
| excl. special items, € | 0.11 | 0.42 | 1.00 |
| Cash flow from operating activities per share, € | 2.42 | 1.21 | 1.66 |
| Return on equity, % | 2.8 | neg. | 1.2 |
| Dividend per share (2009: Board's proposal), € | 0.45 | 0.40 | 0.75 |
| Shareholders' equity per share at end of period, € | 12.67 | 11.74 | 13.21 |
| Gearing ratio at end of period, % | 56 | 71 | 59 |
| Capital expenditure, €m | 913 | 551 | 708 |

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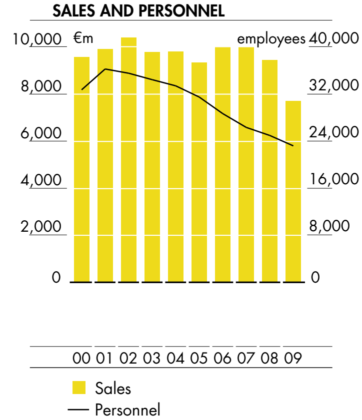
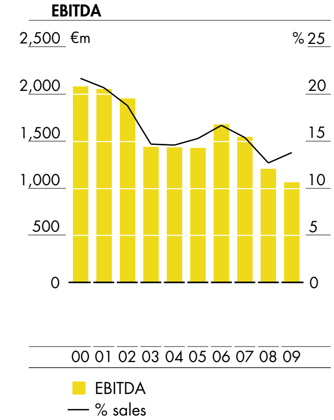
# KEY FINANCIAL INFORMATION 2000–2009

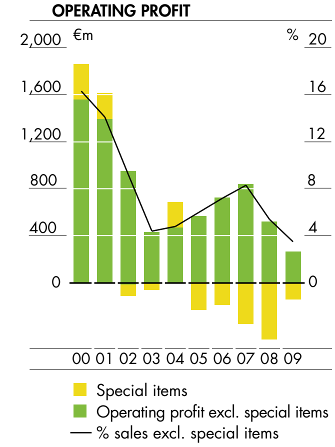
SALES AND PERSONNEL



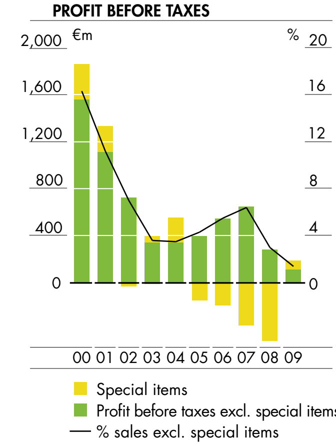

EBITDA




OPERATING PROFIT

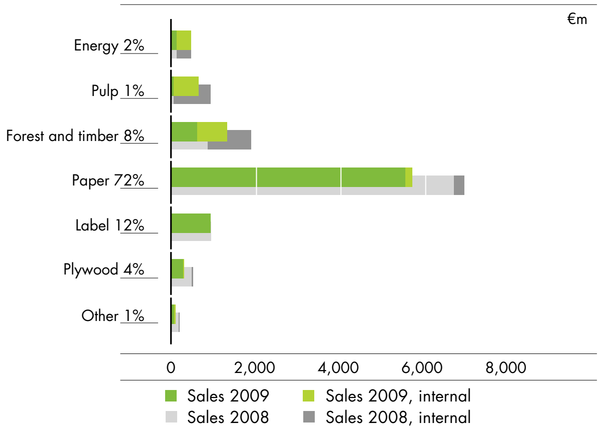



PROFIT BEFORE TAXES



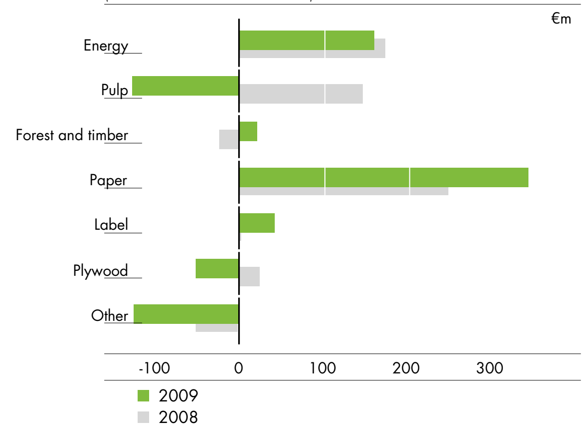

Figures for 2002–2009 are reported in accordance with international financial reporting standards (IFRS), while figures for previous years are based on Finnish accounting standards (FAS).

**SALES BY BUSINESS AREA[1)]**

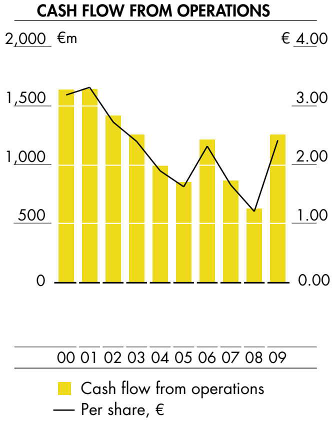



[1)] % of external sales

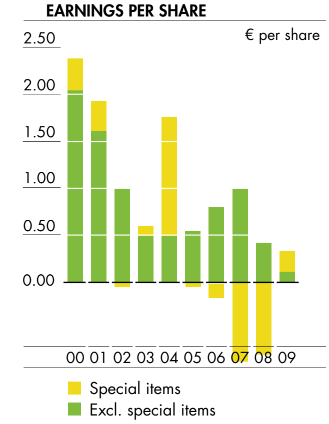
**OPERATING PROFIT BY BUSINESS AREA**
(EXCLUDING SPECIAL ITEMS)



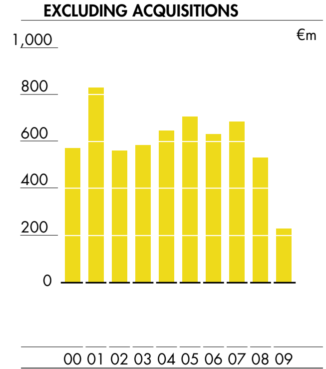

**CASH FLOW FROM OPERATIONS**



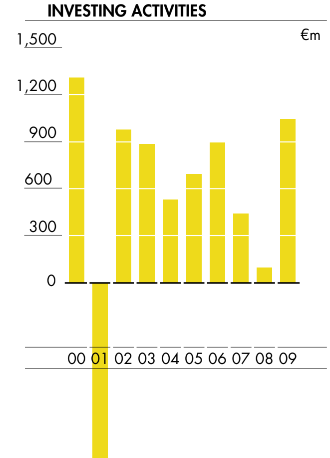

**EARNINGS PER SHARE**



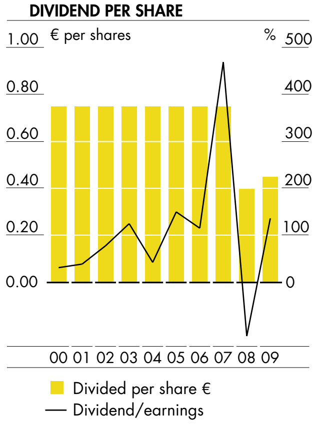

**CAPITAL EXPENDITURE**
**EXCLUDING ACQUISITIONS**



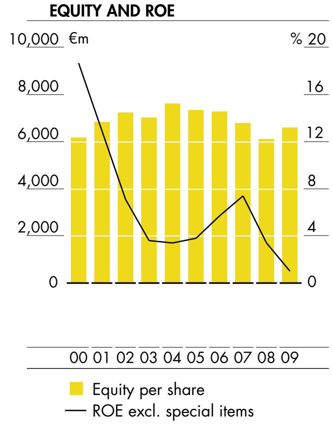

**CASH FLOW AFTER**
**INVESTING ACTIVITIES**



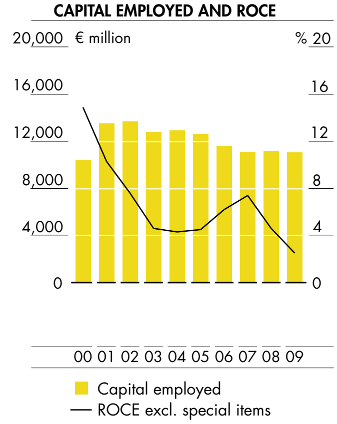

**DIVIDEND PER SHARE**



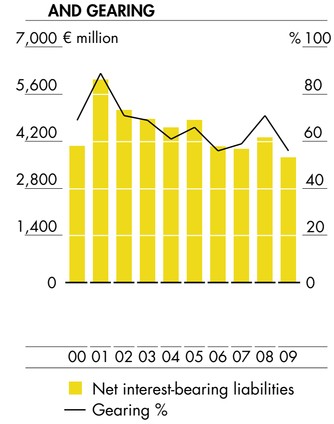

**EQUITY AND ROE**




**CAPITAL EMPLOYED AND ROCE**




**NET INTEREST-BEARING LIABILITIES**
**AND GEARING**



# DEAR SHAREHOLDER,

Year 2009 was characterised by the global economic slowdown but also the implementation of the first steps of UPM's vision as the Biofore Company.

IN 2009, THE THREE BUSINESS GROUPS TOOK THEIR HELMS, NEW BUSINESS STRATEGIES WERE FORMED AND TARGETS SET. IN THE PULP BUSINESS, A MAJOR STRATEGIC MILESTONE WAS ACHIEVED IN URUGUAY.

Demand for all of our products was affected by the global recession, and our sales dropped by 18% during the year, severely impacting the profitability of our operations.

Cost savings and temporary production curtailments were applied in all of our business areas. Cost discipline and cash preservation were necessary measures to cope with the challenging business environment.

The company's fixed costs decreased by € 300 million from the previous year. The organisation responded to the weakened economy and stayed very focused, for which I wish to thank all UPM employees. These successful savings were crucial for our financial performance in 2009.

Given the circumstances, UPM was able to achieve a good full year result in 2009. Earnings per share, excluding special items, were € 0.11, compared with € 0.42 in the previous year. Operating cash flow was healthy and we were able to reduce our debt by € 591 million. The Board of Directors' proposal for a dividend, € 0.45, is in line with the company's dividend policy which is based on operative cash flow.

In the Paper and Label businesses, internal improvements were necessary and were professionally implemented. In Label, a quick and clear turnaround was achieved. In Plywood and Timber, the markets declined substantially, which resulted in extensive production downtimes. Eventually, restructuring in Finland was necessary to secure the long term cost competitiveness of these businesses.

The past year was also characterised by our reorientation to the future. The three new Business Groups which were introduced at the end of 2008, took the helms of their respective business areas, new business strategies were formed and targets set. Energy and Pulp no longer only served other businesses but are developing as businesses in their own right.

In the Pulp business area we achieved a major strategic milestone. The restructuring of Botnia's ownership means that we have a clear and transparent structure in our pulp operations. The acquisition of the Fray Bentos mill and Forestal Oriental plantations in Uruguay adds further edge to our existing strong pulp operations, and we can leverage the benefits already in 2010.

Based on the company's vision, UPM also redefined itself as a bio and forest industry company – The Biofore Company. The concept captures the essence of UPM's strategy. Bio stands for future orientation, sustainable products and solutions, as well as good environmental performance. Fore stands for versatile and advanced use of forest biomass, but also for being in the forefront, being first. This is where we see our company heading.

In 2010, the operating environment will continue to be challenging. Demand recovery seems to be at hand, but the speed and strength of it is uncertain. There is still overcapacity in many of our businesses. It is crucial to ensure cost competitiveness today but also to have strong foresight for future developments.

Jussi Pesonen
President and CEO

# UPM – THE BIOFORE COMPANY

## vision

AS THE FRONTRUNNER OF THE NEW FOREST INDUSTRY, UPM LEADS THE INTEGRATION OF BIO AND FOREST INDUSTRIES INTO A NEW, SUSTAINABLE AND INNOVATION-DRIVEN FUTURE. WE RESHAPE MARKETS THROUGH COST LEADERSHIP, CHANGE READINESS AND LEADING INNOVATION.

# purpose

WE CREATE VALUE FROM RENEWABLE AND RECYCLABLE MATERIALS BY COMBINING OUR EXPERTISE AND TECHNOLOGIES WITHIN FIBRE-BASED, ENERGY-RELATED AND ENGINEERED MATERIALS BUSINESSES.

# STRATEGY

UPM's aim is to add value through the use of fibre and forest biomass in its current products and to create new growth opportunities based on continuous product development and innovation. Fibre- and biomass-based businesses, recyclable raw materials and products, and competitive access to critical production inputs are cornerstones of the company's strategy.

UPM creates added value and cost benefits with smart and sustainable products and solutions for its customers worldwide.

Fibre-based businesses continue to form the cornerstone of our strategy while energy-related businesses, engineered materials and new markets will broaden our scope and offer opportunities for further growth.

UPM's business portfolio consists of energy, chemical pulp, papers, self-adhesive label materials, plywood and sawn timber.

In the Energy and Pulp business areas, UPM invests in cost competitive growth. In Forest and timber, the business area's focus is on securing competitive biomass for UPM. In Paper, UPM drives for undisputed cost leadership, as well as for growth in China and Eastern Europe. In Engineered materials, product renewal and the creation of new businesses are of great importance. In the Label business area, UPM is targeting industry leadership and, in Plywood, improved cost competitiveness and growth.

For its employees, UPM aims to offer a high-performing culture which inspires initiative. UPM encourages and supports people to develop their professional competencies and readiness for change.

Corporate responsibility is an integral part of company operations.

UPM is committed to continue developing its products and processes with the aim of improving environmental performance in all parts of the product lifecycle, from sourcing raw materials to recycling used products.

Long term development of the company requires a solid financial position and profitability at all times. The financial goal is to increase shareholder value. UPM wants to reach this goal in a socially and ecologically sustainable way.

## STRATEGIC OBJECTIVE / STRATEGIC STEPS 2009

### Energy and Pulp

**EXPAND IN COST COMPETITIVE LOW-EMISSION ENERGY**

- Started biomass boilers at the Caledonian mill in the UK, and the Kaukas mill in Finland (jointly owned by PVO and the City of Lappeenranta)
- Increased ownership in PVO by 1.2% to 43.07%
- The pilot testing of gasification technology to develop biodiesel technology was completed
- Legislative environmental impact assessment (EIA) for a biorefinery was completed at two mill sites in Finland

**INCREASE THE SHARE OF COST COMPETITIVE PULP**

- Gained control of Fray Bentos pulp mill and plantations in Uruguay and reduced ownership in Botnia in Finland from 47% to 17%
- Borea JV in Russia: feasibility study continued; new potential sites were included in the study

**STRENGTHEN POSITION IN THE FOREST BIOMASS MARKET**

- Full control of the plantation company Forestal Oriental in Uruguay increased share of fast-growing fibre
- Biorefinery Development Centre was established in Lappeenranta, Finland

### Paper

**FOCUS ON CUSTOMER INTERFACE AND COST LEADERSHIP**

- New supply chain management implemented
- Significant fixed costs savings achieved
- Investments directed towards cost improvements

**CONSOLIDATION IN EUROPE**

- Several prospects were evaluated

**GROWTH IN CHINA AND OTHER EMERGING MARKETS**

- Pre-feasibility studies were carried out

### Engineered materials

**INDUSTRY LEADERSHIP IN SELF-ADHESIVE LABEL MATERIALS**

- UPM Raflatac completed restructuring of its European operations
- Successful ramp up of the new plant in Poland

**GROWTH IN PLYWOOD**

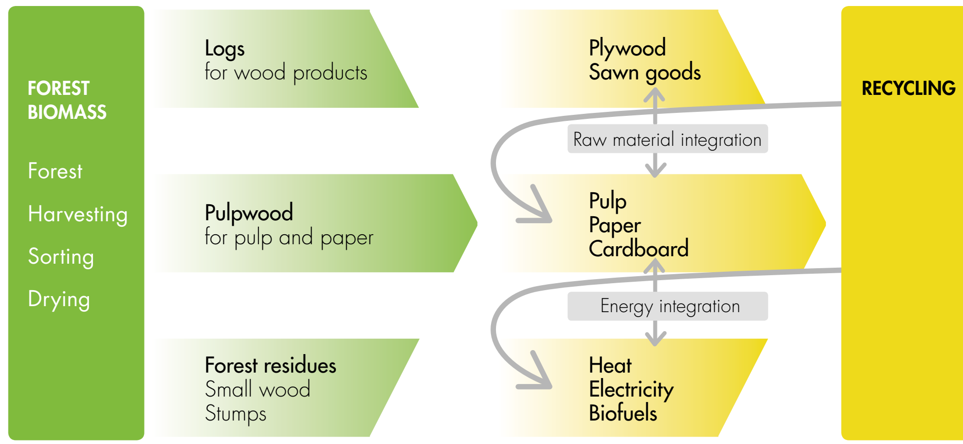
- To ensure competitiveness of future operations, a major restructuring of Finnish operations was initiated including an investment in Savonlinna mill expansion

**DRIVE PRODUCT RENEWAL AND DEVELOP NEW BUSINESSES BASED ON PROPRIETARY KNOW-HOW**

- UPM ProFi wood plastic composites launched at the Central European markets, new product applications were developed

BIOMASS VALUE CHAIN

Biomass value chain creates synergies and offers strategic growth opportunities for UPM.




# FINANCIAL TARGETS AND DIVIDEND POLICY

UPM sets internal financial targets for each business area and the whole Group. The financial targets emphasise the importance of cash flow and the financial flexibility of the company in steering the businesses.

The company's long term target is an operating profit margin that exceeds 10%. The return on equity target is at least five percentage points above the yield of a 10-year risk-free investment such as the Finnish government's euro-denominated bonds. At the end of 2009, the minimum target for return on equity, as defined above, was 8.6%.

The gearing ratio is to be kept below 90%. The company has raised the priority of debt reduction and emphasises its aim to meet the requirements of capital markets.

UPM intends to pay as an annual dividend at least one third of net cash flow from operating activities less operational capital expenditure. To promote stability in dividends, net cash flow will be calculated as an average over a three-year period. Remaining funds are to be allocated between growth capital expenditure and debt reduction. The net cash flow from operating activities for 2009 was € 1,259 million and operational capital expenditure € 148 million.

## ACHIEVEMENT OF FINANCIAL TARGETS

| | | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| Return on equity, % | Min. target | 8.6 | 8.7 | 9.4 | 9.0 | 8.2 |
| Return on equity, % | Achieved | 2.8 | neg. | 1.2 | 4.6 | 3.5 |
| excluding special items, % | Achieved | 1.0 | 3.4 | 7.4 | 5.7 | 3.8 |
| | Target | Achieved | | | | |
| Operating profit, excluding special items, % | > 10 % of sales | 3.5 | 5.4 | 8.3 | 7.2 | 6.0 |
| Gearing ratio, % | < 90 | 56 | 71 | 59 | 56 | 66 |
| Dividend based on operating cash flow, € [1] | Min. target > 1/3 | 0.45 | 0.40 | - | - | - |
| Dividend per share, € [2] | | 0.45 | 0.40 | 0.75 | 0.75 | 0.75 |
| Dividend to earnings ratio, % | 2005–2007 > 1/3 | 136.4 | neg. | 468.8 | 115.4 | 150.0 |

1) Targets: at least one third of net cash flow from operating activities less operational capital expenditure (an average over a three-year period),
2) Board's proposal for 2009

# RISK MANAGEMENT

## SENSITIVITY ANALYSIS

### Changes in sales prices

The biggest factor affecting UPM's financial results is the sales price of paper. A change in the volume delivered has less than half of the effect of the same percentage change in sales prices.

### Exchange rate risk

Changes in exchange rates over a prolonged period have a marked impact on financial results.

It is the company's policy to hedge an average of 50% of its estimated net currency cash flow for 12 months ahead.

At the end of 2009, UPM's estimated net currency flow for the coming 12 months was € 1.3 billion. The US dollar represented the biggest exposure, at € 0.5 billion.

Changing exchange rates can also have indirect effects, such as change in relative competitiveness between currency regions.

### Cost structure

The company's biggest cost items are the cost of fibre raw material and personnel expenses. Delivering products to customers worldwide is also a major cost factor.

### EFFECT OF A 10% CHANGE IN PRICES ON OPERATING PROFIT FOR THE YEAR

| | € million |
|---|---|
| Publication papers | 340 |
| Fine and speciality papers | 220 |
| Label materials | 94 |
| Plywood | 29 |
| Sawn timber | 28 |
| Chemical pulp (net effect) * | -4 |

* Based on 2009 pro-forma sales

### FOREIGN CURRENCY NET CASH FLOW

| | € million |
|---|---|
| USD | 500 |
| GBP | 420 |
| Others, total | 410 |

Estimate for the next 12 months on 31 Dec. 2009

### COSTS, EXCLUDING DEPRECIATION

| % | 2009 | 2008 |
|---|---|---|
| Delivery of own products | 10 | 10 |
| Fibre | 21 | 27 |
| Energy | 12 | 10 |
| Fillers, coating and chemicals | 14 | 13 |
| Other variable costs | 15 | 13 |
| Personnel expenses | 18 | 17 |
| Other fixed costs | 10 | 10 |
| Total | 100 | 100 |

Costs totalled € 6.8 billion in 2009 (2008: 8.4 billion)

UPM's business operations are subject to various risks which may have an adverse effect on the company. The list below is not complete but it explains some of the risks with their potential impacts and how UPM manages those risks today.[1)]

| RISK DESCRIPTION | IMPACT | MANAGEMENT |
|---|---|---|
| **Strategic Risks** | | |
| Structural changes in paper usage may result in decline in paper demand which leads to overcapacity | Lower operating rates and weaker pricing power in the industry | Ensure cost efficiency of operations also at low operating rates<br>Proactive product portfolio management |
| Availability of roundwood is not sufficient or is too high priced to meet the company's requirements | Production efficiency weakens and some products may not be produced profitably | Ownership of forestland and long term forest management contracts<br>Imports of wood from other sources |
| Delay in OL 3 nuclear plant start-up and consequent loss of profit and cost overruns | Material cost overrun | Ensure that contractual obligations are met by both parties<br>Arbitration proceedings have been initiated by both parties |
| Cost of an acquisition proves high and/ or targets for strategic fit and integration of operations are not met | Return on investment does not cover cost of capital | Disciplined acquisition process to ensure the strategic fit, right valuation and effective integration |
| Regulatory changes such as EU climate policy and new requirements for $CO_2$ emissions | Subsidies for alternative uses of wood raw material create new competition and increase costs | Communicate the employment and value-added creation impacts of such policies clearly<br>Invest in new, value-adding uses of biomass |
| **Operational Risks** | | |
| Availability and price of major production inputs like chemicals or fillers | Increased cost of raw materials and potential production interruptions would lower profitability | Long term sourcing contracts and relying on alternative suppliers |
| Ability to retain and recruit skilled personnel | Business planning and execution impaired, affecting long term profitability | Competence development<br>Incentive schemes |
| **Financial Risks** | | |
| Major trading currencies like USD weaken against euro | Stronger euro will weaken profitability of exports and attract competitive imports to euro area | Hedging net currency exposure on a continuous basis<br>Hedging the balance sheet |
| Payment default or customer bankruptcy | Loss of income | Active management of credit risks and use of credit insurance |
| **Hazard Risks** | | |
| Environmental risks;<br>A leak, spill or explosion | Damage to reputation, possible sanctions<br>Direct cost to clean up and to repair potential damages to production unit, loss of production | Maintenance, internal controls and reports<br>Certified environmental management systems (ISO 14001, EMAS) |
| Physical damage to the employees or property | Harm to employees and damage to reputation<br>Damage to assets or loss of production | Occupational health and safety systems<br>Loss prevention activities<br>Emergency and business continuity procedures |

[1)] **A more detailed description of risks and risk management is included in the Report of the Board of Directors on page 87.**

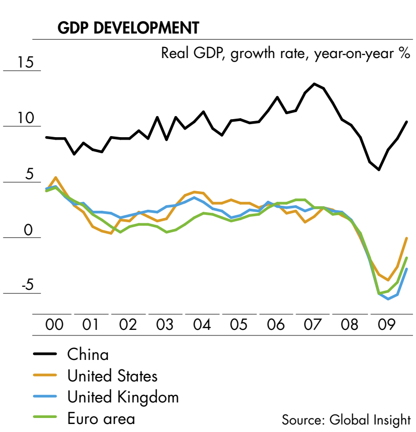
# MARKET INDICATORS

The global economy experienced severe recession in 2009. Signs of recovery were visible towards the end of the year but Europe is lagging behind.

## Global economy

At the beginning of 2009, the global economy was undergoing severe recession which peaked in the middle of the year. The financial crisis of 2008 spread to the real economy in 2009 and resulted in declines in demand, industrial production and investments. The first half of the year was characterised by depressed consumer confidence, declining leading economic indicators, falling exports and rising unemployment.

After a year of shrinking gross domestic product in advanced economies and growth slowdown in emerging markets, the economy started to give signals of stabilisation in the third quarter of 2009. The stabilisation was supported by rebounding confidence and a pickup in global trade. Economic activity was boosted by government stimulus packages and programmes to encourage consumer spending. While there are signs of global economic recovery, the prospects, especially for Europe, remain modest.




## Exchange rate

The euro started to strengthen against the US dollar in February after a short period of depreciation at the beginning of the year. China re-pegged its currency to the US dollar and thus accentuated the challenge of a strengthening euro. Pound sterling, the Russian rouble and the Swedish crown also weakened against the euro.

A strong euro weakened the competitiveness of euro area industries, and the combination of a strong euro and only modest growth prospects in European markets resulted in a challenging operating environment for euro area companies.

## Investments

The global financial and economic crisis and major uncertainties regarding its evolution in the short term had a strong negative impact on investment plans. Companies cut their investments considerably. The availability of financing tightened despite central banks' liquidity support and historic low nominal interest rates. Besides the scarcity of long term financing, willingness to invest was hampered due to large unutilised production capacity.

The availability of financing stabilised towards the end of the year, but the underlying demand prospects do not yet encourage aggressive investment plans.

## Advertising

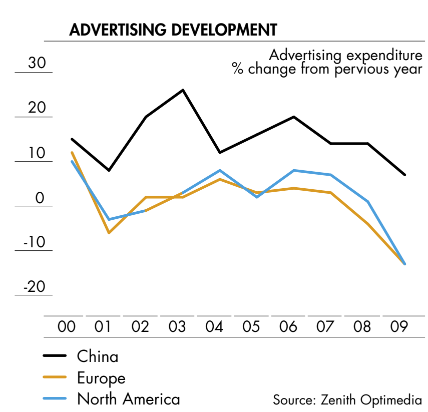
A decline in advertising expenditure started in 2008 and spending plummeted under the global economic downturn. In the 2009 recession, money spent on advertising reduced faster than ever. In addition, the speed of media substitution continued. The internet continued to gain share over traditional media and achieved a 12% share of total advertising expenditure.

In Europe total advertising expenditure fell more than 10% in 2009 while the print media spend declined some 15%. Although print advertising lost some of its share, it held its place as the largest media in Europe and as the second largest media after television globally.

In addition to the decline in advertising, US newspapers in particular, suffered from reduced circulation volumes.

Global direct mail expenditure, driven by cost effectiveness and possibilities for better targeting, held up better than total advertising, declining 4% from the previous year.

After a sharp drop in advertising spending in 2009, prospects for recovery have improved along with rising consumer and corporate confidence.



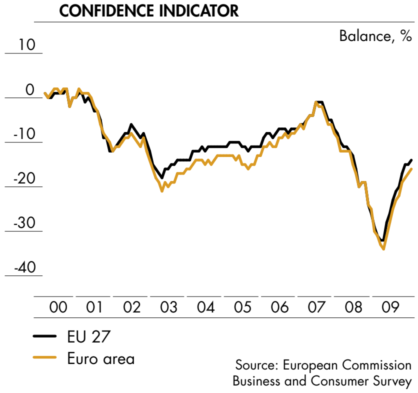
## Private consumption and retail sector

In the beginning of 2009, the level of pessimism expressed by consumers in most markets was unprecedented. As consumers responded to the economic downturn and the deterioration of employment and income conditions, confidence levels bottomed out to a historic low level both in Europe and in the US. Although consumer confidence has gradually improved since April, it still remains modest.

At times of rising uncertainty, consumers buy only the essentials and typically become more price-sensitive. While purchases in some categories, such as food and other necessities, remained stable, demand for durable consumer goods, ranging from furniture to cars, declined. The demand seemed to have shifted towards discount stores at the expense of branded products. These changes in consumption patterns have an effect on the demand for and choices of packaging material as well as the advertising focus of the retail sector.

In China, private consumption and retail sales growth remained on a high level. In North America and, to some extent, in Europe, growth started to pick up in late 2009. However, for mature markets, recovery to pre-recession levels is likely to take years.

EUROPEAN COMMISSION CONSUMER CONFIDENCE INDICATOR




## Construction

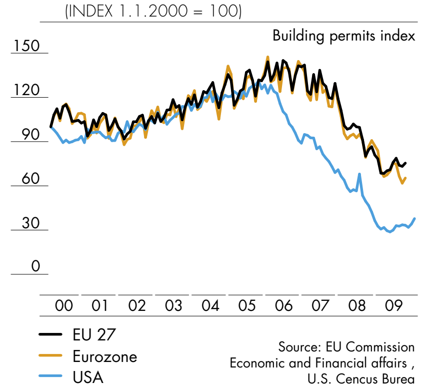
Building permits and new housing starts were at their lowest levels in ten years in Europe and North America at the beginning of 2009.

In Europe, construction output declined remarkably in 2009 compared to the previous year. Although the economy seemed to reach its bottom in mid-2009, construction output continued to decline. Civil engineering, which was supported by country-specific stimulus packages, was the only sector that remained relatively stable in Europe.

With signs of improved conditions in most markets, the construction confidence indicator started to improve in late 2009, although it remains at a very low overall level.

Low construction activity in 2009 has an impact on the building materials markets, including wood-based materials. However, in Western Europe, the ageing of the building stock and an increasing emphasis on sustainable construction, including efficient resource utilisation and energy efficiency, are still the focus of construction industry development.

BUILDING PERMITS
(INDEX 1.1.2000 = 100)




## Raw materials and commodities

The 2009 downturn resulted in a decline of all main commodity and raw material prices: fibre, chemicals, oil, gas and electricity. As signs of economic recovery emerged, commodity prices started to increase.

In 2009, wood trade volumes in Finland were at an exceptionally low level. For saw logs, the traded volumes were some 30% down from 2008 levels. For the limited volumes traded, domestic wood prices in Finland declined from peak years of 2007-2008.

Wood imports from Russia declined due to prohibitive import prices. In December, Russia decided to keep the 2010 duty level unchanged at 15 euro per cubic metre.

Recovered fibre collection volumes in Europe decreased in 2009 compared to 2008 levels. Availability and demand were hit hard by the recession-led reduction in finished paper sales. Recovered fibre prices bottomed out in mid-2009.

## Climate policy

In December 2008, the European Union reached an agreement on an ambitious target to cut EU greenhouse gas emissions by at least 20%, to improve energy efficiency by 20% and raise the use of renewable energy to 20% by 2020.

Uncertainty about the climate policies and their implementation remained throughout 2009. For example, Finland has committed to very ambitious targets of increased use of renewable energies but plans of how to reach those targets will be presented to the EU Commission not earlier than in summer 2010. In Europe, more subsidised initiatives related to increased renewable energy generation are emerging. The future role of and promotional measures for wood-based electricity and heat are not clear. The potential new and subsidised competition for wood from energy side is causing concerns about the future availability of wood for more value-added products.

The UN climate summit in Copenhagen in December 2009 did not reach any binding international agreement.

# BUSINESS AREAS

UPM comprises of six independent business areas: Energy, Pulp, Forest and timber, Paper, Label and Plywood. They are all united by a single purpose: to create value from renewable and recyclable materials by combining expertise and technologies.

# ENERGY

UPM continued to develop energy as a market-driven business.

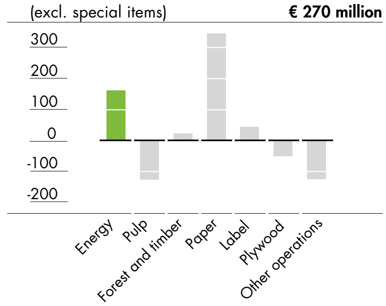
## ENERGY

- Versatile, cost competitive and low-carbon energy portfolio
- Operations on the Nordic and Central European electricity and fuel markets
- Electricity generating capacity in Energy business area 1,820 MW, and UPM in total 2,998 MW

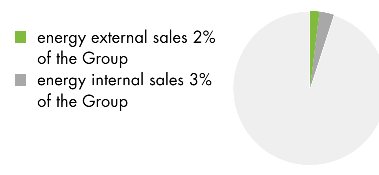
## KEY FIGURES

| Energy | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 472 | 478 | 379 |
| Operating profit excl. special items, €m | 162 | 175 | 95 |
| Capital employed (average), €m | 870 | 951 | 994 |
| ROCE excl. special items, % | 18.6 | 18.4 | 9.6 |
| Personnel on 31 Dec. | 92 | 39 | 26 |
| Electricity deliveries, GWh | 8,865 | 10,167 | 10,349 |

**UPM'S OPERATING PROFIT 2009**
(excl. special items) **€ 270 million**




**ENERGY, SALES 2009** **€ 472 million**




**ENERGY, CAPITAL EMPLOYED 2009** **€ 870 million**


## Description of operations

UPM is a significant generator of low-carbon energy. The Energy business area manages and develops UPM's power generation assets that are not integrated into pulp and paper mills. The business area procures electricity for the group and acts in the Nordic and Central European electricity markets. It is also responsible for UPM's electricity distribution in Finland.

UPM has strong expertise in renewable energy generation and in efficient use of energy. It is also an experienced participant in the energy markets for fuels, electricity and emission allowances. In 2009 the Energy business area centralised its European energy trading.

The Energy business area's total electricity generating capacity is about 1,820 MW, including UPM's shares of hydro, nuclear and thermal energy in the associated energy companies Pohjolan Voima Oy (PVO), its own hydro power and hydro power in Kemijoki Oy. PVO and Kemijoki Oy produce electricity for their shareholders' utilisation on a cost basis.

UPM owns 43.07% of PVO, the second largest power generator in Finland. The company generates and procures around 15,000 GWh of electricity annually on a cost basis for its shareholders. UPM's share of PVO's electricity covers about 40% of the group's total electricity procurement.

PVO is a majority shareholder (58.28%) in Teollisuuden Voima Oyj (TVO). TVO is a nuclear power producer which operates two reactors with a total capacity of 977 MW and is currently constructing a third reactor (OL 3) at Olkiluoto, in Finland. PVO also has a 25.08% shareholding in the Finnish electricity transmission system operator Fingrid, owner and operator of the national transmission grid.

UPM holds 19% of Kemijoki Oy's hydropower shares (1,078 MW).

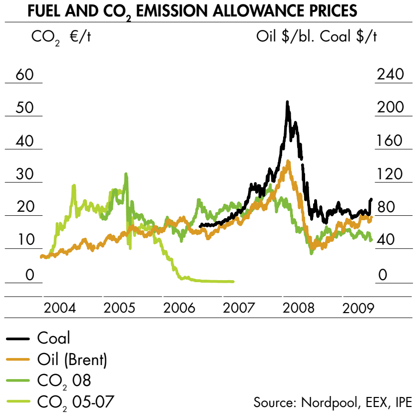
UPM's Paper business group is the Energy business area's largest customer. Energy's sales amounted to 2% of UPM's external sales in 2009. UPM sells electricity to the Nordic Electricity wholesale market.

UPM's total electricity generation capacity is 2,998 MW, including the Paper business group's combined heat and power (CHP) plants operating on paper mill sites, as well as the recovery plants of pulp mills. Altogether these supplies cover approximately 85% of the company's total electricity consumption. In Finland, UPM is a net seller of electricity to the market.

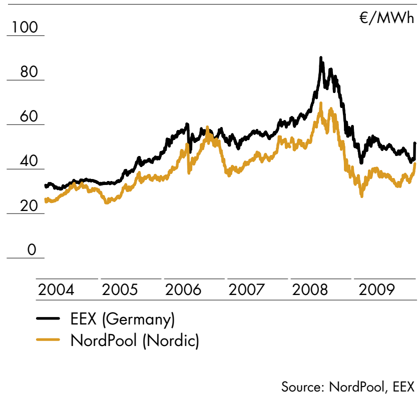
## Market review and business performance

The average electricity spot price on the Nordic electricity exchange decreased by 22% to € 35.0/MWh (44.7/MWh) as the consumption of electricity in the Nordic area decreased by almost 5% mainly due to low industrial activity. The one-year forward electricity price on the Nordic electricity exchange was € 42.5/MWh at the end of 2009, 12% higher than the on-year

FUEL AND $CO_2$ EMISSION ALLOWANCE PRICES




ELECTRICITY 1-YEAR FORWARD PRICE




## POWER GENERATION CAPACITY OF OWN POWER PLANTS AND THROUGH SHAREHOLDINGS

| | Nominal MW |
|---|---|
| Own hydropower | 175 |
| Hydro shareholdings | 498 |
| Nuclear shareholdings | 554 |
| Condensing shareholdings | 593 |
| **Total in Energy business area** | **1,820** |
| CHP in Paper business area | 1,178 |
| **Total UPM** | **2,998** |

forward price at the end of 2008 (37.9/MWh). Lower industrial activity also impacted UPM's share of internal sales as the Paper business group's electricity consumption decreased from the previous year. However, this enabled an increase in sales of low-carbon electricity to the markets.

The Nordic water reservoirs were below the long term average level throughout the year 2009. The average price for EUA $CO_2$ emission allowances was € 13.8/t, almost 41% decrease from the previous year. After a substantial decline in the market prices for oil and coal during the second half of 2008, coal market prices remained fairly stable in 2009. During 2009, market prices for oil increased from about USD 46/barrel to about USD 78/barrel.

UPM's Energy business area's sales for 2009 were € 472 million (478 million), of which € 135 million was external sales (137 million). Operating profit excluding special items decreased to € 162 million (175 million). The average electricity sales price increased by 17% from the previous year due to long term market-based pricing.

## Business development

UPM develops the Energy business area as a market-driven growth business. UPM aims to become a significant participant in the $CO_2$ emission free energy market by expanding in these businesses and by leveraging cost competitive energy sources.

The largest ongoing development project in the context of the Energy business area is TVO's new 1,630 MW nuclear power plant OL 3, in Olkiluoto, Finland. The new power unit is estimated to be in operation in 2012. It will double UPM's nuclear power generation to 1,033 MW. Through PVO, UPM is entitled to a 479 MW share, representing approximately 29% of the new plant's output.

In December 2009, UPM acquired additional 1.2% of the PVO's shares from Botnia for €66 million as a part of the agreement on the restructuring of Botnia ownership.

In 2008, TVO applied for the decision-in-principle from the Council of State to construct a fourth nuclear power plant at Olkiluoto (OL 4). The project has the large support of a Finnish group of owners consisting of industrial energy users and regional and local energy utilities. A decision-in-principle from the Council of State is expected during 2010.

In addition to nuclear power projects, UPM actively investigates opportunities to build and be involved in producing $CO_2$ emission-free energy.

In the biofuels area, the development of technologies and business models for several projects is ongoing. These support UPM's long term targets to become a major participant in the production of second generation biofuels.

# UPM'S ENERGY BALANCE

UPM's energy portfolio is versatile and cost competitive, consisting mainly of hydropower, nuclear power and biomass-based combined heat and power (CHP) on paper mill sites. Effective large-scale utilisation of biomass-based fuels is an important aspect of the group's energy strategy from both the economical and environmental points of view.

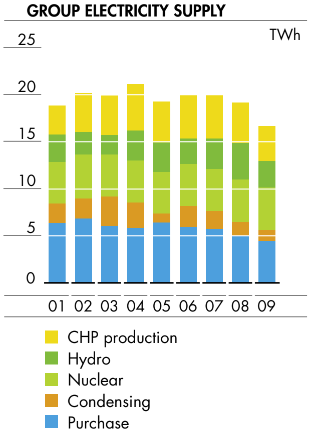
UPM's own electricity consumption totalled 13.2 TWh (16.7) in 2009. The company generated 12.1 TWh (14.2) in its own and share-owned power plants.

UPM's electricity self-sufficiency is 92% (85%). The company is a net seller of electricity in Finland and buys electricity in other markets. Its net electricity purchases totalled 1.1 TWh (2.5) in 2009.

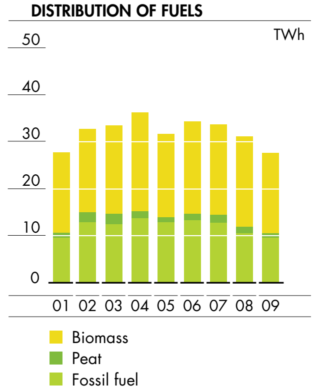
Heat generated from fuels procured by UPM, including purchased heat and heat generated by thermo mechanical pulping, totalled 29.3 TWh (33.3).

Low-carbon energy sources dominate UPM's energy portfolio. In 2009, UPM's specific $CO_2$ emissions from electricity generation were estimated to be 124 $gCO_2$/kWh (107).

GROUP ELECTRICITY SUPPLY




DISTRIBUTION OF FUELS




## ELECTRICITY PROCUREMENT AND CONSUMPTION

| TWh | 2009 | 2008 |
|---|---|---|
| **Procurement** | | |
| Hydropower shares | 2.8 | 3.9 |
| CHP production | 3.7 | 4.3 |
| Nuclear power shares | 4.5 | 4.5 |
| Thermal energy shares | 1.1 | 1.5 |
| Purchased electricity | 4.5 | 5.0 |
| Total | 16.6 | 19.2 |
| **Consumption** | | |
| Mills in Finland | 7.6 | 10.3 |
| Mills outside Finland | 5.6 | 6.4 |
| Sales | 3.4 | 2.5 |
| Total | 16.6 | 19.2 |

## SOURCES OF THERMAL ENERGY

| TWh | 2009 | 2008 |
|---|---|---|
| Black liquor | 9.4 | 11.1 |
| Bark and other biofuels | 7.7 | 8.0 |
| Heat recovered from TMP production | 1.5 | 2.1 |
| Peat | 0.9 | 1.3 |
| Purchased heat | 0.2 | 0.3 |
| Natural gas | 6.3 | 7.1 |
| Oil | 0.3 | 0.3 |
| Coal | 3.0 | 3.1 |
| Total | 29.3 | 33.3 |

- Over one billion euros have been invested in renewable energy in the past 10 years
- 70% of UPM's power generation capacity is $CO_2$ emission-free

# UPM INVESTS IN CLEAN ENERGY

Since 2000, UPM has invested over one billion euros in renewable energy production, mainly in biomass-based combined heat and power production. In addition, UPM is investing in $CO_2$ emission-free nuclear power in Finland through its ownership in TVO (Teollisuuden Voima Oyj). With these investments, UPM's climate friendly power generation capacity has increased by over 300 MW (electricity) since 2000, and it will further increase by almost 500 MW in the next few years with the start-up of TVO's third nuclear power reactor in Olkiluoto, Finland.

Carbon dioxide-neutral energy sources dominate UPM's energy portfolio. This is particularly visible in the fuel mix of UPM's mill site power plants – in Finland 79% and globally 63% of the fuels used by UPM are biomass-based and are therefore not accelerating climate change.

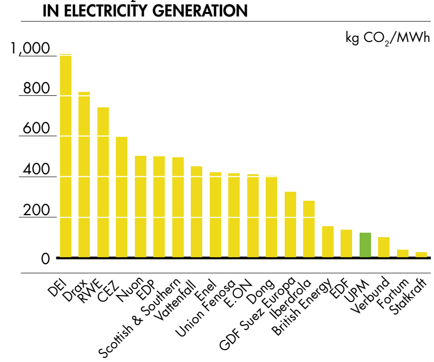
The most recent energy investment was completed in May 2009, when the combined heat and power plant at the Caledonian paper mill in the UK was started up. This biomass-based power plant replaced the old fossil fuel fired facility and, as a result, decreases the mill's $CO_2$ emissions by 75,000 tonnes annually.

In Finland, Pohjolan Voima and Lappeenrannan Energia have built a joint power plant at the UPM Kaukas mill site in Lappeenranta. The test run of the power plant started in December.

Since 1990, UPM has reduced the fossil $CO_2$ emissions per tonne of paper produced by 40% globally, as a result of renewable energy investments and energy efficiency improvements.

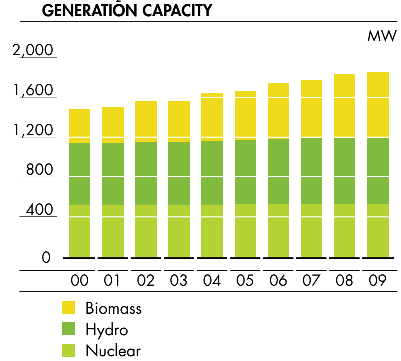
> learn more www.upm.com

**SPECIFIC $CO_2$ EMISSIONS IN ELECTRICITY GENERATION**




Source: PWC 2009, UPM

**UPM'S $CO_2$ EMISSION FREE POWER GENERATION CAPACITY**



- Energy wood turns into biofuels
- UPM develops new businesses in second generation biodiesel, bioethanol and bio oil

# BIOFUELS

UPM has vast experience in converting forest biomass to energy and the company has been developing production technologies for combined heat and power plants (CHP). UPM aims to become a major player in Europe in the production of renewable second generation biofuels that are currently in the development and piloting stage.

Sustainability of operations has been one of the main criteria for the development of the biofuels business, which is why UPM's production for biofuels will not be based on materials suitable for food. Second generation biodiesel produced for transport use at UPM's biorefinery would generate over 85% less emissions throughout the value chain compared to fossil fuels. Producing biofuels from renewable raw material in accordance with UPM's plan contributes to the European Union's long term climate and energy targets.

The raw material to be used in the production of second generation biodiesel would mainly consist of energy wood: logging residues, wood chips, stumps and bark.

Locating a biorefinery adjacent to an existing UPM pulp or paper mill would enhance the ability to utilise wood raw material efficiently and minimise the required capital investments. Energy integration would offer further benefits.

## Development of technologies continues

In the biofuels business, the development of technologies and business models for several projects is ongoing. UPM is piloting concepts for the production of second generation biodiesel, bioethanol and bio oil. Second generation biodiesel can be used instead of mineral oil based diesel and it is well suited for current diesel motor technology and fuel distribution infrastructure. Bioethanol can be used as a blending component in gasoline while bio oil can be used like fuel oil in heating and power generation.

In second generation **biodiesel**, UPM has been developing, together with Andritz/Carbona, the gasification technology needed to produce biofuel from forest energy wood. The initial testing programme was completed in the USA as planned. Finalisation of the technical concept will continue in 2010.

The environmental impact assessment for such a biorefinery producing second generation biofuels has been completed in Finland, in Kuusankoski and Rauma. In December, UPM announced that it will start an environmental impact and risk assessment at the Stracel paper mill site in France.

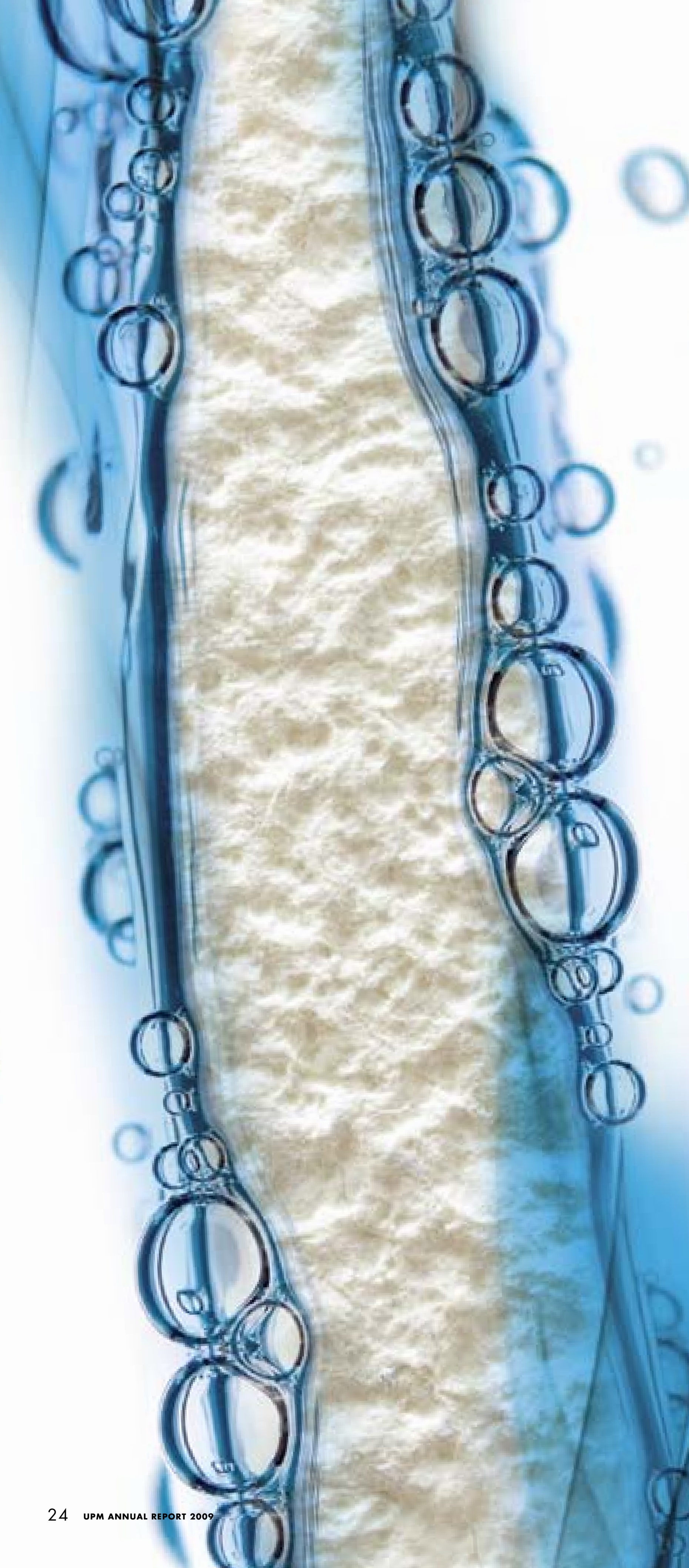
UPM has also been developing a new **bioethanol** and energy production concept that, for the first time, utilises commercial and industrial waste. The concept has been tested in pilot runs in co-operation with the Technical Research Centre of Finland (VTT) and Pöyry.

In addition, UPM, Metso and Fortum together with VTT have developed a new concept for the production of energy wood based **bio oil** to replace fossil fuels in heating and power generation. In this concept, production of bio oil would be integrated into UPM's own biomass-based power plants. The technology used in combined bio oil and renewable energy production is patented.

Biofuels already have a global market of 30 billion euros, and the market is expected to grow 10-15% per year for at least the next ten years. UPM wants to enter this attractive market with high quality products produced from non-food sources with minimal carbon footprint. Investments in commercial-scale second generation biofuels plants depend to a large extent on EU and national investment subsidies, excise tax reliefs and regulation.

## UPM'S PRODUCTION CONCEPT FOR SECOND GENERATION BIODIESEL

Biomass handling → Biomass dryer → Gasifier → Gas purificiation → Gas liquefaction → Upgrading → Biodiesel for transport



## PULP

- Cost efficient chemical pulp producer
- 3 modern pulp mills in Finland, 1 pulp mill in Uruguay
- Annual pulp production capacity is 3.2 million tonnes

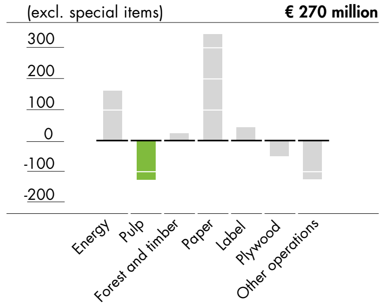
# PULP

With the Fray Bentos pulp mill assets, UPM is one of the most competitive pulp suppliers in both the northern and southern hemisphere.

## KEY FIGURES

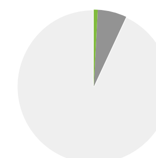
| Pulp | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 653 | 944 | 808 |
| Operating profit excl. special items, €m | -127 | 148 | 188 |
| Capital employed (average), €m | 1,668 | 1,674 | 1,423 |
| ROCE excl. special items, % | -7.6 | 8.8 | 13.2 |
| Personnel on 31 Dec. | 1,516 | 1,159 | 1,186 |
| Pulp deliveries, 1,000t | 1,759 | 1,982 | 1,927 |

**UPM'S OPERATING PROFIT 2009**
(excl. special items) **€ 270 million**



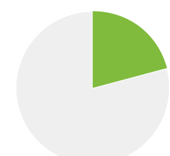

**PULP, SALES 2009** **€ 653 million**

- pulp external sales 1% of the Group
- pulp internal sales 6% of the Group



**PULP, CAPITAL EMPLOYED 2009** **€ 1,668 million**

- pulp 21% of the Group



## PULP PRODUCTION CAPACITY

| 1,000 t/a | January 2010 |
|---|---|
| Fray Bentos | 1,100 |
| Kaukas | 740 |
| Pietarsaari | 790 |
| Kymi | 540 |
| Own production capacity, total | 3,170 |
| 17% share of Botnia's capacity | 400 |
| Total UPM | 3,570 |

## Description of operations

The Pulp business area consists of chemical pulp production units in Finland and in Uruguay. The products range from northern softwood and hardwood pulp to eucalyptus hardwood pulp made from southern hemisphere plantation wood. UPM's three modern and ecoefficient pulp mills in Finland have a pulp production capacity of 2.1 million tonnes. The Fray Bentos pulp mill in Uruguay has a production capacity of 1.1 million tonnes of eucalyptus pulp. In addition, UPM's 17% share of pulp capacity in Oy Metsä-Botnia Ab entitles it to 0.4 million tonnes of pulp bringing the total to 3.6 million tonnes of pulp annually.

The integration of the Fray Bentos pulp mill's operations increased UPM's own pulp capacity by 53%. Plantation-based pulp now represents about 35% of UPM's total pulp production capacity. Forestal Oriental, UPM's own eucalyptus plantation forestry company, is an integral part of the Fray Bentos pulp mill's operations and is included in the Pulp business area.

The Fray Bentos mill is included in the Pulp business area as of December 2009. Consequently, Oy Metsä-Botnia Ab is no longer an associate company of UPM and therefore is not reported on the Pulp business area.

All UPM pulp mills have high production capacity and low fixed costs per tonne of pulp. The average pulp mill annual production capacity is 800,000 tonnes. Hence, UPM's pulp mill portfolio represents one of the most competitive pulp mill asset portfolios in the world.

UPM buys and sells pulp for pulp mix optimisation. While actively growing its presence in the pulp market, UPM is also optimising its pulp sourcing in terms of logistic costs and security of supply.

The sourcing focuses on a few major long term suppliers. In October, UPM terminated its pulp purchasing contract with APRIL.

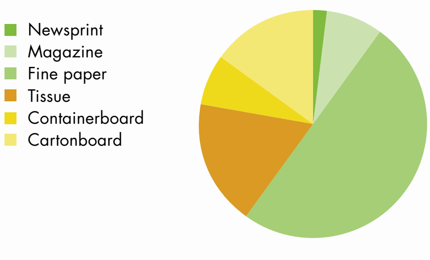
## Market review and business performance

Annual shipments of global chemical pulp for the year ended up 2% above the previous year. In the first half of 2009, pulp shipments to the global chemical market declined from the previous year, but a rebound took place in the second half of the year due to strong demand in China. Imports to China increased by 2,805 million tonnes to 11,295 million tonnes, which represent about 23% of global market pulp shipments.

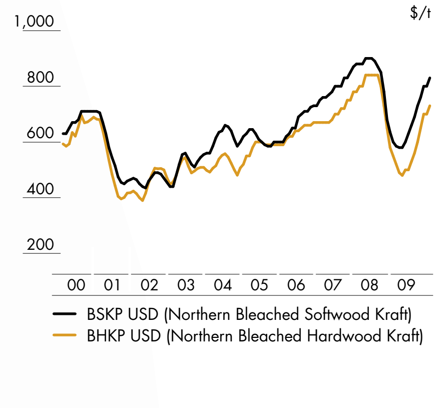
Chemical pulp market prices declined in the first half of 2009, but started to increase after the second quarter of the year.

The average softwood pulp (NBSK) market price in euro terms, at € 471/tonne, was

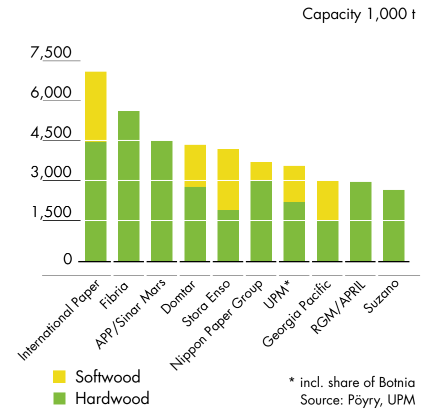
CHEMICAL PULP END-USES




MARKET PULP PRICES — CHEMICAL PULP




WORLD'S BIGGEST PRODUCERS OF BLEACHED CHEMICAL PULP




* incl. share of Botnia
Source: Pöyry, UPM

19% lower than previous year (€ 582/tonne). The bottom market price in 2009 was about € 421/tonne but the year finished at around € 555/tonne.

The average hardwood pulp (BHKP) market price in euro terms decreased by 25% from last year to € 402/tonne (€ 539/tonne).

The bottom market price in 2009 was about € 352/tonne and the year ended at € 486/tonne.

Due to recession, high inventories at the beginning of the year and low prices, extensive production curtailments were taken throughout the year by various pulp producers. In Finland, high Russian export duties for wood raw material aggravated the supply of birch pulpwood.

UPM's Pulp business area's sales for 2009 were € 653 million (944 million). Operating loss excluding special items declined to € 127 million (profit of 148 million). Wood costs in Finland remained high in 2009 and together with low production and low market prices contributed to poor profitability of pulp production in Finland.

## Business development and restructuring

UPM aims to grow as a producer of ecoefficient pulp and aims to secure cost competitive pulp for the group's mills and to increase presence in the pulp market. UPM also develops chemical pulp qualities in anticipation of meeting the future quality requirements in growing pulp end-use areas.

In March, UPM's associated company Oy Metsä-Botnia Ab permanently closed the Kaskinen pulp mill in Finland. UPM's share of the mill's capacity based on its ownership was about 212,000 tonnes. The pulp produced at the Kaskinen mill was not used in UPM's paper production.

In December, UPM, Metsäliitto Cooperative, M-Real Corporation, and Oy Metsä-Botnia Ab (Botnia) completed the transaction according to which Metsäliitto's and Botnia's share of the Fray Bentos pulp mill and the eucalyptus plantation forestry company Forestal Oriental in Uruguay were transferred to UPM. This transaction increased UPM's capacity of plantation-based pulp to 1.1 million tonnes annually and reduced exposure on Northern Hemisphere pulp by 0.7 million tonnes as ownership in Botnia was reduced from 47% to 17%.

In 2009, UPM and its Russian joint venture Borea continued the feasibility study for a planned forest industry facility in Russia. In order to ensure the most feasible location, new alternative site options are now being assessed. Providing that assessments proceed as planned, decisions on the next steps can be expected at the end of 2011 at the earliest. UPM's joint venture company Borea was founded in 2008 together with Sveza Group with the target of building an industrial complex including a modern pulp mill, a sawmill and an OSB panel mill in Russia.

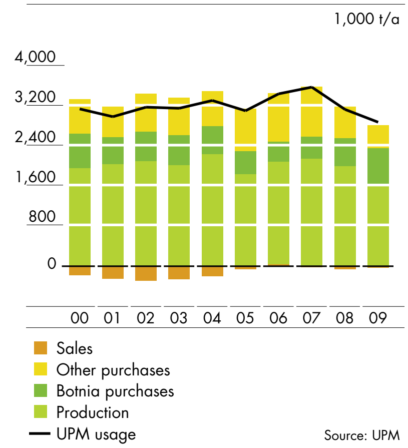
# UPM'S FIBRE BALANCE

**In chemical pulp**, UPM is self-sufficient through its own pulp mills. In addition, UPM plans to increase the share of the market pulp sales. UPM also buys market pulp to optimise its logistic costs and security of supply. UPM aims to grow as a producer of cost competitive and ecoefficient pulp.

**UPM's recycled fibre** consumption was 2.8 million tonnes (3.0) in newsprint and in uncoated and coated magazine paper production in 2009. Recovered paper represents 31% of all fibre raw materials used in UPM's paper production. UPM is the world's largest user of recovered paper for graphic papers. The aim in recovered paper procurement is to be involved in the value chain and secure cost competitive supplies in the long term for UPM's own newsprint and magazine paper mills in Europe. The UPM mills Chapelle Darblay in France, Schwedt in Germany and Shotton in the United Kingdom produce paper from 100% recycled fibre.

**Mechanical pulp** represents the third major source of wood fibres for UPM. Mechanical pulping is integrated into paper production and pulp is used mainly in magazine papers.

