

ANNUAL REPORT 2010

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

[www.upm.com](http://www.upm.com)

# UPM – THE BIOFORE COMPANY

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## 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.

## values

Trust and be trusted.  
Achieve together.  
Renew with courage.

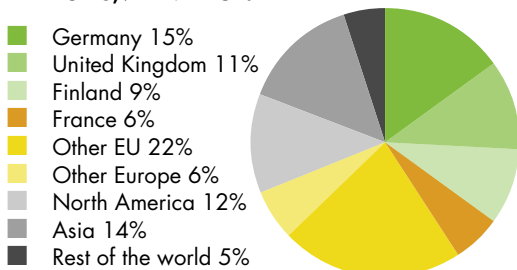
# IN BRIEF

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

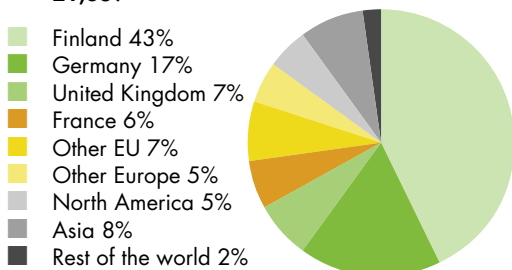
In 2010, UPM's sales totalled EUR 8.9 billion. UPM has production plants in 15 countries and a global sales network. UPM employs approximately 22,000 employees world-wide. UPM shares are listed on the NASDAQ OMX Helsinki stock exchange.

## Market presence

**UPM'S SALES BY MARKET 2010**  
**EUR 8,924 MILLION**



**UPM'S PERSONNEL BY AREA 31.12.2010**  
**21,869**



## energy & pulp

UPM is a significant generator of low-emission energy and a leading producer of chemical pulp with its modern pulp mills. It seeks growth in cost competitive pulp, low-emission energy and biofuels. The business group is also responsible for forestry services and biomass sourcing for the whole company.

## 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.



- The Energy business area generates low-emission energy and operates on the Nordic and Central European energy markets.
- The Pulp business area produces chemical pulp for the global market.
- The Forest and Timber business area is responsible for the company forests and forestry services as well as producing sawn timber products. It also sources forest biomass for the Group.
- Wood, the primary raw material, is renewable. Biodiversity is an integral part of UPM's sustainable forest management.

Energy	Share of Group <sup>1)</sup>	
Sales, EURm	567	3%
Capital employed on 31 Dec., EURm	886	8%
Personnel on 31 Dec.	72	0%

Pulp	Share of Group <sup>1)</sup>	
Sales, EURm	1,698	4%
Capital employed on 31 Dec., EURm	2,455	21%
Personnel on 31 Dec.	1,413	7%

Forest and Timber	Share of Group <sup>1)</sup>	
Sales, EURm	1,521	8%
Capital employed on 31 Dec., EURm	1,799	16%
Personnel on 31 Dec.	2,735	13%

<sup>1)</sup> 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 <sup>1)</sup>	
Sales, EURm	6,269	68%
Capital employed on 31 Dec., EURm	5,284	46%
Personnel on 31 Dec.	11,901	54%

<sup>1)</sup> 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 composite products.

Label	Share of Group <sup>1)</sup>	
Sales, EURm	1,100	12%
Capital employed on 31 Dec., EURm	504	4%
Personnel on 31 Dec.	2,543	12%

Plywood	Share of Group <sup>1)</sup>	
Sales, EURm	347	4%
Capital employed on 31 Dec., EURm	242	2%
Personnel on 31 Dec.	2,737	12%

<sup>1)</sup> Sales % represents share of external sales

# KEY FINANCIAL INFORMATION 2010

The year 2010 was characterised by recovering demand and global commodity price inflation. With higher delivery volumes UPM was able to take full benefit of its early efficiency improvements and bring profitability back to pre-recession level. Cash flow continued strong and the company was able to reduce its net debt by EUR 444 million.

## SALES, EUR MILLION

2010 8,924 ▲ +16%  
2009 7,719

Delivery volumes increased in all businesses

## NET DEBT, EUR MILLION

2010 3,286 ▼ -12%  
2009 3,730

Strong cash flow enabled net debt reduction

## EBITDA, EUR MILLION

2010 1,343 ▲ +26%  
2009 1,062

Main driver higher delivery volumes in all businesses

## GEARING, %

2010 46 ▼ -10  
2009 56 percentage points

## OPERATING PROFIT, EUR MILLION\*

2010 731 ▲ +171%  
2009 270

\* excluding special items  
Recovered from recession lows

## MARKET CAPITALISATION, EUR MILLION

2010 6,874 ▲ +59%  
2009 4,326

## EPS, EUR

2010 1.08 ▲ +227%  
2009 0.33

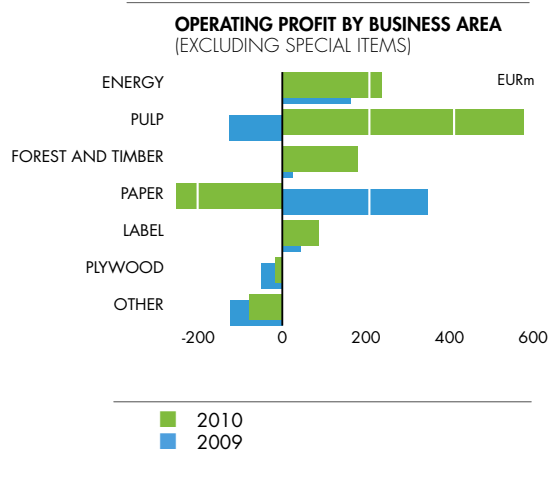
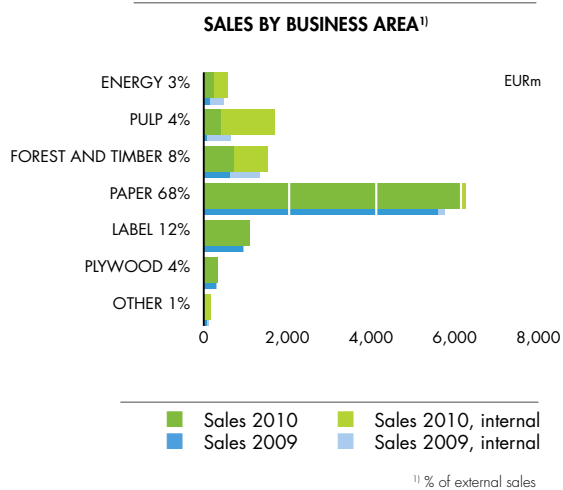
## DIVIDEND, EUR\*

2010 0.55 ▲ +22%  
2009 0.45

\* 2010: proposal by the Board

## KEY FIGURES 2008–2010

	2010	2009	2008
Sales, EURm	8,924	7,719	9,461
Operating profit, EURm	755	135	24
excl. special items, EURm	731	270	513
Profit (loss) before tax, EURm	635	187	–201
Earnings per share, EUR	1.08	0.33	–0.35
excl. special items, EUR	0.99	0.11	0.42
Operating cash flow per share, EUR	1.89	2.42	1.21
Return on equity, %	8.2	2.8	neg.
Dividend per share (2010: Board's proposal), EUR	0.55	0.45	0.40
Shareholders' equity per share at end of period, EUR	13.64	12.67	11.74
Gearing ratio at end of period, %	46	56	71
Capital expenditure, EURm	257	913	551



## DEAR SHAREHOLDER,

At the end of 2010, UPM is well positioned both in terms of strategy as well as the business cycle. Now that internal restructuring has been completed, we have excellent prerequisites to benefit from the recovering markets. Our Uruguay operations and the consolidation in the paper industry are tangible actions which create opportunities for future growth. Economic indicators point to continued economic growth, and our view of 2011 is positive.



The most important strategic opportunity for UPM in 2010 was the acquisition of Myllykoski and Rhein Papier, which was announced in December.

UPM operating profit for 2011 is expected to improve from last year.

For UPM, the year 2010 was a year of solid recovery. It was characterised by recovering demand and global commodity price inflation. With higher production volumes we were able to take full benefit of our early efficiency improvements and bring profitability back to pre-recession levels.

Our Pulp, Energy and Label businesses excelled, whereas the profitability of the Paper business was weak. Paper deliveries increased, but the business reported an operating loss.

Our sales increased by 16%. Earnings per share, excluding special items, grew to EUR 0.99, compared with EUR 0.11 in the previous year. Operating profit excluding special items was up to EUR 731 million compared to EUR 270 million in 2009. The strong cash flow momentum continued throughout the year and we were able to reduce our net debt by EUR 444 million.

This is a remarkable achievement in a continuously challenging operating environment and I wish to thank our management and employees for achieving this together.

The most important strategic opportunity for UPM in 2010 was the acquisition of Myllykoski and Rhein Papier, which was announced in December. Myllykoski is one of the leading publication paper suppliers and has a good track record in taking advantage of new business concepts and technologies at its seven paper mills. We recognise Myllykoski people as solid professionals, who have a strongly customer-oriented approach. These assets and attitude fit very well with UPM.

The target is to close the transaction during the second quarter of 2011.

Addressing the challenging situation in the European paper business is our top priority. Demand growth is shifting to markets outside of Europe. The currently inefficient European paper industry clearly needs consolidation to be able to improve its cost structure and competitiveness.

The transaction with Myllykoski also shows our commitment to serving print customers. We believe that our customers, cannot for their part, be cost competitive against the alternative media channels unless we can guarantee undisputed cost efficiency.

With this transaction, we create the conditions needed for improving UPM's cash flow and mid-term profitability. As a result of consolidation in the European paper business, we will also have better financial resources to implement our growth plans in emerging markets and our other businesses.

In 2010, we continued to implement the company vision as the Biofore Company. The concept captures the essence of UPM's strategy and the repositioning raised lots of positive curiosity and attention among our stakeholders. Bio stands for future orientation and sustainable products and solutions. Fore stands for versatile and advanced use of forest biomass, and being at the forefront of developments.

To enhance the UPM transformation, we also launched new values following extensive dialogue and employee involvement within the organisation. More than 5,000 employees participated in defining the values, which support not only UPM's

Biofore vision but the new working culture in the company.

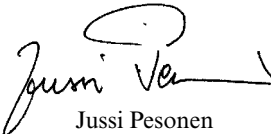
As for our outlook for 2011, we stand clearly positive. Stable demand and moderating cost inflation provide a good foundation for further profit improvement.

Economic indicators point to continued economic growth, although in the mature European and North American markets, growth is expected to be slow. Robust economic growth is expected to continue in emerging markets. This is also likely to maintain demand and prices for various global commodities at a high level.

For the Group, the overall delivery volumes are expected to either remain stable or increase in 2011. Variable cost inflation is expected to moderate from the pace seen in 2010. Sales prices of UPM's products are expected to increase, especially in the Paper business.

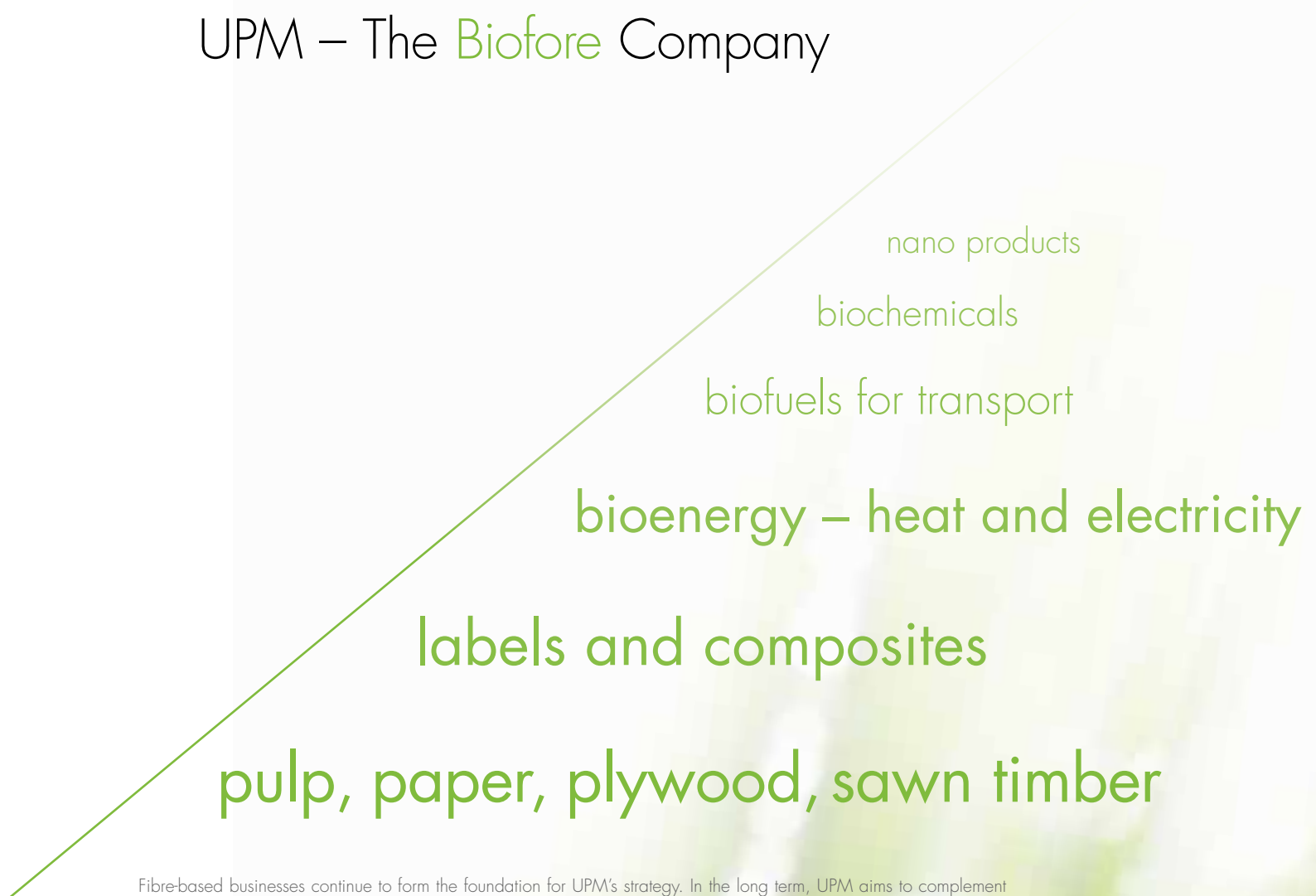
UPM operating profit, excluding special items, for 2011 is expected to improve from last year.

The Board of Directors' proposal for the dividend for 2010, EUR 0.55, exceeds the company's dividend policy. It is an indication of strong confidence in the continued positive development.



Jussi Pesonen  
President and CEO

# UPM – The Biofore Company



nano products  
biochemicals  
biofuels for transport  
bioenergy – heat and electricity  
labels and composites  
pulp, paper, plywood, sawn timber

Fibre-based businesses continue to form the foundation for UPM's strategy. In the long term, UPM aims to complement its existing business with innovative products with high added value. They will broaden UPM's product scope and offer opportunities for further growth.





# STRATEGY

UPM's vision is to be The Biofore Company. The company's purpose is to create value from renewable and recyclable materials by combining expertise and technologies within fibre-based, energy-related and engineered materials businesses. UPM aims to reshape markets through cost leadership, change readiness and leading innovation and increasing shareholder value in the long term.

At group level UPM aims to renew its business portfolio, shifting its focus to markets and businesses with sustained growth and value creation. Fibre-based businesses continue to form the foundation of our strategy, while energy-related businesses, engineered materials and new markets will broaden our scope and offer opportunities for further growth. In the long term, UPM aims to complement its existing business with innovative new products with high added value.

An integral part of success is competitive access and efficient use of critical production inputs across the company, in areas such as forest biomass and energy. Cost leadership requires constant awareness of production efficiency and processes within each business. UPM's target is to improve its ability to leverage opportunities in external markets, while simultaneously drawing benefits from internal synergies.

Each business area has a clearly defined strategic agenda, supporting UPM's renewal. Energy aims to expand in cost competitive low-emission energy. Pulp seeks to increase the share of cost competitive pulp. Forest and Timber aims to strengthen the company's position on the forest biomass market. The Paper business area has a strong focus on cost leadership and European profitability while Engineered materials are concentrating on

Label and Plywood product renewal and earnings improvement.

UPM seeks to grow in emerging markets in the Pulp, Paper, Label and Plywood business areas.

New business development and R&D focus on second-generation biofuels, bio-composites and biochemicals.

To support the implementation of its strategy, UPM aspires to attract and retain high-performing people. The company aims to cultivate an environment that promotes achievement, learning and renewal. Corporate responsibility is an integral part of UPM's operations. As The Biofore Company, UPM is strongly committed to continuous improvement in economic, social and environmental performance. A solid financial position is required to support long term development and growth.

## STRATEGIC OBJECTIVES / STRATEGIC STEPS IN 2010

ENERGY AND PULP	PAPER	ENGINEERED MATERIALS
<b>EXPAND IN COST COMPETITIVE LOW-EMISSION ENERGY</b> <ul style="list-style-type: none"> <li>Finnish Parliament's favourable decision-in-principle on Teollisuuden Voima's Olkiluoto 4 nuclear power unit</li> </ul>	<b>FOCUS ON EUROPEAN PROFITABILITY</b> <ul style="list-style-type: none"> <li>Fixed costs per tonne continued to decrease</li> <li>Supply chain reorganisation completed</li> <li>Improved working capital efficiency</li> </ul>	<b>PROFITABLE GROWTH IN SELF-ADHESIVE LABEL MATERIALS</b> <ul style="list-style-type: none"> <li>Two new slitting and distribution terminals in Istanbul, Turkey and Bangalore, India to supply fast-growing labelling markets</li> </ul>
<b>DEVELOP SECOND-GENERATION BIOFUELS</b> <ul style="list-style-type: none"> <li>Environmental impact assessment (EIA) for a biorefinery producing advanced biofuels at UPM Stracel mill, France continued</li> <li>EIA for a liquid biorefinery producing hydrotreated biofuels was carried out at UPM Kaukas mill in Finland</li> </ul>	<b>CONSOLIDATION IN EUROPE</b> <ul style="list-style-type: none"> <li>Signing of the agreement to acquire Myllykoski Corporation and Rhein Papier GmbH</li> </ul>	<b>PLYWOOD RENEWAL</b> <ul style="list-style-type: none"> <li>Improved cost efficiency due to the closure of Heinola and Kaukas plywood mills and investment in Savonlinna plywood mill expansion</li> </ul>
<b>GROW IN COST COMPETITIVE PULP</b> <ul style="list-style-type: none"> <li>Integration of Uruguayan Fray Bentos pulp mill and Forestal Oriental eucalyptus plantations into UPM</li> </ul>	<b>GROWTH IN CHINA AND OTHER DEVELOPING MARKETS</b> <ul style="list-style-type: none"> <li>Investment permit for Changshu mill expansion granted by the Chinese authorities</li> </ul>	<b>DRIVE PRODUCT RENEWAL AND DEVELOP NEW BUSINESSES</b> <ul style="list-style-type: none"> <li>Share of special products with higher added value increased in Label product portfolio</li> <li>Several new plywood solutions introduced for more demanding end-uses</li> </ul>

# 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 2010, the minimum target for return on equity, as defined above, was 8.2%.

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 2010 was EUR 982 million and operational capital expenditure EUR 186 million.

## ACHIEVEMENT OF FINANCIAL TARGETS

		2010	2009	2008	2007	2006
Return on equity, %	Min. target	8.2	8.6	8.7	9.4	9.0
Return on equity, %	Achieved	8.2	2.8	neg.	1.2	4.6
excluding special items, %	Achieved	7.5	1.0	3.4	7.4	5.7
	<b>Target</b>	<b>Achieved</b>				
Operating profit, excluding special items, %	> 10% of sales	8.2	3.5	5.4	8.3	7.2
Gearing ratio, %	< 90	46	56	71	59	56
Dividend based on operating cash flow, EUR <sup>1)</sup>	Min. target > 1/3	0.50	0.45	0.40	-	-
Dividend per share, EUR <sup>2)</sup>		0.55	0.45	0.40	0.75	0.75
Dividend to earnings ratio, %	2006–2008 > 1/3	50.9	136.4	neg.	468.8	115.4

<sup>1)</sup> Targets: at least one third of net cash flow from operating activities less operational capital expenditure (an average over a three-year period), <sup>2)</sup> Board's proposal for 2010

# 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 2010, UPM's estimated net currency flow for the coming 12 months was EUR 1.7 billion. The US dollar represented the biggest exposure, at EUR 750 million.

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

	EURm
Publication papers	340
Fine and speciality papers	270
Label materials	110
Plywood	32
Sawn timber	36
Chemical pulp (net effect)	-19

## FOREIGN CURRENCY NET CASH FLOW

	EURm
USD	750
GBP	490
JPY	220
Others, total	230

Estimate for the next 12 months on 31 Dec. 2010

## COSTS, EXCLUDING DEPRECIATION

%	2010	2009
Delivery of own products	10	10
Fibre	25	21
Energy	11	12
Fillers, coating and chemicals	14	14
Other variable costs	14	15
Personnel expenses	16	18
Other fixed costs	10	10
<b>Total</b>	<b>100</b>	<b>100</b>

Costs totalled EUR 7.6 billion in 2010 (2009: 6.8 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.<sup>1)</sup>

## 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 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 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 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 <sub>2</sub> 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 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 Incentive schemes

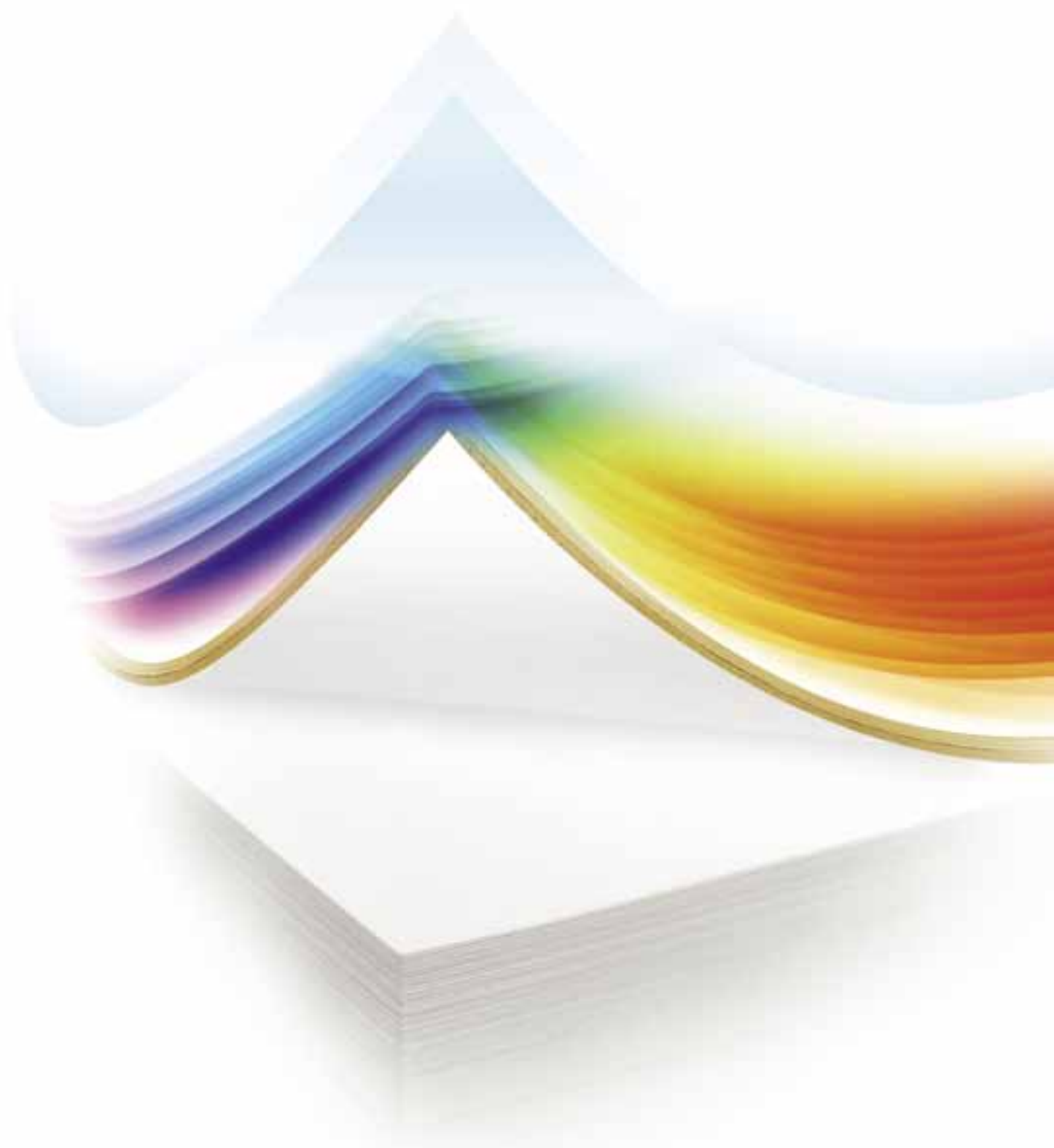
### FINANCIAL RISKS

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 Hedging the balance sheet
Higher interest rates as the company has chosen floating interest rates	Increased financing costs	Controlling the amount of net debt. Choosing a floating interest rate is seen, over time, to more than compensate for the interest rate risk

### HAZARD RISKS

Environmental risks; A leak, spill or explosion	Damage to reputation, possible sanctions Direct cost to clean up and to repair potential damages to production unit, loss of production	Maintenance, internal controls and reports Certified environmental management systems (ISO 14001, EMAS)
Physical damage to the employees or property	Harm to employees and damage to reputation Damage to assets or loss of production	Occupational health and safety systems Loss prevention activities Emergency and business continuity procedures

<sup>1)</sup> A more detailed description of risks and risk management is included in the Report of the Board of Directors on page 84.







## BUSINESS AREAS

UPM comprises of six 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

Versatile production portfolio and electricity market price increase contributed to the improved result. Nordic and Central European CO<sub>2</sub> emission-free energy market form the basis for growth.



## KEY FIGURES

Energy	2010	2009	2008
Sales, EURm	567	472	478
of which internal sales	336	337	341
Operating profit excl. special items, EURm	237	162	175
Capital employed (average), EURm	882	870	951
ROCE excl. special items, %	26.9	18.6	18.4
Personnel on 31 Dec.	72	66	56
Electricity deliveries, GWh	9,426	8,865	10,167

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

	Nominal MW
Hydropower	671
Nuclear power	560
Condensing power	398
Wind power	2
<b>Total in Energy business area</b>	<b>1,631</b>
CHP and hydropower at mill sites	1,328
<b>Total UPM</b>	<b>2,959</b>

SALES,  
EUR MILLION

2010 567  +20%  
2009 472

OPERATING PROFIT,  
EUR MILLION\*

2010 237  +75  
2009 162 EUR million

\* excluding special items

## Description of operations

The Energy business area includes energy market operations and versatile electricity generation portfolio of hydro, nuclear and condensing power generation assets that are not integrated into pulp and paper mill processes.

## Power generation

The Energy business area's total electricity generating capacity is 1,631 MW. This includes UPM's own nine hydropower plants and UPM's shares of hydro, nuclear and condensing power at the associated energy company Pohjolan Voima Oy (PVO) and shares of hydropower in Kemijoki Oy in Finland.

Paper business area's combined heat and power (CHP) production and Pulp business area's pulp mill recovery boilers complement Group's energy generation portfolio. UPM's total electricity generation capacity is approximately 2,959 MW.

UPM owns 43.09% of PVO. The company generates approximately 15 TWh of electricity annually. PVO is a majority shareholder (58.39%) in Teollisuuden Voima Oyj (TVO), a nuclear power producer which operates two reactors with a total capacity of 1,740 MW and is current-

ly constructing a third reactor (OL3) at Olkiluoto, in Finland. UPM has a 560 MW share (32%) of Olkiluoto's current production capacity.

UPM holds 19% of Kemijoki Oy's hydropower shares (1,078 MW). Kemijoki owns 20 hydropower plants, 16 of which are located along the River Kemijoki, two on the River Lieksanjoki and two on the River Kymijoki.

Both PVO and Kemijoki Oy generate electricity on a cost basis to their shareholders.

## Portfolio management

Energy business area operates in several parts of the electricity value chain, including power generation, physical and financial trading, balance management and centralised European portfolio and risk management.

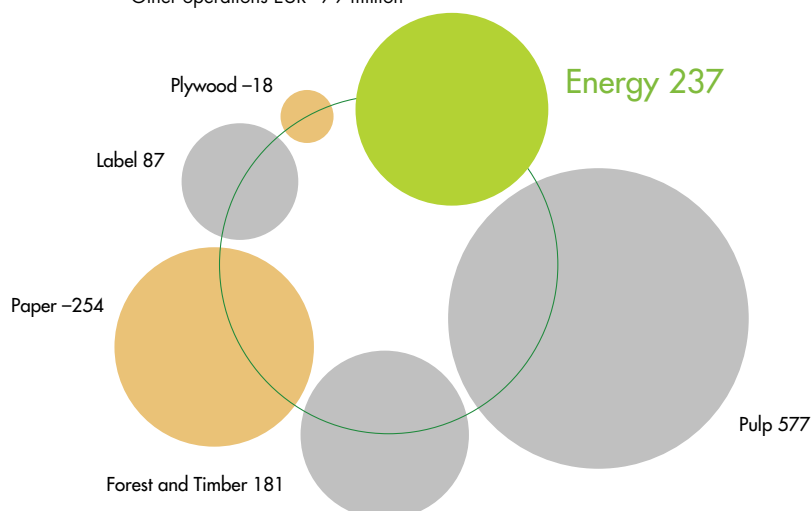
The Energy business area's operations include the Group's role as an active participant in the Nordic and Central European energy markets for electricity, gas, fuels, and emission allowances. It is also responsible for UPM's electricity distribution in Finland and procures electricity for other businesses within UPM.

In 2010, UPM's Paper business area was

## UPM'S OPERATING PROFIT 2010 EUR 731 MILLION

(excl. special items)

Other operations EUR -79 million



the Energy business area's largest customer. However, UPM has increased electricity sales to the Nordic Electricity wholesale market.

### Market review

The average electricity system price in the Nordic electricity exchange was EUR 53.1/MWh, 52% higher in comparison with the previous year (35.0/MWh). This price increase was mainly due a combination of to the weak hydropower situation in the Nordic area and increased industrial consumption. At the end of the year, the Nordic water reservoirs were 37% (-31.6 TWh) below their long term average.

During 2010, the forward prices for Nordic electricity market remained fairly stable until late November when the quotations turned to sharp increase. At the end of 2010, the price for the following year on the Nordic electricity exchange was EUR 61.4/MWh, 52% higher than at the end of 2009 (40.5/MWh).

Oil and coal market prices increased compared to the previous year. During 2010, market prices for oil increased from approximately USD 78/barrel to approximately USD 95/barrel. The CO<sub>2</sub> emissions allowance price traded between EUR 13 and 16/t throughout the year 2010. At the end of December the CO<sub>2</sub> emissions allow-

ance price was EUR 14.2/t, 8% higher than on the same date in 2009.

### Business performance

UPM's Energy business area's sales for 2010 were EUR 567 million (472 million), of which EUR 231 million were external sales (135 million). Operating profit, excluding special items, increased to EUR 237 million (162 million). The average electricity sales price increased 9% from the previous year.

### Business development

UPM develops the Energy business area as a market-driven business. During the past few years, UPM has consistently developed its capabilities in multi-commodity energy trading with trading-platform and growing organisation. UPM aims to grow in the Nordic and European CO<sub>2</sub> emission-free energy market by expanding in these businesses and by leveraging cost competitive energy sources.

The largest ongoing development project is UPM's associated company TVO's third nuclear power reactor (OL3) at Olkiluoto in Finland with an annual nuclear power generation capacity of 1,630 MW. The new power unit is estimated to be in operation in 2013. Through PVO, UPM is entitled to a 479 MW share, representing approxi-

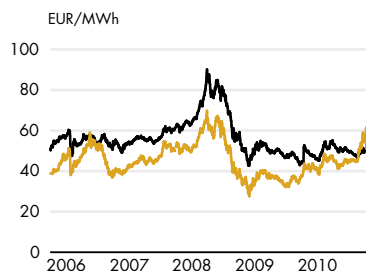
mately 30% of the new plant's output. The third reactor will double UPM's share of nuclear power generation to 1,039 MW.

In July 2010, the Finnish Parliament voted on decisions-in-principle to build two new nuclear power plants in Finland. The voting went in favour of a fourth reactor for TVO (OL4). Through its associate company PVO, UPM is entitled to an indirect share of approximately 30% of the OL4 project.

UPM actively pursues opportunities to expand and be involved in producing CO<sub>2</sub> emission-free energy, to meet the needs of integrated European markets that are driven by an increasing demand for climate-friendly energy. Energy market integration in the EU is progressing, with the focus on market integration, transparency and grid development. The third legislative package creates stronger powers for EU-level market authorities for joint decision making, enhancing co-operation with network operators (ENTSO-E) and enforcing an effective unbundling of transmission networks.

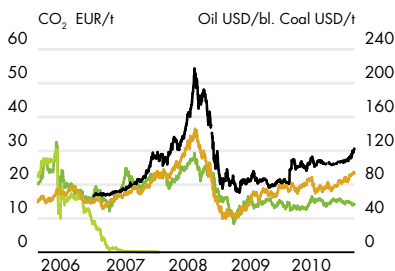
The new EU Energy 2020 strategy, published in November 2010, puts an emphasis on improving competition via market integration and infrastructure development, improving energy efficiency and developing energy technology.

**ELECTRICITY 1-YEAR FORWARD PRICE**



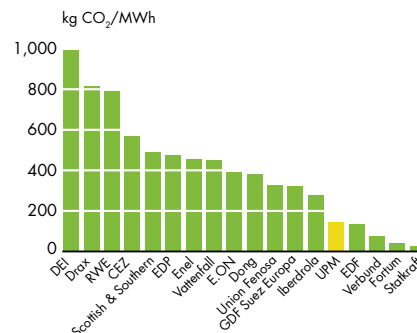
Source: NordPool, EEX

**FUEL AND CO<sub>2</sub> EMISSION ALLOWANCE PRICES**



Source: Nordpool, EEX, IPE

**SPECIFIC CO<sub>2</sub> EMISSIONS IN ELECTRICITY GENERATION**



Source: PWC 2010, UPM

# UPM'S ENERGY BALANCE

Carbon dioxide-neutral energy sources dominate UPM's energy portfolio. UPM's diversified and cost competitive electricity production capacity consists of hydropower, nuclear power, condensing power and biomass-based combined heat and power (CHP) on paper mill sites.

In 2010, UPM generated a total of 14.0 TWh (12.1) electricity in its own and share-owned power plants. 77% (70) of UPM's power generation was CO<sub>2</sub> emission-free. UPM's specific CO<sub>2</sub> emissions from electricity generation were estimated to be 146 g CO<sub>2</sub>/kWh (124).

UPM is a net seller of electricity in Finland and buys electricity in other markets. Its net sales to markets totalled 3.9 TWh (3.4) in 2010.

UPM's own electricity consumption totalled 15.1 TWh (13.2) in 2010.

Effective large-scale utilisation of biomass-based fuels is an important aspect of the Group's energy strategy. Biomass-based fuels make up 80% (79) of fuels used by UPM in Finland and 68% (63) worldwide. UPM is the second largest biomass-based electricity generator in Europe.

At the paper mill sites, heat generated from fuels procured by UPM, including purchased heat and heat generated by thermo mechanical pulping, totalled 38.0 TWh (29.3).

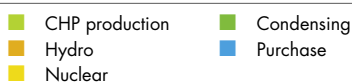
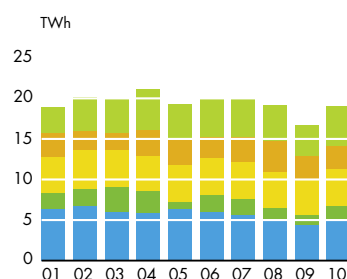
## ELECTRICITY SUPPLY INCL. OWN PRODUCTION AND SHAREHOLDINGS

TWh	2010	2009
Hydropower	2.9	2.8
CHP production	4.8	3.7
Nuclear power	4.5	4.5
Condensing power	1.8	1.1
Purchased electricity	5.0	4.5
<b>Total</b>	<b>19.0</b>	<b>16.6</b>

## ELECTRICITY CONSUMPTION

TWh	2010	2009
Mills in Finland	8.2	7.6
Mills outside Finland	6.9	5.6
Net sales	3.9	3.4
<b>Total</b>	<b>19.0</b>	<b>16.6</b>

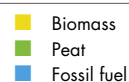
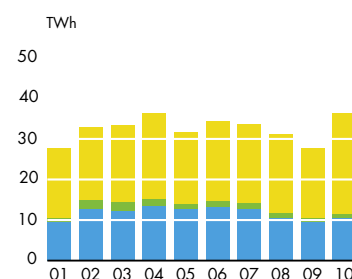
### UPM GROUP'S ELECTRICITY SUPPLY



## FUELS USED FOR HEAT GENERATION AT THE MILL SITES

TWh	2010	2009
Black liquor	16.3	9.4
Bark and other biomass	8.3	7.7
Heat recovered from TMP production	1.7	1.5
Peat	1.0	0.9
Purchased heat	0.2	0.2
Natural gas	6.9	6.3
Oil	0.5	0.3
Coal	3.1	3.0
<b>Total</b>	<b>38.0</b>	<b>29.3</b>

### DISTRIBUTION OF FUELS IN UPM





Pekka Pollari (right) and Juha Miettinen at the completely-renovated Keltti hydropower plant by the River Kymi in Finland.

## UPM refurbishes its hydropower plants

Hydropower is an essential part of UPM's versatile energy portfolio and a good example of a renewable and CO<sub>2</sub>-free energy source.

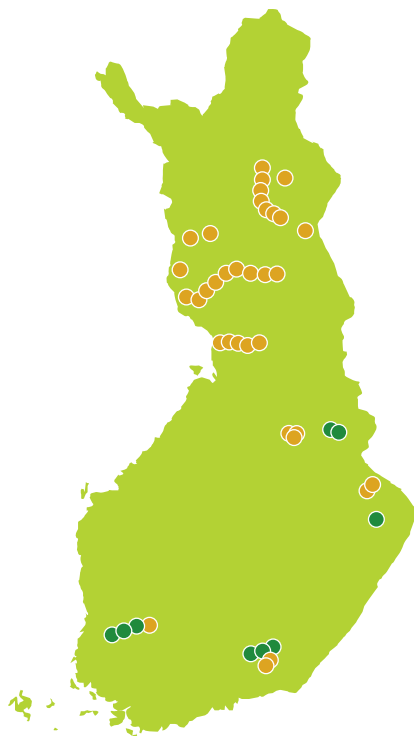
- UPM is a significant generator of low-emission energy

- Hydropower provides flexible electricity

Hydropower is a cost efficient way to generate electricity; the power plants have low maintenance costs and a long life span. Due to its adjustability, hydropower is also an optimal way of generating electricity to power markets.

UPM owns nine hydropower plants in Finland and has shareholdings in hydropower via Pohjolan Voima Oy and Kemijoki Oy. Most of UPM's hydropower plants were built between the 1930s and 1950s. With the modernisation programme of its hydropower plants, UPM has improved their operational efficiency and environmental safety.

### UPM'S OWN AND SHARE-OWNED HYDROPOWER PLANTS



- Own hydropower plants 9
- Share-owned hydropower plants 34 (PVO, Kemijoki, Kainuun Voima)

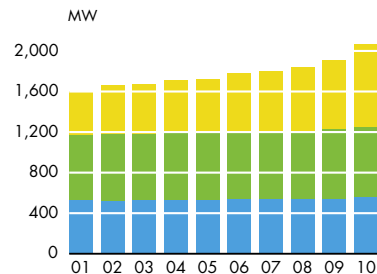
### More CO<sub>2</sub>-free electricity from the same water flow

In 2010, UPM completed a refurbishment project at Keltti hydropower plant by the River Kymi in Kouvola, Finland. The power plant was originally started up in 1939. The modernisation work took two years and the total cost was approximately EUR 14 million.

During the project, all three generation units were completely renovated to meet the latest technical and environmental requirements fully. The work included the modernisation of the turbines, generators, automation and electrical system.

As a result, the power generation capacity and efficiency of the power plant were increased and environmental safety was improved. Thus the power plant produces more renewable electricity from the same water flow.

### UPM'S CO<sub>2</sub> EMISSION-FREE POWER GENERATION CAPACITY



- Biomass
- Hydro
- Nuclear



## UPM and partners set best practices in sustainable harvesting



Peter Whitfield from UPM Tilhill, UPM's forestry and timber harvesting company in the UK, took part in the unique collaboration in the biomass study.

Based on wide-reaching co-operation with authorities and researchers, UPM ensures that its harvesting practices are sustainable. UPM is the frontrunner in the use of CO<sub>2</sub>-neutral forest biomass providing renewable raw materials for a variety of products and energy in an integrated sourcing chain.

- UPM is the second largest biomass-based electricity generator in Europe
- UPM's biomass-based energy generation supports the efforts to reach EU climate targets

Energy wood constitutes an important part of the value chain. Biomass-based fuels make up 80% of fuels used by UPM in Finland, and 68% worldwide.

To date UPM has built 12 modern biomass-based combined heat and power plants. Latest examples include the investments made in the UK at Caledonian and Shotton paper mills.

### Close co-operation

In order to increase the use of forest biomass in the power plants, UPM partnered in a project of sustainable biomass harvesting in Scotland, began in 2008 and completed its first phase in 2010.

The project involved experts from the UK Forestry Commission, from the Scottish Environment Protection Agency (SEPA), the Scottish Renewables Forum and Bangor University.

The common target was to develop a sustainable stump and forest residues harvesting standard, suitable for the whole UK biomass sector.

Field work in three UPM-owned forests with different site factors and soil types took nine months. The trial covered 59 hectares of forest.