UPM'S CHEMICAL PULP SOURCING

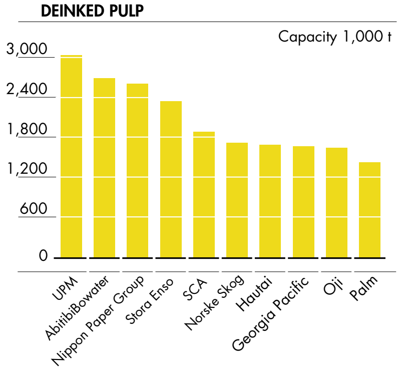



Source: UPM

## PULP PRODUCTION AND CONSUMPTION

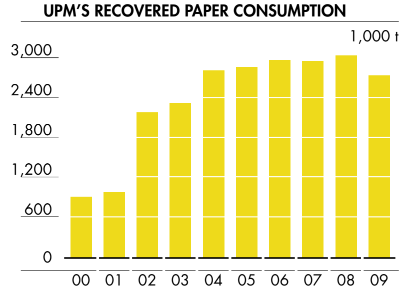
| 1,000 t/a | 2009 | 2008 |
|---|---|---|
| **Pulp production** | | |
| Chemical pulp | | |
| own production | 1,602 | 2,007 |
| from associated company | 772 | 561 |
| Mechanical pulp | 1,857 | 2,602 |
| Recycled fibre pulp | 2,139 | 2,400 |
| Total | 6,402 | 7,570 |
| **Pulp consumption** | | |
| Chemical pulp | 2,860 | 3,117 |
| Mechanical pulp | 1,889 | 2,648 |
| Recycled fibre pulp | 2,139 | 2,400 |
| Total | 6,888 | 8,165 |

WORLD'S BIGGEST PRODUCERS OF DEINKED PULP



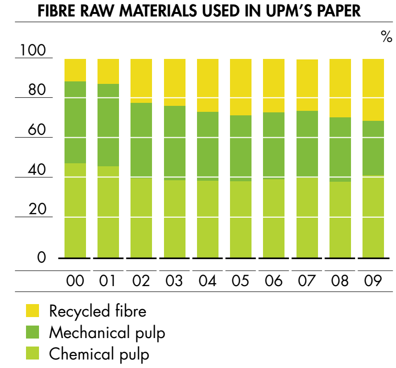

Source: Pöyry, UPM

UPM'S RECOVERED PAPER CONSUMPTION




Source: Pöyry, UPM

FIBRE RAW MATERIALS USED IN UPM'S PAPER



The state-of-the-art Uruguay mill strengthens UPM's position as a cost competitive pulp producer and increases UPM's own global pulp production capacity to 3.2 million tonnes. The share of plantation-based eucalyptus pulp is now approximately one third of UPM's pulp capacity.

# OPERATIONS IN URUGUAY ARE A MAJOR STRATEGIC MILESTONE

As of December 2009, after the restructuring of Botnia's ownership, the Fray Bentos pulp mill and the eucalyptus plantation forestry company Forestal Oriental in Uruguay have become part of UPM. Previously, UPM was a significant shareholder of these operations.

The UPM Fray Bentos mill produces pulp from eucalyptus which is grown in forest plantations. The mill was designed with the latest best available technologies and it is one of the most modern pulp mills in the world. The total investment to construct the mill was 1.2 billion US dollars.

The majority of the pulp produced at Fray Bentos is sold on the global pulp market. Some 60% of the pulp is transported to Europe, while the rest is shipped to Asia. UPM uses Fray Bentos pulp mainly in its paper mills in China and Central Europe.

Eucalyptus pulp is used in the production of fine and magazine papers, carton and tissue papers. Pulp from Fray Bentos is FSC-certified.

## Minimal emissions

UPM Fray Bentos operates in compliance with the strictest standards set by Uruguayan legislation which are comparable to European Union legislation on industrial emissions. The Uruguayan National Environment Directorate (DINAMA), the company itself and the mill's Environmental Monitoring Committee carry out regular environmental monitoring, the results of which are published on the internet.

The results of the monitoring show that the mill has minimal measurable impact on air or water quality. Air and water quality were monitored and data on the impacts on the flora and fauna were gathered for several years before the start-up of the mill in 2007, to provide a benchmark for measurements.

The mill is also designed for low chemical, water and energy consumption. The mill's biomass-based power generation also provides $CO_2$-neutral electricity for the Uruguayan electricity market.

| €m | REPORTED 2009 | PRO FORMA ADJUSTMENTS | PRO FORMA 2009 |
|---|---|---|---|
| Sales | 653 | 350 | 1,003 |
| EBITDA | -18 | 92 | 74 |
| Operating profit | -156 | 67 | -89 |
| excl. special items | -127 | 38 | -89 |

PULP BUSINESS AREA PRO FORMA KEY FIGURES

- Pro forma as if the Botnia transaction had occurred 1 January 2009
- Pro forma adjustments include 11 months of 2009
- Uruguay operations included in reported figures from December 2009

## UPM, Fray Bentos

- Production started in November 2007
- Production capacity: 1.1 million tonnes of eucalyptus pulp a year
- Wood consumption: approximately 3.5 million m$^3$/year
- Personnel: 175

### Forestal Oriental provides raw material

Forestal Oriental, UPM's own eucalyptus plantation forestry company, supplies the wood to the pulp mill. Most of the wood raw material comes from company-owned plantations. The rest is purchased from independent producers who have been working in close co-operation with the company for years.

In Uruguay, plantations are established on specially designated areas which mainly consist of soils less suitable for agriculture or cattle grazing. There are no rainforests in Uruguay.

Forestal Oriental owns and manages wood plantations located in the northwest area of the country in the regions of Paysandú, Río Negro, Soriano and Tacuarembó. In 2001 Forestal Oriental became the first forest plantation company in Uruguay to receive FSC certification.

The company has a special co-operation programme with private landowners called FOMENTO, which supports them in sustainable eucalyptus plantation forestry.

Forestal Oriental was founded in 1990, when Shell and UPM's predecessor company Kymmene started to investigate the possibility of cultivating eucalyptus in Uruguay. Wood harvesting began in 1997.

## Forestal Oriental

- Approximately 180,000 hectares of own land in Uruguay, of which around 60% cultivated plantation land
- A modern nursery with production capacity of approximately 15 million eucalyptus seedlings per year
- Personnel: 349 employees and approximately 2,400 contractors
- Certificates: FSC Chain of Custody

> learn more www.upmuruguay.com.uy

> Read more about UPM's environmental performance on page 62. For more information on UPM and the environment see www.upm.com/responsibility.

# FOREST AND TIMBER

Unexpected changes in demand and supply decimated wood sourcing operations throughout the year.

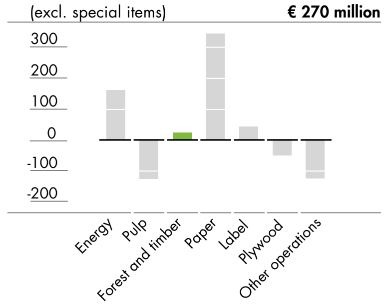
## FOREST AND TIMBER

- Roundwood and other forest biomass sourcing for the company's mills and biomass-based power plants
- Management of own and third-party forests
- Sawn timber production
- 5 sawmills and 3 further processing mills in Finland, 1 sawmill in Austria and 1 sawmill and planing mill in Russia and 1 planing mill in France
- Annual sawn timber production capacity 2.4 million cubic metres

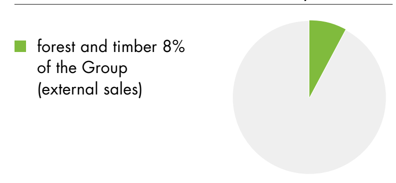
## KEY FIGURES

| Forest and timber | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 1,337 | 1,920 | 2,039 |
| Operating profit excl. special items, €m | 22 | -23 | 214 |
| Capital employed (average), €m | 1,717 | 1,878 | 1,679 |
| ROCE excl. special items, % | 1.3 | -1.2 | 12.7 |
| Personnel on 31 Dec. | 3,067 | 3,278 | 3,510 |
| Sawn timber deliveries, 1,000t | 1,497 | 2,132 | 2,325 |

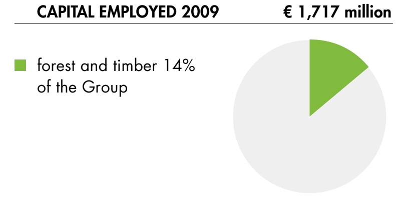
**UPM'S OPERATING PROFIT 2009**
(excl. special items) **€ 270 million**




**FOREST AND TIMBER, SALES 2009** **€ 1,337 million**




**FOREST AND TIMBER, CAPITAL EMPLOYED 2009** **€ 1,717 million**




## FORESTS OWNED BY UPM

| | 1,000 hectares |
|---|---|
| Finland | 915 |
| United Kingdom | 3 |
| United States | 77 |
| **Total** | **995** |

## Description of operations

The Forest and timber business area is responsible for UPM's roundwood and other forest biomass sourcing for the company's mills and biomass-based power plants. The business area includes the forests owned by UPM, wood sourcing and procurement operations, the service offering for private forest owners and wood processing in sawmills and further processing mills.

UPM owns approximately one million hectares of forests in Finland, in the United Kingdom and in the United States. These forests supply on average some 10% of the group's annual wood consumption. In addition to its own forests, UPM also manages some 0.7 million hectares of forest land in Finland, the United Kingdom, Russia and the United States.

UPM also owns 183,000 hectares and manages 18,000 hectares of eucalyptus plantations in Uruguay. On an average, the annual growth of these areas covers approximately 70% of the wood raw material requirements of the Fray Bentos pulp mill. Forestal Oriental, UPM's own eucalyptus plantation forestry company, is an integral part of the Fray Bentos pulp mill's operations and it is therefore reported on the Pulp business area.

UPM's wood sourcing supports the versatile value creation of forest biomass and sustainable forestry. All UPM's own forests are certified and about 78% of UPM's total wood consumption is supplied from certified forests. The annual harvesting in 2009 from UPM's own forests (Uruguay not included) was about 2.4 million cubic metres while annual growth is estimated to be about 4.1 million cubic metres.

Sawmills have an important dual role as an an integral part of the company's wood procurement and in developing timber business. The WISA product range covers both standard sawn timber and further processed products, mainly for the construction, joinery and furniture industries. UPM's annual capacity for sawn timber is 2.4 million cubic metres. The company has five sawmills in Finland, one in Russia and one in Austria.

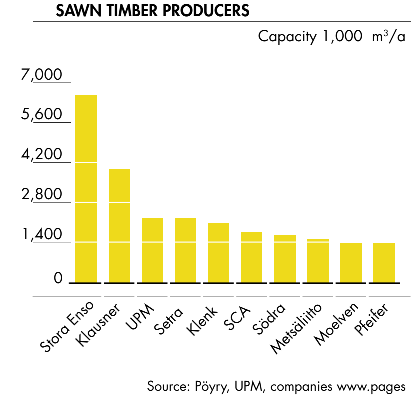
## Market review and business performance

### Forest

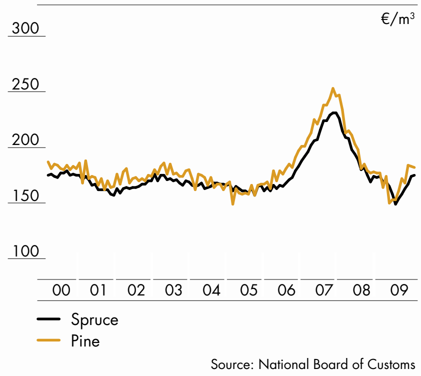
Wood purchases in the Finnish wood market amounted to about 16.4 cubic metres, which was 45% lower than in 2008. The main reasons for the decrease were lower industrial production and high wood inventories at the beginning of the year. The high export duties on Russian wood decreased imports from 12 million cubic metres (2008) to about 6 million cubic metres. This includes significant increase in energy wood imports compared to the previous year.

Average market prices returned to their

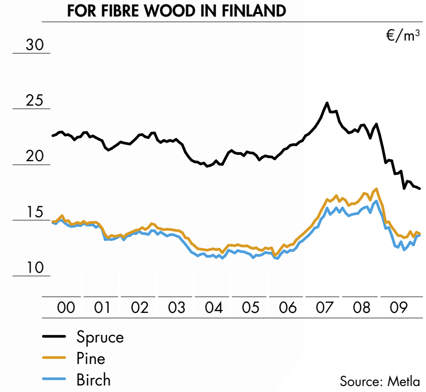
EUROPE'S BIGGEST SAWN TIMBER PRODUCERS



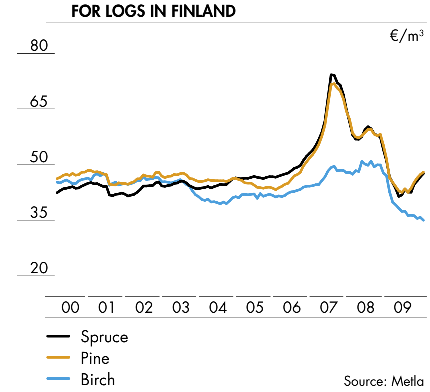

EXPORT PRICES FOR FINNISH TIMBER




MONTHLY STUMPAGE PRICES FOR FIBRE WOOD IN FINLAND




MONTHLY STUMPAGE PRICES FOR LOGS IN FINLAND




normal lower level and declined by an average of almost 20% compared to the previous year. Market prices for wood reached their lowest level in the third quarter and started to increase towards end of the year due to increased demand.

In Central Europe, purchases of wood were lower than in 2008. Wood market prices declined.

### Timber

Mainly due to low construction activity demand for both redwood and whitewood sawn timber declined substantially in Europe and in most of the other main markets in comparison with the previous year. The weak market balance in sawn timber resulted in significantly lower prices. In Finland, non-integrated sawmills suffered occasionally from log shortages due to low market supply.

Significant temporary production curtailments and temporary layoffs were implemented in most of the sawmills in Finland throughout the year as a response to weak market demand.

The Forest and timber business area's sales for 2009 were € 1,337 million (1,920 million). Operating profit excluding special items was € 22 million (loss of € 23 million). Comparison period included a wood inventory write down of € 36 million, which was booked at the end of year 2008.

### Business development and restructuring

The Forest and timber business area secures competitive roundwood and other forest biomass for the group both from UPM's own forests and by purchasing from third parties. The focus continued on increasing cost competitiveness in wood sourcing and forestry in every region.

UPM aims to cost efficient sawmilling business, while also being an integral part of the company's forest biomass sourcing. UPM has increasingly invested in technology to enable new innovative ways of processing wood, to differentiate its supply and to ensure the continuing competitiveness in the global markets.

In November, UPM announced restructuring plans to improve the competitiveness of its timber operations in Finland. UPM will permanently close the sawmill in Heinola and the further processing mill in Parkano during the first half of 2010.

In August, a further processing mill in Boulogne in France was closed and the operations were centralised on the Aigrefeuille mill.

To improve its timber operations, UPM announced investments to develop production at the Kaukas sawmill and the Aureskoski further processing mill in Finland.

# UPM'S WOOD CONSUMPTION AND PROCUREMENT[1)]

In 2009, UPM's wood consumption was 17 million cubic metres, 31% below 2008 volume. The great majority of the wood is used in Finland, followed by Central Europe, Russia and the United States.

The amount of private forests under the company's management increased in 2009. The harvesting volume from own forests (Uruguay not included) was 2.4 million cubic metres (2.2 million).

UPM is reducing its dependence on wood imports from Russia by utilising different domestic wood sources, other import sources and by adjusting production.

**In wood procurement for energy,** UPM supplied forest biomass equivalent to 4.7 GWh (3.4) energy production, mainly to its own and partly owned power plants.

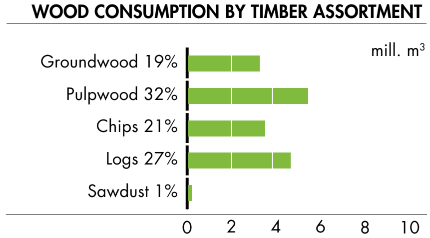
UPM's primary target in the renewable and recyclable wood raw material use originating from sustainably managed forests is to optimise the yield.

One of the tools to ensure that the wood is responsibly sourced and comes only from legal and sustainable sources is forest certification. UPM promotes a global increase in the use of certified wood and supports different credible forest certification schemes, including FSC and PEFC.

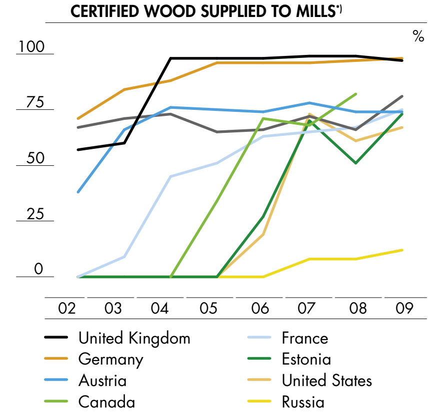
## WOOD DELIVERIES TO UPM MILLS

| 1,000 $m^3$ | 2009 | 2008 | 2007 |
|---|---|---|---|
| Finland | 13,753 | 20,676 | 22,330 |
| Austria | 936 | 964 | 1,020 |
| Germany | 524 | 655 | 640 |
| France | 350 | 450 | 490 |
| Russia | 601 | 859 | 860 |
| United Kingdom | 309 | 303 | 290 |
| Estonia | 70 | 108 | 90 |
| Canada | - | 203 | 650 |
| United States | 501 | 539 | 520 |
| **Total** | **17,044** | **24,757** | **26,890** |

**WOOD CONSUMPTION BY TIMBER ASSORTMENT**

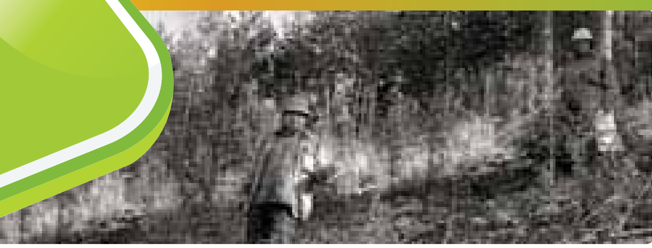



**CERTIFIED WOOD SUPPLIED TO MILLS*)**




*) 78% of all wood in 2009 was certified

1) Excluding Uruguayan operations acquired in December 2009.



Biodiversity is an integral part of UPM's sustainable forest management. UPM has a global biodiversity programme in place that aims to maintain and increase biodiversity in forests as well as promote best practice in sustainable forestry.

# BIODIVERSITY IS KEY TO WELL MANAGED FORESTS

Valuable habitats and natural forests were the focus of biodiversity projects in Finland during 2009. UPM carried out a fire project with the aim of increasing the quantity and quality of forest areas that have been subjected to fire. Controlled burns were carried out as part of silviculture, but also in retention tree groups and esker habitats to promote the habitat of fire-dependent species whose population levels have been declining. The study identified many beetle species classified as threatened in Finland in burnt retention tree groups left on logging sites.

UPM was also a partner in a three-year esker forest habitats project which aims to locate habitats containing specialist species and to monitor the impact of management methods. The species concerned are dependent on a warm micro-climate and do not tolerate shade. In UPM's forests, selective fellings were carried out to create lighter and warmer esker habitats and the results already indicate that cost-effective habitat improvement can be achieved as part of normal silvicultural practices.

## Co-operation with local researchers and partners

During 2009, UPM also participated in a European Union awarded Forest Life project titled "Restoration of Boreal Forests and Forest-covered Mires". The aim of the project was to restore 7,000 hectares of forests that had previously been in commercial use, including esker habitats and the habitats of white-backed woodpeckers.

UPM has established co-operation with ENO Environment Online, a virtual school network for raising awareness about sustainable development and the environment. UPM supports ENO's target to plant 100 million trees by 2017 by organising tree planting days where the focus is on planting native trees. In 2009, UPM staff and stakeholders took part in events in China, Finland, Russia, the UK and the USA. In China, UPM donated 10,000 trees to the China Green Foundation for the reforestation of areas adjacent to the Great Wall outside Beijing.

In the UK, UPM has carried out two projects that aim to develop and promote the sustainable harvesting of biomass. The first project focused on studying productivity, costs and impacts on soil, water and biodiversity. The follow-up project was on the carbon life-cycle assessment of roundwood, brash and stump biomass energy systems.

Biodiversity is one focus area for UPM as a partner in the international WWF New Generation Plantation project. This project aims to promote best practices for the design and management of forest plantations. Case studies, including three from Tilhill in the UK, demonstrate good examples of plantations that maintain ecosystem integrity, high conservation values and contribute to economic growth and employment.

> learn more www.upm.com/responsibility

## TARGETS OF UPM'S GLOBAL BIODIVERSITY PROGRAMME

| | |
|---|---|
| Native tree species | • Maintain and increase proportion of native tree species and their natural composition |
| Deadwood | • Manage deadwood quality and quantity to enhance biodiversity |
| Valuable habitats | • Protect valuable habitats and manage them for their biodiversity value |
| Structure | • Manage variation in forest structure at landscape and stand level |
| Water resources | • Maintain open water bodies and wetlands |
| Natural forests | • Implement plan for remnants of natural forests |

- A single, global system for the certification of UPM's pulp and paper products
- Based on the new multisite certification, 76% of UPM's paper is produced using fibre that meets FSC and PEFC criteria

# UPM ENSURES ALL WOOD AND WOOD FIBRE IS RESPONSIBLY SOURCED

Wood is UPM's most important raw material. It is important that the wood and wood fibre used in UPM's products comes from sustainably managed forests. UPM is committed to forest management and forest harvesting practices based on internationally accepted principles of sustainable forest management. UPM has developed several tools which ensure that the wood is responsibly sourced and comes only from legal and sustainable sources.

The main tools used to verify sustainable sourcing of wood fibre are forest certification and chain of custody systems. All of UPM's forests are certified and all wood supplies are covered by a third-party verified chain of custody. UPM promotes a global increase in the use of certified wood and supports various credible forest certification schemes, including FSC and PEFC.

## Origin of UPM products guaranteed

In 2009, UPM and SGS, the world's leading verification company, finalised a global landmark agreement on multisite certification for pulp and paper products. Previously, each UPM pulp and paper mill held individual chain of custody certificates, awarded by different nationally accredited auditors. With the new multisite certification agreement, the origin of all UPM pulp and paper products is ensured with a single, global system.

This certification is the most comprehensive and wide-ranging multisite certification that has been awarded to date. This unique agreement brings UPM's global operations together under two certified chain of custody certificates – FSC and PEFC – and ensures that the fibre used for UPM's pulp and paper products originates from sustainably managed forests. For UPM's customers, the new multisite certification means a major step towards a simple, standardised way to guarantee the origin of UPM products.

The multisite certification covers all UPM's pulp sourcing activities, pulp and paper mills and own sales offices worldwide. The certification continues to allow UPM and its customers to follow accurately the amount of certified wood fibre in their operations and products being distributed worldwide. In addition, it sets a solid base to further increase the share of FSC and PEFC certified fibre in UPM's products as further forest areas become certified.

# PAPER

Profitability improved through cost savings and efficiency measures, despite decreased paper demand. Demand growth continued in China.

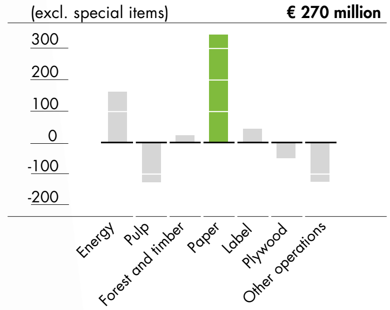
## PAPER

- Publication papers (magazine papers and newsprint), fine and speciality papers
- Main customers are publishers and printers as well as merchants and paper converters
- 19 modern paper mills in Finland, Germany, the United Kingdom, France, Austria, China and the United States
- Combined annual paper production capacity is 11.5 million tonnes

## KEY FIGURES

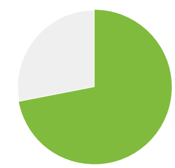
| Paper | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 5,767 | 7,011 | 7,328 |
| Operating profit excl. special items, €m | 346 | 250 | 262 |
| Capital employed (average), €m | 5,714 | 6,503 | 7,317 |
| ROCE excl. special items, % | 6.1 | 3.8 | 3.6 |
| Personnel on 31 Dec. | 12,161 | 13,262 | 14,538 |
| Deliveries, 1,000t | | | |
| Publication papers | 5,667 | 7,090 | 7,530 |
| Fine and speciality papers | 3,354 | 3,551 | 3,859 |
| Total | 9,021 | 10,641 | 11,389 |

**UPM'S OPERATING PROFIT 2009**
(excl. special items) **€ 270 million**




**PAPER, SALES 2009** **€ 5,767 million**

paper 72%
of the Group



**PAPER, CAPITAL EMPLOYED 2009** **5,714 million**

paper 48%
of the Group

## Description of operations

UPM's Paper business area offers a wide range of papers for various end uses. Its main customers are publishers and printers as well as merchants and paper converters. Most of UPM's paper products are sold through the company's own global sales network. UPM is the world's biggest producer of graphic papers.

UPM has large, cost competitive paper mills, with small investment needs in the foreseeable future. Investments are mainly targeted at cost reductions and efficiency improvements.

UPM's paper mills are located in the main markets or close to sources for wood fibre.

The combined heat and power (CHP) plants operating on paper mill sites are also included in the business. The CHP plants represent one third of UPM's total power generation. 63% of the fuels used in these power plants is biomass-based.

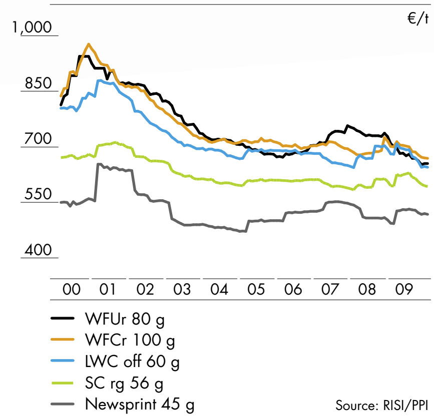
## Market review and business performance

In 2009, paper demand was hit by the global recession. In developed countries, the decline started in the second half of 2008 and, in 2009, demand fell by 10–25% depending on the paper grade. In the mature Western markets, no signs of quick recovery were visible by the end of the year, except for label and packaging papers. In China, demand also decreased sharply but rebounded quickly back to growth during the second quarter.

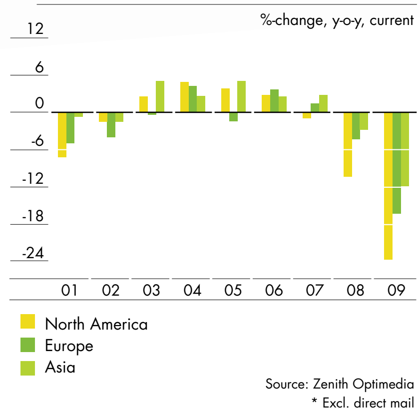
The fall in paper demand was mostly driven by the following factors: cyclical decline, inventory reduction and structural changes. Of these factors, the cyclical decline, largely driven by the general economic development, was the most significant.

Magazine and newspaper advertising expenditure in Europe fell by some 15% from the previous year, resulting in a substantial fall in graphic paper demand.

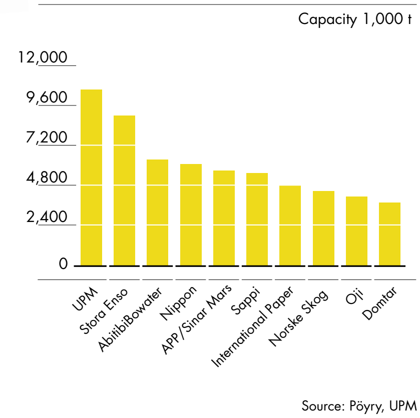
PAPER PRICES IN EUROPE




ADVETISING IN PRINTED MEDIA*




WORLD'S BIGGEST GRAPHIC PAPERS PRODUCERS




Magazine advertising pages in the main markets decreased some 15% in 2009.

The whole print value chain lowered inventories in line with lower demand. The inventory reduction explained only a small part of the drop in paper demand.

Magazines and newspapers maintained their circulations relatively well in Europe. Structural changes mainly constituted the closures of some newspapers and magazines, format changes of printed products and better targeted direct mail and catalogue campaigns. Also, some migration of advertising to electronic media continued to take place. In office papers, savings campaigns and the adoption of less paper-intensive working practices were enforced more widely.

In the beginning of the year, graphic paper prices were at a good level in Europe, considering the circumstances. As the recession hit paper demand, the demand-supply balance worsened and prices started to decline. In China, paper prices started to recover in the second half of 2009 once demand had returned to pre-recession levels. Also, in packaging and label papers, demand started to improve and some price increases were made public during the last quarter.

Even though UPM's paper deliveries decreased by 15% from last year, and average paper prices declined by 3%, the Paper business area succeeded in raising both its EBITDA margin to 16.1% (12.6%) and operating profit excluding special items to € 346 million (250 million). The Paper business area's sales decreased by 18% to € 5,767 million.

## Business development and restructuring

The Paper business area aims for a competitive advantage with cost efficiency, sustainable products, reliability and innovative customer services. The business area seeks growth in China and Eastern Europe.

The Paper business area continued measures to improve operating efficiency and profitability in 2009. The new business structure, adopted in December 2008, enabled further streamlining and cost reduction.

The business area started implementing a new supply chain in mid-2009, aiming simultaneously at improved customer service, better working capital efficiency and lower costs. Implementation will be completed by mid-2010.

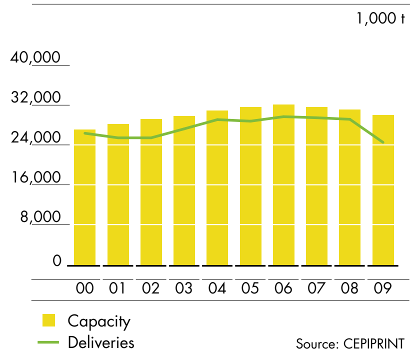
Fixed costs within the Paper business area decreased substantially. In addition to the permanent cost-saving measures, UPM's flexible way of working contributed to fixed cost reduction. Despite low capacity utilisation, production efficiency was maintained.

Capital expenditure excluding acquisitions and shares was reduced. It decreased to € 136 million from € 205 million in 2008. The focus of investments was on-site biomass-based CHP-energy generation.

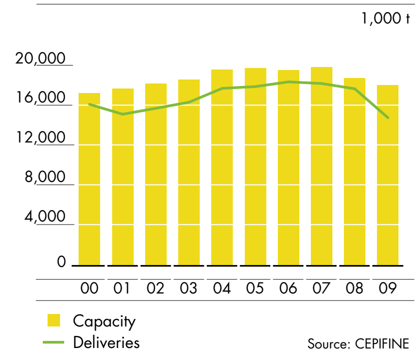
The new renewable energy power plant at the Caledonian mill in the UK was started up in June. The total investment cost was £ 68 million.

Pohjolan Voima and Lappeenrannan Energia (a city-owned power company) have built a joint power plant at UPM's Kaukas mill site in Lappeenranta, Finland. The test run of the power plant started in December.

**PUBLICATION PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE**




**FINE PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE**



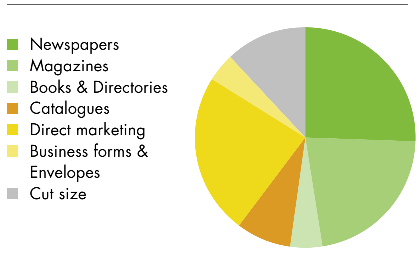

## SALES BY MARKET

| €m | 2009 | % |
|---|---|---|
| Europe | 4,084 | 71 |
| United States and Canada | 628 | 11 |
| Asia | 801 | 14 |
| Rest of the world | 254 | 4 |
| **Total** | **5,767** | **100** |

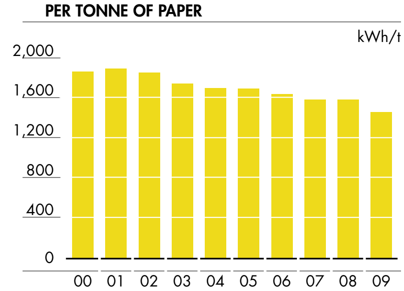
## UPM'S PRODUCTION CAPACITIES AND MARKET POSITIONS

| Paper businesses | Paper production capacities 1,000 t/a | UPM's market position Europe | Global |
|---|---|---|---|
| Magazine papers | 4,750 | 1 | 1 |
| Newsprint | 2,460 | 2 | 4 |
| Fine papers | 3,415 | 3 | 5 |
| Specialty papers | 850 | 1–4 | |
| **Total** | **11,475** | | |

**GRAPHIC PAPER END-USES IN EUROPE**




**ELECTRICITY CONSUMPTION PER TONNE OF PAPER**



Since the start-up of UPM Changshu paper mill in China in 1999, UPM has been a leading example of sustainable paper industry and the use of best available technology in papermaking.

# ENVIRONMENTAL AWARENESS ENHANCED THROUGH STAKEHOLDER INVOLVEMENT

UPM received the highest national recognition from China's Ministry of Environmental Protection as an Environmentally Friendly Enterprise as early as 2005.

UPM has actively participated in awareness-building on environmental issues both in the professional field of Chinese paper industry as well as among the public at large.

UPM has participated in the drafting of industry standards and guidelines and has shared its know-how in expert forums. When China launched a project for creating an environmental evaluation system based on lifecycle analysis (LCA), UPM offered the official drafting group its experience in using lifecycle analysis in practice in its paper mills.

At the same time, UPM has participated in campaigns to introduce basic environmental concepts to the general public and to highlight the importance of individual behaviour and consumption choices to the total environmental impact of society.

## Local communities involved

In 2009 UPM contributed to the public awareness campaign organised by China's Ministry of Environmental Protection and the environmental authorities in Jiangsu Province regarding the protection of the Taihu Lake, one of the largest freshwater bodies in China, located in the same region as the UPM Changshu mill.

The Environmental Volunteers from UPM Changshu helped in the organisation of public meetings in villages and distributed UPM-made materials on household water emissions and tips on water conservation.

In the spring UPM invited student associations to create local environmental awareness campaigns and to compete over the best idea and execution of their campaigns. The students from the Northeast University were awarded the UPM 2009 Student Environmental Awareness Award for their campaign which highlighted the importance of personal consumption and life-style habits in the accumulation of an individual's carbon footprint and the offsetting impact of planting and growing trees.

The award was announced on World Environmental Day on 5 June 2009, when the Chinese version of UPM ForestLife, UPM's interactive on-line forest and biodiversity education and experience platform, was launched.

- Wood, the primary raw material is renewable
- Paper products are recyclable and produced using mainly bioenergy
- UPM papers' carbon footprint is low

# PAPER – A SUSTAINABLE CHOICE

The primary raw material of paper is wood, a renewable resource. The finished product is recyclable; fibres in paper products can be reused several times to make new paper. In fact, nearly one third of UPM's fibre raw material is recycled fibre. UPM is the world's largest user of recovered paper for graphic papers.

Forests are managed to preserve and enhance biodiversity, natural ecosystems and the carbon cycle. Sustainably managed forests are effective carbon sinks, locking up atmospheric carbon and helping to mitigate climate change. UPM forests in Finland alone bind more carbon in growing trees than the company's European pulp and paper mills produce as $CO_2$ emissions.

Forest thinnings and wood chips from other wood processing plants supply the majority of the wood used in pulping. Thinning is essential to maintain a healthy forest and is carried out as part of normal good forestry practice.

> **Read more about UPM's environmental performance on page 62.**
**For more information on UPM and the environment see www.upm.com/responsibility.**

## Low carbon footprint

The paper manufacturing process uses mostly renewable energy. Bioenergy is generated from production by-products or logging residues. The best practice production units are approaching carbon dioxide-neutrality. For instance, the Kymi mill in Kouvola, Finland, has the lowest carbon footprint within UPM's pulp and paper operations, thanks to its new recovery line.

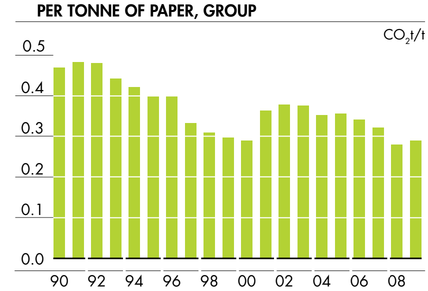
Another good example of reducing $CO_2$ emissions is the river transportation system implemented on the Seine, France, by UPM's Chapelle Darblay mill between Rouen and Paris. Every week, a river barge carries 30 containers of recycled paper from Paris to the paper mill and returns to Paris with paper reels destined for printing houses. The new transportation system reduces the amount of road transportation and $CO_2$ emissions by about 40%.

UPM's Shotton paper mill is the UK's largest producer of newsprint made entirely from recycled newspapers and magazines. It generates its own electricity and steam from paper-making residues and received an award for having achieved the highest standards of sustainability throughout its business operations in 2009.

Water consumption in the papermaking process has been significantly reduced and today it is nearly half of what it was 15 years ago. The paper mills return the water to its original source after treatment, in many cases cleaner than when it was extracted. In 2009, UPM launched a development process to calculate the water footprint of its processes and products.

Environmental certifications and labels are one way to communicate the environmental quality of the product. Most UPM paper products have been awarded the EU Eco-label, which sets criteria not just for fibre use but also emissions, water treatment, energy consumption, chemicals and waste management.

**FOSSIL CARBON DIOXIDE EMISSIONS PER TONNE OF PAPER, GROUP**



# LABEL

Turnaround in profitability was achieved. Label materials demand recovered in the latter part of the year.

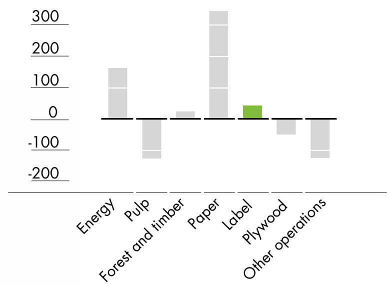
## LABEL

- Self-adhesive label materials for product and information labelling
- 11 modern factories in the US, Poland, the UK, Finland, China, Spain, France, Malaysia, Australia and South Africa
- UPM shares the number one market position in Europe, while in North America it is the number two

## KEY FIGURES

| Label | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 943 | 959 | 998 |
| Operating profit excl. special items, €m | 43 | 2 | 56 |
| Capital employed (average), €m | 503 | 510 | 420 |
| ROCE excl. special items, % | 8.5 | 0.4 | 13.3 |
| Personnel on 31 Dec. | 2,595 | 2,851 | 2,568 |

**UPM'S OPERATING PROFIT 2009**
(excl. special items) **€ 270 million**

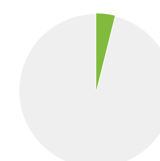



**LABEL, SALES 2009** **€ 943 million**

label 12% of the Group

**LABEL, CAPITAL EMPLOYED 2009** **€ 503 million**

label 4% of the Group



## Description of operations

The Label business, UPM Raflatac, manufactures self-adhesive label materials for product and information labelling. Typical customers are small- and medium-sized label printers doing roll-to-roll label printing. Label materials are used in a wide range of end-uses, from food and beverage labelling, retail and logistics to applications in the personal and home care.

The label materials market is growing in all parts of the world. Major growth opportunities are in personal care and beverage businesses with global brand owners and in filmic products. UPM has increased resources and focus on new product development in order to capture further growth opportunities.

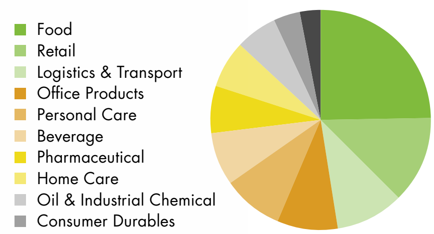
The Label business area has factories covering all main markets. With the support of a wide network of sales offices and slitting and distribution terminals, its products are sold worldwide. In Europe, UPM Raflatac shares the number one market position, and in North America it is the number two in market share. UPM Raflatac is also one of the leading suppliers in the Asian growth markets.

In Europe, self-adhesive label materials are produced in five factories. Two slitting terminals support logistics and customer service. The new factory in Poland started up in November 2008. The Tampere factory in Finland is the centre for research and development operations.

In the United States, there are two factories, one in North Carolina and one in Illinois. The Illinois factory started up in January 2008. With the support of five terminals, UPM Raflatac covers all main markets in the Americas.

In the Asia-Pacific region, UPM Raflatac operates three factories: China, Malaysia and Australia. The slitting terminal network consists of eight facilities throughout the region.

**GLOBAL LABELSTOCK END-USES**




Source: AWA, UPM

## Market review and business performance

Labels are early cyclical products. Their demand growth over the economic cycle has historically exceeded GDP growth in all main regions. In the first half of 2009, demand for self-adhesive label materials experienced double-digit sales contraction in Europe and North America. The contraction in the Asia-Pacific region was not as strong. The global recession slowed down demand for consumer products and shipments of goods. Consumer-demand-driven product labelling end-uses held up better than end-uses related to industrial activity.

Label materials demand started to improve in the third quarter, and in the fourth quarter demand is estimated to have exceeded 2008 levels as the economy started to recover and year-on-year comparisons became more favourable.

The Label business area's sales were € 943 million (959 million). Profitability was weak in the early part of the year, but recovered in the second half of the year. Operating profit excluding special items improved to € 43 million (2 million). Fixed costs were cut significantly. Sales margins improved from the previous year. Average sales prices in local currency were higher than in 2008 and raw material prices decreased.

## Business development and restructuring

In 2009, the Label business restructured its European operations. The plan was announced in November 2008 to cope with the weaker economic environment and to secure profitability through streamlined operations. UPM Raflatac permanently closed a number of self-adhesive labelstock production lines and reduced slitting capacity in the United Kingdom, France, Germany, Hungary and Finland. One slitting terminal was also closed in the United States. The restructuring was completed by the end of September 2009.

UPM has recently completed an investment programme, consisting of three new factories in Wroclaw, Poland (2008), Illinois, USA (2008) and Changshu, China (2006), and a series of rebuilds. These investments were made to secure cost effective production and to enable profitable growth in new markets and certain product segments which utilise hotmelt adhesives and filmic liners, for example. Thanks to the programme, UPM has the ability to grow with the label materials market without significant investment needs.

# LESS IS MORE WITH THIN LABEL MATERIALS

UPM'S INNOVATIONS IN LABELLING SOLUTIONS SAVE COSTS AND INCREASE ECOEFFICIENCY.

In 2009, UPM Raflatac launched a new range of thin paper and film products. Thin label products demonstrate an innovation to increase the cost efficiency and sustainability of everyday label materials. Thinner labelstocks deliver clear efficiency throughout the label chain, providing savings in materials and more options for recycling.

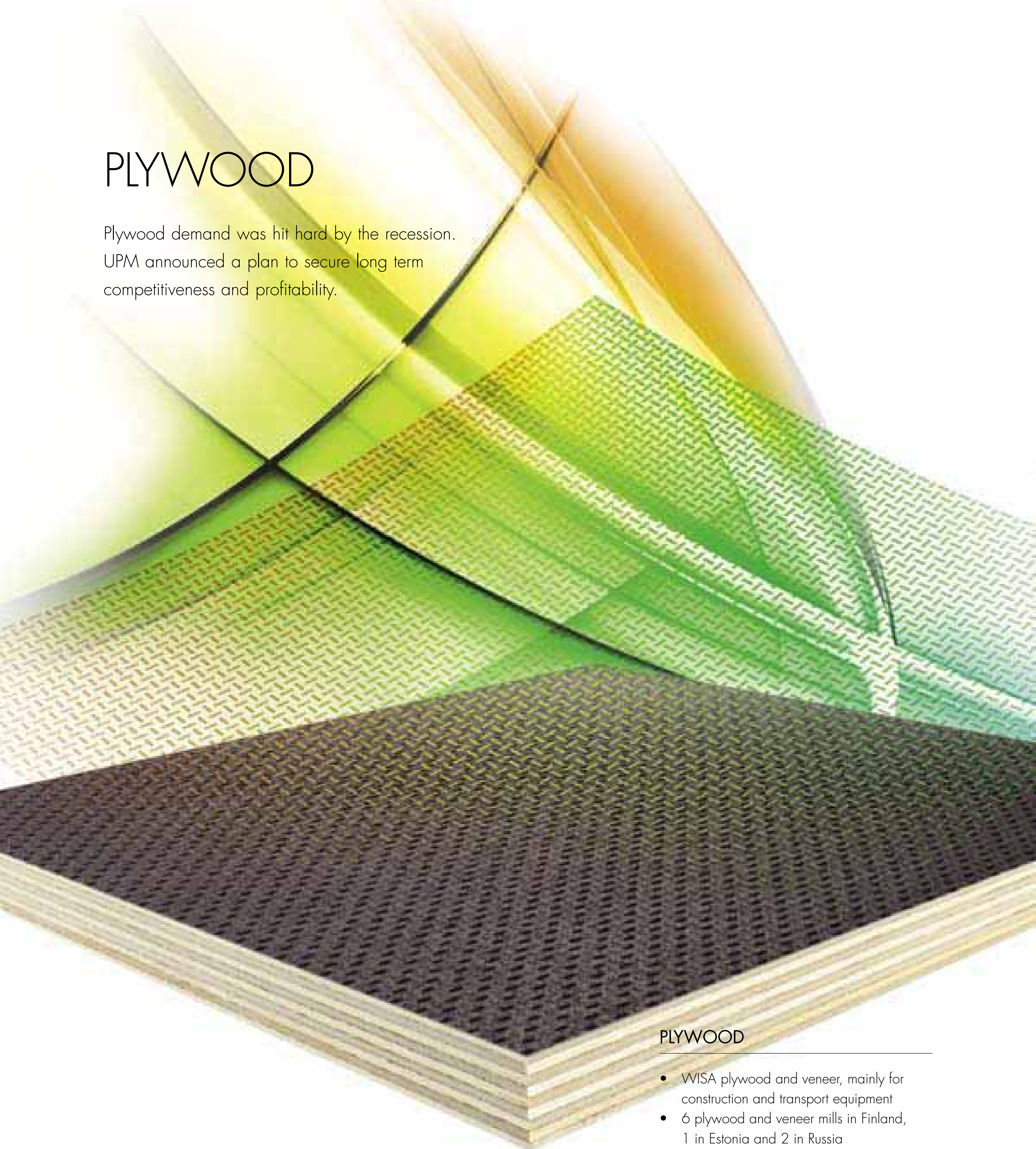
In material usage, thinner labelstocks mean reduced material weight but also more labels per roll - in some cases up to 24% more labels per roll. Thanks to longer roll lengths, fewer roll changes are needed during printing. An excellent print register, moisture resistance and greater tensile strength enhance efficiency, both on press and during label dispensing.

In addition, UPM Raflatac's thin liners leave customers with up to 20% less waste at the end of their labelling processes. Waste from polypropylene and polyester liners can also be fully recycled and reused.

UPM Raflatac's new thin label materials are designed for applications in food, retail, beverage, logistics and home and personal care labelling.

# PLYWOOD

Plywood demand was hit hard by the recession. UPM announced a plan to secure long term competitiveness and profitability.



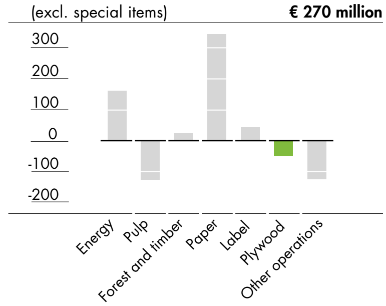
## PLYWOOD

- WISA plywood and veneer, mainly for construction and transport equipment
- 6 plywood and veneer mills in Finland, 1 in Estonia and 2 in Russia
- Annual capacity for plywood and veneer is about 1 million cubic metres

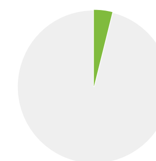
## KEY FIGURES

| Plywood | 2009 | 2008 | 2007 |
|---|---|---|---|
| Sales, €m | 306 | 530 | 591 |
| Operating profit excl. special items, €m | -51 | 25 | 50 |
| Capital employed (average), €m | 266 | 307 | 300 |
| ROCE excl. special items, % | -19.2 | 8.1 | 16.7 |
| Personnel on 31 Dec. | 3,292 | 3,799 | 3,945 |
| Deliveries, 1,000t | 567 | 806 | 945 |

**UPM'S OPERATING PROFIT 2009**
(excl. special items) **€ 270 million**




**PLYWOOD, SALES 2009** **€ 306 million**




**PLYWOOD, CAPITAL EMPLOYED 2009** **€ 266 million**




## SALES BY MARKET

| €m | 2009 | % |
|---|---|---|
| Europe | 270 | 88 |
| United States and Canada | 8 | 3 |
| Asia | 27 | 9 |
| Rest of the world | 1 | - |
| **Total** | **306** | **100** |

## Descriptions of operations

Plywood is a renewable composite material with unique strength-to-weight properties. It is used in construction, transportation industry and in a number of special applications.

UPM offers a wide range of uncoated and coated plywood for various industry specific solutions that require high quality and specially treated surfaces. UPM also manufactures veneer for furniture and parquet end uses. UPM sells its plywood and veneer products under the registered WISA trade mark.

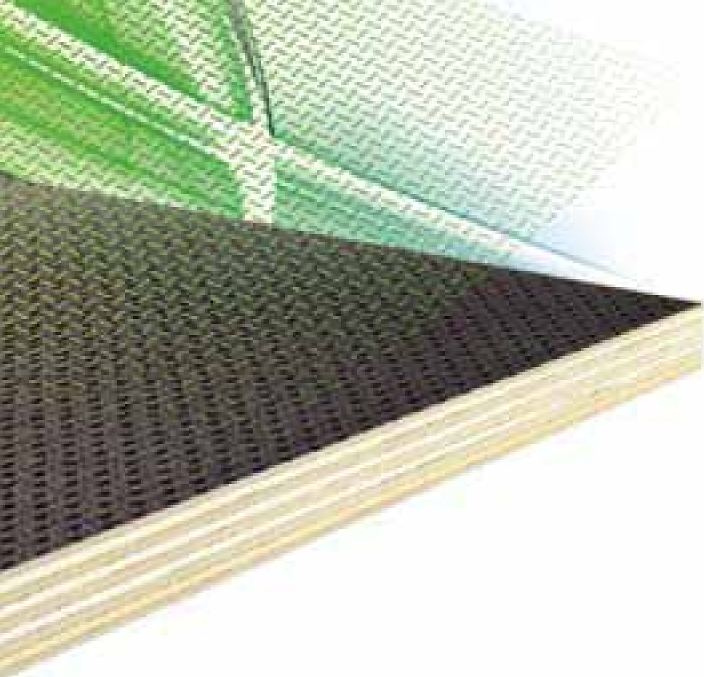
UPM has six plywood mills: four in Finland, one in Russia and one in Estonia. The business area also includes three veneer mills: two in Finland and one in Russia. With a total capacity of about 1 million cubic metres, UPM is the largest plywood manufacturer in Europe.

## Market review and business performance

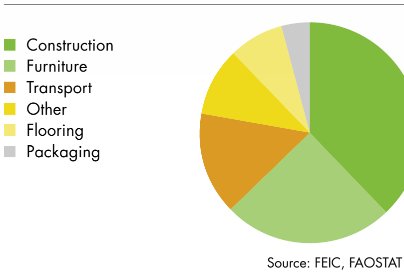
In 2009, plywood demand in Europe fell substantially from the previous year due to record low construction activity and demand for engineered products in transportation and other industrial end uses.

In the first half of the year, inventories were reduced in all parts of the supply chain, further decreasing apparent demand for plywood. This inventory reduction came to an end in the third quarter.

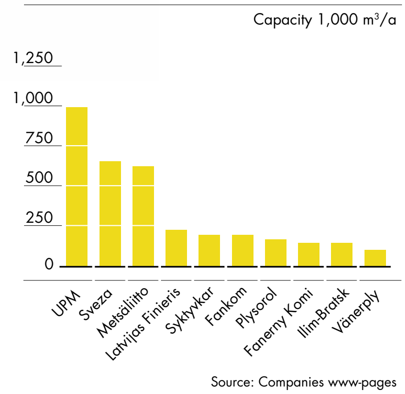
Plywood producers responded to weaker demand and announced a number of capacity closures and production curtailments. UPM also reduced production at its



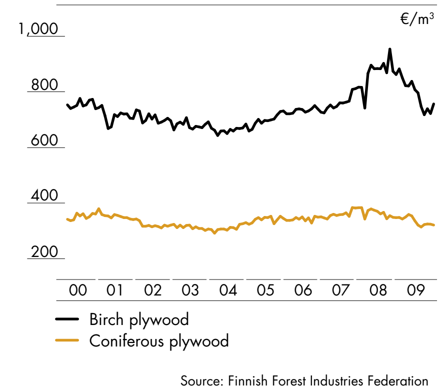
PLYWOOD END-USES IN EUROPE




EUROPE'S BIGGEST PLYWOOD PRODUCERS




EXPORT PRICES FOR FINNISH PLYWOOD




mills. Despite production curtailments, there was oversupply in the market, which led to decreasing sales prices.

Plywood demand is late cyclical and is expected to gradually return to pre-recession levels when the economy recovers.

In Finland, the birch log inventories built up in 2008 at high log prices lasted throughout the year. This kept wood costs at a high level, even though log market prices declined. In Russia, on the other hand, there was a shortage of logs towards the end of the year.

UPM's Plywood business area's sales for 2009 were € 306 million (530 million). The business area made a loss in 2009 due to sharply lower deliveries and sales prices, combined with high wood costs. Operating loss excluding special items was € 51 million (profit of € 25 million). Plywood deliveries of 567,000 cubic metres declined by 239,000 cubic metres (30%) from the previous year.

## Business development and restructuring

UPM's Plywood business area seeks growth opportunities in solutions for more demanding end-uses and through new products. In the Plywood business, research and development is an integral part of the business area's operations, where customer needs as well as new technology are combined to create new solutions.

In November 2009, UPM announced a plan to improve the long term cost competitiveness of the plywood business and increase added value in the birch plywood production in Finland. UPM will permanently close the Heinola and Kaukas plywood mills during the first half of 2010.

UPM will invest € 25 million mostly in the expansion of the Savonlinna plywood mill. After the investment, the mill will be the world's most efficient birch plywood unit with an annual production capacity of 120,000 cubic metres of high quality birch plywood.

In addition, the Lahti plywood processing mill was closed in October and its production was moved to other mills. At the Kalso veneer mill, a production automation project was completed in May.

The restructuring measures, when combined with the investment in Savonlinna, will have only marginal effect on the production capacity. UPM's Plywood business area will be able to respond to customer needs when demand recovers.

# HIGH STRENGTH WITH LOW WEIGHT

PLYWOOD IS A COMPOSITE PRODUCT MADE UP OF THIN MULTIPLE CROSS-BANDED VENEERS.

Although plywood is an ancient invention it is also a modern product with great potential for new applications.

The most important raw materials for modern high-end plywood are birch and spruce. Trees growing in the subarctic climate grow slowly and the wood they produce is close-grained and has consistent high quality. Birch, especially, is of uniform consistency and has excellent strength, peeling and gluing properties not available in other panel materials.

Standard birch plywood also has a superior strength-to-weight ratio, which means that desired application properties can be achieved with less mass and volume. When used in transport equipment, for example, this means either lower fuel consumption or bigger payload. Strength and durability can be further enhanced by adding advanced materials to the structure or the surface of the plywood.

## Suitable for extreme conditions

Plywood is also dimensionally stable and elastic and tolerates many extreme conditions. These properties are essential, for example, when building ships to carry liquefied natural gas (LNG) which requires insulation structures capable of handling temperatures below -163 degrees Celsius. Plywood also allows carriers to be built so that their payload is almost 70% larger than conventional gas carriers. Thus, over half of all LNG carriers worldwide have plywood insulation in their gas tanks.

Moreover, plywood by nature stores more $CO_2$ than is needed to manufacture it. At the end of its lifecycle, plywood can be used as a $CO_2$ neutral source of energy. Very few materials in the world have these properties, thus making plywood an environmentally sustainable material.

Plywood has the prerequisites to be a highly successful product in the future. As a sign of this, in 2009 UPM decided on a significant investment to develop its Savonlinna plywood mill in Finland into the world's most efficient birch plywood mill. In addition, the annual investment in plywood research, technology and product development has remained at a substantial level, even during the low market demand periods.

# SUCCESS FACTORS

Corporate responsibility is an integral part of UPM's operations. Competent people, future-oriented R&D and good environmental performance are crucial for the company's long term success.

# RESPONSIBILITY IN ACTION

UPM is strongly committed to continuous improvement in economic, social and environmental performance.

Responsible attitude and aspiration for continuous improvement are elemental principles in UPM's way of working. UPM wants to reach its strategic and financial goals in a socially and ecologically sustainable way.

To ensure responsible operations throughout the company, UPM has set key areas and measurements for corporate responsibility.

The foundation for responsibility is profitable operations and value creation from products which are sustainable throughout their lifecycle.

UPM's operations meets key fundamental elements of sustainability. The primary raw material used for UPM's products is natural and renewable wood. Products are recyclable and material can be recovered many times to make new products. Forests are sustainably managed to provide economic, social and environmental benefits, including enhancing biodiversity, protecting water resources and assisting in the mitigation of climate change. Products are mainly produced using renewable energy, derived using carbon-neutral biomass sourced from the same sustainably managed forests.

UPM respects human rights and equal opportunities. UPM aims for a safe and encouraging working environment, active employee participation and continuous learning.

The UPM Code of Conduct sets the standards of responsible behaviour for each individual employee. UPM is also committed to the UN Global Compact initiative.

UPM requires its suppliers to commit to the principles of the UPM Code of Conduct. Based on these principles, the company has developed a set of supplier criteria. The suppliers' operations are assessed regularly.

Since 2003, UPM has had a Corporate Responsibility (CR) Council in place that is responsible for overseeing the development of corporate responsibility principles and policies in the company. The Council is headed by the CEO and consists of seven members of the Group Executive Team. Decisions made in the CR Council are implemented throughout the company via the business groups, who integrate the responsibility principles and related targets into their annual tasks and target-setting processes.

UPM does not publish a separate environmental and corporate social responsibility report but has integrated the contents into this annual report.

| KEY AREA OF RESPONSIBILITY | UPM PRINCIPLE | MEASURE |
|---|---|---|
| **Economic** | | |
| PROFIT | • Value creation | • Operating profit margin exceeding 10%<br>• Return on equity at least 5 percentage points above the yield of a 10-year risk-free investment<br>• Gearing ratio to be kept below 90% |
| GOVERNANCE | • Accountability and compliance | • Group Management System<br>• Code of Conduct |
| **Social** | | |
| LEADERSHIP | • Responsible leadership | • High employee engagement<br>• Behaviour in line with company values and Code of Conduct<br>• Change management practices in place |
| PEOPLE DEVELOPMENT | • High performing people | • Personal performance reviews with employees and target setting<br>• Development of key competencies |
| WORKING CONDITIONS | • Safe and encouraging working environment | • Ensuring human rights<br>• Equal opportunities<br>• Good employee/employer relations<br>• Zero accidents goal and continuous actions to reduce absenteeism<br>• End-to-end responsibility throughout the supply chain |
| COMMUNITY INVOLVEMENT | • Local commitment | • Employment opportunities<br>• Co-operation and initiatives with local stakeholders<br>• Responsible restructuring |
| **Environmental** | | |
| PRODUCTS | • Products which are sustainable over their lifecycle | • Renewable raw materials<br>• Recyclable or biodegradable products<br>• High share of certified products<br>• Third-party environmental eco-labels<br>• Lifecycle assessment |
| CLIMATE | • Best-in-class* carbon footprint | • Improve energy efficiency<br>• Maximise use of carbon-neutral energy<br>• Increase biobased energy |
| WATER | • Sustainable use of water resources | • Best-in-class* water footprint and effluent quality<br>• Net water consumption |
| FOREST | • Sustainable forest management | • Maximise share of certified fibre and meet UPM biodiversity programme targets for managed forests |
| WASTE | • Minimal waste | • Minimise solid waste to landfill<br>• Reuse waste |

*Best-in-class = leading the industry sector

## IN 2009

- Efficiency improvement actions continued
- Flexible operational mode was adopted in all businesses
- Positive development in safety continued

# PEOPLE

Actions related to efficiency improvements continued. The organisations within the new business structure took shape offering employees new career opportunities.

The new strengthened and market-driven business structure, adopted in December 2008, started to take shape and new ways to operate were developed.  Change readiness and innovation potential were emphasized. Based on the new organisation, strategic competencies and professional expertise related to developing businesses were enhanced.

Company values, code of conduct and UPM's leadership principles form the foundation of the company's human resources operations.

At the end of 2009, UPM employed 23,213 people in total, a reduction of 1,770 from the previous year. The number of employees decreased due to restructuring and other efficiency improvement actions announced in 2009 or earlier. The Fray Bentos pulp mill and the eucalyptus plantation forestry company Forestal Oriental in Uruguay, acquired in December, employ a total of 524 employees.

### Efficiency improvement actions continued

In 2009, UPM benefited from the flexible operational mode in which production is adjusted to market demand without permanent layoffs and capacity closures. Due to the weakened market situation, UPM used temporary layoffs at is paper, plywood, sawmilling, forestry and label operations throughout the year.

In order to ensure the long term competitiveness of Plywood and Timber operations in Finland, several actions affecting the personnel had to be taken. The restructuring and mill closures will decrease the number of employees by approximately 1,220 persons.

Other major efficiency improvement actions included the new paper supply chain and the completion of the restructuring within Label business area.

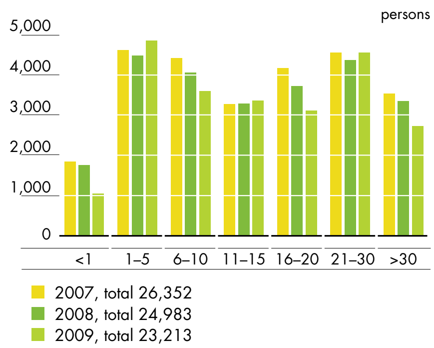
### Leadership and People Development

UPM aims to build a performance-driven and change-agile culture that is based on clear targets and a strong will to work towards those targets in co-operation with others. In 2009, UPM's performance management process was systematically used to set strategy-related targets and development plans for UPM employees globally.

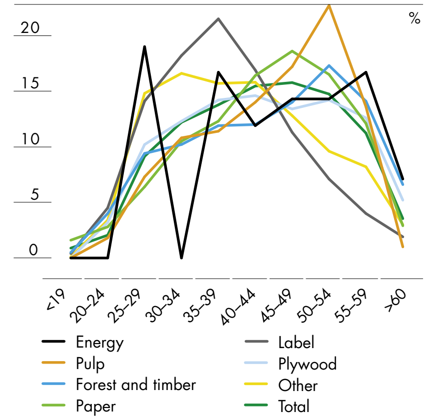
In 2009, the global processes for strategic competence management and resource planning were enhanced. The aim is to ensure the alignment of all development and resourcing actions with the long term business targets. In UPM's new business areas the most critical strategic competences were identified. In competence development, UPM invested in transferrable competences related to change management, project management and innovation management.

Leadership development actions included the launch of a Front-Runner training programme for UPM's top management. In middle management development, the focus was on global people and change

EMPLOYEES' YEARS OF SERVICE WITH UPM 2007–2009




AGE STRUCTURE OF GROUP PERSONNEL




THE WAY WE WORK

| VALUES | CODE OF CONDUCT | LEADERSHIP PRINCIPLES |
|---|---|---|
| Openness<br>Trust<br>Initiative | Standard of ethical behaviour for each individual in UPM | Think outside the box<br>Share direction<br>Grow the right people<br>Implement with determination |

leadership programmes. UPM also invested in team development. Two mentoring programmes were started to support cross-organisational sharing and learning.

In order to further support the effective implementation and alignment of UPM's people processes, a global Leadership Portal self-service tool for managers and supervisors was taken into use.

## Occupational health and safety

Occupational health and safety activities are governed by UPM's Occupational Health and Safety Rule. The overall objective is that no work-related disabilities or accidents would occur. The targets for occupational health and safety are set on corporate, business area and local levels. To achieve the targets, action plans are made and implemented annually. For example, wellbeing at work was supported by the "Take Care" campaign which continued with management team self-assessments in Finland and with awareness of environmental issues.

The Paper business group started a safety improvement programme. As a basis for development, all paper mills were audited to identify and implement best practices and development needs in health and safety issues.

The Occupational Health and Safety Management System is followed on all production sites and has also been certified (OHSAS 18001) at nearly all the paper mills and some other production sites.

UPM's Occupational Health and Safety Award for 2009 was awarded to the Shotton paper mill in the UK. The mill has demonstrated good long term performance in both health and safety.

Accident frequency (the number of work accidents per one million hours of work) continued to decline according to the company's goals, improving by 15% from the previous year. Accident frequency declined in all business areas. Unfortunately, one contractor suffered a fatal accident at UPM's Tilhill harvesting site in the UK.

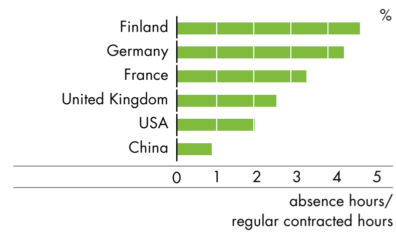
Absences due to illnesses and accidents remained in the same level as previous year. Absences decreased in all business areas with the exception of the Label business area.

## Employee participation and community involvement

UPM actively seeks to maintain and develop good relations with all its stakeholders. Dialogue and co-operation are the most important ways of promoting mutual understanding. UPM's own personnel and local communities are among the key stakeholders.

The UPM European Forum is the Group's international co-operation body. Representatives of all employee groups from UPM's mills in Europe participate in the meetings. The European Forum met twice in

**ABSENTEEISM DUE TO SICKNESS AND ACCIDENTS AT WORK, ALL PERSONNEL**




2009. Meetings covered topical issues and open dialogue related to changes within the company and in the business environment.

One way of promoting employee participation further is the Employee Engagement Survey. The survey provides a basis for development actions at the workplace.

### Job to Job programme continues with good results

UPM's Job to Job programme offers financial support for retraining, re-employment, creation of new businesses as well as relocation for employees affected by production plant closures.

The programme includes, in close co-operation with various authorities and other external parties, active measures to promote employment and retraining. The programme is based on the model first implemented at Voikkaa in 2006, and it has produced good results since.

In November 2009, UPM announced it will start a new Job to Job programme related to the closures of the plywood mill and sawmill in Heinola, the Kaukas plywood mill in Lappeenranta, and the further processing mill in Parkano during the first half of 2010.

In Kajaani and Valkeakoski in Finland, UPM continued its Job to Job programme which was started in September 2008. In Kajaani, UPM created the Renforsin Ranta business park on the site of the Kajaani mill.

### Rewards

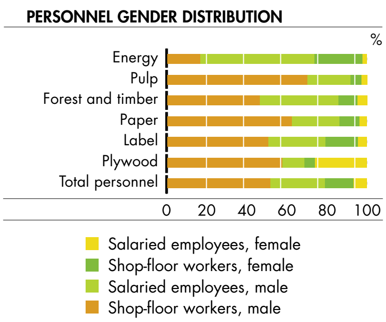
UPM utilises a Total Compensation approach consisting of base salary, benefits and incentives determined according to UPM's global rules, local legislation and market practice.

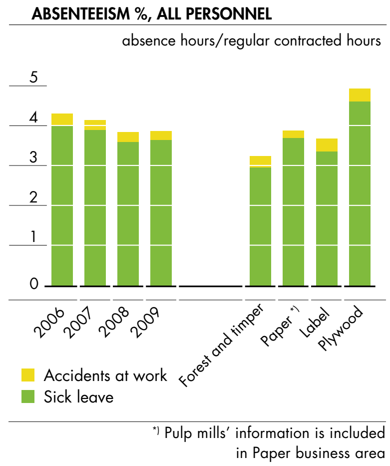
All of UPM's personnel belong to a unified incentive scheme. The incentive system combines company and business level targets and personal and/or team performance targets. One of the key indicators is EBITDA. The total amount of incentive bonuses and rewards paid in 2009 was € 36 million.

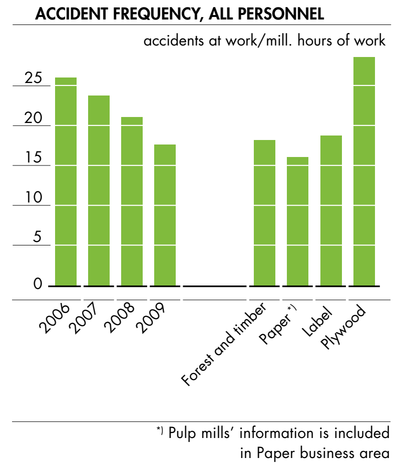
Long term incentive programmes based on shares and stock options for key personnel continued in accordance with the decisions made in 2005 and 2007. In 2009, no shares were granted on the share ownership plan. In January 2009, 2007A stock options were distributed to about 530 key individuals. In September, 2007B stock options were distributed to approximately 540 key individuals.

## PERSONNEL BY COUNTRY

| 31 Dec. | 2009 | 2008 | 2007 |
|---|---|---|---|
| Finland | 10,682 | 12,305 | 13,086 |
| Germany | 3,620 | 3,759 | 3,802 |
| United Kingdom | 1,546 | 1,602 | 1,567 |
| France | 1,321 | 1,392 | 1,437 |
| Russia | 1,026 | 1,116 | 1,230 |
| Austria | 619 | 642 | 657 |
| Poland | 334 | 275 | 89 |
| Spain | 251 | 266 | 273 |
| Estonia | 191 | 181 | 176 |
| Italy | 76 | 83 | 79 |
| Belgium | 28 | 32 | 37 |
| The Netherlands | 27 | 30 | 35 |
| Turkey | 21 | 20 | 19 |
| Sweden | 20 | 24 | 24 |
| Other Europe | 105 | 137 | 140 |
| China | 1,320 | 1,327 | 1,312 |
| United States | 1,005 | 1,096 | 1,067 |
| Uruguay | 524 | - | - |
| Malaysia | 173 | 172 | 158 |
| South Africa | 91 | 97 | 94 |
| Australia | 88 | 93 | 94 |
| Canada | 11 | 194 | 843 |
| Rest of the world | 134 | 140 | 133 |
| Total | 23,213 | 24,983 | 26,352 |




# CODE OF CONDUCT

## THE UPM CODE OF CONDUCT SETS THE STANDARDS OF BEHAVIOUR FOR EACH INDIVIDUAL EMPLOYEE.

At UPM, responsible and ethically upstanding business practices are the foundation for the company's operations.

The Code of Conduct addresses topics such as compliance with laws, rules and regulations, conflicts of interest, bribery, human rights, confidentiality, fair dealing, protection and proper use of company assets. The Code contains compliance standards and procedures to facilitate the effective operation of the Code and to ensure prompt and consistent action against violations of the Code.

UPM's suppliers are required to commit to the principles defined in the Code of Conduct. Supplier requirements are defined in the sourcing contracts. When working in UPM's premises, the supplier must know and operate in accordance with UPM's health and safety requirements and instructions. Suppliers' operations are assessed before the contract and during co-operation.

The Code of Conduct is complemented by more detailed rules and guidelines, such as the UPM Human Resources Rules, UPM Equality Rules, UPM Occupational Health and Safety Rules and UPM Environmental Rules.

> **The Code of Conduct is available on the company's website www.upm.com.**

## IN 2009

- Biofuels, biochemicals, biocomposites and nanocellulose were the focus areas in R&D
- Energy efficiency at paper mills was enhanced
- New RFID and UPM ProFi applications were introduced in the market

> For more information, see www.upm.com

# R&D AND DEVELOPING BUSINESSES

The aim of UPM's business development and R&D is to create new products and businesses by technology development and to provide support for the business areas to ensure the competitiveness of current products.

Over the past years, UPM has invested in new value-added uses of forest biomass such as biofuels, biochemicals and renewable energy generation. UPM continues to develop RFID tags and inlays and wood plastic composite businesses which are based on UPM's own research and business development.

UPM's research and development has defined four key research areas for new business opportunities: biofuels, biochemicals, biocomposites and nanocellulose. In addition, UPM focused on the competitiveness of current businesses through technology development in filmic label materials and energy efficiency improvements at paper mills.

In 2009, UPM's direct expenditure on research and development projects was approximately € 48 million (€ 49 million), or 0.6% (0.5%) of the Group's sales.

## Growing number of new RFID applications

UPM manufactures a wide variety of RFID tags and inlays designed for product identification in supply chain management, transportation, industrial, pharmaceutical, health and life sciences, media management, apparel and brand protection and ticketing.

The RFID product offering is constantly being renewed for better performance and cost efficiency. In 2009, UPM launched a global partner network programme the UPM Pro RFID Alliance.

Production at the Guangzhou factory in China was ramped up during the year and the manufacturing of high volume RFID products was concentrated to factories in Guangzhou and Fletcher in the USA. The Jyväskylä facility in Finland was turned into a development centre.

## UPM ProFi continued to launch new products

UPM ProFi develops, manufactures, markets and sells high quality wood plastic composite products made mainly from the surplus paper and plastic left over from the production of self-adhesive label materials. UPM ProFi is used for outdoor, indoor and industrial applications.

UPM ProFi is a start-up business. Its target is to become one of the main producers in the wood plastic composite sector in Europe. The first UPM ProFi products were sold in 2007. The production plants are located in Finland and in Germany.

In 2009, UPM ProFi continued to launch new products and expanded its sales channels to most European countries. Most visibly UPM ProFi can be seen on the surface of the Finnish pavilion at the World Expo 2010 in Shanghai.

## Focus on biofuels

In the development of second generation biodiesel production technology, UPM, together with Andritz/Carbona, completed the pilot testing of Carbona's gasification technology at the Gas Technology Institute's pilot plant located near Chicago in the USA as planned. Finalising the technical concept will continue in 2010.

In bioethanol, UPM and Finnish com-

pany Lassila & Tikanoja (L&T) have been developing a new bioethanol and energy production concept that, for the first time, utilises commercial and industrial waste, such as paper, cardboard, wood and plastic. In 2009, piloting of the concept continued in co-operation with the Technical Research Centre of Finland (VTT) and Pöyry.

In bio oil, UPM, Metso and VTT developed a new concept for the production of biomass-based bio oil to replace fossil fuels in heating and power generation. The Finnish energy company Fortum joined the consortium in November. Since June, high-quality bio oil from sawdust and forest residues has been produced in Metso's R&D Centre in Tampere, Finland.

The UPM Biorefinery Development Centre for research into biofuels and biochemicals was established at UPM's Kaukas paper mill site in Lappeenranta, Finland, at the beginning of 2009.

## New applications for cellulose as a raw material

The Finnish Centre for Nanocellulosic Technologies, established in 2008 by UPM, VTT and the Aalto University (formerly the Helsinki University of Technology), researches new uses for cellulose as a raw material and substance and to ensure the launch of new products into the market.

In the first phase, the focus of the centre has been on paper applications such as special papers and paper coating. In the future, the aim is to find applications also for other industries such as construction, vehicle, furniture, electronics, foodstuffs and cosmetics.

In biochemicals, research and various studies continued. The focus was on replacing oil-based chemicals with biochemicals in different UPM products. New end-use applications were explored.

## Energy efficiency improvements at paper mills

The main focus of the R&D work in the paper business was to improve the cost structure of all paper grades by means of new technologies. New breakthrough technologies could be implemented in mechanical pulping in order to reduce energy consumption significantly.

Furthermore, UPM launched a new paper grade, UPM DIGI Jet, for high-speed inkjet printing within its UPM DIGI paper range. The surface of the woodfree uncoated paper meets the strict requirements of the machines in the printing process, with fast ink absorption, low bleeding and excellent water fastness.

UPM also launched a technology programme in partnership with Metso and the University of Oulu to develop measuring and control solutions for processes. The programme focuses particularly on developing applications for process waters and bioenergy.

## Filmic labels development in Engineered Materials

In labelstock R&D, UPM focused on developing new technology platforms and new product solutions and innovations. In 2009, UPM Raflatac developed the next generation of high quality filmic liners with a cost-efficient process to be implemented in 2010. In addition, the company started to implement a new hotmelt adhesive and the mixing process for that adhesive in its new factory in Poland.

In 2009, Plywood R&D developed several major product and production innovations which are expected to provide significant competitive advantage in the years to come.

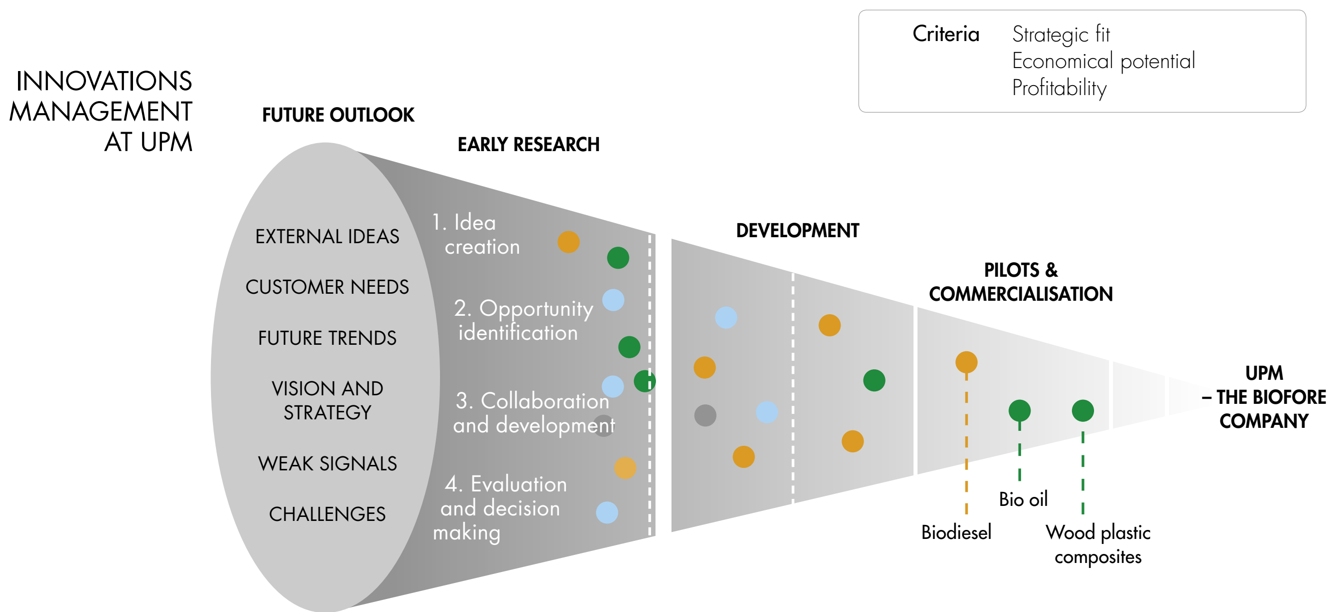
## Co-operation with research centres

The UPM Research Centre in Lappeenranta focuses on fibres and fibre raw materials, papers, coating and printing research, as well as customer support.

UPM's recycled fibre research is centred in Augsburg, Germany. The UPM Asia R&D Centre in China is responsible for local fibre raw material research, as well as manufacturing and technical customer service support for UPM's production units in China and the Asia-Pacific region.

UPM is a partner with a 15% share in Forestcluster Ltd, established to network top-level research and innovation in the Finnish forest cluster. The first programmes have started successfully.

In addition, UPM has continuous co-operation with several research institutions and universities worldwide.




# INNOVATIONS ARE THE KEY TO FUTURE SUCCESS

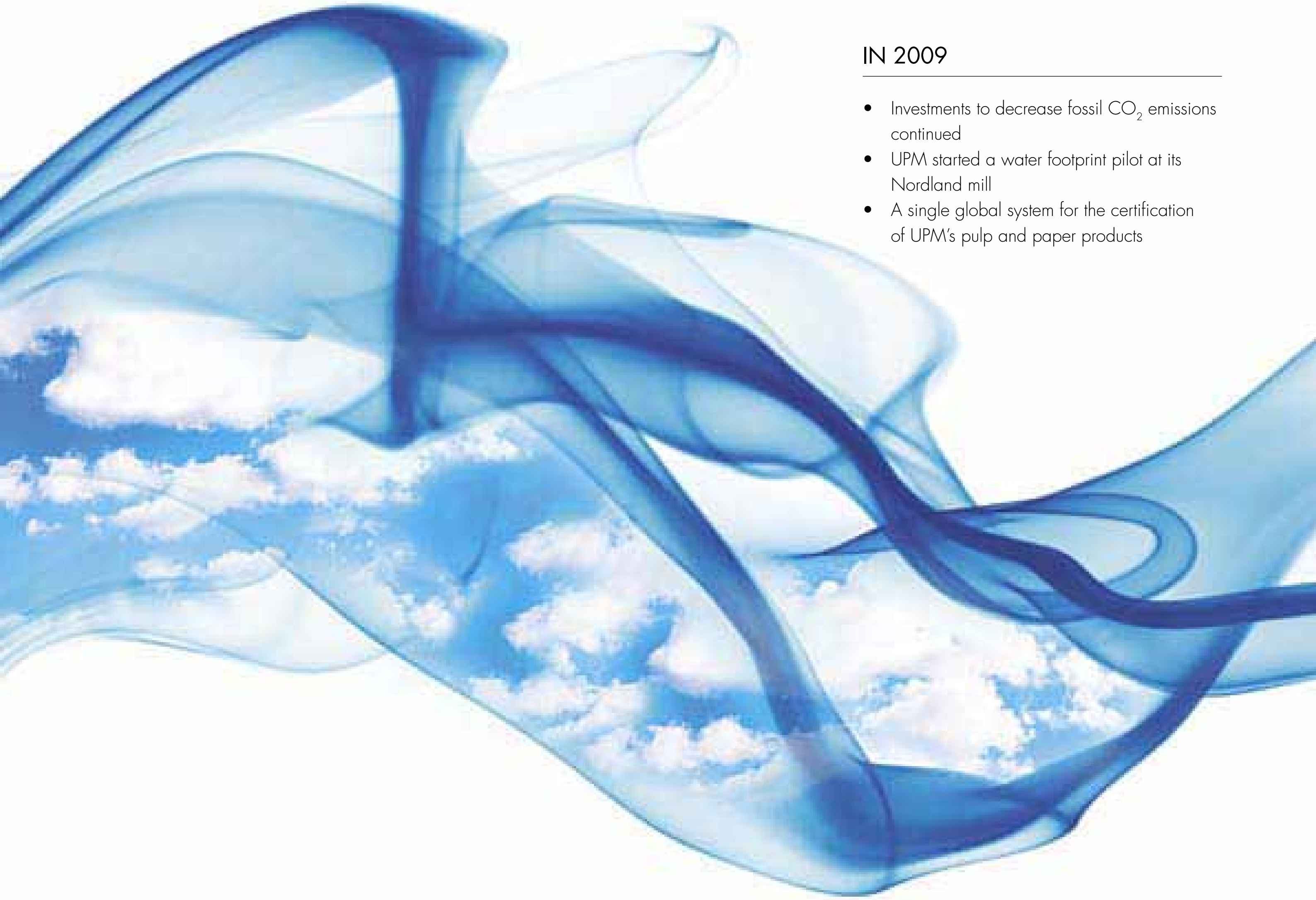
PROMOTING INNOVATION PLAYS AN IMPORTANT ROLE IN UPM'S STRATEGY.

Besides new products, technology and related improvements, new business models and practices are also included in the framework of innovations.

In 2009, UPM defined a new innovation strategy to support the company's frontrunner position in the industry. The target of UPM's innovation management is to create new business initiatives and potential internal start-ups, but also to continuously improve existing businesses. In-house know-how forms the basis for further business development. Any smart idea that supports UPM's business operations and targets and provides added value will be placed for closer inspection.

In existing businesses, continuous process technology and product development has enabled UPM to broaden its customer offering and simultaneously improve operational efficiency. The developments are based on UPM's in-depth material and end-use know-how.

In connection with UPM's innovation management, a new tool, The Biofore IdeaFactory, was introduced in August. The tool is open to all UPM employees.



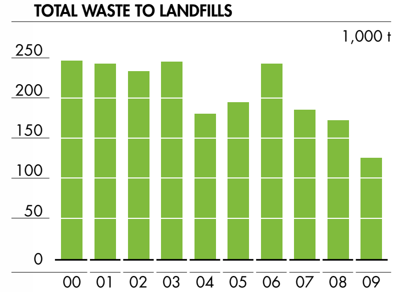
## IN 2009

- Investments to decrease fossil $CO_2$ emissions continued
- UPM started a water footprint pilot at its Nordland mill
- A single global system for the certification of UPM's pulp and paper products

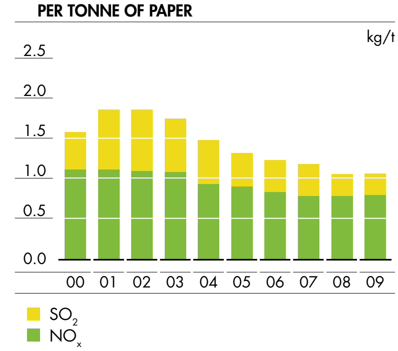
# ENVIRONMENTAL PERFORMANCE

For UPM, sustainable products, climate, water, forest and waste management are the key areas of environmental responsibility. UPM aims to continually reduce environmental impacts over the entire lifecycle of its products and activities.

TOTAL WASTE TO LANDFILLS




ACIDIFYING FLUE GASES PER TONNE OF PAPER




The majority of UPM's production sites, as well as its wood sourcing and forestry operations have environmental, quality and health and safety management systems in use. They are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. In Europe, all UPM's pulp mills and most of the paper mills are also certified in accordance with the EU Eco-Management and Audit Scheme (EMAS).

UPM has invested to ensure compliance and performance beyond environmental regulations. In 2009, environmental protection costs including depreciation totalled € 87 million (102 million) and consisted mainly of effluent treatment and waste management costs. Capital expenditure totalled € 14 million (42 million).

In 2009, no severe environmental incidents occurred at UPM production units. However, a small number of minor temporary deviations from permit conditions occurred. They were reported immediately to the relevant authorities and, where necessary, corrective and preventative measures have been taken.

## Providing sustainable products

UPM provides sustainable products and innovative solutions produced primarily from renewable, biodegradable and recyclable materials. The company takes into account the social and environmental impacts of the product lifecycle, from raw material sourcing, production, delivery and product use to recycling, reuse or disposal of the product. Good examples of the development of sustainable products are eco-labelled papers, low-weight plywood and UPM ProFi, a wood plastic composite produced using the surplus paper and plastic left over from UPM's self-adhesive label materials production.

For several years, UPM has regularly increased the independently certified and eco-labelled paper to its customers worldwide. As a result, the company is the largest producer of graphic and copying papers to have been awarded the EU Eco-Label. UPM offers over 100 products bearing this label from 14 of its paper mills in Austria, Finland, France, Germany and the UK.

The eco-label, also known as the EU Flower, focuses on an overall low environmental footprint, including the use of recycled fibre or wood fibre originating from sustainably managed and certified forests. It also guarantees that low air emissions and fossil $CO_2$ emissions are produced during paper production as well as ensuring the highest standards of process water treatment. The label is also proof of reduced energy consumption and reduced environmental risks, achieved by restricting the use of hazardous chemicals.

UPM also uses the FSC and PEFC forest certification labels and offers certified products in all its business groups. Regional environmental labels, like the German Blue Angel are also used by the mills.

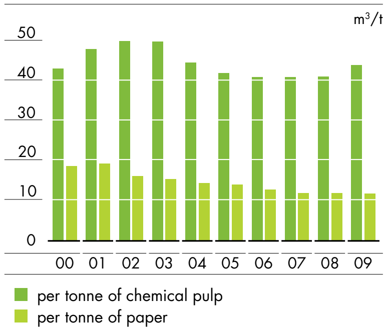
Recovered paper is an important raw material component in UPM's paper products. In 2009, the company used 2.8 million tonnes of recovered paper (2008: 3 million tonnes), which makes UPM the world's largest user of recovered paper in the graphic paper industry. For example, the UPM Shotton paper mill in the UK, UPM Schwedt paper mill in Germany and Chapelle Darblay in France all produce newsprint made entirely from recycled newspapers and magazines.

## Solutions for climate change

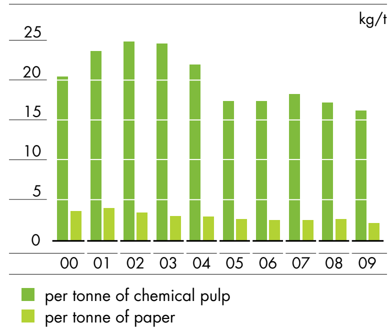
UPM has an excellent track record showing major $CO_2$ emission reductions thanks to significant investments in renewable energy production, mainly in biomass-based combined heat and power production. This reduction in the carbon footprint of UPM's products, and the company as a whole, has benefited the climate change mitigation.

UPM's airborne emissions originate mainly from energy production at its pulp and paper mills. UPM's long term invest-

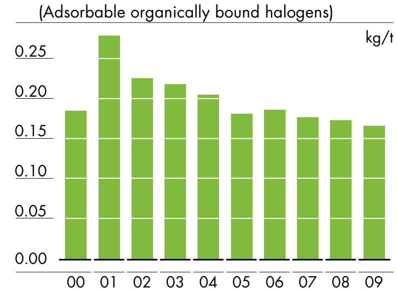
PROCESS WASTEWATER VOLUMES




COD LOAD




AOX LOAD PER TONNE OF BLEACHED PULP
(Adsorbable organically bound halogens)




ments have allowed the use of a renewable and carbon-neutral source of energy (wood), which does not contribute to climate change. As a result, UPM's fossil $CO_2$ emissions have been reduced by 40% per tonne of paper since 1990.

Carbon dioxide-neutral energy sources dominate UPM's energy portfolio. Globally, 63% of the fuels used by UPM are biomass-based, and in Finland this figure is 79%.

Compared to 2008, fossil carbon dioxide emissions per tonne of paper remained stable (decrease of 12%), sulphur dioxide emissions decreased by 2% (30%) per tonne of paper and emissions of nitrogen oxides remained stable.

The new renewable energy power plant at UPM's Caledonian paper mill in Scotland started up successfully. A fossil fuel fired boiler was replaced with a modern, fully integrated biomass CHP plant. As a consequence, the mill's $CO_2$ emissions will be reduced by approximately 75,000 tonnes and the mill's carbon footprint has been significantly reduced. The project will make a significant contribution to the Scottish Government's target of 50% of all energy consumed being generated from renewable sources by 2020.

In labelstock manufacturing, the most relevant air emissions are from volatile organic compounds (VOC). Replacing solvent-based substances with alternative products has led to a significant VOC reduction in recent years. Compared to the previous year, VOC emissions per tonne of converted product were decreased by 24% thanks to further reduction in the use of solvent-based adhesives.

At the company level, UPM uses the Greenhouse Gas Protocol for its carbon inventory assessment. It is the most widely used accounting tool to quantify and manage greenhouse gas emissions.

## Maintaining and increasing biodiversity in the forest

UPM has developed a global biodiversity programme for its forests in Finland, the UK and the United States. The programme aims to maintain and increase biodiversity in forests, as well as to promote best practices in sustainable forestry. In the long term, the aim is to extend the programme to cover all wood sourcing activities.

In 2009, about 78% of all wood used by UPM originated from certified forests (66%). Chain of custody and forest certifications are tools used for promoting legal and sustainable wood sourcing. All of UPM's forestry and wood sourcing regions have integrated management systems and all of UPM's pulp and paper mills have had a third-party-audited chain of custody in place since June 2006. Based on the new multisite certification, 76% of UPM's paper was produced using fibre that meets FSC and PEFC criteria.

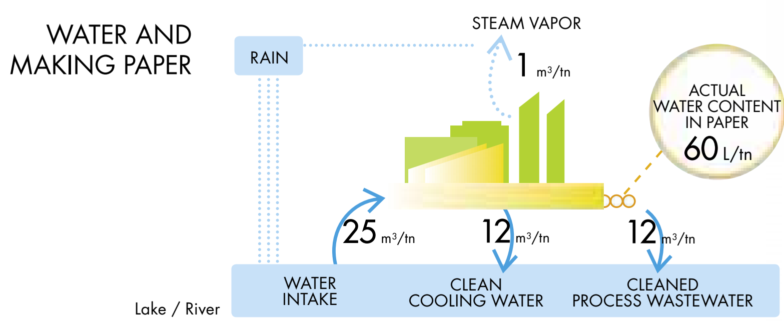
## Focus on recycling and re-use

Continual reduction of landfill waste is an ongoing target for UPM. Today, almost 90% of UPM's production waste is reused or recycled. Nearly all organic production residues, including bark and wood residues, as well as fibre-containing solids from deinking and effluent treatment are used in energy generation at UPM's mill sites. Ash left over from energy generation at these power plants is the most significant constituent of solid waste at UPM.

In 2009, about 95% (91%) of the total ash volume from UPM was reused for various applications, including being used as an aggregate in road construction, as a fertiliser and as a raw material for the cement and brick industries. Compared to 2008, the total volume of landfill waste decreased by 27% due to lower production volumes but also due to the company's continuous efforts to find new reuse options for waste. UPM takes all hazardous waste for special treatment at approved sites.

UPM assesses the condition of old mill areas that are no longer in use. The first step is for a soil analysis and risk assessment to be performed at each site. In the event that hazardous substances are found and remediation is needed, a remediation plan is prepared in conjunction with authorities. The remediation plan and future site use are agreed upon and authorised by the authorities.

- UPM's target is to continuously reduce the use of water to achieve a best-in-class water footprint for the industry




# SUSTAINABLE USE OF WATER RESOURCES

In pulp and paper making, the volume of effluent water roughly corresponds to the intake of fresh water and is, therefore, used as an indicator of water consumption. Cooling water, which is also used at the mills, is either further used as process water or is fed directly back to the source it was taken from.

All effluent is treated using a minimum of both primary and secondary treatment facilities before being discharged to the receiving waters. Effluent quality parameters are monitored regularly. In some regions, comprehensive studies on receiving watercourses have been carried out to assess the zone of impact on water quality and aquatic organisms.

In 2009, UPM joined the Water Foot print network to begin a Water Footprint pilot project at the UPM Nordland mill in Germany.

UPM's long term target for effluent volume from its paper mills is 10 $m^3$ per tonne of paper and for pulp mills 30 $m^3$ per tonne of pulp by 2020. In the last ten years, effluent volume per tonne of paper has decreased by 40%, and by 10% per tonne of pulp. In 2009, the average effluent volume at UPM's paper mills was 12 $m^3$ per tonne of paper, and 44 $m^3$ per tonne of pulp.

Chemical oxygen demand (COD) is a key parameter used to indicate the organic load of UPM's treated effluent. In the past 10 years, the COD load has decreased by 45% per tonne of paper, and by 35% per tonne of pulp. In 2009, the COD load per tonne of paper was 2.2 kg, and 16.3 kg per tonne of pulp.

Volumes of Adsorbable Organic Halogens (AOX) are also an important effluent indicator for pulp mills. Thanks to improvements at UPM's mills, the average AOX per tonne of pulp decreased by 4% in 2009 compared to 2008, resulting in a total AOX decrease of 24% in the last 10 years.

**> For more information on UPM and the environment see www.upm.com/responsibility.**

# MAIN EVENTS IN 2009

2009

## 01

8 UPM announces new financial targets for its businesses to correspond with the company's newbusiness structure. In line with the new financial targets, the dividend policy is also reviewed.

15 UPM concludes the sale of its paper mill and related assets in Miramichi, New Brunswick, Canada, to Umoe Solar AS of Norway. The sale includes the paper mill, a groundwood pulp mill, woodlands operations and two sawmills in Bathurst and Blackville. The Miramichi paper mill was permanently closed in December 2007.

## 02

5 The former premises of UPM's mill in Kajaani are renamed Renforsin Ranta. UPM has rental agreements with 22 companies.

9 UPM announces its plan to transfer plywood processing operations from Lahti to its other plywood mills in Jyväskylä, Savonlinna and Joensuu in Finland. Lahti plywood production operations cease in October.

11 UPM announces it will offer for sale in total some 30,000 hectares of forests which are outside the areas where most of UPM's forests are located.

## 03

8 UPM begins a legislative environmental impact assessment (EIA) for a biorefinery in Kuusankoski and Rauma in Finland. The main product of the potential biorefinery would be second generation biodiesel. The EIA process is completed in December.

11 UPM sells its Ella Store Labels business to MariSense Ltd. The Ella Store Labels business develops and manufactures electronic price display solutions for retailers.

## 04

21 UPM announces the renewal of its paper business supply chain operations including production planning, inventory management, order fulfilment, logistics and customer service. A regional supply centre for Northern Europe is established in Tampere, Finland. Two regional Central European supply centres are established in Augsburg and Dörpen, Germany.

## 05

8 UPM Raflatac announces its plan to strengthen the competitiveness of its RFID business in China. Production of RFID tags and inlays is transferred from Jyväskylä to Guangzhou, China, and to Fletcher, North Carolina in the USA. The Jyväskylä facility in Finland is turned into a development centre.

18 UPM starts up a new production line at its Kalso veneer mill in Finland. The new line increases the production efficiency of the mill significantly. The annual production capacity of the mill is approx. 80,000 cubic meters of rotary cut spruce veneers, used as reserve side veneers by the parquet industry.

## 06

4 The new renewable energy biomass power plant at UPM's Caledonian paper mill in Scotland starts up. The new boiler replaces a fossil fuel boiler and reduces $CO_2$ emissions by approximately 75,000 tonnes.

8 UPM and Metso announce the development of a new concept for the production of biomass-based bio oil to replace fossil fuels in heating and power generation. The raw material of the bio oil is wood biomass – harvesting residues and sawdust, which are by-products of the forest industry. Test production of bio oil begins at Metso's test plant in Tampere, Finland, in June.

23 UPM announces its plan to close its Boulogne further processing mill and to centralise the further processing operations in France to the Aigrefeuille mill. The production at the Boulogne mill ends in August 2009.

07

15 UPM, Metsäliitto Group, M-real Corporation, and Oy Metsä-Botnia Ab (Botnia) sign a letter of intent on the restructuring of Botnia's ownership. In accordance with the agreement, the share of the Fray Bentos pulp mill and the eucalyptus plantation forestry company Forestal Oriental in Uruguay owned by Metsäliitto and Botnia is transferred to UPM and UPM's share of Botnia's operations is reduced from 47% to 17%. Moreover, UPM acquires 1.2% of the energy company Pohjolan Voima Oy from Botnia. The transaction was completed and Botnia's Uruguayan operations were transferred to UPM in December.

08

24 UPM and the world's leading inspection, verification, testing and certification company SGS sign a global landmark agreement in which the origin of wood fibre in all UPM pulp and paper products will be ensured with a single, global system.

09

2 UPM and xpedx, the largest supplier of paper to commercial printers in the United States, sign a multi-year agreement on the distribution of UPM's coated papers in North America.

23 UPM Raflatac opens a new slitting and distribution terminal in St Petersburg, Russia, and announces that it will open another in Istanbul, Turkey, in the beginning of 2010.

10

1 UPM Shotton newsprint mill in the UK is awarded a Queen's Award for Enterprise: Sustainable Development. The award was granted in recognition of outstanding performance in environmental sustainability and its positive impact on the local community. UPM Shotton is the UK's largest producer of newsprint made entirely from recycled newspapers and magazines, and it generates its own electricity and steam from papermaking residues.

27 UPM announces it will delay decisions on the planned forest industry facility in Russia. UPM and its Russian joint venture Borea are continuing the feasibility study on the pulp project.

29 UPM defines itself as a leading bio and forest industry company and creates a new category: UPM – The Biofore Company. Bio stands for future orientation, sustainable operations and good environmental performance whereas fore stands for forest and being in the forefront.

11

3 UPM announces its plans for significant restructuring to ensure the competitiveness of its plywood and timber operations in Finland. UPM plans to permanently close the plywood mill and sawmill in Heinola, the Kaukas plywood mill in Lappeenranta, and the further processing mill in Parkano during the first half of 2010. In addition, the production of the Kaukas further processing mill in Lappeenranta will be restructured.

UPM announces investments to improve the businesses' long term cost competitiveness and increase the added value of its production in Finland. UPM plans to invest approximately € 25 million in the expansion of the Savonlinna plywood mill and the development of production in the Kaukas sawmill and the Aureskoski further processing mill.

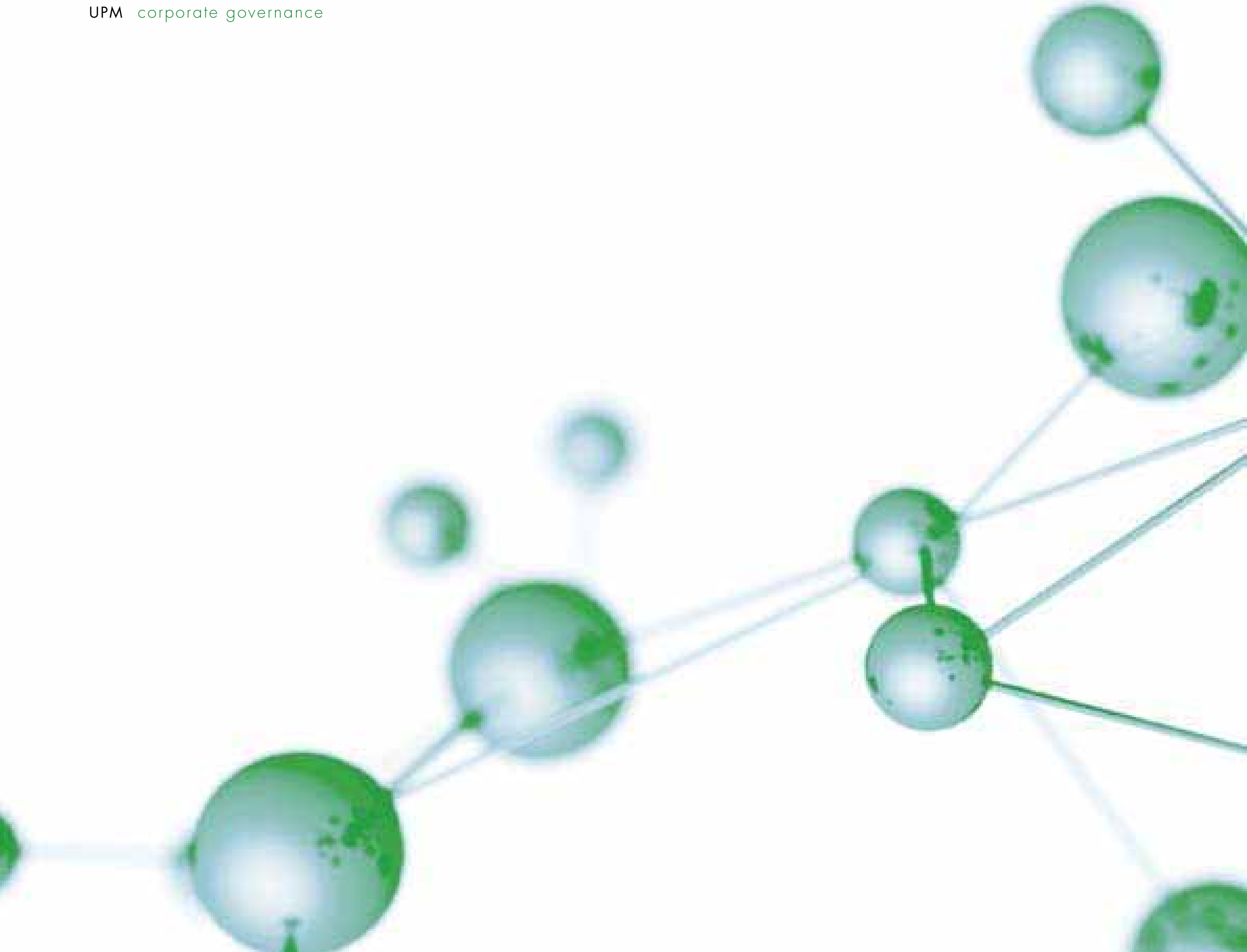
12 UPM announces it will increase the share of plantation-based eucalyptus pulp from Uruguay in the paper production of its Changshu paper mill in China. The pulp purchase contract with APRIL is discontinued.

30 Finnish energy company Fortum joins the development project in which Metso, UPM and VTT (Technical Research Centre of Finland) have developed a biomass-based bio oil production concept.

12

21 UPM announces it will start an environmental impact and risk assessment study for a possible second generation biofuel refinery at its Stracel paper mill site near Strasbourg in France. The process is estimated to take approximately a year.

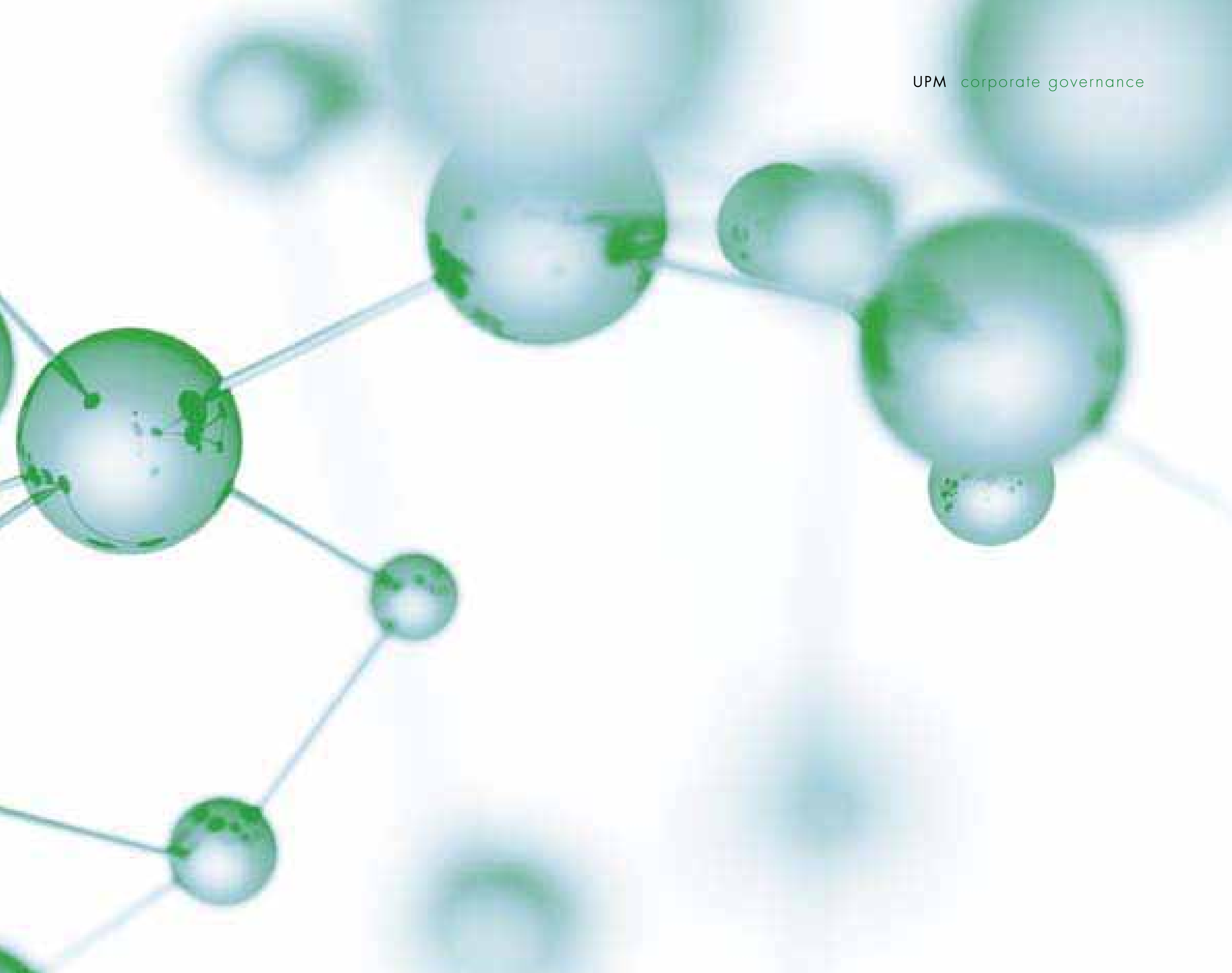
> learn more www.upm.com



# CORPORATE GOVERNANCE

UPM's corporate governance is based on the Finnish Companies Act, the company's Articles of Association, the rules of NASDAQ OMX Helsinki Ltd and the standards of the Finnish Financial Supervisory Authority. In addition, UPM complies with the recommendations of the Finnish Corporate Governance Code of 2008 published by the Securities Market Association.

UPM's corporate governance statement prepared in accordance with the Finnish Securities Market Act and the Recommendation nr. 51 of the Finnish Corporate Governance Code is presented in pages 74–77.



UPM's control and governance is divided among the shareholders represented at the General Meeting of Shareholders, the Board of Directors and the President and CEO. The President and CEO is assisted by the company's Group Executive Board and Group Executive Team.

## General Meeting of Shareholders

The General Meeting of Shareholders is the company's supreme decision-making body. The Annual General Meeting is held annually within six months of the closing of the financial period. Under the Finnish Companies Act, the following matters, among other things, are decided upon at a General Meeting:

- amendment to the Articles of Association
- adoption of the financial statements
- the use of the profit shown on the adopted balance sheet
- the discharge from liability of the President and CEO and the Board of Directors
- election of members of the Board of Directors and their remuneration
- election of the company's auditors and audit fees
- the acquisition and disposal of own shares
- stock option programmes.

In accordance with the company's Board Charter, the Board will duly consider, with the assistance of the Board's Nomination and Corporate Governance Committee, proposals by shareholders for matters to be dealt with by the General Meeting provided that (i) such proposed matter is within the competence of the General Meeting and (ii) the shareholder's proposal has been submitted for the Board's attention in writing well in advance of the General Meeting, in any event by 15 January each year or four weeks prior to the publication of the summons to the General Meeting, whichever date is later.

The right to attend a General Meeting shall apply to any shareholder who is registered as a shareholder of the company eight working days prior to the General Meeting and registered for the meeting by the last registration date set by the company.

## Board of Directors

### Duties of the Board of Directors

The Board of Directors is responsible for the administration and appropriate organisation of the operations of the company and the appropriate arrangement of the control of the company's accounts and finances.

Pursuant to the Board Charter, the Board of Directors is responsible for, among other things:

- establishing and evaluating the strategic direction of the company
- approving and evaluating the company's business and strategic plans
- reviewing and approving the company's financial objectives and major corporate plans
- establishing limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval
- overseeing strategic and operational risk management
- ensuring that the company has defined the operating principles of internal control and monitors the function of such control
- appointing the President and CEO and the members of the Group Executive Team and the Group Executive Board.

In addition, the Board of Directors determines the company's dividend policy and makes a proposal to the General Meeting for the annual payment of dividends.

The Board of Directors has endorsed the company's Code of Conduct, Risk Management Policy, Group Treasury Policy, Insider Policy, Disclosure Policy and Acceptance Policy for investments, disinvestments and certain contracts.

The Board Charter is available on UPM's website (www.upm.com). In accordance with the Board Charter, the Board of Directors conducts an annual evaluation of its performance and working methods.

### Composition of the Board of Directors

The company's Board of Directors is composed of at least five but no more than 12 directors elected by the Annual General Meeting. Directors are elected for a term that begins at the end of the Annual General Meeting in which they are elected and ends at the conclusion of the next Annual General Meeting. The Directors shall have the qualifications required to discharge their duties and the possibility to devote a sufficient amount of time to the work.

The Board appoints from among its members a Chairman and two Vice Chairmen. The Board of Directors has a quorum when more than half of its members are present and one of them is either the Chairman or a Vice Chairman.

In accordance with the Finnish Corporate Governance Code, the Directors shall provide the Board with sufficient information for the assessment of their qualifications and independence. Based on the information provided by the Directors, the Board has determined all of the Directors to be independent of the company and of its significant shareholders with the exception of Jussi Pesonen who is the President and CEO and thus not independent of the company.

For further information on the composition and operations of the Board of Directors see the corporate governance statement page 74.

## SHAREHOLDINGS OF EACH MEMBER OF THE BOARD OF DIRECTORS ON 31 DECEMBER 2009

| Name | Shares Total |
|---|---|
| Matti Alahuhta | 41,603 |
| Berndt Brunow | 278,739 |
| Karl Grotenfelt | 35,993 |
| Georg Holzhey * | 530,778 |
| Wendy Lane | 13,261 |
| Jussi Pesonen | 92,814 |
| Ursula Ranin | 12,323 |
| Veli-Matti Reinikkala | 11,183 |
| Björn Wahlroos | 218,217 |

* in nominee register

The above shareholdings include shares held by closely related persons and/or organisations in which the persons exercise control.

## Committees of the Board of Directors

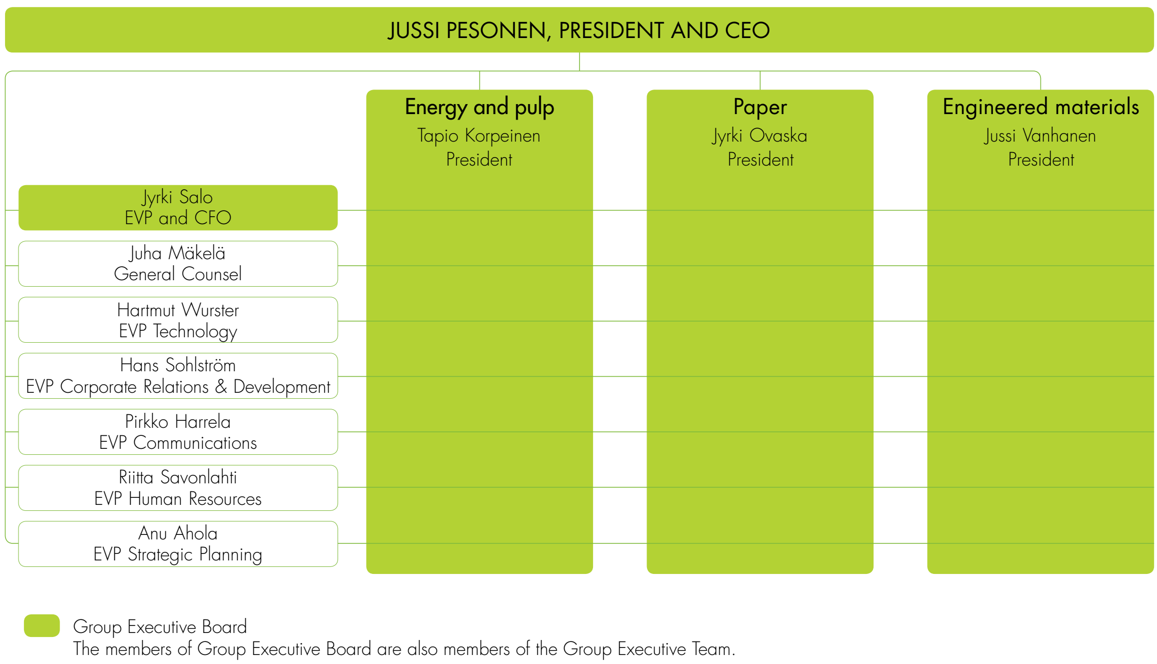
The Board of Directors has established an Audit Committee, a Human Resources Committee and a Nomination and Corporate Governance Committee. The Committees assist the Board of Directors by preparing matters within the competence of the Board of Directors. The Board has appointed the members of the Committees and their chairmen from among the Directors. It has also adopted charters for the Committees which are available on the company's website (www.upm.com). In 2009, all Board Committees fulfilled their respective independence requirements set out in the Finnish Corporate Governance Code. The President and CEO may not be appointed a member of these Committees.

The Board Committees report on their activities to the Board of Directors on a regular basis.

### Audit Committee

The Finnish Corporate Governance Code establishes necessary qualifications for members of the Audit Committee. In accordance with the Audit Committee Char-

## COMPOSITION OF GROUP EXECUTIVE BOARD AND GROUP EXECUTIVE TEAM




ter, 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 its charter, the primary purpose of the Audit Committee is to oversee the financial reporting processes and the statutory audits of the financial statements as well as matters pertaining to financial reporting, internal control and risk management.

Further duties of the Audit Committee include, among others, monitoring the efficiency of the company's internal control, internal audit and risk management systems, evaluating the qualifications and independence of the company's statutory auditor and matters pertaining to the preparation of the proposal for the election of the statutory auditor as well as evaluating the performance of the company's internal audit.

### Human Resources Committee

Pursuant to its charter, the primary purposes of the Human Resources Committee are to assist the Board with its responsibilities relating to the appointment, assessment and the remuneration of the President and CEO, the Group Executive Team and other employees reporting to the President and CEO, to oversee the company's human resources policies, compensation plans and programmes and to review procedures for appropriate succession planning for senior management.

### Nomination and Corporate Governance Committee

Pursuant to its charter, the primary purposes of the Nomination and Corporate Governance Committee are to prepare the proposal for the election of the members of the Board of Directors and their remuneration for consideration by the General Meeting of Shareholders, to develop and recommend a set of corporate governance principles to the Board, and to review the overall corporate governance of the company.

For further information on the composition and operations of the Committees of the Board of Directors see the corporate governance statement page 75.

### Remuneration of the Board of Directors

The 2009 Annual General Meeting approved the proposal of the Nomination and Corporate Governance Committee to maintain the fees of the Board and Committee members unchanged. The fees for those members of the Board of Directors who do not belong to the operative management were the following:

| € | 2009 | 2008 |
|---|---|---|
| Chairman | 175,000 | 175,000 |
| Vice Chairman | 120,000 | 120,000 |
| Chairman of the Audit Committee | 120,000 | 120,000 |
| Members | 95,000 | 95,000 |

Of these annual fees, totalling € 915,000 in 2009, 60% was paid in cash and 40% in the form of company shares purchased on the Board members' behalf.

In 2009, 9,140 company shares were paid to the Chairman, 6,267 shares to the

## SHARES AND SHARE OPTIONS HELD BY THE MEMBERS OF THE GROUP EXECUTIVE TEAM 31 DECEMBER 2009

| | Shares | | Options | | |
|---|---|---|---|---|---|
| Name | Shares total | of which restricted* | 2005H | 2007A | 2007B |
| Jussi Pesonen** | 92,814 | 45,800 | 120,000 | 300,000 | 340,000 |
| Anu Ahola | - | - | 8,000 | 80,000 | 80,000 |
| Pirkko Harrela | 12,368 | 2,950 | 40,000 | 80,000 | 80,000 |
| Tapio Korpeinen** | 480 | - | 30,000 | 120,000 | 170,000 |
| Juha Mäkelä | 6,448 | 2,800 | 40,000 | 80,000 | 80,000 |
| Jyrki Ovaska** | 13,772 | 5,000 | 60,000 | 150,000 | 170,000 |
| Jyrki Salo** | 23,000 | 5,000 | 60,000 | 150,000 | 170,000 |
| Riitta Savonlahti | 6,598 | 2,950 | 20,000 | 80,000 | 80,000 |
| Hans Sohlström | 19,340 | 3,000 | 40,000 | 80,000 | 80,000 |
| Jussi Vanhanen** | 480 | - | 9,000 | 120,000 | 170,000 |
| Hartmut Wurster | 10,572 | 5,100 | 60,000 | 120,000 | 120,000 |

* Restricted shares: Require two years' holding period and employment.

**The members of the Group Executive Board belong to the public insider register of UPM and their above shareholdings include shares held by closely related persons and/or organisations in which the person exercises control.

Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee respectively, and 4,962 shares to each member of the Board of Directors except for Jussi Pesonen.

The members of the Board of Directors do not have any other financial benefits.

### President and CEO

The Board of Directors appoints the President and CEO of the company. The Board has approved the service contract of the company's President and CEO including financial benefits and other terms of service.

The performance of the President and CEO is evaluated annually by the Human Resources Committee. For further information on the company's President and CEO see the corporate governance statement page 75.

### Management organisation

The Group Executive Board and the Group Executive Team assist the President and CEO in the operative management of the company. The main duties of the Group Executive Board are matters relating to the preparation and implementation of the Group strategy and Business Group strategies, financial forecasting and performance of the Group and its Business Groups, investments and divestitures, while the main duties of the Group Executive Team are matters pertaining to functional strategies, corporate procedures and co-ordination between the Business Groups and functions.

The company has three Business Groups: Energy and pulp; Paper; and Engineered materials. The company's financial reporting structure is composed of the following business areas: Energy, Pulp, Forest and timber, Paper, Label, Plywood and Other operations.

The company's three Business Groups have their own management teams, the purpose of which is to assist the presidents of the respective Business Groups. In addition, business areas have their own management groups.

### Management remuneration

All decisions related to management compensation, including salaries, incentives and equity-based compensation to the President and CEO and the Group Executive Team members are made by the Board of Directors.

**SALARIES, FEES AND OTHER BENEFITS PRESIDENT AND CEO**

| € 1,000 | 2009 | 2008 |
|---|---|---|
| Remuneration | | |
| Salaries | 1,034 | 1,024 |
| Incentives | 160 | 90 |
| Share rewards | 513 | 443 |
| Benefits | 22 | 23 |
| **Total** | **1,729** | **1,580** |
| Pension costs | | |
| Finnish statutory pension scheme | 215 | 196 |
| Voluntary pension plan | 628 | 165 |
| **Total** | **843** | **361** |

**GROUP EXECUTIVE TEAM**

| € 1,000 | 2009 | 2008 |
|---|---|---|
| Remuneration | | |
| Salaries | 3,435 | 4,278 |
| Incentives | 353 | 143 |
| Share rewards | - | 820 |
| Benefits | 141 | 162 |
| **Total** | **3,929** | **5,403** |
| Pension costs | | |
| Finnish statutory pension scheme | 604 | 625 |
| Voluntary pension plan | 219 | 173 |
| **Total** | **823** | **798** |

### Reward schemes

Under the rules of the short-term incentive scheme for senior management, an amount equivalent to up to 18 months' salary may be paid to the President and CEO and an amount equivalent to up to 12 months' salary to the other members of the Group Executive Team. The incentive payout is determined based on earnings per share, return on capital employed and EBITDA. In addition, Group Executive Team members, except for the President and CEO, have individual incentive targets.

The company's long term incentives consist of shares awarded under the Share Ownership Plan and stock options. The terms and conditions of the Share Ownership Plan are approved by the Board, and the terms and conditions of stock option programmes are decided by the General Meeting.

The Board of Directors has decided on the Share Ownership Plan for key personnel including three earning periods, each lasting for a calendar year (2008, 2009 and 2010). The amount of the earned reward will be determined based on established targets. Targets are decided separately for each individual year by the Board of Directors. The maximum total payable under the Share Ownership Plan is 1,250,000 shares and a cash payment equivalent to taxes. The amount to be paid in cash may not be more than the value of shares given. Shares awarded under the Share Ownership Plan require a two-year holding period and employment. The Share Ownership Plan also includes a recommendation for the President and CEO and the members of the Group Executive Team not to dispose of the awarded shares to the extent the aggregare value of such shares does not exceed half of their respective annual fixed salary before taxes.