Research will continue for the next four years with monitoring of the original study sites. A PhD study funded by UPM and the UK Forestry Commission will be looking at the potential impact of stump harvesting on soil carbon.

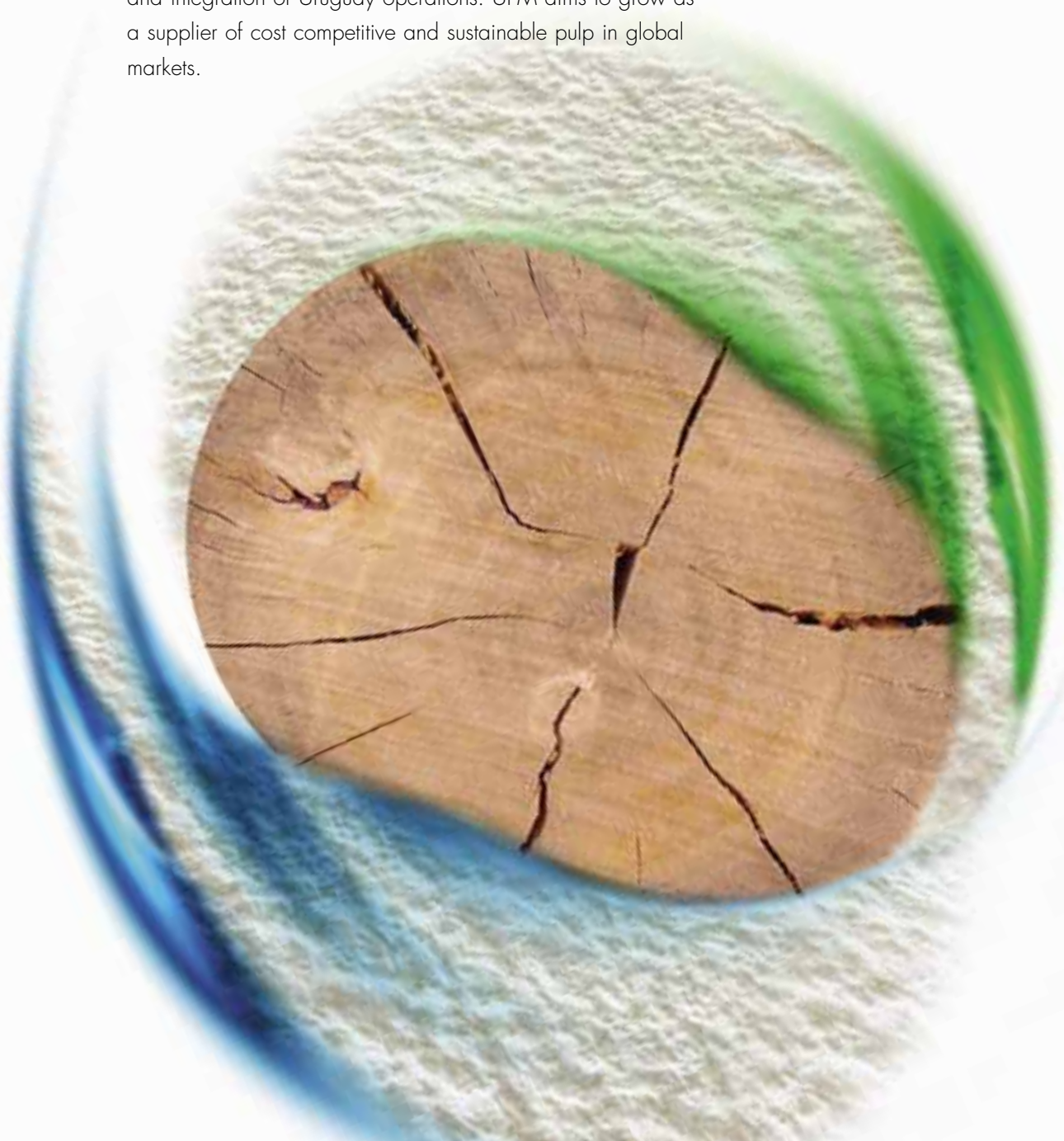
### Initial findings showed good results

UPM has significantly reduced its dependence on fossil fuels with its investments in renewable energy. As part of this development, the company has increased the range of forest biomass it can sustainably harvest from its forests. In this work UPM has worked closely with regulators, non-governmental organisations and universities.

Initial findings of the sustainable biomass harvesting project have showed that stump harvesting is a part of sustainable forest management and one feasible way to generate renewable energy.

# PULP

Significant profit improvement was driven by pulp market recovery and integration of Uruguay operations. UPM aims to grow as a supplier of cost competitive and sustainable pulp in global markets.



## KEY FIGURES

Pulp	2010	2009	2008
Sales, EURm	1,698	653	944
of which internal sales	1,301	590	881
Operating profit excl. special items, EURm	577	-127	148
Capital employed (average), EURm	2,473	1,668	1,674
ROCE excl. special items, %	23.3	-7.6	8.8
Personnel on 31 Dec.	1,413	1,516	1,159
Pulp deliveries, 1,000 t	2,919	1,759	1,982

## PULP PRODUCTION CAPACITY

1,000 t/a	January 2011
Fray Bentos	1,100
Kaukas	740
Pietarsaari	790
Kymi	570
Own production capacity, total	3,200
17% share of Botnia's capacity	403
Total UPM	3,603

SALES,  
EUR MILLION

2010 1,698  +160%  
2009 653

OPERATING PROFIT,  
EUR MILLION\*

2010 577  +704  
2009 -127 EUR million

\* excluding special items

## Description of operations

The Pulp business area consists of chemical pulp mills in Finland and in Uruguay. The product range covers northern softwood and hardwood pulp as well as eucalyptus hardwood pulp.

## Production

The Pulp business area's annual pulp production capacity in four modern pulp mills is 3.2 million tonnes. In addition, UPM holds a 17% share of Oy Metsä-Botnia Ab, a Finnish pulp producer. UPM's pulp mills also produce renewable energy in their recovery boilers and provide CO<sub>2</sub>-neutral biomass-based electricity for the Nordic and Uruguayan markets.

UPM's three pulp mills in Finland have a pulp production capacity of 2.1 million tonnes. The Kymi, Pietarsaari and Kaukas pulp mills produce both bleached hardwood kraft pulp (BHKP) from birch and bleached softwood kraft pulp (BSKP) from pine and spruce. In addition to producing market pulp, the Finnish pulp mills create significant cost synergies for UPM as they are integrated with UPM's paper mills.

The Fray Bentos pulp mill in Uruguay has a production capacity of 1.1 million tonnes of bleached hardwood kraft pulp (BHKP) from eucalyptus.

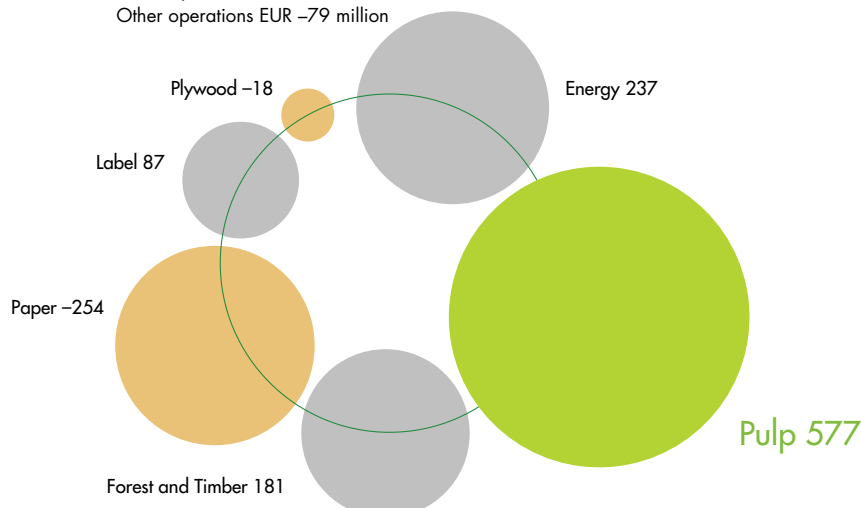
## Sales

UPM operates in the global market as a both seller and buyer of pulp. Supported by the acquisition of Fray Bentos UPM is undergoing a transformation from simply being an integrated pulp producer to becoming an active operator in the pulp market. In 2010 UPM sold about 600,000 tonnes of pulp to external customers in various end-use segments of the market in Europe, Asia and Latin America.

## Plantation operations

Plantation-based pulp represents 35% of UPM's total pulp production capacity. Forestal Oriental, UPM's eucalyptus plantation forestry company in Uruguay, is the centre of expertise for UPM plantation operations and forms an integral part of the Pulp business area. The plantations are FSC certified. Forestal Oriental operates its own modern, technologically advanced nursery.

Forestal Oriental owns approximately 200,000 hectares of land, of which approximately 60% is planted for eucalyptus. The rest of the land is used for cattle grazing and forestry-related infrastructure or is protected and not used for plantation operations. The annual harvest of pulp wood in these areas covers currently approximately 70% of the demand for wood raw material

UPM'S OPERATING PROFIT 2010 EUR 731 MILLION  
(excl. special items)  
Other operations EUR -79 million

at the Fray Bentos pulp mill. The remaining 30% is purchased from independent suppliers who have been working in close co-operation with the company for years.

The company's FOMENTO programme pursues, in co-operation with local private landowners, them to diversify their land use with sustainable plantation forestry.

## Market review

The global non-integrated bleached chemical pulp market size is approximately 50 million tonnes, of which about 45% is softwood and 55% hardwood.

During the first half of the year, the pulp supply to global chemical market was constrained by abnormal weather conditions, such as heavy rain, and the earthquake in Chile. During the third quarter the chemical pulp supply returned back to normal.

Global chemical pulp shipments were on the same level as in the previous year. Pulp demand grew in Western Europe and North America but shipments to China decreased significantly compared to 2009. Pulp producer inventories were at historically low levels until the third quarter of 2010. During the fourth quarter, producer inventories returned close to their normal level, but customer inventories remained at a low level.

The market price for bleached chemical pulp rose steeply during the first half of the year, peaked in July and slowly decreased

towards the year end. The average price 2010 for bleached hardwood pulp (BHKP) was EUR 639 (402) and average price for softwood pulp (NBSK) was EUR 704 (471).

## Business performance

UPM's Pulp business area's sales for 2010 were EUR 1,698 million (653 million). Operating profit, excluding special items, increased to EUR 577 million (loss of 127 million). Profitability improved significantly from the previous year due to higher pulp sales prices and increased volumes due to the Fray Bentos pulp mill.

## Business development

In December 2009, UPM acquired Metsä-Botnia's share of the Fray Bentos pulp mill and Forestal Oriental in Uruguay. The integration of the operations was completed in 2010.

The operational performance of the mills was good. At the Pietarsaari pulp mill the wood handling modernisation, which was started in 2009, was finalised. At the Fray Bentos pulp mill the de-bottlenecking was continued and replacement of recovery boiler super heaters was completed during the shutdown in October-November.

UPM aims to grow as a producer of cost competitive and sustainable pulp. It also aims to increase its market presence and establish position as a reliable pulp supplier for wide range of growing end-use areas,

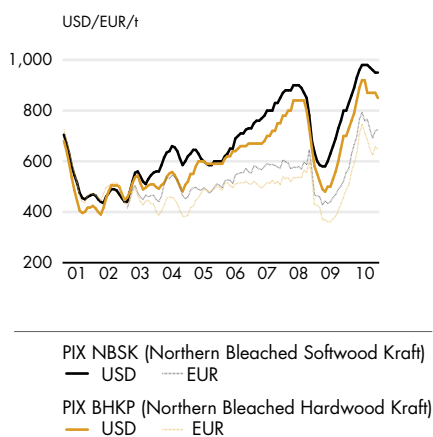
such as tissue, board and speciality papers.

UPM's growth strategy in market pulp mainly focuses on regions, where the pre-conditions are favourable for cost efficient plantation operations. As well as its plantation-based projects, UPM is continuing to study opportunities for pulp production in Russia. In 2010, UPM and its Russian joint venture, Borea, continued their feasibility study for a planned forest industry facility in Russia but no investment decision has been made yet.

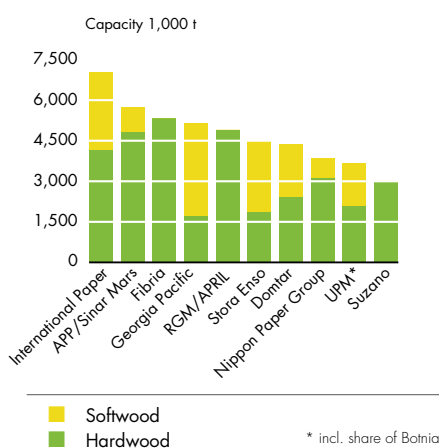
## Resolution in the Fray Bentos pulp mill dispute

The construction of the UPM pulp mill (ex. Botnia mill) caused a dispute between the governments of Uruguay and Argentina. In April 2010, the International Court of Justice in Hague gave its final judgment in the Argentina vs. Uruguay case finding that Uruguay had not breached its substantive obligations. The court did not find any evidence of the Fray Bentos mill polluting the Uruguay River. Following the judgment of the court, Uruguay and Argentina have agreed on a joint bi-national monitoring of the Uruguay River and industrial facilities along the river. The joint monitoring process is expected to start with Fray Bentos pulp mill during the first quarter of 2011.

MARKET PULP PRICES — CHEMICAL PULP



WORLD'S BIGGEST PRODUCERS OF CHEMICAL PULP



# UPM'S FIBRE BALANCE

In **chemical pulp**, UPM's consumption was 3.2 million tonnes (2.9) in 2010.

Chemical pulp represents 42% of all fibre materials used in UPM's paper production.

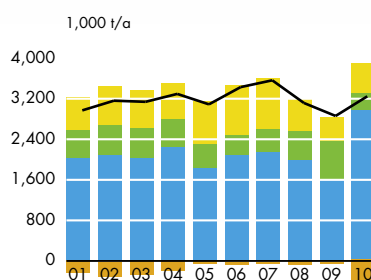
UPM's own chemical pulp production was 3.0 million tonnes (1.7). In addition, UPM's 17% share of Oy Metsä-Botnia Ab entitles to 0.4 million tonnes of pulp. Together with the purchase of Uruguay operations, the share of sales to external customers increased to 23%.

UPM also buys chemical pulp to optimise its logistics costs and secure its supply. Sustainable pulp sourcing is managed through selected long term sourcing contracts. In 2010, UPM's chemical pulp purchases increased by 21% in comparison with the previous year.

In **recycled fibre**, UPM's consumption was 2.9 million tonnes (2.8) in newsprint and in uncoated and coated magazine paper production in 2010. Recycled fibre represents 30% of all fibre raw materials used in UPM's paper production. UPM is the world's largest user of recovered paper in the production of graphic papers.

**Mechanical pulp** represents 28% of wood fibres for UPM. Mechanical pulping is integrated into paper production, with pulp being used mainly in magazine papers.

### UPM'S CHEMICAL PULP SOURCING



Sales  
 Other purchases  
 Botnia purchases  
 Production  
 UPM usage

Source: UPM

## PULP PRODUCTION AND CONSUMPTION

1,000 t/a

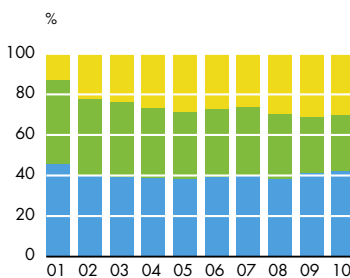
### Pulp production

	2010	2009
Chemical pulp		
own production	2,999	1,712
from Metsä-Botnia	323	772
Mechanical pulp	2,102	1,857
Recycled fibre pulp	2,289	2,139
<b>Total</b>	<b>7,713</b>	<b>6,512</b>

### Pulp consumption

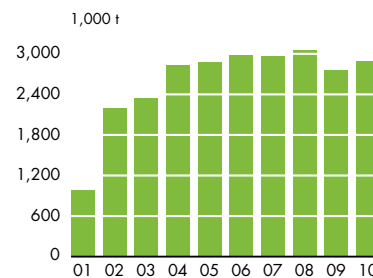
	2010	2009
Chemical pulp	3,241	2,860
Mechanical pulp	2,154	1,889
Recycled fibre pulp	2,291	2,139
<b>Total</b>	<b>7,686</b>	<b>6,888</b>

### FIBRE RAW MATERIALS USED IN UPM'S PAPER



Recycled fibre  
 Mechanical pulp  
 Chemical pulp

### UPM'S RECOVERED PAPER CONSUMPTION



Source: Pöyry, UPM





Chemical pulp is an ideal material for packaging. Pulp end-uses in cartonboard and containerboard is increasing.

## Pulp as a Biofore product

Pulp end-uses are changing. Currently more than half of chemical pulp produced is used in printing and writing paper, but the largest growth has been seen in tissue and packaging materials.

- **Cost effective pulp mills and wide product ranges provide a solid platform for growth**

- **UPM started to offer environmental product declarations to its pulp customers**

Chemical pulp is a natural Biofore product. It is produced from renewable raw materials, can be recycled and generates renewable energy in the production process. Wood fibres are strong and can be reused or recycled several times. Pulp has qualities that give different characteristics to various end products.

### Versatile end-uses

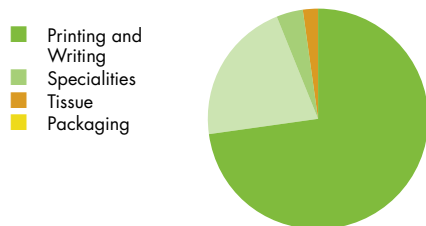
Pulp end-uses and market structure are gradually changing. Currently more than half of chemical pulp produced is used in the printing and writing sector, namely fine papers and magazine papers.

However, the largest growth has been seen in tissue and packaging materials, particularly containerboard and cartonboard. Packaging material made from pulp is strong and light and can be made grease and moisture resistant. In many end-use applications, renewable fibre-based packaging competes against oil-based plastic alternatives.

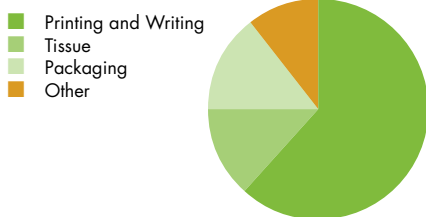
In addition to these high volume end-use segments, chemical pulp is used in many speciality end-use applications where you would not expect to find cellulose, such as in fabrics and toothpaste.

Carboxymethyl cellulose (CMC) is a water-soluble polymer made out of chemical pulp. It has a wide range of end-uses, such as food additives, pharmaceuticals, personal care, oil drilling and detergents. Consumers may also find it in viscose clothing, food, beverages or creams and lotions.

UPM'S TOTAL PULP SALES BY END-USER



GLOBAL END-USE DISTRIBUTION OF BLEACHED CHEMICAL PULP



Source: Pöyry

### UPM's sustainable production

UPM's pulp mills are part of a wider biorefinery, generating synergies and enabling highly efficient use of raw materials, energy and logistics. UPM's pulp mill recovery boilers complement the company's energy generation palette. The boilers produce electricity and heat while recovering the pulping chemicals to be used over and over again. To maximise efficiency during the energy production process, the recovery boilers are regularly rebuilt. All of UPM's four recovery boilers were built or rebuilt between 2004 and 2008.

As part of UPM's customer service to its pulp customers, in 2010, the company introduced environmental product declarations, which include specific calculations for each product detailing the carbon footprint from production.

> learn more [www.upm.com](http://www.upm.com)



## UPM Foundation acts closely with local communities



The UPM Foundation has supported football schools in rural villages around forestry plantations in Uruguay.

The UPM Foundation in Uruguay promotes the development of communities through education, training and entrepreneurship. It works together with other non-profit civil organisations to provide support to projects and programmes in communities where the company operates.

- **Positive results achieved through effective co-operation with local stakeholders**
- **In 2010, over 15,000 people participated in projects supported by the Foundation**

The UPM Foundation's goal is to facilitate, encourage and activate grassroots projects in order to promote the long term, sustainable development of the local communities. The Foundation supports projects that promote education, entrepreneurship, employability, healthy living and recreational activities.

Since 2006, the foundation has participated in more than 160 projects in 50 communities across Uruguay. Most of the communities have a population of less than 1,000 inhabitants. In 2010, the UPM Foundation's activities reached more than 15,000 people located across five regions of Uruguay.

Over the past few years, the Foundation's activity has expanded from Fray Bentos to reach the communities where Forestal Oriental, UPM's own eucalyptus plantation forestry company, operates.

Examples of projects in 2010 include donating computers to schools, scholarships for chemistry and mechanics students, the integration of children with learning difficulties into mainstream IT classes, offering young students a day's work experience and a programme for sustainable rural development.

The Foundation is governed by the management board, which consists of four independent members and two representatives of UPM. The chairmanship of the board is held by independent members of the board.

### Sports schools for children

Among the other projects in 2010, the Foundation supported football and hockey schools in 12 rural villages in Río Negro, around forestry plantations. These localities are distant from other towns and many of them have no public transport facilities. The Sports School is the only chance to engage in sports and recreation for the 400-odd children who take part in the weekly training sessions.

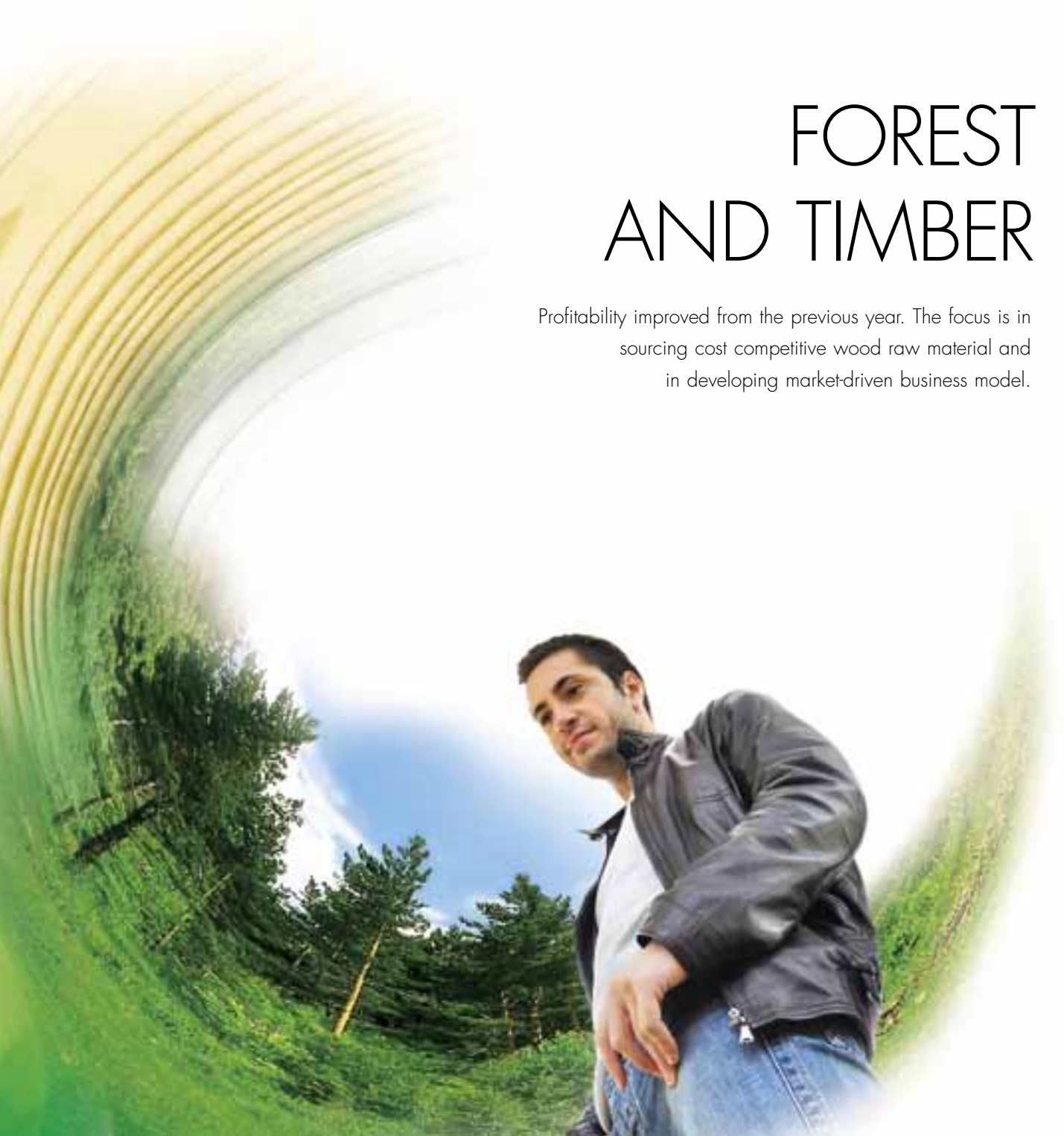
The aim of these sports schools is to foster a healthy lifestyle through the good use of leisure time by children and youth. In addition, recreational days between the different schools were organised. The target is to enhance social interaction between communities and reinforce the values promoted by playing sports. It also increases family participation and community involvement when they support the local team.



**FUNDACIÓN UPM**

# FOREST AND TIMBER

Profitability improved from the previous year. The focus is in sourcing cost competitive wood raw material and in developing market-driven business model.



## KEY FIGURES

Forest and Timber	2010	2009	2008
Sales, EURm	1,521	1,337	1,920
of which internal sales	800	719	1,051
Operating profit excl. special items, EURm	181	22	-23
Capital employed (average), EURm	1,709	1,717	1,878
ROCE excl. special items, %	10.6	1.3	-1.2
Personnel on 31 Dec.	2,735	3,067	3,278
Deliveries, 1,000 m <sup>3</sup>	1,729	1,497	2,132

## FORESTS OWNED BY UPM

	Hectares
Finland	900,000
United Kingdom	7,000
United States	76,000
<b>Total</b>	<b>983,000</b>

SALES,  
EUR MILLION

2010 1,521 ▲ +14%  
2009 1,337

OPERATING PROFIT,  
EUR MILLION\*

2010 181 ▲ +159  
2009 22 EUR million

\* excluding special items

## Description of operations

Forest and Timber business area manages forests owned by UPM and offers forest services for private forest owners. It is also responsible for production and sales of sawn timber and further processed products.

## Forest

Forest and Timber business area owns approximately one million hectares of forests in Finland, in the United States and in the United Kingdom as well as a nursery in Finland. Its subsidiaries, UPM Silvesta in Finland and UPM Tilhill in the United Kingdom provide a wide range of services to forest and landowners.

In addition to its own forests, UPM manages some 0.7 million hectares of privately owned forests.

The company's nursery in Finland produces high-quality seedlings to ensure that forest regeneration continues in company and forest service customers' forests.

UPM's eucalyptus plantation company Forestal Oriental, that is an integral part of the Fray Bentos pulp mill, owns 200,000 hectares and manages 26,700 hectares of eucalyptus plantations and has a nursery in Uruguay. Forestal Oriental is reported financially in the Pulp business area.

All of UPM's own forests are certified.

## Timber

UPM Timber produces sustainable, advanced timber products for construction and interiors. The product range covers standard and special sawn timber and further-processed products. The sawmills are also an integral part of the company's wood procurement.

UPM's annual production capacity is 2.3 million cubic metres of sawn timber and 0.4 million cubic metres of further processed products. Five of the company's seven sawmills are located in Finland, one in Russia and one in Austria. UPM has five further processing mills, of which three are located in Finland, one in France and one in Russia.

UPM Timber's sales offices are located in the main markets in Europe, Japan and China. Other markets are covered by the sales agent network.

## Market review

## Wood and forest biomass sourcing

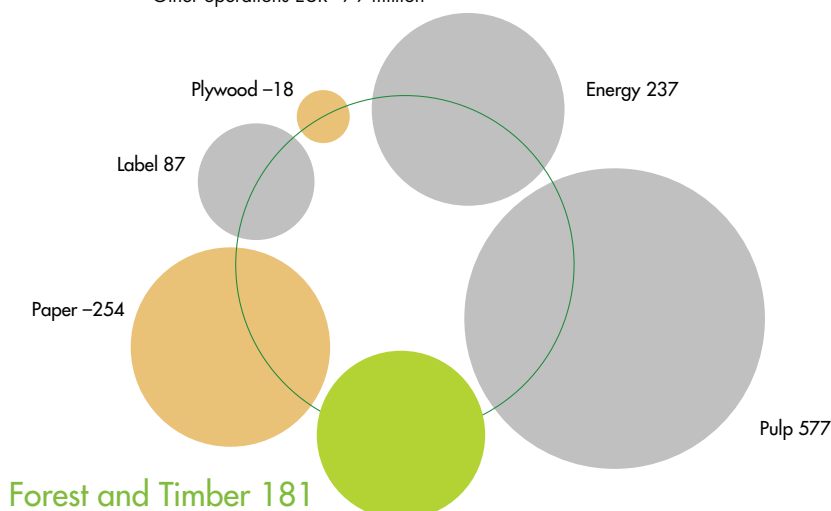
In Finland, wood purchases from private forests doubled compared to 2009 and returned to the long term average. The total purchase amounted 33.2 million cubic metres.

Market activity increased towards the end of the year in Finland. This was due to the storms in East and Central Finland during the summer and the temporary tax

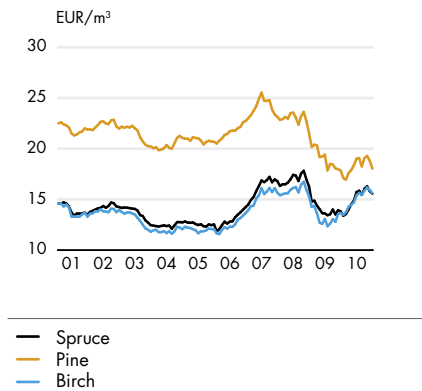
## UPM'S OPERATING PROFIT 2010 EUR 731 MILLION

(excl. special items)

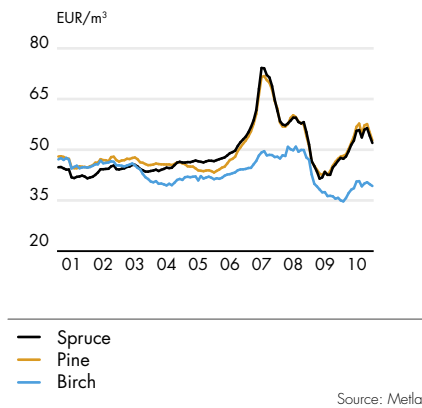
Other operations EUR -79 million



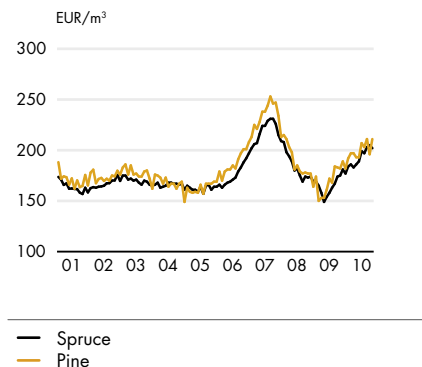
### MONTHLY STUMPAGE PRICES FOR FIBRE WOOD IN FINLAND



### MONTHLY STUMPAGE PRICES FOR LOGS IN FINLAND



### EXPORT PRICES FOR FINNISH TIMBER



relief that was valid until the end of 2010.

Both pulpwood and log market prices in Finland increased in comparison with the prices of the previous year and were above the long term average prices. During the third quarter of 2010, wood prices declined temporarily due to the impact of the storms, but returned to the pre-storm levels towards the end of the period.

In December 2010, the EU and Russia agreed that Russia will decrease the level of wood export duties when its membership in WTO comes into force.

In Central Europe, wood market prices increased due to higher demand and by energy wood competition.

### Timber

Sawn timber demand in Europe continued weak throughout the year due to low building activity. However, sawn timber exports until October 2010 from Finland increased by 15% to 4.4 million cubic metres from the previous year. The timber market in Japan and in the North Africa and Middle East were somewhat better than in Europe.

### Business performance

The Forest and Timber business area's sales for 2010 were EUR 1,521 million (1,337 million). Operating profit, excluding special items, was EUR 181 million (22 million). Profitability improved compared to the previous year, mainly due to higher delivery volumes of timber.

### Business development

To improve UPM's ability to respond to changes in the business environment, the sourcing and business aspects of the company's forest operations were structurally separated in 2010. Wood and forest biomass sourcing operations serve UPM's both existing and new businesses by ensuring the supply of required wood and biomass assortments.

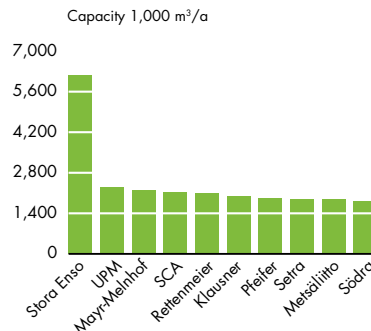
The EU climate and energy package will increase the use of wood in energy generation. The importance of energy wood for UPM has also increased in recent years as the company has allocated most of its investments to biomass-based combined heat and power plants.

In 2010, UPM's Silvesta, which specialises in forestry work, started to build a UPM Silvesta franchising chain in Finland.

In July, UPM sold a conservation easement on 76,000 hectares of UPM-owned forest land in Northern Minnesota, USA, to the State of Minnesota Department of Natural Resources. UPM retains ownership of the land and will continue to use it as a working forest.

Heinola sawmill and Parkano further processing mill were permanently closed in early 2010 based on the restructuring of the business announced in November 2009. As part of the restructuring, investments were carried out in the Kaukas sawmill and Aureskoski further processing mill.

### EUROPE'S BIGGEST SAWN TIMBER PRODUCERS



Source: UPM, companies www.pages

# UPM'S WOOD PROCUREMENT AND CONSUMPTION

Wood and wood-based forest biomass are UPM's most important raw materials. In 2010, UPM's roundwood deliveries to its mills were 25.4 million cubic metres (17.0). 18% of UPM's roundwood consumption in 2010 was plantation-based eucalyptus. 67% of the wood was used in Finland, followed by Central Europe, Uruguay, Russia and the United States.

The harvesting volume from company forests in Finland in 2010 was 2.4 million cubic metres (2.4).

UPM imports roundwood and chips from Russia and the Baltic rim. In 2010, imports increased slightly in comparison with the previous year. Since 2007, UPM

has significantly reduced its dependence on wood imports from Russia by utilising other wood sources and by adjusting production.

UPM supplied forest biomass equivalent to 5.0 TWh (4.7) energy production, mainly to its own and part-owned power plants.

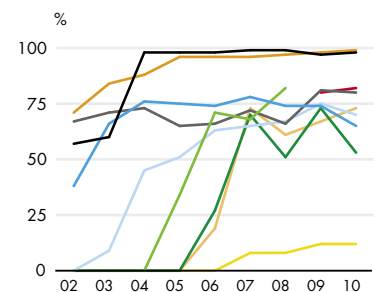
UPM uses wood raw material originating from sustainably managed forests. Chain of custody and forest certifications are means used for promoting legal and sustainable wood sourcing. In 2010, about 78% (78) of all wood used by UPM originated from certified forests and 79% (76) of UPM's paper was produced by using fibre that meets the criteria of the FSC and PEFC forest certification schemes.

## WOOD DELIVERIES TO UPM MILLS

1,000 m <sup>3</sup>	2010	2009	2008
Finland	16,928	13,753	20,676
Austria	813	936	964
Germany	643	524	655
France	446	350	450
Russia	951	601	859
United Kingdom	299	309	303
Estonia	122	70	108
Canada	-	-	203
United States	546	501	539
Uruguay	4,664	.*	-
<b>Total</b>	<b>25,412</b>	<b>17,044</b>	<b>24,757</b>

\* UPM acquired Uruguayan operations in December 2009

## CERTIFIED WOOD SUPPLIED TO MILLS<sup>1)</sup>



— United Kingdom — France  
— Germany — Austria — Estonia  
— Canada — United States  
— Finland — Russia — Uruguay

<sup>1)</sup> 78% of all wood in 2010 was certified



## UPM was recognised in the UN's International Year of Biodiversity 2010



Robert Taylor from Environmental Affairs hosted customers, students, media and the general public in UPM's booth at the Nagoya biodiversity conference in October.

Biodiversity is the main environmental driving force when developing UPM's sustainable forest management practices and everyday forestry and wood sourcing operations.

- UPM promotes best practice in sustainable forestry
- UPM aims to maximise the share of certified fibre

In addition to the actions in company forests, UPM's global biodiversity programme has been expanded to cover UPM plantations in Uruguay. In addition, the programme promotes biodiversity in private and state forests managed by UPM and in UPM's wood supply chain. The programme has identified six key elements important for forest biodiversity. A target has been set for each key element and they are implemented through country-level targets and local action plans.

The United Nations "The International Year of Biodiversity 2010" provided a unique opportunity to increase understanding of the vital role biological diversity plays in sustaining life on earth.

UPM's biodiversity programme was regarded as a frontrunner and was showcased at many international biodiversity events around the world in 2010. The main event was the UN COP 10 biodiversity conference in Nagoya, Japan in October.

### Promoting biodiversity in the wood supply chain

UPM sources wood from 18 countries globally. Promoting the best sustainable forestry practices is a continuous target for the company.

In 2010, UPM extended its biodiversity programme to cover the wood supply chain. The aim is to promote biodiversity in wood sourcing activities in co-operation with forest owners by carrying out supplier audits in UPM managed forests as well as including biodiversity requirements in supply contracts and operational guidelines, for example.

### Biodiversity in plantations

Biodiversity is also one key environmental element in UPM's plantations in Uruguay. In 2010, UPM participated in a WWF "New Generation Plantation Project". This project aims to promote best practices for the design and management of forest plantations. Collecting examples of well-managed and well-located plantations as key features of healthy, diverse and multi-functional forest landscapes, compatible with biodiversity conservation and human needs played a key role in the project.

In May, UPM invited schoolchildren and other stakeholders to plant trees as part of the company's annual tree planting day. Native tree species play a key role in biodiversity in every forest ecosystem in the world. The tree planting events were organised in Finland, Russia, the UK, USA and Uruguay.

## Safety in working environment



Forest worker Anssi Jokinen knows the mobile phone system well as he participated in its development and implementation.

At the beginning of 2010, UPM implemented a mobile phone system where all job orders, maps, working hours and absence messages, as well as work quality data, are transmitted electronically between forest workers and their managers. The system has also led to an improvement in the workers' occupational safety.

- **Aiming for zero accidents at UPM**
- **Employees took part in developing the mobile phone system**

In Finland, UPM has approximately 220 forest workers employed by UPM Silvesta, UPM's subsidiary specialising in silviculture. Silvesta has consistently taken steps to develop the occupational health and safety of its personnel, as well as their wellbeing.

All personnel gather together once a year to discuss the different aspects of occupational health and safety issues. These discussions form the basis for developing operations further. The use and development of safety gear are emphasised, and first aid training is organised regularly.

### Mobile phones used as safety devices in Finland

The new mobile phone system sends an alarm message to the superior every four hours if a forest worker who is working alone in the forest does not send an OK message on his mobile phone. If the superior cannot reach the forest worker by phone, he will call for help from a colleague working nearby, or from a close relative or rescue team. Using the latest location transmitted by the phone, it is possible to send help quickly to the right place.

During UPM Silvesta's four years of operation, there has been one serious accident. However, as the forest worker could use his mobile phone, he quickly received help from a machine driver working nearby.

### UPM Tilhill in the UK awarded for occupational health and safety

UPM's subsidiary UPM Tilhill in the UK specialises in managing forests. In addition to traditional silviculture and forest work, it offers a wide range of arboricultural and landscaping services to forest and land owners. The company employs 450 people.

Rigorous health and safety procedures form the basis of UPM Tilhill's operations and performance monitoring. The guidelines take into account the company's employees and contractors, as well as the impact on the general public and the environment.

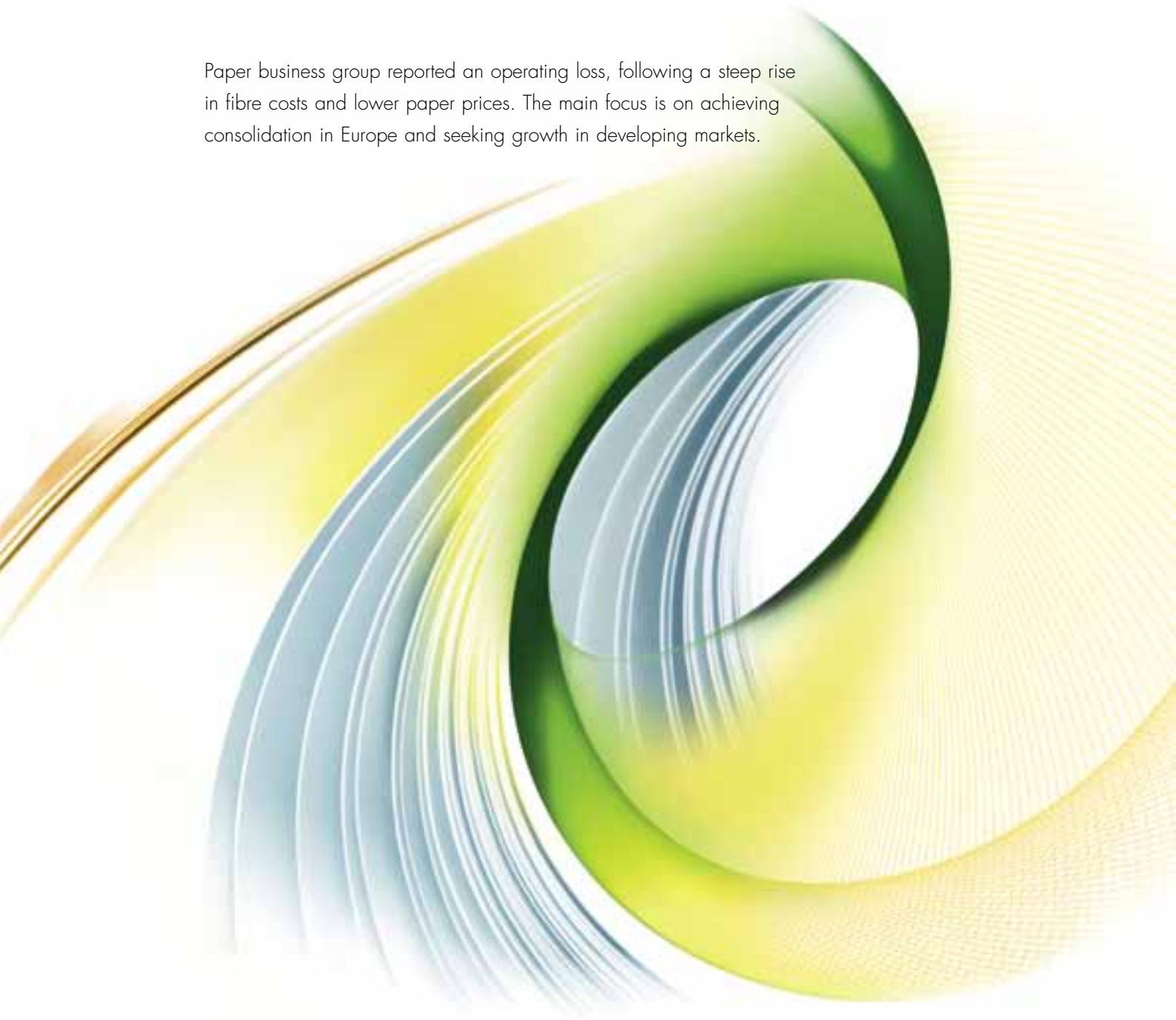
In 2009, the company implemented an "Insist On Safety" campaign. This campaign included a video that is now compulsory viewing for all new employees, and is also part of all subcontractor briefings.