The distribution of stock options for the key personnel has been decided by the Board of Directors based on the recommendations of the Human Resources Committee. The General Meeting has approved stock option programmes 2005 and 2007 based on which the company has four option series: 2005H, 2007A, 2007B and 2007C. These option series entitle holders to the subscription of 18.0 million shares. The 2007A stock options were distributed in January 2009 and 2007B options in September 2009. The 2007C options have not been distributed by the balance sheet date.

### Pension agreements

The retirement age of the President and CEO Jussi Pesonen is 60 years. The retirement age of the other members of the Group Executive Team is 63 years. For the President and CEO. the target pension is 60% of the average indexed earnings from the last ten years of employment. The costs of lowering the retirement age or supplementing statutory pension security are generally covered by voluntary pension insurance.

### Severance pay

Members of the Group Executive Team have certain benefits in the event of their service contracts being terminated prior to the expiration date stated in them. If the company gives notice of termination to the President and CEO, Jussi Pesonen, a severance compensation of 24 months' basic salary will be paid, in addition to the six months' salary for the notice period. For other members of the Group Executive Team, the period for additional severance compensation is 12 months in addition to the six months' salary for the notice period, except in case the notice is given for reason solely attributable to the employee.

If there is a change of control in the company, as defined in the service contracts, each member of the Group Executive Team may terminate his/her service contract within one month or, in the case of Jussi Pesonen 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.

## Insider guidelines

The Board of Directors has adopted an insider policy for the Group which sets out rules pertaining to the management of insider matters.

The company complies with the securities laws and regulations applicable to the company including the insider guidelines of NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industries (see www.nasdaqomxnordic.com).

UPM's primary insiders are the members of the Board of Directors, the President and CEO, the members of the Group Executive Board and the responsible auditor. The holdings of the primary insiders are public information and available from Euroclear Finland Ltd and on the company's website.

The company defines closed windows, when trading in the company's securities is not allowed, which apply to the primary insiders and other employees of the company who regularly receive insider information. The closed windows are the four-week periods preceding and including the disclosure date of the company's annual or quarterly results.

When necessary, insider registers will be established for individual projects and trading restrictions will be imposed. Persons possessing inside information are not allowed to trade in the company's securities.

## Auditors

The Annual General Meeting elects an auditor to scrutinise the company's governance and accounts. The elected auditor must be a firm of public accountants authorised by the Central Chamber of Commerce of Finland. The auditor's term of office ends upon the conclusion of the first Annual General Meeting after the election.

The 2009 Annual General Meeting elected PricewaterhouseCoopers Oy to act as the company's auditor, with Juha Wahlroos, APA, as the audit partner with the primary responsibility for the audit.

**COMPENSATION PAID TO THE AUDITORS**

| €m | 2009 | 2008 |
|---|---|---|
| Audit fees | 2.3 | 2.3 |
| Audit-related fees | 0.1 | 0.1 |
| Other non-audit services | 0.4 | 0.4 |
| Tax consulting fees | 0.9 | 1.5 |
| Total | 3.7 | 4.3 |

## Risk management and internal audit

The Board of Directors has approved the Risk Management Policy for the company. Business units are responsible for the identification of risks and their management in practice. The Group Executive Team monitors changes in risks and risk concentrations.

The Internal Audit Function assists the Board of Directors with its supervisory responsibility by ensuring that the Group's control measures have been planned and set up appropriately and effectively. The Internal Audit Function is subordinate to the President and CEO, but it reports regularly and has direct access to the Audit Committee.

# CORPORATE GOVERNANCE STATEMENT

UPM complies with the Finnish Corporate Governance Code of 2008 published by the Securities Market Association which entered into force on 1 January 2009 and which is publicly available on the website of the Securities Market Association www.cgfinland.fi. UPM complies with all recommendations of the code.

UPM presents the statement as a separate report which is available on the company's website www.upm.com. Report of the Board of Directors is presented on page 84.

## 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 25 March 2009:

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

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.

Georg Holzhey, Vice Chairman, independent of the company and significant shareholders, born 1939, Dr. oec. publ., former Executive Vice President and co-owner of G. Haindl'sche Papierfabriken KGaA and UPM-Kymmene Corporation.

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 the American investment firm Lane

Holdings, Inc., Director of Willis Holdings Ltd and Laboratory Corporation of America.

Jussi Pesonen, non-independent member 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.

The Board held 11 meetings in 2009. On average, the Directors attended 97% of the meetings.

## 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 2009, 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 during 2009, and the members attended 92% of the committee meetings.

**Human Resources Committee**

In 2009, the Human Resources Committee had Berndt Brunow as Chairman, and Georg Holzhey and Ursula Ranin as members.

The Human Resources Committee held seven meetings during 2009. The members attended all of the committee meetings.

**Nomination and Corporate Governance Committee**

In 2009, 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 four meetings during 2009. The members attended all of the committee meetings.

## 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 with 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, unless the time required to obtain such approval would cause the company to suffer a substantial disadvantage.

## Internal control and risk management pertaining to financial reporting

UPM's Board of Directors has approved the Corporate Risk 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 as regards 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 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 by the Internal Control function and the results are reported to the Audit Committee.

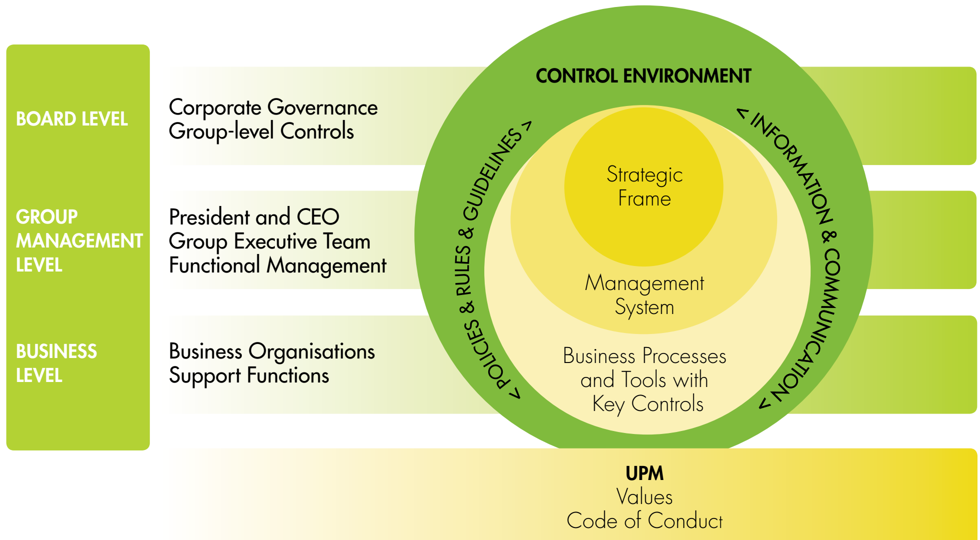
**Control activities**
The Group Executive Team has approved the internal control rules. In accordance with these rules, the head of each unit or function shall organise the internal control of his or her unit or organisation. The company has developed and implemented a comprehensive internal control 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 annual results of the control risk assessment and the process-level controls are analysed and reported to the Audit Committee.

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




**Information and communication of internal controls**
Internal controls are documented and filed in the Internal Control database. The internal control procedure is reviewed annually 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 year-end 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 effectivity of internal controls for which they are responsible for. Key controls are regularly tested by independent testers. 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 of the external auditor are considered in maintaining and developing the internal control.

# BOARD OF DIRECTORS 31 DECEMBER 2009

**BJÖRN WAHLROOS**
Chairman
Member since 2008
Chairman of the Nomination and Corporate Governance Committee
Independent of the Company and significant shareholders
Born 1952
Ph.D.(Econ.)
Chairman of the Board of Sampo plc since 2009, President and CEO of Sampo plc 2001–2009. Chairman of the Board of Mandatum Bank plc 1998–2000, CEO and Vice Chairman of the Board of Mandatum & Co Ltd 1992–1997 and Member of the Executive Committee and Executive Vice President in Union Bank of Finland in 1985–1992. Prior to 1985 Professor of Economics.

Board member of Nordea Bank AB (publ). Chairman of the Board of Hanken School of Economics.

**BERNDT BRUNOW**
Vice Chairman
Member since 2002, Vice Chairman since 2005
Chairman of the Human Resources Committee
Independent of the Company and significant shareholders
Born 1950
B.Sc.(Econ.)
President and CEO of Oy Karl Fazer Ab 2002–2007. President and CEO of Sanitec Corporation 2000–2002. Over 20 years of experience in executive positions in Finnpap and UPM-Kymmene Corporation.

Chairman of the Board of Lemminkäinen Corporation and Oy Karl Fazer Ab. Board member of Oy Nautor Ab.

**GEORG HOLZHEY**
Vice Chairman
Member since 2003, Vice Chairman since 2008
Member of the Human Resources Committee
Independent of the Company and significant shareholders
Born 1939
Dr. oec. publ.
Executive Vice President and co-owner of G. Haindl'sche Papierfabriken KgaA 1970–2001. Executive Vice President of UPM-Kymmene Corporation in 2002.

**MATTI ALAHUHTA**
Member since 2008
Member of the Nomination and Corporate Governance Committee
Independent of the Company and significant shareholders
Born 1952
D.Sc.(Eng.)
President and CEO of KONE Corporation since 2006 and member of the Board of KONE Corporation since 2003. President of KONE Corporation 2005–2006. Executive Vice President of Nokia Corporation 2004, President of Nokia Mobile Phones 1998–2003 and President of Nokia Telecommunications 1993–1998.

Member of the Foundation Board at the International Institute for Management Development (IMD). Chairman of the Board of Aalto University Foundation.

**KARL GROTENFELT**
Member since 2004
Chairman of the Audit Committee, Member of the Nomination and Corporate Governance Committee
Independent of the Company and significant shareholders
Born 1944
LL.M.
Chairman of the Board of Famigro Oy. Served A. Ahlström Oy as lawyer, General Counsel, Administrative Director of Paper Industry and Member of the Executive Board with responsibility for the Paper Industry, 1970–1986.

Board member of Fiskars Corporation and Ahlström Capital Oy.

**WENDY E. LANE**
Member since 2005
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1951
MBA, Harvard Graduate School of Business Administration
Since 1992, Chairman of the Board of the American investment firm Lane Holdings, Inc., Banking Associate at Goldman, Sachs & Co. 1977–1980. Managing Director and Principal at Donaldson, Lufkin & Jenrette Securities Corp. 1981–1992.

Board member of Laboratory Corporation of America and Willis Group Holdings Limited.

**JUSSI PESONEN**
Member since 2007
Non-independent member of the Company
Born 1960
M.Sc.(Eng.)
President and CEO of UPM-Kymmene Corporation since January 2004. Joined the company in 1987 and occupied several management posts as well as Vice President of Newsprint Product Group. COO of the paper divisions and deputy to the President and CEO 2001–2004.

Board member of Outokumpu Oyj. Vice Chairman of the Board of the Confederation of European Paper Industries (CEPI) and Finnish Forest Industries Federation (FFIF).

**URSULA RANIN**
Member since 2006
Member of the Human Resources Committee
Independent of the Company and significant shareholders
Born 1953
LL.M., B.Sc.(Econ.)
Employed by Nokia Group within the legal function 1984–2005; 1994–2005 Vice President and General Counsel and, since 1996, also secretary of the Board of Directors.

Board member of Finnair Plc.

**VELI-MATTI REINIKKALA**
Member since 2007
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1957
eMBA
President of ABB Process Automation Division, Member of the Group Executive Committee ABB Inc., Switzerland since 2006. Various positions in Rauma-Repola Group's business control 1979–1989. CFO of Tampella Packaging Division, 1989–1991. Managing Director of Stora Enso Group's Pac Asia Ltd. 1992–1993. Various business control and executive positions in ABB Ltd. 1993–2005.

# GROUP EXECUTIVE TEAM 1 JANUARY 2010

**JUSSI PESONEN**
President and Chief Executive Officer
M.Sc.(Eng.)
Born 1960
Member of the Group Executive Team since 2001.
Member of the Group Executive Board.
Employed by UPM-Kymmene Corporation since 1987. Several management positions as well as Vice President of UPM Newsprint Product Group 1987-2001. COO of the paper divisions and deputy to the President and CEO 2001-2004. President and CEO since 2004.

Board member of UPM-Kymmene Corporation and Outokumpu Oyj. Vice Chairman of the Confederation of European Paper Industries (CEPI) and the Finnish Forest Industries Federation (FFIF).

**ANU AHOLA**
Executive Vice President, Strategic Planning
M.Sc.(Tech.), MBA
Born 1965
Member of the Group Executive Team since 2008.
Employed by UPM-Kymmene Corporation since 2007. Several positions at Jaakko Pöyry Consulting in Finland and in the USA 1992-2004. Director, Marketing Strategy and Planning, Nokia Corporation 2004-2007. Vice President, Strategic Planning, UPM 2007.

**PIRKKO HARRELA**
Executive Vice President, Corporate Communications
M.A.
Born 1960
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 1985. Several positions in Communications with Finnpap and UPM Printing Papers Division 1985-2002. Vice President, Corporate Communications, UPM 2003.

**TAPIO KORPEINEN**
President, Energy and Pulp Business Group
M.Sc. (Tech.), MBA
Born 1963
Member of the Group Executive Team since 2008.
Member of the Group Executive Board.
Employed by UPM-Kymmene Corporation since 2005. Several management posts at Jaakko Pöyry Consulting in Finland and North America 1991-1998 and 1999-2005. A.T. Kearney in Finland 1998-1999 and McKinsey & Company in Sweden 1988-1990. Vice President, Corporate Development and Senior Vice President, Strategy, UPM 2005-2008.

Chairman of Pohjolan Voima Oy. Board member of Teollisuuden Voima Oyj and Kemijoki Oy.

**JUHA MÄKELÄ**
General Counsel
LL.M. University of Turku and the Northwestern Law School, Chicago, USA.
Born 1962
Member of the Group Executive Team since 2008.
Employed by UPM-Kymmene Corporation since 2005. Several positions in business law in law firms in Finland and Germany 1991-1996. Several positions with Kone Corporation 1997-2004. General Counsel of UPM since 2005.

**JYRKI OVASKA**
President, Paper Business Group
M.Sc. (Eng.)
Born 1958
Member of the Group Executive Team since 2002.
Member of the Group Executive Board.
Employed by UPM-Kymmene Corporation since 1984. Several management positions with United Paper Mills Ltd and UPM in Printing Papers Division 1984-2001. President, Fine & Speciality Papers Division 2002-2003. President, Magazine Paper Division 2004-2008.

Board member of the Association of European Publication Paper Producers (CEPIPRINT).

**JYRKI SALO**
Executive Vice President and CFO
M.Sc. (Econ.)
Born 1960
Member of the Group Executive Team since 2006.
Member of the Group Executive Board.
Employed by UPM-Kymmene Corporation since 2006. Several positions with IBM Corporation in Finland and the UK 1984-1990. Senior executive positions in Nokia Corporation in Finland, Belgium, Germany, the Netherlands and the USA 1990-2002. Senior Vice President, Finance & Control for Nokia's Networks Business Group 2002-2005.

**RIITTA SAVONLAHTI**
Executive Vice President, Human Resources
M.Sc. (Econ.)
Born 1964
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 2004. HR Specialist positions with ABB 1990–1994. Human Resources Manager with Nokia Mobile Phones, Salo Operations 1995-2000. Senior Vice President, Human Resources with Raisio Group 2000-2001. Senior Vice President, Human Resources with Elcoteq Network Corporation 2001-2004.

Board member of Itella Corporation.

**HANS SOHLSTRÖM**
Executive Vice President, Corporate Relations & Development
M.Sc. (Tech.), M.Sc. (Econ.)
Born 1964
Member of the Group Executive Team since 2004.
Employed by UPM-Kymmene Corporation since 1988. Several positions in marketing and business development with Kymmene Corporation, Finnpap and UPM in Finland, Germany and France 1984-1994. Mill Director, Jämsänkoski MFC and SC mills 1994-1998. Vice President in sales and marketing at UPM Publication Papers 1998-2002. Senior Vice President, Magazine Paper Division 2002-2004. Executive Vice President, Marketing 2004-2007. Executive Vice President, New Businesses and Biofuels 2007-2008.

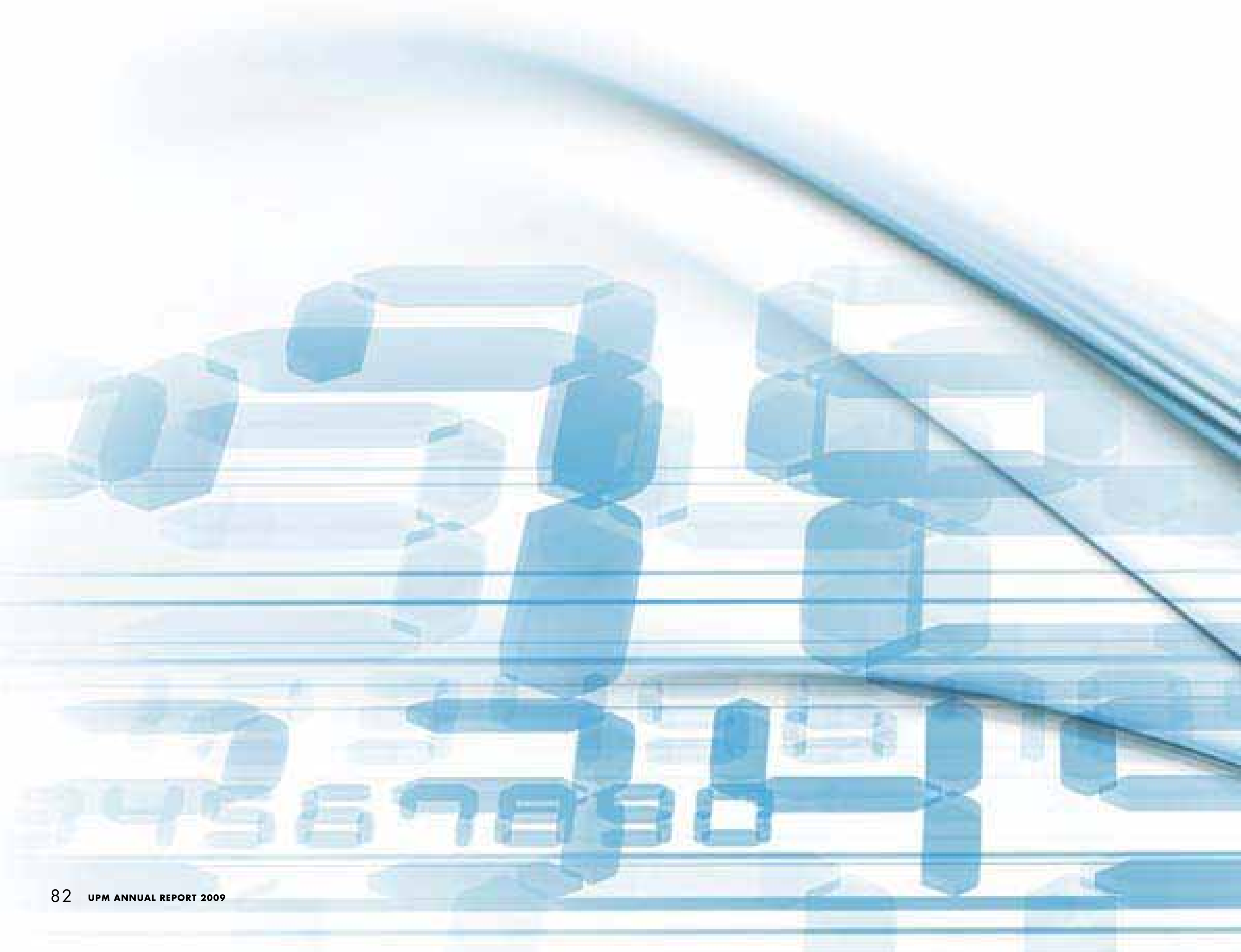
Board member of the Association of European Fine Paper Producers (CEPI Fine) and the Finnish Forest Industries Federation (FFIF). Vice Chairman of the German-Finnish Chamber of Commerce (DFHK). Supervisory board member of Rautaruukki Corporation.

**JUSSI VANHANEN**
President, Engineered Materials Business Group
LL.M., MBA
Born 1971
Member of the Group Executive Team since 2008.
Member of the Group Executive Board.
Employed by UPM-Kymmene Corporation since 1997. Legal Counsel of Finnpap, Sales Manager at Samab Cia in Brazil 1995-1999. Project Manager and Head of New Ventures, UPM, Converting Division 1999-2001. Management posts at UPM Raflatac in Finland and Spain 2003-2005. Senior Vice President, Asia Pacific and Senior Vice President, Europe, Label Division 2005-2008.

**HARTMUT WURSTER**
Executive Vice President, Technology
D.Tech.
Born 1955
Member of the Group Executive Team since 2002.
Employed by UPM-Kymmene Corporation since 1987. Several positions with Hamburger AG and Brigl & Bergmeister in Austria 1982-1987. Head of Technology Department and Mill Director at Haindl Papier GmbH & Co. KG Augsburg mill 1987-1996. Member of the Haindl Executive Board responsible for the Magazine Paper Division 1996-2001. President, UPM, Newsprint Division 2002-2008.

Board member of the German Pulp and Paper Association (VDP). Chairman of the Board of Trustees of the German R&D Institute for Pulp and Paper (PTS). Board member and Deputy Chairman of the German association of industrial energy users and self-generators (VIK).

# ACCOUNTS FOR 2009



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# REPORT OF THE BOARD OF DIRECTORS

## The market in 2009

The global economy experienced a severe recession in 2009 as the financial crisis spread into the real economy. Consumer confidence bottomed out at a historic low level both in Europe and in the US. Declining demand led to lower industrial production, exports and investments. The global economy showed signals of stabilisation in the third quarter of 2009 supported by rebounding confidence and a pickup in global trade. This was partly driven by China, which performed exceptionally well during the recession in comparison with any other major country.

The euro strengthened against the US dollar from February onwards and weakened the competitiveness of euro-area industries.

The UK pound, the Russian rouble and the Swedish crown also weakened against the euro.

Prices for commodities and raw materials were declining most of the year but started to increase in the late autumn as the economy started to stabilise.

Demand for wood raw material decreased from the previous year due to exceptionally low industrial production and high wood inventories in the beginning of the year. Average market prices in Finland declined from peak years of 2007-2008.

Demand for chemical pulp declined in the first half of the year, but a rebound took place in the second half of the year due to strong demand in China. Chemical pulp market prices started to increase after the second quarter of the year.

Global advertising expenditure plummeted under the global economic downturn. In Europe, total advertising expenditure fell more than 10% in 2009 while the print media spend declined by some 15%. Although print advertising lost some of its share, it held its place as the largest media in Europe and as the second largest media globally after television. Global direct mail expenditure held up better than total advertising, declining by 4% from the previous year.

As a consequence of the decline in print advertising, the demand for graphic papers in Europe and North America declined. Market balance remained weak throughout the year.

The retail sector both in Europe and in the US suffered from the low level of private consumption. The demand shifted towards discount stores at the expense of branded products and affected the demand for packaging materials as well as the advertising focus of the retail sector.

Exceptionally low construction activity in 2009 decreased demand for building materials, including wood-based materials. The construction confidence indicator started to improve in late 2009, but still remained at a very low level.

## Results

### 2009 compared with 2008

Sales for 2009 were € 7,719 million, 18% lower than the € 9,461 million in 2008. Sales decreased mainly due to lower deliveries across all of UPM's business areas.

Operating profit was € 135 million, 1.7% of sales (24 million, 0.3% of sales). The operating profit excluding special items was € 270 million, 3.5% of sales (513 million, 5.4% of sales). Operating profit includes net charges of € 135 million as special items. UPM sold assets related to the former Miramichi paper mill in Canada and recorded an income of € 21 million. Restructuring measures resulted in net special charges of € 109 million including impairment charges of € 18 million. The share of the results of associated companies includes special charges of € 47 million.

Operating profit declined clearly from the previous year. The main reason for weaker profitability was significantly lower deliveries in all of UPM's business areas. Lower sales prices also impacted operating profit negatively.

Changes in sales prices in euro terms reduced operating profit by about € 260 million. The average paper price in euros decreased by approximately 3% from last year. The average price for label materials increased. Timber and plywood prices fell substantially.

UPM responded to lower demand with a flexible way of operating in all of its business areas, using temporary capacity shutdowns to adjust production to the low demand. Due to cost saving measures, the company's fixed costs decreased by € 300 million from the previous year.

Wood costs decreased from their earlier peak levels. Compared with last year, wood costs decreased by € 190 million. Energy costs increased slightly.

The increase in the fair value of biological assets net of wood harvested was € 17 million compared to € 50 million a year before.

The share of results of associated companies and joint ventures was € 95 million negative (62 million positive). The result includes special charges of € 29 million from Metsä-Botnia's Kaskinen pulp mill closure, and impairment charges of € 18 million related to Pohjolan Voima's two power plants. The accounting treatment of the associated company Metsä-Botnia was changed as of 30 June 2009. As of December 2009, Metsä-Botnia no longer is UPM's associated company (see Pulp business area footnote 3).

Profit before tax was € 187 million (loss of € 201 million). Profit before tax excluding special items was € 107 million (282 million). Special items of € 215 million reported in financial items include a capital gain of € 220 million on the sales of the approximately 30% share in Metsä-Botnia and a capital loss of € 5 million related to investments in development units. Interest and other finance costs, excluding special items, were € 153 million (202 million) net. Exchange rate and fair value gains and losses resulted in a loss of € 9 million (25 million).

Income taxes were € 18 million (21 million positive). The impact on taxes from special items was € 31 million positive (86 million positive).

Profit for the period was € 169 million (loss of € 180 million) and earnings per share were € 0.33 (-0.35). Earnings per share excluding special items were € 0.11 (0.42). Operating cash flow per share was € 2.42 (1.21).

Key figures for the years 2000-2009 are presented in pages 151 and 152.

## Financing

In 2009, cash flow from operating activities before capital expenditure and financing, was € 1,259 million (628 million). Net working capital decreased by € 532 million during the period (increased by € 132 million).

The gearing ratio as of 31 December 2009 was 56% (71%). Net interest-bearing liabilities at the end of the period came to € 3,730 million (4,321 million). This includes the consolidated debt from the acquired Fray Bentos pulp mill and Forestal Oriental plantation forestry company.

In March 2009, UPM replaced the € 1.5 billion credit facility that was to mature in 2010 with a new € 825 million credit facility, maturing in 2012.

On 31 December 2009, UPM's cash funds and unused committed credit facilities totalled € 2.2 billion (2.1 billion).

## Personnel

In 2009, UPM had an average of 23,618 employees (26,017). At the beginning of the year, the number of employees was 24,983 and at the end of the year it was 23,213. The reduction of 2,294 employees, excluding the impact of Uruguay, is mostly attributable to ongoing restructuring. The acquisition of the Fray Bentos pulp mill and Forestal Oriental plantation forestry company added 524 employees.

More information (unaudited) on personnel is published in UPM's Annual Report 2009.

## Capital expenditure

In 2009, capital expenditure was € 913 million, 11.8% of sales (€ 551 million, 5.8% of sales) and excluding acquisitions and share purchases, € 229 million, 3.0% of sales (€ 532 million, 5.6% of sales). Acquisition of Metsä-Botnia's Uruguayan operations amounted to € 602 million. Operational capital expenditure totalled € 148 million (235 million).

The new renewable energy power plant at the Caledonian mill in Irvine, Scotland was started in June. The total investment cost was GBP 68 million.

UPM continued its tight investment discipline during 2009. Only few new investment decisions were made. The largest ongoing project is now the rebuild of the debarking plant at the Pietarsaari mill in Finland. The total investment cost is estimated to be € 30 million.

In December 2009, UPM made a decision to invest GBP 17 million in a materials recovery facility at its Shotton paper mill in North Wales. Construction of the facility will be completed by January 2011.

## The ownership of Botnia and its assets in Uruguay

On 8 December, UPM, Metsäliitto Cooperative, M-real Corporation and Oy Metsä-Botnia Ab (Botnia) completed a transaction whereby Metsäliitto's and Botnia's shares of the Fray Bentos pulp mill and the eucalyptus plantation forestry company Forestal Oriental in Uruguay were acquired by UPM and UPM sold approximately 30% in Botnia to Metsäliitto. In addition UPM acquired 1.2% of the energy company Pohjolan Voima Oy from Botnia. The companies signed an agreement concerning the transaction on 22 October 2009.

Following the transaction, UPM has a 91% ownership of common shares in the Fray Bentos pulp mill, 100% in Forestal Oriental and 17% in Botnia. As of December 2009, Botnia no longer is UPM's associated company but accounted for as an available-for-sale investment. Consequently, UPM's own annual pulp production capacity increased from 2.1 million tonnes to 3.2 million tonnes a year and UPM's share of Botnia's capacity was reduced to 400,000 tonnes. UPM's total pulp production capacity including its entitlement to Botnia's capacity is 3.6 million tonnes a year.

UPM recorded a € 220 million capital gain on the sale of Botnia's shares. UPM's assets increased by € 1,209 million and interest-bearing net debt by € 370 million. In addition, the changes in fair values of the previous holding increased UPM's equity by € 443 million.

## Pro forma financial information

If the Botnia transaction had occurred on 1 January 2009, UPM's sales would have been € 7,923 million, operating profit € 202 million, and operating profit excluding special items € 308 million. Profit for the period would have been € 219 million.

### Pro forma key figures

| €m | Reported 2009 | Pro forma[1] adjustments | Pro forma [2] 2009 |
|---|---|---|---|
| Sales | 7,719 | 204 | 7,923 |
| EBITDA | 1,062 | 92 | 1,154 |
| Operating profit | 135 | 67 | 202 |
| excluding special items | 270 | 38 | 308 |
| Profit before tax | 187 | 52 | 239 |
| excluding special items | 107 | 23 | 130 |
| Profit for the period | 169 | 50 | 219 |

1) Sales total of € 350 million include sales of € 146 million to UPM's units. Adjustments, among others, include reversal of special items of € 29 million related to the closure of the Kaskinen mill.

### Pulp business area pro forma key figures

| €m | Reported 2009 | Pro forma adjustments | Pro forma [2] 2009 |
|---|---|---|---|
| Sales | 653 | 350 | 1,003 |
| EBITDA | –18 | 92 | 74 |
| Operating profit | –156 | 67 | –89 |
| excluding special items | –127 | 38 | –89 |

2) Reported 2009 includes December 2009, and pro forma adjustments January-November 2009 of the Uruguayan operations.

## Restructuring

The Kajaani paper mill and Tervasaari pulp mill closures were completed at the end of 2008. Due to the reduced demand for paper and pulp, the closures had only minor impact on UPM's paper or pulp deliveries.

The Label business restructured its European operations in 2009. The plan was announced in November 2008. UPM Raflatac permanently closed a number of self-adhesive labelstock production lines and reduced slitting capacity in the United Kingdom, France, Germany, Hungary and Finland. One slitting terminal was also closed in the United States. The restructuring was completed by the end of the third quarter of 2009.

In November 2009, UPM announced a plan to improve the plywood and timber businesses' long term cost competitiveness and increase added value in birch plywood production in Finland. Decisions on the plan were announced in January 2010. UPM will permanently close the plywood mill and sawmill in Heinola, the Kaukas plywood mill in Lappeenranta, and the further processing mill in Parkano during the first half of 2010. These measures will decrease the number of UPM employees by approximately 830.

As part of the restructuring, UPM will invest approximately € 25 million in the expansion of the Savonlinna plywood mill and the development of production at the Kaukas sawmill and the Aureskoski further processing mill.

The Lahti plywood processing mill was closed in October 2009 and its production was moved to other mills.

In Forest and timber, a further processing mill in Boulogne in France was closed in August 2009 and the operations were centralised to the Aigrefeuille mill.

Restructuring has been necessary to improve cost competitiveness. The measures taken in 2009, together with measures initiated in previous years, reduced the number of employees by 2,300 from the end of 2008. Out of these, 620 were due to closures of production. The annualised employee-related cost savings are about € 115 million.

## Shares

The company has one series of shares. There are no specific terms related to the shares except for the redemption clause which is presented in the consolidated financial statements (Note 27). Information on the biggest shareholders and break-down by sector and size is disclosed in Information on shares.

The company is a party to certain agreements concerning its resource-related businesses which contain provisions as to the change of control in the company. The company has entered into service contracts with its President and CEO, and Group Executive Team members which include provisions regarding a change of control due to a public tender offer. The service contracts have been presented in the consolidated financial statements (Note 7).

Information of the authority of the Board of Directors in regard to the issuance and buy back of own shares, and regulations to amend the Articles of Association is disclosed in the consolidated financial statements (Note 27).

UPM shares worth € 5,691 million (10,549 million) in total were traded on the NASDAQ OMX Helsinki stock exchange during 2009. The highest quotation was € 9.78 in January and the lowest € 4.33 in April.

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

The Annual General Meeting held on 25 March 2009 approved a proposal by the Board of Directors to authorise the Board of Directors to decide on the buy-back of not more than 51,000,000 of the company's own shares. The authorisation is valid for 18 months from the date of the decision.

The Annual General Meeting of 27 March 2007 authorised the Board to decide on a free issue of shares to the company itself so that the total number of shares to be issued to the company combined with the number of its own shares bought back under the buy-back authorisation may not exceed 1/10 of the total number of shares in the company.

In addition, the Board has the authority to decide to issue shares and special rights entitling the holder to shares of the company. The number of new shares to be issued, including shares to be obtained under special rights, shall be no more than 250,000,000. Of that, the maximum number that can be issued to the company's shareholders based on their pre-emptive rights is 250,000,000 shares and the maximum number that can be issued deviating from the shareholders' pre-emptive rights in a directed share issue is 100,000,000 shares. The maximum number of new shares to be issued as part of the company's incentive programmes is 5,000,000. Furthermore, the Board is authorised to decide on the disposal of the company's own shares. To date, this authorisation has not been used. These authorisations of the Annual General Meeting 2007 will remain valid for no more than three years from the date of the decision.

The Annual General Meeting of 27 March 2007 also decided to grant share options in connection with the company's share-based incentive plans. In option programmes 2007A, 2007B and 2007C, the total number of share options is no more than 15,000,000 and they will entitle the holders to subscribe for a total of no more than 15,000,000 new shares in the company.

The Annual General Meeting of 2005 decided to grant a total of 9,000,000 share options of which the total number of share options designated as 2005H was not more than 3,000,000, and would entitle the holders to subscribe for a total of no more than 3,000,000 new shares. The share options designated as 2005H are outstanding as at 31 December 2009. The share options designated as 2005G expired at the end of October 2009. No shares were subscribed with share options 2005G.

Apart 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 December 2009 was 519,970,088. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 787,970,088.

At the end of the year the company did not hold any of its own shares.

The company has received the following notifications from shareholders: BlackRock Inc. on 8 December 2009 held 5.36% of UPM's shares and voting rights. Franklin Templeton on 27 July 2009 announced its ownership in UPM had declined below 5% of the company's shares and voting rights.

## Company directors

Under the Companies Act, a general meeting of shareholders elects members of the Board of Directors. The Annual General Meeting of 25 March 2009 confirmed that the number of members on the Board of Directors is nine.

At the Annual General Meeting nine members were elected to the Board of Directors. Mr Matti Alahuhta, President and CEO of KONE Corporation, Mr Berndt Brunow, Board member of Oy Karl Fazer Ab, Mr Karl Grotenfelt, Chairman of the Board of Directors of Famigro Oy, Dr. Georg Holzhey, former Executive Vice President of UPM and Director of G. Haindl'sche Papierfabriken KGaA, Ms Wendy E. Lane, Chairman of the American investment firm Lane Holdings, Inc., Mr Jussi Pesonen, President and CEO of UPM, Ms Ursula Ranin, Board member of Finnair plc, Mr Veli-Matti Reinikkala, President of ABB Process Automation Division and Mr Björn Wahlroos, Chairman of the Board of Sampo plc were re-elected as members of the Board of Directors.

The term of office of the members of the Board of Directors lasts until the end of the next Annual General Meeting.

At the assembly meeting of the Board of Directors, Mr Björn Wahlroos was re-elected as Chairman, and Mr Berndt Brunow and Dr. Georg Holzhey were re-elected as Vice Chairmen.

In addition, the Board of Directors appointed from among its members an Audit Committee with Mr Karl Grotenfelt as Chairman, and Ms Wendy E. Lane and Mr Veli-Matti Reinikkala as members. A Human Resources Committee was appointed with Mr Berndt Brunow as Chairman, and Dr. Georg Holzhey and Ms Ursula Ranin as members. Furthermore, a Nomination and Corporate Governance Committee was appointed with Mr Björn Wahlroos as Chairman, and Mr Matti Alahuhta and Mr Karl Grotenfelt as members.

## Risks

### Risk management

UPM regards risk management as a systematic and proactive means to analyse and manage opportunities and threats related to the business operations. The Board of Directors has approved the overall objectives of risk management for the Group and confirmed its principles and implementation. The Audit Committee has the responsibility to oversee that risk management activities are aligned with the Risk Management Policy and to oversee that risk assessments are used to focus internal audit activities.

UPM transfers insurable risks through insurance arrangements if they exceed the risk tolerance. The insurance cover is subject to applicable insurance conditions and there can be no assurance that the insurance programme would be sufficient to cover potential damages arising from catastrophes, such as war, terrorism or natural catastrophes.

The main risk factors that can materially affect the company's business and financial results are set out below. They have been classified as strategic risks, operational risks, financial risks and hazard risks.

### Strategic risks

*Competition*. The energy, pulp, timber, paper, label and plywood markets are highly competitive. UPM has, from time to time, experienced price pressures from competitors in its main business areas and geographic markets and has experienced particularly large fluctuations in operating margins due to this competitive environment. Although the company's financial position is currently sound in relation to many other industry players, there can be no assurance that UPM will have sufficient financial resources to respond to these competitive pressures.

*Paper industry structure.* The markets for paper and forest products are cyclical, being characterised by periods of imbalance between supply and demand during which prices of paper and forest products can fluctuate significantly. These demand-supply imbalances may be caused by such factors as economic growth and advertising, new capacity investments, inventory build-up and changes in end-use patterns. There can be no assurance that current price levels for paper and forest products will be maintained, that any additional price increases will be achieved or that the industry will not add new capacity.

*Consumer preferences.* Over the last several decades, consumer expectations with respect to paper used for such items as magazines, newspapers, catalogues, advertising, direct mail, packaging and label materials and other similar uses have become both more demanding and more diverse. The trend towards a greater use of computers and electronic media is also having an effect on consumption patterns for paper now and will continue to do so. The ability to continue to meet the shifting demands of consumers depends upon a variety of factors, including the ability to foresee and/or identify changes in consumer preferences, requiring alteration of strategies, the technical capabilities of manufacturing facilities, the speed of, and the costs associated with, the shifting of production at such facilities and the success of various research and development programmes.

*Mergers and acquisitions.* The paper and forest products industry has in the past and could in future experience a further wave of consolidation, driven, in part, by a desire to achieve economies of scale and synergies. The mergers and acquisitions into which UPM might enter or make could involve risks, including those concerning the ability to successfully integrate and manage acquired operations and personnel, as well as to successfully achieve the economies of scale or synergies sought. To minimise such risks, the company has a merger and acquisitions process, in which there is expertise in all different steps of M&A activity, from valuation to integration.

*Suitability of the business portfolio.* Although UPM believes that its product portfolio and geographic spread is currently quite suited for profitable business, the demand and overall business conditions for its main products in major markets may change. Changes may take place as a consequence of the changing consumer behaviours. We cannot therefore be certain that our current portfolio will ensure adequate returns in the future.

*Significance of the largest customers.* UPM sells a significant proportion of its products to several major customers, including certain significant printing houses and merchant distributors, which resell the products. Although not dependent on any specific customer or group of customers the loss of one or more of our significant customers, if not replaced on similar terms, could have an adverse effect on the company's results.

*Environmental regulations.* UPM is subject to various environmental laws and regulations. Its environment-related processes and management are based on full compliance with such laws and regulations, and environmental investments, audits and measurements are carried out on a continuing basis. The company is currently not involved in any major legal proceedings concerning environmental matters. However, the risk of substantial environmental costs and liabilities is inherent in industrial operations.

*Political risks.* UPM has manufacturing operations in certain emerging markets, including, among others, Uruguay, China and Russia. The political, economic and legal systems in emerging market countries may be less predictable than those in countries with more established and sustained institutional structures. Investments or procurement in these countries may also be subject to other risks and uncertainties such as unfavourable taxation treatment, trade restrictions, inflation, currency fluctuations and nationalisation. Emerging markets represented approximately 16% of the company's sales of € 7.7 billion in 2009. In Uruguay, there are three separate litigation actions pending against the government of Uruguay related to the Fray Bentos pulp mill, and one litigation action directly against the company operating the pulp mill. All of these actions commenced before the pulp mill started its operations in November 2007.

### Operational risks

*Availability and price of major inputs.* In 2009, third-party suppliers accounted for approximately 90% UPM's wood requirements and approximately 10% of electric power needs. Other production inputs, such as chemicals, fillers and recovered paper, are obtained from third-party suppliers. Disruptions in the supply of key inputs would impact our manufacturing operations, examples being interruption or downscaling of production or change in the product mix, or increased costs resulting from price increases of critical inputs, or shifts in the availability and price of wood, especially in the Baltic Rim area, or uncertainties on how proposed policies of the EU Energy package impacts the availability and costs of fibre and energy.

*Partnerships.* UPM currently works together with many partners. The highly competitive market situation and for example new developments in biofuels of the bioenergy are likely to increase partnerships to seek higher efficiency. Partnerships, however, may create risks to the profitability e.g. through changes occurring within the partner company or changes in how the joint venture operates. Partnership arrangements may also be too rigid to enable timely changes required e.g. by changes in the market conditions or economy.

*Ability to recruit and retain skilled employees.* To meet the challenges of sustaining growth and improving the effectiveness of operations, a skilled workforce is necessary. UPM is continuously evaluating its recruitment, compensation and career development policies and taking measures to attract and retain skilled personnel. There is no assurance that shortages of sufficient numbers of appropriately skilled personnel in the future would not exist.

### Financial risks

*Changes in exchange and interest rates.* Exchange rate exposure primarily affects export operations to the extent when sales are denominated in currencies other than those in which manufacturing costs are incurred. A part of UPM's sales and purchases are denominated in currencies (consisting primarily of the US dollar and the British pound sterling) other than the euro. To manage exposure to such exchange rate fluctuations, close monitoring of the exposure to currency risks is taking place simultaneously with hedging of such risks using certain financial instruments, including forward foreign exchange agreements and currency swaps, is done. Further, changes in interest rates may have a considerable impact on the values of the company's assets (biological assets for example), which are valued on a discounted cash flow model.

*Payment defaults.* There is a risk of non-payment or non-performance by the company's customers in connection with the sale of products. UPM has various programmes in place to monitor and mitigate customer credit risk and insurance policies cover most of our trade receivables.

Additional information of financial risks and of maturity of long term debt is disclosed in the consolidated financial statements (Notes 3 and 31).

### Hazard risks

UPM operates a significant number of manufacturing facilities globally, mostly owned, and is also the largest private owner of forestland in Finland. UPM is exposed to risks in areas such as occupational health and safety, environment, fire, natural events and premises security. These risks are managed through established management procedures and loss prevention programmes. UPM's insurance programme provides also coverage, according to terms and conditions, for insurable hazard risks.

## Research and development

In 2009, UPM adopted an innovation strategy to create new business initiatives and strengthen the competitiveness of existing businesses with new technological breakthroughs and continuous improvement. To support this, UPM has defined four key research areas for new business opportunities: biofuels, biochemicals, nanocellulose and biocomposites.

UPM has implemented its first strategic technology programme for developing new service concepts and process technologies with significant cost savings. New technologies have also been developed in filmic label materials and energy efficiency has been improved at paper mills. UPM's direct expenditure on research and development projects was approximately € 48 million (49 million), or 0.6% (0.5%) of the Group's sales in 2009.

*Biofuels*. In the development of second-generation biodiesel production technology, UPM, in partnership with Andritz/Carbona, completed the pilot testing of Carbona's gasification technology at the Gas Technology Institute's pilot plant. Finalising of the technical concept will continue in 2010.

In bioethanol, UPM and Lassila & Tikanoja (L&T) have been developing a new bioethanol and energy production concept that utilises commercial and industrial waste, such as paper, cardboard, wood and plastic. The EU has granted demonstration support for the project.

In bio-oil, Metso, UPM and VTT developed a new concept for the production of biomass-based bio-oil to replace fossil fuels in heating and power generation. Fortum has also joined the bio-oil project.

The UPM Biorefinery Development Centre for research work into biofuels and biochemicals was established at UPM's Kaukas paper mill site in Lappeenranta, Finland, at the beginning of 2009.

*Biochemicals.* In biochemicals, the focus was on replacing oil-based chemicals with biochemicals in various UPM products. UPM continued to study the use of agro residues and other non-wood feedstocks, such as straw and reed, for the production of pulp and biochemicals.

*Nanocellulose.* The Finnish Centre for Nanocellulosic Technologies, established in 2008, researches new uses for cellulose as a raw material and as a substance, and ensures the launch of new products into the market. In the first phase, the focus of the centre has been on paper applications such as special papers and paper coating.

*Biocomposite.* In 2009, UPM ProFi continued to launch new products and expanded its sales channels to most European countries.

*Improvements in businesses.* The main focus of R&D work in the paper business was to improve the cost structure of all paper grades. New breakthrough technologies could be implemented in mechanical pulping in order to reduce operational expenses.

In 2009, UPM Raflatac developed the next generation of high quality filmic liners with a cost-efficient process.

## The Environment

### Environmental performance

UPM considers innovation and environmental sustainability to be key focus areas. Environmental performance is a natural part of integrating UPM's business into the emerging bio-economy where products and energy are derived from renewable, recyclable and biodegradable raw materials, such as wood fibre from sustainably managed forests.

UPM's key areas of environmental responsibility have been defined as sustainable products, climate, water, biodiversity and minimising waste.

### Providing sustainable products

UPM's aim is to provide products that are sustainable over their entire lifecycle, from raw material sourcing, production, delivery and product use to recycling, reuse or disposal of the product. Good examples of sustainable product development are eco-labelled papers, low-weight plywood and UPM ProFi, a wood plastic composite produced using the surplus paper and plastic left over from UPM's self-adhesive labelstock production.

Currently, UPM is the largest producer of copying and graphic paper to have been awarded the independently verified EU Eco-label, with over 100 labelled paper products from 14 paper mills in Austria, Finland, France, Germany and the UK. The EU Eco-label, also known as the EU Flower, focuses on an overall low environmental footprint over the life-cycle of paper. UPM also uses the FSC and PEFC forest certification labels and offers certified products in all its business groups.

Recovered paper is an important raw material component in UPM's paper products. In 2009, the company used 2.8 million tonnes (3 million tonnes) of recovered paper, which makes UPM the world's largest user of recovered paper in the graphic paper industry.

UPM has invested to ensure compliance and performance beyond environmental regulations. In 2009, environmental protection costs including depreciation totalled € 87 million (102 million) and consisted mainly of effluent treatment and waste management costs. Capital expenditure totalled € 14 million (42 million).

### Solutions for climate change

UPM is committed to the abatement of climate change by reducing carbon dioxide emissions throughout the entire value chain. This is done by investing in new mill site power plants using biomass-based fuels, by continuous improvement in energy efficiency, and by investing in biofuel production. Additional measures include the use of renewable and recyclable materials and sustainable management of forests so that they sequester carbon dioxide.

UPM has an excellent track record of achieving major reductions in $CO_2$ emissions thanks to over one billion euros of investments in biomass-based renewable energy production over the past 10 years. These long term investments have allowed the use of a renewable and carbon-neutral source of energy (wood). Carbon-neutral energy sources dominate UPM's energy portfolio. Globally, over 60% of the fuels used by UPM are biomass-based, and in Finland this figure is more than 80%. As a result, UPM's fossil $CO_2$ emissions have been reduced by 40% per tonne of paper since 1990.

In 2009, the new renewable energy power plant at UPM's Caledonian paper mill in Scotland started up successfully. A fossil fuel fired boiler was replaced with a modern, fully integrated biomass CHP plant. As a consequence, the mill's annual $CO_2$ emissions were reduced by approximately 60,000 tonnes and the mill's carbon footprint has been significantly reduced. The project will make a significant contribution to the Scottish Government's target of 50% of all energy consumed being generated from renewable sources by 2020.

### Sustainable forest management

In forestry operations, UPM requires that its external wood raw material suppliers implement responsible practices that are consistent with UPM policies and rules. Forest biomass is used efficiently in the company's products and energy generation.

UPM's sustainable forest management programme includes measures to promote forest certification and the use of independently verified chain-of-custody systems to trace the origin of wood. Chain of custody and forest certification are tools used for demonstrating legal and sustainable wood sourcing. In 2009, about 78% of all wood used by UPM originated from certified forests (66%). Based on UPM's new multisite certification system, 76% of UPM's paper products were produced using fibre that meets FSC and PEFC criteria. All of UPM's fibre supplies are covered by independently verified chain-of-custody systems.

UPM has developed a global biodiversity programme for its forests in Finland, the United Kingdom and the United States. The programme aims to maintain and increase biodiversity in forests, as well as to promote best practices in sustainable forestry. In the long term, the aim is to the programme to cover all wood sourcing activities.

### Recycling and re-use

Continual reduction of landfill waste is an ongoing target for UPM. Today, almost 90% of UPM's production waste is reused or recycled. Nearly all organic production residues, including bark and wood residues, as well as fibre-containing solids from de-inking and effluent treatment, are used in energy generation at UPM's mill sites. Ash left over from energy generation at these power plants is the most significant constituent of solid waste at UPM.

In 2009, about 95% (91%) of the total ash volume from UPM was reused for various applications, including being used as an aggregate in road construction, as a fertiliser and as a raw material for the cement and brick industries. Compared to 2008, the total volume of landfill waste decreased by 27% (decrease of 7%) partly due to lower production volumes, but mainly due to UPM's continuous efforts to find new re-use alternatives for waste.

UPM assesses the condition of mill areas as soon as a site is decommissioned. Based on assessment, a remediation plan and future site use are agreed upon and authorised by the authorities.

### Responsible use of water resources

UPM's aim is to reduce the use of water and achieve a best-in-class quality of effluent prior to discharge to receiving waters.

In 2009, UPM's water use and effluent quality improved or remained stable for the key parameters measured. In the last ten years, UPM has made the following improvements: a 40% decrease in water use per tonne of paper, 10% less per tonne of pulp; a 46% decrease in effluent organic load per tonne of paper, and 35% less per tonne of pulp (chemical oxygen demand); and a 24% decrease in AOX levels (absorbable organic halides)

The company's long term target for effluent volume from its paper mills is 10 $m^3$ per tonne of paper and from pulp mills 30 $m^3$ per tonne of pulp by 2020.

In 2009, UPM joined the Water Footprint Network and began a Water Footprint pilot project at the UPM Nordland mill in Germany.

More environmental information (unaudited) is given in UPM's Annual Report 2009 and via www.upm.com.

## Business area reviews

### Energy

#### 2009 compared with 2008

Operating profit excluding special items was € 162 million (175 million). Sales decreased slightly to € 472 million (478 million). External sales was € 135 million (137 million). The electricity deliveries were 8.9 TWh (10.2 TWh).

Profitability weakened in comparison with the previous year due to lower sales volumes as the annual volume of hydropower was almost 32% lower than last year.

The average electricity sales price increased by 17% to € 43.8/MWh (37.5/ MWh) mainly due to long-term market-based pricing formula. The average cost of procured electricity increased due to the lower share of hydro power volumes.

The share of results of associated companies includes asset write-downs of € 18 million related to Pohjolan Voima's two power plants.

| Energy | 2009 | 2008 |
|---|---|---|
| Sales, €m | 472 | 478 |
| EBITDA, €m [1] | 190 | 207 |
| % of sales | 40.3 | 43.3 |
| Share of results of associated companies and joint ventures, €m | –40 | –26 |
| Depreciation, amortisation and impairment charges, €m | –6 | –6 |
| Operating profit, €m | 144 | 175 |
| % of sales | 30.5 | 36.6 |
| Special items, €m [2] | –18 | – |
| Operating profit excl. special items, €m | 162 | 175 |
| % of sales | 34.3 | 36.6 |
| Electricity deliveries, 1,000 MWh | 8,865 | 10,167 |
| Capital employed (average), €m | 870 | 951 |
| ROCE (excl. special items), % | 18.6 | 18.4 |

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 2009, special items relate to impairments of associated company Pohjolan Voima's two power plants.

#### Market review

In 2009, the average spot electricity price in the Nordic electricity exchange decreased 22% from the previous year to € 35.0/MWh (44.7/MWh). The consumption of electricity in the Nordic area decreased due to low industrial activity.

The Nordic water reservoirs were 10% below the long term average level. The average price for EUA $CO_2$ emission allowances was € 13.8/t, almost 41% lower than in the previous year. After a substantial decline in the market prices of oil and coal during the second half of 2008, coal market prices remained fairly stable in 2009. During 2009, oil market prices increased from about USD 46/barrel to about USD 78/barrel.

The one-year forward electricity price in the Nordic electricity exchange was € 42.5/MWh at the end of 2009, 12% higher than the one year forward price at the end of 2008 (37.9/MWh).

### Pulp

#### 2009 compared with 2008

Operating loss excluding special items was € 127 million (profit of € 148 million). The sales from UPM's own pulp mills decreased by 31% to € 653 million (944 million) and deliveries by 11% to 1,759,000 tonnes (1,982,000).

Due to reduced internal consumption, the Tervasaari pulp mill closure at the end of 2008 did not have a notable impact on deliveries.

Profitability weakened from last year mainly due to an approximately 23% lower average pulp price and lower deliveries. Wood costs were at a high level until autumn but started to decline towards the end of the year.

Chemical pulp inventories decreased from the beginning of the year and remained low in the latter part of the year.

The share of results of the associated company Metsä-Botnia was loss of € 52 million (profit of € 86 million). The result includes special charges of € 29 million from Metsä-Botnia's Kaskinen mill closure.

The Fray Bentos mill and Forestal Oriental eucalyptus plantation forestry company are included in the Pulp business area as of December 2009. As of the same date, Oy Metsä-Botnia Ab is no longer an associated company of UPM and therefore is not reported in the Pulp business area.

| Pulp | 2009 | 2008 |
|---|---|---|
| Sales, €m | 653 | 944 |
| EBITDA, €m [1] | –18 | 139 |
| % of sales | –2.8 | 14.7 |
| Change in fair value of biological assets and wood harvested, €m | –1 | – |
| Share of results of associated companies and joint ventures, €m [3] | –52 | 86 |
| Depreciation, amortisation and impairment charges, €m | –85 | –128 |
| Operating profit, €m | –156 | 89 |
| % of sales | –23.9 | 9.4 |
| Special items, €m [2] | –29 | –59 |
| Operating profit excl. special items, €m | –127 | 148 |
| % of sales | –19.4 | 15.7 |
| Pulp deliveries, 1,000 t | 1,759 | 1,982 |
| Capital employed (average), €m | 1,668 | 1,674 |
| ROCE (excl. special items), % | –7.6 | 8.8 |

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 2009, special items of € 29 million relate to the associated company Metsä-Botnia's Kaskinen pulp mill closure. In 2008, special items of € 59 million relate to the closure of the Tervasaari pulp mill.

3) In the balance sheet in the interim report for January–June, on 30 June 2009, UPM has regrouped the 30% transferable share of Botnia's book value as assets held for sale. Consequently, from July 2009, UPM has not included the share of the transferable Botnia operations in the share of results of associated companies.

## Market review

Annual shipments of global chemical market pulp increased almost 2% from the previous year. In the first half of 2009, shipments declined from the comparison period, but in the second part of the year, shipments increased due to strong demand in China. Chemical pulp producer inventories declined from the high level of the beginning of the year due to extensive production curtailments and strong demand in China.

Chemical pulp market prices declined in the first half of the year but started to increase during the second half. The average softwood pulp (NBSK) market price in euro terms, at € 471/tonne, was 19% lower than in last year (€ 582/tonne). The bottom market price during the period was € 421/tonne. At the end of the year, the NBSK market price was € 555/ tonne.

The average hardwood pulp (BHKP) market price in euro terms also decreased by 25% from last year to € 402/tonne (€ 539/tonne). The bottom market price during the period was € 352/tonne. At the end of the year the BHKP market price was € 486/tonne.

## Forest and timber

### 2009 compared with 2008

Operating profit excluding special items was € 22 million (loss of € 23 million). Sales declined by 30% to € 1,337 million (1,920 million). Sawn timber deliveries decreased by 30% to 1,497,000 cubic metres (2,132,000).

Comparison period included a wood inventory write down of € 36 million, which was booked at the end of year 2008.

The average price of delivered timber goods decreased by 7%.

Wood inventories decreased significantly from the beginning of the year and released working capital.

The increase in the fair value of biological assets (growing trees) was € 98 million (138 million). The cost of wood raw material harvested from the Group's own forests was € 80 million (88 million). The net effect was € 18 million positive (50 million positive).

In November 2009, UPM announced restructuring plans to ensure the competitiveness of its Timber operations in Finland. UPM will permanently close the sawmill in Heinola and the further processing mill in Parkano during the first half of 2010.

| Forest and timber | 2009 | 2008 |
|---|---|---|
| Sales, €m | 1,337 | 1,920 |
| EBITDA, €m [1] | 24 | –48 |
| % of sales | 1.8 | –2.5 |
| Change in fair value of biological assets and wood harvested, €m | 18 | 50 |
| Share of results of associated companies and joint ventures, €m | 2 | – |
| Depreciation, amortisation and impairment charges, €m | –34 | –56 |
| Operating profit, €m | –9 | –59 |
| % of sales | –0.7 | –3.1 |
| Special items, €m [2] | –31 | –36 |
| Operating profit excl. special items, €m | 22 | –23 |
| % of sales | 1.6 | –1.2 |
| Sawn timber deliveries, 1,000 $m^3$ | 1,497 | 2,132 |
| Capital employed (average), €m | 1,717 | 1,878 |
| ROCE (excl. special items), % | 1.3 | –1.2 |

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 2009, special items of € 31 million include impairment charges of € 5 million and restructuring charges of € 9 million relating to Timber operations in Finland. In addition, special items include impairment charges of € 7 million related to wood procurement operations and a loss of € 10 million on the sale of Miramichi's forestry and sawmilling operations' assets. Special items in 2008 include an impairment charge of € 31 million related to fixed assets of the Finnish sawmills.

### Market review

Wood purchases in the Finnish wood market were 45% lower compared to the previous year. However, market activity started to recover slightly towards the end of the year.

Lower industrial production and high wood inventories at the beginning of the year were the main reasons for lower purchases. Wood market prices declined by an average of almost 20% compared to the previous year.

In 2009, demand for both redwood and whitewood sawn timber in Europe declined substantially in comparison with the previous year. The weak market balance resulted in lower prices.

## Paper

### 2009 compared with 2008

Operating profit excluding special items was € 346 million, € 96 million higher than a year ago (250 million). Sales were € 5,767 million (7,011 million). Paper deliveries decreased by 15% to 9,021,000 tonnes (10,641,000). Publication paper deliveries (magazine papers and newsprint) decreased by 20% and fine and speciality paper deliveries by 6% from the previous year.

The Kajaani paper mill was closed at the end of 2008. Due to reduced demand, the closure had only a minor impact on UPM's paper deliveries.

Profitability improved from the corresponding period last year. Lower deliveries and sales prices had a significant negative impact on profitability, but this was more than offset by lower costs for fibre, mainly for chemical pulp, and decreased fixed costs.

The average price for all paper deliveries when translated into euros was 3% lower than last year.

| Paper | 2009 | 2008 |
|---|---|---|
| Sales, €m | 5,767 | 7,011 |
| EBITDA, €m [1] | 929 | 885 |
| % of sales | 16.1 | 12.6 |
| Share of results of associated companies and joint ventures, €m | –1 | 1 |
| Depreciation, amortisation and impairment charges, €m | –578 | –967 |
| Operating profit, €m | 345 | –129 |
| % of sales | 6.0 | –1.8 |
| Special items, €m [2] | –1 | –379 |
| Operating profit excl. special items, €m | 346 | 250 |
| % of sales | 6.0 | 3.6 |
| Deliveries, publication papers, 1,000 t | 5,667 | 7,090 |
| Deliveries, fine and speciality papers, 1,000 t | 3,354 | 3,551 |
| Paper deliveries total, 1,000 t | 9,021 | 10,641 |
| Capital employed (average), €m | 5,714 | 6,503 |
| ROCE (excl. special items), % | 6.1 | 3.8 |

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 2009, special items include an income of € 31 million related to the sale of the assets of the former Miramichi paper mill and restructuring charges of € 32 million in several units. In 2008, special items include the goodwill impairment charge of € 230 million, impairment charges of € 101 million and other restructuring costs of € 42 million related to the closure of the Kajaani paper mill, and other restructuring costs, net of € 6 million.

### Market review

In Europe in 2009, demand for both publication papers and fine papers was 16% lower than a year ago. In North America, demand for publication papers continued to decline and was 22% down from last year. In Asia, however, demand for fine papers grew.

In Europe, paper prices decreased in the fourth quarter of 2009 from the previous quarter. For magazine papers, prices decreased by about 3% from the third quarter and for newsprint by about 2%. Coated and uncoated fine paper prices decreased by about 2%. In 2009, average prices decreased by 1% for magazine papers and by 8% for uncoated fine paper, but increased by 2% for newsprint. Coated fine paper prices remained unchanged from the previous year.

In North America, the average US dollar price for magazine papers was 13% lower in 2009 than in 2008. In Asia, market prices for fine papers decreased from last year, but increased in the second half of 2009 from the first half. In the fourth quarter, prices had risen higher than in the same period last year.

## Label

### 2009 compared with 2008

Operating profit excluding special items was € 43 million (2 million). Sales were € 943 million (959 million).

Profitability improved from the same period last year due to decreased costs and increased prices. Fixed costs decreased substantially and raw material costs were lower than in the previous year. Average sales prices both in local currency and converted to euros increased from last year.

Delivery volumes of self-adhesive label materials declined from last year, driven by lower economic activity.

The restructuring of European operations was completed as planned by the end of the third quarter. The restructuring, combined with the new plant in Wroclaw that started up in November 2008, has improved the competitiveness of European operations.

| Label | 2009 | 2008 |
|---|---|---|
| Sales, €m | 943 | 959 |
| EBITDA, €m [1] | 78 | 34 |
| % of sales | 8.3 | 3.5 |
| Depreciation, amortisation and impairment charges, €m | –37 | –39 |
| Operating profit, €m | 35 | –26 |
| % of sales | 3.7 | –2.7 |
| Special items, €m [2] | –8 | –28 |
| Operating profit excl. special items, €m | 43 | 2 |
| % of sales | 4.6 | 0.2 |
| Capital employed (average), €m | 503 | 510 |
| ROCE (excl. special items), % | 8.5 | 0.4 |

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 2009, special items include impairment charges of € 2 million and other restructuring charges of € 6 million. In 2008, special items of € 28 million relate to measures to reduce coating capacity and close two slitting terminals in Europe.

### Market review

During the first half of the year, demand for self-adhesive label materials declined in all markets from last year as demand for consumer products and shipments of goods slowed down. Demand started to improve in the third quarter, and in the fourth quarter it is estimated to have grown compared with the same period last year.

## Plywood

### 2009 compared with 2008

Operating loss excluding special items was € 51 million (profit of € 25 million). Sales decreased by 42% to € 306 million (530 million). Plywood deliveries declined by 30% to 567,000 cubic metres (806,000).

Plywood reported an operating loss due to significantly lower delivery volumes and sales prices than in the comparison period. Weak market demand led to extensive production downtime at all mills. Material fixed cost reductions were achieved throughout the organisation, but these could not compensate for the adverse impact of lower deliveries and prices.

In November 2009, UPM announced a plan to improve the plywood businesses' long term cost competitiveness and increase added value in birch plywood production in Finland.

UPM will rebuild the Savonlinna plywood mill and permanently close the Heinola and Kaukas mills. The Heinola mill was temporarily shut down from January 2009 onwards. The Kaukas plywood mill was temporarily shut down from May onwards.

At the Kalso veneer mill, a production automation project was completed in May 2009.

The Lahti plywood processing mill was closed in October 2009 and its production was moved to other mills.

| Plywood | 2009 | 2008 |
|---|---|---|
| Sales, €m | 306 | 530 |
| EBITDA, €m [1] | –30 | 46 |
| % of sales | –9.8 | 8.7 |
| Depreciation, amortisation and impairment charges, €m | –27 | –21 |
| Operating profit, €m | –82 | 28 |
| % of sales | –26.8 | 5.3 |
| Special items, €m [2] | –31 | 3 |
| Operating profit excl. special items, €m | –51 | 25 |
| % of sales | –16.7 | 4.7 |
| Deliveries, plywood, 1,000 $m^3$ | 567 | 806 |
| Capital employed (average), €m | 266 | 307 |
| ROCE (excl. special items), % | –19.2 | 8.1 |

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 2009, special items include impairment charges of € 6 million and other restructuring charges of € 25 million. Special items in 2008 include reversals of provisions related to the disposed Kuopio plywood mill.

### Market review

In Europe, plywood demand declined substantially from last year due to record low construction activity and low demand for engineered end products in transportation and other industrial end uses. Declined demand in Europe has left much idle capacity.

Inventories were reduced in all parts of the supply chain in the first half of the year. This inventory reduction came to an end in the third quarter. The market prices of plywood declined from the previous year.

## Other operations

Other operations include development units (RFID tags, the wood plastic composite unit UPM ProFi and biofuels), logistic services and corporate administration.

### 2009 compared with 2008

Operating loss excluding special items was € 125 million (loss of € 64 million). Sales amounted to € 111 million (200 million).

The operating loss was greater than in the comparison period, mainly due to hedging losses of € 23 million (profit of € 24 million). The development units continued to incur an operating loss.

| Other operations | 2009 | 2008 |
|---|---|---|
| Sales, €m | 111 | 200 |
| EBITDA, €m [1] | –111 | –57 |
| Share of results of associated companies and joint ventures, €m | –4 | 1 |
| Depreciation, amortisation and impairment charges, €m | –12 | –8 |
| Operating profit, €m | –142 | –54 |
| Special items, €m [2] | –17 | 10 |
| Operating profit excl. special items, €m | –125 | –64 |
| Capital employed (average), €m | 141 | 137 |
| ROCE (excl. special items), % | –88.7 | –46.7 |

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 2009, special items relate to terminated activities and estates of closed industrial sites in Finland. In 2008, special items include an adjustment of € 5 million to sales of disposals of 2007 and other restructuring income net of € 5 million.

## Litigation and other legal actions

The investigations of certain competition authorities into alleged antitrust activities with respect to various UPM products, as well as litigation arising therefrom, have ended in all material respects.

In Finland, UPM is participating in the building project of a new nuclear power plant, Olkiluoto 3, through its associated company Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oy ("TVO") with 58.28% of shares. UPM's indirect share of the capacity of the Olkiluoto 3 is approximately 29%. The original agreed timetable for the start up was summer 2009 but the construction of the unit is delayed. The latest anticipated start-up time is after June 2012. TVO has requested the plant supplier, the consortium AREVA-Siemens to provide a re-analysis of the anticipated start-up time.

TVO has informed UPM that the arbitration filed in December 2008 by AREVA-Siemens, concerning the delay at Olkiluoto 3 and related costs, amounted to € 1.0 billion. In response, TVO filed a counter-claim in April 2009 for costs and losses that TVO is incurring due to the delay and other defaults on the part of the supplier. The value of TVO's counterclaim was approximately € 1.4 billion.

### Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 31 December 2009.

### Corporate governance statement

UPM presents the corporate governance statement as a separate report which is available in UPM's Annual Report 2009 on pages 74-77 and on the company's website www.upm.com.

### Outlook for 2010

Recovery in UPM's main markets is expected to be slow and differ country by country. Demand for consumer goods is forecast to improve, but advertising expenditure in print media and demand for graphic papers are expected to improve with some delay. Investment activity, including construction, has shown only weak signs of recovery and this will delay pick up in demand for construction materials such as timber and plywood. In Asia growth is expected to continue especially in China.

Low capacity utilisation rates of the company's timber, plywood and European paper mills will continue. Necessary production curtailments will require continuation of a flexible way of working in these operations.

Electricity generation volume will be about the same as last year. This is assuming that lower than average hydrological balance continues in Finland. Based on current forward sale agreements and Nordpool forward prices, average sales price for electricity is estimated to be about the same as last year.

Chemical pulp deliveries, on a comparable basis, are expected to be higher than last year. Current prices for both hardwood and softwood pulp are higher than last year.

Paper demand in Europe is forecast to increase from 2009 and thus UPM's paper deliveries for 2010 are expected to be higher than last year. However, in Europe negotiations for 2010 deliveries of publication papers are still ongoing and there is a severe price pressure especially for newsprint deliveries. Price outlook for fine and speciality papers is more positive due to better market balance and increased cost of chemical pulp. Current estimate is that average price for UPM's all paper deliveries for the year will be clearly lower than last year. Order intake for the first quarter deliveries has been better than a year ago but average price for these deliveries is clearly lower than last year.

Demand for self-adhesive labelstock is estimated to improve from the last year in all main markets. There are cost pressures especially from oil based raw materials but on average prices are expected to increase to compensate at least part of such cost increases.

The operating profit (excluding special items) for the year 2010 is not expected to change materially from the last year. The first quarter is expected to be seasonally the weakest quarter.

Capital expenditure for 2010 is forecast to be about € 300 million.

# BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The distributable funds of the parent company are € 3,267,769,260.68. The Board of Directors proposes to the Annual General Meeting that a dividend of € 0.45 per share be paid on the shares outstanding at the record date.

On 2 February 2010, there are 519,970,088 outstanding shares and the corresponding amount to be paid in dividends is € 234.0 million.

The Board of Directors proposes that the dividend to be paid on 7 April 2010.

No material changes have taken place in respect of the company's financial position after the balance sheet date. In the opinion of the Board of Directors proposed distribution of profit does not risk the liquidity of the company.

Signatures of the annual accounts and the report of Board of Directors for the year 2009

Helsinki, 2 February 2010

| | | |
|---|---|---|
| Björn Wahlroos<br>Chairman | Berndt Brunow | Georg Holzhey |
| Matti Alahuhta | Karl Grotenfelt | Wendy E. Lane |
| Ursula Ranin | Veli-Matti Reinikkala | Jussi Pesonen<br>President and CEO |

# CONSOLIDATED INCOME STATEMENT

| €m | Note | Year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Sales** | 4 | 7,719 | 9,461 |
| Other operating income | 6 | 47 | 83 |
| Costs and expenses | 7 | −6,774 | −8,407 |
| Change in fair value of biological assets and wood harvested | 8 | 17 | 50 |
| Share of results of associated companies and joint ventures | 9 | −95 | 62 |
| Depreciation, amortisation and impairment charges | 10 | −779 | −1,225 |
| **Operating profit** | 4 | 135 | 24 |
| | | | |
| Gains on available-for-sale investments, net | 11 | −1 | 2 |
| Exchange rate and fair value gains and losses | 12 | −9 | −25 |
| Interest and other finance costs, net | 12 | 62 | −202 |
| **Profit (loss) before tax** | | 187 | −201 |
| | | | |
| Income taxes | 13 | −18 | 21 |
| **Profit (loss) for the year** | | 169 | −180 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the parent company | | 169 | −179 |
| Minority interest | | – | −1 |
| | | 169 | −180 |
| | | | |
| **Earnings per share for profit (loss) attributable to the equity holders of the parent company** | | | |
| Basic earnings per share, € | 14 | 0.33 | −0.35 |
| Diluted earnings per share, € | 14 | 0.33 | −0.35 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| **Profit (loss) for the year** | 169 | −180 |
| | | |
| **Other comprehensive income for the year, net of tax:** | | |
| Translation differences | 165 | −206 |
| Net investment hedge | −56 | 56 |
| Cash flow hedges | −4 | −33 |
| Available-for-sale investments | 21 | – |
| Share of other comprehensive income of associated companies | 30 | 1 |
| **Other comprehensive income for the year, net of tax** | 156 | −182 |
| **Total comprehensive income for the year** | 325 | −362 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the parent company | 325 | −361 |
| Minority interest | – | −1 |
| | 325 | −362 |

The income tax relating to each component of other comprehensive income is disclosed in Note 13.
Disclosure of components of other comprehensive income is presented in Note 27.
The notes are an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

| €m | Note | As at 31 December 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 16 | 1,017 | 933 |
| Other intangible assets | 17 | 423 | 403 |
| Property, plant and equipment | 18 | 6,192 | 5,688 |
| Investment property | 19 | 22 | 19 |
| Biological assets | 20 | 1,293 | 1,133 |
| Investments in associated companies and joint ventures | 21 | 553 | 1,263 |
| Available-for-sale investments | 22 | 320 | 116 |
| Non-current financial assets | 23 | 263 | 361 |
| Deferred tax assets | 28 | 287 | 258 |
| Other non-current assets | 24 | 211 | 201 |
| | | 10,581 | 10,375 |
| **Current assets** | | | |
| Inventories | 25 | 1,112 | 1,354 |
| Trade and other receivables | 26 | 1,446 | 1,686 |
| Income tax receivables | | 28 | 24 |
| Cash and cash equivalents | | 438 | 330 |
| | | 3,024 | 3,394 |
| Assets classified as held for sale | 18 | – | 12 |
| **Total assets** | | 13,605 | 13,781 |

| €m | Note | As at 31 December 2009 | 2008 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent company** | | | |
| Share capital | 27 | 890 | 890 |
| Translation differences | | –164 | –295 |
| Fair value and other reserves | 27 | 141 | 130 |
| Reserve for invested non-restricted equity | | 1,145 | 1,145 |
| Retained earnings | | 4,574 | 4,236 |
| | | 6,586 | 6,106 |
| **Minority interest** | | 16 | 14 |
| **Total equity** | | 6,602 | 6,120 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 28 | 608 | 658 |
| Retirement benefit obligations | 29 | 418 | 408 |
| Provisions | 30 | 191 | 191 |
| Interest-bearing liabilities | 31 | 4,164 | 4,534 |
| Other liabilities | 32 | 51 | 25 |
| | | 5,432 | 5,816 |
| **Current liabilities** | | | |
| Current interest-bearing liabilities | 31 | 300 | 537 |
| Trade and other payables | 33 | 1,206 | 1,258 |
| Income tax payables | | 65 | 33 |
| | | 1,571 | 1,828 |
| Liabilities related to assets classified as held for sale | 18 | – | 17 |
| **Total liabilities** | | 7,003 | 7,661 |
| **Total equity and liabilities** | | 13,605 | 13,781 |

The notes are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| €m | Share capital | Translation differ-ences | Fair value and other reserves | Reserve for invested non-restricted equity | Retained earnings | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the parent company | | | | | | | |
| **Balance at 1 January 2008** | 890 | –158 | 193 | 1,067 | 4,778 | 6,770 | 13 | 6,783 |
| **Changes in equity for 2008** | | | | | | | | |
| Share options exercised | – | – | – | 78 | – | 78 | – | 78 |
| Share-based compensation, net of tax | – | – | –29 | – | 33 | 4 | – | 4 |
| Dividend paid | – | – | – | – | –384 | –384 | – | –384 |
| Acquisitions and disposals | – | – | – | – | – | – | 2 | 2 |
| Other items | – | – | –1 | – | – | –1 | – | –1 |
| Total comprehensive income for the year | – | –137 | –33 | – | –191 | –361 | –1 | –362 |
| **Balance at 31 December 2008** | 890 | –295 | 130 | 1,145 | 4,236 | 6,106 | 14 | 6,120 |
| **Balance at 1 January 2009** | 890 | –295 | 130 | 1,145 | 4,236 | 6,106 | 14 | 6,120 |
| **Changes in equity for 2009** | | | | | | | | |
| Share-based compensation, net of tax | – | – | –6 | – | 12 | 6 | – | 6 |
| Dividend paid | – | – | – | – | –208 | –208 | – | –208 |
| Acquisitions and disposals | – | – | – | – | 358 | 358 | 2 | 360 |
| Other items | – | – | – | – | –1 | –1 | – | –1 |
| Total comprehensive income for the year | – | 131 | 17 | – | 177 | 325 | – | 325 |
| **Balance at 31 December 2009** | 890 | –164 | 141 | 1,145 | 4,574 | 6,586 | 16 | 6,602 |

The notes are an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| €m | Note | Year ended 31 December 2009 | 2008 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit (loss) for the period | | 169 | –180 |
| Adjustments to profit (loss) for the period | 5 | 772 | 1,232 |
| Interest received | | 6 | 9 |
| Interest paid | | –163 | –202 |
| Dividends received | | 24 | 18 |
| Other financial items, net | | –50 | –41 |
| Income taxes paid | | –31 | –76 |
| Change in working capital | 5 | 532 | –132 |
| **Net cash generated from operating activities** | | 1,259 | 628 |
| **Cash flow from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | 5 | –508 | – |
| Acquisition of shares in associated companies | | –78 | –19 |
| Capital expenditure | | –236 | –558 |
| Proceeds from disposal of subsidiary shares, net of cash | 5 | – | 6 |
| Proceeds from disposal of shares in associated companies | | 565 | 4 |
| Proceeds from disposal of available-for-sale investments | | – | 2 |
| Proceeds from sale of tangible and intangible assets | | 46 | 33 |
| Increase in non-current receivables | | –3 | – |
| **Net cash used in investing activities** | | –214 | –532 |
| **Cash flow from financing activities** | | | |
| Proceeds from non-current liabilities | | 325 | 1,083 |
| Payments of non-current liabilities | | –1,051 | –624 |
| Payments of current liabilities, net | | –6 | –153 |
| Share options exercised | | – | 78 |
| Dividends paid | | –208 | –384 |
| Other financing cash flow | | – | –1 |
| **Net cash used in financing activities** | | –940 | –1 |
| **Change in cash and cash equivalents** | | 105 | 95 |
| Cash and cash equivalents at the beginning of year | | 330 | 237 |
| Foreign exchange effect on cash | | 3 | –2 |
| Change in cash and cash equivalents | | 105 | 95 |
| **Cash and cash equivalents at year-end** | | 438 | 330 |

The notes are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In the notes all amounts are shown in millions of euros unless otherwise stated.)

## 1 ACCOUNTING POLICIES

The principal accounting policies to be adopted in the preparation of the consolidated financial statements are set out below:

### Principal activities

UPM-Kymmene Corporation ("the parent company" or "the company") together with its consolidated subsidiaries ("UPM" or "the Group") is a global paper and forest products group engaged in the production of paper, with an emphasis on the manufacture and sale of printing and writing papers. The Group consists of three Business Groups, which are Energy and pulp, Paper, and Engineered materials. UPM reports financial information for the following business areas (segments): Energy, Pulp, Forest and timber, Paper, Label, Plywood, and Other operations. The Group's activities are centred in the European Union countries and North and South America, and Asia with production facilities in 15 countries.

UPM-Kymmene Corporation is a Finnish limited liability company, domiciled in Helsinki in the Republic of Finland. The address of the company's registered office is Eteläesplanadi 2, 00101 Helsinki, where the copy of the consolidated financial statement can be obtained.

The parent company is listed on NASDAQ OMX Helsinki Ltd.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 2 February 2010. According to the Finnish Companies Act the General Meeting of Shareholders is entitled to decide on the adoption of the company's financial statements.

### Basis of preparation

These consolidated financial statements of UPM are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and IFRIC Interpretations.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of biological assets, available-for-sale financial assets and certain other financial assets and financial liabilities. Share-based payments are recognised at fair value on the grant date.

The preparation of financial statements requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates are employed in the financial statements to determine reported amounts, including the realisability of certain assets, the useful lives of tangible and intangible assets, income taxes and others. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The preparation of financial statements also requires management to exercise its judgement in the process of applying the Group's accounting policies. The critical judgements are summarised in Note 2.

### Consolidation principles

#### Subsidiaries

The consolidated financial statements of UPM include the financial statements of the parent company, UPM-Kymmene Corporation, and its subsidiaries. Subsidiaries are those entities in which UPM-Kymmene Corporation either owns, directly or indirectly, over fifty percent of the voting rights, or otherwise has the power to govern their operating and financial policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see "Intangible Assets" for the accounting policy on goodwill). Subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group, and subsidiaries sold are included up to the date that control is relinquished.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### Associated companies and joint ventures

Associated companies are entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another venturer or venturers.

Interests in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recorded at cost. Under this method the Group's share of the associated company's and joint venture's profit or loss for the year is recognised on the income statement and its share of movements in reserves is recognised in reserves. The Group's interest in an associated company and joint venture is carried on the balance sheet at an amount that reflects its share of the net assets of the associated company and joint venture together with goodwill on acquisition (net of any accumulated impairment loss), less any impairment in the value of individual investments. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associated company and joint venture, unless the loss provides evidence of an impairment of the asset transferred Associated company and joint venture accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. Equity accounting is discontinued when the carrying amount of the investment in an associated company or interest in a joint venture reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company or joint venture.

### Minority interests

The profit or loss attributable to the parent shareholders and minority interests is presented on the face of the income statement. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

Transactions with minority interests are treated as transaction with parties external to the Group. Disposals of minority interests result in gains or losses for the Group and are recorded in the income statement. Purchases of minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### Foreign currency transactions

Items included in the financial statements of each subsidiary in the Group are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income in equity as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange differences relating to ordinary business operations of the Group are included in the appropriate line items above operating profit, and those relating to financial items are included in a separate line item in the income statement and as a net amount in total finance costs.

Income and expenses for each income statement of subsidiaries that have a functional currency different from the Group's presentation currency are translated into euros at quarterly average exchange rates. Assets and liabilities of subsidiaries for each balance sheet presented are translated at the closing rate at the date of that balance sheet. All resulting translation differences are recognised as a separate component in other comprehensive income. On consolidation, exchange differences arising from the translation of the net investment in foreign operations and other currency instruments designated as hedges of such investments, are taken into shareholders' equity. When a foreign entity is partially disposed of, sold or liquidated, translation differences recorded in equity are recognised in the income statement as part of the gain or loss on sale.

### Derivative financial instruments and hedging activities

Derivatives are initially recognised on the balance sheet at fair value and thereafter remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised asset or liability (fair value hedge), a hedge of a highly probable forecasted transaction or of a firm commitment (cash flow hedge), or hedges of net investments in foreign operations (net investment hedge). The fair value of derivative financial instrument is classified as a non-current asset or liability when the remaining maturity is more than 12 months, and as a current asset or liability when the remaining maturity is less than 12 months.

The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded in the income statement under financial items, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The carrying amounts of the hedged items and the fair values of the hedging instruments are included in the interest-bearing assets or liabilities. Derivatives that are designated and qualify as fair value hedges mature at the same time as hedged items. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective both prospectively and retrospectively are recognised in other comprehensive income (at the spot rate difference). The accumulated profit or loss of the hedging instruments is recognised in equity approximately during the period of 12 months. Amounts deferred in equity are transferred to the income statement and classified as income or an expense in the same period during which the hedged firm commitment or forecasted transaction affects the income statement (for example, when the forecasted external sale to the Group that is hedged takes place). The period when the hedging reserve is released to sales after each derivative has matured is approximately 1 month. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction is ultimately recognised in the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The fair value changes of the forward exchange contracts that reflect the change in spot exchange rates are deferred in other comprehensive income and included in cumulative translation differences. Any gain or loss relating to the interest portion of the forward exchange contracts is recognised immediately in the income statement under financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Certain derivative transactions, while providing effective hedges under the Group Treasury Policy, do not qualify for hedge accounting under the specific rules in IAS 39. Such derivatives are classified held for trading, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement as other operating income or under financial items.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

### Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

The accounting policies used in segment reporting are the same as those used in the consolidated accounts. The costs and revenues as well as assets and liabilities are allocated to the segments on a consistent basis. All inter-segment sales are based on market prices, and they are eliminated on consolidation.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and CEO.

### Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and represents a separate major line of business or geographical area of operations, is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The post-tax profit or loss from discontinued operations is shown separately in the consolidated income statement.

### Revenue recognition

Sales are recognised when it is probable that future economic benefits will flow to the entity, the associated costs and the amount of revenue can be measured reliably and the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed or determinable, and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership and the Group has neither continuing managerial involvement with the goods, nor a continuing right to dispose of the goods, nor effective control of those goods. The timing of revenue recognition is largely dependent on delivery terms. Group terms of delivery are based on Incoterms 2000, the official rules for interpretation of trade terms issued by International Chamber of Commerce. Revenue is recorded when the product is delivered to the destination point for terms designated Delivered Duty Paid ("DDP"). For sales transactions designated Free on Board ("FOB") or Cost, Insurance and Freight ("CIF"), revenue is recorded at the time of shipment.

Revenues from services are recorded when the service has been performed. Sales are recognised net of indirect sales taxes, discounts, rebates and exchange differences on sales in foreign currency. The costs of distributing products sold are included in costs and expenses.

Dividend income is recognised when the right to receive a payment is established.

Interest income is recognised by applying the effective interest rate method.

### Income taxes

The Group's income taxes include income taxes of Group companies based on taxable profit for the financial period, together with tax adjustments for previous periods and the change of deferred income taxes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### Intangible assets

Intangible assets with finite lives are carried at historical cost less amortisation. Amortisation is based on the following estimated useful lives:

| | |
|---|---|
| Computer software | 3–5 years |
| Other intangible assets | 5–10 years |

Goodwill and other intangible assets that are deemed to have an indefinite life are not amortised, but are tested annually for impairment.

### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associated company or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint ventures is included in investments in associated companies and joint ventures and is tested for impairment as part of the overall balance. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the difference is an impairment loss, which is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Research and development

Research and development costs are expensed as incurred, except for certain development costs, which are capitalised when it is probable that a development project will generate future economic benefits, and the cost can be measured reliably. Capitalised development costs are amortised on a systematic basis over their expected useful future lives, usually not exceeding five years.

### Computer software

Costs associated with maintaining computer software programs and costs related to the preliminary project phase of internally developed software are recognised as an expense as incurred. Development costs relating to the application development phase of internally developed software are capitalised as intangible assets. Capitalised costs include external direct costs of material and services and appropriate portion of relevant overheads of the software development team. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

### Other intangible assets

Acquired patents, trademarks and licences with a finite useful life are recognised at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives. Other intangible assets that are deemed to have an indefinite life are not amortised and are tested annually for impairment.

### Emission rights

The Group participates in government schemes aimed at reducing greenhouse gas emissions. Emission rights received from the governments free of charge are initially recognised as intangible assets based on market value at the date of initial recognition. Emission rights are not amortised but are recognised at amount not exceeding the market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as the allowances and recognised in other operating income in the income statement systematically over the compliance period to which the corresponding emission rights relate. The emissions made are expensed under other operating costs and expenses in the income statement and presented as provisio in the balance sheet. Emission rights and associated provisions are derecognised when delivered or sold. Any profit or loss on disposal is taken to the income statement.

### Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost. Assets of acquired subsidiaries are stated at fair value at the date of acquisition. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. The carrying value of the property, plant and equipment on the balance sheet represents the cost less accumulated depreciation and any impairment charges.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Land is not depreciated. Depreciation of other assets is based on the following estimated useful lives:

| | |
|---|---|
| Buildings | 25–40 years |
| Heavy machinery | 15–20 years |
| Light machinery and equipment | 5–15 years |

Expected useful lives of assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed prospectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets accounted under IFRS 5 that are to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

### Government grants

Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and recognised as a reduction to the depreciation charge of the related asset when it is practicable to determine that the eligibility conditions attached to the grant will be met and the grant will be received. Other government grants are recognised in the income statement in the period necessary to match them with the costs they are intended to compensate when the reimbursement is received or when it is practicable to determine the amount and eligibility for the grant.

### Investment property

Investment property includes real estate investments such as flats and other premises occupied by third parties.

Investment property is treated as a long-term investment and is stated at historical cost. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. Useful lives are the same as for property, plant and equipment. The balance sheet value of investment property reflects the cost less accumulated depreciation and any impairment charges.

### Biological assets

Biological assets (i.e. living trees) are measured at their fair value less estimated costs to sell. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. The fair value of young seedling stands is the actual reforestation cost of those stands. Continuous operations, the maintenance of currently existing seedling stands and the felling of forests during one rotation, are based on the Group's forest management guidelines. The calculation takes into account the growth potential and environmental restrictions and other reservations of the forests. Felling revenues and maintenance costs are calculated on the basis of actual costs and prices, taking into account the Group's projection of future price development.

Periodic changes resulting from growth, felling, prices, discount rate, costs and other premise changes are included in operating profit on the income statement.

### Financial assets

Financial assets have been classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are categorised as held for trading, unless they are designated as hedges. These are measured at fair value and any gains or losses from subsequent measurement are recognised in the income statement. The Group has not used the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets unless they mature within 12 months of the balance sheet date. Loan receivables that have a fixed maturity are measured at amortised cost using the effective interest method. Loan receivables are impaired if the carrying amount is greater than the estimated recoverable amount.

Trade receivables are non-derivatives that are recognised initially at fair value and subsequently measured at amortised cost less provisions for impairment for doubtful accounts. Provisions for impairment for doubtful accounts are charged to the income statement when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or default of delinquency in payments more than 90 days overdue are considered indicators that the trade receivable may be irrecoverable. Subsequent recoveries of amounts previously written off are credited in the income statement.

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless they are intended to be disposed of within 12 months of the balance sheet date. Purchases and sales of financial investments are recognised on the settlement date, which is the date that the asset is delivered to or by the Group. Investments are initially recognised at cost, including transaction costs, and subsequently carried at fair value.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in equity are included in the in-come statement as gains and losses from available-for-sale investments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

### Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation (or amortisation) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

### Leases

Leases of property, plant and equipment where the Group, as a lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised as assets and liabilities in the balance sheet at the commencement of lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases as a lessee are charged to the income statement on a straight-line basis over the period of the lease.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the method most appropriate to the particular nature of inventory, the first in, first out (FIFO) or weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within current interest-bearing liabilities on the balance sheet.

### Treasury shares

Where any Group company purchases the parent company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the parent company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the parent company's equity holders.

### Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, interest-bearing liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the interest-bearing liabilities. The Group has not used the option of designating financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Most long-term interest-bearing liabilities are designated as hedged items in a fair value hedge relationship. Fair value variations resulting from the hedged interest rate risk are recorded to adjust the carrying amount of the hedged item and reported on the income statement under finance income and expenses. If the hedge accounting is discontinued, the carrying amount of the hedged item is no longer adjusted for fair value changes attributable to the hedged risk and the cumulative fair value adjustment recorded during the hedge relationship is amortised based on a new effective interest recalculation through the income statement under finance income and expenses.

Interest-bearing liabilities are classified as non-current liabilities unless they are due to be settled within 12 months after the balance sheet date.

### Employee benefits

#### Pension obligations

The Group operates a mixture of pension schemes in accordance with the local conditions and practices in the countries in which it operates. Such benefit plans vary according to the customary benefit plans prevailing in the country concerned. These programmes include defined benefit pension schemes with retirement, disability and termination benefits. The retirement benefits are generally a function of years of employment and final salary with the Company. Generally, the schemes are either funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. In addition, the Group also operates defined contribution pension arrangements. Most of Finnish pension arrangements are defined contribution plans.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The cost of providing pensions is charged to the income statement so as to spread the cost over the service lives of the employees. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the expected average remaining service lives of the employees concerned. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Gains or losses on the curtailments or settlements of a defined benefit plan are recognised when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement includes possible changes in the present value of defined benefit obligation, change in fair value of plan assets and any impact of actuarial gains and losses and past service costs not previously recognised.

For defined contribution plans, contributions are paid to pension insurance companies. Once the contributions have been paid, there are no further payment obligations. Contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

#### Other post-employment obligations

Some Group companies provide post-employment healthcare and other benefits to their retirees. The entitlement to healthcare benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

### Share-based compensation

The Group has granted share options to top management and key personnel. In addition, the Group has established a share ownership plan for its executive management. These compensation plans are recognised as equity-settled or cash-settled share-based payment transactions depending on the settlement. The fair value of the granted options and shares are recognised as indirect employee costs over the vesting period. The fair values of the options granted are determined using the Black- Scholes valuation model on the grant date. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The estimates of the number of the exercisable options are revised quarterly and the impact of the revision of original estimates, if any, is recognised in the income statement and equity.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

Based on the share ownership plan, the executive management is compensated with shares depending on the Group's financial performance. Shares are valued using the market rate on the grant date. The settlement is a combination of shares and cash. The Group can obtain the necessary shares by using its treasury shares or purchase shares from the market.

**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### Restructuring provisions

Restructuring provisions are recognised in the period in which the Group becomes legally or constructively committed to payment and when the restructuring plan has been announced publicly. Employee termination charges are recognised when the Group has communicated the plan to the employees affected. Costs related to the ongoing activities of the Group are not provisioned in advance.

### Environmental remediation provisions

Expenditures that result from remediation of an existing condition caused by past operations and do not contribute to current or future revenues are expensed. The recognition of environmental remediation provisions is based on current interpretations of environmental laws and regulations. Such provisions are recognised when it is likely that the liability has been incurred and the amount of such liability can be reasonably estimated. Amounts provisioned do not include third-party recoveries.

### Emission rights

Emission obligations are recognised in provisions when the liability to deliver emission rights is incurred based on emissions made. The liability to deliver emission rights is recognised based on the carrying amount of emission rights on hand, if the liability is expected to be settled by those emission rights, or if excess emissions are incurred, at the market value of the emission rights at the balance sheet date.

**Dividends**

Dividend distribution to the parent company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the parent company's shareholders.

**Earnings per share**

The basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of convertible bonds and share options.

**Adoption of new and revised International Financial Reporting Standards interpretations and amendments to existing standards**

### New and amendments and interpretations effective in 2009

In 2009, the Group has adopted the following new and amended standards and interpretations:

Revised *IAS 23 Borrowing Costs* became effective for annual periods beginning on or after 1 January 2009. The revised standard requires that all borrowing costs relating to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. The Group's accounting policy was already in accordance with revised IAS 23 so there were no changes in Group's financial statements.

*IFRIC 13 Customer Loyalty Programmes* became effective for annual periods beginning on or after 1 July 2008. The interpretation addresses the accounting by entities that grant loyalty award credits to customers who buy other goods or services. This interpretation is not relevant for the Group and therefore has not had an impact on Group's financial statements.

Revised *IAS 1 Presentation of Financial Statements* became effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. Following the adoption of the revised standard the Group presents two separate statements (a separate income statement followed by a statement of comprehensive income).

Amendment to *IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations* became effective for annual periods beginning on or after 1 January 2009. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have an impact on the Group's financial statements.

Amendment to *IFRS 7 Financial Instruments – Disclosures* became effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment has resulted in additional disclosures in Group's financial statements.

Amendments to *IAS 32 Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* became effective for annual periods beginning on or after 1 January 2009. The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The amendment does not have an impact on the Group's financial statements.

Amendments related to *Improvements to IFRSs,* (Annual Improvements 2008), are mainly effective for annual periods beginning on or after 1 January 2009. Through annual improvement projects minor changes to wordings to clarify the meaning and removals of unintended inconsistencies between standards are combined and implemented annually. Annual improvements 2008 related to 34 different standards. These amendments do not have a material impact on the Group's financial statements.

Amendments to *IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives* became effective for annual periods ending on or after 30 June 2009. The amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The amendments do not have an impact on the Group's financial statements.

Amendments to *IFRS 1 First Time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* became effective for annual periods beginning on or after 1 January 2009. These amendments relate to first time adoption of IFRS and therefore are not relevant for the Group.

*IFRIC 15 Agreements for Construction of Real Estates* became effective for annual periods beginning on or after 1 January 2010. The interpretation clarifies whether IAS 18 Revenue or IAS 11 Construction contracts should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation* is effective for annual periods beginning on or after 1 October 2008. IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21 do apply to the hedged item. The interpretation does not have an impact on the Group's financial statements.

*IFRIC 18 Transfers of Assets from Customers* is applied prospectively to transfers of assets from customers received on or after 1 July 2009. The interpretation clarifies the requirements of IFRS standards for agreements in which an entity receives from a customer an item of property, plant and equipment or cash to be invested in such an item that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation does not have an impact on the Group's financial statements.

### New and revised standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, interpretations and amendments to existing standards have been published and are not yet effective. The Group has not early adopted any of the standards:

Revised *IFRS 3 Business Combinations* is effective for annual periods beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The revised standard will have an impact on the accounting for the Group's future business combinations.

Amendment to *IAS 27 Consolidated and Separate Financial Statements* is effective for annual periods beginning on or after 1 July 2009. The amendment requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

*IFRIC 12 Service Concession Arrangements* is effective for annual periods beginning on or after 30 March 2009. The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. This interpretation is not relevant for the Group, since it has not had any such arrangements in current or previous periods.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items* is effective for annual periods beginning on or after 1 July 2009. The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of: a one-sided risk in a hedged item, and inflation in a financial hedged item. The amendment is not expected to have an impact on the Group's financial statements.

*IFRIC 17 Distribution of Non-Cash Assets to Owners* is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies how an entity should measure the distribution of assets when it distributes other assets than cash. It is not expected that the interpretation will have an impact on the Group's financial statements.

Amendments related to *Improvements to IFRSs* published in April 2009, (Annual Improvements 2009), are mainly effective for annual periods beginning on or after 1 January 2010. Through annual improvement projects minor changes to wordings to clarify the meaning and removals of unintended inconsistencies between standards are combined and implemented annually. Annual improvements 2009 related to 12 different standards. These amendments are not expected to have material impacts on the Group's financial statements. These amendments are not yet endorsed by the EU.

Amendment to *IFRS 1 First-time Adoption of IFRS – Additional Exemptions for First-time Adopters* is effective for annual periods beginning on or after 1 January 2010. The amendment does not have an impact on the Group's financial statements as the Group is not a first time adopter of IFRSs. This amendment is not yet endorsed by the EU.

Amendment to *IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions* is effective for annual periods beginning on or after 1 January 2010. The amendment to IFRS 2 clarifies that an entity that receives goods or services from its suppliers must apply IFRS 2 even though the entity has no obligation to make the required share-based cash payments. The amendment does not have an impact on the Group's financial statements.

Amendment to *IAS 32 Financial Instruments: Presentation – Classification of Rights Issues* is effective for annual periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is not expected to have an impact on the Group's financial statements.

*IFRS 9 Financial Instruments,* the standard is effective for annual periods beginning on or after 1 January 2013 and it represents the first milestone in the IASB's planned replacement of IAS 39. It addresses classification and measurement of financial assets. The next steps involve reconsideration and re-exposure of the classification and measurement requirements for financial liabilities, impairment testing methods for financial assets, and development of enhanced guidance on hedge accounting. The standard will have impacts on accounting for Group's financial instruments. This standard is not yet endorsed by the EU.

Amendment to *IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* is effective for annual periods beginning on or after 1 January 2011. This amendment corrects the unintended consequence of IFRIC 14 in IAS 19. The amendment does not have an impact on the Group's financial statements. This amendment is not yet endorsed by the EU.

Revised to *IAS 24 Related Party Disclosures* is effective for annual periods beginning on or after 1 January 2011. The revised standard provides a partial exemption from the disclosure requirements for government-related entities and to clarify the definition of a related party. The revised standard is not expected to have an impact on the Group's financial statements. This revised standard is not yet endorsed by the EU.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods beginning on or after 1 July 2010. The interpretation addresses on how to account for the extinguishment of a financial liability by the issue of equity instruments. IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. The interpretation is not expected to have an impact on the Group's financial statements. This amendment is not yet endorsed by the EU.

Amendment to *IFRS 1 First-time adoption of IFRS – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* is effective for annual periods beginning on or after 1 July 2010. The amendment does not have an impact on the Group's financial statements as the Group is not a first time adopter of IFRSs. This amendment is not yet endorsed by the EU.

## 2 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### Impairment of non-current assets

Goodwill, intangible assets not yet available for use and intangible assets with indefinite useful lives are tested at least annually for impairment. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. If the balance sheet carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. Actual cash flows could vary from estimated discounted future cash flows. The long useful lives of assets, changes in estimated future sales prices of products, changes in product costs and changes in the discount rates used could lead to significant impairment charges. Details of the impairment tests are provided in Note 16.

### Biological assets

The Group owns about 1.2 million hectares of forest land. Biological assets (i.e. living trees) are measured at their fair value at each balance sheet date. The fair value of biological assets is determined based among other estimates on growth potential, harvesting, price development and discount rate. Changes in any estimates could lead to recognition of significant fair value changes in income statement.

### Employee benefits

The Group operates a mixture of pension and other post-employment benefit schemes. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. These factors include, among others, assumptions about the discount rate, expected return on plan assets and changes in future compensation. Statistical information used may differ materially from actual results due to changing market and economic conditions, changes in service period of plan participants or changes in other factors. Actual results that differ from assumptions and the effects of changes in assumptions are accumulated and charged or credited to income over the expected average remaining service lives of the employees to the extent that these exceed 10% of the higher of the pension plan assets or defined benefit obligation. Significant differences in actual experience or significant changes in assumptions may materially affect the future amounts of the defined benefit obligation and future expense.

### Environmental provisions

Operations of the Group are based on heavy process industry which requires large production facilities. In addition to basic raw materials, considerable amount of chemicals, water and energy is used in processes. The Group's operations are subject to several environmental laws and regulations. The Group aims to operate in compliance with regulations related to the treatment of waste water, air emissions and landfill sites. The Group has provisions for normal environmental remediation costs. Unexpected events occurred during production processes and waste treatment could cause material losses and additional costs in the Group's operations.

#### Income taxes

Management judgement is required for the calculation of provision for income taxes and deferred tax assets and liabilities. The Group reviews at each balance sheet date the carrying amount of deferred tax assets. The Group considers whether it is probable that the subsidiaries will have sufficient taxable profits against which the unused tax losses or unused tax credits can be utilised. The factors used in estimates may differ from actual outcome which could lead to significant adjustment to deferred tax assets recognised in the income statement.

#### Legal contingencies

Management judgement is required in measurement and recognition of provisions related to pending litigation. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past event, an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to inherent uncertain nature of litigation, the actual losses may differ significantly from the originally estimated provision.

## 3 FINANCIAL RISK MANAGEMENT

### FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest risk and other price risk), credit risk and liquidity risk.

The objective of financial risk management is to protect the Group from unfavourable changes in financial markets and thus help to secure profitability. The objectives and limits for financing activities are defined in the Group Treasury Policy approved by the company's Board of Directors.

In financial risk management various financial instruments are used within the limits specified in the Group Treasury Policy. Only such instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

Financial services are provided and financial risk management carried out by a central treasury department, Treasury and Risk Management (TRM). The centralization of Treasury functions enables efficient financial risk management, cost-efficiency and efficient cash management.

#### Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD the GBP and the JPY. Foreign exchange risk arises from future commercial transactions and from recognised assets and liabilities.

The objective of foreign exchange risk management is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings as well as in the Group's balance sheet by hedging foreign exchange risk in forecasted cash flows and balance sheet exposures.

#### Transaction exposure

The Group hedges transaction exposure related to highly probable future commercial foreign currency cash flows on a rolling basis over the next 12-month period based on the units' forecasts. According to the Group's Treasury Policy 50% hedging is considered risk neutral. Some highly probable cash flows have been hedged for longer than 12 months ahead while deviating from the risk neutral hedging level at the same time. Forward contracts are used in transaction exposure management. Most of the derivatives entered into to hedge foreign currency cash flows meet the hedge accounting requirements set by the IFRS. 50% (52%) of the forecasted 12-month currency flow was hedged on 31 December 2009 The table below shows the nominal values of the hedging instruments at 31 December 2009 and 2008.

#### Nominal values of hedging instruments

| Currency | 2009 €m | 2008 €m |
|---|---|---|
| USD | 222 | 294 |
| GBP | 196 | 219 |
| JPY | 177 | 77 |
| AUD | 37 | 79 |
| CHF | 22 | 32 |
| DKK | 25 | 32 |
| Others | 35 | 21 |
| Total | 714 | 754 |

For segment reporting purposes, the hedges made by TRM on behalf of UPM's subsidiaries and business units are allocated to appropriate segments. External forwards are designated at group level as hedges of foreign exchange risk of specific future foreign currency sales on gross basis.

The Group has several currency denominated assets and liabilities in its balance sheet such as foreign currency loans and deposits, accounts payable and receivable and cash in other currencies than functional currency. The aim is to hedge this balance sheet exposure fully using financial instruments. The Group might, however, within the limits set in the Group Treasury Policy have unhedged balance sheet exposures. At 31 December 2009 unhedged balance sheet exposures in interest bearing assets and liabilities amounted to 9 million (45 million). In addition to this the Group has non interest bearing accounts receivable and payable balances denominated in foreign currencies. The nominal values of the hedging instruments used in accounts payable and receivable hedging were 256 million (277 million).

#### Translation exposure

Translation exposure consists of net investments in foreign subsidiaries. The exchange risks associated with the shareholders' equity of foreign subsidiaries are only hedged in Canada. The net investments of all other foreign operations remain unhedged.

#### Foreign exchange risk sensitivity

At 31 December 2009, if Euro had weakened/strengthened by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been € 3 million (4 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been € 31 million (39 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2009, if Euro had weakened/strengthened by 10% against the GBP with all other variables held constant, pre-tax profit for the year would have been € 0 (0) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been € 20 million (22 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2009, if Euro had weakened/strengthened by 10% against the JPY with all other variables held constant, pre-tax profit for the year would have been € 5 million (1 million) lower/higher. The effect in equity would have been € 10 million (5 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

The following assumptions were made when calculating the sensitivity to changes in the foreign exchange risk:

- The variation in exchange rates is 10%.
- Major part of non-derivative financial instruments (such as cash and cash equivalents, trade receivables, interest bearing-liabilities and trade payables) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives i.e. the balance sheet position is close to zero. Exchange rate fluctuations have therefore minor or no effects on profit or loss.
- The position includes foreign currency forward contracts that are part of the effective cash flow hedge having an effect on equity.
- The position includes also foreign currency forward contracts that are not part of the effective cash flow hedge having an effect on profit.
- The position excludes foreign currency denominated future cash flows.

### Interest rate risk

The interest-bearing debt exposes the Group to interest rate risk, namely repricing and fair value interest rate risk caused by interest rate movements. The objective of interest rate risk management is to reduce the fluctuation of the interest expenses caused by the interest rate movements.

The management of interest rate risk is based on the 6-month average duration of the net debt portfolio as defined in the Group Treasury Policy. This relatively short duration is based on the assumption that on average yield curves will be positive. Thus this approach reduces interest cost in the long term. The duration may deviate between 3 and 12 months. At 31 December 2009 the average duration was 6 months (6 months). The Group uses interest rate derivatives to change the duration of the net debt.

The Group's net debt per currency corresponds to the parent company's and subsidiaries' loan portfolios in their functional currencies. The nominal values of the Group's interest-bearing net debts including derivatives by currency at 31 December 2009 and 2008 were as follows:

| Currency | 2009 €bn | 2008 €bn |
|---|---|---|
| EUR | 3.9 | 4.3 |
| CNY | 0.2 | 0.3 |
| USD | 0.4 | 0.3 |
| CAD | –0.7 | –0.6 |
| Others | –0.1 | 0.1 |
| Total | 3.7 | 4.4 |

Most of the long-term loans and the interest rate derivatives related to them meet the IFRS hedge accounting requirements.

#### Interest rate risk sensitivity

At 31 December 2009, if the interest rate of net debt had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been € 6 million (9 million) lower/ higher, mainly as a result of higher/lower interest expense on floating rate interest-bearing liabilities. There would be no effect on equity.

The following assumptions were made when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be 100 basis points parallel shift in applicable interest rate curves.
- In the case of fair value hedges designated for hedging interest rate risk, the changes in the fair values of the hedged items and the hedging instruments attributable to the interest rate movements balance out almost completely in the income statement in the same period. However, the possible ineffectiveness has an effect on the profit of the year.
- Fixed rate interest-bearing liabilities that are measured at amortised cost and which are not designated to fair value hedge relationship are not subject to interest rate risk sensitivity.
- Variable rate interest-bearing liabilities that are measured at amortised cost and which are not designated as hedged items are included in interest rate sensitivity analysis.
- Changes in the market interest rate of interest rate derivatives (interest rate futures, swaps and cross currency swaps) that are not designated as hedging instruments under IAS 39 affect the financial income or expenses (net gains or losses from remeasurement of the financial assets and liabilities to fair value) and are therefore included in the income-related sensitivity analysis.

### Liquidity and refinancing risk

The Group seeks to maintain adequate liquidity under all circumstances by means of efficient cash management and restricting investments to those that can be readily converted into cash. The Group utilises commercial paper programmes for short term financing purposes. Committed credit facilities are used to secure financing under all circumstances and as a backup for commercial paper programmes.

Refinancing risks are minimised by ensuring balanced loan portfolio maturing schedule and sufficient long maturities. The average loan maturity at 31 December 2009 was 6.1 years (5.7 years).

Some of the financing agreements concluded by UPM-Kymmene Corporation have a financial covenant concerning the Group's financial position. Either

1) Gearing not to exceed 90% (31.12.2009 Gearing was 56%) or
2) Adjusted Equity ratio not to be less than 30% (31.12.2009 Adjusted Equity ratio was 47.3%)

### Cash funds and committed credit facilities

| €m | 2009 | 2008 |
|---|---|---|
| Cash funds | 438 | 330 |
| Committed facilities | 1,875 | 2,500 |
| of which used | –140 | –687 |
| Used uncommitted credit lines | –87 | –74 |
| Long-term loan repayment | –166 | –344 |
| Available liquidity | 1,920 | 1,725 |

The most important financial programmes in use are:

Uncommited:
- Domestic commercial paper programme, € 1,000 million
- Belgian commercial paper programme, € 400 million
- Medium Term Note programme, € 5,000 million

Commited:
- Revolving Credit Facility, € 825 million (matures 2012)
- Revolving Credit Facility, € 1,000 million (matures 2012)

The contractual maturity analysis for financial liabilities is presented in Note 31.

### Financial counterparty risk

The financial instruments the Group has agreed with banks and financial institutions contain an element of risk of the counterparties being unable to meet their obligations. According to the Group Treasury Policy derivative instruments and investments of cash funds may be made only with counterparties meeting certain creditworthiness criteria. The Group minimises counterparty risk also by using a number of major banks and financial institutions. Creditworthiness of counterparties is constantly monitored by TRM.

### Credit risk

With regard to operating activities, the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Open trade receivables, days of sales outstanding (DSO) and overdue trade receivables are followed on monthly basis.

Potential concentrations of credit risk with respect to trade and other receivables are limited due to the large number and geographic dispersion of companies that comprise the Group's customer base. Customer credit limits are established and monitored, and ongoing evaluations of customers' financial condition are performed. Most of the receivables are covered by credit risk insurances. In certain market areas, measures to reduce credit risks include letters of credit, prepayments and bank guarantees. The ageing analysis of trade receivables is presented in Note 26. The Group considers that no significant concentration of customer credit risk exists. The ten largest customers accounted for approximately 15% (15%) of the Group's trade receivables as at 31 December 2009 – i.e., approximately € 170 million (190 million). The credit risk relating to the commitments is discussed in Note 39.

### Derivatives related to commodity price risk management

The Group's manufacturing process requires a significant amount of electricity. The procurement and sales of electricity are managed and optimised by the Group. The Group manages the price risk of its electricity exposure with electricity forward contracts.

If all electricity prices quoted on 31 December 2009 at Nord Pool electricity exchange would have been 25% higher/lower with all other variables constant, pre-tax profit for the year would have been € 5 million (19 million) higher/lower. The sensitivity analysis assumes a 25% parallel move in electricity prices for all maturities. The sensitivity analysis includes only outstanding electricity derivatives.

### Capital risk management

The Group's objective in managing its capital is to ensure maintenance of flexible capital structure to enable the Group to operate in capital markets.

To measure a satisfactory capital balance between equity investors and financial institutions the Group has set a target for the ratio of net interest-bearing liabilities and equity (gearing). To ensure sufficient flexibility, the aim is to keep the gearing ratio well below the maximum acceptable level of 90%.

The following capitalisation table sets out the Group's equity and interest-bearing liabilities and gearing ratios:

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Equity attributable to the equity holders of the parent company | 6,586 | 6,106 |
| Minority interest | 16 | 14 |
| Total equity | 6,602 | 6,120 |
| Long-term interest-bearing liabilities | 4,164 | 4,534 |
| Short-term interest-bearing liabilities | 300 | 537 |
| Liabilities related to assets classified as held for sale, interest-bearing | – | 2 |
| Interest-bearing liabilities, total | 4,464 | 5,073 |
| Total capitalisation | 11,066 | 11,193 |
| Interest-bearing liabilities, total | 4,464 | 5,073 |
| Less: Interest-bearing receivables, total | –734 | –752 |
| Net interest-bearing liabilities | 3,730 | 4,321 |
| Gearing ratio, % | 56 | 71 |

### Fair value estimation of financial instruments

Fair values of 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 flow analyses; and commodity derivatives are fair valued based on quoted market rates on the balance sheet date.

In assessing the fair value of non-traded derivatives such as embedded derivatives the Group uses valuation methods and assumptions that are based on market quotations existing at each balance sheet date. Embedded derivatives that are identified are monitored by the Group and the fair value changes are reported in other operating income in the income statement.

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair values of listed investments are based on quoted prices.

On 8 December 2009, the Group sold approximately 30% of its shares in the associated company Oy Metsä-Botnia Ab. The remaining ownership of 16.96% was reclassified as an available-for-sale investment with a fair value increase of € 25 million, totalling to € 205 million as available-for-sale investment. The fair value is based on the discounted value of the expected cash flows of the investment.

Unlisted shares, for which fair values cannot be measured reliably, are recognised at cost.

**Financial assets and liabilities measured at fair value**

| €m | Fair values as at 31 December 2009 Level 1 | Level 2 | Level 3 | Total balance |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading derivatives | 24 | 102 | – | 126 |
| Derivatives used for hedging | – | 240 | – | 240 |
| Available-for-sale instruments | – | – | 205 | 205 |
| At 31 Dec. | 24 | 342 | 205 | 571 |
| **Liabilities** | | | | |
| Trading derivatives | 26 | 158 | – | 184 |
| Other liabilities | – | – | 4 | 4 |
| Derivatives used for hedging | – | 70 | – | 70 |
| At 31 Dec. | 26 | 228 | 4 | 258 |

**The following table presents the changes in level 3 instruments for the year ended 31 December 2009**

| €m | Available-for-sale instruments | Other liabilities | Total |
|---|---|---|---|
| Opening balance | – | | |
| Transfers into level 3 | 205 | –4 | 201 |
| Transfers from level 3 | – | – | – |
| Gains and losses | – | – | – |
| Recognised in income statement | – | – | – |
| Recognised in statement of comprehensive income | – | – | – |
| Closing balance | 205 | –4 | 201 |

## 4 SEGMENT INFORMATION

The Group's management has determined the operating segments based on management reporting regularly reviewed by the Group's chief operating decision maker. The chief operating decision maker has been identified as the Group's President and CEO.

The operating segments are organised on a basis of products.

UPM consists of three Business Groups, which are Energy and pulp comprising Energy, Pulp, and Forest and timber reportable segments; Paper as a reportable segment; and Engineered materials comprising Label and Plywood reportable segments. Other operations include development units (RFID tags, the wood plastic composite unit UPM ProFi and biofuels), logistic services and corporate administration.

**Reportable segments**

### Energy

The Energy segment includes UPM's hydropower plants and shares in energy companies, mainly in the associated company Pohjolan Voima Oy, and in Kemijoki Oy. Combined heat and power (CHP) plants operating on paper mill sites are included in the Paper segment.

### Pulp

The Pulp segment includes the Group's pulp mills. Uruguayan operations, acquired in December 2009, are included in the Pulp segment.

### Forest and timber

The Forest and timber segment includes forests, wood procurement, and sawmills with an annual production capacity of 2.4 million cubic metres.

### Paper

The Paper segment includes the Group's paper mills, producing magazine papers, newsprint, fine papers, and speciality papers. The annual production capacity is approximately 11 million tonnes. This segment also includes the CHP plants at paper mill sites.

### Label

The Label segment includes labelstock factories and slitting and distribution terminals.

### Plywood

The Plywood segment includes plywood mills. The segment's annual production capacity is 1.1 million cubic metres.

### Other operations

Other operations include development units (RFID tags, the wood plastic composite unit UPM ProFi and biofuels) logistic services and corporate administration.

The Group has not aggregated any operating segments in determination of the above reportable segments.

The information reported for each segment is the measure of what the Group's President and CEO uses internally for evaluating segment performance and deciding on how to allocate resources to operating segments.

The performance of operating segment is evaluated primarily based on segment's operating profit, which is measured on a basis consistent with consolidated financial statements. Sales between the segments are based on market prices.

The amounts provided to the President and CEO in respect of segments assets and liabilities are measured on a basis consistent with consolidated financial statements. The assets and liabilities are allocated to the segments based on the segments operations. Unallocated assets and liabilities comprises of other than energy shares under available-for-sale investments, non-current financial assets, deferred tax assets and liabilities, other non-current assets, income tax receivables and payables, cash and cash equivalents, assets classified as held for sale and related liabilities, retirement benefit obligations, provisions, interest-bearing liabilities and other liabilities and payables.

## Segment information for the year ended 31 December 2009

| €m | Energy | Pulp | Forest and timber | Paper | Label | Ply-wood | Other operations | Eliminations and re-conciliations | Group |
|---|---|---|---|---|---|---|---|---|---|
| External sales | 135 | 63 | 618 | 5,591 | 942 | 291 | 79 | – | 7,719 |
| Internal sales | 337 | 590 | 719 | 176 | 1 | 15 | 32 | –1,870 | – |
| Total sales | 472 | 653 | 1,337 | 5,767 | 943 | 306 | 111 | –1,870 | 7,719 |
| Share of results of associates and joint ventures | –40 | –52 | 2 | –1 | – | – | –4 | – | –95 |
| Operating profit | 144 | –156 | –9 | 345 | 35 | –82 | –142 | – | 135 |
| Gains on available-for-sale investments, net | | | | | | | | | –1 |
| Finance costs, net | | | | | | | | | 53 |
| Income taxes | | | | | | | | | –18 |
| Profit (loss) for the period | | | | | | | | | 169 |
| Special items in operating profit 1) | –18 | –29 | –31 | –1 | –8 | –31 | –17 | – | –135 |
| Operating profit excluding special items | 162 | –127 | 22 | 346 | 43 | –51 | –125 | – | 270 |
| Assets 2) | 484 | 2,421 | 1,755 | 5,846 | 618 | 254 | 291 | –165 | 11,504 |
| Associates and joint ventures 2) | 431 | 39 | 2 | 67 | – | 6 | 8 | – | 553 |
| Unallocated assets | | | | | | | | | 1,548 |
| Total assets | | | | | | | | | 13,605 |
| Liabilities 3) | 28 | 96 | 120 | 414 | 134 | 18 | 41 | –165 | 686 |
| Unallocated liabilities | | | | | | | | | 6,317 |
| Total liabilities | | | | | | | | | 7,003 |
| Other items | | | | | | | | | |
| Depreciation and amortisation | 6 | 85 | 22 | 583 | 35 | 21 | 8 | – | 760 |
| Impairment charge | – | – | 12 | –5 | 2 | 6 | 4 | – | 19 |
| Capital expenditure 4) | 73 | 562 | 16 | 148 | 20 | 17 | 77 | – | 913 |
| Capital expenditure, excluding acquisitions and shares | 7 | 24 | 16 | 136 | 20 | 17 | 9 | – | 229 |
| Capital employed, 31 December 5) | 886 | 2,364 | 1,638 | 5,499 | 484 | 242 | 258 | –305 | 11,066 |
| Capital employed, average | 870 | 1,668 | 1,717 | 5,714 | 503 | 266 | 141 | –218 | 10,661 |
| Return on capital employed, excluding special items % 6) | 18.6 | –7.6 | 1.3 | 6.1 | 8.5 | –19.2 | –88.7 | – | 2.5 |
| Personnel at year end | 92 | 1,516 | 3,067 | 12,161 | 2,595 | 3,292 | 490 | – | 23,213 |
| Personnel, average | 95 | 1,154 | 3,142 | 12,477 | 2,710 | 3,520 | 520 | – | 23,618 |

1) In 2009, special items of € 18 million in Energy segment relate to impairments of associated company Pohjolan Voima's two power plants. In Pulp segment special items of € 29 million relate to the associated company Metsä-Botnia's Kaskinen pulp mill closure. Special items of the Forest and timber segment of € 14 million, including impairment charges of € 5 million, Timber operations in Finland. In addition Forest and timber segment's special items include impairment charges of € 7 million related to wood procurement operations and special items of € 10 million relate to the sales loss of Miramichi's forestry and sawmilling operations' assets. In Paper segment special items of € 36 million relate to restructuring charges in several units. In addition, special items in Paper segment include impairment reversals of € 4 million and an income of € 31 million related to the sale of the assets of the former Miramichi paper mill. In Label segment special items € 8 million relate to restructuring charges, including impairment charges of € 2 million. In Plywood segment special items include impairment charges of € 6 million and other restructuring charges of € 25 million. In Other operations special items include impairment charges of € 2 million and other charges of € 4 million both relating to terminated activities and special items of € 11 million relating mainly to estates of closed industrial sites in Finland.

2) Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

3) Segment liabilities include trade payables and advances received.

4) Capital expenditure include goodwill arisen in business combinations, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures.

5) Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

6) The formula for calculation of the return on capital employed; segments: Operating profit excluding special items/Capital employed (average) x 100, the Group: (Profit before tax + interest expenses and other financial expenses–special items)/(Total equity+interest bearing liabilities (average)) x 100.