In 2010, the Royal Society for the Prevention of Accidents (RoSPA) awarded UPM Tilhill with a special recognition for achieving gold awards five years in a row. RoSPA annually honours companies that have been able to reduce the number of accidents, as well as staff absence levels caused by illness, and that consistently develop their occupational health and safety procedures.



# PAPER

Paper business group reported an operating loss, following a steep rise in fibre costs and lower paper prices. The main focus is on achieving consolidation in Europe and seeking growth in developing markets.



## KEY FIGURES

Paper	2010	2009	2008
Sales, EURm	6,269	5,767	7,011
Operating profit excl. special items, EURm	-254	346	250
Capital employed (average), EURm	5,465	5,714	6,503
ROCE excl. special items, %	-4.6	6.1	3.8
Personnel on 31 Dec.	11,901	12,187	13,245
Deliveries, 1,000 t			
Publication papers	6,123	5,667	7,090
Fine and speciality papers	3,791	3,354	3,551
<b>Total</b>	<b>9,914</b>	<b>9,021</b>	<b>10,641</b>

SALES,  
EUR MILLION

2010 6,269  +9%  
2009 5,767

OPERATING PROFIT,  
EUR MILLION\*

2010 -254  -600  
2009 346 EUR million

\* excluding special items

## 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, with a production capacity of 10.4 million tonnes, and is a significant producer of speciality papers, such as label face and release papers, with a production capacity of 840,000 tonnes. UPM has 19 modern paper mills in Finland, Germany, the United Kingdom, France, Austria, China and the United States.

## Competitive assets

UPM's paper mills are located in the main markets close to customers, or close to sources for wood fibre. UPM has a global sales network and an efficient logistics system. UPM's broad range of products enables a good response to customer requirements and paper end-use developments.

UPM has large, cost competitive paper mills, with few investment needs in the foreseeable future. Investments are mainly targeted at cost reductions and efficiency improvements. The Paper business area has conducted actions to improve its cost com-

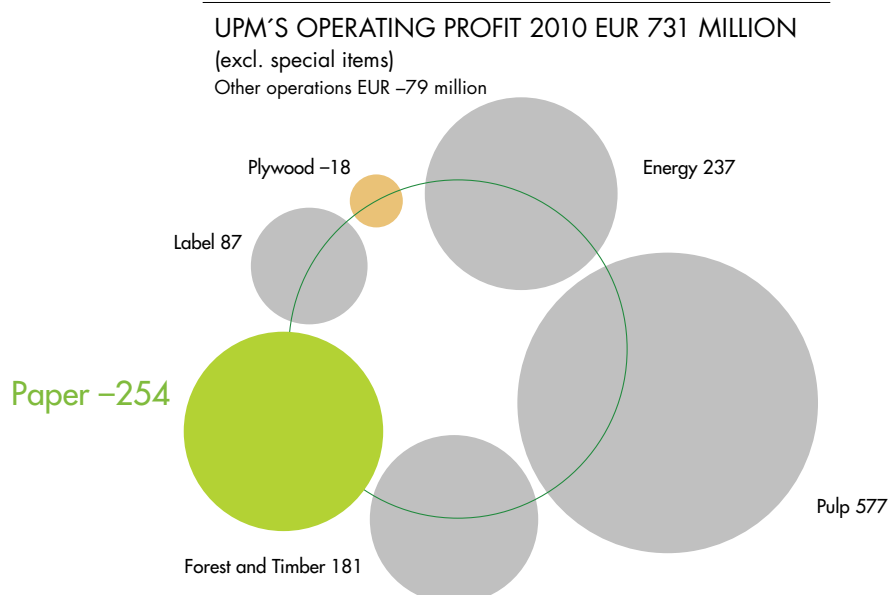
petitiveness. In the past five years, the business area has closed down 1.8 million tonnes of its less competitive production capacity (14% of the total). At the same time, all operations have been streamlined and productivity in the remaining operations has increased substantially. One measure of productivity, UPM's paper capacity per employee, has increased by 28% in five years.

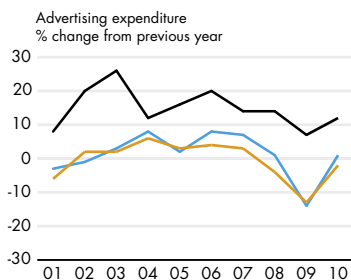
The combined heat and power (CHP) plants operating on paper mill sites are also included in the business. A significant part of the Paper business area's investments in recent years has been directed at these power plants, improving cost competitiveness and reducing the carbon footprint in paper production.

## Market review

In 2010, paper demand improved from the recessionary level seen in 2009. In the mature Western markets, the recovery was mild, as GDP growth in Europe and North America remained low. In China and other growth markets, including Eastern Europe, paper demand grew more rapidly.

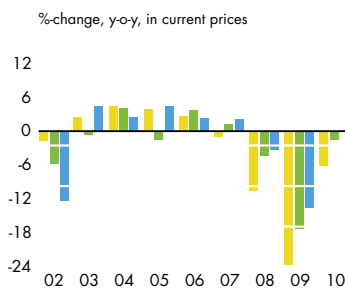
Advertising spending grew in the main markets from 2009 levels. However, much of the advertising spending growth was directed at electronic media. In print media, magazine advertising pages in



**ADVERTISING DEVELOPMENT**

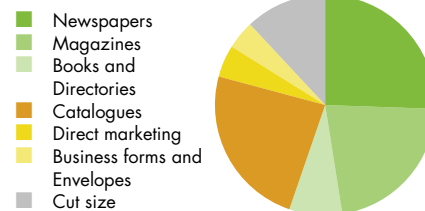
— China  
— Europe  
— North America

Source: Zenith Optimedia

**ADVERTISING IN PRINTED MEDIA\***

■ North America  
■ Europe  
■ Asia

Source: Zenith Optimedia  
\* Excl. direct mail

**GRAPHIC PAPER END-USES IN EUROPE**

Source: CEPI, UPM

**SALES BY MARKET**

EURm	2010	%
Europe	4,140	66
United States and Canada	770	12
Asia	1,007	16
Rest of the world	352	6
<b>Total</b>	<b>6,269</b>	<b>100</b>

Europe increased slightly from the previous year, whereas newspaper advertising pages decreased slightly. In Eastern Europe, print media advertising grew. Commercial printing increased from 2009, as volumes grew in both direct mail and inserts.

Magazines and newspapers maintained their circulations relatively well in Europe. The number of magazine titles increased slightly, having decreased in 2009, whereas the number of newspaper titles decreased.

In office papers, demand increased from the previous year.

The market balance in the European graphic paper markets improved from the previous year. While the growth of the underlying paper demand in Europe was

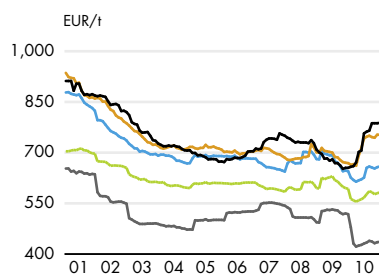
low, there were a number of other drivers improving the market balance. First, net paper exports from Europe grew by 36% (1.5 million tonnes), driven by robust demand in overseas markets. Second, customers replenished their paper inventories from the levels seen in 2009. Third, there were a number of production capacity closures in Europe, more than compensating for the capacity additions seen in 2010. The year was also characterised by rapid increases in fibre prices – chemical pulp, recovered paper or wood – and even availability constraints for fibre. The combination of these factors resulted in expectations for higher paper prices during the year.

Graphic paper prices decreased at the beginning of the year in Europe, especially for newsprint and also for magazine papers. Fine paper prices started to increase early in the year and continued rising throughout the year. Magazine paper prices also increased in the second half of 2010. Newsprint prices remained at a low level through the year, as most of the business was tied into annual contracts.

In label and packaging papers, demand growth was more rapid than in graphic papers, and sales prices increased substantially during the year.

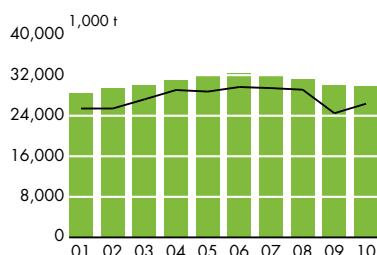
**Business performance**

The Paper business area incurred an oper-

**PAPER PRICES IN EUROPE**

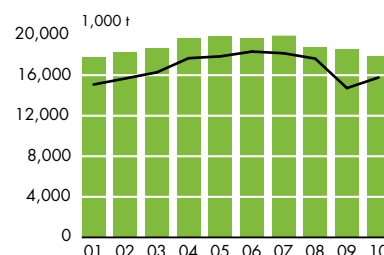
— WFCr 80 g  
— WFCr 100 g  
— LWC off 60 g  
— SC rg 56 g  
— Newsprint 45 g

Source: RISI/PPI

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

■ Capacity  
— Deliveries

Source: CEPI/PRINT

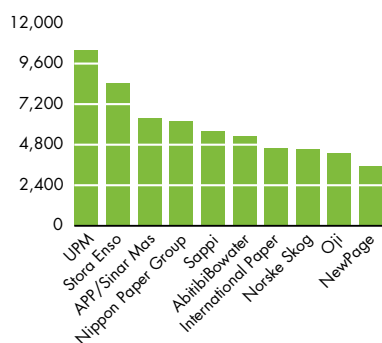
**FINE PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE**

■ Capacity  
— Deliveries

Source: CEPI/FINE

**WORLD'S BIGGEST GRAPHIC PAPERS PRODUCERS**

Capacity 1,000 t



Source: Pöyry, UPM

**UPM'S PRODUCTION CAPACITIES AND MARKET POSITIONS**

Paper business group	Paper production capacities 1,000 t/a	UPM's market position	
		Europe	Global
Magazine papers	4,620	1	1
Newsprint	2,420	2	4
Fine papers	3,310	3	4
Specialty papers	840	1-4	
<b>Total</b>	<b>11,190</b>		

ating loss, excluding special items, of EUR 254 million (profit of EUR 346 million), as the cost of fibre increased significantly from 2009 and the average paper price decreased by 1%. Paper deliveries grew by 10%, and sales grew by 9% to EUR 6,269 million (5,767 million).

**Business development**

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

After the substantial fixed cost reduction, working capital release and capital expenditure cuts achieved in 2009, 2010

was a year of more gradual progress in the Paper business area. Fixed costs increased only slightly from 2009, despite the 10% increase in delivery volumes of paper, i.e. the fixed costs per tonne of paper continued to decrease. The implementation of the new supply chain was completed in mid-2010, aimed simultaneously at improved customer service, better working capital efficiency and lower costs. Working capital remained largely unchanged despite the increase in delivery volumes.

Investments remained at a low level, totalling EUR 158 million in 2010 (136 million). The largest ongoing project was the materials sorting and recovery facility at the Shotton paper mill in the UK. The

facility will take Shotton close to being a zero-waste mill (see more on page 61).

In November UPM announced it will increase the label paper capacity at the Tervasaari mill in Finland by almost 30,000 tonnes annually in order to respond to the growing demand for label papers. The new capacity will come on stream during the second quarter of 2012.

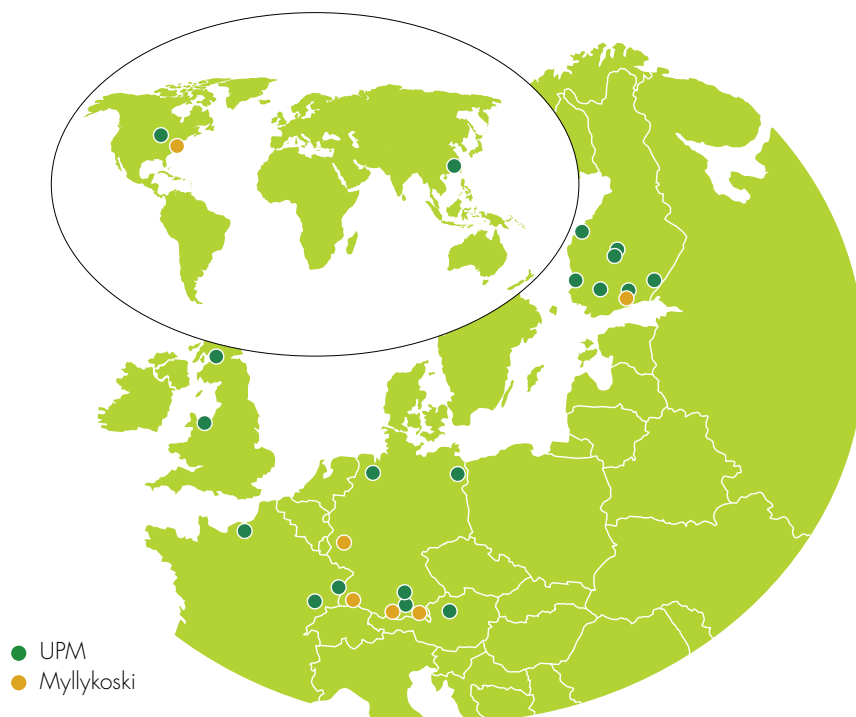
UPM's Changshu paper mill in China received approval from the authorities to build a third paper machine on the site. No investment decisions have been made.

In December 2010, UPM entered into an agreement to acquire Myllykoski Corporation and Rhein Papier GmbH (see more on page 38).

# MYLLYKOSKI ACQUISITION IS SUBJECT TO AUTHORITY APPROVALS

In December 2010, UPM entered into an agreement to acquire Myllykoski Corporation and Rhein Papier GmbH, which consist of seven publication paper mills in Germany, Finland and the United States. The agreed acquisition will improve UPM's cost competitiveness.

Mills	Grade	Cap. 1,000 t
Myllykoski Paper	LWC, SC	600
MD Albbbruck	MWC/LWC	320
Lang Paper	News, SC	600
MD Plattling	LWC	400
Madison Paper	SC	220
Plattling Papier (RP)	SC	380
Hürth (RP)	News	310
<b>Total</b>		<b>2,830</b>



UPM is focused on improving the cost efficiency and profitability of its European paper operations.

Profitability in the publication paper industry in Europe has been poor for almost ten years.

Growth in demand is shifting to markets outside Europe and simultaneously electronic media are posing a growing challenge for the print media.

The recession in 2009 increased the overcapacity in the European paper markets. Even though demand showed some recovery in 2010, there is structural overcapacity in Europe.

The consolidation and rationalisation of production are seen as necessary for the future of the whole industry in Europe.

## Synergy benefits expected

The total annual paper production capacity of Myllykoski and Rhein Papier is 2.8

million tonnes. In addition, Myllykoski Corporation owns 0.8% of the Finnish energy company Pohjolan Voima Oy.

The approximate enterprise value of the businesses acquired is EUR 900 million. The transaction is estimated to create annual synergy benefits exceeding EUR 100 million, mainly from 2012 onwards.

The related restructuring and investment costs of the combined operations are estimated to be approximately EUR 100–150 million.

The acquisition is estimated to have an immediate positive impact on UPM's cash flow starting from the second half of 2011 and on earnings per share in 2012.

The acquisition is subject to customary closing conditions, including the approval of the regulatory authorities. The target is to close the transaction during the second quarter of 2011.



UPM has focused on gaining in-depth knowledge of the properties of papermaking chemicals and conducted an evaluation of its significant suppliers. Ability to meet sustainability criteria was one part of the evaluation.

## Responsible sourcing puts focus on the supply chain

UPM is committed to responsible sourcing and it therefore expects that its suppliers execute a similarly high level of standards in their operations. High standards of responsibility can only be achieved by working closely with suppliers.

- Active co-operation with suppliers to further increase transparency of the supply chain
- UPM benefits from the experience gained from its comprehensive wood sourcing procedures

UPM has intensified its co-operation with suppliers in order to increase the amount of information concerning the environmental and social aspects of sourcing. As a result, UPM's understanding of the total lifecycle of the products is continuously enhanced, and the environmental performance of the products is further improved.

Strict supplier requirements for wood and pulp sourcing have been imposed for many years already. In recent years, guidelines and requirements have been extended to cover other relevant product groups in the supply chain.

UPM has developed common requirements for all of its suppliers. According to the requirements, suppliers must comply with the principles of the UPM Code of Conduct. In addition, UPM has developed a set of supplier criteria that include requirements on social and environmental responsibility.

### Focus on chemicals and pigments

For the past two years, UPM has particularly focused on papermaking chemicals and pigments, due to their high volume and significant importance in the papermaking process, and the special requirements necessary to protect human health and the environment.

In 2010, UPM piloted a comprehensive chemicals and pigments supplier survey with all significant suppliers. One of the evaluation criteria covered in the survey was the ability to meet the required corporate responsibility and sustainability criteria. UPM will observe the results together with the suppliers, and corrective action will be taken in case of non-compliance. All discussions are complemented by questionnaires and audits during the sourcing process.

In 2010, UPM started using a Restricted Substances List to ensure that it provides safe and clean products. By signing a supply contract with UPM, suppliers confirm that the chemicals they provide do not contain prohibited substances.





Tommy Lennox is making the rounds of the turbine hall of the new combined heat and power plant at the Caledonian paper mill in the UK.

## Focus on energy efficiency improvements

UPM strives to improve its energy efficiency in all its operations and favours the use of renewable and other CO<sub>2</sub>-neutral energy sources.

- UPM's continuous target is to improve energy efficiency

- In the past two years, UPM has gained a total of EUR 55 million from all its energy savings activities and 7% reduction in CO<sub>2</sub> emissions

UPM's mills use energy as electricity and heat. Most of the energy is consumed in the manufacturing of mechanical pulp, pumping, vacuum systems and products drying.

UPM generates all the heat and one third of the electricity it needs for papermaking in combined heat and power (CHP) plants operating on paper mill sites. Energy generation is based mainly on biomass-based fuels, such as bark and forest residues.

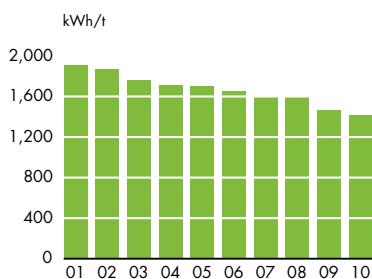
### Further energy savings achieved

In 2009, UPM launched a two-year campaign with the aim to reduce the consumption of electrical and thermal energy. The mills identified areas where energy could be saved and used more effectively. Building awareness, innovations, sharing ideas and best practices, and small investments were at the centre of the campaign.

Many energy-saving ideas have already been implemented in UPM's paper and pulp mills as well as in plywood mills and sawmills. New effective process and equipment modifications, as well as optimised ways of operating, have been introduced.

UPM spent a total of EUR 9 million for 140 energy saving initiatives generated during the campaign. Significant savings can be achieved with relatively minor, well-targeted investments.

UPM'S ELECTRICITY CONSUMPTION PER TONNE OF PAPER



### New solutions

Nordland paper mill in Germany has managed to achieve significant savings in power and heat consumption through measures like process development, water recovery, training and transparent energy consumption and energy-saving activities. All employees were actively involved in the campaign. In November 2010, the paper mill was honoured with external recognition for its efforts to improve energy efficiency.

At the Rauma paper mill in Finland, recent investments in mechanical pulping process developments resulted in major annual energy savings equivalent to heating 10,000 houses.

For more information on the R&D programme related to energy savings at paper mills, see page 64.

## UPM committed to responsible water use



Kai Jylhä is taking one of his regular water samples outside UPM's Pietarsaari paper mill.

UPM strengthens its commitment to sustainable water management practices in both direct and supply chain operations. In 2010, UPM joined initiatives to support its development of a comprehensive water sustainability – the UN Global Compact's CEO Water Mandate, the Water Footprint Network, as well as the Baltic Sea Action Summit.

• Efficient use of water resources is at the heart of our everyday actions

• UPM Nordland Papier was chosen for the case study because of its diverse supply chain

UPM's partnership with the international Water Footprint Network involves a study on the water footprint of paper. In addition to businesses, the network includes academic institutions, government agencies and non-governmental organisations.

The water footprint method considers three different types of water: green, blue and grey. Green is the water evaporated by trees, blue water refers to water use in production and grey to cleaned process waste water assimilation in the receiving water body.

According to the study, 60% of UPM Nordland Papier's water footprint is green water, 1% is blue water and 39% grey water. Around 99% of the water footprint comes from the supply chain and the remaining 1% from the actual paper mill production processes. The direct and supply chain operations are not in water-stressed regions. Local water system has improved significantly over recent years.

### Water footprint conclusions

The water footprint method that is currently available has an agricultural background and is not suitable for assessing forest industry products.

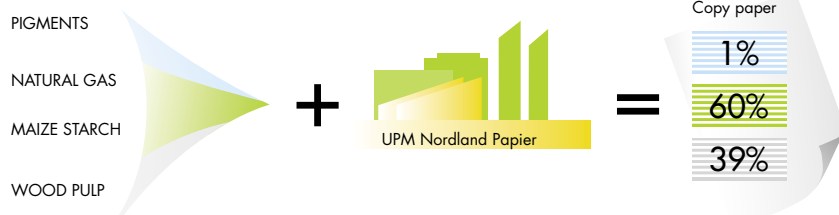
However, the water footprint method is a good step forward towards sustainable water management. More development, operational testing and better data on a local level will still be needed.

### WATER FOOTPRINT ACCOUNTING

SUPPLY CHAIN 99%

DIRECT OPERATIONS 1%

TOTAL 100%



According to the water footprint study, around 99% of the water footprint comes from the supply chain and the remaining 1% from the actual paper mill production processes.

# LABEL

Label achieved a good result in a year characterised by record high raw material cost inflation. The focus is on product renewal and fast growing markets.



## KEY FIGURES

Label	2010	2009	2008
Sales, EURm	1,100	943	959
Operating profit excl. special items, EURm	87	43	2
Capital employed (average), EURm	509	503	510
ROCE excl. special items, %	17.1	8.5	0.4
Personnel on 31 Dec.	2,543	2,595	2,851

SALES,  
EUR MILLION

2010 1,100  +17%  
2009 943

OPERATING PROFIT,  
EUR MILLION\*

2010 87  +44  
2009 43 EUR million

\* excluding special items

## Description of operations

UPM's 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 have a wide range of end-uses, from food and beverage labelling, retail and logistics to applications in personal and home care.

The label materials market is growing in all parts of the world. There are major growth opportunities in personal care and beverage businesses, global brands and film label materials. UPM Raflatac has increased resources and is increasing its 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 number two in terms of market share. UPM Raflatac is also number two in the fast-growing Asian markets.

In Europe, self-adhesive label materials are produced in five factories. Three slitting terminals support logistics and customer service. The factory in Poland gives UPM good presence in the growing markets in Central and Eastern Europe. The Tampere factory in Finland is the centre for research and development operations. Other European factories are located in the UK, Spain and France.

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

In the Asia-Pacific region, UPM Raflatac operates factories in China, Malaysia and Australia. The slitting terminal network consists of seven facilities throughout the region. Finally, UPM Raflatac has one factory and two slitting terminals in South Africa.

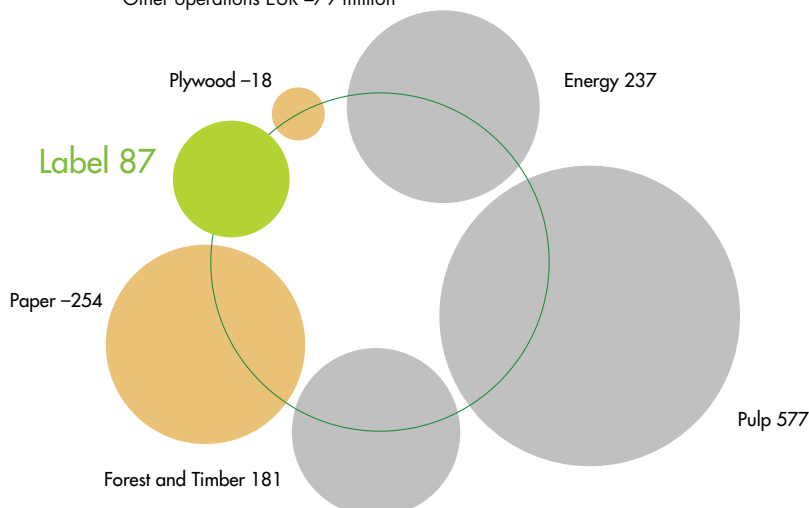
## Market review

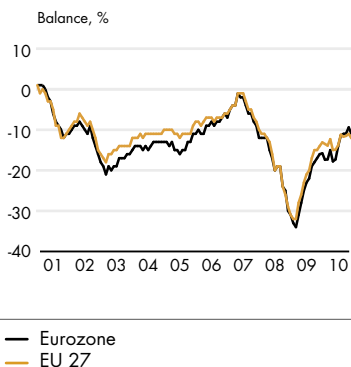
Labels are early cyclical products. Roughly 80% of self-adhesive labelstock demand is driven by private consumption, whilst the remaining 20% depends on industrial production.

## UPM'S OPERATING PROFIT 2010 EUR 731 MILLION

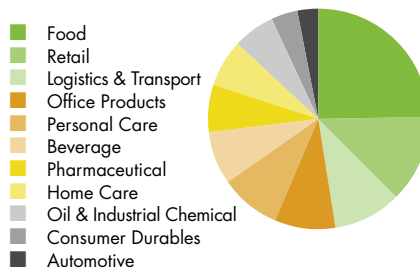
(excl. special items)

Other operations EUR -79 million



**EUROPEAN COMMISSION CONSUMER CONFIDENCE INDICATOR**

Source: European Commission  
Business and Consumer Survey

**GLOBAL LABELSTOCK END-USES**

Source: AVVA, UPM

In 2010, variable information printing (VIP) labelling grew strongly, especially at the beginning of the year, due to higher shipments of goods globally, combined with replenishment of inventory levels. As consumer confidence improved and the middle class continued to grow in emerging markets, product labelling grew steadily throughout the year.

Growth in demand for self-adhesive label materials was strongest in Asia, Eastern Europe and Latin America. In mature markets in Western Europe and North America, demand recovered close to pre-recession levels. Towards the end of the year, demand growth slowed down in many markets.

**Business performance**

In the Label business area, sales grew by 17% to EUR 1,100 million (943 million),

which is 10% higher than the sales seen in pre-recession peak 2007. Operating profit excluding special items improved to EUR 87 million (43 million). Profitability improved noticeably from the previous year, mainly due to higher sales volumes.

2010 was characterised by record high raw material cost inflation. Labelstock sales prices also increased in all markets, compensating for the higher raw material costs.

**Business development**

UPM Raflatac has increased its focus and resources to improve product renewal and is simultaneously looking for opportunities to strengthen its position in fast growing markets.

The strategic focus has also resulted in a larger share of special products with higher added value in UPM Raflatac's product portfolio in 2010.

To better serve fast growing label materials markets in Asia and Eastern Europe, UPM Raflatac opened two slitting terminals in 2010, one in Bangalore, India and one in Istanbul, Turkey. Due to investments in three new factories (Poland 2008, Illinois, United States 2008, China 2006), UPM has the ability to grow with the label materials market without the need for any significant investment.

The investment programme and the restructuring of the European operations in 2009 resulted in positive development of the business. In 2010, UPM Raflatac achieved record high total quality in most factories. This was reflected in favourable customer feedback and resulted in lower raw material consumption.

## Bringing people together



Philippe Charton, Michel Patrice and Michel Bianchi from UPM Raflatac factory in Nancy, France formed a team "HOPHOPHOP!" which reached the third position in the global "Every Body Counts" exercise campaign.

"Every Body Counts" – a global exercise campaign brought UPM Raflatac people together for a good cause. The aims of the campaign included a healthy lifestyle, personal well-being and an enhanced team spirit.

- Good working environment enhanced
- Prize money awarded to charity

In autumn 2010, UPM Raflatac organised a global exercise campaign, Every Body Counts. The aims of the campaign included a healthy lifestyle, personal well-being and an enhanced team spirit. The teams that collected the most exercise points were awarded a total of EUR 50,000 to donate to children's and youth charities.

More than 1,300 people took part in the two-month campaign, representing approximately half of all UPM Raflatac personnel. More than 40,000 hours of exercise were carried out.

The three best teams in the global competition and two best teams in each location were allowed to choose the charity to which they donated their award money. Donations were distributed in 13 countries in which UPM Raflatac has operations. The largest single donations went to two children's cancer charities in Scarborough, England, and to help children in intensive care in Nancy, France.

### Points for all exercise

The teams participating in the campaign had six to twelve members. Half an hour's exercise produced one point, and each participant was able to accumulate a maximum of two points a day. An average was calculated from the team members' points. Teams were able to follow their performance on the campaign intranet site and comment on each other's activities on Facebook.

The campaign challenge was issued by UPM Raflatac's Management Team. All personnel were invited to take part, but participation was particularly desired from personnel who did not normally exercise much. The campaign was designed in a way that made success possible for all participants. There were no sports restrictions, which meant points were issued for all kinds of fitness and utility exercise.

The Management Team also set optional extra challenges which inspired many to take part in group exercise and to raise their sports performance to a more demanding level. The participants were able to gain additional points for their teams by carrying out extra challenges such as cycling 50 kilometres and running 15 kilometres.



# PLYWOOD

Markets recovered slowly and the business area made an operating loss. The foundation for future profitability and growth is built on solutions for demanding end-uses and new products..

## KEY FIGURES

Plywood	2010	2009	2008
Sales, EURm	347	306	530
Operating profit excl. special items, EURm	-18	-51	25
Capital employed (average), EURm	243	266	307
ROCE excl. special items, %	-7.4	-19.2	8.1
Personnel on 31 Dec.	2,737	3,292	3,799
Deliveries, 1,000 m <sup>3</sup>	638	567	806

## SALES BY MARKET

EURm	2010	%
Europe	310	90
Asia	28	8
Rest of the world	9	2
<b>Total</b>	<b>347</b>	<b>100</b>

SALES,  
EUR MILLION

2010 347  +13%  
2009 306

OPERATING PROFIT,  
EUR MILLION\*

2010 -18  +33  
2009 -51 EUR million

\* excluding special items

## Description of operations

Plywood is a composite material made of renewable raw material with unique strength-to-weight properties. It is used in building and construction as well as in a number of industrial applications.

The Plywood business area provides solutions for various plywood and veneer end-use areas. The main customer industries include construction, transportation, furniture, parquet and manufacturing. The number of special applications is increasing continuously.

UPM sells its plywood and veneer products under the registered WISA trademark. The business area has a worldwide sales network, covering all main markets in Europe, North America and Asia.

UPM is the largest plywood manufacturer in Europe. The business area's annual plywood and veneer capacity is approximately one million cubic metres. UPM has six plywood mills, four of which are located in Finland, one in Estonia and one in Russia. The business area has two veneer mills in Finland.

UPM's plywood and veneer mills represent a modern and cost competitive mill portfolio. The business area has been restructured during the past two years and productivity per employee has increased significantly.

## Market review

2010 was a very volatile year in terms of plywood demand in Europe. Total plywood demand increased from the previous year, although it still remained clearly below the pre-recession demand. Plywood demand is late cyclical by nature, and is expected to gradually return to pre-recession levels when the economy recovers.

Construction activity continued at a low level throughout the year. The winter season in early 2010 was particularly slow.

Demand development was more positive in some industrial end-use areas compared with the previous year.

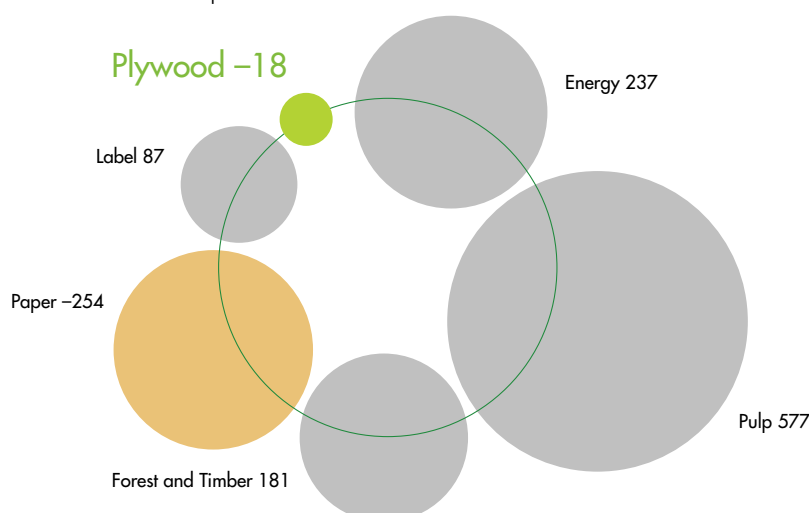
Overall plywood market prices remained low during 2010. They started to increase during the second half of the year, and on average were slightly higher than in the previous year.

## Business performance

UPM's Plywood business area's sales for 2010 grew by 13% to EUR 347 million (306 million). Plywood deliveries of 638,000 cubic metres increased by 13% from the previous year.

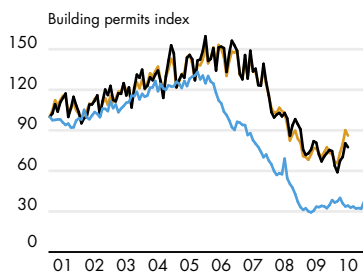
Operating loss, excluding special items, was EUR 18 million (loss of EUR 51 million). Operating loss decreased from 2009 mainly due to higher delivery volumes.

UPM'S OPERATING PROFIT 2010 EUR 731 MILLION  
(excl. special items)  
Other operations EUR -79 million



### BUILDING PERMITS

(INDEX 1.1.2001 = 100)



— EU 27  
— Eurozone  
— USA

Source: EU Commission  
Economic and Financial affairs,  
U.S. Census Bureau

### Business development

UPM's Plywood business area aims to grow in solutions for more demanding end-uses and through new products and composite material solutions. Research and development is an integral part of the business area's operations, aiming to improve competitiveness, grow through product renewal and develop new customer-oriented solutions.

As an example, UPM Plywood launched new ready-to-install bonded flooring solution for trailer manufacturing during 2010. The business area also developed a new composite technology which allows ply-

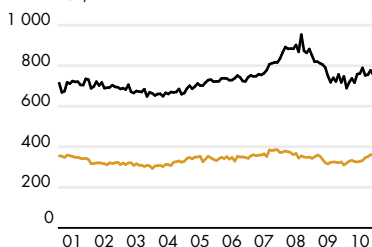
wood to be formed after manufacturing (see more on page 49).

The Savonlinna birch plywood mill is undergoing significant extension and renewal. Once the investment is complete, the mill will become one of the world's most efficient plywood production units of high quality special birch plywood.

UPM also restructured its plywood operations in Finland in accordance with the plan announced in November 2009. As the result of the restructuring, UPM closed the plywood mills in Heinola and Kaukas.

### EXPORT PRICES FOR FINNISH PLYWOOD

EUR/m<sup>3</sup>

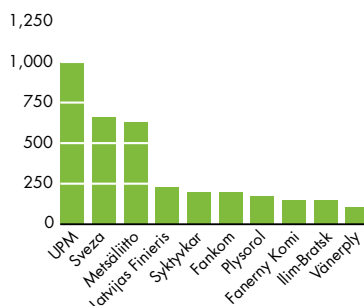


— Birch plywood  
— Coniferous plywood

Source: Finnish Forest Industries Federation

### EUROPE'S BIGGEST PLYWOOD PRODUCERS

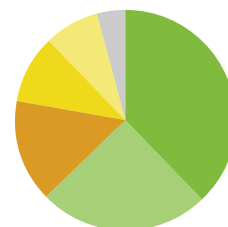
Capacity 1,000 m<sup>3</sup>/a



Source: Companies www-pages

### PLYWOOD END-USES IN EUROPE

■ Construction  
■ Furniture  
■ Transport  
■ Other  
■ Flooring  
■ Packaging



Source: FEIC, FAOSTAT

## UPM Plywood has developed a new composite technology



Raija Rautiainen and Juhana Liimatainen are presenting the formable plywood and the new adhesive film that allows the plywood to be formed after manufacturing at the WISA R&D Centre in Lahti, Finland.

UPM Plywood has developed a new technology for manufacturing layered composites. The first application of the new technology is formable plywood, which will be introduced to the market during the first half of 2011.

- Plywood — a true Biofore product by nature — is a highly sustainable composite for many end-uses

The core of the new technology is a special adhesive film that allows the plywood to be formed after manufacturing. Formable plywood can be used to make bent wooden structures easily and effectively for furniture, for example. Thanks to the new adhesive technology, the products will also be stronger and more stable.

### Materials can be combined

The new adhesive does not only bond wood, but also many minerals (rocks, ceramics etc.), glass, metals, textiles, paper and cardboard. Materials can also be combined to create multi-material composites. However, the unique nature of this technology is best seen when bonding together flexible materials — especially wood veneer, as in plywood.

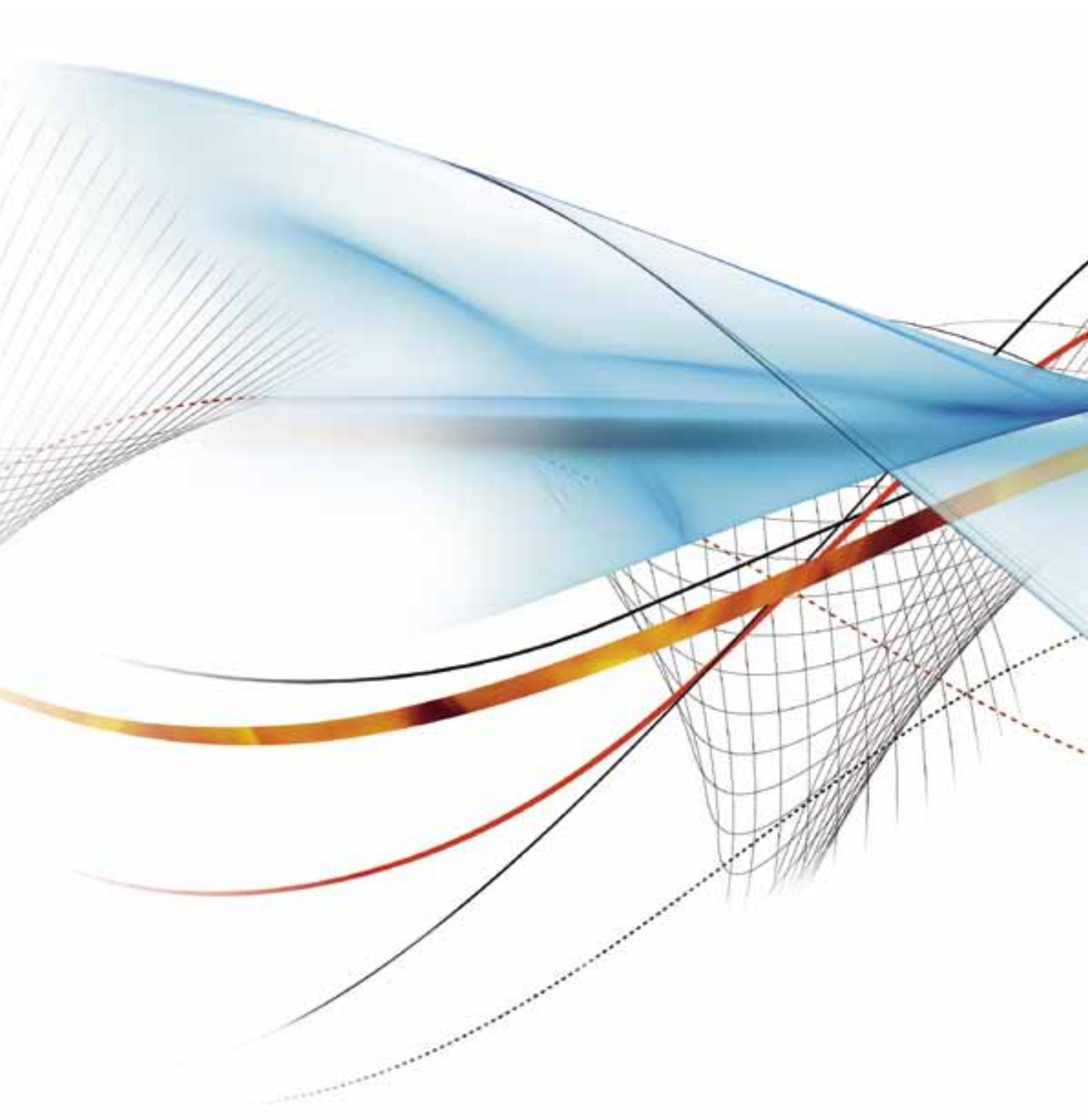
Traditionally, bonding wood is a one-time operation. The bond-line remains intact and it cannot be altered after the adhesive has set. However, UPM's new adhesive creates a unique chemical bond with wood, which can be altered afterwards by heating. The adhesive will set again as it cools down. This characteristic enables the plywood to be formed into a desired shape in a simple three-step process of heating, forming and cooling.

### Renewable and recyclable

Bent plywood-like furniture and other similar products have been manufactured for decades. They are made by gluing and pressing layers of veneer into a desired shape — a method commonly referred to as form pressing. UPM's new technology allows this manufacturing process to be simplified considerably, as veneer handling and gluing can be eliminated from the workflow. The use of formable plywood in form pressing is also safer, as working with it does not involve handling hazardous chemicals. It can also be safely recycled at the end of its life, by grounding it down to produce raw material for other composites.

Formable plywood is very well-suited to many end-uses, such as furniture and various industrial applications. Applying the technology to other materials will broaden its range of end uses yet further.

UPM Plywood's new composite technology is a result of years of determined scientific research and development. The goal of this ongoing work is to bring new advanced properties and features to plywood and make it a leading composite material for applications where a superior ratio between strength and weight is required.





## SUCCESS FACTORS

Competent people, good environmental performance and future-oriented R&D are crucial for the company's long term success.



# RESPONSIBILITY IN ACTION

Economic, social and environmental responsibility targets set the platform for UPM's responsibility agenda. The company's Biofore vision is based on renewable raw materials and recyclable products.

Corporate responsibility is an integral part of UPM's operations.

The foundation of responsibility is profitable operations and value creation from products which are sustainable throughout their lifecycle. The majority of UPM's products are manufactured from renewable raw materials by mostly using renewable energy, and thus fulfils the strictest criteria for sustainability. They also reflect an overall trend towards the use of renewable raw materials, energy efficiency in manufacturing, climate change mitigation, and recycling and recovery.

## Setting targets to show direction

UPM's Biofore vision is the key cornerstone of the company's responsibility agenda. In 2010, the key areas and measurements of corporate responsibility, created in 2009, were accompanied by operational targets that create the framework of responsibility for all company operations. Each target identifies the baseline and sets the direction for further improving the company's performance in the coming

years.

The principles for responsibility reflect UPM's approach to view corporate responsibility from a holistic approach that covers financial, social and environmental aspects. A commitment to continuous improvement and transparency is embedded into the new targets.

The principles and respective targets recognise and highlight areas where the company has the most impact on stakeholders. They were created in co-operation with UPM's business areas to ensure that they are in line with operational strategies.

## Stakeholder recognition

UPM's responsibility agenda is an integral part of the company's Biofore vision, which among other things focuses on the value creation through innovation and sustainability. The responsibility principles and targets reflect the overall development in the society. Whether shareholders, employees, customers or business partners, the goal of the company is to ensure alignment of the responsibility principles and

targets with the expectations of stakeholders and of society.

UPM's commitment to corporate responsibility was recognised again in 2010 by the external stakeholders. UPM was selected to the Dow Jones Sustainability World Index and the company's commitment to carbon management was recognised by the Carbon Disclosure Project. UPM has continued to engage with the UN's Global Compact initiative and with local stakeholders and international NGOs both in local and international arenas.

## Managing the responsibility agenda

For the past years, UPM's Corporate Responsibility Council (CR) has been responsible for overseeing the development of the company's corporate responsibility principles and policies. In 2010, the CR Council was merged with the Group Executive Team in order to ensure integration of the responsibility agenda with the group strategy. The responsibility agenda is discussed within the Group Executive Team several times a year.

UPM does not publish a separate environmental and corporate responsibility report but has integrated the contents into this annual report. Various highlights from the year 2010 can be found under the sections of each business area. To find out more about UPM's responsibility agenda, please visit [www.upm.com/responsibility](http://www.upm.com/responsibility).

KEY AREA  
OF RESPONSIBILITY

## MEASURE

## TARGET

## ACHIEVEMENT 2010

## ECONOMIC

<b>PROFIT</b> Shareholder value creation	<ul style="list-style-type: none"> <li>Operating profit margin</li> <li>Return on equity</li> <li>Gearing ratio</li> </ul>	<ul style="list-style-type: none"> <li>Operating profit margin exceeding 10%</li> <li>Return on equity at least 5 percentage points above the yield of a 10-year risk-free investment</li> <li>Gearing ratio to be kept below 90%</li> </ul>	<ul style="list-style-type: none"> <li>Operating profit margin 8.2%</li> <li>Return on equity, excl. special items, 7.5%</li> <li>Gearing ratio 46%</li> </ul>
<b>GOVERNANCE</b> Accountability and compliance	<ul style="list-style-type: none"> <li>Group Management System</li> <li>Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>Code of Conduct training and monitoring further developed</li> </ul>	<ul style="list-style-type: none"> <li>Global training programme under development</li> </ul>

## SOCIAL

<b>LEADERSHIP</b> Responsible leadership	<ul style="list-style-type: none"> <li>High employee engagement</li> <li>Behaviour in line with company values and Code of Conduct</li> <li>Change management practices in place</li> </ul>	<ul style="list-style-type: none"> <li>Continuous improvement in Employee Engagement Index</li> </ul>	<ul style="list-style-type: none"> <li>5 percentage point improvement in Employee Engagement Index</li> </ul>
<b>PEOPLE DEVELOPMENT</b> High performing people	<ul style="list-style-type: none"> <li>Personal performance reviews with employees and target setting</li> <li>Development of key competencies</li> </ul>	<ul style="list-style-type: none"> <li>Continuous improvement in Change Management and Innovation Indices</li> </ul>	<ul style="list-style-type: none"> <li>4 percentage point improvement in Change Management Index</li> <li>5 percentage point improvement in Innovation Index</li> </ul>
<b>WORKING CONDITIONS</b> Safe and encouraging working environment	<ul style="list-style-type: none"> <li>Ensuring human rights</li> <li>Equal opportunities</li> <li>Good employee/employer relations</li> <li>Zero accidents goal and continuous actions to reduce absenteeism</li> <li>End-to-end responsibility throughout the supply chain</li> </ul>	<ul style="list-style-type: none"> <li>10% annual improvement in safety (2009–2011)</li> <li>Global absenteeism below 3.5% (2009–2011)</li> </ul>	<ul style="list-style-type: none"> <li>A long term positive development in accident frequency continued but UPM targets for improvements were not met</li> <li>Reduced absenteeism in line with the target</li> </ul>
<b>COMMUNITY INVOLVEMENT</b> Local commitment	<ul style="list-style-type: none"> <li>Employment opportunities</li> <li>Co-operation and initiatives with local stakeholders</li> <li>Responsible restructuring</li> </ul>	<ul style="list-style-type: none"> <li>Continuous sharing of best practices of local stakeholder initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Local stakeholder initiatives further developed. Global alignment under development.</li> </ul>

## ENVIRONMENTAL

<b>PRODUCTS</b> Products which are sustainable over their lifecycle	<ul style="list-style-type: none"> <li>Renewable raw materials</li> <li>Recyclable or biodegradable products</li> <li>High share of certified products</li> <li>Third-party environmental eco-labels</li> <li>Lifecycle assessment</li> </ul>	<ul style="list-style-type: none"> <li>Environmental management systems certified in 100% of production units by 2020</li> <li>Environmental declarations for 100% of product groups by 2020</li> <li>25% growth in the share of eco-labeled products by 2020**</li> </ul>	<ul style="list-style-type: none"> <li>Certification of five additional production units</li> <li>Environmental declarations developed for pulp and plywood products</li> <li>Growth in the share of eco-labeled products in line with the target</li> </ul>
<b>CLIMATE</b> Best-in-class* carbon footprint	<ul style="list-style-type: none"> <li>Improve energy efficiency</li> <li>Maximise use of carbon-neutral energy</li> <li>Increase biobased energy</li> </ul>	<ul style="list-style-type: none"> <li>15% reduction in fossil CO<sub>2</sub> by 2020</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in fossil CO<sub>2</sub> in line with the target</li> </ul>
<b>WATER</b> Sustainable use of water resources	<ul style="list-style-type: none"> <li>Best-in-class* water footprint and effluent quality</li> <li>Net water consumption</li> </ul>	<ul style="list-style-type: none"> <li>15% reduction in waste water volume by 2020***</li> <li>15% reduction in COD load by 2020***</li> </ul>	<ul style="list-style-type: none"> <li>Target for the reduction in waste water volume was not met</li> <li>Reduction in COD load in line with the target</li> </ul>
<b>FOREST</b> Sustainable forest management	<ul style="list-style-type: none"> <li>Maximise share of certified fibre and meet UPM biodiversity programme targets for managed forests</li> </ul>	<ul style="list-style-type: none"> <li>80% share of certified fibre by 2020</li> </ul>	<ul style="list-style-type: none"> <li>78% share of certified fibre reached</li> </ul>
<b>WASTE</b> Minimal waste	<ul style="list-style-type: none"> <li>Minimise solid waste to landfill</li> <li>Reuse waste</li> </ul>	<ul style="list-style-type: none"> <li>25% reduction in waste to landfill by 2020</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in landfill waste in line with the target</li> </ul>

\* Best-in-class = leading the industry sector

\*\* Includes paper, timber, plywood

\*\*\* Numerical targets relevant for pulp and paper production

## PEOPLE

The development of the corporate culture and the company's renewed values were the main topics throughout the year.



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

At the end of 2010, UPM employed 21,869 people in total. The reduction of 1,344 employees is mostly attributable to restructuring.

## Leadership and People Development

UPM aims to strengthen its corporate culture to support the company vision. The aim is to create a culture which encourages achievement, fast learning and renewal.

In 2010, the value renewal dialogue proved to be a major initiative, involving more than 5,000 employees. As a result, the new company values were agreed and a strong sense of ownership was cultivated amongst all employees. UPM's new values are: Trust and be trusted; Achieve together and Renew with courage.

In 2010, UPM's performance management process was systematically used to set strategy-related targets and development plans for its employees globally. The focus was on improving the performance management through clear target setting.

The leadership development programme targeted for top management continued. The theme in 2010 was cultural change. In middle management development, the focus was on people and change

leadership programmes. Two mentoring programmes were started to support cross-organisational learning.

In addition to leadership development, project success is supported by an ongoing development programme to improve project management capabilities. In 2010, a project professionals' network was set up to encourage knowledge sharing within UPM.

UPM has set targets for continuous improvement in the area of social responsibility. In this field there are multiple measurement tools in place, used to keep an eye on organisational issues such as employee engagement, changing management practices and creating an environment for innovation.

## Occupational health and safety

Occupational health and safety activities are governed by UPM's Occupational Health and Safety Rule. UPM's long term objective is to prevent work-related illness or injuries among its personnel.

To achieve this objective, corporate and business level targets for Occupational Health and Safety have been set. The targets and actions for developing the activities of each unit are set annually. The Occupational Health and Safety Management System is followed in all production sites. Nearly all of UPM's paper mills and many of its other

production sites are also OHSAS 18001 certified.

Occupational Health and Safety audits based on common criteria continued in 2010. These measures began with the auditing of all paper mills in 2009. In 2010, almost all UPM Raflatac labelstock factories, plywood mills and sawmills were audited. Based on audit results, improvement actions have been agreed at the respective sites.

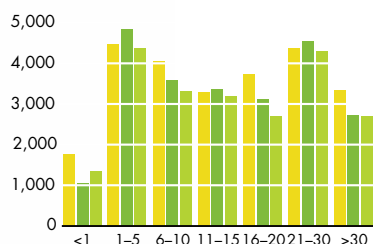
The UPM Occupational Health and Safety Award 2010 was given to the UPM Changshu paper mill in China. The mill set a UPM record for the most accident free days – 736 days without any accidents which resulted in time off.

In autumn 2010, UPM Raflatac organised a global exercise campaign, Every Body Counts (see more on page 45). The aims of the campaign included a promoting healthy lifestyle, personal well-being and enhancing team spirit. The teams that collected most exercise points were awarded a total of EUR 50,000 to be donated to children's and youth charities.

The long term positive development in accident frequency (the amount of work accidents per one million hours of work) continued but UPM targets for improvement were not met. The accident frequency developed positively in the Paper, Timber and Label business areas.

**EMPLOYEES' YEARS OF SERVICE WITH UPM 2008–2010**

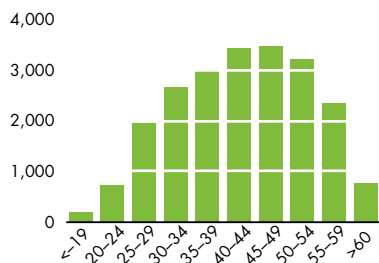
persons



2008, total 24,983  
2009, total 23,213  
2010, total 21,869

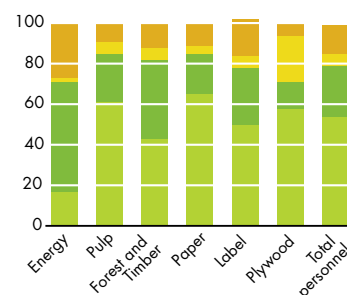
**AGE STRUCTURE OF UPM PERSONNEL 2010**

persons



**UPM PERSONNEL'S GENDER DISTRIBUTION**

%



Salaried employees, female  
Shop-floor workers, female  
Salaried employees, male  
Shop-floor workers, male

Absences due to illness and accidents continued to decrease according to UPM targets. Decreasing absences were reported from all business areas with the exception of Forest.

In 2010, there were two fatal work-related accidents at UPM. There was a contractor fatality at UPM Raflatac's factory in Malaysia and a UPM employee had fatal accident at the Augsburg paper mill in Germany.

## PERSONNEL BY COUNTRY

31 Dec.	2010	2009	2008
Finland	9,411	10,682	12,305
Germany	3,668	3,620	3,759
United Kingdom	1,484	1,546	1,602
France	1,203	1,321	1,392
Russia	1,081	1,026	1,116
Austria	576	619	642
Poland	326	334	275
Spain	252	251	266
Estonia	196	191	181
Italy	72	76	83
Turkey	36	21	20
Belgium	29	28	32
Sweden	20	20	24
Denmark	20	17	20
Other Europe	97	115	147
China	1,367	1,320	1,327
United States	1,001	1,005	1,096
Uruguay	533	524	-
Malaysia	176	173	172
Australia	94	88	93
South Africa	80	91	97
India	31	23	20
Rest of the world	116	122	314
<b>Total</b>	<b>21,869</b>	<b>23,213</b>	<b>24,983</b>

Lessons from these unfortunate incidents have been shared and corrective action implemented in both locations.

## 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-operative body. Representatives of all employee groups from UPM's mills in Europe participate in its meetings. The European Forum met twice in 2010. Meetings covered topical issues and open dialogue related to the business situation and changes within the company and the business environment.

One way of promoting employee participation further is the Employee Engagement Survey which was conducted at the beginning of 2010. The survey provides a basis for development action in the workplace.

## Rewards

UPM utilises a Total Compensation approach consisting of base salary, benefits and incentives, which are determined according to UPM's global rules, local legislation and market practice. All of UPM's personnel belong to a unified annual incentive scheme. The incentive plan combines company and business level targets and

personal and/or team performance targets.

One of the key financial indicators is EBITDA. The total amount of annual incentives paid in 2010 was EUR 42 million.

Long term incentive programmes based on Share Ownership Plan and Stock Option Programme for key personnel continued in accordance with the decisions made in 2007. In 2010, 462,500 shares were distributed to the nominated key employees under the Share Ownership Plan. In September 2010, 2007C stock options were distributed to approximately 560 key individuals.

## Job to Job programme continued

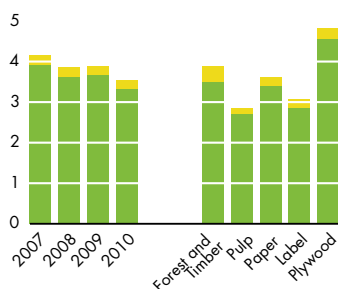
UPM's Job to Job programme offers financial support for retraining, re-employment and the creation of new businesses as well as relocation for employees affected by production plant closures.

The programme includes active measures promoting employment and retraining in close co-operation with various authorities and other external parties. The programme is based on the model first implemented at Voikkaa in 2006. It has produced good results, for example in Kajaani where UPM established the Renforsin Ranta business park in 2008. Currently 21 new companies operate at the former mill premises, offering employment to over 300 people.

In 2010, UPM continued its Job to Job programme in relation to the closures of the plywood mill and sawmill in Heinola, the Kaukas plywood mill in Lappeenranta and the further processing mill in Parkano.

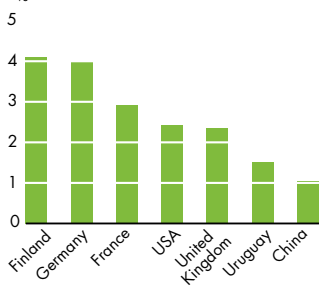
### ABSENTEEISM %, ALL UPM PERSONNEL

absence hours/regular contracted hours 1,000 t



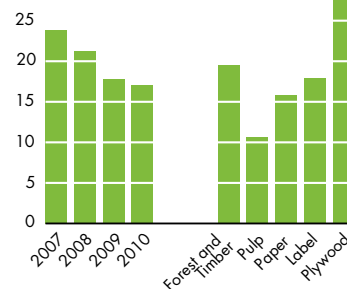
■ Accidents at work  
■ Sick leave

### ABSENTEEISM DUE TO SICKNESS AND ACCIDENTS AT WORK, ALL UPM PERSONNEL



absence hours/  
regular contracted hours

### ACCIDENT FREQUENCY, ALL UPM PERSONNEL



accidents at work/  
mill, hours of work



## Renewing company values



Hanna Kuru and Juha Vallittu from UPM Plywood feel that the new values work well in practice.

UPM launched new values in 2010 following an extensive dialogue within the organisation about the way we work. Large-scale employee involvement was the guiding principle of the process.

- New values support UPM's Biofore vision
- Wide-reaching participation from UPM employees

## values

### TRUST AND BE TRUSTED.

We trust in each other, keep our promises and have a sense of responsibility.

### ACHIEVE TOGETHER.

We commit ourselves to shared targets and hold each other accountable for results. We're eager to learn from each other.

### RENEW WITH COURAGE.

We're open to new things and encourage each other to take initiative. By challenging the status quo we create new opportunities – both for ourselves and for the whole industry.

UPM's values were formed more than ten years ago, when both the company and the business environment looked totally different. The company's new Biofore vision and strategy needed to be supported by the right kind of corporate culture, and it was therefore time to review the existing values.

Large-scale employee involvement was the guiding principle of the process. First employees had the opportunity to participate in the dialogue by taking part in 30 focus groups representing different businesses, geographies and employee groups. Based on the discussions, initial themes for values were identified.

In the second phase, UPM introduced an electronic tool and a questionnaire, where the themes could be evaluated. More than 5,000 employees participated in the process. The new values were agreed, based on the input coming from employees, in the UPM Strategy Sharing meeting with 120 top leaders in June.

### Practical values

After defining the values, the dialogue continued throughout the organisation, in value workshops.

As of autumn 2010, all employees have had the opportunity to discuss the significance of the new values and what they mean in terms of their own work. The new values have also been integrated with UPM's other people processes and trainings.





## ENVIRONMENTAL PERFORMANCE

UPM's Biofore vision signifies a long term commitment to environmental responsibility throughout the whole lifecycle of our products. In 2010, UPM set environmental targets for 2020.

UPM's production is primarily based on renewable raw materials that are biodegradable and recyclable. The company has invested to ensure its compliance and performance go beyond environmental regulations. Today, environmental responsibility is implicit in every business decision.

UPM has defined sustainable products as well as climate, water, forest and waste management as the key areas of the environmental responsibility.

In 2010, UPM set long term environmental targets for 2020 and defined indicators to measure performance in the key areas. UPM aims to continuously reduce the environmental impacts over the whole lifecycle of its products, and an annual performance evaluation is based on these indicators.

UPM's environmental investments totalled EUR 18 million (14 million),

the largest one being UPM Shotton's new material recovery facility in the UK. UPM's environmental management expenditure, which mainly consisted of effluent treatment and waste management costs totalled EUR 90 million (87 million), including depreciation.

In 2010, no significant environmental incidents occurred. However, several minor temporary deviations from permit conditions occurred. They were reported immediately to the relevant authorities and corrective and preventative measures were taken.

### Sustainable customer solutions

Certified management systems, product declarations and eco-labels are means to inform stakeholders of the sustainability of production or products.

The majority of UPM's production sites, as well as its forestry operations, are cov-

ered by environmental, quality and health and safety systems, which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. In Europe, all of UPM's pulp mills and most of its paper mills are also certified in accordance with the EU Eco-Management and Audit Scheme (EMAS).

UPM uses independent, widely accepted eco-labels such as EU Flower, the EU's own Eco-label, and PEFC and FSC, which are global eco-labels related to the sustainability of wood raw material. UPM's target is to increase the share of products carrying an independent accredited eco-label.

UPM's EU Eco-labeled product offering has increased significantly. UPM is the largest producer of graphic and copying papers awarded the EU Eco-label. UPM mills also use regional environmental labels such as Blue Angel in Germany.

## UPM ENVIRONMENTAL PRINCIPLES – COVERAGE BY THIRD-PARTY VERIFICATION

	PRODUCTS	CLIMATE	WATER	FOREST	WASTE
COMMITMENTS	UN Global Compact	•	•	•	•
	UN Business & Biodiversity			•	
	CEO Water Mandate		•		
	Baltic Sea Action Group		•		
	DJSI	•	•	•	•
THIRD-PARTY VERIFICATION ECO-LABELS RATINGS*	CDP	•			
	FFD	•		•	
	WWF Index**	•	•	•	•
	FSC/PEFC	•	•	•	
	EU Eco-label**	•	•	•	•
EMS	ISO 14001	•	•	•	•

\* For the rating references UPM has selected DJSI (Dow Jones Sustainability Index), CDP (Carbon Footprint Disclosure), FFD (Forest Footprint Disclosure)

\*\* WWF Index covers UPM's fine papers, EU Eco-label covers most of UPM's copying and graphic papers

The share of products certified to the FSC and PEFC forest certification schemes has increased to 79% (76).

### Mitigating climate change

UPM aims to reduce its carbon footprint on all its operations including raw materials, production and final products. Carbon dioxide-neutral energy sources dominate the energy portfolio.

UPM has made significant investments in renewable energy production. Biomass-based fuels make up 80% of fuels used by UPM in Finland and 68% worldwide.

UPM strives to improve its energy efficiency in all its operations. In 2010, UPM continued its two-year energy savings campaign aiming for lower consumption of electrical and thermal energy (see more on page 40).

While setting its own environmental tar-

gets, UPM has followed closely EU's new Energy 2020 strategy. The strategy, published in November 2010, incorporates the commitment to reach 20-20-20 targets on greenhouse gas emissions reduction, renewable energy and energy savings.

### Sustainable use of water resources

UPM focuses on using water resources sustainably and aims to be the best-in-class with regard to its water consumption and effluent quality. In pulp and paper making, the volume of effluent water roughly corresponds to the intake of fresh water. Therefore, the former is used as an indicator of water consumption.

Chemical oxygen demand (COD) is a key parameter used to indicate the organic load and quality of UPM's treated effluent. All effluent is treated using both primary and secondary treatment facilities, as a

minimum, before being returned to receiving waters.

UPM has decreased water use per tonne of paper by 44% over the last ten years.

During the same period, the COD load has decreased by 54% per tonne of paper, and by 49% per tonne of pulp.

In 2010, UPM signed the United Nations Global Compact's CEO Water Mandate. The CEO Water Mandate highlights UPM's commitment to the responsible use of water in all of its operations. In addition, UPM and Oy Metsä-Botnia Ab, a Finnish pulp-producing company, benchmarked a number of biological waste water treatment plants, aiming to share best practice between the two companies, and to improve the management of waste water handling. At UPM Nordland Papier mill, UPM carried out a water footprint case study (see more on page 41).

## Maintaining and increasing biodiversity in the forest

UPM is committed to sourcing wood from sustainable sources. The company promotes sustainable forest management everywhere it operates. UPM uses forest certification and chain of custody as tools for promoting and demonstrating legal and sustainable wood sourcing. All of UPM's own forests are either FSC or PEFC certified and the company has a global chain of custody, covering all fibre sourcing. UPM has worked systematically to increase the amount of certified wood.

In 2010, the amount of certified wood used by UPM reached 78% (78). UPM's global biodiversity programme was extended from company forests to cover all wood sourcing. The programme aims to maintain biodiversity in forests as well as promote best practices in sustainable forestry and wood sourcing. In 2010, UPM developed a system for promoting biodiversity in the wood sourcing supply chain (see more on page 32).

In the UK, woodland managed by UPM Tilhill achieved dual certification to both FSC and PEFC standards for 170,000 hectares of forest. UPM Tilhill's resource and

group management scheme is the largest scheme for private forest owners in the UK.

UPM and the State of Minnesota Department of Natural Resources signed a conservation easement on 76,000 hectares of UPM-owned forest land in Northern Minnesota.

## Maximising reuse of materials

UPM is committed to maximising the reuse of materials and minimising waste generation. The continual reduction of landfill waste is an ongoing objective for UPM. 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 that is left over from energy generation at these power plants is the most significant constituent of solid waste at UPM. A significant amount of this ash is reused in applications ranging from road building to construction aggregates.

UPM is the world's largest user of recovered paper in the graphic paper industry. The UPM Shotton paper mill in the UK, UPM Schwedt paper mill in Germany and UPM Chapelle Darblay in France produce

newsprint made entirely using recycled fibre from recovered newspapers and magazines. Several other mills use recovered paper also as a source of the fibre mix.

Today, 90% of UPM's production waste is reused or recycled. UPM's target is to reduce the share of landfill waste further by 25% by 2020.

## Continuous stakeholder dialogue

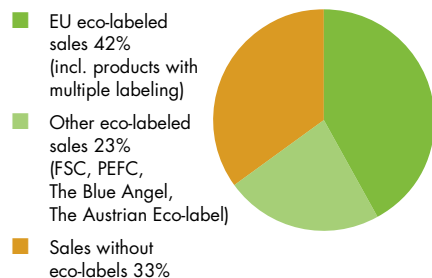
In 2010, UPM's environmental stakeholder initiatives included participation in the UN's International Year of Biodiversity and WWF's New Generation Plantation Project (see more on page 32).

UPM also participated in the development of the new Finnish FSC standard. Following the approval of the new standard by the Finnish FSC association in November, UPM started testing it in company forests.

UPM continued to participate in developing the new copying and graphic paper criteria for the EU Eco-label. The working group agreed on the new criteria and the EU-27 voted for the new standard in autumn 2010.

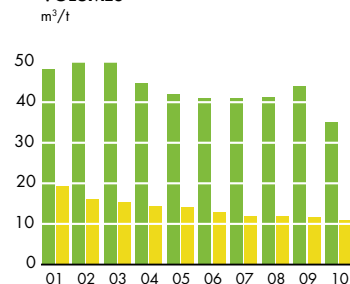
UPM does not publish a separate environmental and corporate responsibility report but has integrated the contents into this annual report. Various highlights from the year 2010 can be found under the sections of each business area. To find out more about UPM's responsibility agenda, please visit [www.upm.com/responsibility](http://www.upm.com/responsibility).

### UPM'S ECO-LABELED SALES<sup>1)</sup>



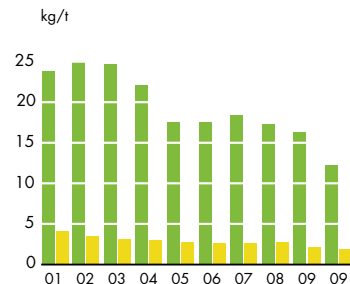
<sup>1)</sup> incl. Paper, Timber and Plywood

### UPM'S PROCESS WASTEWATER VOLUMES



■ per tonne of chemical pulp  
■ per tonne of paper

### UPM'S COD LOAD



■ per tonne of chemical pulp  
■ per tonne of paper

## UPM Shotton has zero waste in its sights



Andrew Bronnert (right) from UPM and Pat Wadey, Head of PHS Special Contracts, presenting the first delivery of Fibrefuel pellets.

Integrated processes enable UPM to maximise the reuse of its by-products throughout, ensuring that UPM produces products using the minimum amount of raw materials and creating minimal waste.

- **Target: Maximise reuse – minimise waste**
- **Today, virtually all of UPM's production waste is reused or recycled**

UPM Shotton already processes 640,000 tonnes of recovered paper every year. In February 2011 its new materials recovery facility comes on stream to further process mixed materials including plastics, cans and other household recyclables gathered in the UK's domestic recycling system.

Shotton's system for handling recovered paper in turn produces its own process waste - the wet residue known as 'pulper rejects', consisting mostly of paper fibres, plastics, cans and oddments. This residue can normally be combusted to produce energy, but this was not possible on the UPM Shotton site, which had to invent an alternative solution.

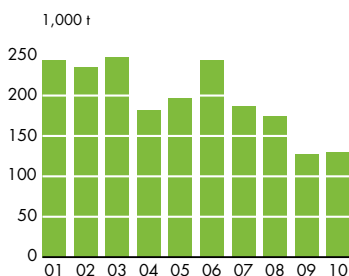
### Maximising reuse – minimising waste

The target is to reduce the 20,000 tonnes of waste to less than 1,000 tonnes going to landfill by the end of 2011. The paper mill will take recovered paper into use and the other recyclable material will be recycled by other reprocessors as required.

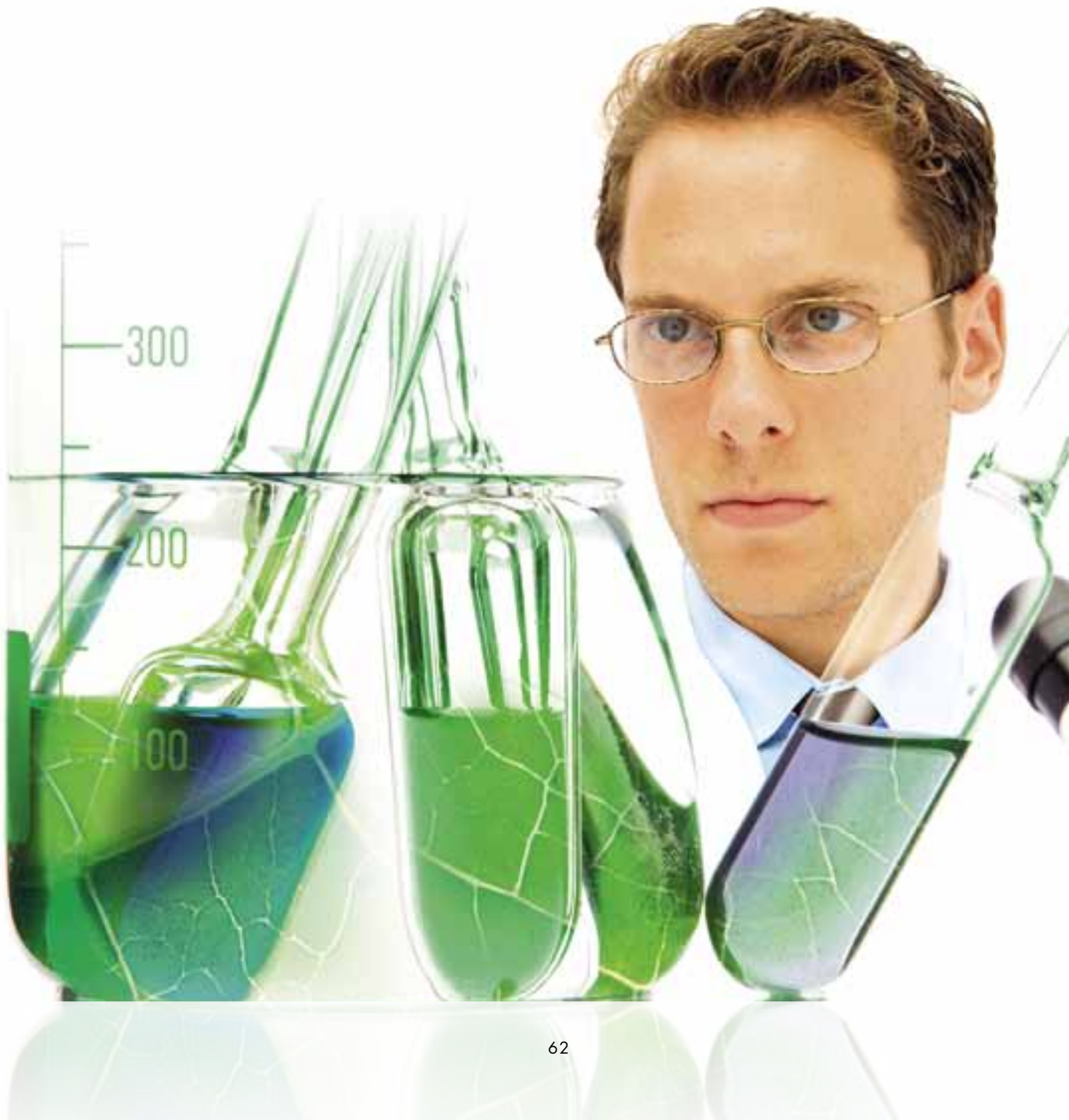
The challenge was to reprocess all of rejected material into valuable products. The project produced a unique solution for handling process waste. The result involves a new partnership with waste management experts who together created a new product, Fibrefuel, pellets created mostly from paper fibre retrieved from the wet waste. The new product will be returned to UPM Shotton to generate energy, burning cleanly and completely.

Some conventional technology, screens and magnets, but also new flotation technology, unique in the UK, to separate materials will be used. Plastics will be flash dried, granulated and bagged into a saleable product that can be used to make recycled plastic products, such as furniture and railway sleepers.

UPM'S TOTAL WASTE TO LANDFILLS







## R&D AND DEVELOPING BUSINESSES

Approximately half of UPM's R&D input was targeted towards developing new technologies and businesses.

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

In 2010, UPM's direct expenditure on research and development projects was approximately EUR 45 million (EUR 48 million), or 0.5% (0.6%) of the Group's sales.

In addition, UPM donated a total of EUR 500,000 to five Finnish universities, for research and education. The University of Oulu, University of Lappeenranta and University of Helsinki, as well as Åbo Akademi and the Hanken School of Economics, each received a donation of EUR 100,000.

### Exploring new research areas

Over the past years, UPM has invested in the research and development of new value-added uses of forest biomass, such as biofuels, biochemicals, biocomposites and nanocellulose. The number of researchers working in new areas of expertise has been more than doubled.

In biofuels, the development of production technologies is ongoing. In second generation biomass-to-liquid (BTL) biodiesel UPM, together with Andritz/Carbona, completed the initial testing programme on Carbona's gasification technology in the USA as planned (see more on page 65).

In biochemicals, the focus has been on

research into replacing oil-based chemicals with biochemicals in various UPM products. In 2010, new end-use applications were explored in research work and a number of studies.

In addition to existing UPM Profi composite products, UPM is also studying opportunities in biocomposites. Potential application areas include e.g. construction, automotive, furniture, and electronics. Focus in 2010 was on technology concept development.

In nanocellulose research, work continued at the The Finnish Centre for Nanocellulosic Technologies established by UPM, the Technical Research Centre of Finland (VTT) and Aalto University in 2008.

Nanocellulose offers a range of possibilities for shaping materials made of wood fibre and giving them new characteristics. The use of pulp-based nanocellulose can help make a product stronger, lighter and thinner.

In this initial 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 further applications for other industries, such as construction, packaging, foodstuffs and cosmetics.

### Growing number of new RFID applications

UPM continued to develop RFID business based on UPM's own research and business development.



UPM's extensive range of passive RFID tags and inlays are designed to streamline business operations by automating the identification of goods and objects. RFID products are used, for example in supply chain management, baggage handling, industry, pharmaceuticals and healthcare. Furthermore, typical end-use applications include library and media management as well as apparel and brand protection, and ticketing.

The RFID product offering is constantly being developed for better performance and cost efficiency. In 2010, the focus turned to new security features enabled by advanced integrated circuit (IC) technology.

The piloting of new products was moved from Finland to volume production factories in Guangzhou, China and Fletcher in the USA. By strengthening the introduction of products closer to the fastest growing markets in Asia and the Americas, UPM is able to respond rapidly to customers' needs.

Throughout 2010, RFID markets were on a steady growth curve, driven especially by new item-level retail applications.

### UPM ProFi honoured for sustainable innovation

In 2010, UPM ProFi continued to launch new products, and expanded its sales channels to most European countries. UPM ProFi was most clearly visible on the surface of the Finnish pavilion at the World Expo in Shanghai in 2010. UPM ProFi was also awarded the "Green Good Design Award" in the United States and the "Sustainable Innovation Management" prize in Germany for sustainable innovation.

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

The target of UPM ProFi is to become one of the main producers in the composite

sector in Europe. Its production plants are located in Finland and Germany.

### Ensuring competitiveness in Paper

In 2010, UPM focused on the competitiveness of Paper business by improving the cost structure of all paper grades, and energy efficiency at its paper mills.

A significant strategic R&D programme into energy savings in mechanical pulping entered the implementation phase. The programme focuses on finding new technologies and concepts to reduce energy consumption significantly. Targets have been set high, aiming at a 30% reduction in energy consumption as well as optimising current processes.

At the Kaipola paper mill in Finland, UPM invested in a project in which a new energy-efficient concept for thermo-mechanical pulping was successfully tested. This investment was on a long term national level, alongside internal research work together with machine suppliers. In addition to this new thermo-mechanical process, groundbreaking technology for pressure groundwood was also developed, with the help of background work carried out in a joint project with the KCL (Oy Keskuslaboratorio Ab) research centre.

In addition, UPM intensified its co-operation with technology suppliers to improve filler and chemical mixing, and to reduce the use of additives. A pilot project with Wetend Technologies Ltd was carried out.

UPM launched a new paper for high-speed inkjet colour printing within its UPM DIGI paper range. The UPM DIGI Color Jet is a pigmented inkjet paper that allows vivid colours and uniform solids to be printed. Its main end-uses are direct mail and document printing. UPM Eco-Mail, a new brown envelope paper, UPM Ecolite, a new uncoated catalogue paper, and UPM Office Recycled Premium copy paper, all based on recycled fibre, were also launched.

### New label and plywood product solutions

In labelstock R&D, UPM continued to focus on developing new technology platforms and new product solutions and innovations.

In 2010, a significant number of new tailored solutions and end-use range speciality products were introduced. UPM Raflatac also commercialised a new paper label product range combining the new in-house manufactured hotmelt adhesive with an innovative high-quality and cost efficient filmic liner.

Plywood R&D concentrated on product and production innovations, which are expected to provide a significant competitive advantage in the years to come. In 2010, UPM introduced several new WISA plywood solutions for trailer and van floorings and soundproofing in buses and linings.

### Network of research centres

The focus of research at the UPM Research Centre in Lappeenranta is mainly fibres and fibre raw materials, papers, coating and printing, biofuels and biochemicals. The UPM Biorefinery Development Centre for piloting biofuels and biochemicals is also located in Lappeenranta. The WISA R&D Centre for plywood and composites is located in Lahti, while labelstock R&D takes place in Tampere, Finland.

UPM's recycled fibre research is based in Augsburg, Germany. The UPM Asia R&D Centre in China is responsible for researching raw materials from local fibre, 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 three ongoing research programmes are supporting UPM's internal R&D activities.

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

## Converting biomass to biofuels



Jaakko Nousiainen having a close look at UPM's advanced biofuels in the laboratory at UPM Research Centre in Finland.

UPM is utilising its profound expertise in converting forest biomass to energy when developing technologies and concepts for production of biofuels.

The raw material used in the production of advanced biofuels would mainly consist of energy wood: logging residues, wood chips, stumps and bark. An additional potential raw material could come from the use of industrial side-streams. All of UPM's biofuels will be based on non-food raw materials.

- **Energy wood would be the main raw material used in production**

- **UPM's biofuels production concepts result in significant reduction in greenhouse gas emissions**

Advanced biodiesel produced for transport at UPM's biorefinery would generate over 85% fewer emissions throughout the value chain compared to fossil fuels. Advanced biofuels can be blended in high proportions with fossil fuels and are well suited for current diesel motor technology and fuel distribution infrastructure.

### BTL-biodiesel

UPM has been developing and piloting, together with Andritz/Carbona, the gasification technology to produce BTL-biodiesel (biomass-to-liquid) from energy wood. The initial testing programme has been completed.

UPM is planning the first commercial-scale BTL plant. Environmental impact assessments (EIA) have been approved at UPM's Kymi and Rauma mills in Finland, and Rauma has been selected as the possible location in Finland. An EIA is in progress at UPM's Stracel mill in France. Locating a biorefinery adjacent to an existing UPM pulp or paper mill would create synergies and minimise the capital investments.

The next step is to compete for EU grants in Finland and France. UPM has submitted applications to both countries at the beginning of 2011. No decisions are expected from the EU before the second half of 2012. Investment decision can be made only after the EU's grant decisions are announced.

### Bioethanol and bio oil

UPM develops concept to produce advanced bioethanol from the fibrous waste generated at pulp and paper mills or from commercial and industrial waste. The concept has been piloted at VTT Technical Research Centre of Finland together with Pöyry. Bioethanol can be used as a blending component in gasoline.

UPM develops bio oil technology in co-operation with Metso, Fortum and the VTT Technical Research Centre of Finland. Bio oil is pyrolysis oil from dry-distilled energy wood. It can be used as a substitute for fossil fuel oil in heating applications.

### Hydrotreated biofuels

An environmental impact assessment (EIA) for a liquid biorefinery producing hydrotreated biofuels at UPM's Kaukas mill in Finland was approved in January 2011. UPM plans to test the conversion of various liquid feedstocks, such as industrial side-streams, into biofuels at the plant.

# MAIN EVENTS IN 2010

- 4** UPM announces a EUR 19 million investment in a materials recovery facility at its UPM Shotton newsprint paper mill in the UK. The new facility improves the mill's access to recovered paper. For each 200,000 tonnes of recyclable material that are sorted, approximately 120,000 tonnes are newspapers and magazines that can be used at the mill as raw material.