## Segment information for the year ended 31 December 2008

| €m | Energy | Pulp | Forest and timber | Paper | Label | Ply-wood | Other operations | Eliminations and re-conciliations | Group |
|---|---|---|---|---|---|---|---|---|---|
| External sales | 137 | 63 | 869 | 6,761 | 956 | 491 | 184 | – | 9,461 |
| Internal sales | 341 | 881 | 1,051 | 250 | 3 | 39 | 16 | –2,581 | – |
| Total sales | 478 | 944 | 1,920 | 7,011 | 959 | 530 | 200 | –2,581 | 9,461 |
| Share of results of associates and joint ventures | –26 | 86 | – | 1 | – | – | 1 | – | 62 |
| Operating profit | 175 | 89 | –59 | –129 | –26 | 28 | –54 | – | 24 |
| Gains on available-for-sale investments, net | | | | | | | | | 2 |
| Finance costs, net | | | | | | | | | –227 |
| Income taxes | | | | | | | | | 21 |
| Profit for the period | | | | | | | | | –180 |
| Special items in operating profit [1] | – | –59 | –36 | –379 | –28 | 3 | 10 | – | –489 |
| Operating profit excluding special items | 175 | 148 | –23 | 250 | 2 | 25 | –64 | – | 513 |
| Assets [2] | 480 | 1,040 | 1,976 | 6,378 | 661 | 313 | 161 | –139 | 10,870 |
| Associates and joint ventures [2] | 498 | 745 | 1 | 15 | – | – | 4 | – | 1,263 |
| Unallocated assets | | | | | | | | | 1,648 |
| Total assets | | | | | | | | | 13,781 |
| Liabilities [3] | 23 | 67 | 135 | 377 | 132 | 18 | 32 | –141 | 643 |
| Unallocated liabilities | | | | | | | | | 7,018 |
| Total liabilities | | | | | | | | | 7,661 |
| Other items | | | | | | | | | |
| Depreciation and amortisation | 5 | 77 | 24 | 639 | 32 | 21 | 8 | – | 806 |
| Impairment charge | 1 | 51 | 32 | 328 | 7 | – | – | – | 419 |
| Capital expenditure [4] | 8 | 151 | 24 | 219 | 96 | 22 | 31 | – | 551 |
| Capital expenditure, excluding acquisitions and shares | 8 | 146 | 24 | 205 | 96 | 22 | 31 | – | 523 |
| Capital employed, 31 December [5] | 955 | 1,718 | 1,843 | 6,016 | 529 | 295 | 134 | –297 | 11,193 |
| Capital employed, average | 951 | 1,674 | 1,878 | 6,503 | 510 | 307 | 137 | –814 | 11,146 |
| Return on capital employed, excluding special items % [6] | 18.4 | 8.8 | –1.2 | 3.8 | 0.4 | 8.1 | –46.7 | – | 4.6 |
| Personnel at year end | 39 | 1,159 | 3,278 | 13,262 | 2,851 | 3,799 | 595 | – | 24,983 |
| Personnel, average | 27 | 1,379 | 3,445 | 13,777 | 2,824 | 3,950 | 615 | – | 26,017 |

1) In 2008, special items of the Pulp segment of € 59 million relate to the closure of the Tervasaari pulp mill. In Forest and timber segment special items include an impairment charge of € 31 million related to fixed assets of the Finnish sawmills. Special items of the Paper segment include the goodwill impairment charge of € 230 million, impairment charges of € 101 million and other restructuring costs of € 42 million related to the closure of the Kajaani paper mill, and other restructuring costs, net of € 6 million. In Label segment special items of € 28 million relate to measures to reduce coating capacity and close two slitting terminals in Europe. In Plywood segment special items include reversals of provisions related to the disposed Kuopio plywood mill. In Other operations special items include an adjustment of € 5 million to sales of disposals of 2007 and other restructuring income net of € 5 million.

2) Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, investments in energy shares under available-for-sale investments, inventories and trade receivables.

3) Segment liabilities include trade payables and advances received.

4) Capital expenditure include goodwill arisen in business combinations, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures.

5) Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

6) The formula for calculation of the return on capital employed; segments: Operating profit excluding special items/Capital employed (average) x 100, the Group: (Profit before tax + interest expenses and other financial expenses–special items)/(Total equity+interest bearing liabilities (average)) x 100.

### Geographical information

#### External sales by destination

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Germany | 1,365 | 1,640 |
| United Kingdom | 951 | 1,040 |
| Finland | 672 | 946 |
| France | 453 | 552 |
| Other EU countries | 1,754 | 2,259 |
| Other European countries | 391 | 467 |
| United States | 800 | 940 |
| Canada | 41 | 65 |
| China | 367 | 397 |
| Rest of world | 925 | 1,155 |
| Total | 7,719 | 9,461 |

#### Total assets by country

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Germany | 2,281 | 2,514 |
| United Kingdom | 610 | 565 |
| Finland | 6,414 | 7,547 |
| France | 448 | 521 |
| Other EU countries | 570 | 592 |
| Other European countries | 118 | 132 |
| United States | 538 | 592 |
| Canada | 175 | 186 |
| China | 756 | 832 |
| Uruguay | 1,486 | 108 |
| Rest of world | 209 | 192 |
| Total | 13,605 | 13,781 |

#### Capital expenditure by country

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Germany | 24 | 33 |
| United Kingdom | 35 | 56 |
| Finland | 168 | 280 |
| France | 10 | 13 |
| Poland | 10 | 68 |
| Other European countries | 17 | 17 |
| North America | 9 | 23 |
| China | 2 | 9 |
| Uruguay | 604 | 5 |
| Rest of world | 34 | 47 |
| Total | 913 | 551 |

## 5 ACQUISITIONS AND DISPOSALS AND NOTES TO THE CASH FLOW STATEMENT

### Acquisitions

On 8 December 2009, UPM, Metsäliitto Cooperative, M-Real corporation and Oy Metsä-Botnia Ab (Botnia) completed a transaction whereby UPM acquired Botnia's and Metsäliitto's shares of Botnia South America S.A. which owns the companies operating the Uruguayan Fray Bentos pulp mill and the forestry company Forestal Oriental, and whereby UPM sold approximately 30% of shares in Oy Metsä-Botnia Ab to Metsäliitto. The operations acquired have been consolidated in the Group's financial statements as of December 2009. If the transaction had occurred on 1 January 2009, UPM's sales would have been € 7,923 million and profit for the period € 219 million.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

#### Purchase consideration:

| €m | 2009 |
|---|---|
| Cash paid | 597 |
| Transaction costs | 5 |
| Total purchase consideration | 602 |

The goodwill includes intangible assets (e.g. synergies, assembled workforce) that did not meet certain criteria for recognition under IFRS 3.

#### The assets and liabilities as of 8 December 2009 arising from the acquisition are as follows:

| €m | Fair value of net assets acquired | Fair value adjust-ments | Acquired carrying amount |
|---|---|---|---|
| Cash and cash equivalents | 94 | – | 94 |
| Goodwill (Note 16) | – | –43 | 43 |
| Other intangible assets (Note 17) | 4 | – | 4 |
| Customer relationships and other intangible assets (Note 17) | 43 | 43 | – |
| Property, plant and equipment (Note 18) | 1,013 | 227 | 786 |
| Biological assets (Note 20) | 150 | – | 150 |
| Investments in associated companies (Note 21) | 3 | – | 3 |
| Inventories | 121 | 11 | 110 |
| Trade and other receivables | 75 | – | 75 |
| Trade and other payables | –68 | – | –68 |
| Interest-bearing liabilities | –359 | – | –359 |
| Deferred income taxes (Note 28) | –12 | –10 | –2 |
| Total identifiable net assets | 1,064 | 228 | 836 |
| Minority interests | –2 | | |
| Asset valuation surplus and cost of the prior ownership | –542 | | |
| Total acquired net assets | 520 | | |
| Goodwill | 82 | | |
| Total purchase consideration | 602 | | |
| Purchase consideration settled in cash | 602 | | |
| Cash and cash equivalents in subsidiary acquired | –94 | | |
| Cash outflow on acquisition | 508 | | |

The fair value of the acquired net assets is provisional pending on the final valuations.

In 2008 no acquisitions were made.

### Disposals

In 2009 there were no disposals.

In 2008 disposals relate to the sale of UPM's RFID antenna manufacturing company Inture Circuits Ltd in July and adjustments to disposals in 2007.

None of these disposals are classified as discontinued operations.

### Net assets and liabilities of disposals

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Cash and cash equivalents | – | 1 |
| Other intangible assets | – | – |
| Property, plant and equipment | – | – |
| Investment property | – | – |
| Inventories | – | – |
| Receivables | – | 2 |
| Accounts payable and other liabilities | – | –3 |
| Interest-bearing liabilities | – | –1 |
| | – | –1 |
| Gain/loss on disposal | – | 8 |
| Total consideration | – | 7 |
| Settled in cash and cash equivalents | – | 7 |
| Cash and cash equivalents in subsidiary disposed | – | –1 |
| Net cash inflow arising from disposals | – | 6 |

### Notes to the cash flow statement

### Adjustments to profit (loss) for the period

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Taxes | 18 | –21 |
| Depreciation, amortisation and impairment charges | 779 | 1,225 |
| Share of results in associated companies and joint ventures | 95 | –62 |
| Capital gains on sale of non-current assets, net | –235 | –30 |
| Finance costs, net | 167 | 227 |
| Settlement of restructuring charges | –43 | –56 |
| One-time contributions to pension funds | – | –85 |
| Other adjustments | –9 | 34 |
| Total | 772 | 1,232 |

### Change in working capital

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Inventories | 400 | –55 |
| Current receivables | 156 | 138 |
| Current non-interest bearing liabilities | –24 | –215 |
| Total | 532 | –132 |

## 6 OTHER OPERATING INCOME

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Gains on sale of non-current assets | 25 | 28 |
| Rental income, investment property | 7 | 6 |
| Rental income, other | 5 | 7 |
| Emission rights received (Note 7) | 22 | 37 |
| Derivatives held for trading | –27 | 2 |
| Exchange rate gains and losses | 9 | – |
| Other | 6 | 3 |
| Total | 47 | 83 |

## 7 COSTS AND EXPENSES

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Change in inventories of finished goods and work in progress | 128 | 93 |
| Production for own use | –16 | –17 |
| | 112 | 76 |
| **Materials and services** | | |
| Raw materials, consumables and goods | | |
| Purchased during the period | 3,917 | 5,244 |
| Change in inventories | 175 | –84 |
| External services [1] | 478 | 720 |
| | 4,570 | 5,880 |
| **Personnel expenses** | | |
| Salaries and fees | 933 | 1,079 |
| **Share-based payments** (Note 37) | 8 | 5 |
| **Indirect employee costs** | | |
| Pension costs-defined benefit plans (Note 29) | 28 | 31 |
| Pension costs-defined contribution plans | 134 | 146 |
| Post-employment medical benefits (Note 29) | 1 | 2 |
| Other indirect employee costs [2] | 138 | 143 |
| | 301 | 322 |
| **Other operating costs and expenses** | | |
| Rents and lease expenses | 58 | 53 |
| Emission expenses (Note 6) | 8 | 26 |
| Losses on sale of non-current assets | 10 | 1 |
| Other operating expenses [3] | 774 | 965 |
| | 850 | 1,045 |
| Costs and expenses, total | 6,774 | 8,407 |

1) External services comprise mainly distribution costs of products sold.

2) Other indirect employee expenses include primarily other statutory social expenses, excluding pension expenses.

3) Other operating expenses include, among others, energy and maintenance expenses as well as expenses relating to services and the company's administration.

The research and development costs included in costs and expenses were € 48 million (49 million).

### REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS AND THE GROUP EXECUTIVE TEAM

In accordance with the decision made by the 2009 Annual General Meeting, the fees of the Board members who do not belong to the operative management were: the Chairman of the Board of Directors received a fee of € 175,000 (175,000) for the year, the Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee a fee of € 120,000 (120,000), and the members of the Board of Directors a fee of € 95,000 (95,000). Of this fee in 2009 and 2008 60% was paid in cash and 40% in the form of the company shares purchased on the members' behalf. In 2009, 9,140 company shares were paid to the Chairman, 6,267 shares to the Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee respectively and 4,962 shares to the other members of the Board of Directors each, except for Jussi Pesonen.

**Shareholdings (no. of shares) and fees of the Board of Directors**

| € 1,000 | Shareholding 31 Dec. 2009 | Year ended 31 Dec. 2009 | 2008 |
|---|---|---|---|
| **Board members** | | | |
| Björn Wahlroos, Chairman | 218,217 | 175 | 175 |
| Berndt Brunow, Vice Chairman | 278,739 | 120 | 120 |
| Georg Holzhey, Vice Chairman | 530,778 | 120 | 120 |
| Matti Alahuhta | 41,603 | 95 | 95 |
| Karl Grotenfelt | 35,993 | 120 | 95 |
| Wendy E. Lane | 13,261 | 95 | 95 |
| Ursula Ranin | 12,323 | 95 | 95 |
| Veli-Matti Reinikkala | 11,183 | 95 | 95 |
| Jussi Pesonen, President and CEO | 92,814 | – | – |
| **Former Board members** | | | |
| Michael C. Bottenheim | – | – | 120 |
| Total | 1,234,911 | 915 | 1,010 |

**Group Executive Team remuneration**

| € 1,000 | Year ended 31 December 2009 | 2008 |
|---|---|---|
| **President and CEO Jussi Pesonen** | | |
| Remuneration | | |
| Salaries | 1,034 | 1,024 |
| Incentives | 160 | 90 |
| Share rewards | 513 | 443 |
| Benefits | 22 | 23 |
| Total | 1,729 | 1,580 |
| Payment in pension plans | | |
| Finnish TyEL scheme | 215 | 196 |
| Voluntary pension plan | 628 | 165 |
| Total | 843 | 361 |
| **Group Executive Team (excluding the President and CEO)** | | |
| Remuneration | | |
| Salaries | 3,435 | 4,278 |
| Incentives | 353 | 143 |
| Share rewards | – | 820 |
| Benefits | 141 | 162 |
| Total | 3,929 | 5,403 |
| Payment in pension plans | | |
| Finnish statutory pension scheme | 604 | 625 |
| Voluntary pension plan | 219 | 173 |
| Total | 823 | 798 |

According to the company's pay scheme, the President and CEO can be paid an 18 months' maximum reward, and the other executives can be paid a performance-related reward amounting to not more than twelve months' salary. In addition, the members of the Group Executive Team are also entitled to participate in the company's stock option plans. The expenses recognised in income statement in respect of share-based payments were € 3.7 million (1.1 million) including share options of € 1.2 million (0.5 million) and share rewards of € 2.5 million (0.6 million).

The retirement age of the President and CEO Jussi Pesonen is 60 years. The retirement age of the other members of the Group Executive Team is 63 years. For the President and CEO the target pension is 60% of the average indexed earnings from the last ten years of employment. The costs of lowering the retirement age or supplementing statutory pension security are generally covered by voluntary pension insurance. The expenses of the President and CEO's defined benefit pension plan in 2009 were € 0.1 million (0.1 million), and for other members of the Group Executive Team € 0.5 million (0.8 million).

Members of the Group Executive Team have certain benefits in the event of their service contracts being terminated prior to the expiration date stated in them. If UPM-Kymmene Corporation gives notice of termination to the President and CEO, Jussi Pesonen, a severance compensation of 24 months' basic salary will be paid, in addition to the six months' salary for the notice period. For other members of the Group Executive Team, the period for additional severance compensation is 12 months in addition to the six months' salary for the notice period.

The President and CEO is appointed by the Board of Directors.

If there is a change of control in UPM-Kymmene Corporation as defined in the service contracts, each member of the Group Executive Team may terminate his/her service contract within one month or, in the case of Jussi Pesonen 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.

**Audit fees**

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Audit fees | 2.3 | 2.3 |
| Audit related fees | 0.1 | 0.1 |
| Other non-audit services | 0.4 | 0.4 |
| Tax consulting fees | 0.9 | 1.5 |
| Total | 3.7 | 4.3 |

## 8 CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS AND WOOD HARVESTED

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Wood harvested | –82 | –88 |
| Change in fair value | 99 | 138 |
| Total | 17 | 50 |

## 9 SHARE OF RESULTS OF ASSOCIATED COMPANIES AND JOINT VENTURES

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Oy Metsä-Botnia Ab [1)] | –52 | 86 |
| Pohjolan Voima Oy | –39 | –26 |
| Others | –4 | 2 |
| Total | –95 | 62 |

[1)] In the balance sheet in the interim report for January–June, on 30 June 2009, UPM has regrouped the 30% transferable share of Botnia's book value as assets held for sale. Consequently, from July 2009, UPM has not included the share of the transferable Botnia operations in the share of results of associated companies.

## 10 DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| **Depreciation on property, plant and equipment** | | |
| Buildings | 94 | 98 |
| Machinery and equipment | 577 | 613 |
| Other tangible assets | 32 | 33 |
| | 703 | 744 |
| **Depreciation on investment property** | | |
| Buildings | 1 | 1 |
| **Amortisation of intangible assets** | | |
| Intangible rights | 14 | 16 |
| Other intangible assets | 42 | 45 |
| | 56 | 61 |
| **Impairment charges on property, plant and equipment** | | |
| Land areas | – | – |
| Buildings | 6 | 58 |
| Machinery and equipment | 10 | 120 |
| Other tangible assets | 1 | 4 |
| | 17 | 182 |
| **Impairment of intangible assets** | | |
| Goodwill | – | 230 |
| Intangible rights | 6 | – |
| Emission allowances | – | 2 |
| Other intangible assets | 1 | 5 |
| | 7 | 237 |
| **Impairment reversal** | | |
| Machinery and equipment | –5 | – |
| Depreciation, amortisation and impairment charges, total | 779 | 1,225 |

In June 2009, UPM recognised an impairment charge of € 7 million in wood procurement operations within Forest and timber segment, as result of restructuring measures. The restructuring of Label segment's European operations resulted into impairment charges of € 2 million.

In November 2009, UPM recognised impairment charges of € 5 million in Forest and timber segment and € 6 million in Plywood segment relating to restructuring of Timber and Plywood operations in Finland.

In December 2009, impairment charges of € 2 million were recognised in Other operations in relation to terminated activities in development units.

Impairment reversals in 2009 relate to machinery and equipment in Paper segment which have been written off in prior years.

In 2008, impairments include in Paper segment an impairment of goodwill of € 230 million. For goodwill test see Note 16.

In September 2008, UPM recognised an impairment charge of € 31 million in assets of Finnish sawmills within the Forest and timber segment, due to weakened profitability of sawmilling.

In November 2008, UPM's Label segment announced plans to restructure its European operations, resulting into impairment charges of € 7 million.

In December 2008, UPM closed down uncompetitive paper and pulp capacity in Finland, including the Kajaani paper mill and the Tervasaari pulp mill. This resulted into impairment charges of € 101 million in Paper segment related to the closure of the Kajaani paper mill and impairment charges of € 51 million in Pulp segment related to the closure of the Tervasaari pulp mill.

## 11 GAINS ON AVAILABLE-FOR-SALE INVESTMENTS, NET

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Fair value gains and losses on disposals | – | 2 |
| Impairment charges | –1 | – |
| Total | –1 | 2 |

## 12 FINANCE COSTS

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| **Exchange rate and fair value gains and losses** | | |
| Derivatives held for trading | 72 | 223 |
| Fair value gains on derivatives designated as fair value hedges | –138 | 337 |
| Fair value adjustment of borrowings attributable to interest rate risk | 140 | –358 |
| Foreign exchange gain/loss on financial liabilities measured at amortised cost | 17 | –248 |
| Foreign exchange gain/loss on loans and receivables | –100 | 21 |
| | –9 | –25 |
| **Interest and other finance costs, net** | | |
| Interest expense on financial liabilities measured at amortised cost | –207 | –213 |
| Interest income on derivative financial instruments | 60 | 3 |
| Interest income on loans and receivables | 5 | 5 |
| Gains and losses on sale of associated companies and joint ventures shares [1] | 220 | 4 |
| Gains on other non-current financial assets, net | –5 | – |
| Other financial expenses | –11 | –1 |
| | 62 | –202 |
| Total | 53 | –227 |

[1] Capital gain of € 220 million on the sales of approximately 30% share in Oy Metsä-Botnia Ab.

### Net gains and losses on derivative financial instruments included in the operating profit

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Derivatives designated as cash flow hedges | –9 | 82 |
| Derivatives held for trading | –27 | 2 |
| Total | –36 | 84 |

### The aggregate foreign exchange gains and losses included in the consolidated income statement

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Sales | –9 | 88 |
| Other operating income | 9 | – |
| Costs and expenses | – | –14 |
| Net financial items | –7 | –7 |
| Total | –7 | 67 |

## 13 INCOME TAXES

| €m | 2009 | 2008 |
|---|---|---|
| | Year ended 31 December | |
| **Major components of tax expenses** | | |
| Current tax expense | 66 | 60 |
| Change in deferred taxes (Note 28) | –48 | –81 |
| Income taxes, total | 18 | –21 |
| | | |
| **Income tax reconciliation statement** | | |
| Profit before tax | 187 | –201 |
| Computed tax at Finnish statutory rate of 26% | 49 | –52 |
| Difference between Finnish and foreign rates | –6 | –9 |
| Non-deductible expenses and tax exempt income | –53 | 42 |
| Tax loss with no tax benefit | 3 | 6 |
| Results of associated companies | 23 | –18 |
| Change in tax legislation | –2 | 12 |
| Other | 4 | –2 |
| Income taxes, total | 18 | –21 |
| | | |
| Effective tax rate | 9.6% | 10.4% |

Profit before taxes for 2009 include tax-exempt capital gains of € 220 million from the sale of approximately 30% of Oy Metsä-Botnia Ab's shares.

Income taxes for 2008 include an € 28 million income from a decrease of deferred tax liabilities relating to an impairment of Paper segments goodwill. Change in tax legislation includes a tax expense of € 13 million related to change in the UK tax legislation.

### Tax effects of components of other comprehensive income

| €m | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax | After tax | Before tax | Tax | After tax |
| Translation differences | 165 | – | 165 | –206 | – | –206 |
| Net investment hedge | –76 | 20 | –56 | 76 | –20 | 56 |
| Cash flow hedges | –7 | 3 | –4 | –45 | 12 | –33 |
| Available-for-sale investments | 21 | – | 21 | – | – | – |
| Share of other comprehensive income of associated companies | 30 | – | 30 | 1 | – | 1 |
| Other comprehensive income | 133 | 23 | 156 | –174 | –8 | –182 |

Year ended 31 December

## 14 EARNINGS PER SHARE

| | 2009 | 2008 |
|---|---|---|
| | Year ended 31 December | |
| Profit (loss) attributable to the equity holders of the parent company, €m | 169 | –179 |
| Weighted average number of shares (1,000) | 519,955 | 517,545 |
| Basic earnings per share, € | 0.33 | –0.35 |

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

| | 2009 | 2008 |
|---|---|---|
| | Year ended 31 December | |
| Profit (loss) attributable to the equity holders of the parent company, €m | 169 | –179 |
| Profit (loss) used to determine diluted earnings per share, €m | 169 | –179 |
| Weighted average number of shares (1,000) | 519,955 | 517,545 |
| Effect of options [1] | – | – |
| Weighted average number of shares for diluted earnings per share (1,000) | 519,955 | 517,545 |
| Diluted earnings per share, € | 0.33 | –0.35 |

[1] The dilution effect is calculated to determine the number of shares that could have been acquired at fair value (the average price for shares traded) based on the monetary subscription rights of the outstanding options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the options. 13.0 million shares exercisable with options (6.0 million) were excluded from the calculation of diluted earnings per share as they were not dilutive.

## 15 DIVIDEND PER SHARE

The dividends paid in 2009 were € 208 million (€ 0.40 per share) and in 2008 € 384 million (€ 0.75 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of € 234 million, € 0.45 per share, will be paid in respect of 2009.

## 16 GOODWILL

| €m | 2009 | 2008 |
|---|---|---|
| | As at 31 December | |
| Acquisition cost at 1 Jan. | 1,513 | 1,513 |
| Companies acquired | 82 | – |
| Translation differences | 2 | – |
| Acquisition cost at 31 Dec. | 1,597 | 1,513 |
| | | |
| Accumulated impairment at 1 Jan. | –580 | –350 |
| Impairment charges | – | –230 |
| Accumulated impairment at 31 Dec. | –580 | –580 |
| | | |
| Carrying value at 1 Jan. | 933 | 1,163 |
| Carrying value at 31 Dec. | 1,017 | 933 |

On 1 December 2008, UPM adopted a new business structure. The organisational change resulted to a reallocation of goodwill of the previous Magazine Paper, Newsprint, Fine and Speciality Papers segments to Paper and Pulp reportable segments. The allocation was based on the proportionate value in use calculations of the new segments.

The goodwill arisen from the acquisition of the Uruguayan operations in 2009 is included in Pulp segment. These operations form a separate group of cash generating units.

| €m | 2009 | 2008 |
|---|---|---|
| | As at 31 December | |
| Pulp | 197 | 113 |
| Forest and timber | 1 | 2 |
| Paper | 799 | 798 |
| Label | 7 | 7 |
| Plywood | 13 | 13 |
| Total | 1,017 | 933 |

### Impairment tests

The company prepares impairment test calculations annually. The key assumptions for calculations are those regarding the business growth outlooks, product prices, cost development, and the discount rate.

Business growth outlooks are based on general forecasts for the businesses in question. Ten-year forecasts are used in the calculations as the nature of the company's business is long-term due to its capital intensity, and exposed to cyclical changes. In estimates of product prices and cost development, the budgets prepared by management for the next year and estimates made for the following nine years are taken into consideration. In the largest group of cash generating units, in Paper, a growth rate of 0 % in real terms has been applied beyond the period covered by the most recent management's forecasts. The company's recent profitability trend is taken into account in the forecasts. In addition, when preparing estimates, consideration is given to the investment decisions made by the company as well as the profitability programmes that the Group has implemented and the views of knowledgeable experts of the industry on the long-term development of demand and prices. Discount rate is estimated using the weighted average cost of capital on the calculation date adjusted for risks specific to businesses in question. The pre-tax discount rate used in 2009 for Paper was 8.40% and for Pulp (operations in Finland) 10.00%. In 2008, the pre-tax discount rates used were for Paper and Pulp (Finland) 9.00% and 9.90%, respectively.

The recoverable amount of groups of cash generating units is determined based on value in use calculations.

The estimated product prices are the most important assumptions in impairment tests. As at 31 December 2009, in Paper segment, a hypothetic 2% decrease in product prices used in impairment tests would lead to recognition of impairment loss against goodwill approximately by € 70 million. Other essential assumptions in Paper are costs for chemical pulp, delivery services and personnel. Group believes that any reasonably possible change in these other key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

In Pulp (Finland), the recoverable amount, in addition to the pulp sales price, is most sensitive to cost of wood raw material. As at 31 December 2009, a decrease of 9% in pulp prices, or an increase of 15% in wood costs would result to recognition of impairment loss against goodwill.

In September 2008, an impairment charge of € 230 million, recognised in Newsprint segment, is allocated to Paper segment. The main factors for the impairment were lower-than-forecast realised newsprint market demand in Europe and increased costs.

## 17 OTHER INTANGIBLE ASSETS

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Intangible rights** | | |
| Acquisition cost at 1 Jan. | 406 | 412 |
| Additions | 3 | 4 |
| Companies acquired | 50 | – |
| Disposals | –4 | –14 |
| Reclassifications | 1 | 1 |
| Translation differences | 2 | 3 |
| Acquisition cost at 31 Dec. | 458 | 406 |
| Accumulated amortisation and impairment at 1 Jan. | –151 | –147 |
| Amortisation | –15 | –16 |
| Companies acquired | –3 | – |
| Disposals | 5 | 13 |
| Impairment charges | –6 | – |
| Reclassifications | – | – |
| Translation differences | – | –1 |
| Accumulated amortisation and impairment at 31 Dec. | –170 | –151 |
| Carrying value at 1 Jan. | 255 | 265 |
| Carrying value at 31 Dec. | 288 | 255 |
| **Other intangible assets** [1] | | |
| Acquisition cost at 1 Jan. | 510 | 525 |
| Additions | 41 | 19 |
| Disposals | –11 | –34 |
| Reclassifications | 20 | 3 |
| Translation differences | – | –3 |
| Acquisition cost at 31 Dec. | 560 | 510 |
| Accumulated amortisation and impairment at 1 Jan. | –420 | –407 |
| Amortisation | –42 | –44 |
| Impairment charges | –1 | –5 |
| Disposals | 11 | 34 |
| Reclassifications | 4 | – |
| Translation differences | – | 2 |
| Accumulated amortisation and impairment at 31 Dec. | –448 | –420 |
| Carrying value at 1 Jan. | 90 | 118 |
| Carrying value at 31 Dec. | 112 | 90 |
| **Advance payments and construction in progress** | | |
| Acquisition cost at 1 Jan. | 27 | 9 |
| Additions | 5 | 22 |
| Disposals | –1 | – |
| Reclassifications | –24 | –4 |
| Acquisition cost at 31 Dec. | 7 | 27 |
| Carrying value at 1 Jan. | 27 | 9 |
| Carrying value at 31 Dec. | 7 | 27 |

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Emission rights** | | |
| Acquisition cost 1 Jan. | 31 | – |
| Additions [2] | 33 | 56 |
| Disposals and settlements | –48 | –23 |
| Impairment charges | – | –2 |
| Acquisition cost 31 Dec. | 16 | 31 |
| | | |
| Carrying value at 1 Jan. | 31 | – |
| Carrying value at 31 Dec. | 16 | 31 |
| | | |
| Other intangible assets, total | 423 | 403 |

[1] Other intangible assests consist primarily of capitalised software assets.

[2] Additions include emission rights received free of charge.

### Water rights

Intangible rights include € 189 million (189 million) in respect of the water rights of hydropower plants belonging to the Energy segment. The water rights of power plants are deemed to have an indefinite useful life as the company has a contractual right to exploit water resources in the energy production of power plants. The values of water rights are tested annually for impairment.

## 18 PROPERTY, PLANT AND EQUIPMENT

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Land and water areas** | | |
| Acquisition cost at 1 Jan. | 355 | 350 |
| Additions | 5 | 4 |
| Companies acquired | 235 | |
| Disposals | –5 | –3 |
| Reclassifications | –1 | 5 |
| Translation differences | 10 | –1 |
| Acquisition cost at 31 Dec. | 599 | 355 |
| | | |
| Accumulated depreciation and impairment at 1 Jan. | –8 | –8 |
| Impairment charges | – | – |
| Accumulated depreciation and impairment at 31 Dec. | –8 | –8 |
| | | |
| Carrying value at 1 Jan. | 347 | 342 |
| Carrying value at 31 Dec. | 591 | 347 |
| | | |
| **Buildings** | | |
| Acquisition cost at 1 Jan. | 2,868 | 2,942 |
| Additions | 13 | 57 |
| Companies acquired | 243 | – |
| Disposals | –25 | –141 |
| Reclassifications | 26 | 50 |
| Translation differences | 20 | –40 |
| Acquisition cost at 31 Dec. | 3,145 | 2,868 |

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Accumulated depreciation and impairment at 1 Jan. | –1,483 | –1,499 |
| Depreciation | –94 | –98 |
| Companies acquired | –18 | – |
| Impairment charges | –6 | –58 |
| Disposals | 19 | 136 |
| Reclassifications | – | 12 |
| Translation differences | –10 | 24 |
| Accumulated depreciation and impairment at 31 Dec. | –1,592 | –1,483 |
| | | |
| Carrying value at 1 Jan. | 1,385 | 1,443 |
| Carrying value at 31 Dec. | 1,553 | 1,385 |
| | | |
| **Machinery and equipment** | | |
| Acquisition cost at 1 Jan. | 12,162 | 12,550 |
| Additions | 99 | 267 |
| Companies acquired | 596 | – |
| Disposals | –324 | –775 |
| Reclassifications | 120 | 254 |
| Translation differences | 59 | –134 |
| Acquisition cost at 31 Dec. | 12,712 | 12,162 |
| | | |
| Accumulated depreciation and impairment at 1 Jan. | –8,541 | –8,721 |
| Depreciation | –571 | –617 |
| Companies acquired | –59 | – |
| Impairment charges | –8 | –120 |
| Impairment reversal | 5 | – |
| Disposals | 315 | 765 |
| Reclassifications | 13 | – |
| Translation differences | –48 | 152 |
| Accumulated depreciation and impairment at 31 Dec. | –8,894 | –8,541 |
| | | |
| Carrying value at 1 Jan. | 3,621 | 3,829 |
| Carrying value at 31 Dec. | 3,818 | 3,621 |
| | | |
| **Other tangible assets** | | |
| Acquisition cost at 1 Jan. | 865 | 899 |
| Additions | 7 | 29 |
| Companies acquired | 13 | – |
| Disposals | –12 | –68 |
| Reclassifications | – | 7 |
| Translation differences | 3 | –2 |
| Acquisition cost at 31 Dec. | 876 | 865 |
| | | |
| Accumulated depreciation and impairment at 1 Jan. | –662 | –696 |
| Depreciation | –31 | –33 |
| Companies acquired | –4 | – |
| Disposals | 12 | 66 |
| Reclassifications | – | 2 |
| Impairment charges | – | –4 |
| Translation differences | –2 | 3 |
| Accumulated depreciation and impairment at 31 Dec. | –687 | –662 |
| | | |
| Carrying value at 1 Jan. | 203 | 203 |
| Carrying value at 31 Dec. | 189 | 203 |

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Advance payments and construction in progress** | | |
| Acquisition cost at 1 Jan. | 132 | 362 |
| Additions | 57 | 114 |
| Companies acquired | 7 | – |
| Disposals | – | –4 |
| Reclassifications | –158 | –334 |
| Translation differences | 3 | –6 |
| Acquisition cost at 31 Dec. | 41 | 132 |
| Carrying value at 1 Jan. | 132 | 362 |
| Carrying value at 31 Dec. | 41 | 132 |
| Property, plant and equipment, total | 6,192 | 5,688 |

### Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease and sale and leaseback contracts:

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Machinery and equipment** | | |
| Acquisition cost | 49 | 53 |
| Accumulated depreciation | –38 | –39 |
| Carrying value at 31 Dec. | 11 | 14 |
| Leased assets, total | 11 | 14 |

There is no property, plant and equipment leased to third parties under operating lease contracts.

### Capitalised borrowing costs

In 2009, the borrowing costs capitalised as part of non-current assets amounted to € 1 million (11 million). In 2009, amortisation of capitalised borrowing costs was € 8 million (8 million). In 2008, impairment charges related to capitalised borrowing costs were € 2 million. In 2009 and 2008 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 3.32% (5.52%), which represents the costs of the loan used to finance the projects.

### Assets classified as held for sale

As at 31 December 2008, the Miramichi paper mill and other activities were classified as assets held for sale and related liabilities. These operations were part of Paper, and Forest and timber segments.

On 15 January 2009, UPM sold its former paper mill and related assets in Miramichi, New Brunswick, Canada to Umoe Solar AS of Norway. The sale included also woodlands operations, and two sawmills located nearby in Bathurst and Blackwill. UPM recorded an income of € 21 million on the sale as a special item in the first quarter of 2009.

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Land and water areas | – | 1 |
| Buildings | – | 2 |
| Machinery and equipment | – | 6 |
| Biological assets | – | 2 |
| Inventories | – | 1 |
| **Assets total** | – | 12 |
| Provisions | – | 2 |
| Other non-current liabilities | – | 3 |
| Trade and other payables | – | 11 |
| Accruals and deferred income | – | 1 |
| **Liabilities total** | – | 17 |
| Liabilities related to assets held for sale, interest bearing (Note 31) | – | 2 |
| Liabilities related to assets held for sale, non-interest bearing | – | 15 |
| **Liabilities total** | – | 17 |

## 19 INVESTMENT PROPERTY

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Acquisition cost at 1 Jan. | 66 | 46 |
| Additions | 2 | 1 |
| Reclassifications | 4 | 19 |
| Acquisition cost at 31 Dec. | 72 | 66 |
| Accumulated depreciation and impairment at 1 Jan. | –47 | –32 |
| Depreciation | –1 | –1 |
| Reclassifications | –2 | –14 |
| Accumulated depreciation and impairment at 31 Dec. | –50 | –47 |
| Carrying value at 1 Jan. | 19 | 14 |
| Carrying value at 31 Dec. | 22 | 19 |

The fair value of investment property is determined annually on 31 December by the Group. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature of the specific asset.

The fair value of investment property in Finland at 31 December 2009 was € 18 million (16 million) and the fair value of investment property in other countries at 31 December 2009 was € 11 million (11 million).

### The amounts recognised in the income statement

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Rental income | 7 | 6 |
| Direct operating expenses arising from investment properties that generate rental income | 4 | 3 |

There were no contractual obligations for future repair and maintenance or purchase of investment property.

All assets under investment property are leased to third parties under operating leasing contracts.

## 20 BIOLOGICAL ASSETS

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| At 1 Jan. | 1,133 | 1,095 |
| Additions | 9 | 2 |
| Companies acquired | 150 | – |
| Disposals | –24 | –13 |
| Wood harvested | –81 | –88 |
| Change in fair value | 99 | 138 |
| Translation differences | 7 | –1 |
| At 31 Dec. | 1,293 | 1,133 |

The pre-tax discount rates used in determing the fair value in 2009 were 7.50% (7.50%) for Finnish forests and 10% for Uruguayan forests. A 1% decrease (increase) in discount rate would increase (decrease) the fair value of biological assets by approximately € 150 million. In addition to the discount rate, the growth of the forest stock and timber prices are other essential assumptions used in the valuation.

## 21 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| At 1 Jan. | 1,263 | 1,193 |
| Additions | 92 | 19 |
| Companies acquired | 3 | – |
| Disposals [1] | –350 | –12 |
| Share of results after tax | –95 | 62 |
| Dividends received | –24 | –18 |
| Reclassification [1] | –304 | – |
| Translation differences | –32 | 19 |
| At 31 Dec. | 553 | 1,263 |

[1] Disposals in 2009 include sold shares in Oy Metsä-Botnia Ab and reclassifications in 2009 include the reclassification of holding in Botnia South America S.A. as subsidiary and reclassification of remaining holding in Oy Metsä-Botnia Ab as available-for-sale investment.

Investments in associated companies at 31 December 2009 include goodwill of € 51 million (51 million) which relates to Pohjolan Voima Oy's shares.

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Sale and leaseback contracts included in investments in associated companies** | | |
| Acquisition cost | 14 | 13 |
| Accumulated increases/decreases | –4 | 1 |
| Carrying value at 31 Dec. | 10 | 14 |

### Associated companies and joint ventures

| | Group holding percentage % 2009 | 2008 | Carrying value 2009 | 2008 |
|---|---|---|---|---|
| **Associated companies** | | | | |
| Austria Papier Recycling Ges.m.b.H., AT | 33.30 | 33.30 | – | – |
| Oy Keskuslaboratorio-Centrallaboratorium Ab, FI | 38.65 | 38.65 | 1 | 1 |
| Botnia South America S.A., UY [2] | – | 12.40 | – | 108 |
| Oy Metsä-Botnia Ab, FI [2] | – | 47.00 | – | 637 |
| Paperinkeräys Oy, FI | 22.98 | 22.98 | 3 | 3 |
| Pohjolan Voima Oy, FI | 43.07 | 41.84 | 514 | 477 |
| Powest Oy, FI [1] | 9.98 | 9.98 | 14 | 15 |
| RETS Timber Oy Ltd, FI | 50.00 | 50.00 | 2 | 1 |
| Steveco Oy, FI | 34.32 | 34.32 | 6 | 9 |
| Others | | | 7 | 6 |
| At 31 Dec. | | | 547 | 1,257 |
| **Joint ventures** | | | | |
| Kainuun Voima Oy, FI | 50.00 | 50.00 | 6 | 6 |
| | | | 6 | 6 |
| Associated companies and joint ventures at 31 Dec. | | | 553 | 1,263 |

[1] The Group's share of the voting right in Powest Oy is 0.61% (0.61%). The Group is entitled to 51.22% (51.22%) of the respective dividends of Powest Oy.

[2] Following, the transaction completed on 8 December 2009 where UPM acquired Metsäliitto's and Oy Metsä-Botnia Ab's shares of the Uruguayan operations and sold approximately 30% of shares in Oy Metsä-Botnia Ab, Botnia South America S.A. currently is UPM's subsidiary and Oy Metsä-Botnia Ab no longer is UPM's associated company but accounted for as an available-for-sale investment.

Pohjolan Voima Oy ("PVO") holds a 58.28% shareholding in Teollisuuden Voima Oy ("TVO"), which owns and operates nuclear power plants in Olkiluoto, Finland. The operation of a nuclear power plant involves potential costs and liabilities related to decommissioning and dismantling of the nuclear power plant and storage and disposal of spent fuel, and is governed by international, European Union and local nuclear regulatory regimes. Pursuant to the Finnish Nuclear Liability Act, the operator of a nuclear facility is strictly liable for damage resulting from a nuclear incident at the operator's installation or occurring in the course of transporting nuclear fuels. Shareholders of power companies that own and operate nuclear power plants are not subject to liability under the Nuclear Liability Act. In Finland, the future costs of conditioning, storage and final disposal of spent fuel, management of low and intermediate-level radioactive waste and nuclear power plant decommissioning are the responsibility of the operator. Reimbursements of the operators' costs related to decommissioning and dismantling of the power plant and storage and disposal of spent fuel are provided for by state-established funds funded by annual contributions from nuclear power plant operators. Pursuant to PVO and TVO shareholders' agreements, the Group bears its proportionate share of the costs related to decommissioning and dismantling of the nuclear power plant and storage and disposal of spent fuel through the price of electricity acquired from PVO. The contributions to such funds are intended to be sufficient to cover estimated future costs. If the actual costs deviate from fund provisions, the Group would be affected accordingly. Fund assets are measured at the lower of the decommissioning obligation and provision for spent fuel recognised and UPM's share of the net assets of the fund attributable to the contributors.

The Group's share of the results of its principal associates and joint ventures, all of which are unlisted, are accounted for using the equity method. The Group's share of the assets, liabilities, sales and results are as follows:

| 2009<br>€m | Assets | Lia-<br>bilities | Sales | Profit/<br>Loss |
|---|---|---|---|---|
| **Associated companies and joint ventures** | | | | |
| Oy Metsä-Botnia Ab, FI | – | – | – | –52 |
| Pohjolan Voima Oy, FI | 1,344 | 830 | 366 | –39 |
| Others | 133 | 94 | 236 | –4 |
| Total | 1,477 | 924 | 602 | –95 |

| 2008<br>€m | Assets | Lia-<br>bilities | Sales | Profit/<br>Loss |
|---|---|---|---|---|
| **Associated companies and joint ventures** | | | | |
| Oy Metsä-Botnia Ab, FI | 1,306 | 561 | 798 | 86 |
| Pohjolan Voima Oy, FI | 1,219 | 742 | 328 | –26 |
| Others | 150 | 109 | 291 | 2 |
| Total | 2,675 | 1,412 | 1,417 | 62 |

The amounts representing the Group's share of the assets and liabilities and sales and results of the joint ventures that have been accounted for using the equity method are presented in the table below.

| €m | As at 31 December<br>2009 | <br>2008 |
|---|---|---|
| **The amount of assets and liabilities related to investments in joint ventures** | | |
| Non-current assets | 28 | 29 |
| Current assets | 5 | 5 |
| Non-current liabilities | –19 | –20 |
| Current liabilities | –7 | –7 |
| Net assets | 7 | 7 |

| €m | Year ended 31 December<br>2009 | <br>2008 |
|---|---|---|
| **The income and expenses related to investments in joint ventures** | | |
| Sales | 13 | 18 |
| Expenses | –13 | –18 |
| Profit | – | – |
| | | |
| The average number of employees in the joint ventures | 43 | 47 |

**Transactions and balances with associates and joint ventures**

| €m | Year ended 31 December<br>2009 | <br>2008 |
|---|---|---|
| Sales to associates and joint ventures | 114 | 138 |
| Purchases from associates and joint ventures | 560 | 592 |
| Receivables from associates and joint ventures | 25 | 37 |
| Payables to associates and joint ventures | 32 | 27 |
| | | |
| **Loan receivables from associates and joint ventures** [1] | | |
| At 1 Jan. | 8 | 6 |
| Loans granted | 8 | 2 |
| Repayments | –2 | – |
| At 31 Dec. | 14 | 8 |

[1] Loans to associated companies and joint ventures include current and non-current loan receivables.

## 22 AVAILABLE-FOR-SALE INVESTMENTS

| €m | Year ended 31 December<br>2009 | <br>2008 |
|---|---|---|
| At 1 Jan. | 116 | 116 |
| Changes in fair values | 25 | – |
| Reclassification | 180 | – |
| Impairment charges | –1 | – |
| At 31 Dec. | 320 | 116 |

At 31 December 2009, the available-for-sale investments include only investments in unlisted equity shares.

On 8 December 2009, the Group sold approximately 30% of its shares in the associated company Oy Metsä-Botnia Ab. The remaining ownership of 16.96% was reclassified as an available-for-sale investment with a fair value increase of € 25 million. The fair value is based on the discounted value of the expected cash flows of the investment.

Unlisted shares, where the fair value cannot be measured reliably are carried at cost. The range of reasonable fair value estimates of these shares is significant and the probabilities of the various estimates cannot be reasonably assessed. The fair value of the shares in Kemijoki Oy cannot be reliably measured as the redemption clause in the articles of association of the company limits fair market transactions to third parties. Currently the Group does not have an intention to dispose of this investment.

**Principal available-for-sale investments**

| | Number of shares | Group holding percentage | Carrying value<br>2009 | <br>2008 |
|---|---|---|---|---|
| Oy Metsä-Botnia Ab | 13,836 | 16.96 | 205 | – |
| Kemijoki Oy | 100,797 | 4.13 | 106 | 106 |
| Other | | | 9 | 10 |
| Carrying value of available-for-sale investments at 31 Dec. | | | 320 | 116 |

## 23 NON-CURRENT FINANCIAL ASSETS

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Loan receivables from associated companies | 2 | – |
| Other loan receivables | 15 | 16 |
| Derivative financial instruments | 246 | 345 |
| At 31 Dec. | 263 | 361 |

The maximum exposure to credit risk in regard to other loan receivables is their carrying amount.

## 24 OTHER NON-CURRENT ASSETS

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Defined benefit plans (Note 29) | 177 | 173 |
| Other non-current assets | 34 | 28 |
| At 31 Dec. | 211 | 201 |

## 25 INVENTORIES

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Raw materials and consumables | 516 | 664 |
| Work in progress | 39 | 54 |
| Finished products and goods | 530 | 589 |
| Advance payments | 27 | 47 |
| At 31 Dec. | 1,112 | 1,354 |

## 26 TRADE AND OTHER RECEIVABLES

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Trade receivables | 1,124 | 1,235 |
| Loan receivables | 14 | 11 |
| Other receivables | 115 | 117 |
| Derivative financial instruments | 120 | 269 |
| Prepayments and accrued income | 73 | 54 |
| At 31 Dec. | 1,446 | 1,686 |

### Ageing analysis of trade receivables

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Undue | 999 | 1,067 |
| Past due up to 30 days | 63 | 115 |
| Past due 31–90 days | 27 | 31 |
| Past due over 90 days | 35 | 22 |
| At 31 Dec. | 1,124 | 1,235 |

In determining the recoverability of trade receivables the Group considers any change in the credit quality of the trade receivables. There are no indication that the debtors will not meet their payment obligations in regard to trade receivables that are neither past due nor impaired at 31 December 2009. In 2009, impairment of trade receivables amounted to € 18 million (22 million) and is recorded under other costs and expenses. Impairment is recognised when there is objective evidence that the Group is not able to collect the amounts due.

In 2009, income from recoveries of trade receivables written off amounted to € 1 million (1 million).

The maximum exposure to credit risk without taking into account any credit enhancements is the carrying amounts of trade and other receivables. Prepayments which are not financial instruments are not subject to credit risk as defined in IFRS 7.

### Main items included in prepayments and accrued income

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Personnel expenses | 5 | 3 |
| Indirect taxes | 10 | 16 |
| Other items | 58 | 35 |
| At 31 Dec. | 73 | 54 |

## 27 EQUITY AND RESERVES

### Share capital

| €m | Number of shares (1,000) | Share capital |
|---|---|---|
| At 1 Jan. 2008 | 512,569 | 890 |
| Exercise of share options | 7,401 | – |
| At 31 Dec. 2008 | 519,970 | 890 |
| At 31 Dec. 2009 | 519,970 | 890 |

### Shares

At 31 December 2009, the number of the company's shares was 519,970,088. Each share carries one vote. The shares do not have any nominal counter value. The shares are included within the book-entry system for securities.

### Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes, under the Companies' Act, the exercise value of shareholders' investments in the company unless otherwise decided by the Company.

### Treasury shares

The Annual General Meeting held on 25 March 2009 approved a proposal to authorise the Board of Directors to decide to buy back not more than 51,000,000 own shares. The authorisation is valid for 18 months from the date of the decision.

As at 31 December 2009 the company did not hold any of its own shares.

As at 31 December 2008 the company held 15,944 of its own shares, 0.003% of the total number of shares, which have been granted under the Group's share reward scheme in 2008 and 2007. The average acquisition cost of these shares is € 16.42 per share. These shares have been returned in connection with termination of service contracts.

On the basis of the decisions of the Annual General Meeting of 27 March 2007, the Board has the authority to decide on a free issue of shares to the company itself so that the total number of shares to be issued to the company combined with the number of own shares bought back under the buyback authorisation may not exceed 1/10 of the total number of shares of the company.

### Authorisations to increase the number of shares

The Annual General Meeting of 27 March 2007 has in addition authorised the Board to decide to issue shares and special rights entitling the holder to shares of the company. The number of new shares to be issued, including shares to be obtained under special rights, shall be no more than 250,000,000. Of that, the maximum number that can be issued to the company's shareholders based on their pre-emptive rights is 250,000,000 shares and the maximum amount that can be issued deviating from the shareholders' pre-emptive rights in a directed share issue is 100,000,000 shares. The maximum number of new shares to be issued as part of the company's incentive programmes is 5,000,000. Furthermore, the Board is authorised to decide on the disposal of own shares. To date, this authorisation has not been used. These authorisations of the 2007 Annual General Meeting will remain valid for no more than three years from the date of the decision.

The Annual General Meeting of 27 March 2007 also decided on granting share options in connection with the company's share-based incentive plans. In option programmes 2007A, 2007B and 2007C, the total number of share options is no more than 15,000,000, and they will entitle to subscribe for, in total, no more than 15,000,000 new shares of the company.

Apart from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds, or share options.

If all the remaining 3,000,000 2005H share options authorised in 2005 are exercised to subscribe all 3,000,000 shares, and all 15,000,000 share options issued in 2007 are fully exercised, the number of the company's shares will increase by a total of 18,000,000, i.e. by 3,46%.

The shares available for subscription under the Board's share issue authorisation and through the exercise of share options may increase the total number of the company's shares by 51.54%, i.e. by 268,000,000 shares, to 787,970,088 shares.

### Redemption clause

Under § 12 of UPM-Kymmene Corporation's Articles of Association, a shareholder who alone or jointly with another shareholder owns 33 1/3 percent or 50 percent or more of all the company's shares or their associated voting rights shall, at the request of other shareholders, be liable to redeem in the manner prescribed in § 12 their shares and any securities that, under the Companies Act, carry the right to such shares.

A resolution of general meeting of shareholders to amend or delete this redemption clause must be carried by shareholders representing not less than three-quarters of the votes cast and shares represented at the meeting.

### Fair value and other reserves

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Fair value reserve of available -for-sale investments | 21 | – |
| Hedging reserve | 9 | 13 |
| Legal reserve | 53 | 53 |
| Share premium reserve | 50 | 50 |
| Share-based compensation | 8 | 14 |
| At 31 Dec. | 141 | 130 |

### Changes in hedging reserve

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Hedging reserve at 1 Jan. | 13 | 46 |
| Gains and losses on cash flow hedges | –19 | 39 |
| Transfers to sales | 12 | –83 |
| Transfers to initial cost of property, plant and equipment | – | –1 |
| Tax on gains and losses on cash flow hedges | 6 | –10 |
| Tax on transfers to income statement | –3 | 22 |
| Hedging reserve at 31 Dec. | 9 | 13 |

### Components of other comprehensive income

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Translation differences | 165 | –206 |
| Net investment hedge | –56 | 56 |
| Cash flow hedges | | |
| gains/losses arising during the year | –13 | 29 |
| reclassification adjustments | 9 | –62 |
| | –4 | –33 |
| Available-for-sale investments | | |
| gains/losses arising during the year | 21 | – |
| reclassification adjustments | – | – |
| | 21 | – |
| Share of other comprehensive income of associated companies | 28 | 1 |
| reclassification adjustments | 2 | – |
| | 30 | 1 |
| Other comprehensive income | 156 | –182 |

## 28 DEFERRED INCOME TAXES

### Reconciliation of the movements of deferred tax asset and liability balances during the year 2009

| €m | As at 1 Jan. 2009 | Charged to the income statement | Charged to equity | Translation differences | Acquisitions and disposals | As at 31 Dec. 2009 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Retirement benefit and other provisions | 108 | –24 | – | – | – | 84 |
| Intercompany profit in inventory | 11 | 1 | – | – | – | 12 |
| Book over tax depreciation | 102 | 18 | – | – | – | 120 |
| Tax losses and tax credits carried forward | 206 | 91 | – | 21 | – | 318 |
| Other temporary differences | 6 | –3 | – | – | – | 3 |
| Deferred tax assets, total | 433 | 83 | – | 21 | – | 537 |
| **Deferred tax liabilities** | | | | | | |
| Tax over book depreciation | 534 | –22 | – | 5 | – | 517 |
| Fair value adjustments of net assets acquired and biological assets | 267 | 43 | – | –1 | 12 | 321 |
| Other temporary differences | 32 | 14 | –23 | –3 | – | 20 |
| Deferred tax liabilities, total | 833 | 35 | –23 | 1 | 12 | 858 |
| **The amounts recognised in the balance sheet** | | | | | | |
| Assets | 258 | 8 | – | 21 | – | 287 |
| Liabilities | 658 | –40 | –23 | 1 | 12 | 608 |
| Deferred tax liabilities, less deferred tax assets | 400 | –48 | –23 | –20 | 12 | 321 |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

### Reconciliation of the movements of deferred tax asset and liability balances during the year 2008

| €m | As at 1 Jan. 2008 | Charged to the income statement | Charged to equity | Translation differences | Acquisitions and disposals | As at 31 Dec. 2008 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Retirement benefit and other provisions | 98 | 15 | – | –5 | – | 108 |
| Intercompany profit in inventory | 9 | 2 | – | – | – | 11 |
| Book over tax depreciation | 127 | –11 | – | –14 | – | 102 |
| Tax losses and tax credits carried forward | 195 | 20 | – | –9 | – | 206 |
| Other temporary differences | 4 | 2 | – | – | – | 6 |
| Deferred tax assets, total | 433 | 28 | – | –28 | – | 433 |
| **Deferred tax liabilities** | | | | | | |
| Tax over book depreciation | 595 | –45 | – | –16 | – | 534 |
| Fair value adjustments of net assets acquired and biological assets | 263 | 4 | – | – | – | 267 |
| Other temporary differences | 36 | –12 | 8 | – | – | 32 |
| Deferred tax liabilities, total | 894 | –53 | 8 | –16 | – | 833 |
| **The amounts recognised in the balance sheet** | | | | | | |
| Assets | 284 | 2 | – | –28 | – | 258 |
| Liabilities | 745 | –79 | 8 | –16 | – | 658 |
| Deferred tax liabilities, less deferred tax assets | 461 | –81 | 8 | 12 | – | 400 |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

**Deferred income tax charged to equity during the year**

| €m | 2009 | 2008 |
|---|---|---|
| Cash flow hedges | –3 | –12 |
| Net investment hedge | –20 | 20 |
| Total | –23 | 8 |

At 31 December 2009, the net operating loss carry-forwards for which the Group has recorded a deferred tax asset amounted to € 1,231 million (689 million), of which € 267 million (372 million) was attributable to German subsidiaries, € 700 million (203 million) to a Canadian subsidiary and € 133 million to the parent company and subsidiaries in Finland. In Germany net operating loss carry-forwards do not expire. In other countries net operating loss carry-forwards expire at various dates and in varying amounts. The net operating loss carry-forwards for which no deferred tax asset is recognised due to uncertainty of their utilisation amounted to € 256 million in 2009 (136 million). These net operating loss carry-forwards are mainly attributable to Canadian and Chinese subsidiaries. In relation to Polish subsidiary operating in a special economic zone UPM has tax credits of € 29 million, which have not been recognised due to uncertainty of their utilisation.

No deferred tax liability has been recognised for the undistributed profits of Finnish subsidiaries and associated companies as, in most cases, such earnings are transferred to the Group without any tax consequences.

In addition the Group does not recognise a deferred tax liability in respect of undistributed earnings of non-Finnish subsidiaries to the extent that such earnings are intended to be permanently reinvested in those operations.

## 29 RETIREMENT BENEFIT OBLIGATIONS

The Group operates a number of defined benefit and contribution plans in accordance with the local conditions and practises in the countries in which it operates.

The most significant pension plan in Finland is the statutory Finnish employee pension scheme (TyEL), according to which benefits are directly linked to the beneficiary's earnings. The TyEL pension scheme is mainly arranged with pension insurance companies.

In Finland, the pensions of approximately 8 % of employees are arranged through Group's own pension funds. All schemes managed by the pension funds are classified as defined benefit plans.

Foreign plans include both defined contribution and defined benefit plans. Globally approximately 25% of the employees belong to defined benefit arrangements.

In January 2009 the Group sold the non-operating assets of its former paper mill and other operations in Miramichi, Canada. The settlement of the plan assets were initiated through the purchase of long term annuities to fund the € 129 million benefit obligations.

### DEFINED BENEFIT PLANS

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Pension benefits | 176 | 182 |
| Post-employment medical benefits | 17 | 19 |
| Net liability | 193 | 201 |
| | | |
| Other long-term employee benefits | 48 | 34 |
| Overfunded plan shown as asset (Note 24) | 177 | 173 |
| Total liability in balance sheet | 418 | 408 |

### PENSION BENEFITS

**The amounts recognised in the balance sheet**

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Present value of funded obligations | 565 | 543 |
| Present value of unfunded obligations | 408 | 351 |
| | 973 | 894 |
| | | |
| Fair value of plan assets | –540 | –573 |
| Unrecognised actuarial gains and losses | –257 | –139 |
| Net liability | 176 | 182 |

**The amounts recognised in the income statement**

| | Year ended 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Current service cost | 8 | 14 |
| Interest cost | 47 | 57 |
| Expected return on plan assets | –34 | –49 |
| Actuarial gains and losses | 7 | 12 |
| Curtailments | – | –3 |
| Total included in personnel expenses (Note 7) | 28 | 31 |

The actual return on plan assets was € 105 million (–104 million).

**The movement in the present value of defined benefit obligations**

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Defined benefit obligation as of beginning of the year | 894 | 1,176 |
| Current service cost | 8 | 14 |
| Interest cost | 47 | 57 |
| Actuarial gains and losses | 179 | –120 |
| Benefits paid | –49 | –85 |
| Curtailments | – | –3 |
| Settlements | –130 | –59 |
| Translation differences | 24 | –86 |
| Defined benefit obligation as of end of the year | 973 | 894 |

### The movement in the fair value of plan assets

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Fair value of plan assets as of beginning of the year | 573 | 753 |
| Expected return on plan assets | 34 | 49 |
| Actuarial gains and losses | 58 | –153 |
| Contributions by the employer | 32 | 146 |
| Benefits paid | –49 | –85 |
| Settlements | –130 | –59 |
| Translation differences | 22 | –78 |
| Fair value of plan assets as of end of the year | 540 | 573 |

The contributions to Group's defined benefit pension plans are expected to be € 20 million in 2010.

### The major categories of plan assets as a percentage of total plan assets

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Equity instruments | 56% | 38% |
| Debt instruments | 32% | 50% |
| Property | 7% | 7% |
| Money market | 5% | 5% |
| Total | 100% | 100% |

In Finland, the pension plan assets include the company's ordinary shares with a fair value of € 0.4 million (1 million).

## POST-EMPLOYMENT MEDICAL BENEFITS

In US the Group operates unfunded medical benefit schemes. The valuation methods are similar to those used for defined benefit pension schemes.

### The amounts recognised in the balance sheet

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Present value of unfunded obligations | 21 | 24 |
| Unrecognised actuarial gains and losses | –5 | –5 |
| Unrecognised past service cost | 1 | – |
| Net liability | 17 | 19 |

### The amounts recognised in the income statement

| €m | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Interest cost | 1 | 1 |
| Actuarial gains and losses | – | 1 |
| Total included in personnel expenses (Note 7) | 1 | 2 |

### The movement in the present value of defined benefit obligations

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Defined benefit obligation as of beginning of the year | 24 | 27 |
| Interest cost | 1 | 1 |
| Contributions by plan participants | 2 | 2 |
| Past service cost | –1 | – |
| Benefits paid | –4 | –4 |
| Settlements | – | –3 |
| Translation differences | –1 | 1 |
| Defined benefit obligation as of end of the year | 21 | 24 |

### The movement in the fair value of plan assets

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Fair value of plan assets as of beginning of the year | – | – |
| Contributions by plan participants | 2 | 2 |
| Contributions by the employer | 2 | 2 |
| Benefits paid | –4 | –4 |
| Fair value of plan assets as of end of the year | – | – |

The contributions to Group's post-employment medical benefit plans are expected to be € 2 million in 2010.