- 12** UPM confirms the restructuring of its plywood and timber operations in Finland in order to improve the competitiveness of the businesses. The plywood mills in Heinola and Lappeenranta, the sawmill in Heinola and the further processing mill in Parkano are permanently closed during the first half of 2010.

As part of these measures, the Savonlinna plywood mill is expanded and production at the Kaukas sawmill and Aureskoski further processing mill in Parkano are developed with an investment of approximately EUR 25 million.

- 4** The Finnish stevedores' strike stops the transportation of raw materials to UPM's Finnish mills and the transportation of products from mills to its customers. All UPM paper, pulp, timber and plywood production in Finland is strongly affected by the 16-day strike.

- 31** UPM combines its Group-level Finance and Control and Strategy operations under one management and strengthens the long term strategy development of its business groups. Mr Tapio Korpeinen is appointed Chief Financial Officer (CFO), and is also responsible for Corporate Strategy.

Mr Heikki Vappula is appointed President, Energy & Pulp Business Group and Member of the Group Executive Board.

- 5** UPM is awarded the "Sustainable Innovation Management" prize at the "Best Innovator 2010" awards in Germany with its composite material UPM ProFi.

- 9** UPM joins the Baltic Sea Action Summit in Helsinki and enters into an innovative research project aimed at protecting the Baltic Sea. The project involves the use of charcoal mixed with soil to remove impurities from the nutrient-rich water running from agricultural lands into the Baltic Sea. UPM also joins the United Nations Global Compact's "CEO Water Mandate" initiative, confirming its commitment to the responsible use of water resources in all its operations.

- 18** UPM Raflatac announces plans to relocate new RFID product piloting from Jyväskylä, Finland to its volume factories in Guangzhou, China and Fletcher, North Carolina, USA by the end of 2010, where it will be closer to the fastest growing markets.

- 20** The International Court of Justice in The Hague gives its final judgment in the issue between the governments of Argentina and Uruguay, concerning whether the obligations of the Uruguay River Treaty had been fulfilled, with regard to the Fray Bentos pulp mill in Uruguay. The Court did not find any evidence of the mill polluting the River Uruguay. Following the judgment, Uruguay and Argentina have both agreed to monitor the river and industrial facilities along the river bilaterally.

- 6** The Finnish Government makes two decisions-in-principle in favour of the expansion of nuclear power. Teollisuuden Voima Oyj's (TVO) application to construct a new nuclear power plant unit, Olkiluoto 4, is approved. The decisions are approved in the Finnish Parliament on 1 July. UPM is an owner of TVO, as it holds shares in the energy company Pohjolan Voima Oy (PVO).
- 7** Kaukaan Voima Oy's biomass power plant, constructed as a joint project by Pohjolan Voima, Lappeenranta Energia and UPM, is inaugurated. The power plant is Finland's largest user of solid biomass, i.e. bark, branches, tops, stumps and small wood.
- 25** UPM announces it will start an environmental impact assessment (EIA) for a liquid biorefinery producing hydrotreated biofuels at the Kaukas mill site in Lappeenranta, Finland. The assessment is approved in January 2011. Various liquid feedstocks, such as industrial side-streams, are planned to be tested for converting them into biofuels at the plant.
- 8** UPM announces the sale of a conservation easement on 76,000 hectares of UPM-owned forest land in Northern Minnesota, USA to the State of Minnesota Department of Natural Resources. UPM retains ownership of the land and will continue to use it as a working forest. UPM receives approximately EUR 36 million for the easement.
- 25** UPM announces it will increase the label paper capacity at the Tervasaari mill in Finland by almost 30,000 tonnes annually in order to respond to the growing demand for label papers. The new capacity will come on stream during the second quarter of 2012.
- 29** UPM Raflatac opens new slitting and distribution terminals in Istanbul, Turkey and Bangalore, India in order to serve fast growing label markets in Asia and Eastern Europe.
- 9** UPM is selected to the Dow Jones Sustainability Index for 2010–2011.
- 24** UPM donates a total of EUR 500,000 for research and education to five Finnish universities. The University of Oulu, University of Lappeenranta, University of Helsinki, Abo Akademi and Hanken School of Economics each receive a donation of EUR 100,000.
- 21** UPM announces it will acquire Myllykoski Corporation and Rhein Papier GmbH. The approximate enterprise value of the businesses is EUR 900 million.
- Myllykoski and Rhein Papier consist of seven publication paper mills in Germany, Finland and the United States. In addition, Myllykoski Corporation owns 0.8% of the Finnish energy company Pohjolan Voima Oy.
- The transaction is subject to customary closing conditions, including the approval of the regulatory authorities. The target is that the transaction will be closed during the second quarter of 2011.
- As part of the Myllykoski transaction, the UPM Board of Directors decides on the share issue of five million new UPM shares.

➤ learn more [www.upm.com](http://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 2010 issued by the Securities Market Association.

UPM's Corporate Governance Statement, prepared in accordance with the Finnish Securities Market Act and Recommendation no. 54 of the Finnish Corporate Governance Code, is presented on 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 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.

A shareholder has the right to have a matter falling within the competence of the General Meeting dealt with by the General Meeting, provided that the shareholder sends a request in writing to the Board of Directors well in advance of the meeting, in order that the matter may be mentioned in the notice. The request is considered to be delivered on time if the Board of Directors has been notified of the request at least four weeks prior to the publication of the meeting notice or, according to the Board Charter, by 15 January whichever date is later.

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

### Board of Directors

**Responsibilities of the Board of Directors**  
The Board of Directors is responsible for the administration and appropriate organisation of the company's operations and the appropriate arrangement of the control of the company's accounts and finances. The Corporate Governance Statement on page 74 describes the main responsibilities of the Board of Directors which have been set out in the Board Charter available on UPM's website ([www.upm.com](http://www.upm.com)). In addition, the

Board of Directors determines the company's dividend policy and puts forward a proposal to the General Meeting for the annual payment of the dividend. 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, divestitures and certain contracts.

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 twelve 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 will have the qualifications required to discharge their duties and will be able to devote a sufficient amount of time to the work. The Board appoints a Chairman and a Deputy Chairman from its members. The Board of Directors is considered to have a quorum when more than half of its members are present and one of them is either



the Chairman or the Deputy Chairman.

In accordance with the Finnish Corporate Governance Code, the Directors will 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 on page 74.

### 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 the Directors. It has also adopted charters for the Committees which are available on the company's website ([www.upm.com](http://www.upm.com)). In 2010, 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.

The Finnish Corporate Governance Code establishes the necessary qualifications for members of the Audit Committee. In accordance with the Audit Committee Charter, desirable qualifications for committee members include appropriate understanding of accounting practices and financial reporting through education or experience in performing or overseeing related functions. For further information on the main responsibilities, composition and operations of the Committees of the Board of Directors, see the Corporate Governance Statement on page 74.

### SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2010

Name	Total Shares
Matti Alahuhta	44,491
Berndt Brunow	282,387
Karl Grottenfelt	39,641
Wendy E. Lane	16,149
Jussi Pesonen	162,814
Ursula Ranin	15,071
Veli-Matti Reinikkala	14,071
Robert J. Routs	2,888
Björn Wahlroos	223,537

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

### 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 and his duties, see the Corporate Governance Statement on page 74.

### Management organisation

The Group Executive Board and Group Executive Team assist the President and CEO in the operational 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 areas, investments and divestitures. The main duties of the Group Executive Team, on the other hand, are matters pertaining to functional strategies, corporate procedures and coordination 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.

### Remuneration of the Board of Directors and management

The company has prepared the Remuneration Statement in accordance with Recommendation no. 47 of the Finnish Corporate Governance Code. The Remuneration Statement contains a description of the financial benefits of the Board of Directors and the President and CEO, as well as the decision-making process and main principles of remuneration.

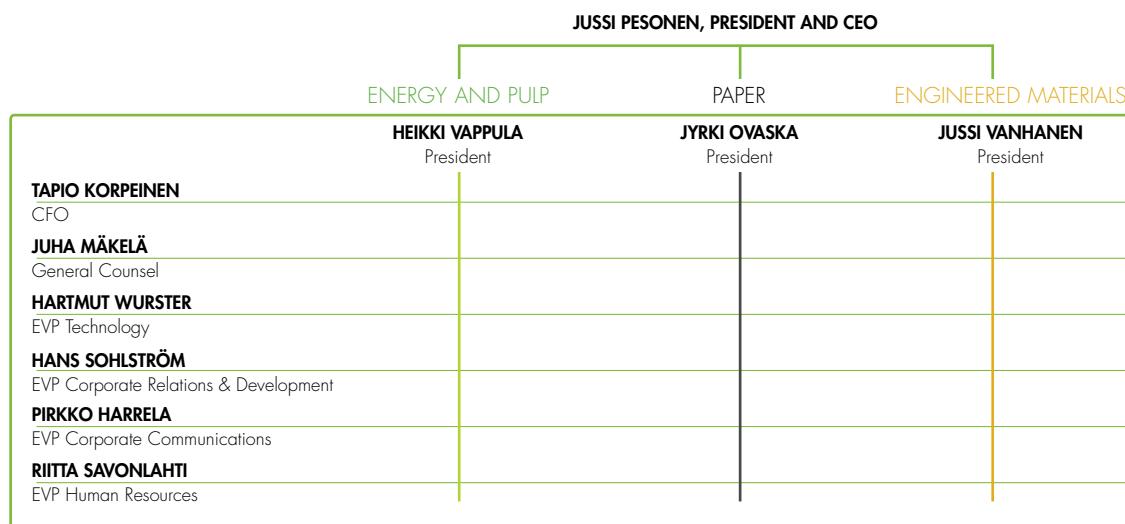
### Financial benefits of the Board of Directors

The 2010 Annual General Meeting approved the proposal of the Nomination and Corporate Governance Committee to keep 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 operational management were as follows:

	2010		2009	
	Annual fees (EUR)	of which shares (pcs)	Annual fees (EUR)	of which shares (pcs)
Chairman	175,000	5,320	175,000	9,140
Deputy Chairman	120,000	3,648	120,000	6,267
Chairman of the Audit Committee	120,000	3,648	120,000	6,267
Members *	95,000	2,888	95,000	4,962

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

## COMPOSITION OF GROUP EXECUTIVE BOARD AND GROUP EXECUTIVE TEAM

**GROUP EXECUTIVE BOARD**

The Group Executive Board consists of the President and CEO, the three Business Group Presidents and the CFO.  
The members of Group Executive Board are also members of the Group Executive Team.

Out of these annual fees, totalling EUR 890,000 in 2010, 60% was paid in cash and 40% in the form of company shares purchased on the Board members' behalf. The Board members do not receive any financial benefits from their Board membership other than their annual fees.

**Financial benefits of the President and CEO**  
The annual salary and other financial benefits of the President and CEO were as follows:

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

EUR 1,000	2010	2009
<b>Salaries and benefits</b>		
Salaries	1,044	1,034
Incentives	19	160
Incentives as shares	-	513 *
Share rewards	1,844	- **
Benefits	22	22
<b>Total</b>	<b>2,929</b>	<b>1,729</b>

**Pension costs**

Finnish statutory pension scheme	188	215
Voluntary pension plan	648	628
<b>Total</b>	<b>836</b>	<b>843</b>

\* Incentives as shares consisted of 30,000 company shares, which were distributed under the terms and conditions of the Share Ownership Plan.

\*\* In accordance with the Share Ownership Plan, no share rewards were paid.

**Financial benefits of the  
Group Executive Team**

The annual salary and other financial benefits of the Group Executive Team were as follows:

**GROUP EXECUTIVE TEAM**

EUR 1,000	2010	2009
<b>Salaries and benefits</b>		
Salaries	3,072	3,435
Incentives	487	353
Share rewards	5,042	-
Benefits	136	141
<b>Total</b>	<b>8,737</b>	<b>3,929</b>

**Pension costs**

Finnish statutory pension scheme	546	604
Voluntary pension plan	381	219
<b>Total</b>	<b>927</b>	<b>823</b>

**Decision-making process  
in relation to remuneration**

All decisions related to management remuneration for the President and CEO and the Group Executive Team members are made by the Board of Directors. The terms and conditions of the share based long term incentive plans are approved by the Board, and the terms and conditions of stock option programmes are resolved by the General Meeting.

**Short term incentive plans**

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

**Long term incentive plans****2008–2010 Share Ownership Plan**

The Share Ownership Plan includes three earning periods for 2008, 2009 and 2010. The number of reward shares is based on the predetermined financial targets, which are decided separately for each earning period by the Board of Directors. The maximum number of shares payable under the Share Ownership Plan to the key per-

## SHARES AND STOCK OPTIONS HELD BY THE MEMBERS OF THE GROUP EXECUTIVE TEAM AT 31 DECEMBER 2010

Name	Shares		2007A options	Options	
	Shares total	of which restricted*		2007B options	2007C options
Jussi Pesonen**	162,814	100,000	300,000	340,000	360,000
Pirkko Harrela	27,368	15,000	80,000	80,000	70,000
Tapio Korpeinen**	30,480	30,000	120,000	170,000	180,000
Juha Mäkelä	23,948	17,500	80,000	80,000	100,000
Jyrki Ovaska**	48,572	35,000	142,050	170,000	180,000
Riitta Savonlahti	20,450	17,500	64,470	80,000	70,000
Hans Sohlström	34,340	15,000	80,000	80,000	70,000
Jussi Vanhanen**	30,480	30,000	103,534	170,000	180,000
Heikki Vappula**	12,000	12,000	40,000	40,000	180,000
Hartmut Wurster	30,572	20,000	120,000	120,000	70,000

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

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

sonnel is in aggregate 1,250,000 shares. In addition, a cash payment equivalent to taxes will be paid by the company.

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

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

### Stock Option Programme

The General Meeting has approved the

2007 Stock Option Programme, based on which the company currently has three option series: 2007A, 2007B and 2007C. These option series entitle holders to subscribe for a maximum of 15 million company shares. The 2007A stock options were distributed in January 2009, the 2007B stock options in September 2009 and the 2007C stock options in October 2010. Exercising of options requires employment in the company at the beginning of the option subscription period.

### New long term incentive plans

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

### Performance Share Plan

The Performance Share Plan is targeted to the Group Executive Team and other selected members of the management. Under the plan, UPM shares are awarded based on the group level performance for a three-year earning period. The earned shares are delivered after the closing of the

earning period. The earning criteria for the first plan earning period of 2011–2013 are the operating cash flow and earnings per share (EPS). The estimated maximum number of shares payable under the plan for earning period 2011–2013 is 900,000 shares.

### Deferred Bonus Plan

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

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

The Board encourages the Group Executive Team to a direct share ownership in the company. The Board has, therefore, reconfirmed the ownership recommendation of the Group Executive Team. The Board recommends that the President and CEO maintains a share ownership corresponding to a two-year gross base salary, and the other persons belonging to the Group Executive Team a share ownership corresponding to a one-year gross base salary.

### Pension agreements

In accordance with the service contract of the President and CEO, the retirement age of the President and CEO Jussi Pesonen is 60. For the President and CEO, the target pension is 60% of the average indexed

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

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

#### Severance pay

Members of the Group Executive Team receive certain benefits in the event that their service contract is terminated prior to the expiration date stated therein. If the company gives notice of termination to the President and CEO, a severance compensation of 24 months' fixed salary will be paid, in addition to six months' salary for the notice period. Should the President and CEO give a notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period. 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, unless notice is given for reasons that are solely attributable to the employee.

If there is a change in the control over the company, as defined in the employment or service contracts, each member of the Group Executive Team may terminate his/her employment contract within one month, or in the case of the President and CEO, within three months, from the date of the event that triggered the change of control, and will receive compensation equivalent to 24 months' basic salary.

For further information on remuneration, see the Remuneration Statement on UPM's website ([www.upm.com](http://www.upm.com)).

#### Insider guidelines

The Board of Directors has adopted an insider policy for the Group which sets out guidelines 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](http://www.nasdaqomxnordic.com)).

UPM's public 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 public insiders are public information and are available from Euroclear Finland Ltd. and on the company's website.

Certain trading procedures apply to the permanent insiders of the company (i.e. public insiders and other employees of the company who regularly receive inside information). The Board of Directors decides on the closed windows, when trading in the company's securities is not allowed, on an annual basis. The closed windows are the four-week periods preceding and including the disclosure date of the company's annual or quarterly results. When necessary, project-specific insider

registers will be established and, consequently, trading restrictions will be imposed. Persons possessing inside information are not allowed to trade in the company's securities.

#### Auditor

The Annual General Meeting elects an auditor to scrutinise the company's governance and accounts. The elected auditor is 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 2010 Annual General Meeting re-elected PricewaterhouseCoopers Oy, authorised public accountants, to act as the company's auditor, with Juha Wahlroos, authorised public accountant, as the auditor in charge.

#### COMPENSATION PAID TO THE AUDITOR

EURm	2010	2009
Audit fees	2.4	2.3
Audit-related fees	0.1	0.1
Other non-audit services	0.3	0.4
Tax consulting fees	1.3	0.9
<b>Total</b>	<b>4.1</b>	<b>3.7</b>

#### Risk management and internal audit

The Board of Directors has approved the company's Risk Management Policy. 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 accordingly and effectively. The Internal Audit function is subordinate to the President and CEO, but reports regularly and has direct access to the Audit Committee.

# CORPORATE GOVERNANCE STATEMENT

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

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

## Composition and operations of the Board of Directors

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

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

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

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

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

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

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

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

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

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

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

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

- establishing and evaluating the strategic direction
- approving and evaluating business and strategic plans
- reviewing and approving financial objectives and major corporate plans
- establishing acceptance limits for capital expenditures, investments, divestures and financial commitments
- overseeing strategic and operational risk management and internal control
- appointing the President and CEO and

the members of the Group Executive Board and the Group Executive Team, and determining the dividend policy and making proposal for the Annual General Meeting for the payment of the dividend.

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

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

#### Audit Committee

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

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

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

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

Pursuant to the charter, the main

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

Further responsibilities include:

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

#### Human Resources Committee

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

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

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



appropriate succession plan for senior management.

#### Nomination and Corporate Governance Committee

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

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

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

#### President and CEO

Jussi Pesonen

President and Chief Executive Officer

Born 1960

M.Sc.(Eng.)

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

The President and CEO ensures that the company's accounting practices conform to the law and makes sure that the company's financial administration and management

is reliably organised. The President and CEO supplies the Board of Directors with the information necessary for the performance of its duties.

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

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

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

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

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

##### Control environment

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

The framework consists of

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

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

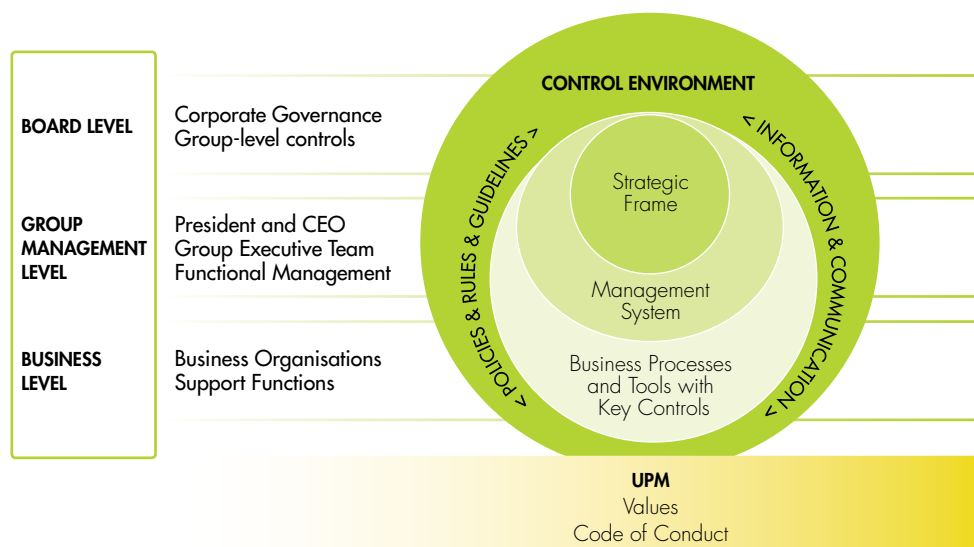
##### Risk assessment

UPM's risk assessment as regards financial reporting aims to identify and evaluate the most significant risks that affect internal control over financial reporting in the Group companies, business areas and processes. The risk assessment results in control targets that ensure that the fundamental demands placed on financial reporting are fulfilled and comprise the basis for how risks are to be managed within the various control structures. The risk assessment is updated annually along with the planned control actions and control targets based on the assessment. Development of risk assessment and the planned and executed actions are reported regularly to the Audit Committee.

##### Control activities

The Group Executive Team has approved the internal control rules. In accordance with these rules, the head of each unit or function shall organise the internal control of his or her unit or organisation. The company has developed and implemented a comprehensive internal control system that covers business and financial reporting processes. The internal control activities are led centrally by Group Finance and Control with an annual schedule and defined roles and responsibilities in the control process. This central task force is

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



responsible for monitoring the business, function and unit level control processes. Control set-up, uniform testing and monitoring processes ensure that potential errors or deviations are prevented or detected and corrected.

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

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

The results of the control risk assessment and the process-level controls are

analysed and reported to the Audit Committee.

### Information and communication of internal controls

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

### Monitoring

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

formance indicators and other analytical procedures.

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

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



## BOARD OF DIRECTORS 31 DECEMBER 2010

### **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 Manadatum & Co Ltd 1992–1997 and Member of the Executive Committee and Executive Vice President of the Union Bank of Finland 1985–1992. Prior to 1985, Professor of Economics.

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

### **BERNDT BRUNOW**

Deputy Chairman  
Member since 2002, Deputy 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 at Finnmap and UPM-Kymmene Corporation.

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

### **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 Board member 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.

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

### **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 Directors of Famigro Oy. Served A. Ahlström Oy as General Counsel, Administrative Director of Paper Industry and Member of the Executive Board responsible for the Paper Industry, 1970–1986.

Board member of 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

Chairman of the Board of the American investment firm Lane Holdings, Inc since 1992. Managing Director and Principal at Donaldson, Lufkin & Jenrette Securities Corp. 1981–1992. Banking Associate at Goldman, Sachs & Co. 1977–1980.

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

**JUSSI PESONEN**

Member since 2007  
Non-independent of the Company

Born 1960  
M.Sc. (Eng.)

President and CEO of UPM-Kymmene Corporation since 2004. COO of the paper divisions and deputy to the President and CEO 2001–2004. Vice President of UPM Newsprint Product Group 2001. Several management positions in UPM Newsprint Product Group 1987–2000.

Board member of Outokumpu Oyj and East Office of Finnish Industries Oy. Supervisory Board member of Ilmarinen mutual pension insurance company and the Finnish Fair Corporation. Vice Chairman of the Board of the Finnish Forest Industries Federation (FFIF) and of the Confederation of European Paper Industries (CEPI).

**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; Vice President and General Counsel 1994–2005 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 of ABB Ltd. Switzerland since 2006. Business Area Manager for ABB Process Automation 2005. Automation Division Manager in ABB China 2003–2004. Manager for ABB Drives 1997–2002. CEO of ABB Industry 1994–1996. Managing Director of Stora Enso Group's Pac Asia Ltd. 1992–1993. CFO and EVP of Tampella Packaging Division 1989–1991. Various positions in business control of Oy Wilh. Schauman Ab 1986–1989 and in Rauma-Repola Oy 1979–1986.

**ROBERT J. ROUTS**

Member since 2010  
Member of the Human Resources Committee  
Independent of the Company and significant shareholders

Born 1946  
Ph.D. (Tech.)

Executive Director Downstream and Board member of Royal Dutch Shell plc 2004–2008. Shell Group Managing Director (Oil Products, Refining and Marketing) and member of the Committee of Managing Directors 2003–2004. CEO of Shell Oil Products US and President of Shell Oil Company 2002–2003. President and CEO of Equilon Enterprises LLC 2000–2002. Various senior management positions at Royal Dutch/Shell Group in the USA, Canada and the Netherlands 1971–2000.

Chairman of the Supervisory Board of the insurance and pension group Aegon N.V. Member of the Supervisory Board of KPN N.V. and Royal DSM N.V. Board member of Canadian Utilities Ltd. and A.P.Möller-Maersk A/S.



## GROUP EXECUTIVE BOARD AND GROUP EXECUTIVE TEAM

The Group Executive Board consists of the President and CEO, the three Business Group Presidents and the CFO. UPM's Group Executive Team consists of the following people:

### JUSSI PESONEN

President and CEO  
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 in UPM Newsprint Product Group 1987–2000. Vice President of UPM Newsprint Product Group 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, Outokumpu Oyj and East Office of Finnish Industries Oyj. Supervisory Board member of Ilmarinen mutual pension insurance company and the Finnish Fair Corporation. Vice Chairman of the Board of the Finnish Forest Industries Federation (FFIF) and of the Confederation of European Paper Industries (CEPI).

### TAPIO KORPEINEN

CFO  
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. President, Energy and Pulp Business Group, 2008–2010.

Chairman of Pohjolan Voima Oyj. Board member of Teollisuuden Voima Oyj, Oy Metsä-Botnia Ab and Kemijoki Oyj.

### HEIKKI VAPPULA

President, Energy and Pulp Business Group  
M.Sc. (Econ.)  
Born 1967  
Member of the Group Executive Team since 2010.  
Member of the Group Executive Board.  
Employed by UPM-Kymmene Corporation since 2006.

Sales Manager, Balance Consulting Oy 1992–1993. Management Accountant, Nokia Group, Finland 1992–1996. Several management positions at Nokia Networks Corporation in Denmark, Hungary, Finland and UK 1996–2002. Vice President of Nokia Mobile Phones Supply Line Management 2002–2006. Senior Vice President, UPM Sourcing 2006–2010.

### 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) and of AmCham Finland, The American Chamber of Commerce in Finland.

### 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 Finnmap, 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.

Member of the Board of Trustees of WWF Finland.



**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 of UPM since  
2003.

**JUHA MÄKELÄ**

General Counsel  
LL.M.  
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 1991–1996.  
Employed by KONE  
Corporation within the legal  
function 1997–2004. General  
Counsel of UPM since 2005.

Supervisory Board member of  
Kemijoki Oy.

**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,  
business development and  
management with Kymmene  
Corporation, Finnpap and  
UPM 1984–1998.  
Management posts in sales  
and marketing at UPM  
1998–2007. EVP, New  
Businesses and Biofuels  
2007–2008.

Board member of the  
Confederation of European  
Fine Paper Producers  
(CEPIFINE) and the Finnish  
Forest Industries Federation  
(FFIF). Vice Chairman of the  
German-Finnish Chamber of  
Commerce (DFHK).

**HARTMUT WURSTER**

Executive Vice President,  
Technology  
Dr. Techn.  
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. Senior  
management positions at  
Haindl Group 1987–2001.  
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 2010

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# REPORT OF THE BOARD OF DIRECTORS

## The market in 2010

The year 2010 began with expectations of recovery in the global economy after a severe recession in 2009 and the overall growth was about 5%.

Economic growth in developed countries recovered from the recession faster than anticipated partly due to government interventions to recapitalize banks and stimulate demand. Interest rates were unusually low and reflected the aggressive monetary policies and weak demand for credit.

The global economy remained imbalanced as economic growth in developing countries was strong. This led to new inflationary pressure and as a response to it central banks in certain developing countries had to tighten their monetary policies with higher interest rates. However, at the same time they had to be cautious not to put additional upward pressure on their already strong currencies.

The euro weakened against the US dollar and improved the competitiveness of euro-area industries in the export markets. China also continued to depend heavily on exports, which was a major contributor to China's economy growth in addition to fixed investments.

Prices for all main commodities and raw materials, such as fibre, chemicals, oil, gas, electricity and grain increased significantly from 2009.

Demand for wood raw material increased due to higher industrial production and new end-uses. Average market prices for pulpwood and logs increased in comparison with the prices of the previous year.

Demand for chemical pulp increased in Western Europe and North America but decreased in China compared to 2009. Chemical pulp market prices increased to historical high levels until the end of the first half of the year and then stabilised towards the end of the year.

Recovered fibre demand in Europe increased in 2010 compared to 2009 but the availability of recovered fibre tightened. As a consequence recovered fibre prices increased to historically high levels and squeezed paper makers' margins.

Global advertising expenditure is estimated to have grown almost by 5% from 2009. Advertising expenditure recovered in every region, even though advertisers still remained cautious of the economy. The electronic media took an increasing share of growth, and print advertising continued to lose its share of the total advertising expenditure, especially in newspapers. The global direct mail advertising expenditure, however, recovered from the recession better than other print media and increased from the previous year.

Demand for graphic papers improved since the downturn. However, in mature markets, the recovery was mild. In China and other growth markets, including Eastern Europe, paper demand grew more rapidly. As a consequence of the rebound in the economy, the market balance was also impacted by customer inventory adjustments.

Growth in retail sector in Europe was mainly driven by consumer goods trade rather than domestic consumer spending, which remained relatively stagnant. In the US, the growth in the retail sector was slow, leading to substantial cost cutting, lean inventories and only modest expansion.

In Europe, construction activity remained low throughout the year 2010, impacting on the demand for building materials, including wood-based material. Building permits and new housing starts remained flat at their lowest levels in ten years.

## Key figures

	2010	2009
Sales, EURm	8,924	7,719
EBITDA, EURm <sup>1)</sup>	1,343	1,062
% of sales	15.0	13.8
Operating profit (loss), EURm	755	135
excluding special items, EURm	731	270
% of sales	8.2	3.5
Profit (loss) before tax, EURm	635	187
excluding special items, EURm	611	107
Net profit (loss) for the period, EURm	561	169
Earnings per share, EUR	1.08	0.33
excluding special items, EUR	0.99	0.11
Diluted earnings per share, EUR	1.08	0.33
Return on equity, %	8.2	2.8
excluding special items, %	7.5	1.0
Return on capital employed, %	6.6	3.2
excluding special items, %	6.4	2.5
Operating cash flow per share, EUR	1.89	2.42
Shareholders' equity per share at end of period, EUR	13.64	12.67
Gearing ratio at end of period, %	46	56
Net interest-bearing liabilities at end of period, EURm	3,286	3,730
Capital employed at end of period, EURm	11,087	11,066
Capital expenditure, EURm	257	913
Capital expenditure excluding acquisitions and shares, EURm	252	229
Personnel at end of period	21,869	23,213

<sup>1)</sup> EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets, excluding the share of results of associated companies and joint ventures, and special items.

## Results

### 2010 compared with 2009

Sales for 2010 were EUR 8,924 million, 16% higher than the EUR 7,719 million in 2009. Sales grew mainly due to higher delivery volumes across all of UPM's business areas.

EBITDA was EUR 1,343 million, 15.0% of sales (1,062 million, 13.8% of sales).

EBITDA increased from last year. Higher delivery volumes in all of UPM's business areas and the inclusion of the Uruguayan operations acquired in December 2009 were the main contributors to the improvement.

Changes in sales prices in euro terms had a EUR 95 million positive net impact on EBITDA. The average paper price in euros decreased by about 1% from last year. Sales prices

increased in Label, Timber, Plywood, as well as in electricity and chemical pulp sales.

Variable costs were higher than last year. Fibre costs, including purchased pulp and recovered paper and wood, increased by about EUR 350 million. Other variable costs also increased, even though energy costs decreased by EUR 56 million.

Fixed costs (comparable) were approximately EUR 80 million higher than last year, mainly due to higher operating rates in UPM's production units.

Operating profit was EUR 755 million, 8.5% of sales (135 million, 1.7% of sales). The operating profit excluding special items was EUR 731 million, 8.2% of sales (270 million, 3.5% of sales). Operating profit includes net income of EUR 24 million as special items. This includes a EUR 33 million capital gain from selling a conservation easement on 76,000 hectares of UPM-owned forest land in northern Minnesota.

The increase in the fair value of biological assets net of wood harvested was EUR 149 million compared to EUR 17 million a year before. The increase includes the change in estimated timing of wood harvested.

The share of results of associated companies and joint ventures was EUR 8 million positive (95 million negative). As of December 2009, Metsä-Botnia is no longer an associated company of UPM.

Profit before tax was EUR 635 million (187 million). Profit before tax excluding special items was EUR 611 million (107 million). Interest and other finance costs, excluding special items, were EUR 117 million (153 million) net. Exchange rate and fair value gains and losses resulted in a loss of EUR 4 million (9 million).

Income taxes were EUR 74 million (18 million). The impact on taxes from special items was EUR 21 million positive (31 million positive).

Profit for the period was EUR 561 million (169 million) and earnings per share were EUR 1.08 (0.33). Earnings per share excluding special items were EUR 0.99 (0.11). Operating cash flow per share was EUR 1.89 (2.42).

## Financing

In 2010, cash flow from operating activities before capital expenditure and financing was EUR 982 million (1,259 million). Net working capital increased by EUR 139 million during the period (decreased by EUR 532 million).

The gearing ratio as of 31 December 2010 was 46% (56%). Net interest-bearing liabilities at the end of the period came to EUR 3,286 million (3,730 million).

In December, UPM prepaid all of the Uruguay Fray Bentos pulp mill investment project loans of USD 372 million.

In December, UPM also agreed on new bilateral committed credit facilities totalling EUR 825 million. In addition, UPM has a EUR 1.0 billion syndicated credit facility that will expire in March 2012.

On 31 December 2010, UPM's cash funds and unused committed credit facilities totalled EUR 2.1 billion.

## Personnel

In 2010, UPM had an average of 22,689 employees (23,618). At the beginning of the year, the number of employees was 23,213 and at the end of the year it was 21,869. The reduction of 1,344 employees is mostly attributable to ongoing restructuring.

More information (unaudited) on personnel is published in UPM's Annual Report 2010.

## Capital expenditure

In 2010, capital expenditure was EUR 257 million, 2.9% of sales (EUR 913 million, 11.8% of sales) and excluding acquisitions and share purchases, EUR 252 million, 2.8% of sales (EUR 229 million, 3.0% of sales). Operational capital expenditure totalled EUR 186 million (148 million).

## UPM to acquire Myllykoski Corporation and Rhein Papier

In 21 December 2010, UPM entered into an agreement to acquire Myllykoski Corporation and Rhein Papier GmbH, which consist of seven publication paper mills in Germany, Finland and the United States. The total annual paper production capacity is 2.8 million tonnes. In addition, Myllykoski Corporation owns 0.8% of the Finnish energy company Pohjolan Voima Oy.

The transaction is subject to customary closing conditions, including, among others, the approval of the regulatory authorities. Myllykoski will continue to operate independently until the transaction is closed. The target is to close the transaction during the second quarter of 2011.

The approximate enterprise value of the businesses to be acquired is EUR 900 million. The transaction will be financed through a directed share issue of 5 million UPM shares, and long-term debt arrangements amounting to EUR 800 million.

The transaction is estimated to create annual synergy benefits exceeding EUR 100 million, mainly from 2012 onwards. Synergy benefits will be achieved for the most part by rationalising production, logistics and sourcing, as well as reducing overlapping activities. The related restructuring and investment costs of the combined operations are estimated to be approximately EUR 100-150 million.

The transaction is estimated to have an immediate positive impact on UPM's cash flow, starting from the second half of 2011, and on earnings per share in 2012.

After the completion of the transaction, UPM's gearing ratio is estimated to rise by 8 percentage points. At the end of December 2010, the gearing ratio was 46%. UPM estimates to recognise a one-off gain of approximately EUR 300 million from the transaction.

## 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 EUR 8,243 million (5,691 million) in total were traded on the NASDAQ OMX Helsinki stock exchange during 2010. The highest quotation was EUR 13.57 in December and the lowest EUR 7.37 in February.

Taking into account other trading venues, NASDAQ OMX Helsinki represented roughly half of all trading volume in UPM shares in 2010.

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 22 March 2010, authorised the Board of Directors to acquire no more than 51,000,000 of the company's own shares. This authorisation is valid for 18 months from the date of the decision.

The Board was authorised to decide on the issuance of shares and/or transfer the company's own shares held by the company and/or issue special rights entitling holders to shares in the company as follows: (i) The maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is, in total, 25,000,000. This figure also includes the number of shares that can be received on the basis of the special rights. (ii) The new shares and special rights entitling holders to shares in the company may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their existing shareholdings in the company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription right. This authorisation is valid until 22 March 2013.

In 21 December 2010, UPM's Board of Directors decided on the issuance of five million new UPM shares as a part of the consideration for the acquisition of Myllykoski Corporation and Rhein Papier GmbH ("Myllykoski"). The new UPM shares will be offered for subscription to certain holders of subordinated loan notes of Rhein Papier GmbH, who are shareholders of Myllykoski Corporation and who have agreed to subscribe for the new shares in connection with the completion of the acquisition of Myllykoski. The subscription price for the new UPM shares will be paid by contribution of such loan notes to UPM as part of the overall transaction. The share issue is subject to the closing of the transaction.

UPM has three option series that would entitle the holders to subscribe for a total of 15,000,000 shares. Share options 2007A, 2007B and 2007C may each be subscribed for a total of 5,000,000 shares.

The share options designated as 2005H expired at the end of October 2010. No shares were subscribed with share options 2005H.

The listing of 2007A stock options on the NASDAQ OMX Helsinki stock exchange commenced on 1 October 2010.

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 2010 was 519,970,088. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,970,088.

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

On 23 June 2010, BlackRock Inc. announced its ownership in UPM had declined below 5% of the company's shares and voting rights.

## Company directors

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, Chairman of the Board of Oy Karl Fazer Ab, Mr Karl Grotenfelt, Chairman of the Board of Directors of Famigro Oy, 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. Mr. Robert J. Routs, Vice Chairman of the supervisory board of Aegon N.V. was elected to the Board of Directors as a new member.

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

At the organisation meeting of the Board of Directors, Mr Björn Wahlroos was re-elected as Chairman, and Mr Berndt Brunow was re-elected as Deputy Chairman.

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 Ms Ursula Ranin and Mr Robert J. Routs 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 the opportunities and threats related to its business operations.

UPM seeks to transfer insurable risks through insurance arrangements if the risks exceed the defined tolerance. The insurance cover is always subject to the applicable insurance conditions.

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. This competitive environment is manifested in pricing pressures in UPM's main business areas and geographic markets, leading to particularly large fluctuations in operating margins.

*Paper demand.* The markets for paper and forest products are cyclical, being characterised by periods of imbalance between supply and demand, during which the prices of paper and forest products can fluctuate significantly. UPM's main markets for graphic papers are mature and demand is forecast to decline in the long term. The paper industry needs to adjust production accordingly by also closing capacity. In Asia and other growth markets, demand for graphic papers has continued to increase and new capacity is being built or planned, which is adding to the competition for export markets from Europe.

*Consumer preferences.* Consumer preferences in using print media, such as magazines, newspapers, catalogues and print advertising, have become more demanding and diverse. Advertising in the print media remains one of the main drivers for paper demand. Computers and new, continuously developing electronic media will have an impact on the distribution of advertising spending. This will increase the risk that the print media will no longer be the favoured tool for advertising. Consumers' environmental awareness has also increased, and this may have both a positive and negative impact on the consumption of UPM's products, depending on the product area.

*Mergers and acquisitions.* The paper and forest products industry could in the future experience a further wave of consolidation, driven, in part, by a desire to achieve a lower cost base and better customer service. Participation in mergers and acquisitions involves risks such as the ability to integrate and manage acquired operations and personnel successfully, as well as to achieve the economic targets set for an acquisition.

*Suitability of the business portfolio.* UPM's current business portfolio is weighted towards paper products, which represented some 70% of UPM's sales in 2010. A wide product range and market mix, together with integration into group resources, such as energy, pulp and fibre, are designed to mitigate the potential risks for profitability in the future. Other business areas share features common to the forest products industry and UPM therefore believes that its product portfolio as a whole, including geographic spread is suited for profitable business.

*Significance of the largest customers.* UPM sells a proportion of its products to several major customers, including a number of significant printing houses and merchant distributors, which resell the products. The largest customer in terms of sales represented approximately roughly 3% of UPM Group sales in 2010, and the ten largest customers represented approximately 15% of such sales.

*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 continuous 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 additional risks and uncertainties, such as unfavourable taxation treatment, trade restrictions, inflation, currency fluctuations and nationalisation. Emerging markets represented approximately 18% of UPM's sales in 2010.

## Operational risks

*Availability and price of major inputs.* In 2010, third-party suppliers accounted for approximately 82% of UPM's wood requirements. 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 upon manufacturing operations, for example, by interrupting or resulting in the downscaling of production or a change in the product mix. They could also cause price increases for critical inputs or shifts in the availability and price of wood, especially in the Baltic Rim area. It is also uncertain how proposed policies of the EU Energy package may impact upon the availability and costs of fibre and energy.

*Partnerships.* UPM currently works together with many partners without control over strategic direction and operational output. The highly competitive market situation and, for example, new developments in biofuels or bioenergy are likely to increase the importance of partnerships in the search for higher efficiency. Partnerships, however, may create risks to the profitability, for example, through changes occurring within the partner entity or changes in how the partnership operates.

*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, thereby seeking to avoid shortages of appropriately skilled personnel in the future.

## Financial risks

*Changes in exchange and interest rates.* Exchange rate exposure primarily affects export operations when sales are denominated in currencies other than those in which manufacturing costs are incurred. Part of UPM's sales and purchases are denominated in currencies other than the euro (primarily the US dollar and the British pound sterling). To manage exposure to such exchange rate fluctuations, close monitoring of the exposure to currency risks is carried out simultaneously with the hedging of such risks, using financial instruments including forward foreign exchange agreements and currency swaps. Furthermore, 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.



*Availability of capital and liquidity.* Availability of capital to the company is dependent on conditions of the financial markets and the company's financial health. If either or both of these factors were to change dramatically for the worse, the cost and availability of capital would be at risk. To mitigate possible materialisation of these risks, the company has liquidity reserves in the form of committed multi-year loan facilities.

*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 about financial risks and the 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 UPM-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 site security. These risks are managed through established management procedures and loss prevention programmes. UPM's insurance programme also provides coverage for insurable hazard risks, subject to terms and conditions.

### Research and development

In 2010, UPM's direct expenditure on research and development projects was approximately EUR 45 million (48 million), or 0.5% (0.6%) of the Group's sales. Approximately half of UPM's R&D input was targeted towards developing new technologies and businesses in areas such as biofuels, biochemicals and nanocellulose, using forest biomass as a raw material. The competence base has been widened by recruiting and steering existing personnel to new areas.

Development of biofuel production technologies for bio-oils, bioethanol, biodiesel and hydrotreated biofuels is on-going. In second-generation biomass-to-liquid (BTL) biodiesel, UPM, together with Andritz/Carbona, completed the initial testing program on Carbona's gasification technology in the USA as planned. Work continues in planning the first commercial-scale BTL plant.

In the field of biochemicals, the focus has been on replacing oil-based chemicals with biochemicals (like adhesives and binders) in various UPM products.

Nanocellulose research work continued at the Finnish Centre for Nanocellulosic Technologies established by UPM, the Technical Research Centre of Finland (VTT) and Aalto University. The work has moved from laboratory scale to piloting. The main end-use areas of interest are special papers, paper coating and applications for other industries such as construction, packaging, foodstuffs and cosmetics.

In Paper, UPM focused on improving the cost structure of all paper grades and lowering energy consumption at its paper mills. A significant strategic R&D program into energy savings in mechanical pulping entered the implementation phase.

A significant number of new tailored solutions and end-use

range speciality products were introduced in labelstock. A new paper label product range was commercialised, combining the new in-house manufactured hotmelt adhesive with an innovative high-quality and cost-efficient filmic liner.

In Plywood, UPM introduced several new WISA plywood innovations for trailer flooring, soundproofing in buses and linings and floorings for vans. The focus for wood-plastic composites was on launching new products and researching business opportunities for other applications of wood-plastic composites, in construction, electronics, furniture and the automotive industry.

## The Environment

### Environmental performance

UPM's production is primarily based on renewable raw materials that are biodegradable and recyclable. Today, environmental responsibility is implicit in every business decision.

UPM has defined sustainable products, as well as climate, water, forest and waste management, as the key areas of its environmental responsibility.

In 2010, UPM sets long term environmental targets for 2020 and defined indicators to measure performance. UPM aims to reduce the environmental impact continuously over the whole lifecycle of its products, and an annual performance evaluation is based on these indicators.

UPM's environmental investments in 2010 totalled EUR 18 million (14 million). Environmental management expenditure, which mainly consisted of effluent treatment and waste management costs, totalled EUR 90 million (87 million), including depreciation.

No significant environmental incidents occurred. However, several minor temporary deviations from permit conditions did take place. They were reported immediately to the relevant authorities and corrective and preventative measures were taken.

### Sustainable customer solutions

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

UPM's EU Eco-labeled product offering has increased significantly.

### Mitigating climate change

UPM has adopted a global approach to reducing its carbon footprint. Carbon dioxide-neutral energy sources dominate the energy portfolio. The Group has made significant investments in renewable energy production. Globally, 68% of the fuels used at UPM mills are biomass-based, compared to 80% in Finland.

UPM strives to improve its energy efficiency in all its operations. In 2010, UPM continued its two-year energy savings campaign aiming for a lower consumption of electrical and thermal energy.

While setting its own environmental targets, UPM has

observed the EU's new Energy 2020 strategy which incorporates the commitment to reach 20-20-20 targets on greenhouse gas emissions reduction, renewable energy, and energy savings.

#### Focus on water consumption and effluent quality

UPM has decreased water use per tonne of paper by 44% over the last 10 years. During the same period, the COD load has decreased by 54% per tonne of paper, and by 49% per tonne of pulp.

In 2010, UPM signed the United Nations Global Compact's "CEO Water Mandate". Signing the CEO Water Mandate highlights UPM's commitment to the responsible use of water in all of its operations. UPM carried out a water footprint case study at UPM Nordland Papier to test the Water Footprint Network's research method to paper production.

#### Maintaining and increasing biodiversity in the forest

In 2010, the amount of certified wood used by UPM was 78% (78%). UPM's global biodiversity programme was extended from company forests to cover all wood sourcing. The programme aims to maintain biodiversity in forests as well as promote best practices in sustainable forestry and wood sourcing.

In the UK, woodland managed by UPM Tilhill achieved dual certification to FSC and PEFC standards for 170,000 hectares of forest. UPM Tilhill's resource and group management scheme is the largest scheme for private forest owners in the UK.

UPM and the State of Minnesota Department of Natural Resources signed a conservation easement on 76,000 hectares of UPM-owned forest land in Northern Minnesota.

#### Maximising reuse

Today, 90% of UPM's production waste is reused or recycled. The continual reduction of landfill waste is an ongoing objective for UPM. UPM is the world's largest user of recovered paper in the graphic paper industry.

#### Continuous stakeholder dialogue

In 2010, UPM's environmental stakeholder initiatives included participation in the UN's International Year of Biodiversity, WWF's New Generation Plantations Project and the development of Finnish FSC standards and EU Eco-label criteria.

### Business area reviews

#### Energy

##### 2010 compared with 2009

Operating profit excluding special items was EUR 237 million (162 million). Sales increased to EUR 567 million (472 million). External sales were EUR 231 million (135 million). Electricity deliveries were 9.4 TWh (8.9 TWh).

Profitability improved in comparison with the previous year due to higher external sales price and volume. The annual hydropower generation was 6% higher than in the previous year.

The average electricity sales price increased by 9% to EUR 48.9/MWh (45.0/MWh) mainly due to increased market prices. The average cost of procured electricity was higher due to increased condensing production volumes.

Energy	2010	2009
Sales, EURm	567	472
EBITDA, EURm <sup>1)</sup>	236	190
% of sales	41.6	40.3
Share of results of associated companies and joint ventures, EURm	7	-40
Depreciation, amortisation and impairment charges, EURm	-6	-6
Operating profit, EURm	237	144
% of sales	41.8	30.5
Special items, EURm <sup>2)</sup>	-	-18
Operating profit excl. special items, EURm	237	162
% of sales	41.8	34.3
Electricity deliveries, 1,000 MWh	9,426	8,865
Capital employed (average), EURm	882	870
ROCE (excl. special items), %	26.9	18.6

<sup>1)</sup> 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.

<sup>2)</sup> In 2009, special items relate to impairments of associated company Pohjolan Voima's two power plants.

#### Market review

In 2010, the average electricity system price in the Nordic electricity exchange was EUR 53.1/MWh, 52% higher than in the same period last year (35.0/MWh) due to a combination of weak hydropower situation and increased industrial consumption.

At the end of December Nordic water reservoirs were about 37% (-31.6 TWh) below their long-term average.

The CO<sub>2</sub> emissions allowance price was EUR 14.2/t on 31 December, 8% higher than on the same date last year.

Oil and coal market prices increased compared to the last year. During 2010, oil market prices increased from about USD 78/barrel to about USD 95/barrel.

The front year forward price in the Nordic electricity exchange was EUR 61.4/MWh at the end of 2010, 52% higher than the front year forward price at the end of 2009 (40.5/MWh).

#### Pulp

##### 2010 compared with 2009

As of December 2009, the Fray Bentos pulp mill and Forestal Oriental eucalyptus plantation forestry company in Uruguay have been included in the Pulp business area and Metsä-Botnia is no longer an associated company of UPM.

Operating profit excluding special items was EUR 577 million (loss of EUR 127 million). Sales increased to EUR 1,698 million (653 million) and deliveries to 2,919,000 tonnes (1,759,000).

Profitability improved significantly from last year due to higher pulp sales prices and increased volumes due to the Fray Bentos pulp mill. External sales represented about 23% of total sales.

Pulp	2010	2009
Sales, EURm	1,698	653
EBITDA, EURm <sup>1)</sup>	723	-18
% of sales	42.6	-2.8
Change in fair value of biological assets and wood harvested, EURm	2	-1
Share of results of associated companies and joint ventures, EURm <sup>3)</sup>	-	-52
Depreciation, amortisation and impairment charges, EURm	-148	-85
Operating profit, EURm	577	-156
% of sales	34.0	-23.9
Special items, EURm <sup>2)</sup>	-	-29
Operating profit excl. special items, EURm	577	-127
% of sales	34.0	-19.4
Pulp deliveries, 1,000 t	2,919	1,759
Capital employed (average), EURm	2,473	1,668
ROCE (excl. special items), %	23.3	-7.6

<sup>1)</sup> 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.

<sup>2)</sup> In 2009, special items of EUR 29 million relate to the associated company Metsä-Botnia's Kaskinen pulp mill closure.

<sup>3)</sup> 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

During the first half of the year, the pulp supply to global chemical market was constrained by abnormal weather conditions, such as heavy rain, and temporarily by the earthquake in Chile. During the third quarter the chemical pulp supply returned to normal.

Global chemical pulp shipments were on the same level as in the previous year. Pulp demand grew in Western Europe and North America but shipments to China decreased significantly compared to 2009. Pulp producer inventories were at historically low levels until the third quarter of 2010. During the fourth quarter, producer inventories returned close to their normal level, but customer inventories remained at a low level.

The market price for Northern bleached softwood kraft (NBSK) was EUR 554/tonne at the beginning of 2010 and rose to EUR 803/tonne in June before levelling off and finishing the year at EUR 724/tonne. The average price for softwood pulp at EUR 704/tonne, was 49% higher than in 2009 (471/tonne).

The market price for bleached hardwood kraft pulp (BHKP) was EUR 486/tonne at the beginning of 2010 and rose to EUR 752/tonne in June before levelling off and finishing the year at EUR 648/tonne. The average price for hardwood pulp at EUR 639/tonne, was 59% higher than in 2009 (402/tonne).

## Forest and Timber

### 2010 compared with 2009

Operating profit excluding special items was EUR 181 million (22 million). Sales increased by 14% to EUR 1,521 million (1,337

million). Sawn timber deliveries increased by 15% to 1,729,000 cubic metres (1,497,000).

The average price of delivered timber goods increased by 16%.

Profitability improved compared to the previous year, mainly due to higher delivery volumes of timber.

The increase in the fair value of biological assets net of wood harvested was EUR 147 million (18 million). The increase includes the change in estimated timing of wood harvested. The increase in the fair value of biological assets (growing trees) was EUR 225 million (98 million). The cost of wood raw material harvested from the Group's own forests was EUR 78 million (80 million). Approximately 700,000 cubic metres of wood from UPM's own forests was felled due to storms during the third quarter of 2010.

Forest and Timber	2010	2009
Sales, EURm	1,521	1,337
EBITDA, EURm <sup>1)</sup>	52	24
% of sales	3.4	1.8
Change in fair value of biological assets and wood harvested, EURm	147	18
Share of results of associated companies and joint ventures, EURm	3	2
Depreciation, amortisation and impairment charges, EURm	-21	-34
Operating profit, EURm	218	-9
% of sales	14.3	-0.7
Special items, EURm <sup>2)</sup>	37	-31
Operating profit excl. special items, EURm	181	22
% of sales	11.9	1.6
Sawn timber deliveries, 1,000 m <sup>3</sup>	1,729	1,497
Capital employed (average), EURm	1,709	1,717
ROCE (excl. special items), %	10.6	1.3

<sup>1)</sup> 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.

<sup>2)</sup> In 2010, special items of EUR 33 million relate to a capital gain from selling a conservation easement in Minnesota and other special items of EUR 4 million relate to a capital gain and reversals of restructuring provisions of Timber operations in Finland. In 2009, special items of EUR 31 million include impairment charges of EUR 5 million and restructuring charges of EUR 9 million relating to Timber operations in Finland. In addition, special items include impairment charges of EUR 7 million related to wood procurement operations and a loss of EUR 10 million on the sale of Miramichi's forestry and sawmilling operations' assets.

## Market review

In Finland, wood purchases from private forests doubled compared to 2009 and returned to the long term average level. Total purchases amounted to 33.2 million cubic metres.

Market activity increased towards the end of the year in Finland. This was partly due to the storms in East and Central Finland during the summer and the temporary tax relief that was valid until the end of 2010.

Pulpwood market prices in Finland increased by an average of almost 9% and log prices increased by 17% in comparison with the prices of the previous year and were above the long

term average prices. During the third quarter of 2010, wood prices declined temporarily due to the impact of the storms but returned to pre-storm levels towards the end of the period.

In 2010, demand for both redwood and whitewood sawn timber in Europe was weak due to low building activity. However, the timber markets in Japan and in the North Africa and Middle East were somewhat better than in Europe.

## Paper

### 2010 compared with 2009

Operating loss excluding special items was EUR 254 million (profit of EUR 346 million). Sales were EUR 6,269 million (5,767 million). Paper deliveries increased by 10% to 9,914,000 tonnes (9,021,000). Publication paper deliveries (magazine papers and newsprint) increased by 8% and fine and speciality paper deliveries by 13% from last year. Deliveries grew in all main markets.

The Paper business area incurred an operating loss, as the cost of fibre increased significantly from last year and paper prices decreased. The average paper price for all paper deliveries when translated into euros was over 1% lower than last year.

Higher paper deliveries had a positive impact on operating profit.

UPM's Changshu paper mill in China received approval from the authorities to build a third paper machine on the site. No investment decisions have been made.

Paper	2010	2009
Sales, EURm	6,269	5,767
EBITDA, EURm <sup>1)</sup>	275	929
% of sales	4.4	16.1
Share of results of associated companies and joint ventures, EURm	1	-1
Depreciation, amortisation and impairment charges, EURm	-527	-578
Operating profit, EURm	-272	345
% of sales	-4.3	6.0
Special items, EURm <sup>2)</sup>	-18	-1
Operating profit excl. special items, EURm	-254	346
% of sales	-4.1	6.0
Deliveries, publication papers, 1,000 t	6,123	5,667
Deliveries, fine and speciality papers, 1,000 t	3,791	3,354
Paper deliveries total, 1,000 t	9,914	9,021
Capital employed (average), EURm	5,465	5,714
ROCE (excl. special items), %	-4.6	6.1

<sup>1)</sup> 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.

<sup>2)</sup> In 2010, special items include transaction costs of EUR 4 million related to Myllykoski acquisition and EUR 14 million of net restructuring charges, including impairment reversals of EUR 3 million. In 2009, special items include an income of EUR 31 million related to the sale of the assets of the former Miramichi paper mill and restructuring charges of EUR 32 million in several units.

## Market review

Demand for publication papers in Europe increased by 5% and for fine papers by 4% from last year. In North America, demand

for magazine papers was 2% higher than a year ago. In Asia, demand for fine papers grew. Demand for speciality papers grew in all main markets.

In Europe, magazine paper prices decreased at the start of the year, but increased in the third quarter. On average, magazine paper prices in euros were 8% lower than last year. Newsprint prices also decreased at the start of the year and, due to annual contracts, were on average 17% lower than last year. Fine paper prices increased throughout the year and were on average 7% higher than last year. Prices for speciality papers increased from last year.

In North America, the average US dollar price for magazine papers was 3% lower than last year. In Asia, market prices for fine papers increased in the first half of the year and decreased in the second half. On average, the prices were higher than last year.

## Label

### 2010 compared with 2009

Operating profit excluding special items was EUR 87 million (43 million). Sales grew by 17% to EUR 1,100 million (943 million).

Operating profit improved noticeably from last year, mainly due to higher delivery volumes of self-adhesive label materials. Sales prices increased, compensating for the higher raw material costs.

Label	2010	2009
Sales, EURm	1,100	943
EBITDA, EURm <sup>1)</sup>	123	78
% of sales	11.2	8.3
Depreciation, amortisation and impairment charges, EURm	-34	-37
Operating profit, EURm	88	35
% of sales	8.0	3.7
Special items, EURm <sup>2)</sup>	1	-8
Operating profit excl. special items, EURm	87	43
% of sales	7.9	4.6
Capital employed (average), EURm	509	503
ROCE (excl. special items), %	17.1	8.5

<sup>1)</sup> 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.

<sup>2)</sup> In 2010, special items of EUR 2 million relate to impairment reversals and EUR 1 million relates to restructuring charges. In 2009, special items include impairment charges of € 2 million and other restructuring charges of € 6 million.

## Market review

In 2010, variable information printing (VIP) labelling grew strongly, especially at the beginning of the year due to higher shipments of goods globally, combined with replenishment of inventory levels. Product labelling grew steadily throughout the year as consumer confidence improved and the consuming middle class continued to grow in emerging markets.

Self-adhesive label materials demand growth was strongest in Asia, Eastern Europe and Latin America. In mature markets in Western Europe and North America, demand recovered close to



pre-recession levels in the early part of the year. In North America, the positive demand continued in the second half of the year, although at a lower pace. In Western Europe, demand slowed down towards the end of the year.

## Plywood

### 2010 compared with 2009

Operating loss excluding special items was EUR 18 million (51 million). Sales grew by 13% to EUR 347 million (306 million). Plywood deliveries increased by 13% to 638,000 cubic metres (567,000).

Plywood reported a smaller operating loss than last year, mainly due to higher delivery volumes.

Sales prices for plywood increased from the early part of the year. On average, plywood sales prices were slightly higher than last year.

Plywood	2010	2009
Sales, EURm	347	306
EBITDA, EURm <sup>1)</sup>	1	-30
% of sales	0.3	-9.8
Depreciation, amortisation and impairment charges, EURm	-19	-27
Operating profit, EURm	-17	-82
% of sales	-4.9	-26.8
Special items, EURm <sup>2)</sup>	1	-31
Operating profit excl. special items, EURm	-18	-51
% of sales	-5.2	-16.7
Deliveries, plywood, 1,000 m <sup>3</sup>	638	567
Capital employed (average), EURm	243	266
ROCE (excl. special items), %	-7.4	-19.2

<sup>1)</sup> 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.

<sup>2)</sup> Special items in 2010, include a capital gain of EUR 1 million from asset sale in Finland. In 2009, special items include impairment charges of € 6 million and other restructuring charges of € 25 million.

## Market review

2010 was a very volatile year in terms of plywood demand in Europe. Total plywood demand increased from last year, although it still remained clearly below the pre-recession demand.

Construction activity continued at a low level throughout the year. The winter season in early 2010 was particularly slow. Demand development was more positive in some industrial end-use areas compared with the previous year.

Overall plywood market prices remained low during 2010. They started to increase during the second half of the year, and on average were slightly higher than last year.

## Other operations

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

## 2010 compared with 2009

Operating loss excluding special items was EUR 79 million (125 million). Sales amounted to EUR 178 million (111 million).

The development units incurred a smaller operating loss than last year.

Other operations	2010	2009
Sales, EURm	178	111
EBITDA, EURm <sup>1)</sup>	-67	-111
Share of results of associated companies and joint ventures, EURm	-3	-4
Depreciation, amortisation and impairment charges, EURm	-10	-12
Operating profit, EURm	-76	-142
Special items, EURm <sup>2)</sup>	3	-17
Operating profit excl. special items, EURm	-79	-125
Capital employed (average), EURm	278	141
ROCE (excl. special items), %	-28.4	-88.7

<sup>1)</sup> 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.

<sup>2)</sup> Special items in 2010, include mainly a capital gain of EUR 3 million from asset sale in Finland. In 2009, special items relate to terminated activities and estates of closed industrial sites in Finland.

## Litigation and other legal actions

In Finland, UPM is participating in the project for construction 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 58.39% of shares. UPM's indirect share of the capacity of the Olkiluoto 3 is approximately 29%. The original agreed timetable for the start-up of the power plant was summer 2009 but the construction of the unit has been delayed. In November 2010, TVO informed that the plant supplier the AREVA-Siemens Consortium, had reported that most of the works are expected to be completed in 2012 and regular operation of the plant is estimated to start in the second half of 2013.

According to TVO, the arbitration filed in December 2008 by AREVA-Siemens, concerning the delay at Olkiluoto 3 and related costs, amounted to EUR 1.0 billion. In response, TVO filed a counterclaim 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 EUR 1.4 billion.

The International Court of Justice published its final decision on a litigation case against the government of Uruguay on 20 April 2010 in a dispute between the governments of Uruguay and Argentina. In Uruguay, there is one pending litigation against the government of Uruguay related to Fray Bentos pulp mill, and in Argentina, one such litigation against the company operating the pulp mill.

### Events after the balance sheet date

On 20 January 2011, UPM's plantation company Forestal Oriental acquired about 25,000 hectares of land in Uruguay from a private land owner. The total price for the land acquisition, including the standing wood reserves, is about EUR 65 million.

On 26 January 2011 it was announced that Pohjolan Voima Oy, the State of Finland and the Mutual Pension Insurance Company Ilmarinen are negotiating on the sale of Pohjolan Voima's 25% shareholding of Fingrid Oyj, the Finnish electricity transmission system operator. The State would acquire approximately 81% of the shares and Ilmarinen approximately 19% of the shares owned by Pohjolan Voima. The closing of the transaction requires signing of the final transaction documentation and approvals of the decision making bodies of the respective parties as well as regulatory approval. Upon closing, the transaction price would be EUR 325 million, and Pohjolan Voima would record a capital gain of EUR 200 million for the transaction. UPM owns 43.09% of Pohjolan Voima. Upon closing, UPM will recognise a special income of EUR 86 million from the sale in the associated company results. Pohjolan Voima estimates that the transaction will be closed during the first half of 2011.

### Corporate Governance Statement

UPM presents the Corporate Governance Statement as a separate report which is available in UPM's Annual Report 2010 on pages 74-77 and on the company's website [www.upm.com](http://www.upm.com).

### Outlook for 2011

Economic indicators point to continued economic growth, although in the mature European and North American markets, growth is expected to be slow. Robust economic growth is expected to continue in emerging markets. This is also likely to maintain demand and prices for various global commodities at a high level.

UPM's electricity generation volume is estimated to be about the same as in 2010. Based on current forward agreements and Nordpool forward prices, the average sales price for electricity is estimated to be slightly lower than last year.

Chemical pulp deliveries are expected to increase moderately from last year. Chemical pulp prices in the beginning of the year are about the same as the average during 2010. Market prices in USD are currently foreseen to remain stable.

The cost of wood raw material is expected to be in line with the second half of 2010. Weak market conditions are expected to continue in sawn timber.

UPM's paper deliveries are estimated to be about the same as in 2010, supported by continued success in export markets. UPM has increased paper prices in the beginning of the year. The average price for UPM's paper deliveries is expected to increase by about 6% in the beginning of the year from the fourth quarter of 2010. Price increases are the highest in newsprint and then in magazine papers. In fine and speciality papers, no material price changes are expected during the first quarter of 2011.

Demand growth for self-adhesive label materials is expected to be slow in the mature markets in North America and particularly in Europe, but continue to be robust in the fast growing markets. Overall, UPM's label materials deliveries are expected to increase slightly from last year. Sales prices in local currency are expected to increase from the fourth quarter. Raw material cost inflation is expected to continue, although at a more moderate pace than in 2010.

In Plywood, delivery volumes and sales prices are expected to increase from last year. Construction activity in Europe is however expected to remain subdued.

For the Group, delivery volumes in various businesses are expected to either remain stable or increase in 2011. Variable cost inflation is expected to moderate from the pace seen in 2010. Sales prices of UPM's products are expected to increase, especially in Paper. As a result, UPM operating profit, excluding special items, for 2011 is expected to improve from last year.

In the first half of 2011, operating profit, excluding special items, is expected to be clearly higher than that of the first half of 2010.

Capital expenditure, excluding acquisitions, for 2011 is forecast to be about EUR 300 million.



## BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

On 31 December 2010, the distributable funds of the parent company were EUR 3,275,850,998.96. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.55 per share be paid on the shares outstanding at the record date for the dividend payment, 12 April 2011.

On 2 February 2011, there are 519,970,088 outstanding shares and the corresponding amount to be paid in dividends is EUR 286.0 million.

The Board of Directors proposes that the dividend to be paid on 20 April 2011.

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 solvency of the company.

Signatures of the annual accounts and the report of Board of Directors for the year 2010

Helsinki, 2 February 2011

Björn Wahlroos  
Chairman

Berndt Brunow

Matti Alahuhta

Karl Grotenfelt

Wendy E. Lane

Ursula Ranin

Veli-Matti Reinikkala

Robert J. Routs

Jussi Pesonen  
President and CEO

# CONSOLIDATED FINANCIAL STATEMENTS, IFRS

## CONSOLIDATED INCOME STATEMENT

EURm	Note	Year ended 31 December	
		2010	2009
<b>Sales</b>	4	8,924	7,719
Other operating income	6	76	47
Costs and expenses	7	-7,637	-6,774
Change in fair value of biological assets and wood harvested	8	149	17
Share of results of associated companies and joint ventures	9	8	-95
Depreciation, amortisation and impairment charges	10	-765	-779
<b>Operating profit</b>	4	755	135
Gains on available-for-sale investments, net	11	1	-1
Exchange rate and fair value gains and losses	12	-4	-9
Interest and other finance costs, net	12	-117	62
<b>Profit (loss) before tax</b>		635	187
Income taxes	13	-74	-18
<b>Profit (loss) for the period</b>		561	169
<b>Attributable to:</b>			
Owners of the parent company		561	169
Non-controlling interests		-	-
		561	169
<b>Earnings per share for profit (loss) attributable to owners of the parent company</b>			
Basic earnings per share, EUR	14	1.08	0.33
Diluted earnings per share, EUR	14	1.08	0.33

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EURm	Note	Year ended 31 December	
		2010	2009
<b>Profit (loss) for the period</b>		561	169
<b>Other comprehensive income for the period, net of tax:</b>			
Translation differences		288	165
Net investment hedge		-69	-56
Cash flow hedges		-70	-4
Available-for-sale investments		15	21
Share of other comprehensive income of associated companies		9	30
<b>Other comprehensive income for the period, net of tax</b>	13, 27	173	156
<b>Total comprehensive income for the period</b>		734	325
<b>Total comprehensive income attributable to:</b>			
Owners of the parent company		734	325
Non-controlling interests		-	-
		734	325

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 consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

EURm	Note	As at 31 December	
		2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	16	1,022	1,017
Other intangible assets	17	424	423
Property, plant and equipment	18	5,860	6,192
Investment property	19	22	22
Biological assets	20	1,430	1,293
Investments in associated companies and joint ventures	21	573	553
Available-for-sale investments	22	333	320
Non-current financial assets	23	323	263
Deferred tax assets	28	359	287
Other non-current assets	24	211	211
		10,557	10,581
<b>Current assets</b>			
Inventories	25	1,299	1,112
Trade and other receivables	26	1,661	1,446
Income tax receivables		26	28
Cash and cash equivalents		269	438
		3,255	3,024
<b>Total assets</b>		13,812	13,605

EURm	Note	As at 31 December	
		2010	2009
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent company</b>			
Share capital	27	890	890
Translation differences		55	-164
Fair value and other reserves	27	90	141
Reserve for invested non-restricted equity		1,145	1,145
Retained earnings		4,913	4,574
		7,093	6,586
<b>Non-controlling interests</b>		16	16
<b>Total equity</b>		7,109	6,602
<b>Non-current liabilities</b>			
Deferred tax liabilities	28	629	608
Retirement benefit obligations	29	424	418
Provisions	30	150	191
Interest-bearing liabilities	31	3,649	4,164
Other liabilities	32	70	51
		4,922	5,432
<b>Current liabilities</b>			
Current interest-bearing liabilities	31	330	300
Trade and other payables	33	1,417	1,206
Income tax payables		34	65
		1,781	1,571
<b>Total liabilities</b>		6,703	7,003
<b>Total equity and liabilities</b>		13,812	13,605

The notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the parent company									
EURm	Note	Share capital	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2009</b>		890	-295	130	1,145	4,236	6,106	14	6,120
Profit (loss) for the period		-	-	-	-	169	169	-	169
Translation differences		-	165	-	-	-	165	-	165
Net investment hedge, net of tax		-	-56	-	-	-	-56	-	-56
Cash flow hedges, net of tax		-	-	-4	-	-	-4	-	-4
Available-for-sale investments		-	-	21	-	-	21	-	21
Share of other comprehensive income of associated companies		-	22	-	-	8	30	-	30
<b>Total comprehensive income for the period</b>		-	131	17	-	177	325	-	325
Share-based compensation, net of tax		-	-	-6	-	12	6	-	6
Dividend paid	15	-	-	-	-	-208	-208	-	-208
Acquisitions and disposals		-	-	-	-	358	358	2	360
Other items		-	-	-	-	-1	-1	-	-1
<b>Total transactions with owners for the period</b>		-	-	-6	-	161	155	2	157
<b>Balance at 31 December 2009</b>	27	890	-164	141	1,145	4,574	6,586	16	6,602
<b>Balance at 1 January 2010</b>		890	-164	141	1,145	4,574	6,586	16	6,602
Profit (loss) for the period		-	-	-	-	561	561	-	561
Translation differences		-	288	-	-	-	288	-	288
Net investment hedge, net of tax		-	-69	-	-	-	-69	-	-69
Cash flow hedges, net of tax		-	-	-70	-	-	-70	-	-70
Available-for-sale investments		-	-	15	-	-	15	-	15
Share of other comprehensive income of associated companies		-	-	-	-	9	9	-	9
<b>Total comprehensive income for the period</b>		-	219	-55	-	570	734	-	734
Share-based compensation, net of tax		-	-	8	-	3	11	-	11
Dividend paid	15	-	-	-	-	-234	-234	-	-234
Other items		-	-	-4	-	-	-4	-	-4
<b>Total transactions with owners for the period</b>		-	-	4	-	-231	-227	-	-227
<b>Balance at 31 December 2010</b>	27	890	55	90	1,145	4,913	7,093	16	7,109

The notes are an integral part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

EURm	Note	Year ended 31 December	
		2010	2009
<b>Cash flow from operating activities</b>			
Profit (loss) for the period		561	169
Adjustments to profit (loss) for the period	5	740	772
Interest received		4	6
Interest paid		-92	-163
Dividends received		1	24
Other financial items, net		-16	-50
Income taxes paid		-77	-31
Change in working capital	5	-139	532
<b>Net cash generated from operating activities</b>		<b>982</b>	<b>1,259</b>
<b>Cash flow from investing activities</b>			
Capital expenditure		-241	-236
Acquisition of subsidiaries, net of cash acquired	5	-	-508
Acquisition of shares in associated companies		-4	-78
Proceeds from sale of tangible and intangible assets		55	46
Proceeds from disposal of shares in associated companies		-	565
Proceeds from disposal of available-for-sale investments		1	-
Increase in non-current receivables		-6	-3
<b>Net cash used in investing activities</b>		<b>-195</b>	<b>-214</b>
<b>Cash flow from financing activities</b>			
Proceeds from non-current liabilities		167	325
Payments of non-current liabilities		-855	-1,051
Payments of current liabilities, net		-23	-6
Dividends paid		-234	-208
Other financing cash flow		-21	-
<b>Net cash used in financing activities</b>		<b>-966</b>	<b>-940</b>
<b>Change in cash and cash equivalents</b>		<b>-179</b>	<b>105</b>
Cash and cash equivalents at beginning of year		438	330
Foreign exchange effect on cash and cash equivalents		10	3
Change in cash and cash equivalents		-179	105
<b>Cash and cash equivalents at end of year</b>		<b>269</b>	<b>438</b>

The notes are an integral part of these consolidated 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 applied 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, mainly 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 European Union countries, 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 a copy of the consolidated financial statements 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 2011. 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 investments 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 realisable value of certain assets, the useful lives of tangible and intangible assets, income tax and other items. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from them. 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.

Business combinations are accounted for by using the acquisition method of accounting. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred and the equity instruments issued at the acquisition date. The consideration transferred includes the fair value of any assets or liabilities resulting from a contingent consideration arrangement. Transaction costs related to an acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (see below “Intangible assets” for goodwill accounting policy).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control in subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in income statement.

### 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 for which the Group has contractually agreed to share the power to govern the respective financial and operating policies with another joint venture partner or partners.



Interests in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Under this method the Group's share of the associated company and joint venture profit or loss for the period is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. 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.

#### Non-controlling interests

The profit or loss attributable to owners of the parent company and non-controlling interests is presented on the face of the income statement. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to owners of the parent company.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses of disposals to non-controlling interests are also recorded in equity.

#### Foreign currency transactions

Items included in the financial statements of each Group subsidiary 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 rate prevailing at the date of transaction. 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 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 bal-

ance 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 net investment in foreign operations and other currency instruments designated as hedges of such investments, are taken into other comprehensive income. When a foreign entity is partially disposed of, sold or liquidated, translation differences accrued 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 assets or liabilities or a firm commitment (fair value hedge), hedges of a highly probable forecasted transaction or cash flow variability in functional currency (cash flow hedge), or hedges of net investment in a foreign operation (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 interest-bearing liabilities. 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 hedged items and the fair values of hedging instruments are included in 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.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Amounts deferred in equity are transferred to the income statement and classified as income or expense in the same period as that in which the hedged item affects the income statement (for example, when the forecast 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, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecast transaction is ultimately recognised in the income statement. However, if a forecast transac-

tion 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 forward exchange contracts that reflect the change in spot exchange rates are recognised in other comprehensive income. Any gain or loss relating to the interest portion of 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.

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.

Certain derivative transactions, while providing effective hedges under the Group Treasury Policy, do not qualify for hedge accounting. Such derivatives are classified held for trading, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as other operating income or under financial items.

### Segment reporting

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.

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 segments on a consistent basis. All inter-segment sales are based on market prices, and they are eliminated on consolidation.

### 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 continuing use and a sale is considered highly probable. 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, or 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

Group's sales mainly comprises of sale of energy, pulp, sawn timber, papers, self-adhesive label materials and plywood.

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: 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 the International Chamber of Commerce. Revenue is recorded when the product is delivered to the destination point for terms designated Delivered Duty Paid ("DDP") or Delivered Duty Unpaid ("DDU"). For sales transactions designated Free on Carrier ("FCA"), Carriage paid to ("CPT") or Carriage and Insurance Paid to ("CIP"), 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 under hedge accounting. 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 current 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, deferred income taxes are not recognised if they arise from initial recognition of goodwill; 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, does not affect either accounting or 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 there will be future taxable profits against which the temporary differences can be utilised.

### Special items

Certain financial performance indicators have been reported excluding special items. These indicators are non-GAAP measures applied in the Group's financial statements to eliminate the income statement impact of certain significant transactions which are unusual or infrequent in nature. The Group believes that non-GAAP measures enhance the understanding of the historical performance. Any measures derived with eliminating special items are not measures of financial reporting under the IFRS, and they may not be comparable to other similarly titled measures of other companies.

In the Pulp and Paper segments the transaction (income or expense) is considered to be special item, if the impact is one cent (EUR 0.01) after tax per share or more, and if it arises from asset impairments, asset sales or restructuring measures, or relate to changes in legislation or legal proceedings. In other segments the impact is considered to be significant if it exceeds EUR 1 million pre-tax.

### 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 consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net 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 lives, usually not exceeding five years.

### Computer software

Costs associated with maintaining computer software programmes 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 an appropriate portion of the software development team's relevant overheads. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives.

### Other intangible assets

Separately acquired patents, trademarks and licences with a finite useful life are recognised at cost less accumulated amortisation and impairment. Contractual customer relationships or other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Amortisation is calculated using the straight-line method 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 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 an amount not exceeding their market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as emission rights and are recognised in other operating income in the income statement, systematically, over the compliance period to which the corresponding emission rights relate. The emissions realised are expensed under other operating costs and expenses in the income statement and presented as a provision in the balance sheet. Emission rights and associated provisions are derecognised when disposed. Any profit or loss on disposal is recognised in 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 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 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

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions. 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. Other government grants are recognised in the income statement in the period necessary to match them with the costs they are intended to compensate.

### 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 growth potential, environmental restrictions and other forests conditions. 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 the purpose for which the financial assets were acquired. Management determines the classification of 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 provision for impairment. Provision for impairment is 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 or 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 to 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 income 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 when 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 amortisation (or depreciation) 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 its 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 have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount will 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 allocated 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 as a lessee under operating leases 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 in the balance sheet.

#### **Treasury shares**

Where any Group company purchases the parent company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the parent company 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 owners of the parent company.

#### **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 hedged interest rate risk are recorded to adjust the carrying amount of the hedged item and reported in the income statement under finance income and expenses. If 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 for settlement within 12 months of the balance sheet date.

#### **Employee benefits**

##### **Pension obligations**

The Group operates a mixture of pension schemes in accordance with local conditions and practices in the countries in which it operates. These programmes include defined benefit pension schemes with retirement, disability and termination benefits. Retirement benefits are usually 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 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 the term of the related pension liability. The cost of providing pensions is charged to the income statement as personnel expenses so as to spread the cost over the service lives of 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 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 curtailment or settlement 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 the 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 medical 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 expected to vest. Estimates of the number of 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, 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 may obtain the necessary shares by using its treasury shares or may 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 such reimbursement is virtually certain.

#### Restructuring and termination 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 provisions

Expenditures that result from remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. The recognition of environmental 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 obligation to return emission rights has incurred, based on realised emissions. The provision is recognised based on the carrying amount of emission rights held. In case of deficit in emission rights, the short-age is valued at the market value at the balance sheet date.

#### Dividends

Dividend distribution to the owners of the parent company is recognised as a liability in the Group's consolidated 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 share options.



### **Adoption of new and revised International Financial Reporting Standards interpretations and amendments to existing standards** New and revised standards, interpretations and amendments to existing standards effective in 2010

In 2010, the Group has adopted the following new, revised and amended standards and interpretations:

Revised IFRS 3 Business Combinations and consequential amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Investments in joint ventures became 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 remeasured 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 value 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 and amendments will have an impact on the accounting for Group's future business combinations.

Amendment to IAS 27 Consolidated and Separate Financial Statements 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 remeasured at fair value, and a gain or loss is recognised in profit or loss. The adoption of the amended standard has changed the name of previous minority interests to non-controlling interests, and in addition the adoption has amended the presentation of consolidated statement of changes in equity.

IFRIC 12 Service Concession Arrangements became effective for annual periods beginning on or after 30 March 2009. The interpretation addresses 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 became 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 one-sided risk in a hedged item and inflation in a financial hedged item. The amendment has not had an impact on the Group's financial statements.

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 17 Distribution of Non-Cash Assets to Owners became 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 assets other than cash. The interpretation has not had an impact on the Group's financial statements.

Amendments related to Improvements to IFRSs published in April 2009 (Annual Improvements 2009) became generally effective

for annual periods beginning on or after 1 January 2010. Through annual improvement projects minor changes to wordings to clarify meaning and the removal of unintended inconsistencies between standards are combined and implemented annually. Annual improvements 2009 related to 12 different standards. These amendments have not had a material impact on the Group's financial statements.

Amendment to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions became 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 has not had 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:

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 Assets – Classification and Measurement standard is effective for annual periods beginning on or after 1 January 2013 and it represents the first step in replacement of IAS 39. It addresses classification and measurement of financial assets. The standard is expected to have some impacts on accounting for Group's financial assets. This standard is not yet endorsed by the EU.

Amendment Prepayments of a minimum Funding Requirement 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.

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.

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.

Amendments related to Improvements to IFRSs (issued 2010) are generally effective for annual periods beginning on or after 1 January 2011. Through annual improvement projects minor changes to wordings to clarify meaning and the removal of unintended inconsistencies between standards are combined and implemented annually. Eleven amendments issued relate to six different standards and one interpretation. These amendments are not expected to have an impact on the Group's financial statements. These amendments are not yet endorsed by the EU.

Amendment to IFRS 7 Financial Instruments: Disclosures are effective for annual periods beginning on or after 1 July 2011. The amendments require additional disclosures of risks related to transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. The amendment is not expected to have an impact on the Group's financial statements. The amendment is not yet endorsed by the EU.

IFRS 9 Financial Liabilities – Classification and Measurement standard is effective for annual periods beginning on or after 1 January 2013. The second part of IFRS 9 includes guidance on financial liabilities. The accounting and presentation for financial liabilities shall remain the same except for those financial liabilities for which fair value option is applied. The standard is not expected to have an impact on the Group's financial liabilities. The standard is not yet endorsed by the EU.

Amendment to IAS 12 Income taxes is effective for annual periods beginning on or after 1 January 2012. Currently IAS 12 requires an entity to estimate, which part of the carrying value of an item measured at fair value is recovered through use and which part through sale. The amendment introduces a presumption that certain assets measured at fair value are recovered entirely by sale. Presumption applies to deferred tax arising from investment properties, property, plant and equipment or intangible assets that are measured using the fair value model or revaluation model. The amendment is not expected to have an impact on the Group's financial statements. The 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 and plantations. Biological assets (i.e. living trees) are measured at their fair value at each balance sheet date. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. 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. Biological assets are disclosed in Note 20.

### 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. Retirement benefit obligations are disclosed in Note 29.

### 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. Provisions are disclosed in Note 30.

### 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. Income taxes are disclosed in Note 13 and deferred income taxes in Note 28.

### 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.

tion 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. Details of legal contingencies are presented in Note 39.

#### Available-for-sale investments

Group's available-for-sale investments include investments in unlisted equity shares. Group's ownership in Oy Metsä-Botnia Ab is measured at fair value based on the discounted value of the expected cash flows of the investment. The factors used in management's estimates may differ from the actual outcome which could lead to significant adjustment to the carrying amount of the available-for-sale investment. Fair value estimation of financial assets is disclosed in Note 3 and available-for-sale investments in Note 22.

### 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate 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 centralisation 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, from recognised assets and liabilities and from translation exposure.

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. At 31 December 2010, 51% (50%) of the forecasted 12-month currency flow was hedged. The table below shows the nominal values of the hedging instruments at 31 December 2010 and 2009.