## PENSION BENEFITS AND POST-EMPLOYMENT MEDICAL BENEFITS

### The principal acturial assumptions used as at 31 December

| | Finland | | Germany | | UK | | Canada | | US | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Discount rate % | 4.45 | 5.50 | 4.45 | 5.50 | 5.75 | 6.70 | 6.10 | 4.68 | 5.00 | 6.25 | 4.45 | 5.50 |
| Inflation rate % | 2.00 | 2.00 | 2.00 | 2.00 | 3.60 | 2.45 | N/A | N/A | 3.00 | 3.00 | 2.00 | 2.00 |
| Expected return on plan assets % | 6.18 | 7.54 | N/A | N/A | 6.67 | 6.96 | N/A | 4.81 | N/A | N/A | 4.45 | 5.10 |
| Future salary increases % | 3.25 | 3.75 | 2.50 | 2.50 | N/A | N/A | N/A | N/A | N/A | N/A | 2.60 | 2.60 |
| Future pension increases % | 2.63 | 2.62 | 2.00 | 2.00 | 3.30 | 2.45 | N/A | N/A | N/A | N/A | 1.59 | 1.12 |
| Expected average remaining working years of participants | 12.1 | 12.1 | 13.6 | 13.8 | – | 17.3 | – | – | 8.9 | 9.4 | 11.8 | 12.0 |

The assumption for the weighted average expected return on plan assets is based on target asset allocation of each plan, historical market performance, relevant forward-looking economic analyses, expected returns, variances, and correlations for different asset categories held.

The assumed health care cost trend rate used in measuring the accumulated post-employment benefit obligation for US plans was 10% in 2008, 8.7% in 2009, 8.4% in 2010 and then declining 0.2% per year until it reaches 4.5% in 2029 and remaining at that level thereafter.

A one-percentage-point increase and decrease in assumed health care cost trend rates in the US would effect post-employment benefit obligation by € 1 million and € –1 million, correspondingly.

**The amounts of pension and post-employment medical benefit plans recognised in the balance sheet as at 31 December 2009**

| €m | Finland | Germany | UK | Canada | US | Other | Total |
|---|---|---|---|---|---|---|---|
| Present value of funded obligations | 269 | – | 278 | 3 | – | 15 | 565 |
| Present value of unfunded obligations | – | 348 | – | 12 | 21 | 48 | 429 |
| Fair value of plan assets | –310 | – | –218 | – | – | –12 | –540 |
| Unrecognised actuarial gains and losses | –81 | –55 | –114 | – | –5 | –7 | –262 |
| Unrecognised past service cost | – | – | – | – | 1 | – | 1 |
| Net liability | –122 | 293 | –54 | 15 | 17 | 44 | 193 |

**The amounts of pension and post-employment medical benefit plans recognised in the balance sheet as at 31 December 2008**

| €m | Finland | Germany | UK | Canada | US | Other | Total |
|---|---|---|---|---|---|---|---|
| Present value of funded obligations | 227 | – | 166 | 136 | – | 14 | 543 |
| Present value of unfunded obligations | – | 296 | – | 12 | 24 | 43 | 375 |
| Fair value of plan assets | –256 | – | –179 | –127 | – | –11 | –573 |
| Unrecognised actuarial gains and losses | –92 | –6 | –38 | – | –5 | –3 | –144 |
| Net liability | –121 | 290 | –51 | 21 | 19 | 43 | 201 |

**Funded status for pension and post-employment medical benefit plans**

| | | | As at 31 December | | |
|---|---|---|---|---|---|
| €m | 2009 | 2008 | 2007 | 2006 | 2005 |
| Present value of defined benefit obligations | 994 | 918 | 1,203 | 1,227 | 1,182 |
| Fair value of plan assets | 540 | 573 | 753 | 681 | 625 |
| Deficit | 454 | 345 | 450 | 546 | 557 |
| | | | | | |
| Experience adjustments on plan liabilities | 14 | –13 | 21 | 20 | –13 |
| Experience adjustments on plan assets | 58 | –153 | 8 | 20 | 21 |

## 30 PROVISIONS

| €m | Restructuring provisions | Termination provisions | Environmental provisions | Emission rights provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| At 1 Jan. 2008 | 18 | 98 | 21 | – | 34 | 171 |
| Translation difference | –2 | –6 | –1 | – | –3 | –12 |
| Additional provisions and increases to existing provisions | 32 | 45 | 2 | 30 | 2 | 111 |
| Utilised during year | –14 | –43 | –5 | – | –13 | –75 |
| Unused amounts reversed | – | –3 | –1 | – | – | –4 |
| At 31 Dec. 2008 | 34 | 91 | 16 | 30 | 20 | 191 |
| | | | | | | |
| At 1 Jan. 2009 | 34 | 91 | 16 | 30 | 20 | 191 |
| Translation difference | – | 1 | – | – | – | 1 |
| Additional provisions and increases to existing provisions | 42 | 21 | 7 | 15 | 29 | 114 |
| Utilised during year | –20 | –40 | –3 | –30 | –15 | –108 |
| Unused amounts reversed | –1 | –4 | – | – | –2 | –7 |
| At 31 Dec. 2009 | 55 | 69 | 20 | 15 | 32 | 191 |

### Provisions

Restructuring provisions include charges related primarily to dismantling of closed mills. Termination provisions are concerned with operational restructuring as well as unemployment arrangements and disability pensions primarily in Finland where the unemployment pension provisions have been recognised 2–3 years before the grant and settlement of the pension.

Additions in restructuring and termination provisions in 2009 relate mainly to the Group's plan to improve the Plywood and Timber businesses' competitiveness in Finland. The measures include mill closures and approximately a total of 830 employees is estimated to become redundant. In 2008, increases in provisions relate mainly to the closures of the Kajaani paper mill and the Tervasaari pulp mill.

Environmental provisions include expenses relating to old mill sites and the remediation of industrial landfills.

The company takes part in government programmes aimed at reducing greenhouse gas emissions. In 2009, the Group has recognised a provision amounting to € 15 million (30 million) to cover the obligation to return emission rights. The company possesses emission rights worth of € 16 million (31 million) as intangible assets.

| | As at 31 December | |
|---|---|---|
| €m | **2009** | **2008** |
| Non-current provisions | 107 | 100 |
| Current provisions | 84 | 91 |
| Total | 191 | 191 |

## 31 INTEREST-BEARING LIABILITIES

| | As at 31 December | |
|---|---|---|
| €m | **2009** | **2008** |
| **Non-current interest-bearing liabilities** | | |
| Bonds | 1,878 | 2,043 |
| Loans from financial institutions | 919 | 1,078 |
| Pension loans | 924 | 919 |
| Trade payables | 8 | 9 |
| Finance lease liabilities | 95 | 99 |
| Derivative financial instruments | 139 | 147 |
| Other liabilities | 201 | 239 |
| | 4,164 | 4,534 |
| **Current Interest-bearing liabilities** | | |
| Current portion of long-term debt | 167 | 352 |
| Short-term loans | 64 | 50 |
| Derivative financial instruments | 46 | 105 |
| Other liabilities | 23 | 30 |
| | 300 | 537 |
| Liabilities related to assets classified as held for sale (Note 18) | – | 2 |
| Total interest-bearing liabilities | 4,464 | 5,073 |

**As of 31 December 2009 the contractual maturity of interest-bearing liabilities**

| €m | 2010 | 2011 | 2012 | 2013 | 2014 | 2015+ | Total |
|---|---|---|---|---|---|---|---|
| Bonds | | | | | | | |
| Repayments | 59 | – | 636 | – | 347 | 814 | 1,856 |
| Interests | 110 | 109 | 109 | 71 | 71 | 389 | 860 |
| | 169 | 109 | 745 | 71 | 418 | 1,203 | 2,716 |
| Loans from financial institutions | | | | | | | |
| Repayments | 76 | 110 | 111 | 151 | 67 | 338 | 853 |
| Committed facilities | – | – | 140 | – | – | – | 140 |
| Interests | 21 | 24 | 26 | 24 | 20 | 27 | 143 |
| | 97 | 134 | 277 | 175 | 87 | 365 | 1,136 |
| Pension loans | | | | | | | |
| Repayments | 24 | 157 | 150 | 150 | 83 | 333 | 897 |
| Interests | 39 | 37 | 30 | 24 | 18 | 35 | 184 |
| | 63 | 194 | 180 | 174 | 101 | 368 | 1,081 |
| Financial leases | | | | | | | |
| Repayments | 4 | 84 | 3 | 4 | 4 | – | 99 |
| Interests | 3 | 4 | – | – | – | – | 7 |
| | 7 | 88 | 3 | 4 | 4 | – | 106 |
| Other loans | | | | | | | |
| Repayments | 3 | 45 | 3 | 3 | – | 158 | 211 |
| Interests | 7 | 5 | 5 | 5 | 5 | 79 | 107 |
| | 10 | 50 | 8 | 8 | 5 | 237 | 318 |
| Interest rate swaps (liabilities) | | | | | | | |
| Repayments | 33 | – | – | – | – | 95 | 128 |
| Interests | – | 3 | 3 | 3 | 4 | 58 | 71 |
| | 33 | 3 | 3 | 3 | 4 | 153 | 199 |
| Current loans | | | | | | | |
| Repayments | 87 | – | – | – | – | – | 87 |
| Interests | 1 | – | – | – | – | – | 1 |
| | 88 | – | – | – | – | – | 88 |
| Guarantees, repayments | 8 | – | – | – | – | – | 8 |
| Long term loans repayments excl. committed facilities | 166 | 396 | 903 | 307 | 501 | 1,643 | 3,916 |

**As of 31 December 2008 the contractual maturity of interest-bearing liabilities**

| €m | 2009 | 2010 | 2011 | 2012 | 2013 | 2014+ | Total |
|---|---|---|---|---|---|---|---|
| Bonds | | | | | | | |
| Repayments | 250 | 138 | – | 636 | – | 1,071 | 2,095 |
| Interests | 127 | 110 | 105 | 105 | 67 | 415 | 929 |
| | 377 | 248 | 105 | 741 | 67 | 1,486 | 3,024 |
| Loans from financial institutions | | | | | | | |
| Repayments | 46 | 29 | 43 | 37 | 72 | 211 | 438 |
| Committed facilities | – | 253 | – | 434 | – | – | 687 |
| Interests | 39 | 28 | 26 | 16 | 12 | 22 | 143 |
| | 85 | 310 | 69 | 487 | 84 | 233 | 1,268 |
| Pension loans | | | | | | | |
| Repayments | 39 | 22 | 156 | 148 | 148 | 410 | 923 |
| Interests | 38 | 39 | 36 | 30 | 24 | 52 | 219 |
| | 77 | 61 | 192 | 178 | 172 | 462 | 1,142 |
| Financial leases | | | | | | | |
| Repayments | 4 | 4 | 84 | 3 | 3 | 5 | 103 |
| Interests | 4 | 4 | 4 | 1 | 1 | 1 | 15 |
| | 8 | 8 | 88 | 4 | 4 | 6 | 118 |
| Other loans | | | | | | | |
| Repayments | 5 | 4 | 4 | 4 | 3 | 208 | 228 |
| Interests | 8 | 7 | 8 | 8 | 8 | 93 | 132 |
| | 13 | 11 | 12 | 12 | 11 | 301 | 360 |
| Interest rate swaps (liabilities) | | | | | | | |
| Repayments | – | – | – | – | – | 107 | 107 |
| Interests | 7 | 5 | 7 | 8 | 8 | 65 | 100 |
| | 7 | 5 | 7 | 8 | 8 | 172 | 207 |
| Current loans | | | | | | | |
| Repayments | 74 | – | – | – | – | – | 74 |
| Interests | 1 | – | – | – | – | – | 1 |
| | 75 | – | – | – | – | – | 75 |
| Guarantees, repayments | 10 | – | – | – | – | – | 10 |
| Long term loans repayments excl. committed facilities | 344 | 197 | 287 | 828 | 226 | 1,905 | 3,787 |

Amounts are based on the exchange rates and interests on the reporting date.
Difference between above listed cash-based repayment amounts and the respective balance sheet values mainly arise from fair value adjustments in the balance sheet items.

**Bonds in interest-bearing liabilities**

| | Interest rate % | | Nominal value issued m | As at 31 Dec. 2009 €m | 2008 €m |
|---|---|---|---|---|---|
| **Fixed rate** | | | | | |
| 1997–2027 | 7.450 | USD | 375 | 310 | 395 |
| 1999–2009 | 6.350 | EUR | 250 | – | 250 |
| 2000–2030 | 3.550 | JPY | 10,000 | 38 | 48 |
| 2002–2012 | 6.125 | EUR | 600 | 627 | 619 |
| 2002–2014 | 5.625 | USD | 500 | 362 | 393 |
| 2002–2017 | 6.625 | GBP | 250 | 297 | 284 |
| 2003–2018 | 5.500 | USD | 250 | 184 | 209 |
| 2008–2018 | 7.000 | USD | 35 | 24 | – |
| | | | | 1,842 | 2,198 |
| **Floating-rate** | | | | | |
| 2002–2010 | 1.898 | EUR | 59 | 59 | 59 |
| 2002–2012 | 2.161 | EUR | 25 | 25 | 25 |
| 2002–2012 | 1.947 | EUR | 11 | 11 | 11 |
| | | | | 95 | 95 |
| Bonds, total | | | | 1,937 | 2,293 |
| Current portion | | | | –59 | –250 |
| Bonds, long-term portion | | | | 1,878 | 2,043 |

**Fair value hedge of the long-term interest-bearing liabilities**

Fair value hedge accounting in accordance with IAS 39 results in a cumulative fair value adjustment totalling € 134 million (275 million), which has increased (2008 increased) the carrying amounts of the liabilities.

Accordingly the positive fair value of the hedging instruments excluding accrued interest amounts to € 219 million (345 million) in assets, and negative fair value of € 44 million in liabilities (31 million). The effect of the fair value hedge ineffectiveness on the income statement was gain € 2 million (loss € 21 million).

## NET INTEREST-BEARING LIABILITIES

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **Total interest-bearing liabilities** | 4,464 | 5,073 |
| **Interest-bearing financial assets** | | |
| Non-current | | |
| Loan receivables | 9 | 9 |
| Derivative financial instruments | 222 | 345 |
| Other receivables | 20 | 5 |
| | 251 | 359 |
| Current | | |
| Loan receivables | 13 | 8 |
| Other receivables | 4 | 12 |
| Derivative financial instruments | 28 | 43 |
| Cash and cash equivalents | 438 | 330 |
| | 483 | 393 |
| Interest-bearing financial assets | 734 | 752 |
| Net interest-bearing liabilities | 3,730 | 4,321 |

### Finance lease liabilities

As at 31 December 2009 the Group has one power plant acquired under sale and leaseback agreement. The Group uses the electrical power generated by this plant in its own production. Payments of this power plant are due by the end of 2011.

In addition the Group leases certain tangible assets under long-term arrangements.

Other interest-bearing liabilities include a loan of € 47 million (50 million) based on a sale and leaseback arrangement, which does not involve a lease in substance, of specified plywood production machinery and equipment in Finland. The lease period is eight years without any restrictions on the manufacturing use of the assets.

### Finance lease liabilities – minimum lease payments

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Not later than 1 year | 7 | 8 |
| 1–2 years | 88 | 8 |
| 2–3 years | 3 | 88 |
| 3–4 years | 4 | 4 |
| 4–5 years | 4 | 4 |
| Later than 5 years | – | 6 |
| | 106 | 118 |
| Future finance charges | –7 | –15 |
| Finance lease liabilities – the present value of minimum lease payments | 99 | 103 |

### Finance lease liabilities – the present value of minimum lease payments

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Not later than 1 year | 7 | 8 |
| 1–2 years | 82 | 7 |
| 2–3 years | 3 | 77 |
| 3–4 years | 3 | 3 |
| 4–5 years | 4 | 3 |
| Later than 5 years | – | 5 |
| Total | 99 | 103 |

## 32 OTHER LIABILITIES

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Derivative financial instruments | 25 | 18 |
| Other | 26 | 7 |
| Total | 51 | 25 |

## 33 TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Advances received | 8 | 14 |
| Trade payables | 647 | 594 |
| Amounts due to associates and joint ventures | 29 | 25 |
| Accrued expenses and deferred income | 411 | 450 |
| Derivative financial instruments | 44 | 83 |
| Other current liabilities | 67 | 92 |
| Total | 1,206 | 1,258 |

Trade and other payables mature within 12 months.

### Main items included in accrued expenses and deferred income

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Personnel expenses | 171 | 194 |
| Interest expenses | 72 | 79 |
| Indirect taxes | 17 | 11 |
| Other items [1)] | 151 | 166 |
| Total | 411 | 450 |

[1)] Consists mainly of customer rebates.

## 34 CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES, AS DEFINED IN IAS 39, AND FAIR VALUES

| 2009 Balance sheet item | Financial assets/ liabilities at fair value through profit or loss | Loans and receivables | Available for sale financial assets | Derivatives used for hedging | Financial liabilities measured at amortised cost | Carrying amounts by balance sheet item | Fair value | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | | |
| Available-for-sale investments | – | – | 320 | – | – | 320 | 320 | 22 |
| Non-current financial assets | | | | | | | | |
| Loan receivables | – | 17 | – | – | – | 17 | 17 | 23 |
| Derivative financial instruments | 28 | – | – | 218 | – | 246 | 246 | 23 |
| | | | | | | 263 | 263 | |
| **Current financial assets** | | | | | | | | |
| Trade and other receivables | | | | | | | | |
| Trade and other receivables | – | 1,253 | – | – | – | 1,253 | 1,253 | 26 |
| Prepayments and accrued income | – | 73 | – | – | – | 73 | 73 | 26 |
| Derivative financial instruments | 98 | – | – | 22 | – | 120 | 120 | 26 |
| | | | | | | 1,446 | 1,446 | |
| **Carrying amount by category** | 126 | 1,343 | 320 | 240 | – | 2,029 | 2,029 | |
| **Non-current financial liabilities** | | | | | | | | |
| Non-current interest-bearing liabilities | | | | | | | | |
| Non-current interest-bearing liabilities | – | – | – | – | 4,025 | 4,025 | 3,894 | 31 |
| Derivative financial instruments | 95 | – | – | 44 | – | 139 | 139 | 31 |
| | | | | | | 4,164 | 4,033 | |
| Other liabilities | | | | | | | | |
| Other liabilities | 2 | – | – | – | 24 | 26 | 26 | 32 |
| Derivative financial instruments | 25 | – | – | – | – | 25 | 25 | 32 |
| | | | | | | 51 | 51 | |
| **Current financial liabilities** | | | | | | | | |
| Current interest-bearing liabilities | | | | | | | | |
| Interest-bearing liabilities | – | – | – | – | 254 | 254 | 254 | 31 |
| Derivative financial instruments | 46 | – | – | – | – | 46 | 46 | 31 |
| | | | | | | 300 | 300 | |
| Trade and other payables | | | | | | | | |
| Trade and other payables | 2 | – | – | – | 749 | 751 | 751 | 33 |
| Accrued expenses and deferred income | – | – | – | – | 411 | 411 | 411 | 33 |
| Derivative financial instruments | 18 | – | – | 26 | – | 44 | 44 | 33 |
| | | | | | | 1,206 | 1,206 | |
| **Carrying amount by category** | 188 | – | – | 70 | 5,463 | 5,721 | 5,590 | |

| 2008 Balance sheet item | Financial assets/ liabilities at fair value through profit or loss | Loans and receivables | Available for sale financial assets | Derivatives used for hedging | Financial liabilities measured at amortised cost | Carrying amounts by balance sheet item | Fair value | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | | |
| Available-for-sale investments | – | – | 116 | – | – | 116 | 116 | 22 |
| Non-current financial assets | | | | | | | | |
| Loan receivables | – | 16 | – | – | – | 16 | 16 | 23 |
| Derivative financial instruments | 4 | – | – | 341 | – | 345 | 345 | 23 |
| | | | | | | 361 | 361 | |
| **Current financial assets** | | | | | | | | |
| Trade and other receivables | | | | | | | | |
| Trade and other receivables | – | 1,363 | – | – | – | 1,363 | 1,363 | 26 |
| Prepayments and accrued income | – | 54 | – | – | – | 54 | 54 | 26 |
| Derivative financial instruments | 154 | – | – | 115 | – | 269 | 269 | 26 |
| | | | | | | 1,686 | 1,686 | |
| **Carrying amount by category** | 158 | 1,433 | 116 | 456 | – | 2,163 | 2,163 | |
| **Non-current financial liabilities** | | | | | | | | |
| Non-current interest-bearing liabilities | | | | | | | | |
| Non-current interest-bearing liabilities | – | – | – | – | 4,387 | 4,387 | 3,867 | 31 |
| Derivative financial instruments | 116 | – | – | 31 | – | 147 | 147 | 31 |
| | | | | | | 4,534 | 4,014 | |
| Other liabilities | | | | | | | | |
| Other liabilities | – | – | – | – | 7 | 7 | 7 | 32 |
| Derivative financial instruments | 18 | – | – | – | – | 18 | 18 | 32 |
| | | | | | | 25 | 25 | |
| **Current financial liabilities** | | | | | | | | |
| Current interest-bearing liabilities | | | | | | | | |
| Interest-bearing liabilities | – | – | – | – | 432 | 432 | 432 | 31 |
| Derivative financial instruments | 105 | – | – | – | – | 105 | 105 | 31 |
| | | | | | | 537 | 537 | |
| Trade and other payables | | | | | | | | |
| Trade and other payables | – | – | – | – | 725 | 725 | 725 | 33 |
| Accrued expenses and deferred income | – | – | – | – | 450 | 450 | 450 | 33 |
| Derivative financial instruments | 35 | – | – | 48 | – | 83 | 83 | 33 |
| | | | | | | 1,258 | 1,258 | |
| **Carrying amount by category** | 274 | – | – | 79 | 6,001 | 6,354 | 5,834 | |

Fair values of long-term loans, have been estimated as follows:

The fair value of the quoted bonds is based on the quoted market value as of 31 December. The fair value of fixed rate and market-based floating rate loans is estimated using the expected future payments discounted at market interest rates.

The carrying amounts of current financial assets and liabilities approximate their fair value.

## 35 DERIVATIVE FINANCIAL INSTRUMENTS

### Net fair values of derivative financial instruments

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2009 | 2008 |
| €m | Positive fair values | Negative fair values | Net fair values | Net fair values |
| **Interest rate swaps** | | | | |
| Fair value hedges | 219 | – | 219 | 322 |
| Held for trading | 68 | – | 68 | 48 |
| **Forward foreign exchange contracts** | | | | |
| Cash flow hedges | 21 | –14 | 7 | 18 |
| Net equity hedges | – | –12 | –12 | 45 |
| Held for trading | 34 | –24 | 10 | –12 |
| **Currency options** | | | | |
| Held for trading | – | – | – | – |
| **Cross currency swaps** | | | | |
| Fair value hedges | – | –44 | –44 | –8 |
| Held for trading | – | –133 | –133 | –142 |
| **Commodity Contracts** | | | | |
| Held for trading | 24 | –27 | –3 | –10 |
| **Interest rate forward contracts** | | | | |
| Held for trading | – | – | – | – |
| Total | 366 | –254 | 112 | 261 |

### Notional amounts of derivative financial instruments

| | As at 31 December | |
|---|---|---|
| €m | 2009 | 2008 |
| Interest rate swaps | 2,701 | 2,833 |
| Forward foreign exchange contracts | 3,791 | 4,598 |
| Currency options | 40 | – |
| Cross currency swaps | 514 | 508 |
| Commodity contracts | 175 | 258 |
| Interest rate forward contracts | 3,259 | 2,668 |

## 36 PRINCIPAL SUBSIDIARIES AS AT 31 DECEMBER 2009

| Name of the subsidiary, country of incorporation | Group holding % |
|---|---|
| Blandin Paper Company, US | 100.00 |
| Botnia S.A., UY | 91.00 |
| Forestal Oriental S.A., UY | 100.00 |
| Lignis GmbH & Co. KG, DE | 74.90 |
| Nordland Papier GmbH, DE | 100.00 |
| Norfolk House Management Ltd, GB | 95.00 |
| NorService GmbH, DE | 100.00 |
| nortrans Speditionsgesellschaft mbH, DE | 100.00 |
| Silvesta Oy, FI | 100.00 |
| Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT | 100.00 |
| ZAO Tikhvinsky Komplexny Lespromkhoz, RU | 99.99 |
| Tilhill Forestry Ltd, GB | 100.00 |
| UPM Sähkönsiirto Oy, FI | 100.00 |
| OOO UPM-Kymmene, RU | 100.00 |
| UPM-Kymmene AB, SE | 100.00 |
| UPM-Kymmene A/S, DK | 100.00 |
| UPM-Kymmene AS, NO | 100.00 |
| UPM-Kymmene Asia Pacific Pte Ltd, SG | 100.00 |
| UPM-Kymmene Austria GmbH, AT | 100.00 |
| UPM-Kymmene B.V., NL | 100.00 |
| OOO UPM-Kymmene Chudovo, RU | 100.00 |
| UPM-Kymmene Forest AS, EE | 100.00 |
| OOO UPM-Kymmene Forest Russia, RU | 100.00 |
| UPM-Kymmene France S.A.S., FR | 100.00 |
| UPM-Kymmene Inc., US | 100.00 |
| UPM-Kymmene India PVT Ltd, IN | 100.00 |
| UPM-Kymmene Japan K.K., JP | 100.00 |
| UPM-Kymmene Kagit Urunleri San. ve Tic Ltd. Sti., TR | 100.00 |
| UPM-Kymmene NV/SA, BE | 99.60 |
| UPM-Kymmene Otepää AS, EE | 100.00 |
| OOO UPM-Kymmene Pestovo, RU | 100.00 |
| UPM-Kymmene Sales GmbH, DE | 100.00 |
| UPM-Kymmene Seven Seas Oy, FI | 100.00 |
| UPM-Kymmene Sp.z o.o., PL | 100.00 |
| UPM-Kymmene S.A., ES | 100.00 |
| UPM-Kymmene S.r.l., IT | 100.00 |
| UPM-Kymmene Wood Oy, FI | 100.00 |
| UPM-Kymmene Wood S.A., FR | 99.99 |
| UPM-Kymmene (Changshu) Paper Industry Co. Ltd, CN | 100.00 |
| UPM-Kymmene (UK) Ltd, GB | 100.00 |
| UPM GmbH, DE | 100.00 |
| UPM Raflatac Canada Inc., CA | 100.00 |
| UPM Raflatac GmbH, DE | 100.00 |
| UPM Raflatac Iberica S.A., ES | 100.00 |
| UPM Raflatac Inc., US | 100.00 |
| PT UPM Raflatac Indonesia, ID | 100.00 |
| UPM Raflatac Kft., HU | 100.00 |
| UPM Raflatac Ltd, GB | 100.00 |
| UPM Raflatac Mexico S.A. de C.V., ME | 100.00 |
| UPM Raflatac NZ Limited, NZ | 100.00 |
| UPM Raflatac Oy, FI | 100.00 |
| UPM Raflatac South Africa (Pty) Ltd, ZA | 100.00 |
| UPM Raflatac S.A.S., FR | 100.00 |
| UPM Raflatac Sdn. Bhd., MY | 100.00 |
| UPM Raflatac Pty Ltd, AU | 100.00 |
| UPM Raflatac RFID (Guangzhou) Co. Ltd, CN | 100.00 |
| UPM Raflatac Co., Ltd, TH | 100.00 |
| UPM Raflatac (Changshu) Co. Ltd, CN | 100.00 |
| UPM Raflatac (S) Pte Ltd, SG | 100.00 |
| Werla Insurance Company Ltd, GB | 100.00 |

The table includes subsidiaries with sales exceeding € 2 million.

## 37 SHARE-BASED PAYMENTS

### Share options granted to key personnel

The Annual General Meeting held on 31 March 2005 approved the Board of Directors' proposal to issue share options to the Group's key personnel. The number of share options was 9,000,000 and these can be exercised to subscribe a maximum total of 9,000,000 UPM-Kymmene Corporation shares. A total of 3,000,000 of the share options were designated 2005F, 3,000,000 2005G and 3,000,000 2005H. The subscription periods were 1 October 2006 to 31 October 2008 for 2005F options, 1 October 2007 to 31 October 2009 for 2005G options, and the subscription period for 2005H options is 1 October 2008 to 31 October 2010

The subscription price for 2005F share options was the average trade-weighted price for the company's share on the Helsinki stock exchange between 1 January and 28 February 2005 plus 10%, i.e. € 18.23 per share. The subscription price for 2005G options was the average trade-weighted share price between 1 January and 28 February 2006 plus 10%, i.e. € 18.65 per share, and that for 2005H options the average trade-weighted share price between 1 January and 28 February 2007 plus 10%, i.e. € 21.65 per share. The share subscription prices will be reduced by the amount of dividend confirmed after the end of the subscription price determination period and before the date of share subscription, in each case on the record date for dividend distribution.

The share subscription period for stock options 2005F ended on 31 October 2008. During the entire share subscription period a total of 4,000 stock options 2005F were used for the subscription of 4,000 shares.

The share subscription period for stock options 2005G ended on 31 October 2009. During the entire share subscription period no shares were subscribed with stock options 2005G. At the end of the exercise period the subscription price was € 16.00 per share.

Share subscriptions based on 2005H options may increase the number of shares by a total maximum of 3,000,000.

The Annual General Meeting held on 27 March 2007 approved the Board of Directors' proposal to issues share options to the Group's key personnel. The number of options may not be more than 15,000,000 and they will entitle to subscribe in total no more than 15,000,000 new shares of the company. Of the share options, 5,000,000 are marked with the symbol 2007A, 5,000,000 are marked with the symbol 2007B and 5,000,000 shall be marked with the symbol 2007C. The subscription periods shall be 1 October 2010 to 31 October 2012 for share options 2007A, 1 October 2011 to 31 October 2013 for share options 2007B, and 1 October 2012 to 31 October 2014 for share options 2007C.

The share subscription price shall be the trade volume weighted average quotation of the share on the NASDAQ OMX Helsinki Ltd, during 1 April to 31 May 2008 for share option 2007A i.e. € 12.40 per share, during 1 April to 31 May 2009 for share option 2007B i.e. € 6.24 per share and during 1 April to 31 May 2010 for share option 2007C.

### Share-based rewards

The Board of Directors has decided on the Share Ownership Plan for key personnel including three earning periods, each lasting for a calendar year (2008, 2009 and 2010). The amount of the earned reward will be determined based on established targets. Targets are decided separately for each individual year by the Board of Directors. The maximum total reward under the Share Ownership Plan is 1,250,000 shares and cash payment equivalent to taxes is paid under the Share Ownership Plan. The amount to be paid in cash may not be more than the value of shares given. Shares awarded under the Share Ownership Plan require a two-year holding period and employment. The Share Ownership Plan also includes a recommendation for the President and CEO and the members of the Group Executive Team to hold the awarded shares to the extent the aggregate value of such shares corresponds half of their respective annual fixed salary before taxes.

In 2009, a total of 30,000 shares were given to the President and CEO under terms and conditions of the Share Ownership Plan.

In 2008, a total of 57,400 shares were given to 12 key employees under the terms and conditions of the share ownership rewards scheme. Of this amount, 15,800 shares were given to the President and CEO, and a total of 26,800 shares to the other Group Executive Team members.

### Changes in the numbers of share options granted

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Weighted average exercise price, € | Number of share options | Weighted average exercise price, € | Number of share options |
| Outstanding 1 Jan. | 18.28 | 5,738,000 | 15.91 | 12,285,750 |
| Share options granted | 9.19 | 9,115,000 | 20.15 | 254,500 |
| Share options forfeited | 8.74 | –74,000 | 20.15 | –124,000 |
| Share options exercised | – | – | 10.53 | –3,691,884 |
| Share options expired | 16.00 | –2,866,000 | 15.13 | –2,986,366 |
| Outstanding 31 Dec. | 11.74 | 11,913,000 | 18.28 | 5,738,000 |
| Exercisable share options 31 Dec. | | 2,872,000 | | 5,738,000 |

Weighted average remaining contractual life was 33 and 16 months as at 31 December 2009 and 2008, respectively.

### Outstanding share option plans as at 31 December 2009

| Plan/Distribution of share options | Class | Exercise price at 1 Jan. | Exercise price at 31 Dec. | Total number of share options | Number of share options granted | Exercise period | Vesting [1] schedule |
|---|---|---|---|---|---|---|---|
| 2007/2009 | B | – | 6.24 | 5,000,000 | 4,743,000 | 1.10.2011–31.10.2013 | 1.10.2011 |
| 2007/2009 | A | – | 12.40 | 5,000,000 | 4,372,000 | 1.10.2010–31.10.2012 | 1.10.2010 |
| 2005/2007 | H | 20.15 | 19.75 | 3,000,000 | 2,872,000 | 1.10.2008–31.10.2010 | Vested |
| | | | | 13,000,000 | 11,987,000 | | |

[1] Vesting periods range from 21 to 25 months.

The Black-Scholes valuation model and the following weighted average assumptions are used in measuring the fair value of share options issued in 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Share price, € | 8.14 | 13.99 |
| Exercise price, € | 9.19 | 20.15 |
| Volatility [1] | 38% | 25% |
| Risk-free interest rate | 3% | 4% |
| Assumed annual dividend yield | 5% | – |
| Expected option life, year | 4 | 2 |

1) Volatility is a measure of price changes expressed in terms of the standard deviation of the price of the security in question over the period of analysis. In the calculations the volatility is based on three- and four-year periods. Volatility is reported as an annual percentage figure.

Assumed forfeiture used in 2009 was 3% and 2008 was 5%.

## 38 RELATED PARTY TRANSACTIONS

### The Board of Directors and the Group Executive Team

There have not been any material transactions between UPM and its members of the Board of Directors or the Group Executive Team or persons closely associated with these members or organisations in which these individuals have control or significant influence. There are no loans granted to any members of the Board of Directors or the Group Executive Team at 31 December 2009 and 2008. Shares and share options held by the members of the Board of Directors and members of the Group Executive Team are disclosed in page 70 and 72. Remuneration to the members of the Board of Directors and the Group Executive Team are disclosed in Note 7.

### Associated companies and joint ventures

Until 8 December 2009 the Group held a 47% interest in Oy Metsä-Botnia Ab, an associated company with M-real Corporation and Metsäliitto Cooperative. M-real is a Finnish paper and board producer and Metsäliitto is a co-operative organisation of Finnish forest owners. Metsäliitto is also the controlling shareholder of M-real.

On 8 December, UPM, Metsäliitto Cooperative, M-real Corporation and Metsä-Botnia completed a transaction whereby Metsäliitto's and Metsä-Botnia's shares of the Fray Bentos pulp mill and the eucalyptus plantation forestry company Forestal Oriental in Uruguay were acquired by UPM and UPM sold approximately 30% in Metsä-Botnia to Metsäliitto. Following the transaction, as of December 2009, Metsä-Botnia is no longer UPM's associated company but accounted for as an available-for-sale-investment.

Chemical pulp produced by Metsä-Botnia has been sold to the Group and to M-real at the market price less certain transportation and other costs. In 2008, the Group's chemical pulp annual entitlement with respect to the production of Metsä-Botnia was 1.8 million tonnes. After the transaction, UPM's share of Metsä-Botnia's capacity was reduced to annual 400,000 tonnes. For the first eleven months of 2009, the total purchases of chemical pulp from associated company Metsä-Botnia amounted to € 272 million compared to purchases in 2008 of € 287 million.

The Group obtains most of the energy for its production units in Finland from the Group's owned and leased power plants, as well as through ownership in power companies which entitles it to receive electricity and heat from those companies. A significant proportion of the Group's electricity procurement comes from Pohjolan Voima Oy, a Finnish energy producer in which the Group holds a 43.07% equity interest, and from Kemijoki Oy, a Finnish hydropower producer in which the Group holds a 4.13% equity interest. Pohjolan Voima Oy is also a majority shareholder in Teollisuuden Voima Oy, one of Finland's two nuclear power companies. The combined total of these energy purchases in 2009 was € 223 million (222 million). In accordance with the articles of association of the power companies and with related shareholder agreements, the prices paid by the Group to the power companies are based on production costs, which are generally lower than market prices. Internal sales to the Group's segments are based on the prevailing market price.

Relating to research and development activities, the Group is not currently participating to any major arrangements that involve joint control or significant influence. Until January 2009, approximately 10% of the Group's research and development work had been conducted by Oy Keskuslaboratorio-Centrallaboratorium Ab ("KCL"). The operations with KCL were reorganised in 2009, and consequently the Group's co-operation with KCL decreased.

The Group purchases recovered paper partially from the following three associated companies. LCI s.r.l. is an Italian recovered paper purchasing company in which the Group has a 50% interest. In 2009 the total value of recovered paper purchases from LCI was € 9 million (25 million). In Finland the Group has a 22,98% interest in Paperinkeräys Oy, a company engaged in the procurement, processing and transport of recovered paper. In 2009 the total value of raw material purchases from Paperinkeräys Oy was € 10 million (12 million). Recovered paper is sold to the Group and other shareholders of Paperinkeräys Oy at a contract-based price that takes into account paper recycling expenses and the world market prices for recovered paper. In Austria, the Group has a similar arrangement concerning recovered paper which is purchased from Austria Papier Recycling G.m.b.H., a company in which the Group owns a 33.3% equity interest. In 2009 the total value of recovered paper purchases was € 11 million (16 million).

The Group's associated companies and joint ventures and transactions and balances with associated companies and joint ventures are presented in Note 21.

### Pension Funds

In Finland, UPM has a pension foundation, Kymin Eläkesäätiö, which is a separate legal entity. The pensions of about 8% of the Group's Finnish employees are arranged through the foundation. In 2009 the contributions paid by UPM to the foundation amounted to € 16 million (47 million). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation's assets at 31 December 2009 was € 271 million (222 million), of which 50% was in the form of equity instruments, 35% in the form of debt instruments and 15% invested in property and money market.

The Group participates in two UK Pension Schemes which operate within two separate and independent Trusts, both outwith the Company. One scheme consists of various defined benefit sections plus a defined contribution section, and the other scheme consists of a defined benefit section only. All defined benefit sections were closed to future accrual as at 31 December 2007 and all active members as at that date became deferred members and were invited to join the Group's single UK Defined Contribution Pension Scheme. The Group made no contributions to the Defined Benefit Schemes in 2009 (GBP 44 million). The fair value of the UK Defined Benefit funds assets at 31 December 2009 was GBP 194 million, of which 64% was invested in equity instruments, 28% in debt instruments and 8% in property and cash.

### Subsidiaries

The Group's principal subsidiaries are disclosed in Note 36.

## 39 COMMITMENTS AND CONTINGENCIES

### Contingent liabilities

The Group is a defendant or plaintiff in a number of legal proceedings incidental to its operations. These lawsuits primarily involve claims arising out of commercial law issues.

The investigations of certain competition authorities into alleged antitrust activities with respect to various UPM products, as well as litigation arising therefrom, have ended in all material respects.

In Finland, UPM is participating in the building project of a new nuclear power plant, Olkiluoto 3, through its associated company Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oy ("TVO") with 58.28% of shares. UPM's indirect share of the capacity of the Olkiluoto 3 is approximately 29%. The original agreed timetable for the start up was summer 2009 but the construction of the unit is delayed. The latest anticipated start-up time is after June 2012. TVO has requested the plant supplier, the consortium AREVA-Siemens to provide a re-analysis of the anticipated start-up time.

TVO has informed UPM that the arbitration filed in December 2008 by AREVA-Siemens, concerning the delay at Olkiluoto 3 and related costs, amounted to € 1.0 billion. In response, TVO filed a counter-claim in April 2009 for costs and losses that TVO is incurring due to the delay and other defaults on the part of the supplier. The value of TVO's counterclaim was approximately € 1.4 billion.

### Commitments

In the normal course of business, UPM-Kymmene Corporation and some of its subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of those subsidiaries. These agreements are entered into primarily to support or enhance the creditworthiness of subsidiaries so that they can accomplish their intended business purposes. The maximum amount of future payments for which UPM-Kymmene Corporation is liable on behalf of its subsidiaries are disclosed in the table below under "Other commitments".

The Group has also entered into various agreements to provide financial or performance assurance to third parties on behalf of certain companies in which the Group has a minority interest. These agreements are entered into primarily to support or enhance the creditworthiness of these companies. The Group has no collateral or other recourse provisions related to these guarantees. The maximum amounts of future payments by UPM-Kymmene Corporation on behalf of its associated companies under these guarantees are disclosed in the table below under "Guarantees on behalf of associated companies". It is the Group's policy not to give guarantees on behalf third parties, and the commitments included under the caption "Guarantees on behalf of others" in the table relate mainly to companies that have been sold.

In the normal course of business, certain subsidiaries of UPM-Kymmene Corporation, especially in Germany, grant commercial guarantees to their customers to help them purchase goods from the subsidiary. The Group has no liability with respect to these commercial guarantees, but they are covered by its credit risk insurance. These guarantees mature within one year. The maximum potential amount of future payments under these guarantees amounted to € 13 million at 31 December 2009 and € 13 million at 31 December 2008. They are included in the amounts disclosed in the table under "Other commitments".

### Commitments

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| **On own behalf** | | |
| Mortgages and pledges[1] | 1,043 | 787 |
| **On behalf of associated companies and joint ventures** | | |
| Guarantees | 8 | 10 |
| **On behalf of others** | | |
| Guarantees | 1 | 2 |
| **Other commitments, own** | | |
| Operating leases, due within 12 months | 24 | 17 |
| Operating leases, due after 12 months | 60 | 56 |
| Other commitments | 69 | 62 |
| Total | 1,205 | 934 |
| | | |
| Mortgages and pledges | 1,043 | 787 |
| Guarantees | 9 | 12 |
| Operating leases | 84 | 73 |
| Other commitments | 69 | 62 |
| Total | 1,205 | 934 |

[1] Mortgages and pledges relate mainly to Uruguayan operations, and to giving mandatory security for borrowing from Finnish pension insurance companies.

Property under mortgages given as collateral for own commitments include property, plant and equipment, industrial estates and forest land.

### Commitments related to associated companies and joint ventures

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Proportionate interest in joint ventures' commitments | 22 | 22 |
| Contingent liabilities relating to the Group's interest in the joint ventures | 6 | 8 |
| Share of associated companies contingent liabilities[1] | 215 | 239 |

[1] Includes mortgages and pledges of € 39 million (74 million), operating leases € 169 million (156 million) and other commitments € 7 million (9 million).

### Operating lease commitments – where a Group company is the lessee

The Group leases office, manufacturing warehouse space and vessels under time charter agreements under various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

**The future costs for contracts exceeding one year and for non-cancellable operating lease contracts**

| €m | As at 31 December 2009 | 2008 |
|---|---|---|
| Not later than 1 year | 25 | 17 |
| 1–2 years | 19 | 17 |
| 2–3 years | 15 | 13 |
| 3–4 years | 10 | 11 |
| 4–5 years | 4 | 9 |
| Later than 5 years | 12 | 6 |
| Total | 85 | 73 |

**Capital commitments at the balance sheet date but not recognised in the financial statements; major commitments under construction listed below**

| €m | Total cost | Commitment as at 31 December 2009 | 2008 |
|---|---|---|---|
| Materials recovery facility (MRF), Shotton | 19 | 19 | – |
| Waste water treatment plant, Blandin | 19 | 19 | 19 |
| Plywood development | 18 | 18 | – |
| Rebuild of debarking plant, Wisaforest | 30 | 16 | 29 |
| Energy saving TMP plant, Steyrermühl | 16 | 16 | – |

## 40 EVENTS AFTER THE BALANCE SHEET DATE

The Group's management is not aware of any significant events occurring after 31 December 2009.

# PARENT COMPANY ACCOUNTS (Finnish Accounting Standards, FAS)

## INCOME STATEMENT

| €m | Note | Year ended 31 Dec. 2009 | 2008 |
|---|---|---|---|
| **Turnover** | 1) | 3,535 | 4,738 |
| Change in inventories of finished goods and work in progress | | –68 | –54 |
| Production for own use | | 13 | 19 |
| Other operating income | 2) | 415 | 55 |
| Materials and services | | | |
| Materials and consumables | | | |
| Purchases during the financial period | | –1,845 | –2,808 |
| Change in inventories | | –142 | 110 |
| External services | | –252 | –349 |
| | | –2,239 | –3,047 |
| Personnel expenses | | | |
| Wages and salaries | 3) | –388 | –479 |
| Social security expenses | | | |
| Pension expenses | | –82 | –125 |
| Other social security expenses | | –30 | –45 |
| | | –500 | –649 |
| Depreciation and value adjustments | 4) | | |
| Depreciation according to plan | | –319 | –342 |
| Value adjustments to goods held as non-current assets | | –3 | –184 |
| | | –322 | –526 |
| Other operating costs and expenses | | –556 | –487 |
| **Operating profit** | | 278 | 49 |
| Financial income and expenses | | | |
| Income from investments held as non-current assets | | | |
| Dividends from Group companies | | 8 | 39 |
| Dividends from participating interest companies | | 353 | 18 |
| Interest income from Group companies | | 2 | 15 |
| Other interest and financial income | | | |
| Other interest income from Group companies | | 13 | 38 |
| Other interest income from other companies | | 4 | 7 |
| Other financial income from Group companies | | – | 137 |
| Other financial income from other companies | | 10 | 11 |
| Interest and other financial expenses | | | |
| Interest expenses to Group companies | | –27 | –38 |
| Interest expenses to other companies | | –126 | –206 |
| Other financial expenses to Group companies | | –99 | – |
| Other financial expenses to other companies | | –13 | –91 |
| | | 125 | –70 |
| **Profit (loss) before extraordinary items** | | 403 | –21 |
| Extraordinary items | 5) | | |
| Extraordinary income | | 4 | 19 |
| Extraordinary expenses | | –1 | –14 |
| | | 3 | 5 |
| **Profit (loss) before appropriations and taxes** | | 406 | –16 |
| Appropriations | | | |
| Increase or decrease in accumulated depreciation difference | | 42 | 195 |
| Income taxes | 6) | –3 | –42 |
| **Profit for the financial period** | | 445 | 137 |

## CASH FLOW STATEMENT

| €m | Year ended 31 Dec. 2009 | 2008 |
|---|---|---|
| **Operating activities** | | |
| Profit (loss) before extraordinary items | 403 | –21 |
| Financial income and expenses | –125 | 70 |
| Adjustments to operating profit [a] | 122 | 533 |
| Change in working capital [b] | 555 | –167 |
| Interest paid | –169 | –231 |
| Dividends received | 32 | 56 |
| Interest received | 20 | 64 |
| Other financial items | –58 | 177 |
| Income taxes paid [c] | –1 | –21 |
| **Net cash from operating activities** | 779 | 460 |
| **Investing activities** | | |
| Investments in tangible and intangible assets | –123 | –303 |
| Proceeds from sale of tangible and intangible assets | 56 | 49 |
| Investments in shares and holdings | –623 | –14 |
| Proceeds from sale of shares and holdings | 592 | 185 |
| Increase in other investments | –29 | – |
| Decrease in other investments | 17 | 25 |
| **Net cash used in investing activities** | –110 | –58 |
| **Financing activities** | | |
| Increase in non-current liabilities | 148 | 940 |
| Decrease in non-current liabilities | –941 | –565 |
| Increase or decrease in current liabilities | 346 | –396 |
| Dividends paid | –208 | –384 |
| Group contributions, received and paid | 5 | 49 |
| Share options exercised | – | 78 |
| **Net cash used in financing activities** | –650 | –278 |
| **Cash and cash equivalents** | | |
| Change in cash and cash equivalents | 19 | 124 |
| Cash and cash equivalents at the beginning of the year | 277 | 153 |
| **Cash and cash equivalents at year-end** | 296 | 277 |

### Notes to the cash flow statement

| | 2009 | 2008 |
|---|---|---|
| [a] Adjustments to operating profit | | |
| Depreciation | 319 | 342 |
| Gains and losses on sale of non-current assets | –197 | –30 |
| Value adjustments on non-current assets | 2 | 184 |
| Change in provisions | –2 | 37 |
| Total | 122 | 533 |
| [b] Change in working capital | | |
| Inventories | 247 | –46 |
| Current receivables | 359 | –21 |
| Current non-interest-bearing liabilities | –51 | –100 |
| Total | 555 | –167 |

[c] Taxes stemming from extraordinary items and sales of non-current assets are reported here on a net basis.

## BALANCE SHEET

| €m | Note | As at 31 December 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 7) | | |
| Intangible rights | | 5 | 8 |
| Other capitalised expenditure | | 231 | 198 |
| Advance payments | | 7 | 27 |
| | | 243 | 233 |
| Tangible assets | 8) | | |
| Land and water areas | | 1,049 | 1,039 |
| Buildings | | 541 | 565 |
| Machinery and equipment | | 1,392 | 1,576 |
| Other tangible assets | | 67 | 73 |
| Advance payments and construction in progress | | 10 | 16 |
| | | 3,059 | 3,269 |
| Investments | 9) | | |
| Holdings in Group companies | | 4,759 | 4,184 |
| Receivables from Group companies | | 55 | 48 |
| Holdings in participating interest companies | | 430 | 648 |
| Receivables from participating interest companies | | 2 | – |
| Other shares and holdings | | 271 | 173 |
| Other receivables | | 9 | 10 |
| | | 5,526 | 5,063 |
| Total non-current assets | | 8,828 | 8,565 |
| **Current assets** | | | |
| Inventories | | | |
| Raw materials and consumables | | 214 | 357 |
| Finished products and goods | | 241 | 309 |
| Advance payments | | 24 | 60 |
| | | 479 | 726 |
| Current receivables | 10) | | |
| Trade receivables | | 78 | 80 |
| Receivables from Group companies | | 1,158 | 1,578 |
| Receivables from participating interest companies | | 15 | 30 |
| Other receivables | | 34 | 37 |
| Prepayments and accrued income | | 18 | 87 |
| | | 1,303 | 1,812 |
| Cash and cash equivalents | | 296 | 277 |
| Total current assets | | 2,078 | 2,815 |
| **Total assets** | | 10,906 | 11,380 |

| €m | Note | As at 31 December 2009 | 2008 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 11) | | |
| Share capital | | 890 | 890 |
| Revaluation reserve | | 546 | 551 |
| Reserve for invested non-restricted equity | | 1,145 | 1,145 |
| Retained earnings | | 1,678 | 1,748 |
| Profit for the financial period | | 445 | 137 |
| Total equity | | 4,704 | 4,471 |
| **Appropriations** | | | |
| Accumulated depreciation difference | | 928 | 969 |
| **Provisions** | 12) | | |
| Provisions for pensions | | 49 | 52 |
| Other provisions | | 60 | 59 |
| | | 109 | 111 |
| **Non-current liabilities** | 13) | | |
| Bonds | | 1,773 | 1,845 |
| Loans from financial institutions | | 451 | 967 |
| Pension loans | | 790 | 793 |
| Advances received | | 1 | 1 |
| Trade payables | | 1 | – |
| Payables to Group companies | | 21 | 21 |
| Other liabilities | | 158 | 166 |
| Total non-current liabilities | | 3,195 | 3,793 |
| **Current liabilities** | 14) | | |
| Bonds | | 59 | 250 |
| Loans from financial institutions | | 4 | 2 |
| Pension loans | | 16 | 39 |
| Advances received | | 5 | 5 |
| Trade payables | | 218 | 231 |
| Payables to Group companies | | 1,354 | 1,089 |
| Payables to participating interest companies | | 29 | 26 |
| Other liabilities | | 43 | 54 |
| Accruals and deferred income | | 242 | 340 |
| Total current liabilities | | 1,970 | 2,036 |
| Total liabilities | | 5,165 | 5,829 |
| **Total equity and liabilities** | | 10,906 | 11,380 |

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(All amounts in millions of euros unless otherwise stated.)

**Accounting policies**

The the parent company financial statements are prepared in accordance with Finnish Accounting Standards. Main differences in accounting policies between the Group and the parent company relate to measurement of derivative financial instruments and biological assets and recognition of defined benefit obligations, revaluations and deferred income taxes. See Notes to the consolidated financial statements, Note 1.

## 1 TURNOVER

Owing to the corporate structure of the Group, the turnover of the parent company has not been divided by segment and market.

## 2 OTHER OPERATING INCOME

| €m | 2009 | 2008 |
|---|---|---|
| Gains on sale of non-current assets | 390 | 35 |
| Rental income | 18 | 14 |
| Gains on sale of emission rights [1] | 6 | 5 |
| Other | 1 | 1 |
| **Total** | 415 | 55 |

[1] Emissions trading rights are accounted for on a net basis.

## 3 PERSONNEL EXPENSES

| €m | 2009 | 2008 |
|---|---|---|
| **Wages and salaries** | | |
| Managing director and members of the Board of Directors [2] | 3 | 3 |
| Other wages and salaries | 385 | 476 |
| **Total** | 388 | 479 |

[2] See Notes to the consolidated financial statements, Note 7.

| | 2009 | 2008 |
|---|---|---|
| Average number of personnel | 8,036 | 9,420 |

Owing to the corporate structure of the Group, average number of personnel has not been divided by segments.

## 4 DEPRECIATION ACCORDING TO PLAN AND VALUE ADJUSTMENTS

| €m | 2009 | 2008 |
|---|---|---|
| **Depreciation according to plan** | | |
| Intangible rights | 3 | 2 |
| Other capitalised expenditure | 29 | 30 |
| Buildings | 39 | 43 |
| Machinery and equipment | 239 | 259 |
| Other tangible assets | 9 | 8 |
| Total | 319 | 342 |
| **Value adjustments** | | |
| Non-current assets | 3 | 184 |
| **Total** | 322 | 526 |

## 5 EXTRAORDINARY ITEMS

| €m | 2009 | 2008 |
|---|---|---|
| **Extraordinary income** | | |
| Group contributions | 1 | 19 |
| Gains on mergers | 3 | – |
| Total | 4 | 19 |
| **Extraordinary expenses** | | |
| Group contributions | – | –14 |
| Losses on mergers | –1 | – |
| | –1 | –14 |
| **Total** | 3 | 5 |

## 6 INCOME TAXES

| €m | 2009 | 2008 |
|---|---|---|
| Taxes on operating income for the financial period | – | 44 |
| Income taxes from previous periods | –3 | –2 |
| **Total** | –3 | 42 |

**Deferred tax assets and liabilities**

Deferred income tax assets and liabilities of the parent company are not recorded on the balance sheet.

Deferred tax liability comprises mainly depreciation differences, for which the deferred tax liability at 31 December 2009 was € 241 million (€ 252 million).

Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued assets is € 183 million (€ 184 million).

## 7 INTANGIBLE ASSETS

| €m | 2009 | 2008 |
|---|---|---|
| **Intangible rights** | | |
| Acquisition cost at 1 Jan. | 18 | 16 |
| Increases | 19 | 25 |
| Decreases | –22 | –23 |
| Transfers between balance sheet items | 1 | – |
| Acquisition cost at 31 Dec. | 16 | 18 |
| Accumulated depreciation at 1 Jan. | –10 | –9 |
| Accumulated depreciation on decreases and transfers | 5 | 1 |
| Depreciation for the period | –3 | –2 |
| Value adjustments and their cancellations | –3 | – |
| Accumulated depreciation at 31 Dec. | –11 | –10 |
| Book value at 31 Dec. | 5 | 8 |

| €m | 2009 | 2008 |
|---|---|---|
| **Other capitalised expenditure** | | |
| Acquisition cost at 1 Jan. | 383 | 395 |
| Increases | 37 | 8 |
| Decreases | –7 | –25 |
| Transfers between balance sheet items | 26 | 5 |
| Acquisition cost at 31 Dec. | 439 | 383 |
| Accumulated depreciation at 1 Jan. | –185 | –176 |
| Accumulated depreciation on decreases and transfers | 6 | 25 |
| Depreciation for the period | –29 | –30 |
| Value adjustments and their cancellations | – | –4 |
| Accumulated depreciation at 31 Dec. | –208 | –185 |
| Book value at 31 Dec. | 231 | 198 |
| | | |
| **Advance payments** | | |
| Acquisition cost at 1 Jan. | 27 | 7 |
| Increases | 5 | 25 |
| Transfers between balance sheet items | –25 | –5 |
| Book value at 31 Dec. | 7 | 27 |

## 8 TANGIBLE ASSETS

| €m | 2009 | 2008 |
|---|---|---|
| **Land and water areas** | | |
| Acquisition cost at 1 Jan. | 494 | 491 |
| Increases | 22 | 4 |
| Decreases | –6 | –1 |
| Transfers between balance sheet items | –2 | – |
| Acquisition cost at 31 Dec. | 508 | 494 |
| Revaluations at 1 Jan. | 545 | 546 |
| Reversal of revaluation | –4 | –1 |
| Revaluations at 31 Dec. | 541 | 545 |
| Book value at 31 Dec. | 1,049 | 1,039 |
| | | |
| **Buildings** | | |
| Acquisition cost at 1 Jan. | 1,150 | 1,188 |
| Increases | 17 | 27 |
| Decreases | –16 | –113 |
| Transfers between balance sheet items | 4 | 48 |
| Acquisition cost at 31 Dec. | 1,155 | 1,150 |
| Accumulated depreciation at 1 Jan. | –585 | –597 |
| Accumulated depreciation on decreases and transfers | 11 | 113 |
| Depreciation for the period | –39 | –43 |
| Value adjustments and their cancellations | –1 | –58 |
| Accumulated depreciation at 31 Dec. | –614 | –585 |
| Book value at 31 Dec. | 541 | 565 |
| | | |
| **Machinery and equipment** | | |
| Acquisition cost at 1 Jan. | 5,447 | 5,641 |
| Increases | 45 | 184 |
| Decreases | –292 | –557 |
| Transfers between balance sheet items | 10 | 179 |
| Acquisition cost at 31 Dec. | 5,210 | 5,447 |
| Accumulated depreciation at 1 Jan. | –3,871 | –4,049 |
| Accumulated depreciation on decreases and transfers | 291 | 556 |
| Depreciation for the period | –239 | –259 |
| Value adjustments and their cancellations | 1 | –119 |
| Accumulated depreciation at 31 Dec. | –3,818 | –3,871 |
| Book value at 31 Dec. | 1,392 | 1,576 |

| €m | 2009 | 2008 |
|---|---|---|
| **Other tangible assets** | | |
| Acquisition cost at 1 Jan. | 202 | 186 |
| Increases | 2 | 13 |
| Decreases | –1 | –8 |
| Transfers between balance sheet items | – | 11 |
| Acquisition cost at 31 Dec. | 203 | 202 |
| Accumulated depreciation at 1 Jan. | –129 | –126 |
| Accumulated depreciation on decreases and transfers | 2 | 8 |
| Depreciation for the period | –9 | –8 |
| Value adjustments and their cancellations | – | –3 |
| Accumulated depreciation at 31 Dec. | –136 | –129 |
| Book value at 31 Dec. | 67 | 73 |
| | | |
| **Advance payments and construction in progress** | | |
| Acquisition cost at 1 Jan. | 16 | 238 |
| Increases | 8 | 16 |
| Transfers between balance sheet items | –14 | –238 |
| Book value at 31 Dec. | 10 | 16 |

## 9 INVESTMENTS

| €m | 2009 | 2008 |
|---|---|---|
| **Holdings in Group companies** | | |
| Acquisition cost at 1 Jan. | 4,465 | 3,703 |
| Increases | 870 | 944 |
| Decreases | –102 | –182 |
| Acquisition cost at 31 Dec. | 5,233 | 4,465 |
| Accumulated depreciation at 1 Jan. | –281 | –281 |
| Value adjustments and their cancellations | –193 | – |
| Accumulated depreciation at 31 Dec. | –474 | –281 |
| Book value at 31 Dec. | 4,759 | 4,184 |

Value adjustments relate to holdings in Group companies in Finland and in foreign countries. The principal subsidiaries are disclosed in the consolidated financial statements, Note 36.

| €m | 2009 | 2008 |
|---|---|---|
| **Receivables from Group companies** | | |
| Acquisition cost at 1 Jan. | 48 | 635 |
| Increases | 25 | – |
| Decreases | –18 | –587 |
| Acquisition cost at 31 Dec. | 55 | 48 |
| Accumulated depreciation on decreases and transfers | – | 3 |
| Value adjustments and their cancellations | – | –3 |
| Book value at 31 Dec. | 55 | 48 |
| | | |
| **Holdings in participating interest companies** | | |
| Acquisition cost at 1 Jan. | 545 | 533 |
| Increases | 82 | 12 |
| Decreases | –203 | – |
| Transfers between balance sheet items | –97 | – |
| Acquisition cost at 31 Dec. | 327 | 545 |
| Revaluations at 1 Jan. | 103 | 103 |
| Revaluations at 31 Dec. | 103 | 103 |
| Book value at 31 Dec. | 430 | 648 |

Decreases and transfers relate to the sale of approximately 30% of Oy Metsä-Botnia Ab shares.

| €m | 2009 | 2008 |
|---|---|---|
| **Receivables from participating interest companies** | | |
| Increases | 2 | – |
| Book value at 31 Dec. | 2 | – |
| | | |
| **Other shares and holdings** | | |
| Acquisition cost at 1 Jan. | 112 | 112 |
| Increases | 1 | – |
| Transfers between balance sheet items | 97 | – |
| Acquisition cost at 31 Dec. | 210 | 112 |
| Revaluations at 1 Jan. | 61 | 61 |
| Revaluations at 31 Dec. | 61 | 61 |
| Book value at 31 Dec. | 271 | 173 |
| | | |
| **Other receivables** | | |
| Acquisition cost at 1 Jan. | 10 | 10 |
| Increases | 3 | – |
| Decreases | –4 | – |
| Acquisition cost at 31 Dec. | 9 | 10 |
| Accumulated depreciation on decreases and transfers | 5 | – |
| Value adjustments and their cancellations | –5 | – |
| Book value at 31 Dec. | 9 | 10 |

There were no loans granted to the company's Managing Director and members of the Board of Directors at 31 December 2009 or 2008.