#### Nominal values of hedging instruments

Currency	2010 EURm	2009 EURm
USD	319	222
GBP	232	196
JPY	235	177
AUD	57	37
Others	60	82
Total	903	714

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 2010 unhedged balance sheet exposures in interest bearing assets and liabilities amounted to EUR 17 million (9 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 EUR 319 million (256 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 2010, 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 EUR 5 million (3 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 41 million (31 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2010, 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 EUR 0 (0) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 23 million (20 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2010, 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 EUR 8 million (5 million) lower/higher. The effect in equity would have been EUR 15 million (10 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 2010 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 2010 and 2009 were as follows:

Currency	2010 EURbn	2009 EURbn
EUR	3.7	3.9
USD	0.4	0.4
CNY	0.1	0.2
CAD	-0.7	-0.7
Others	-0.2	-0.1
Total	3.3	3.7

Most of the long-term loans and the interest rate derivatives related to them meet hedge accounting requirements.

### Interest rate risk sensitivity

At 31 December 2010, 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 EUR 9 million (6 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 in hedge accounting 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 2010 was 6.4 years (6.1 years).

UPM has some financial agreements which have Gearing as financial covenant. According to this covenant gearing should not exceed 110% (31.12.2010 gearing was 46%).

### Cash funds and committed credit facilities

EURm	2010	2009
Cash at bank	203	287
Cash equivalents	66	151
Committed facilities	1,825	1,875
of which used	-	-140
Used uncommitted credit lines	-34	-87
Long-term loan repayment cash flow	-276	-166
Available liquidity	1,784	1,920

The most important financial programmes in use are:

Uncommitted:

- Domestic commercial paper programme, EUR 1,000 million
- Medium Term Note programme, EUR 5,000 million

Committed:

- Revolving Credit Facility, EUR 1,000 million (matures 2012)

The contractual maturity analysis for financial liabilities is presented in Note 31.



## Credit risk

### 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 credit-worthiness criteria. The Group minimises counterparty risk also by using a number of major banks and financial institutions. Credit-worthiness of counterparties is constantly monitored by TRM.

### Operational 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 disclosed in Note 26. The Group considers that no significant concentration of customer credit risk exists. The ten largest customers accounted for approximately 17% (15%) of the Group's trade receivables as at 31 December 2010 – i.e., approximately EUR 215 million (170 million). The credit risk relating to the commitments is disclosed in Note 39.

## Electricity price risk

UPM is hedging both power production and consumption in the markets. UPM's sensitivity to electricity market price is dependent on the electricity production and consumption levels and the hedging levels.

In the Nordic market area the operative risk management is done by entering into electricity derivatives contracts. In addition to hedging UPM is also trading electricity forwards and futures. As well as hedging, proprietary trading risks are monitored on a daily basis. Value-At-Risk levels are set to limit the maximum risk at any given time. Cumulative maximum loss is limited by stop-loss limits.

### Electricity price sensitivity

Sensitivity analysis for financial electricity derivatives is based on position on 31 December 2010. Sensitivities change over time as the overall hedging and trading positions change. Underlying physical positions are not included in the sensitivity analysis. Sensitivity analysis is calculated separately for the hedge accounted and non-hedge accounted volumes. In the analysis it is assumed that forward quotation in NASDAQ OMX Commodities would change EUR 1/ MWh throughout the period UPM has derivatives.

EURm	Effect	2010	2009
+/- EUR 1/MWh in electricity forward quotations			
Effect on profit before taxes	+ / -	1.9	0.7
Effect on equity	+ / -	3.1	-

## 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 total 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 total equity and interest-bearing liabilities and gearing ratios:

EURm	As at 31 December	
	2010	2009
Equity attributable to owners of the parent company	7,093	6,586
Non-controlling interests	16	16
Total equity	7,109	6,602
Long-term interest-bearing liabilities	3,648	4,164
Short-term interest-bearing liabilities	330	300
Interest-bearing liabilities, total	3,978	4,464
Total capitalisation	11,087	11,066
Interest-bearing liabilities, total	3,978	4,464
Less: Interest-bearing financial assets, total	-692	-734
Net interest-bearing liabilities	3,286	3,730
Gearing ratio, %	46	56

## 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.

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. The fair value is based on the discounted value of the expected cash flows of the investment. As at 31 December 2010 the carrying value of Metsä-Botnia was EUR 220 million (205 million).

Unlisted shares, for which fair values cannot be measured reliably, are recognised at cost. Available-for-sale investments are disclosed in Note 22.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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).

#### Financial assets and liabilities measured at fair value

EURm	Fair values as at 31 December 2010			
	Level 1	Level 2	Level 3	Total balance
<b>Assets</b>				
Trading derivatives	14	161	–	175
Derivatives used for hedging	–	306	–	306
Available-for-sale instruments	–	–	220	220
At 31 Dec.	14	467	220	701
<b>Liabilities</b>				
Trading derivatives	20	121	–	141
Other liabilities	–	–	3	3
Derivatives used for hedging	42	107	–	149
At 31 Dec.	62	228	3	293

EURm	Fair values as at 31 December 2009			
	Level 1	Level 2	Level 3	Total balance
<b>Assets</b>				
Trading derivatives	24	102	–	126
Derivatives used for hedging	–	240	–	240
Available-for-sale instruments	–	–	205	205
At 31 Dec.	24	342	205	571
<b>Liabilities</b>				
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 2010

EURm	Available-for-sale instruments	Other liabilities	Total
Opening balance	205	–4	201
Transfers into level 3	–	–	–
Transfers from level 3	–	–	–
Gains and losses	–	–	–
Recognised in income statement	–	1	1
Recognised in statement of comprehensive income	15	–	15
Closing balance	220	–3	217

#### The following table presents the changes in level 3 instruments for the year ended 31 December 2009

EURm	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 product basis.

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 the Group services.

### 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. The Group has aggregated the pulp operations Finland and Uruguay operating segments for determination of the Pulp reportable segment. Uruguayan operations were acquired in December 2009.

#### 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 the Group services. The Group services charges the business areas according to service agreements.

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 an operating segment is evaluated primarily based on the 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 segment assets and liabilities are measured on a basis consistent with consolidated financial statements. Assets and liabilities are allocated to the segments based on segment operations. Unallocated assets and liabilities comprise 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 2010

EURm	Energy	Pulp	Forest and Timber	Paper	Label	Ply-wood	Other operations	Eliminations and re-conciliations	Group
External sales	231	397	721	6,109	1,098	332	36	–	8,924
Internal sales	336	1,301	800	160	2	15	142	–2,756	–
Total sales <sup>1)</sup>	567	1,698	1,521	6,269	1,100	347	178	–2,756	8,924
Share of results of associates and joint ventures	7	–	3	1	–	–	–3	–	8
Operating profit	237	577	218	–272	88	–17	–76	–	755
Gains on available-for-sale investments, net									1
Finance costs, net									–121
Income taxes									–74
Profit (loss) for the period									561
Special items in operating profit <sup>2)</sup>	–	–	37	–18	1	1	3	–	24
Operating profit excluding special items	237	577	181	–254	87	–18	–79	–	731
Assets <sup>3)</sup>	472	2,517	1,919	5,705	647	260	330	–216	11,634
Associates and joint ventures <sup>3)</sup>	446	40	5	72	–	6	4	–	573
Unallocated assets									1,605
Total assets									13,812
Liabilities <sup>4)</sup>	31	102	125	493	143	24	51	–216	753
Unallocated liabilities									5,950
Total liabilities									6,703
Other items									
Depreciation and amortisation	6	148	21	530	36	19	9	–	769
Impairment charge	–	–	–	–3	–2	–	1	–	–4
Capital expenditure <sup>5)</sup>	3	43	15	163	8	20	5	–	257
Capital expenditure, excluding acquisitions and shares	3	43	15	158	8	20	5	–	252
Capital employed, 31 December <sup>6)</sup>	886	2,455	1,799	5,284	504	242	283	–366	11,087
Capital employed, average	882	2,473	1,709	5,465	509	243	278	–482	11,077
Return on capital employed, excluding special items % <sup>7)</sup>	26.9	23.3	10.6	–4.6	17.1	–7.4	–28.4	–	6.4
Personnel at year end	72	1,413	2,735	11,901	2,543	2,737	468	–	21,869
Personnel, average	70	1,503	2,852	12,260	2,563	2,972	469	–	22,689

<sup>1)</sup> The Group's sales comprise mainly of product sales.

<sup>2)</sup> In 2010, special items of EUR 33 million in Forest and Timber segment relate to a capital gain from selling a conservation easement in Minnesota and other special items of EUR 4 million relate to a capital gain and reversals of restructuring provisions of Timber operations in Finland. In the Paper segment include transaction costs of EUR 4 million related to Myllykoski acquisition and EUR 14 million of net restructuring charges, including impairment reversals of EUR 3 million. In the Label segment special items of EUR 2 million relate to impairment reversals and EUR 1 million relates to restructuring charges. In the Plywood segment special items include a capital gain of EUR 1 million from asset sale in Finland. In Other operations special items include mainly a capital gain of EUR 3 million from asset sale in Finland.

<sup>3)</sup> 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.

<sup>4)</sup> Segment liabilities include trade payables and advances received.

<sup>5)</sup> Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures.

<sup>6)</sup> Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

<sup>7)</sup> Formulae for calculation of the return on capital employed; for segments: Operating profit excluding special items/Capital employed (average) x 100, for 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 2009

EURm	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 <sup>1)</sup>	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 for the period									169
Special items in operating profit <sup>2)</sup>	–18	–29	–31	–1	–8	–31	–17	–	–135
Operating profit excluding special items	162	–127	22	346	43	–51	–125	–	270
Assets <sup>3)</sup>	484	2,421	1,755	5,846	618	254	291	–165	11,504
Associates and joint ventures <sup>3)</sup>	431	39	2	67	–	6	8	–	553
Unallocated assets									1,548
Total assets									13,605
Liabilities <sup>4)</sup>	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 <sup>5)</sup>	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 <sup>6)</sup>	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 % <sup>7)</sup>	18.6	–7.6	1.3	6.1	8.5	–19.2	–88.7	–	2.5
Personnel at year end	66	1,516	3,067	12,187	2,595	3,292	490	–	23,213
Personnel, average	68	1,154	3,142	12,504	2,710	3,520	520	–	23,618

<sup>1)</sup> The Group's sales comprise mainly of product sales.

<sup>2)</sup> In 2009, special items of EUR 18 million in the Energy segment relate to impairments of associated company Pohjolan Voima's two power plants. In the Pulp segment special items of EUR 29 million relate to associated company Metsä-Botnia's Kaskinen pulp mill closure. Special items in the Forest and Timber segment of EUR 14 million, including impairment charges of EUR 5 million, relate to restructuring of Timber operations in Finland. In addition the Forest and Timber segment's special items include impairment charges of EUR 7 million related to wood procurement operations and special items of EUR 10 million relate to the sales loss of Miramichi's forestry and sawmilling operations' assets. In the Paper segment special items of EUR 36 million relate to restructuring charges in several units. In addition, special items in the Paper segment include impairment reversals of EUR 4 million and an income of EUR 31 million related to the sale of the assets of the former Miramichi paper mill. In the Label segment special items of EUR 8 million relate to restructuring charges, including impairment charges of EUR 2 million. In the Plywood segment special items include impairment charges of EUR 6 million and other restructuring charges of EUR 25 million. In Other operations special items include impairment charges of EUR 2 million and other charges of EUR 4 million both relating to terminated activities and special items of EUR 11 million relating mainly to the estates of closed industrial sites in Finland.

<sup>3)</sup> 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.

<sup>4)</sup> Segment liabilities include trade payables and advances received.

<sup>5)</sup> Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures.

<sup>6)</sup> Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

<sup>7)</sup> Formulae for calculation of the return on capital employed; for segments: Operating profit excluding special items/Capital employed (average) x 100, for 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**

EURm	Year ended 31 December	
	2010	2009
Germany	1,371	1,365
United Kingdom	1,011	951
Finland	809	672
France	504	453
Other EU countries	1,923	1,754
Other European countries	533	391
United States	969	800
Canada	54	41
China	479	367
Uruguay	27	5
Rest of world	1,244	920
Total	8,924	7,719

**Total assets by country**

EURm	As at 31 December	
	2010	2009
Germany	2,308	2,281
United Kingdom	607	610
Finland	6,453	6,414
France	422	448
Other EU countries	460	570
Other European countries	134	118
United States	581	538
Canada	178	175
China	802	756
Uruguay	1,616	1,486
Rest of world	251	209
Total	13,812	13,605

**Capital expenditure by country**

EURm	Year ended 31 December	
	2010	2009
Germany	24	24
United Kingdom	15	35
Finland	125	168
France	10	10
Poland	3	10
Other European countries	19	17
North America	24	9
China	4	2
Uruguay	21	604
Rest of world	12	34
Total	257	913

**5 ACQUISITIONS AND DISPOSALS AND NOTES TO THE CASH FLOW STATEMENT****Acquisitions**

In 2010 no acquisitions were made.

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 for the year 2009 would have been EUR 7,923 million and profit for the period EUR 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 application of fair value adjustments to property, plant and equipment and intangible assets from 1 January 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

**Purchase consideration:**

EURm	2009
Cash paid	597
Transaction costs	5
Total purchase consideration	602

**The assets and liabilities as of 8 December 2009 arising from the acquisition are as follows:**

EURm	Fair value of net assets acquired	Fair value adjustments	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 goodwill includes intangible assets (e.g. synergies, assembled workforce) that did not meet certain criteria for recognition under IFRS 3.

**Disposals**

In 2010 and 2009 there were no disposals.

## Notes to the cash flow statement

## Adjustments to profit (loss) for the period

EURm	Year ended 31 December	
	2010	2009
Depreciation, amortisation and impairment charges	765	779
Share of results of associated companies and joint ventures	-8	95
Capital gains on sale of non-current assets, net	-52	-235
Finance costs, net	121	167
Taxes	74	18
Change in fair value of biological assets and wood harvested	-149	-17
Settlement of restructuring charges	-36	-43
Other adjustments	25	8
Total	740	772

## Change in working capital

EURm	Year ended 31 December	
	2010	2009
Inventories	-145	400
Current receivables	-78	156
Current non-interest-bearing liabilities	84	-24
Total	-139	532

## 6 OTHER OPERATING INCOME

EURm	Year ended 31 December	
	2010	2009
Gains on sale of non-current assets	55	25
Rental income, investment property	7	7
Rental income, other	6	5
Emission rights received (Note 7)	32	22
Derivatives held for trading	-54	-27
Exchange rate gains and losses	22	9
Other	8	6
Total	76	47

## 7 COSTS AND EXPENSES

EURm	Year ended 31 December	
	2010	2009
Change in inventories of finished goods and work in progress	-41	128
Production for own use	-8	-16
	-49	112
<b>Materials and services</b>		
Raw materials, consumables and goods	4,859	4,092
External services <sup>1)</sup>	665	478
	5,524	4,570
<b>Personnel expenses</b>		
Salaries and fees	950	933
<b>Share-based payments (Note 37)</b>	13	8
<b>Indirect employee costs</b>		
Pension costs-defined benefit plans (Note 29)	35	28
Pension costs-defined contribution plans	119	134
Post-employment medical benefits (Note 29)	1	1
Other indirect employee costs <sup>2)</sup>	114	138
	269	301
<b>Other operating costs and expenses</b>		
Rents and lease expenses	48	58
Emission expenses (Note 6)	21	8
Losses on sale of non-current assets	3	10
Other operating expenses <sup>3)</sup>	858	774
	930	850
<b>Costs and expenses, total</b>	<b>7,637</b>	<b>6,774</b>

<sup>1)</sup> External services mainly comprise distribution costs of products sold.

<sup>2)</sup> Other indirect employee expenses primarily include other statutory social expenses, excluding pension expenses.

<sup>3)</sup> 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 EUR 45 million (48 million).

## Remuneration paid to members of the Board of Directors and the Group Executive Team

In accordance with the decision made by the 2010 Annual General Meeting, the fees of Board members who do not form part of operative management were as follows: the Chairman of the Board of Directors received a fee of EUR 175,000 (175,000) for the year, the Deputy Chairman of the Board of Directors and the Chairman of the Audit Committee a fee of EUR 120,000 (120,000) each, and the other members of the Board of Directors a fee of EUR 95,000 (95,000). Of this fee in 2010 and 2009 60% was paid in cash and 40% in the form of the company shares purchased on the members' behalf. In 2010, 5,320 company shares were paid to the Chairman, 3,648 shares to the Deputy Chairman of the Board of Directors and the Chairman of the Audit Committee respectively and 2,888 shares to each of the other members of the Board of Directors, except for Jussi Pesonen.

**Shareholdings (no. of shares) and fees of the Board of Directors**

EUR 1,000	Shareholding 31 Dec. 2010	Year ended 31 Dec.	
		2010	2009
<b>Board members</b>			
Björn Wahlroos, Chairman	223,537	175	175
Berndt Brunow, Deputy Chairman	282,387	120	120
Matti Alahuhta	44,491	95	95
Karl Grotenfelt	39,641	120	120
Wendy E. Lane	16,149	95	95
Ursula Ranin	15,071	95	95
Veli-Matti Reinikkala	14,071	95	95
Robert J. Routs	2,888	95	–
Jussi Pesonen, President and CEO	162,814	–	–
<b>Former Board members</b>			
Georg Holzhey	–	–	120
<b>Total</b>	<b>801,049</b>	<b>890</b>	<b>915</b>

**Salaries, fees and other benefits of the Group Executive Team**

EUR 1,000	Year ended 31 December	
	2010	2009
<b>President and CEO Jussi Pesonen</b>		
Salaries and benefits		
Salaries	1,044	1,034
Incentives	19	160
Incentives as shares	–	513
Share rewards	1,844	–
Benefits	22	22
<b>Total</b>	<b>2,929</b>	<b>1,729</b>
Pension costs		
Finnish statutory pension scheme	188	215
Voluntary pension plan	648	628
<b>Total</b>	<b>836</b>	<b>843</b>

**Group Executive Team (excluding the President and CEO)**

Salaries and benefits		
Salaries	3,072	3,435
Incentives	487	353
Share rewards	5,042	–
Benefits	136	141
<b>Total</b>	<b>8,737</b>	<b>3,929</b>
Pension costs		
Finnish statutory pension scheme	546	604
Voluntary pension plan	381	219
<b>Total</b>	<b>927</b>	<b>823</b>

The total remuneration of the President and CEO and the members of the Group Executive Team consist of base salary and benefits, short-term incentives and long-term incentives under the share ownership plan and stock option programmes.

The short-term incentive plan for the President and CEO and the members of the Group Executive Team is linked with achievement of the predetermined financial targets of the Group or Business Group and individual targets of the executive amounting to a maximum annual incentive of 100% of annual base salary to the members of the Group Executive Board and 70% of annual base salary to the members of the Group Executive Team. For the President and CEO the maximum annual incentive amounts to 150% of the annual base salary.

The expenses recognised in income statement in respect of share-based payments for the Group Executive Team were EUR 8.5 million (3.7 million) including share options of EUR 2.7 million (1.2 million) and share rewards of EUR 5.8 million (2.5 million).

In accordance with the service contract of the President and CEO the retirement age of the President and CEO, Jussi Pesonen, is 60 years. For the President and CEO, the target pension is 60% of average indexed earnings calculated according to the Finnish statutory pension scheme from the last ten years of employment. The costs of lowering the retirement age to 60 years is covered by supplementing statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company prior to the age of 60, immediate vesting right corresponding to 100% of earned pension (pro rata) will be applied. The retirement age of the other members of the Group Executive Team is 63 years. The expenses of the President and CEO's defined benefit pension plan in 2010 were EUR 0.3 million (0.1 million), and for other members of the Group Executive Team EUR 0.2 million (0.5 million).

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

If there is a change in the control over the company, as defined in the employment or service contracts, the President and CEO may terminate his service contract within three months and each member of the Group Executive Team may terminate his/her service contract within one month, from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' basic salary.

**Audit fees**

EURm	Year ended 31 December	
	2010	2009
Audit fees	2.4	2.3
Audit related fees	0.1	0.1
Other non-audit services	0.3	0.4
Tax consulting fees	1.3	0.9
<b>Total</b>	<b>4.1</b>	<b>3.7</b>

**8 CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS AND WOOD HARVESTED**

EURm	Year ended 31 December	
	2010	2009
Wood harvested	–102	–82
Change in fair value <sup>1)</sup>	251	99
<b>Total</b>	<b>149</b>	<b>17</b>

<sup>1)</sup> In 2010, includes the change in estimated timing of wood harvested.



## 9 SHARE OF RESULTS OF ASSOCIATED COMPANIES AND JOINT VENTURES

EURm	Year ended 31 December	
	2010	2009
Oy Metsä-Botnia Ab <sup>1)</sup>	–	–52
Pohjolan Voima Oy	6	–39
Others	2	–4
<b>Total</b>	<b>8</b>	<b>–95</b>

<sup>1)</sup> 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

EURm	Year ended 31 December	
	2010	2009
<b>Depreciation on property, plant and equipment</b>		
Buildings	102	94
Machinery and equipment	576	577
Other tangible assets	32	32
	<b>710</b>	<b>703</b>
<b>Depreciation on investment property</b>		
Buildings	2	1
<b>Amortisation of intangible assets</b>		
Intangible rights	20	14
Other intangible assets	37	42
	<b>57</b>	<b>56</b>
<b>Impairment charges on property, plant and equipment</b>		
Buildings	–	6
Machinery and equipment	1	10
Other tangible assets	–	1
	<b>1</b>	<b>17</b>
<b>Impairment of intangible assets</b>		
Intangible rights	–	6
Other intangible assets	–	1
	<b>–</b>	<b>7</b>
<b>Impairment reversal</b>		
Machinery and equipment	–5	–5
<b>Depreciation, amortisation and impairment charges, total</b>	<b>765</b>	<b>779</b>

Impairment reversals in 2010, relate to the Paper segment's and the Label segment's machinery and equipment which have been written off in prior years.

In June 2009, UPM recognised an impairment charge of EUR 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 in impairment charges of EUR 2 million.

In November 2009, UPM recognised impairment charges of EUR 5 million in the Forest and Timber segment and EUR 6 million in the Plywood segment relating to restructuring of Timber and Plywood operations in Finland.

In December 2009, impairment charges of EUR 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 the Paper segment which have been written off in prior years.

## 11 GAINS ON AVAILABLE-FOR-SALE INVESTMENTS, NET

EURm	Year ended 31 December	
	2010	2009
Net gains and losses on disposals	1	–
Impairment charges	–	–1
<b>Total</b>	<b>1</b>	<b>–1</b>

## 12 FINANCE COSTS

EURm	Year ended 31 December	
	2010	2009
<b>Exchange rate and fair value gains and losses</b>		
Derivatives held for trading	197	72
Fair value gains on derivatives designated as fair value hedges	113	–138
Fair value adjustment of borrowings attributable to interest rate risk	–116	140
Foreign exchange gain/loss on financial liabilities measured at amortised cost	–126	17
Foreign exchange gain/loss on loans and receivables	–72	–100
	<b>–4</b>	<b>–9</b>
<b>Interest and other finance costs, net</b>		
Interest expense on financial liabilities measured at amortised cost	–207	–207
Interest income on derivative financial instruments	121	60
Interest income on loans and receivables	4	5
Gains and losses on sale of associated companies and joint ventures shares <sup>1)</sup>	–	220
Gains on other non-current financial assets, net	–	–5
Other financial expenses	–35	–11
	<b>–117</b>	<b>62</b>
<b>Total</b>	<b>–121</b>	<b>53</b>

<sup>1)</sup> In 2009, a capital gain of EUR 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

EURm	Year ended 31 December	
	2010	2009
Derivatives designated as cash flow hedges	–47	–9
Derivatives held for trading	–54	–27
<b>Total</b>	<b>–101</b>	<b>–36</b>

## The aggregate foreign exchange gains and losses included in the consolidated income statement

EURm	Year ended 31 December	
	2010	2009
Sales	–41	–9
Other operating income	22	9
Net financial items	–4	–7
<b>Total</b>	<b>–23</b>	<b>–7</b>

**13 INCOME TAXES**

EURm	Year ended 31 December	
	2010	2009
<b>Major components of tax expenses</b>		
Current tax expense	55	66
Change in deferred taxes (Note 28)	19	-48
Income taxes, total	74	18
<b>Income tax reconciliation statement</b>		
Profit before tax	635	187
Computed tax at Finnish statutory rate of 26%	165	49
Difference between Finnish and foreign rates	-9	-6
Non-deductible expenses and tax-exempt income	-44	-53
Tax loss with no tax benefit	1	3
Results of associated companies	-2	23
Change in tax legislation	-4	-2
Change in recoverability of deferred tax assets	-26	-1
Other	-7	5
Income taxes, total	74	18
Effective tax rate	11.7%	9.6%

Profit before taxes for 2010 and 2009 include income not subject to tax from subsidiaries operating in tax free zones.

Income taxes for 2010 were impacted by changes in estimates of recoverability of deferred tax assets. The change was mostly attributable to recognition of tax credits of EUR 23 million of Polish subsidiary operating in a special economic zone. Change in tax legislation includes a tax income of EUR 3 million from tax rate change in UK.

Profit before taxes for 2009 include tax-exempt capital gains of EUR 220 million from the sale of approximately 30% of Oy Metsä-Botnia Ab's shares.

**Tax effects of components of other comprehensive income**

EURm	Year ended 31 December					
	2010		2009			
	Before tax	After tax	Before tax	After tax	Before tax	After tax
Translation differences	288	-	288	165	-	165
Net investment hedge	-93	24	-69	-76	20	-56
Cash flow hedges	-94	24	-70	-7	3	-4
Available-for-sale investments	15	-	15	21	-	21
Share of other comprehensive income of associated companies	9	-	9	30	-	30
Other comprehensive income	125	48	173	133	23	156

**14 EARNINGS PER SHARE**

	Year ended 31 December	
	2010	2009
Profit (loss) attributable to owners of the parent company, EURm	561	169
Weighted average number of shares (1,000)	519,970	519,955
Basic earnings per share, EUR	1.08	0.33

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

	Year ended 31 December	
	2010	2009
Profit (loss) attributable to owners of the parent company, EURm	561	169
Profit (loss) used to determine diluted earnings per share, EURm	561	169
Weighted average number of shares (1,000)	519,970	519,955
Effect of options <sup>1)</sup>	1,351	-
Weighted average number of shares for diluted earnings per share (1,000)	521,321	519,955
Diluted earnings per share, EUR	1.08	0.33

<sup>1)</sup> 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 exercise of the options. 13.6 million (13.0 million) shares exercisable with options were excluded from the calculation of diluted earnings per share as they were not dilutive.

**15 DIVIDEND PER SHARE**

The dividends paid in 2010 were EUR 234 million (EUR 0.45 per share) and in 2009 EUR 208 million (EUR 0.40 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 286 million, EUR 0.55 per share, will be paid in respect of 2010.

**16 GOODWILL**

EURm	As at 31 December	
	2010	2009
Acquisition cost at 1 Jan.	1,597	1,513
Companies acquired	-	82
Translation differences	5	2
Acquisition cost at 31 Dec.	1,602	1,597
Accumulated impairment at 31 Dec.	-580	-580
Carrying value at 1 Jan.	1,017	933
Carrying value at 31 Dec.	1,022	1,017

The goodwill arising from acquisition of the Uruguayan operations in 2009 is included in the Pulp segment. These operations form a separate group of cash generating units.

**Goodwill by reporting segment**

EURm	As at 31 December	
	2010	2009
Pulp	202	197
Forest and Timber	1	1
Paper	799	799
Label	7	7
Plywood	13	13
Total	1,022	1,017

**Impairment tests**

The company prepares impairment test calculations at operating segment level annually. The key assumptions for calculations are those regarding business growth outlook, product prices, cost development, and the discount rate.

The business growth outlook is based on general forecasts for the business in question. Ten-year forecasts are used in these calculations as the nature of the company's business is long-term, due to its capital intensity, and is exposed to cyclical changes. In estimates of product prices and cost development, 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 forecasts. The Group'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 Group as well as the profitability programmes that the Group has implemented and the views of knowledgeable industry experts on the long-term development of demand and prices. The discount rate is estimated using the weighted average cost of capital on the calculation date adjusted for risks specific to the business in question. The pre-tax discount rate used in 2010 for Paper was 8.65% (8.40%), and for Pulp (Finland) 11.30% (10.00%).

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 of the Paper segment. As at 31 December 2010, a hypothetical decrease of more than 2.2% in product prices used in impairment tests would lead to recognition of an impairment loss against goodwill. Other essential assumptions in Paper are costs for chemical pulp, delivery services and personnel. The Group believes that no reasonable change to these other key assumptions, on which the recoverable amount is based, would cause the aggregate carrying amount to exceed the aggregate recoverable amount.

In the Pulp segment, the recoverable amounts is most sensitive to pulp sales prices and the cost of wood raw material. As at 31 December 2010, a decrease of more than 16,8% in pulp prices of Pulp (Finland), and a decrease of more than 11% in pulp prices of Pulp (Uruguay) would result in recognition of impairment loss against goodwill. The Group believes that no reasonable change in wood cost would cause the aggregate carrying amounts to exceed the aggregate recoverable amounts.

**17 OTHER INTANGIBLE ASSETS**

EURm	As at 31 December	
	2010	2009
<b>Intangible rights</b>		
Acquisition cost at 1 Jan.	458	406
Additions	2	3
Companies acquired	–	50
Disposals	–3	–4
Reclassifications	–1	1
Translation differences	8	2
Acquisition cost at 31 Dec.	464	458

EURm	As at 31 December	
	2010	2009
Accumulated amortisation and impairment at 1 Jan.	–170	–151
Amortisation	–20	–15
Companies acquired	–	–3
Disposals	3	5
Impairment charges	–	–6
Translation differences	–2	–
Accumulated amortisation and impairment at 31 Dec.	–189	–170

Carrying value at 1 Jan.	288	255
Carrying value at 31 Dec.	275	288

<b>Other intangible assets <sup>1)</sup></b>		
Acquisition cost at 1 Jan.	560	510
Additions	32	41
Disposals	–19	–11
Reclassifications	6	20
Translation differences	4	–
Acquisition cost at 31 Dec.	583	560

Accumulated amortisation and impairment at 1 Jan.	–448	–420
Amortisation	–38	–42
Impairment charges	–	–1
Disposals	19	11
Reclassifications	–	4
Translation differences	–3	–
Accumulated amortisation and impairment at 31 Dec.	–470	–448

Carrying value at 1 Jan.	112	90
Carrying value at 31 Dec.	113	112

<b>Advance payments and construction in progress</b>		
Acquisition cost at 1 Jan.	7	27
Additions	6	5
Disposals	–	–1
Reclassifications	–4	–24
Acquisition cost at 31 Dec.	9	7

Carrying value at 1 Jan.	7	27
Carrying value at 31 Dec.	9	7

<b>Emission rights</b>		
Acquisition cost 1 Jan.	16	31
Additions <sup>2)</sup>	41	33
Disposals and settlements	–30	–48
Acquisition cost 31 Dec.	27	16

Carrying value at 1 Jan.	16	31
Carrying value at 31 Dec.	27	16

Other intangible assets, total	424	423
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<sup>1)</sup> Other intangible assets consist primarily of capitalised software assets.

<sup>2)</sup> Additions include emission rights received free of charge.

**Water rights**

Intangible rights include EUR 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 based on expected future cash flows of each separate hydropower plant.

**18 PROPERTY, PLANT AND EQUIPMENT**

EURm	As at 31 December 2010	2009
<b>Land and water areas</b>		
Acquisition cost at 1 Jan.	591	347
Additions	13	5
Companies acquired	–	235
Disposals	–7	–5
Reclassifications	–	–1
Translation differences	20	10
Acquisition cost at 31 Dec.	617	591
Carrying value at 1 Jan.	591	347
Carrying value at 31 Dec.	617	591
<b>Buildings</b>		
Acquisition cost at 1 Jan.	3,145	2,868
Additions	8	13
Companies acquired	–	243
Disposals	–14	–25
Reclassifications	9	26
Translation differences	59	20
Acquisition cost at 31 Dec.	3,207	3,145
Accumulated depreciation and impairment at 1 Jan.	–1,592	–1,483
Depreciation	–101	–94
Companies acquired	–	–18
Impairment charges	–	–6
Disposals	11	19
Reclassifications	–1	–
Translation differences	–19	–10
Accumulated depreciation and impairment at 31 Dec.	–1,702	–1,592
Carrying value at 1 Jan.	1,553	1,385
Carrying value at 31 Dec.	1,505	1,553
<b>Machinery and equipment</b>		
Acquisition cost at 1 Jan.	12,712	12,162
Additions	58	99
Companies acquired	–	596
Disposals	–109	–324
Reclassifications	38	120
Translation differences	238	59
Acquisition cost at 31 Dec.	12,937	12,712

EURm	As at 31 December 2010	2009
Accumulated depreciation and impairment at 1 Jan.	–8,894	–8,541
Depreciation	–575	–571
Companies acquired	–	–59
Impairment charges	–1	–8
Impairment reversal	5	5
Disposals	106	315
Reclassifications	3	13
Translation differences	–127	–48
Accumulated depreciation and impairment at 31 Dec.	–9,483	–8,894

Carrying value at 1 Jan.	3,818	3,621
Carrying value at 31 Dec.	3,454	3,818

**Other tangible assets**

Acquisition cost at 1 Jan.	876	865
Additions	5	7
Companies acquired	–	13
Disposals	–23	–12
Reclassifications	3	–
Translation differences	10	3
Acquisition cost at 31 Dec.	871	876

Accumulated depreciation and impairment at 1 Jan.	–687	–662
Depreciation	–31	–31
Companies acquired	–	–4
Disposals	18	12
Translation differences	–7	–2
Accumulated depreciation and impairment at 31 Dec.	–707	–687

Carrying value at 1 Jan.	189	203
Carrying value at 31 Dec.	164	189

**Advance payments and construction in progress**

Acquisition cost at 1 Jan.	41	132
Additions	133	57
Companies acquired	–	7
Reclassifications	–55	–158
Translation differences	1	3
Acquisition cost at 31 Dec.	120	41

Carrying value at 1 Jan.	41	132
Carrying value at 31 Dec.	120	41

Property, plant and equipment, total	5,860	6,192
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**Finance lease arrangements**

Property, plant and equipment includes property that is acquired under finance lease contracts:

EURm	As at 31 December 2010	2009
<b>Machinery and equipment</b>		
Acquisition cost	51	49
Accumulated depreciation	–39	–38
Carrying value at 31 Dec.	12	11
Leased assets, total	12	11

**Capitalised borrowing costs**

In 2010, the borrowing costs capitalised as part of non-current assets amounted to EUR 0 million (1 million). In 2010, amortisation of capitalised borrowing costs was EUR 8 million (8 million). In 2010 and 2009 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 1.50% (3.32%), which represents the costs of the loan used to finance the projects.

**19 INVESTMENT PROPERTY**

EURm	As at 31 December	
	2010	2009
Acquisition cost at 1 Jan.	72	66
Additions	–	2
Reclassifications	3	4
Acquisition cost at 31 Dec.	75	72
Accumulated depreciation and impairment at 1 Jan.	–50	–47
Depreciation	–2	–1
Reclassifications	–1	–2
Accumulated depreciation and impairment at 31 Dec.	–53	–50
Carrying value at 1 Jan.	22	19
Carrying value at 31 Dec.	22	22

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 2010 was EUR 17 million (18 million) and the fair value of investment property in other countries at 31 December 2010 was EUR 13 million (11 million).

**The amounts recognised in the income statement**

EURm	Year ended 31 December	
	2010	2009
Rental income	7	7
Direct operating expenses arising from investment properties that generate rental income	5	4

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**

EURm	As at 31 December	
	2010	2009
At 1 Jan.	1,293	1,133
Additions	8	9
Companies acquired	–	150
Disposals	–32	–24
Wood harvested	–102	–81
Change in fair value	250	99
Translation differences	13	7
At 31 Dec.	1,430	1,293

The pre-tax discount rates used in to determine fair value in 2010 were 7.50% (7.50%) for Finnish forests and 10% (10%) for Uruguayan forests. A 1% decrease (increase) in discount rate would increase (decrease) the fair value of biological assets by approximately EUR 220 million. In addition to the discount rate, the growth of forest stock and timber prices are other essential assumptions used in the valuation.

**21 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES**

EURm	As at 31 December	
	2010	2009
At 1 Jan.	553	1,263
Additions	13	92
Companies acquired	–	3
Disposals <sup>1)</sup>	–	–350
Share of results after tax (Note 9)	8	–95
Dividends received	–1	–24
Reclassification <sup>1)</sup>	–	–304
Translation differences	–	–32
At 31 Dec.	573	553

<sup>1)</sup> Disposals in 2009 include shares sold in Oy Metsä-Botnia Ab and reclassifications in 2009 include the reclassification of the holding in Botnia South America S.A. as subsidiary and reclassification of remaining holding in Oy Metsä-Botnia Ab as an available-for-sale investment.

Investments in associated companies at 31 December 2010 include goodwill of EUR 52 million (52 million) of which EUR 51 million (51 million) relates to Pohjolan Voima Oy's shares.

EURm	As at 31 December	
	2010	2009
<b>Sale and leaseback contracts included in investments in associated companies</b>		
Acquisition cost	10	14
Accumulated increases/decreases	2	–4
Carrying value at 31 Dec.	12	10

**Associated companies and joint ventures**

	Group holding percentage %		Carrying value	
	2010	2009	2010	2009
<b>Associated companies</b>				
Austria Papier Recycling Ges.m.b.H., AT	33.30	33.30	–	–
Oy Keskuslaboratorio-Centrallaboratorium Ab, FI	38.65	38.65	1	1
Paperinkeräys Oy, FI	22.98	22.98	3	3
Pohjolan Voima Oy, FI	43.09	43.07	531	514
Powest Oy, FI <sup>1)</sup>	9.98	9.98	14	14
RETS Timber Oy Ltd, FI	50.00	50.00	4	2
Steveco Oy, FI	34.32	34.32	3	6
Others			11	7
At 31 Dec.			567	547
<b>Joint ventures</b>				
Kainuun Voima Oy, FI	50.00	50.00	6	6
			6	6
Associated companies and joint ventures at 31 Dec.			573	553

<sup>1)</sup> The Group's share of 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.

Pohjolan Voima Oy ("PVO") holds a 58.39% 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, furthermore, 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. Reimbursement 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 either the decommissioning obligation plus provision for spent fuel recognised or 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:

2010 EURm	Assets	Lia- bilities	Sales	Profit/ Loss
<b>Associated companies and joint ventures</b>				
Pohjolan Voima Oy, FI	1,397	865	456	6
Others	138	96	295	2
Total	1,535	961	751	8

2009 EURm	Assets	Lia- bilities	Sales	Profit/ Loss
<b>Associated companies and joint ventures</b>				
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

The amounts representing the Group's share of 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.

EURm	As at 31 December	
	2010	2009
<b>The amount of assets and liabilities related to investments in joint ventures</b>		
Non-current assets	30	28
Current assets	4	5
Non-current liabilities	–18	–19
Current liabilities	–9	–7
Net assets	7	7

EURm	Year ended 31 December	
	2010	2009
<b>The income and expenses related to investments in joint ventures</b>		
Sales	14	13
Expenses	–14	–13
Profit	–	–

The average number of employees in the joint ventures	42	43
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**Transactions and balances with associates and joint ventures**

EURm	Year ended 31 December	
	2010	2009
Sales to associates and joint ventures	153	114
Purchases from associates and joint ventures	341	560
Receivables from associates and joint ventures	22	25
Payables to associates and joint ventures	38	32

**Loan receivables from associates and joint ventures <sup>1)</sup>**

At 1 Jan.	14	8
Loans granted	4	8
Repayments	–4	–2
At 31 Dec.	14	14

<sup>1)</sup> Loans to associated companies and joint ventures include current and non-current loan receivables.



**22 AVAILABLE-FOR-SALE INVESTMENTS**

EURm	As at 31 December	
	2010	2009
At 1 Jan.	320	116
Disposals	-2	-
Changes in fair values	15	25
Reclassification	-	180
Impairment charges	-	-1
At 31 Dec.	333	320

At 31 December 2010, 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 EUR 25 million. The fair value is based on the discounted value of the expected cash flows of the investment. As at 31 December 2010 the carrying amount of Metsä-Botnia was EUR 220 million (205 million). The carrying amount would be approximately EUR 60 million lower or higher if the sales price for chemical pulp used in the discounted cash flow analysis had been 5% lower or higher.

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 intend to dispose of this investment.

**Principal available-for-sale investments**

	Number of shares	Group holding percentage	Carrying value	
			2010	2009
Oy Metsä-Botnia Ab	13,836	16.96	220	205
Kemijoki Oy	100,797	4.13	106	106
Other			7	9
Carrying value of available-for-sale investments at 31 Dec.			333	320

**23 NON-CURRENT FINANCIAL ASSETS**

EURm	As at 31 December	
	2010	2009
Loan receivables from associated companies	5	2
Other loan receivables	22	15
Derivative financial instruments	296	246
At 31 Dec.	323	263

The maximum exposure to credit risk in regard to other loan receivables is their carrying amount.

**24 OTHER NON-CURRENT ASSETS**

EURm	As at 31 December	
	2010	2009
Defined benefit plans (Note 29)	172	177
Other non-current assets	39	34
At 31 Dec.	211	211

**25 INVENTORIES**

EURm	As at 31 December	
	2010	2009
Raw materials and consumables	547	516
Work in progress	46	39
Finished products and goods	662	530
Advance payments	44	27
At 31 Dec.	1,299	1,112

**26 TRADE AND OTHER RECEIVABLES**

EURm	As at 31 December	
	2010	2009
Trade receivables	1,244	1,124
Loan receivables	30	14
Other receivables	146	115
Derivative financial instruments	185	120
Prepayments and accrued income	56	73
At 31 Dec.	1,661	1,446

**Ageing analysis of trade receivables**

EURm	As at 31 December	
	2010	2009
Undue	1,123	999
Past due up to 30 days	79	63
Past due 31-90 days	21	27
Past due over 90 days	21	35
At 31 Dec.	1,244	1,124

In determining the recoverability of trade receivables the Group considers any change to the credit quality of trade receivables. There are no indications that the debtors will not meet their payment obligations with regard to trade receivables that are not overdue or impaired at 31 December 2010. In 2010, impairment of trade receivables amounted to EUR 0 million (18 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.