## 10 CURRENT RECEIVABLES

| €m | 2009 | 2008 |
|---|---|---|
| Trade receivables | 537 | 599 |
| Loan receivables | 653 | 953 |
| Other receivables | 34 | 37 |
| Prepayments and accrued income | 79 | 223 |
| Total at 31 Dec. | 1,303 | 1,812 |
| | | |
| **Main items included in current prepayments and accrued income** | | |
| Personnel expenses | 4 | 2 |
| Interest income | 10 | 11 |
| Currency derivatives | 59 | 199 |
| Income taxes | – | 3 |
| Others | 6 | 8 |
| At 31 Dec. | 79 | 223 |
| | | |
| **Receivables from Group companies** | | |
| Trade receivables | 448 | 491 |
| Loan receivables | 649 | 951 |
| Prepayments and accrued income | 61 | 136 |
| At 31 Dec. | 1,158 | 1,578 |
| | | |
| **Receivables from participating interest companies** | | |
| Trade receivables | 11 | 28 |
| Loans receivables | 4 | 2 |
| At 31 Dec. | 15 | 30 |

## 11 SHAREHOLDERS' EQUITY

| €m | Share capital | Revaluation reserve | Reserve for invested non-restricted equity | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|
| Balance at 1 January 2008 | 890 | 551 | 1,067 | 2,133 | 4,641 |
| Share options | – | – | 78 | – | 78 |
| Dividend paid | – | – | – | –384 | –384 |
| Other items | – | – | – | –1 | –1 |
| Profit for the financial period | – | – | – | 137 | 137 |
| Balance at 31 December 2008 | 890 | 551 | 1,145 | 1,885 | 4,471 |
| | | | | | |
| Revaluations | – | –5 | – | – | –5 |
| Dividend paid | – | – | – | –208 | –208 |
| Other items | – | – | – | 1 | 1 |
| Profit for the financial period | – | – | – | 445 | 445 |
| Balance at 31 December 2009 | 890 | 546 | 1,145 | 2,123 | 4,704 |

| €m | 2009 | 2008 |
|---|---|---|
| **Distributable funds at 31 Dec.** | | |
| Reserve for invested non-restricted equity | 1,145 | 1,145 |
| Retained earnings from previous years | 1,678 | 1,748 |
| Profit for the financial period | 445 | 137 |
| Distributable funds at 31 Dec. | 3,268 | 3,030 |

## 12 PROVISIONS

| €m | 2009 | 2008 |
|---|---|---|
| Provisions for pensions | 49 | 52 |
| Closure and restructuring provisions | 30 | 40 |
| Environmental provisions | 17 | 16 |
| Other provisions | 13 | 3 |
| Total at 31 Dec. | 109 | 111 |

## 13 NON-CURRENT LIABILITIES

| €m | 2009 | 2008 |
|---|---|---|
| Bonds | 1,773 | 1,845 |
| Loans from financial institutions | 451 | 967 |
| Pension loans | 790 | 793 |
| Advances received | 1 | 1 |
| Trade payables | 1 | – |
| Other liabilities | 179 | 187 |
| Total at 31 Dec. | 3,195 | 3,793 |
| **Payables to Group companies** | | |
| Other liabilities | 21 | 21 |
| At 31 Dec. | 21 | 21 |
| **Long-term loans and their repayment schedule** | | |
| Repayment in 2–5 years | | |
| Bonds | 983 | 695 |
| Loans from financial institutions | 242 | 757 |
| Pension loans | 498 | 437 |
| Advances received | 1 | 1 |
| Trade payables | 1 | – |
| Payables to Group companies | 21 | 21 |
| | 1,746 | 1,911 |
| Repayment later than 5 years | | |
| Bonds | 790 | 1,150 |
| Loans from financial institutions | 209 | 210 |
| Pensions loans | 292 | 356 |
| Other liabilities | 158 | 166 |
| | 1,449 | 1,882 |
| Total at 31 Dec. | 3,195 | 3,793 |

**Bonds**

| | Interest rate % | Currency of bond | Nominal value issued m | 2009 €m | 2008 €m |
|---|---|---|---|---|---|
| **Fixed-rate** | | | | | |
| 1997–2027 | 7.450 | USD | 375 | 260 | 269 |
| 1999–2009 | 6.350 | EUR | 250 | – | 250 |
| 2000–2030 | 3.550 | JPY | 10,000 | 75 | 79 |
| 2002–2012 | 6.125 | EUR | 600 | 600 | 600 |
| 2002–2014 | 5.625 | USD | 500 | 347 | 359 |
| 2002–2017 | 6.625 | GBP | 250 | 281 | 263 |
| 2003–2018 | 5.500 | USD | 250 | 174 | 180 |
| | | | | 1,737 | 2,000 |
| **Floating-rate** | | | | | |
| 2002–2010 | 1.898 | EUR | 59 | 59 | 59 |
| 2002–2012 | 2.161 | EUR | 25 | 25 | 25 |
| 2002–2012 | 1.947 | EUR | 11 | 11 | 11 |
| | | | | 95 | 95 |
| Bonds, total | | | | 1,832 | 2,095 |
| Current portion | | | | –59 | –250 |
| Bonds, long-term portion | | | | 1,773 | 1,845 |

## 14 CURRENT LIABILITIES

| €m | 2009 | 2008 |
|---|---|---|
| Bonds | 59 | 250 |
| Loans from financial institutions | 4 | 2 |
| Pension loans | 16 | 39 |
| Advances received | 5 | 5 |
| Trade payables | 278 | 301 |
| Other liabilities | 1,299 | 1,035 |
| Accruals and deferred income | 309 | 404 |
| Total at 31 Dec. | 1,970 | 2,036 |
| **Main items included in current accruals and deferred income** | | |
| Personnel expenses | 90 | 101 |
| Interest expenses | 13 | 29 |
| Currency derivatives | 183 | 248 |
| Others | 23 | 26 |
| At 31 Dec. | 309 | 404 |
| **Payables to Group companies** | | |
| Trade payables | 31 | 45 |
| Other liabilities | 1,256 | 980 |
| Accruals and deferred income | 67 | 64 |
| At 31 Dec. | 1,354 | 1,089 |
| **Payables to participating interest companies** | | |
| Trade payables | 29 | 25 |
| Other liabilities | – | 1 |
| At 31 Dec. | 29 | 26 |

## 15 CONTINGENT LIABILITIES

| €m | 2009 | 2008 |
|---|---|---|
| **Mortgages** [1] | | |
| As security against own debts | 764 | 762 |
| **Guarantees** | | |
| Guarantees for loans | | |
| On behalf of Group companies | 1,419 | 994 |
| On behalf of participating interest companies | 8 | 10 |
| Other guarantees | | |
| On behalf of Group companies | 64 | 67 |
| **Leasing commitments** [2] | | |
| Commitments for next year | 18 | 18 |
| Commitments for subsequent years | 164 | 159 |

[1] The mortgages given relate mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

[2] The commitments of long-term lease agreements relate to energy purchases and production machinery.

**Directors' pension commitments**

See Notes to the consolidated financial statements, Note 7.

**Related party transactions**

See Notes to the consolidated financial statements,, Note 38.

**Derivate contracts**

Fair values and notional values are disclosed in the consolidated financial statements (Notes 34 and 35).

# INFORMATION ON SHARES

### Changes in number of shares 1 January 2005 – 31 December 2009

| | | Number of shares |
|---|---|---|
| **2004** | Number of shares at 31 Dec. 2004 | 524,320,252 |
| **2005** | Options exercised | 6,934,878 |
| | Treasury shares cancelled | –8,000,000 |
| | Number of shares at 31 Dec. 2005 | 523,255,130 |
| **2006** | Options exercised | 4,300 |
| | Number of shares at 31 Dec. 2006 | 523,259,430 |
| **2007** | Options exercised | 5,709,890 |
| | Treasury shares cancelled | –16,400,000 |
| | Number of shares at 31 Dec. 2007 | 512,569,320 |
| **2008** | Options exercised | 7,400,768 |
| | Number of shares at 31 Dec. 2008 | 519,970,088 |
| **2009** | Options exercised | – |
| | Number of shares at 31 Dec. 2009 | 519,970,088 |

### Stock exchange trading

UPM's shares are listed on NASDAQ OMX Helsinki Ltd. The company's ADSs are traded on the U.S. over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt programme.

A total of 805.9 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2009 (932.1 million). This represented 155.0% (180.1%) of the total number of shares. The highest quotation was € 9.78 in January and the lowest € 4.33 in April. The total value of shares traded in 2009 was € 5,691 million (10,549 million).

During the year, 0.22 million 2005H share options were traded for € 0.03 million (0.04 million and € 0.02 million)

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### Shares and options held by the Board of Directors and the Group Executive Team

At the end of the year, the members of the Board of Directors including President and CEO owned a total of 1,234,911 (959,785) UPM-Kymmene Corporation shares, including shares held by persons closely associated with him or her or by organisations of which the person has control. These represent 0.24% of the shares (0.18%) and 0.24% of the voting rights (0.18%). At the end of the year, President and CEO Jussi Pesonen owned 92,814 shares and 760,000 share options. Exercise of these options would increase the number of the companys's shares by 760,000, which at 31 December 2009 would have represented 0.15% of the company's shares and voting rights.

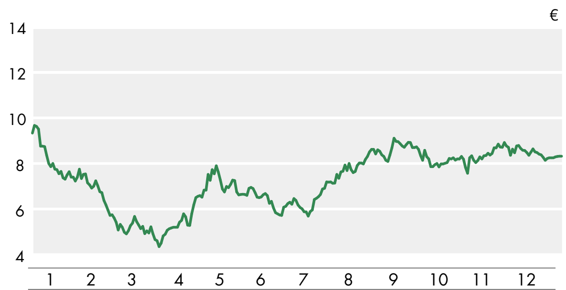
At the end of the year, the other members of the Group Executive Team owned a total of 93,058 shares and 2,627,000 share options. Exercise of these options would increase the number of the company's shares by 2,627,000 which at 31 December 2009 would have represented 0.51% of the company's shares and voting rights.

## Biggest registered shareholders at 31 December 2009

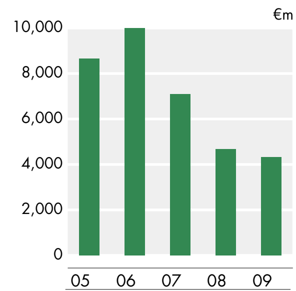
| | Shares at 31 December 2009 | % of shares | % of votes |
|---|---|---|---|
| Ilmarinen Mutual Pension Insurance Company | 15,185,401 | 2.92 | 2.92 |
| Varma Mutual Pension Insurance Company | 10,058,899 | 1.93 | 1.93 |
| Gustaf Serlachius (representing 5 shareholders) | 6,301,811 | 1.21 | 1.21 |
| The State Pension Fund | 5,500,000 | 1.06 | 1.06 |
| Svenska litteratursällskapet i Finland | 3,831,302 | 0.74 | 0.74 |
| OP-Delta Investment Fund | 3,201,728 | 0.62 | 0.62 |
| Mandatum Life Insurance Company | 2,817,577 | 0.54 | 0.54 |
| Sellan Inderessenter Ab | 2,000,000 | 0.38 | 0.38 |
| Etera Mutual Pension Insurance Company | 1,958,697 | 0.38 | 0.38 |
| The Local Government Pensions Institution | 1,732,708 | 0.33 | 0.33 |
| Nominees & registered foreign owners | 304,762,302 | 58.61 | 58.61 |
| Others | 162,619,663 | 31.28 | 31.28 |
| Total | 519,970,088 | 100.00 | 100.00 |

The company has received the following notifications from shareholders: Norges Bank on 24 October 2008 held 5.01% of the share capital and the voting rights. BlackRock Inc. on 8 December 2009 held 5.36% of UPM's shares and voting rights. Franklin Templeton on 27 July 2009 announced its ownership in UPM had declined below 5% of the company's shares and voting rights.

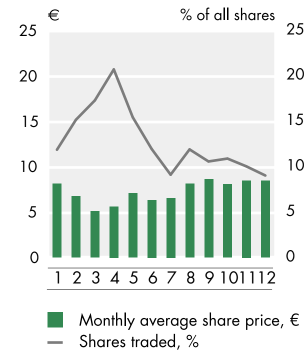
**SHARE PRICE IN 2009**



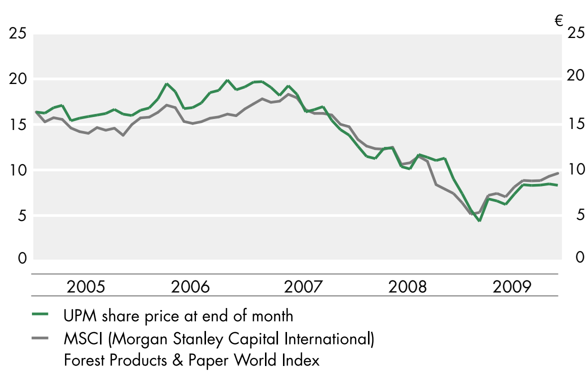

**MARKET CAPITALISATION**



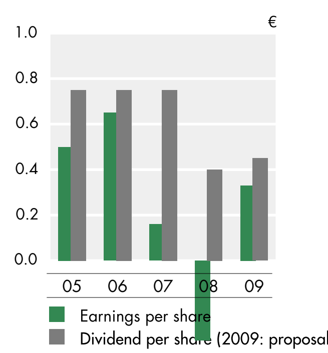

**MONTHLY AVERAGE SHARE PRICE AND SHARES TRADED 1–12/2009**



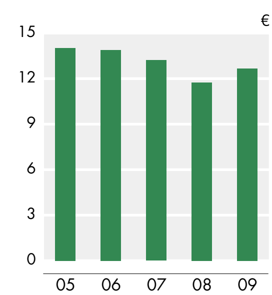

**SHARE PRICE 2005–2009**



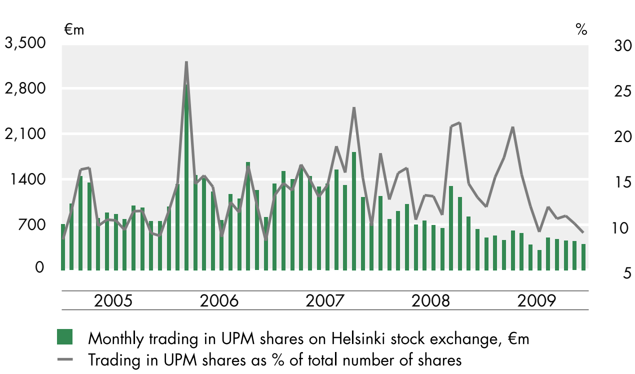

**EARNINGS AND DIVIDEND PER SHARE**



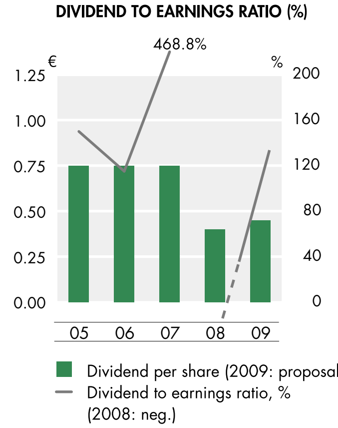

**SHAREHOLDERS' EQUITY PER SHARE**




**SHARES TRADED ON HELSINKI STOCK EXCHANGE 2005–2009**




**DIVIDEND PER SHARE (€) AND DIVIDEND TO EARNINGS RATIO (%)**



## Distribution of shareholders at 31 December 2009

| Size of shareholding | Number of shareholders | % of shareholders | Number of shares, million | % of shares |
|---|---|---|---|---|
| 1 – 100 | 16,836 | 20.35 | 1.0 | 0.2 |
| 101 – 1,000 | 46,754 | 56.53 | 20.1 | 3.9 |
| 1,001 – 10,000 | 17,451 | 21.10 | 48.8 | 9.4 |
| 10,001 – 100,000 | 1,496 | 1.81 | 36.6 | 7.0 |
| 100,001 – | 173 | 0.21 | 115.0 | 22.1 |
| Total | 82,710 | 100.00 | 221.5 | 42.6 |
| Nominee-registered | | | 298.3 | 57.4 |
| Not registered as book entry units | | | 0.2 | 0.0 |
| Total | | | 520.0 | 100.0 |

## Shareholder breakdown by sector at 31 December, %

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Companies | 3.8 | 2.8 | 2.2 | 1.8 | 2.8 |
| Financial institutions and insurance companies | 4.6 | 3.2 | 2.5 | 2.1 | 3.5 |
| Public bodies | 8.5 | 8.1 | 6.4 | 5.2 | 5.8 |
| Non-profit organisations | 6.3 | 6.0 | 6.0 | 6.1 | 6.7 |
| Households | 17.5 | 14.9 | 14.1 | 13.5 | 15.4 |
| Non-Finnish nationals | 59.3 | 65.0 | 68.8 | 71.3 | 65.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

## UPM's share option programmes

| | | | Exercise price per share | | | |
|---|---|---|---|---|---|---|
| Options | Number of options | Number of shares | at date of issue € | at 31 Dec. 2009 € | Subscription period | Options exercised 2009 |
| 2007 B | 5,000,000 | 5,000,000 | 6.24 | 6.24 | 1.10.2011–31.10.2013 | – |
| 2007 A | 5,000,000 | 5,000,000 | 12.40 | 12.40 | 1.10.2010–31.10.2012 | – |
| 2005 H | 3,000,000 | 3,000,000 | 21.65 | 19.75 | 1.10.2008–31.10.2010 | – |

# KEY FIGURES 2000–2009

## Adjusted share-related indicators 2000–2009 [1)]

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Earnings per share, € (diluted 2009: 0.33) | 0.33 | –0.35 | 0.16 | 0.65 | 0.50 | 1.76 | 0.60 | 0.96 | 1.93 | 2.38 |
| Shareholders' equity per share, € | 12.67 | 11.74 | 13.21 | 13.90 | 14.01 | 14.46 | 13.36 | 13.85 | 13.09 | 11.72 |
| Dividend per share, € | [2)] 0.45 | 0.40 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Dividend to earnings ratio, % | 136.4 | neg. | 468.8 | 115.4 | 150.0 | 42.6 | 125.0 | 78.1 | 39.0 | 31.4 |
| Effective dividend yield, % | 5.4 | 4.4 | 5.4 | 3.9 | 4.5 | 4.6 | 5.0 | 4.9 | 4.0 | 4.1 |
| P/E ratio | 25.2 | neg. | 86.4 | 29.4 | 33.1 | 8.9 | 24.8 | 15.9 | 9.7 | 7.7 |
| Cash flow from operations per share, € | 2.42 | 1.21 | 1.66 | 2.32 | 1.63 | 1.90 | 2.40 | 2.73 | 3.32 | 3.19 |
| Dividend distribution, €m | [2)] 234 | 208 | 384 | 392 | 392 | 393 | 393 | 390 | 388 | 371 |
| Share price at 31 Dec., € | 8.32 | 9.00 | 13.82 | 19.12 | 16.56 | 16.36 | 15.12 | 15.30 | 18.63 | 18.28 |
| Market capitalisation, €m | 4,326 | 4,680 | 7,084 | 10,005 | 8,665 | 8,578 | 7,917 | 7,960 | 9,681 | 9,502 |
| Shares traded, €m [3)] | 5,691 | 10,549 | 16,472 | 16,021 | 11,358 | 9,731 | 9,117 | 10,827 | 7,645 | 6,157 |
| Shares traded (1,000s) | 805,904 | 932,136 | 952,300 | 876,023 | 697,227 | 625,950 | 645,988 | 597,078 | 443,240 | 400,822 |
| Shares traded, % of all shares | 155.0 | 180.1 | 182.1 | 167.4 | 133.6 | 119.5 | 123.4 | 115.1 | 88.1 | 77.2 |
| Lowest quotation, € | 4.33 | 8.15 | 13.01 | 15.36 | 15.05 | 14.44 | 11.05 | 12.61 | 14.00 | 12.46 |
| Highest quotation, € | 9.78 | 13.87 | 20.59 | 20.91 | 18.15 | 17.13 | 17.10 | 22.25 | 19.93 | 22.45 |
| Average quotation for the period, € | 7.06 | 11.32 | 17.30 | 18.29 | 16.29 | 15.55 | 14.11 | 18.13 | 17.24 | 15.36 |
| Number of shares, average (1,000s) | 519,955 | 517,545 | 522,867 | 523,220 | 522,029 | 523,641 | 523,130 | 518,935 | 495,784 | 513,634 |
| Number of shares at end of period (1,000s) | 519,970 | 519,970 | 512,569 | 523,259 | 523,093 | 524,450 | 523,579 | 520,232 | 517,436 | 501,295 |

Share prices and shares traded are based on trading on the NASDAQ OMX Helsinki stock exchange.

### Notes to the tables on pages 151–152

1) Figures for 2002–2008 are reported in accordance with International Financial Reporting Standards (IFRS) and for 2000–2001 in accordance with Finnish Accounting Standards (FAS). More information on the effects of the transition on the balance sheet and income statement is given in the bulletin released on 24.3.2004. The bulletin is available on UPM's Internet pages at www.upm-kymmene.com.

2) Proposal.

3) Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

## Financial indicators 2000–2009 [1)]

| €m | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 7,719 | 9,461 | 10,035 | 10,022 | 9,348 | 9,820 | 9,787 | 10,417 | 9,918 | 9,583 |
| EBITDA | 1,062 | 1,206 | 1,546 | 1,678 | 1,428 | 1,435 | 1,442 | 1,957 | 2,055 | 2,081 |
| % of sales | 13.8 | 12.7 | 15.4 | 16.7 | 15.3 | 14.6 | 14.7 | 18.8 | 20.7 | 21.7 |
| Operating profit, excluding special items | 270 | 513 | 835 | 725 | 558 | 470 | 429 | 963 | 1,394 | 1,560 |
| % of sales | 3.5 | 5.4 | 8.3 | 7.2 | 6.0 | 4.8 | 4.4 | 9.2 | 14.1 | 16.3 |
| Operating profit | 135 | 24 | 483 | 536 | 318 | 685 | 368 | 861 | 1,614 | 1,860 |
| % of sales | 1.7 | 0.3 | 4.8 | 5.3 | 3.4 | 7.0 | 3.8 | 8.3 | 16.3 | 19.4 |
| Profit (loss) before tax | 187 | –201 | 292 | 367 | 257 | 556 | 425 | 710 | 1,333 | 1,859 |
| % of sales | 2.4 | –2.1 | 2.9 | 3.7 | 2.7 | 5.7 | 4.3 | 6.8 | 13.4 | 19.4 |
| Profit (loss) for the period | 169 | –180 | 81 | 338 | 261 | 920 | 312 | 500 | 955 | 1,366 |
| % of sales | 2.2 | –1.9 | 0.8 | 3.4 | 2.8 | 9.4 | 3.2 | 4.8 | 9.6 | 14.3 |
| Exports from Finland and foreign operations | 7,054 | 8,515 | 9,170 | 9,102 | 8,397 | 8,791 | 8,697 | 9,475 | 8,948 | 8,563 |
| Exports from Finland | 3,442 | 4,371 | 4,546 | 4,644 | 4,006 | 4,301 | 4,539 | 4,759 | 4,635 | 5,216 |
| | | | | | | | | | | |
| Non-current assets | 10,581 | 10,375 | 10,639 | 11,355 | 12,321 | 12,802 | 13,509 | 14,336 | 12,874 | 10,163 |
| Inventories | 1,112 | 1,354 | 1,342 | 1,255 | 1,256 | 1,138 | 1,144 | 1,224 | 1,289 | 1,184 |
| Other current assets | 1,912 | 2,040 | 1,972 | 1,859 | 1,964 | 1,887 | 1,938 | 2,064 | 2,368 | 1,766 |
| Assets, total | 13,605 | 13,781 | 13,953 | 14,469 | 15,541 | 15,827 | 16,591 | 17,624 | 16,431 | 13,113 |
| | | | | | | | | | | |
| Total equity | 6,602 | 6,120 | 6,783 | 7,289 | 7,348 | 7,612 | 7,029 | 7,237 | 6,838 | 6,175 |
| Non-current liabilities | 5,432 | 5,816 | 4,753 | 4,770 | 5,845 | 5,966 | 7,322 | 8,104 | 5,992 | 4,564 |
| Current liabilities | 1,571 | 1,828 | 2,417 | 2,410 | 2,348 | 2,249 | 2,240 | 2,283 | 3,601 | 2,374 |
| Total equity and liabilities | 13,605 | 13,781 | 13,953 | 14,469 | 15,541 | 15,827 | 16,591 | 17,624 | 16,431 | 13,113 |
| | | | | | | | | | | |
| Capital employed at year end | 11,066 | 11,193 | 11,098 | 11,634 | 12,650 | 12,953 | 12,811 | 13,689 | 13,519 | 10,448 |
| Return on equity, % | 2.8 | neg. | 1.2 | 4.6 | 3.5 | 12.6 | 4.4 | 6.8 | 15.5 | 21.9 |
| Return on capital employed, % | 3.2 | 0.2 | 4.3 | 4.7 | 3.4 | 6.0 | 5.1 | 7.4 | 15.6 | 20.2 |
| Cash flow from operations | 1,259 | 628 | 867 | 1,215 | 853 | 997 | 1,258 | 1,418 | 1,645 | 1,639 |
| Equity to assets ratio, % | 48.6 | 44.5 | 48.8 | 50.4 | 47.3 | 48.2 | 42.5 | 41.1 | 41.5 | 46.0 |
| Gearing ratio, % | 56 | 71 | 59 | 56 | 66 | 61 | 69 | 71 | 89 | 69 |
| Net interest-bearing liabilities | 3,730 | 4,321 | 3,973 | 4,048 | 4,836 | 4,617 | 4,874 | 5,135 | 6,041 | 4,071 |
| Gross capital expenditure | 913 | 551 | 708 | 699 | 749 | 686 | 720 | 620 | 3,850 | 2,175 |
| % of sales | 11.8 | 5.8 | 7.1 | 7.0 | 8.0 | 7.0 | 7.4 | 6.0 | 38.8 | 22.7 |
| Gross capital expenditure excluding acquisitions | 229 | 532 | 683 | 631 | 705 | 645 | 703 | 568 | 827 | 571 |
| % of sales | 3.0 | 5.6 | 6.8 | 6.3 | 7.5 | 6.6 | 7.2 | 5.5 | 8.3 | 6.0 |
| Personnel at year end | 23,213 | 24,983 | 26,352 | 28,704 | 31,522 | 33,433 | 34,482 | 35,579 | 36,298 | 32,755 |

Formulae for calculating indicators are given on page 154.

## Deliveries and production

| | Deliveries | | | | | Production (2000 – 2004) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Electricity, (1,000) MWh | 8,865 | 10,167 | 10,349 | | | | | | | |
| Pulp (1,000 t) | 1,759 | 1,982 | 1,927 | | | | | | | |
| Papers, total (1,000 t) | 9,021 | 10,641 | 11,389 | 10,988 | 10,172 | 10,886 | 10,232 | 10,046 | 8,298 | 8,285 |
| Sawn timber (1,000 $m^3$) | 1,497 | 2,132 | 2,325 | 2,457 | 2,016 | 2,409 | 2,408 | 2,201 | 2,035 | 2,117 |
| Plywood (1,000 $m^3$) | 567 | 806 | 945 | 931 | 827 | 969 | 936 | 905 | 786 | 793 |

# QUARTERLY FIGURES 2008–2009

| €m | Q4/09 | Q3/09 | Q2/09 | Q1/09 | Q4/08 | Q3/08 | Q2/08 | Q1/08 | Q1–Q4/09 | Q1–Q4/08 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | 2,108 | 1,913 | 1,841 | 1,857 | 2,315 | 2,358 | 2,378 | 2,410 | 7,719 | 9,461 |
| Other operating income | 18 | 5 | 7 | 17 | 9 | 23 | 11 | 40 | 47 | 83 |
| Costs and expenses | –1,810 | –1,603 | –1,627 | –1,734 | –2,227 | –1,998 | –2,074 | –2,108 | –6,774 | –8,407 |
| Change in fair value of biological assets and wood harvested | 9 | –13 | 10 | 11 | –2 | 4 | 20 | 28 | 17 | 50 |
| Share of results of associated companies and joint ventures | 1 | –21 | –22 | –53 | –16 | 35 | 21 | 22 | –95 | 62 |
| Depreciation, amortisation and impairment charges | –200 | –185 | –201 | –193 | –365 | –462 | –199 | –199 | –779 | –1,225 |
| **Operating profit (loss)** | 126 | 96 | 8 | –95 | –286 | –40 | 157 | 193 | 135 | 24 |
| Gains on available-for-sale investments, net | – | –1 | – | – | – | – | 2 | – | –1 | 2 |
| Exchange rate and fair value gains and losses | – | –3 | 3 | –9 | –14 | – | –1 | –10 | –9 | –25 |
| Interest and other finance costs, net | 185 | –28 | –37 | –58 | –60 | –50 | –43 | –49 | 62 | –202 |
| **Profit (loss) before tax** | 311 | 64 | –26 | –162 | –360 | –90 | 115 | 134 | 187 | –201 |
| Income taxes | –16 | –24 | 18 | 4 | 74 | 3 | –25 | –31 | –18 | 21 |
| **Profit (loss) for the period** | 295 | 40 | –8 | –158 | –286 | –87 | 90 | 103 | 169 | –180 |
| Attributable to: | | | | | | | | | | |
| Equity holders of the parent company | 295 | 40 | –8 | –158 | –287 | –86 | 92 | 102 | 169 | –179 |
| Minority interest | – | – | – | – | 1 | –1 | –2 | 1 | – | –1 |
| | 295 | 40 | –8 | –158 | –286 | –87 | 90 | 103 | 169 | –180 |
| Basic earnings per share, € | 0.57 | 0.08 | –0.02 | –0.30 | –0.56 | –0.17 | 0.18 | 0.20 | 0.33 | –0.35 |
| Diluted earnings per share, € | 0.57 | 0.08 | –0.02 | –0.30 | –0.56 | –0.17 | 0.18 | 0.20 | 0.33 | –0.35 |
| Earnings per share, excluding special items, € | 0.21 | 0.14 | 0.03 | –0.27 | –0.19 | 0.25 | 0.17 | 0.19 | 0.11 | 0.42 |
| Average number of shares basic (1,000) | 519,958 | 519,954 | 519,954 | 519,954 | 519,979 | 519,999 | 517,622 | 512,581 | 519,955 | 517,545 |
| Average number of shares diluted (1,000) | 518,876 | 521,036 | 519,954 | 519,954 | 519,979 | 519,999 | 516,791 | 513,412 | 519,955 | 517,545 |
| Special items in operating profit (loss) | –60 | –35 | –23 | –17 | –240 | –256 | 2 | 5 | –135 | –489 |
| Operating profit (loss), excl. special items | 186 | 131 | 31 | –78 | –46 | 216 | 155 | 188 | 270 | 513 |
| % of sales | 8.8 | 6.8 | 1.7 | –4.2 | –2.0 | 9.2 | 6.5 | 7.8 | 3.5 | 5.4 |
| Special items before tax | 155 | –35 | –23 | –17 | –240 | –250 | 2 | 5 | 80 | –483 |
| Profit (loss) before tax, excl. special items | 156 | 99 | –3 | –145 | –120 | 160 | 113 | 129 | 107 | 282 |
| % of sales | 7.4 | 5.2 | –0.2 | –7.8 | –5.2 | 6.8 | 4.8 | 5.4 | 1.4 | 3.0 |
| Return on equity, excl. special items, % | 7.4 | 5.0 | 0.8 | neg. | neg. | 7.8 | 5.4 | 5.9 | 1.0 | 3.4 |
| Return on capital employed, excl. special items, % | 7.2 | 4.9 | 1.3 | neg. | neg. | 7.7 | 5.7 | 6.5 | 2.5 | 4.6 |
| EBITDA | 362 | 334 | 238 | 128 | 178 | 378 | 313 | 337 | 1,062 | 1,206 |
| % of sales | 17.2 | 17.5 | 12.9 | 6.9 | 7.7 | 16.0 | 13.2 | 14.0 | 13.8 | 12.7 |
| **Sales by segment** | | | | | | | | | | |
| Energy | 128 | 108 | 100 | 136 | 141 | 129 | 103 | 105 | 472 | 478 |
| Pulp | 226 | 156 | 132 | 139 | 200 | 228 | 247 | 269 | 653 | 944 |
| Forest and timber | 348 | 295 | 309 | 385 | 419 | 475 | 518 | 508 | 1,337 | 1,920 |
| Paper | 1,558 | 1,454 | 1,388 | 1,367 | 1,750 | 1,761 | 1,727 | 1,773 | 5,767 | 7,011 |
| Label | 252 | 242 | 226 | 223 | 233 | 239 | 245 | 242 | 943 | 959 |
| Plywood | 81 | 73 | 77 | 75 | 102 | 121 | 150 | 157 | 306 | 530 |
| Other operations | 35 | 21 | 21 | 34 | 34 | 52 | 66 | 48 | 111 | 200 |
| Internal sales | –520 | –436 | –412 | –502 | –564 | –647 | –678 | –692 | –1,870 | –2,581 |
| **Sales, total** | 2,108 | 1,913 | 1,841 | 1,857 | 2,315 | 2,358 | 2,378 | 2,410 | 7,719 | 9,461 |
| **Operating profit (loss) excl.special items by segment** | | | | | | | | | | |
| Energy | 48 | 27 | 36 | 51 | 62 | 49 | 31 | 33 | 162 | 175 |
| Pulp | 35 | –9 | –60 | –93 | –17 | 60 | 38 | 67 | –127 | 148 |
| Forest and timber | 35 | 5 | –10 | –8 | –61 | –5 | 17 | 26 | 22 | –23 |
| Paper | 82 | 132 | 95 | 37 | 27 | 113 | 60 | 50 | 346 | 250 |
| Label | 17 | 20 | 9 | –3 | –10 | 1 | 8 | 3 | 43 | 2 |
| Plywood | –3 | –10 | –10 | –28 | –10 | –2 | 16 | 21 | –51 | 25 |
| Other operations | –28 | –34 | –29 | –34 | –37 | – | –15 | –12 | –125 | –64 |
| **Operating profit (loss) excl. special items, total** | 186 | 131 | 31 | –78 | –46 | 216 | 155 | 188 | 270 | 513 |
| % of sales | 8.8 | 6.8 | 1.7 | –4.2 | –2.0 | 9.2 | 6.5 | 7.8 | 3.5 | 5.4 |

# CALCULATION OF KEY INDICATORS

## Formulae for calculation of financial indicators

**Return on equity, %:**

$$\frac{\text{Profit before tax}^{2)} - \text{income taxes}}{\text{Total equity (average)}} \times 100$$

**Return on capital employed, %:**

$$\frac{\text{Profit before tax}^{2)} + \text{interest expenses and other financial expenses}}{\text{Total equity + interest-bearing liabilities (average)}} \times 100$$

**Equity to assets ratio, %:**

$$\frac{\text{Total equity} - \text{treasury shares}^{1)}}{\text{Balance sheet total} - \text{advances received} - \text{treasury shares}^{1)}} \times 100$$

**Net interest-bearing liabilities:**

Interest-bearing liabilities – interest-bearing assets – listed shares

**Gearing ratio, %:**

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity} - \text{treasury shares}^{1)}} \times 100$$

**EBITDA:**

Operating profit + depreciation + amortisation of goodwill + impairment +/– change in value of biological assets +/– share of results of associated companies +/– special items

**Return on capital employed (ROCE) for the segments (operating capital), %:**

$$\frac{\text{Operating profit}}{\text{Non-current assets + stocks + trade receivables} - \text{trade payables (average)}} \times 100$$

1) Treasury shares were shown in the balance sheet in 2000–2001.

2) 2000–2001: Profit/loss before extraordinary items and tax.

3) 2000–2001: Profit/loss before extraordinary items and tax – income tax +/– minority interest.

## Formulae for calculation of adjusted share-related indicators

**Earnings per share:**

$$\frac{\text{Profit for the period attributable to the equity holders of the parent company}^{3)}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

**Shareholders' equity per share:**

$$\frac{\text{Equity attributable to the equity holders of the parent company}}{\text{Adjusted number of shares at end of period}}$$

**Dividend per share:**

$$\frac{\text{Dividend distribution}}{\text{Adjusted number of shares at end of period}}$$

**Dividend to earnings ratio, %:**

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

**Effective dividend yield, %:**

$$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12.}} \times 100$$

**P/E ratio:**

$$\frac{\text{Adjusted share price at 31.12.}}{\text{Earnings per share}}$$

**Market capitalisation:**

Total number of shares x striking price at end of period

**Adjusted share price at end of period:**

$$\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$$

**Adjusted average share price:**

$$\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$$

**Cash from operating activities per share:**

$$\frac{\text{Cash from operating activities}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

## Key exchange rates for the euro at end of period

| | 31.12.2009 | 30.09.2009 | 30.06.2009 | 31.03.2009 | 31.12.2008 | 30.09.2008 | 30.06.2008 | 31.03.2008 |
|---|---|---|---|---|---|---|---|---|
| USD | 1.4406 | 1.4643 | 1.4134 | 1.3308 | 1.3917 | 1.4303 | 1.5764 | 1.5812 |
| CAD | 1.5128 | 1.5709 | 1.6275 | 1.6685 | 1.6998 | 1.4961 | 1.5942 | 1.6226 |
| JPY | 133.16 | 131.07 | 135.51 | 131.17 | 126.14 | 150.47 | 166.44 | 157.37 |
| GBP | 0.8881 | 0.9093 | 0.8521 | 0.9308 | 0.9525 | 0.7903 | 0.7923 | 0.7958 |
| SEK | 10.2520 | 10.2320 | 10.8125 | 10.9400 | 10.8700 | 9.7943 | 9.4703 | 9.3970 |

# AUDITOR'S REPORT (Translation from the Finnish Original)

To the Annual General Meeting of UPM-Kymmene Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of UPM-Kymmene Corporation for the year ended on 31 December, 2009. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and of the report of the Board of Directors, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the report of the Board of Directors in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

### Other Opinions

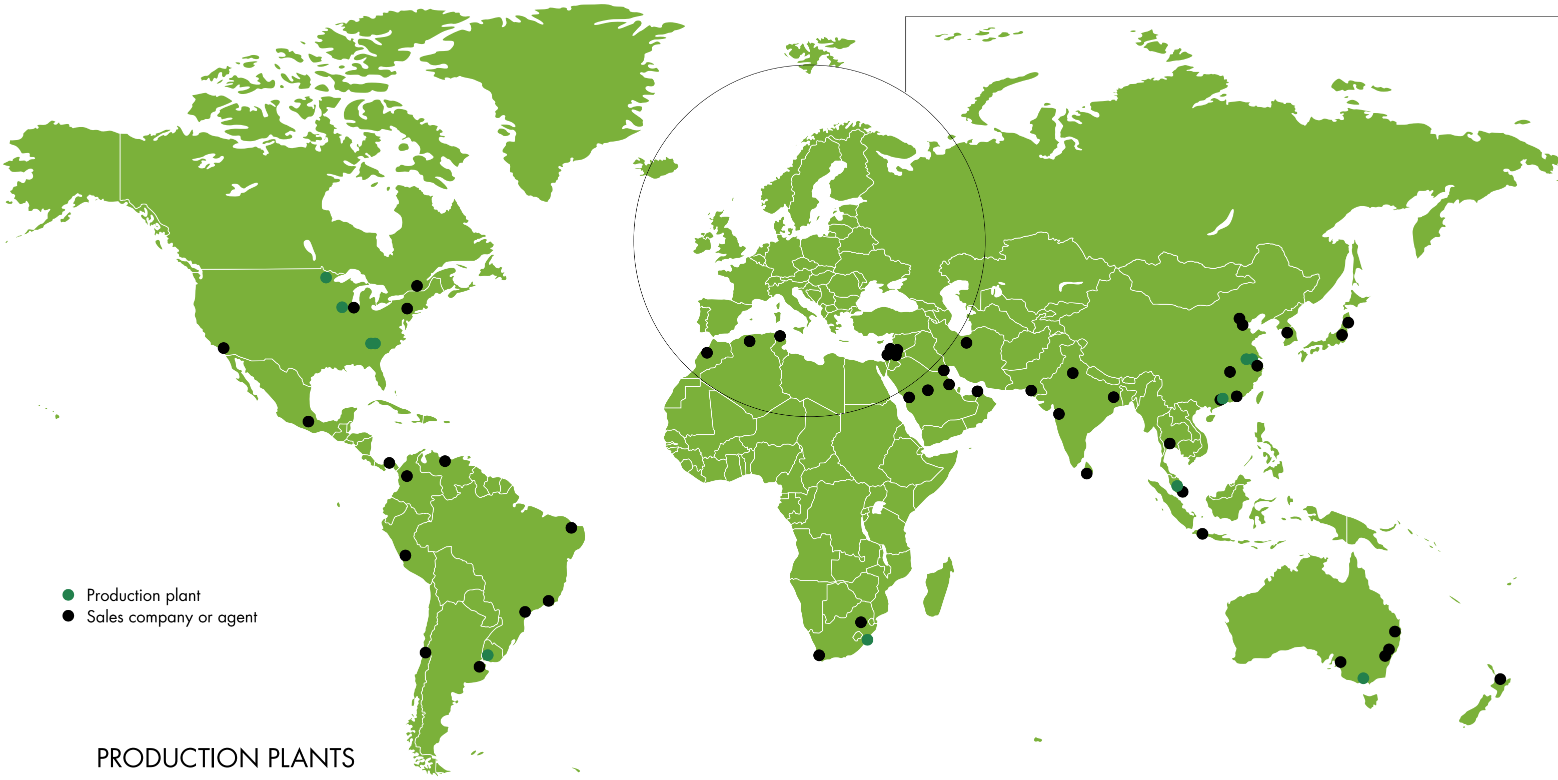
We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 17 February 2010

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

# PRODUCTION PLANTS AND SALES NETWORK




## PRODUCTION PLANTS

**AUSTRALIA**
Labelstock factory
UPM Raflatac, Braeside (Melbourne)

**AUSTRIA**
UPM, Steyrermühl paper mill
UPM, Steyrermühl sawmill

**CHINA**
Paper mill
UPM, Changshu

Labelstock factory
UPM Raflatac, Changshu

RFID factory
UPM Raflatac, Guangzhou

**ESTONIA**
Otepää plywood mill

**FINLAND**
Paper mills
UPM, Jämsänkoski
UPM, Kaipola (Jämsä)
UPM, Kaukas (Lappeenranta)
UPM, Kymi (Kouvola)
UPM, Pietarsaari
UPM, Rauma
UPM, Tervasaari (Valkeakoski)

Pulp mills
UPM, Kaukas (Lappeenranta)
UPM, Kymi (Kuusankoski)
UPM, Pietarsaari

Labelstock factory
UPM Raflatac, Tampere

Plywood mills
UPM
- Joensuu
- Pellos (Ristiina)
- Savonlinna
- Jyväskylä (Säynätsalo)

Veneer mills
UPM
- Kalso (Vuohijärvi)
- Lohja

Sawmills
UPM, Alholma (Pietarsaari)
UPM, Kajaani
UPM, Kaukas (Lappeenranta)
UPM, Korkeakoski (Juupajoki)
UPM, Seikku (Pori)

Further processing mills
UPM, Aureskoski
UPM, Heinola
UPM, Kaukas (Lappeenranta)

Wood plastic composite factory
UPM ProFi, Lahti

Hydro power plants
- Harjavalta
- Kallioinen (Sotkamo)
- Kaltimo (Joensuu)
- Katerma (Kuhmo)
- Keltti (Kouvola)
- Kuusankoski (Kouvola)
- Tyrvää (Sastamala)
- Voikkaa (Kouvola)
- Äetsä

**FRANCE**
Paper mills
UPM, Docelles
UPM, Chapelle Darblay
Stracel, Strasbourg

Labelstock factory
UPM Raflatac, Pompey (Nancy)

Further processing mills
UPM, Aigrefeuille

**GERMANY**
Paper mills
UPM, Augsburg
UPM, Schongau
UPM, Schwedt
Nordland Papier, Dörpen

Wood plastic composite factory
UPM ProFi, Bruchsal (Karlsruhe)

**MALAYSIA**
Labelstock factory
UPM Raflatac, Johor

**POLAND**
Labelstock factory
UPM Raflatac, Kobierzyce (Wroclaw)

**RUSSIA**
UPM, Chudovo plywood and veneer mill
UPM, Pestovo sawmill and further processing mill

**SPAIN**
Labelstock factory
UPM Raflatac, Polinyà (Barcelona)

**SOUTH AFRICA**
Labelstock factory
UPM Raflatac, Durban

**UK**
Paper mills
Caledonian Paper, Irvine
Shotton Paper, Shotton

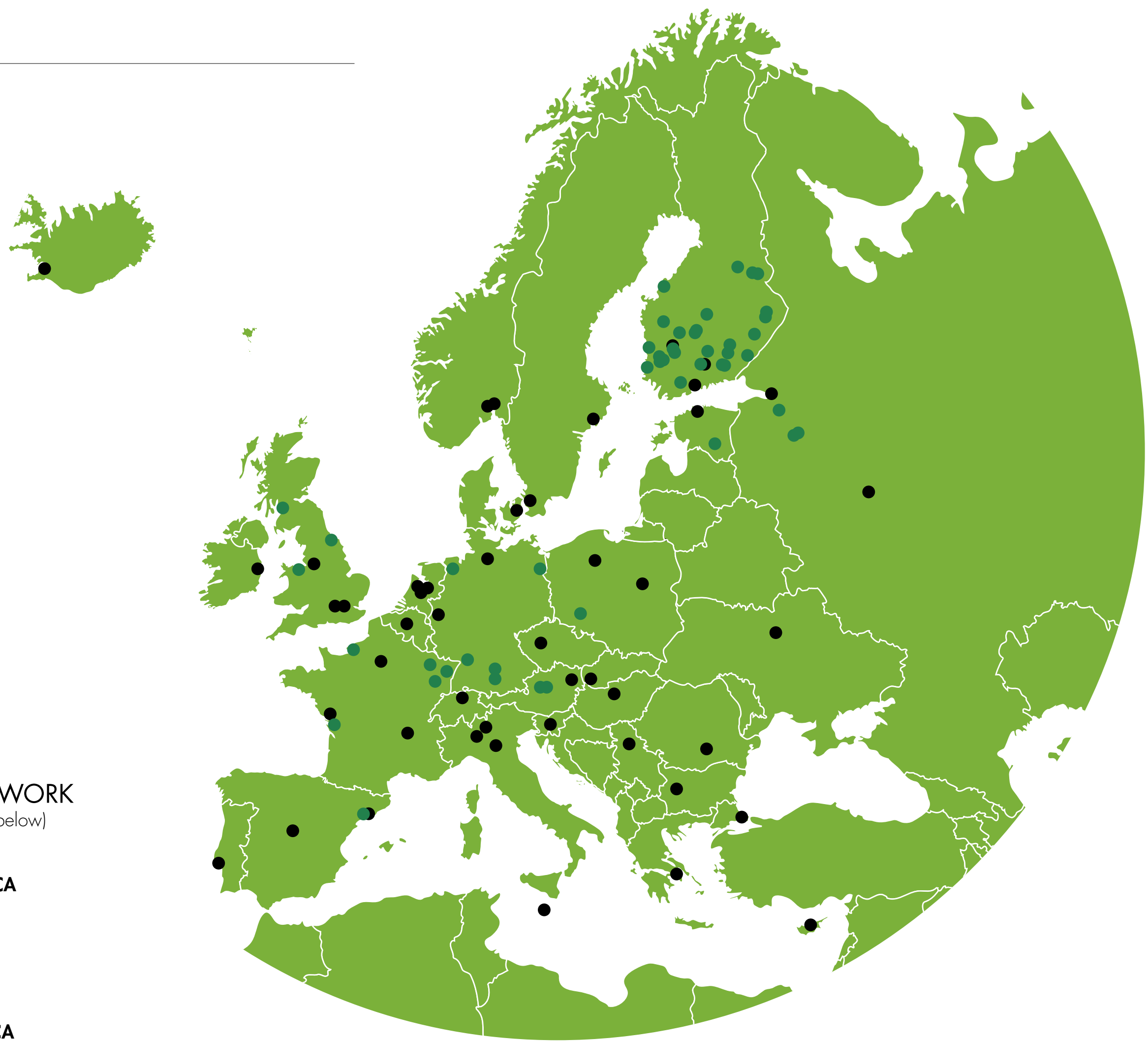
Labelstock factory
UPM Raflatac, Scarborough

**URUGUAY**
Pulp mill
UPM, Fray Bentos

**USA**
Blandin paper mill, Grand Rapids, MN

Labelstock factories
UPM Raflatac, Fletcher, NC
UPM Raflatac, Dixon, IL

RFID factory
UPM Raflatac, Fletcher, NC



## SALES NETWORK
(countries listed below)

**NORTH AMERICA**
Canada
Mexico
Panama
United States

**SOUTH AMERICA**
Argentina
Brazil
Chile
Colombia
Peru
Uruguay

**EUROPE**
Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Great Britain
Greece
Hungary
Iceland
Ireland
Italy
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine

**ASIA**
China
Hong Kong
India
Indonesia
Iran
Israel
Japan
Jordan
Kuwait
Lebanon
Pakistan
Republic of Korea
Saudi-Arabia
Singapore
Sri Lanka
Syria
Taiwan
Thailand
United Arab Emirates

**AFRICA**
Algeria
Egypt
Morocco
South Africa

**OCEANIA**
Australia
New Zealand

# GLOSSARY OF TERMS

The following explanations are not intended as technical definitions, but to assist an average reader to understand terms used in this annual report.

**AGRICULTURAL RESIDUES**
Biomass residues originating from production, harvesting and processing in farm areas. Agricultural residues or non-wood feedstocks include a number of cultivated and naturally growing plants such as straw and reed. Agro residues can be used as raw materials for pulp and biochemicals.

**BACKING**
See Release liner

**BAT (BEST AVAILABLE TECHNIQUES)**
The best available technique that allows for solutions that are technically, economically and environmentally the most efficient and advanced.

**BIOCHEMICALS**
Bio-based compounds, which can be separated from the side-streams of forest industry processes and applied to various end products such as barrier materials, glues, nutraceuticals, medicines, cosmetics, etc.

**BIOCOMPOSITES**
A composite material made of biopolymers, natural fibres and additives. Its unique properties are utilised in vehicles, packages, construction material and furniture, for example.

**BIODIESEL**
Biomass-based transport fuel which is used to replace diesel fuel.

**BIODIVERSITY**
The biological diversity of nature; all kinds of variations within nature: the number of different habitats (biotopes), the number of species and genetic variability within species.

**BIOECONOMY**
Economic activity relating to the invention, development, production and use of biological products and processes using natural resources.

**BIOENERGY**
Energy generated from biomass, i.e., living plants and plant components.

**BIOETHANOL**
Biomass-based transport fuel which is used to replace gasoline.

**BIOFORE**
New industry category UPM has created to describe the future of the company. Bio stands for future orientation, sustainable solutions and good environmental performance. Fore stands for forest and the company's position at the forefront of development.

**BIOFUELS**
Liquid or gaseous fuel produced from biomass. Often used to describe transport biofuels.

**BIOMASS**
Organic material generated by the growth of micro-organisms, plants and animals.

**BIO OIL**
Liquid fuel for energy purposes produced from biomass, not suitable for use as a transportation fuel.

**BIOREFINERY**
Facility that integrates biomass conversion processes and equipment to produce fuels, power and value-added chemicals from biomass.

**BOD**
**(BIOLOGICAL OXYGEN DEMAND)**
The amount of oxygen required for the biological decomposition of organic compounds contained in wastewater.

**BTL (BIOMASS-TO-LIQUID)/**
**BTL BIODIESEL**
High-quality liquid transport fuel produced from biomass such as BTL diesel. BTL diesel is used to replace diesel fuel in transport. In the process, solid biomass such as energy wood, is converted into liquid fuel via gasification and Fischer-Tropsch synthesis.

**CARBON DIOXIDE, $CO_2$**
Combustion product of carbon. Fossil carbon dioxide emissions arise from fossil fuels like coal, oil and gasoline.

**$CO_2$ FREE ENERGY**
Energy that is generated from non-fossil energy sources without combustion like hydro, wind, sun, geothermal heat or nuclear power.

**$CO_2$ NEUTRAL ENERGY**
Energy that is generated from renewable non-fossil energy sources like biomass, landfill gas, sewage treatment plant gas and biogases.

**CARBON FOOTPRINT**
An indicator of the total set of greenhouse gas (GHG) emissions such as carbon dioxide caused by an organisation, event or product.

**CHAIN OF CUSTODY (COC)**
An unbroken trail of documentation to guarantee the identity and integrity of the data used to show the origin of wood, for instance.

**CHP**
**(COMBINED HEAT AND POWER)**
Energy production is combined heat and power (CHP) production (or cogeneration) when both electricity and heat are produced at a thermal power plant. The heat is used, for example, in industry, district heating or process steam.

**COATED FINE PAPER (WFC)**
Also known as coated woodfree paper. Coated fine paper is used for demanding printing.

**COATED PAPER**
Paper that has been coated on one or both sides with a mix of clay or carbonates and latex to create a high quality printing surface.

*LWC (Lightweight coated paper)*
The main uses of LWC paper are in the printing of mass circulation magazines, catalogues and direct mail advertising.

*MFC*
*(Machine-finished coated paper)*
MFC paper is used in specialised magazines, catalogues, inserts, advertising materials and books.

*MWC*
*(Medium-weight coated paper)*
MWC paper has a higher basis weight. The main uses of MWC paper are similar to those of LWC paper.

**COD**
**(CHEMICAL OXYGEN DEMAND)**
The amount of oxygen required for the decomposition of organic compounds in wastewater, determined by chemical methods.

**DEINKING**
The process whereby the ink and impurities are removed from recovered paper.

**ECOEFFICIENCY**
Ecoefficiency means improving the productivity of natural resources. More products, services and wellbeing are produced with less raw materials and energy.

**EIA**
An environmental impact assessment (EIA) is an assessment of the possible impacts that a project may have on the environment; considering natural, social and economic aspects.

**EMAS (ECO-MANAGEMENT**
**AND AUDIT SCHEME)**
Voluntary environmental management system for companies and other organisations to improve and annually evaluate and report their environmental performance. The environmental review is approved by a third-party accredited EMAS verifier.

**EMISSIONS TRADING**
The idea of emission trading is to reduce emissions where it is done most cost efficiently. An emission cap is set for installation by authorities. Installations are given allowances based the emission cap. Companies can sell excess allowance on the market or they must but additional allowances from the market. In the EU, $CO_2$ emissions trading has been in use since 2005.

**ENERGY WOOD**
Logging residues, stumps and small-diameter trees removed during clearing and thinning operations.

**FACE MATERIAL**
The top layer of a self-adhesive labelstock. The face can be a paper, film or other material which is bonded to the adhesive layer and which forms the functional part of the label construction.

**FIBRE**
The basic structural unit of paper. Fibres used in papermaking originate mainly from the stem of softwood and hardwood trees.

**FINE PAPER**
Also known as free sheet or woodfree paper made of chemical pulp. Fine paper may be coated or uncoated. Fine paper is used for demanding printing and office papers.

**FISCHER-TROPSCH**
Synthesis process in which liquid fuels are produced from synthetic gas.

**FOREST CERTIFICATION**
An independent review process that determinates whether a forest is managed in a responsible manner. There are two globally applied forest certification schemes: FSC and PEFC.

**GRAVURE PRINTING**
Gravure printing is the opposite of letterpress printing, since the design areas are engraved into the cylinder instead of being in relief.

**ISO (INTERNATIONAL ORGANISATION FOR STANDARDISATION)**
International Organisation for Standardisation, whose ISO 9000 quality standards and 14000 environmental standards are extensively used in industry.

**KRAFT PAPER**
High strength packaging paper made of softwood pulp, which has the longest fibres. Kraft paper is used primarily in carrier bags, pouches and wrappings.

**LABEL PAPER**
Face and base papers suitable for self-adhesive labels. Face papers have distinct printing properties and base papers have siliconising and tear-off properties.

**LINER**
See Release liner

**MACHINE-FINISHED SPECIALITY (MFS)**
Uncoated, machine-finished speciality paper, containing mechanical pulp and recycled fibre as raw material. MFS is used for newspaper inserts, newspapers, magazines, books and directories.

**MAGAZINE PAPER**
Paper used in magazines, catalogues, brochures, direct mail advertising and similar printed material. Magazine paper is manufactured mainly of mechanical pulp.

**NANOCELLULOSE**
Nanofibrillated cellulose from chemically produced wood pulp providing a large range of possibilities to obtain superior material properties for different end-products such as paper, composites, cosmetics and construction.

**NANOFIBRE**
Fibres with diameters of the order of 100 nanometres. The raw material can be cellulose-based and end uses cover several applications such as papers, composites and additives (food, cosmetics and pharmaceuticals).

**NEWSPRINT**
Uncoated paper manufactured mainly from mechanical pulp or recycled paper and used for newspapers and directories.

**NITROGEN OXIDES, NOX, SEVERAL DIFFERENT COMPOUNDS**
Formed in the combustion of nitrogenous material. Cause acidification of soil and waters.

**NON-IMPACT PRINTING**
A method of printing. In this method, the printing element does not make contact with the paper.

**NOX (NITROGEN OXIDES)**
Nitrogen oxides formed during combustion, as well as some of the nitrogen oxides formed as a product of the reaction between nitrogen and oxygen in the atmosphere. Nitrogen oxides are found in combustion and exhaust gases, and form acidifying and eutrophying compounds.

**OHSAS**
Occupational Health and Safety Management System

**OSB**
Oriented Strand Board is an engineered building panel product made of strands, flakes or wafers sliced from small diameter, round wood logs and bonded with a binder under heat and pressure.

**PM**
PM, or paper machine, is a term used when referring to individual paper manufacturing units within a paper mill.

**PRINTING PAPER**
Papers used in the graphic industry. Printing papers may be coated or uncoated.

**PULP**
Generic name for wood or plant-based fibre masses used as a raw material in papermaking.

*Chemical pulp*
Generic name for wood-based fibres separated from each other by "cooking" wood chips or plants in hot alkaline or acidic solutions of various chemicals.

*Hardwood pulp*
Pulp obtained from deciduous trees, which have the advantage of shorter fibres, which enhance the printability of the paper.

*Mechanical pulp*
Generic name for wood-based fibres separated from each other mechanically.

*Softwood pulp*
Pulp obtained from coniferous trees which have the advantage of long fibres which enhance the strength of the paper.

**PYROLYSIS**
Chemical decomposition of condensed organic substances by heating, the key process for producing bio oil.

**RECOVERED PAPER**
Paper and board recovered for secondary use.

**RECOVERY RATE**
The ratio of recovered paper to all paper consumed.

**RECYCLED FIBRE**
Fibre extracted from recovered paper.

**RELEASE LINER**
The backing of a self-adhesive labelstock. Typically, it has a silicone coating to allow removal from the adhesive and face material before being applied to a product.

**RENEWABLE ENERGY**
Renewable non-fossil energy sources: wind, solar, geothermal, wave, tidal, hydropower, fossil and other biomass, landfill gas, sewage treatment plant gas and biogases.

**RFID**
RFID, or Radio Frequency Identification, is a technology that incorporates the use of radio waves to uniquely identify an object. A typical RFID system consists of a tag, a reader and a host system.

**SC**
Supercalendered paper is manufactured from mechanical or chemical pulp with mineral pigments as filler and glazed in a supercalender. SC paper is used for printing magazines with large circulations.

**SECOND GENERATION BIOFUELS (2G BIOFUELS)**
Second generation biofuels reduce significantly $CO_2$ emissions in transport compared to first generation biofuels currently in commercial production. Second generation biofuel production is sustainable and it provides greater environmental benefits. Biofuels are derived from lignocellulosic and waste raw material.

**SELF-ADHESIVE LABELSTOCK**
The combination of face material, adhesive and release liner from which self-adhesive labels are manufactured. Self-adhesive labelstock is also known as pressure-sensitive labelstock.

**SILICONISED PAPER**
Papers siliconised on one side to form the tear-off part of speciality tapes for hygiene products, labels and industrial applications.

**SULPHUR DIOXIDE, $SO_2$**
Compound formed in combustion of sulphurous material. It is also formed during production processes.

**SUSTAINABILITY**
Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The field of sustainable development is usually divided into environmental, economic and social sustainability.

**TRS (TOTAL REDUCED SULPHUR)**
Reduced sulphur compounds (e.g., sulphuric acid, methyl mercaptan), emission reported as sulphur (S; can be converted to sulphur dioxide by multiplying by 2).

**UNCOATED FINE PAPER (WFU)**
Also known as uncoated woodfree paper, this paper is principally used for printing, writing and office end uses. It includes A4 paper used for photocopying.

**VOC**
Volatile organic compounds.

**WATER FOOTPRINT**
An indicator of the total volume of freshwater that is used to produce the goods and services consumed by the individual or community or produced by the business.

**WOODFREE, FREE SHEET OR FINE PAPER**
Papers used by the graphic industry and offices. These papers may be coated or uncoated.

**WOOD PLASTIC COMPOSITE, WPC**
Wood plastic composite is a composite material made of plastic and wood fibre. The technology uses recycled plastic and wood fibre to produce a composite result.

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