Maximum exposure to credit risk, without taking into account any credit enhancements, is the carrying amount of trade and other receivables.

**Main items included in prepayments and accrued income**

EURm	As at 31 December	
	2010	2009
Personnel expenses	7	5
Indirect taxes	16	10
Other items	33	58
At 31 Dec.	56	73

## 27 EQUITY AND RESERVES

### Share capital

EURm	Number of shares (1,000)	Share capital
At 1 Jan. 2009	519,970	890
At 31 Dec. 2009	519,970	890
At 31 Dec. 2010	519,970	890

### Shares

At 31 December 2010, 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 22 March 2010 authorised the Board of Directors to acquire no more than 51,000,000 of the company's own shares. The authorisation is valid for 18 months from the date of the decision.

As at 31 December 2010 or 2009 the company did not hold any of its own shares.

### Authorisations to increase the number of shares

The Annual General Meeting, held on 22 March 2010 authorised the Board of Directors to decide on the issuance of shares and/or transfer the company's own shares held by the company and/or issue special rights entitling holders to shares in the company as follows: (i) The maximum number of new shares that may be issued and the company's own shares held by the company that may be transferred is, in total, 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of the special rights. (ii) The new shares and special rights entitling holders to shares in the company may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their existing shareholdings in the company, or in a directed share issue, deviating from the shareholder's pre-emptive subscription right. This authorisation is valid until 22 March 2013.

In 21 December 2010 UPM's Board of Directors decided on the issuance of five million new UPM shares as a part of the consideration for the acquisition of Myllykoski Corporation and Rhein Papier GmbH ("Myllykoski"). The new UPM shares will be offered for subscription to certain holders of subordinated loan notes of Rhein Papier GmbH, who are shareholders of Myllykoski Corporation and who have agreed to subscribe for the new shares in connection with the completion of the acquisition of Myllykoski. The subscription price for the new UPM shares will be paid by contribution of such loan notes to UPM as part of the overall transaction. The share issue is subject to the closing of the transaction.

Based on decisions of the Annual General Meeting of 27 March 2007 the company has three option series that would entitle the holders to subscribe for a total of 15,000,000 shares. Share options 2007A, 2007B and 2007C may each be subscribed for a

total of 5,000,000 shares.

Apart from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds or share options.

If 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 15,000,000, i.e. by 2.88%.

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 7.69%, i.e. by 40,000,000 shares, to 559,970,088 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 their shares and any securities that, under the Companies Act, carry the right to such shares, in the manner prescribed in § 12.

A resolution of a 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

EURm	As at 31 December	
	2010	2009
Fair value reserve of available-for-sale investments	36	21
Hedging reserve	-61	9
Legal reserve	53	53
Share premium reserve	50	50
Share-based compensation	12	8
At 31 Dec.	90	141

### Changes in hedging reserve

EURm	Year ended 31 December	
	2010	2009
Hedging reserve at 1 Jan.	9	13
Gains and losses on cash flow hedges	-139	-19
Transfers to sales	48	12
Transfers to initial cost of property, plant and equipment	-3	-
Tax on gains and losses on cash flow hedges	36	6
Tax on transfers to income statement	-12	-3
Hedging reserve at 31 Dec.	-61	9

**Components of other comprehensive income**

EURm	Year ended 31 December	
	2010	2009
Translation differences	288	165
Net investment hedge	-69	-56
Cash flow hedges		
gains/losses arising during the year	-103	-13
reclassification adjustments	33	9
	-70	-4
Available-for-sale investments		
gains/losses arising during the year	15	21
reclassification adjustments	-	-
	15	21
Share of other comprehensive income of associated companies	9	30
Other comprehensive income	173	156

**28 DEFERRED INCOME TAXES****Reconciliation of the movements of deferred tax asset and liability balances during the year 2010**

EURm	As at 1 Jan. 2010	Charged to the income statement	Charged to equity	Translation differences	Acquisitions and disposals	As at 31 Dec. 2010
<b>Deferred tax assets</b>						
Retirement benefit and other provisions	84	9	-	1	-	94
Intercompany profit in inventory	12	5	-	-	-	17
Book over tax depreciation	120	-91	-	1	-	30
Tax losses and tax credits carried forward	318	36	-	23	-	377
Other temporary differences	3	11	-	-	-	14
Deferred tax assets, total	537	-30	-	25	-	532
<b>Deferred tax liabilities</b>						
Tax over book depreciation	517	-57	-	3	-	463
Fair value adjustments of net assets acquired and biological assets	321	-17	-	-	-	304
Other temporary differences	20	63	-48	-	-	35
Deferred tax liabilities, total	858	-11	-48	3	-	802
<b>The amounts recognised in the balance sheet</b>						
Assets	287	47	-	25	-	359
Liabilities	608	66	-48	3	-	629
Deferred tax liabilities, less deferred tax assets	321	19	-48	-22	-	270

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 2009**

EURm	As at 1 Jan. 2009	Charged to the income statement	Charged to equity	Translation differences	Acquisitions and disposals	As at 31 Dec. 2009
<b>Deferred tax assets</b>						
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
<b>Deferred tax liabilities</b>						
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
<b>The amounts recognised in the balance sheet</b>						
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.

**Deferred income tax charged to equity during the year**

EURm	2010	2009
Cash flow hedges	-24	-3
Net investment hedge	-24	-20
Total	-48	-23

At 31 December 2010, net operating loss carry-forwards for which the Group has recognised a deferred tax asset amounted to EUR 1,263 million (1,231 million), of which EUR 476 million (267 million) was attributable to German subsidiaries and EUR 643 million (700 million) to a Canadian subsidiary. 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 EUR 166 million in 2010 (256 million). These net operating loss carry-forwards are mainly attributable to a Canadian subsidiary. In relation to the Polish subsidiary operating in a special economic zone, UPM has recognised tax credits as deferred tax asset of EUR 23 million.

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 local conditions and practises in the coun-

tries 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 7 % of employees are arranged through the 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. Approximately one third of employees, globally, 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. Settlement of the plan assets was initiated through the purchase of long term annuities to fund the EUR 129 million benefit obligations.

**DEFINED BENEFIT PLANS**

EURm	As at 31 December 2010	2009
Present value of obligations	1,033	994
Fair value of plan assets	-596	-540
	437	454
Unrecognised actuarial gains and losses	-230	-262
Unrecognised past service cost	-	1
Net liability	207	193
Other long-term employee benefits	45	48
Defined benefit asset reported in the assets (Note 24)	172	177
Total liability in balance sheet	424	418

**PENSION BENEFITS****The amounts recognised in the balance sheet**

EURm	As at 31 December	
	2010	2009
Present value of funded obligations	597	565
Present value of unfunded obligations	414	408
	1,011	973
Fair value of plan assets	-596	-540
Unrecognised actuarial gains and losses	-226	-257
Net liability	189	176

**The amounts recognised in the income statement**

EURm	Year ended 31 December	
	2010	2009
Current service cost	10	8
Interest cost	46	47
Expected return on plan assets	-34	-34
Actuarial gains and losses	13	7
Total included in personnel expenses (Note 7)	35	28

The actual return on plan assets was EUR 69 million (105 million).

**The movement in the present value of defined benefit obligations**

EURm	As at 31 December	
	2010	2009
Defined benefit obligation as of beginning of the year	973	894
Current service cost	10	8
Interest cost	46	47
Actuarial gains and losses	15	179
Benefits paid	-44	-49
Settlements	-	-130
Translation differences	11	24
Defined benefit obligation as of end of the year	1,011	973

**The movement in the fair value of plan assets**

EURm	As at 31 December	
	2010	2009
Fair value of plan assets as of beginning of the year	540	573
Expected return on plan assets	34	34
Actuarial gains and losses	35	58
Contributions by the employer	24	32
Benefits paid	-44	-49
Settlements	-	-130
Translation differences	7	22
Fair value of plan assets as of end of the year	596	540

Contributions to the Group's defined benefit pension plans are expected to be EUR 20 million in 2011.

**The major categories of plan assets as a percentage of total plan assets**

	As at 31 December	
	2010	2009
Equity instruments	60%	56%
Debt instruments	30%	32%
Property	7%	7%
Money market	3%	5%
Total	100%	100%

In Finland, pension plan assets include the company's ordinary shares with a fair value of EUR 0.7 million (0.4 million).

**POST-EMPLOYMENT MEDICAL BENEFITS**

In the 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**

EURm	As at 31 December	
	2010	2009
Present value of unfunded obligations	22	21
Unrecognised actuarial gains and losses	-4	-5
Unrecognised past service cost	-	1
Net liability	18	17

**The amounts recognised in the income statement**

EURm	Year ended 31 December	
	2010	2009
Interest cost	1	1
Total included in personnel expenses (Note 7)	1	1

**The movement in the present value of defined benefit obligations**

EURm	As at 31 December	
	2010	2009
Defined benefit obligation as of beginning of the year	21	24
Interest cost	1	1
Contributions by plan participants	2	2
Past service cost	-	-1
Benefits paid	-4	-4
Translation differences	2	-1
Defined benefit obligation as of end of the year	22	21

**The movement in the fair value of plan assets**

EURm	As at 31 December	
	2010	2009
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	-	-

Contributions to the Group's post-employment medical benefit plans are expected to be EUR 2 million in 2011.

**PENSION BENEFITS AND POST-EMPLOYMENT MEDICAL BENEFITS****The principal actuarial assumptions used as at 31 December**

	Finland		Germany		UK		Austria		US		Other	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Discount rate %	4.40	4.45	4.40	4.45	5.40	5.75	4.40	4.45	4.50	5.00	4.74	5.10
Inflation rate %	2.00	2.00	2.00	2.00	3.50	3.60	2.00	2.00	3.00	3.00	2.00	2.00
Expected return on plan assets %	6.53	6.18	N/A	N/A	6.71	6.67	N/A	N/A	N/A	N/A	4.31	4.45
Future salary increases %	3.25	3.25	2.50	2.50	N/A	N/A	2.50	2.50	N/A	N/A	2.74	2.74
Future pension increases %	2.63	2.63	2.00	2.00	3.25	3.30	1.25	1.27	N/A	N/A	1.00	1.00
Expected average remaining working years of participants	12.1	12.1	13.4	13.6	N/A	N/A	8.2	9.5	8.6	8.9	8.9	9.7

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 the different asset categories held.

The assumed health care cost trend rate used to measure the accumulated post-employment benefit obligation for US plans was

8.7% in 2009, 8.4% in 2010 and then declining 0.2% per year until it reaches 4.5% in 2029, remaining at that level thereafter.

A one-percentage-point increase and decrease in assumed health care cost trend rates would affect the post-employment benefit obligation by EUR 1 million and EUR –1 million, correspondingly.

**The amounts of pension and post-employment medical benefit plans recognised in the balance sheet as at 31 December 2010**

EURm	Finland	Germany	UK	Austria	US	Other	Total
Present value of funded obligations	274	–	298	–	–	25	597
Present value of unfunded obligations	–	356	–	39	22	19	436
Fair value of plan assets	–334	–	–248	–	–	–14	–596
Unrecognised actuarial gains and losses	–63	–56	–98	–9	–4	–	–230
Net liability	–123	300	–48	30	18	30	207

**The amounts of pension and post-employment medical benefit plans recognised in the balance sheet as at 31 December 2009**

EURm	Finland	Germany	UK	Austria	US	Other	Total
Present value of funded obligations	269	–	278	–	–	18	565
Present value of unfunded obligations	–	348	–	40	21	20	429
Fair value of plan assets	–310	–	–218	–	–	–12	–540
Unrecognised actuarial gains and losses	–81	–55	–114	–9	–5	2	–262
Unrecognised past service cost	–	–	–	–	1	–	1
Net liability	–122	293	–54	31	17	28	193

**Funded status for pension and post-employment medical benefit plans**

EURm	As at 31 December				
	2010	2009	2008	2007	2006
Present value of defined benefit obligations	1,033	994	918	1,203	1,227
Fair value of plan assets	596	540	573	753	681
Deficit	437	454	345	450	546
Experience adjustments on plan liabilities	–10	14	–13	21	20
Experience adjustments on plan assets	35	58	–153	8	20



**30 PROVISIONS**

EURm	Restructuring provisions	Termination provisions	Environmental provisions	Emission rights provision	Other provisions	Total
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
At 1 Jan. 2010	55	69	20	15	32	191
Translation difference	–	–	–	–	1	1
Additional provisions and increases to existing provisions	18	14	3	22	–	57
Utilised during year	–34	–25	–5	–15	–9	–88
Unused amounts reversed	–4	–6	–	–	–1	–11
At 31 Dec. 2010	35	52	18	22	23	150

**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 unemployment pension provisions are recognised 2–3 years before the granting and settlement of the pension.

In 2010, UPM did not recognise charges for any significant new provisions.

Additions to 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 included mill closures and it was estimated that approximately 830 employees would become redundant.

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 2010, the Group has recognised a provision amounting to EUR 22 million (15 million) to cover the obligation to return emission rights. The company possesses emission rights worth EUR 27 million (16 million) as intangible assets.

**Allocation between non-current and current provisions**

EURm	As at 31 December	
	2010	2009
Non-current provisions	81	107
Current provisions	69	84
Total	150	191

**31 INTEREST-BEARING LIABILITIES**

EURm	As at 31 December	
	2010	2009
<b>Non-current interest-bearing liabilities</b>		
Bonds	2,041	1,878
Loans from financial institutions	406	919
Pension loans	761	924
Trade payables	8	8
Finance lease liabilities	94	95
Derivative financial instruments	117	139
Other liabilities	222	201
	3,649	4,164
<b>Current interest-bearing liabilities</b>		
Current portion of long-term debt	286	167
Short-term loans	11	64
Derivative financial instruments	10	46
Other liabilities	23	23
	330	300
<b>Total interest-bearing liabilities</b>	<b>3,979</b>	<b>4,464</b>

**As of 31 December 2010 the contractual maturity of interest-bearing liabilities**

EURm	2011	2012	2013	2014	2015	2016+	Total
<b>Bonds</b>							
Repayments	–	636	–	374	–	850	1,860
Interests	112	112	75	75	53	364	791
	112	748	75	449	53	1,214	2,651
<b>Loans from financial institutions</b>							
Repayments	70	60	97	14	24	210	475
Committed facilities	–	–	–	–	–	–	–
Interests	12	10	11	10	11	3	57
	82	70	108	24	35	213	532
<b>Pension loans</b>							
Repayments	157	151	150	83	83	250	874
Interests	37	30	24	18	15	20	144
	194	181	174	101	98	270	1,018
<b>Finance lease liabilities</b>							
Repayments	4	3	3	4	1	83	98
Interests	3	4	4	4	3	4	22
	7	7	7	8	4	87	120
<b>Other loans</b>							
Repayments	45	1	2	1	1	210	260
Interests	7	6	6	6	6	83	114
	52	7	8	7	7	293	374
<b>Interest rate swaps (liabilities)</b>							
Repayments	–	–	–	14	–	90	104
Interests	1	3	6	6	9	113	138
	1	3	6	20	9	203	242
<b>Current loans</b>							
Repayments	34	–	–	–	–	–	34
Interests	–	–	–	–	–	–	–
	34	–	–	–	–	–	34
<b>Guarantees, repayments</b>	7	–	–	–	–	–	7
<b>Long term loans repayments excl. committed facilities</b>	276	851	252	476	109	1,603	3,567

**As of 31 December 2009 the contractual maturity of interest-bearing liabilities**

EURm	2010	2011	2012	2013	2014	2015+	Total
<b>Bonds</b>							
Repayments	59	–	636	–	347	814	1,856
Interests	110	109	109	71	71	389	860
	169	109	745	71	418	1,203	2,716
<b>Loans from financial institutions</b>							
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
<b>Pension loans</b>							
Repayments	24	157	150	150	83	333	897
Interests	39	37	30	24	18	35	184
	63	194	180	174	101	368	1,081
<b>Finance lease liabilities</b>							
Repayments	4	84	3	4	4	–	99
Interests	3	4	–	–	–	–	7
	7	88	3	4	4	–	106
<b>Other loans</b>							
Repayments	3	45	3	3	–	158	211
Interests	7	5	5	5	5	79	107
	10	50	8	8	5	237	318
<b>Interest rate swaps (liabilities)</b>							
Repayments	33	–	–	–	–	95	128
Interests	–	3	3	3	4	58	71
	33	3	3	3	4	153	199
<b>Current loans</b>							
Repayments	87	–	–	–	–	–	87
Interests	1	–	–	–	–	–	1
	88	–	–	–	–	–	88
<b>Guarantees, repayments</b>	8	–	–	–	–	–	8
<b>Long term loans repayments excl. committed facilities</b>	166	396	903	307	501	1,643	3,916

Amounts are based on the exchange rates and interest rates on the reporting date.

The difference between the above listed cash-based repayment amounts and the respective balance sheet values mainly arise from fair value adjustments to balance sheet items.

**Bonds in interest-bearing liabilities**

	Interest rate %	Nominal value issued m	As at 31 Dec. 2010 EURm	2009 EURm
<b>Fixed rate</b>				
1997–2027	7.450	USD 375	352	310
2000–2030	3.550	JPY 10,000	105	38
2002–2012	6.125	EUR 600	616	627
2002–2014	5.625	USD 500	405	362
2002–2017	6.625	GBP 250	320	297
2003–2018	5.500	USD 250	207	184
2008–2018	7.000	USD 35	–	24
			2,005	1,842
<b>Floating-rate</b>				
2002–2010	1.898	EUR 59	–	59
2002–2012	1.965	EUR 25	25	25
2002–2012	2.204	EUR 11	11	11
			36	95
Total			2,041	1,937
Current portion			–	–59
Non-current portion			2,041	1,878

**Fair value hedge of non-current interest-bearing liabilities**

Fair value hedge accounting results in a cumulative fair value adjustment totalling EUR 250 million (134 million), which has increased (increased) the carrying amount of the liabilities.

Accordingly, the positive fair value of the hedging instruments, excluding accrued interests, amounts EUR 288 million (219 million) in assets, and negative fair value of EUR 0 million in liabilities (44 million). The effect of the fair value hedge ineffectiveness on the income statement was loss EUR 3 million (gain EUR 2 million).

**NET INTEREST-BEARING LIABILITIES**

EURm	As at 31 December 2010	2009
<b>Total interest-bearing liabilities</b>	3,979	4,464
<b>Interest-bearing financial assets</b>		
Non-current		
Loan receivables	13	9
Derivative financial instruments	282	222
Other receivables	19	20
	314	251
Current		
Loan receivables	9	13
Other receivables	4	4
Derivative financial instruments	97	28
Cash and cash equivalents	269	438
	379	483
Interest-bearing financial assets	693	734
Net interest-bearing liabilities	3,286	3,730

**Finance lease liabilities**

As at 31 December 2010 the Group has one power plant acquired under a sale and leaseback agreement. The Group uses the electrical power generated by this plant for its own production. Payments on this power plant are due by the end of 2016.

In addition, the Group leases certain tangible assets under long-term arrangements.

Other interest-bearing liabilities include a collateralised loan of EUR 45 million (47 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. There are no restrictions on the manufacturing use of the assets.

**Finance lease liabilities – minimum lease payments**

EURm	As at 31 December 2010	2009
No later than 1 year	7	7
1–5 years	26	99
Later than 5 years	87	–
	120	106
Future finance charges	–22	–7
Finance lease liabilities – the present value of minimum lease payments	98	99

**Finance lease liabilities – the present value of minimum lease payments**

EURm	As at 31 December 2010	2009
No later than 1 year	4	4
1–5 years	11	95
Later than 5 years	83	–
Total	98	99

**32 OTHER LIABILITIES**

EURm	As at 31 December 2010	2009
Derivative financial instruments	24	25
Other	46	26
Total	70	51

**33 TRADE AND OTHER PAYABLES**

EURm	As at 31 December 2010	2009
Advances received	7	8
Trade payables	713	647
Amounts due to associates and joint ventures	32	29
Accrued expenses and deferred income	440	411
Derivative financial instruments	139	44
Other current liabilities	86	67
Total	1,417	1,206

Trade and other payables mature within 12 months.

**Main items included in accrued expenses and deferred income**

EURm	As at 31 December 2010	2009
Personnel expenses	182	171
Interest expenses	71	72
Indirect taxes	20	17
Other items <sup>1)</sup>	167	151
Total	440	411

<sup>1)</sup> Consists mainly of customer rebates.

## 34 FINANCIAL INSTRUMENTS BY CATEGORY

2010 EURm 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 values	Note
<b>Non-current financial assets</b>								
Available-for-sale investments	–	–	333	–	–	333	333	22
<b>Non-current financial assets</b>								
Loan receivables	–	27	–	–	–	27	27	23
Derivative financial instruments	17	–	–	279	–	296	296	23
						323	323	23
<b>Current financial assets</b>								
Trade and other receivables								
Trade and other receivables	–	1,420	–	–	–	1,420	1,420	26
Prepayments and accrued income	–	56	–	–	–	56	56	26
Derivative financial instruments	158	–	–	27	–	185	185	26
						1,661	1,661	
<b>Carrying amount by category</b>	175	1,503	333	306	–	2,317	2,317	
<b>Non-current financial liabilities</b>								
<b>Non-current interest-bearing liabilities</b>								
Non-current interest-bearing liabilities	–	–	–	–	3,532	3,532	3,401	31
Derivative financial instruments	96	–	–	21	–	117	117	31
						3,649	3,518	31
<b>Other liabilities</b>								
Other liabilities	1	–	–	–	45	46	46	32
Derivative financial instruments	17	–	–	7	–	24	24	32
						70	70	32
<b>Current financial liabilities</b>								
<b>Current interest-bearing liabilities</b>								
Interest-bearing liabilities	–	–	–	–	320	320	320	31
Derivative financial instruments	10	–	–	–	–	10	10	31
						330	330	31
<b>Trade and other payables</b>								
Trade and other payables	2	–	–	–	836	838	838	33
Accrued expenses and deferred income	–	–	–	–	440	440	440	33
Derivative financial instruments	18	–	–	121	–	139	139	33
						1,417	1,417	
<b>Carrying amount by category</b>	144	–	–	149	5,173	5,466	5,335	

2009 EURm 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 values	Note
<b>Non-current financial assets</b>								
Available-for-sale investments	–	–	320	–	–	320	320	22
<b>Non-current financial assets</b>								
Loan receivables	–	17	–	–	–	17	17	23
Derivative financial instruments	28	–	–	218	–	246	246	23
						263	263	
<b>Current financial assets</b>								
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	
<b>Carrying amount by category</b>	126	1,343	320	240	–	2,029	2,029	
<b>Non-current financial liabilities</b>								
<b>Non-current interest-bearing liabilities</b>								
Non-current interest-bearing liabilities	–	–	–	–	4,025	4,025	3,894	31
Derivative financial instruments	95	–	–	44	–	139	139	31
						4,164	4,033	
<b>Other liabilities</b>								
Other liabilities	2	–	–	–	24	26	26	32
Derivative financial instruments	25	–	–	–	–	25	25	32
						51	51	
<b>Current financial liabilities</b>								
<b>Current interest-bearing liabilities</b>								
Interest-bearing liabilities	–	–	–	–	254	254	254	31
Derivative financial instruments	46	–	–	–	–	46	46	31
						300	300	
<b>Trade and other payables</b>								
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	
<b>Carrying amount by category</b>	188	–	–	70	5,463	5,721	5,590	

Fair values of long-term loans, have been estimated as follows:

The fair value of 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

	2010	As at 31 December 2010		2009
	Positive fair values	Negative fair values	Net fair values	Net fair values
EURm				
<b>Interest rate swaps</b>				
Fair value hedges	262	–	262	219
Held for trading	66	–	66	68
<b>Forward foreign exchange contracts</b>				
Cash flow hedges	19	–37	–18	7
Net equity hedges	–	–49	–49	–12
Held for trading	62	–24	38	10
<b>Currency options</b>				
Held for trading	–	–	–	–
<b>Cross currency swaps</b>				
Cash flow hedges	–	–21	–21	–
Fair value hedges	26	–	26	–44
Held for trading	32	–97	–65	–133
<b>Commodity Contracts</b>				
Cash flow hedges	–	–42	–42	–
Held for trading	14	–20	–6	–3
<b>Interest rate forward contracts</b>				
Held for trading	–	–	–	–
<b>Total</b>	<b>481</b>	<b>–290</b>	<b>191</b>	<b>112</b>

## Notional amounts of derivative financial instruments

	As at 31 December	
	2010	2009
EURm		
Interest rate swaps	2,478	2,701
Forward foreign exchange contracts	3,993	3,791
Currency options	8	40
Cross currency swaps	800	514
Commodity contracts	275	175
Interest rate forward contracts	2,442	3,259

## 36 PRINCIPAL SUBSIDIARIES AS AT 31 DECEMBER 2010

Name of the subsidiary, country of incorporation	Group holding %
Blandin Paper Company, US	100.00
Forestal Oriental S.A., UY	100.00
Lignis GmbH & Co. KG, DE	74.90
Länsi-Suomen Voima Oy, FI	51.10
Nordland Papier GmbH, DE	100.00
Norfolk House Management Ltd, UK	95.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
PT UPM Raflatac Indonesia, ID	100.00
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	100.00
ZAO Tikhvinsky Kompleksny Lespromkhoz, RU	99.99
Tilhill Forestry Ltd, UK	100.00
OOO UPM-Kymmene, RU	100.00
UPM-Kymmene (Changshu) Paper Industry Co. Ltd, CN	100.00
UPM-Kymmene (UK) Ltd, UK	100.00
UPM-Kymmene A/S, DK	100.00
UPM-Kymmene AB, SE	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

Name of the subsidiary, country of incorporation	Group holding %
OOO UPM-Kymmene Chudovo, 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 Sanoy ve Ticaret Ltd. Sti, TR	100.00
UPM-Kymmene NV/SA, BE	99.60
UPM-Kymmene Otepää AS, EE	100.00
UPM-Kymmene S.A., ES	100.00
UPM-Kymmene S.r.l., IT	100.00
UPM-Kymmene Seven Seas Oy, FI	100.00
UPM-Kymmene Wood Oy, FI	100.00
UPM AS, EE	100.00
UPM GmbH, DE	100.00
UPM Manufatura e Comércio de Produtos Florestais Ltda, BR	100.00
UPM S.A., UY	91.00
UPM Sales GmbH, DE	100.00
UPM Silvesta Oy, FI	100.00
UPM Sähkösiirto Oy, FI	100.00
UPM Raflatac (Changshu) Co., Ltd, CN	100.00
UPM Raflatac (S) Pte Ltd, SG	100.00
UPM Raflatac Co., Ltd, TH	100.00
UPM Raflatac Iberica S.A., ES	100.00
UPM Raflatac Inc., US	100.00
UPM Raflatac Ltd, UK	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 Pty Ltd, AU	100.00
UPM Raflatac RFID (Guangzhou) Co. Ltd, CN	100.00
UPM Raflatac S.A.S., FR	100.00
UPM Raflatac Sdn. Bhd., MY	100.00
UPM Raflatac South Africa (Pty) Ltd, ZA	100.00
UPM Raflatac Sp.z.o.o., PL	100.00
Werla Insurance Company Ltd, UK	100.00

The table includes subsidiaries with sales exceeding EUR 2 million.

## 37 SHARE-BASED PAYMENTS

## Share options

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 could 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 1 October 2008 to 31 October 2010 for 2005H options.

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. EUR 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. EUR 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. EUR 21.65 per share. The share subscription prices were reduced by the amount of dividend confirmed after the end of the subscription price determina-



tion 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 exercised 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 for 2005G options was EUR 16.00 per share. The share subscription period for stock options 2005H ended on 31 October 2010. During the entire share subscription period no shares were subscribed with stock options 2005H. At the end of the exercise period the subscription price for 2005H options was EUR 19.30 per share.

The Annual General Meeting held on 27 March 2007 approved the Board of Directors' proposal to issue share options to the Group's key personnel. The number of options may not be more than 15,000,000 and they will entitle subscription for a total of 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 are marked with the symbol 2007C. The subscription periods are 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 is the trade volume weighted average quotation of the share on the NASDAQ OMX Helsinki Ltd, from 1 April to 31 May 2008 for share option 2007A i.e. EUR 12.40 per share, from 1 April to 31 May 2009 for share option 2007B i.e. EUR 6.24 per share and from 1 April to 31 May 2010 for share option 2007C i.e. EUR 10.49 per share.

### Share-based rewards

In addition to the option programmes the company's long-term incentives include also shares awarded under the Share Ownership Plan. The Share Ownership Plan includes three earning periods for the years 2008, 2009 and 2010. The number of the reward shares will be based on the predetermined financial targets, which are decided separately for each earning period by the Board of Directors. The maximum number of shares payable under the Share Ownership Plan to the key personnel is in aggregate 1,250,000 shares. In addition, a cash payment equivalent to taxes will be paid by the company.

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

The earning criterion for the earning period 2009 was based on the development of the operating cash flow. As the target was achieved in full, it resulted to the maximum payout in 2010 of 462,500 shares to 29 key employees. Of this amount, 70,000 shares were given to the President and CEO, and a total of 197,500 shares to other Group Executive Team members.

In 2009, a total of 30,000 shares were given as incentive to the President and CEO under the terms and conditions of the Share Ownership Plan.

### Changes in the numbers of share options granted

	2010		2009	
	Weighted average exercise price, EUR	Number of share options	Weighted average exercise price, EUR	Number of share options
Outstanding 1 Jan.	11.74	11,913,000	18.28	5,738,000
Share options granted	10.49	4,850,000	9.19	9,115,000
Share options forfeited	7.88	-342,000	8.74	-74,000
Share options exercised	-	-	-	-
Share options expired	19.30	-2,872,000	16.00	-2,866,000
Outstanding 31 Dec.	9.69	13,549,000	11.74	11,913,000
Exercisable share options 31 Dec.		4,253,000		2,872,000

Weighted average remaining contractual life was 35 and 33 months as at 31 December 2010 and 2009, respectively.

### Outstanding share option plans as at 31 December 2010

Plan/Distribution of share options	Class	Exercise price		Total number of share options	Number of share options granted	Exercise period	Vesting schedule
		at 1 Jan.	at 31 Dec.				
2007/2010	C	-	10.49	5,000,000	4,850,000	1.10.2012-31.10.2014	1.10.2012
2007/2009	B	6.24	6.24	5,000,000	4,743,000	1.10.2011-31.10.2013	1.10.2011
2007/2009	A	12.40	12.40	5,000,000	4,372,000	1.10.2010-31.10.2012	Vested
				15,000,000	13,965,000		

The Black-Scholes valuation model and the following weighted average assumptions are used in measuring the fair value of share options issued in 2010 and 2009:

	2010	2009
Share price, EUR	12.22	8.14
Exercise price, EUR	10.49	9.19
Volatility <sup>1)</sup>	44%	38%
Risk-free interest rate	1%	3%
Assumed annual dividend yield	4%	5%
Expected option life, year	4	4

<sup>1)</sup> 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 volatility is based on three- and four-year periods. Volatility is reported as an annual percentage figure.

Assumed forfeiture used in 2010 and 2009 was 3%.

## 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 2010 and 2009. Shares and share options held by members of the Board of Directors and members of the Group Executive Team are disclosed in pages 70 and 72. Remuneration to members of the Board of Directors and the Group Executive Team are disclosed in Note 7.

### Associated companies and joint ventures

The Group sources most of the energy for its production units in Finland from the Group's owned and leased power plants, as well as through ownership of 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 43.09% 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 2010 was EUR 263 million (223 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.

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 2010 the total value of recovered paper purchases from LCI was EUR 20 million (9 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 2010 the total value of raw material purchases from Paperinkeräys Oy was EUR 11 million (10 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 2010 the total value of recovered paper purchases was EUR 18 million (11 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. Pensions for about 7% of the Group's Finnish employees are arranged through the foundation. In 2010 the contributions paid by UPM to the foundation amounted to EUR 9 million (16 million). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation's assets at 31 December 2010 was EUR 294 million (271 million), of which 55% was in the form of equity instruments, 32% in the form of debt instruments and 13% invested in property and money market.

The Group participates in two UK Pension Schemes which operate within two separate and independent Trusts, both of which are independent of 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 at that date became deferred members and were invited to join the Group's sole UK Defined Contribution Pension Scheme. The Group made no contributions to the Defined Benefit Schemes in 2010 and 2009. The fair value of the UK Defined Benefit funds assets at 31 December 2010 was GBP 213 million, of which 66% was invested in equity instruments, 27% in debt instruments and 7% 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 from commercial law issues.

In Finland, UPM is participating in the project for construction 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 58.39% of shares. UPM's indirect share of the capacity of the Olkiluoto 3 is approximately 29%. The original agreed timetable for the start-up of the power plant was summer 2009 but the construction of the unit has been delayed. In November 2010, TVO informed that the plant supplier the AREVA-Siemens Consortium, had reported that most of the works are expected to be completed in 2012 and regular operation of the plant is estimated to start in the second half of 2013.

According to TVO, the arbitration filed in December 2008 by AREVA-Siemens, concerning the delay at Olkiluoto 3 and

related costs, amounted to EUR 1.0 billion. In response, TVO filed a counterclaim 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 EUR 1.4 billion.

The International Court of Justice published its final decision on a litigation case against the government of Uruguay on 20 April 2010 in a dispute between the governments of Uruguay and Argentina. In Uruguay, there is one pending litigation against the government of Uruguay related to Fray Bentos pulp mill, and in Argentina, one such litigation against the company operating the pulp mill.

### Commitments

In the normal course of business, UPM enters into various agreements providing financial or performance assurance to third parties. The maximum amounts of future payments for which UPM is liable is 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 non-controlling 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 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 of 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, 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 EUR 14 million at 31 December 2010 and EUR 13 million at 31 December 2009. They are included in the amounts disclosed in the table under "Other commitments".

### Commitments

EURm	As at 31 December	
	2010	2009
<b>On own behalf</b>		
Mortgages and pledges	764	1,043
<b>On behalf of associated companies and joint ventures</b>		
Guarantees	7	8
<b>On behalf of others</b>		
Guarantees	2	1
<b>Other commitments, own</b>		
Operating leases, due within 12 months	28	24
Operating leases, due after 12 months	80	60
Other commitments	164	69
<b>Total</b>	<b>1,045</b>	<b>1,205</b>
Mortgages and pledges	764	1,043
Guarantees	9	9
Operating leases	108	84
Other commitments	164	69
<b>Total</b>	<b>1,045</b>	<b>1,205</b>

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

EURm	As at 31 December	
	2010	2009
Proportionate interest in joint ventures' commitments	22	22
Contingent liabilities relating to the Group's interest in the joint ventures	5	6
Share of associated companies contingent liabilities <sup>1)</sup>	329	215

<sup>1)</sup> Includes mortgages and pledges of EUR 29 million (39 million), operating leases EUR 180 million (169 million) and other commitments EUR 120 million (7 million).

### Operating lease commitments – where a Group company is the lessee

The Group leases office, manufacturing and warehouse space through various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

### Future costs for contracts exceeding one year and for non-cancellable operating lease contracts

EURm	As at 31 December	
	2010	2009
Not later than 1 year	28	25
1–2 years	23	19
2–3 years	17	15
3–4 years	10	10
4–5 years	9	4
Later than 5 years	21	12
<b>Total</b>	<b>108</b>	<b>85</b>

**Capital commitments at the balance sheet date but not recognised in the financial statements; major commitments under construction listed below**

EURm	Total cost	Commitment as at 31 December	
		2010	2009
PM 8 rebuild, Tervasaari	20	17	–
Power plant rebuild, Schongau	12	6	–
Materials recovery facility (MRF), Shotton	19	5	19
Plywood development	18	5	18
Energy saving TMP plant, Steyrermühl	16	5	16

**40 EVENTS AFTER THE BALANCE SHEET DATE**

On 20 January 2011, UPM's plantation company Forestal Oriental acquired about 25,000 hectares of land in Uruguay from a private land owner. The total price for the land acquisition, including the standing wood reserves, is about EUR 65 million.

On 26 January 2011 it was announced that Pohjolan Voima

Oy, the State of Finland and the Mutual Pension Insurance Company Ilmarinen are negotiating on the sale of Pohjolan Voima's 25% shareholding of Fingrid Oyj, the Finnish electricity transmission system operator. The State would acquire approximately 81% of the shares and Ilmarinen approximately 19% of the shares owned by Pohjolan Voima. The closing of the transaction requires signing of the final transaction documentation and approvals of the decision making bodies of the respective parties as well as regulatory approval. Upon closing, the transaction price would be EUR 325 million, and Pohjolan Voima would record a capital gain of EUR 200 million for the transaction. UPM owns 43.09% of Pohjolan Voima. Upon closing, UPM will recognise a special income of EUR 86 million from the sale in the associated company results. Pohjolan Voima estimates that the transaction will be closed during the first half of 2011.

The Group's management is not aware of any other significant events occurring after 31 December 2010.

# PARENT COMPANY ACCOUNTS (Finnish Accounting Standards, FAS)

## INCOME STATEMENT

EURm	Note	Year ended 31 Dec.	
		2010	2009
<b>Turnover</b>	1)	4,124	3,535
Change in inventories of finished goods and work in progress		33	-68
Production for own use		6	13
Other operating income	2)	79	415
Materials and services			
Materials and consumables			
Purchases during the financial period		-2,404	-1,845
Change in inventories		21	-142
External services		-304	-252
		-2,687	-2,239
Personnel expenses	3)		
Wages and salaries		-388	-388
Social security expenses			
Pension expenses		-73	-82
Other social security expenses		-21	-30
		-482	-500
Depreciation and value adjustments	4)		
Depreciation according to plan		-299	-319
Value adjustments to goods held as non-current assets		2	-3
		-297	-322
Other operating costs and expenses		-346	-556
<b>Operating profit</b>		430	278
Financial income and expenses			
Income from investments held as non-current assets			
Dividends from Group companies		69	8
Dividends from participating interest companies		1	353
Interest income from Group companies		1	2
Other interest and financial income			
Other interest income from Group companies		7	13
Other interest income from other companies		1	4
Other financial income from Group companies		3	-
Other financial income from other companies		-	10
Interest and other financial expenses			
Interest expenses to Group companies		-38	-27
Interest expenses to other companies		-60	-126
Other financial expenses to Group companies		-76	-99
Other financial expenses to other companies		-49	-13
		-141	125
<b>Profit (loss) before extraordinary items</b>		289	403
Extraordinary items	5)		
Extraordinary income		14	4
Extraordinary expenses		-93	-1
		-79	3
<b>Profit (loss) before appropriations and taxes</b>		210	406
Appropriations			
Increase or decrease in accumulated depreciation difference		57	42
Income taxes	6)	-25	-3
<b>Profit for the financial period</b>		242	445

## CASH FLOW STATEMENT

EURm	Year ended 31 Dec.	
	2010	2009
<b>Operating activities</b>		
Profit (loss) before extraordinary items	289	403
Financial income and expenses	141	-125
Adjustments to operating profit <sup>a)</sup>	226	122
Change in working capital <sup>b)</sup>	-83	555
Interest paid	-101	-169
Dividends received	11	32
Interest received	10	20
Other financial items	32	-58
Income taxes paid <sup>c)</sup>	-45	-1
<b>Net cash generated from operating activities</b>	480	779
<b>Investing activities</b>		
Investments in tangible and intangible assets	-131	-123
Proceeds from sale of tangible and intangible assets	62	56
Investments in shares and holdings	-53	-623
Proceeds from sale of shares and holdings	23	592
Increase in other investments	-5	-29
Decrease in other investments	15	17
<b>Net cash used in investing activities</b>	-89	-110
<b>Financing activities</b>		
Increase in non-current liabilities	142	148
Decrease in non-current liabilities	-332	-941
Increase or decrease in current liabilities	-78	346
Dividends paid	-234	-208
Group contributions received and paid	2	5
<b>Net cash used in financing activities</b>	-500	-650
<b>Cash and cash equivalents</b>		
Change in cash and cash equivalents	-109	19
Cash and cash equivalents at beginning of year	296	277
<b>Cash and cash equivalents at end of year</b>	187	296

### Notes to the cash flow statement

<sup>a)</sup> Adjustments to operating profit		
Depreciation	299	319
Gains and losses on sale of non-current assets	-52	-197
Value adjustments on non-current assets	-2	2
Change in provisions	-19	-2
Total	226	122
<sup>b)</sup> Change in working capital		
Inventories	-67	247
Current receivables	-72	359
Current non-interest-bearing liabilities	56	-51
Total	-83	555

<sup>c)</sup> Taxes stemming from extraordinary items and sales of non-current assets are reported here on a net basis.

**BALANCE SHEET**

EURm	Note	As at 31 December 2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	7)		
Intangible rights		5	5
Other capitalised expenditure		238	231
Advance payments		13	7
		256	243
Tangible assets	8)		
Land and water areas		1,035	1,049
Buildings		516	541
Machinery and equipment		1,209	1,392
Other tangible assets		55	67
Advance payments and construction in progress		29	10
		2,844	3,059
Investments	9)		
Holdings in Group companies		4,776	4,759
Receivables from Group companies		44	55
Holdings in participating interest companies		435	430
Receivables from participating interest companies		3	2
Other shares and holdings		270	271
Other receivables		16	9
		5,544	5,526
Total non-current assets		8,644	8,828
<b>Current assets</b>			
Inventories			
Raw materials and consumables		235	214
Finished products and goods		274	241
Advance payments		36	24
		545	479
Current receivables	10)		
Trade receivables		106	78
Receivables from Group companies		1,194	1,158
Receivables from participating interest companies		12	15
Loan receivables		19	–
Other receivables		36	34
Prepayments and accrued income		39	18
		1,406	1,303
Cash and cash equivalents		187	296
Total current assets		2,138	2,078
<b>Total assets</b>		<b>10,782</b>	<b>10,906</b>

EURm	Note	As at 31 December 2010	2009
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
	11)		
Share capital		890	890
Revaluation reserve		538	546
Reserve for invested non-restricted equity		1,145	1,145
Retained earnings		1,889	1,678
Profit for the financial period		242	445
Total equity		4,704	4,704
<b>Appropriations</b>			
Accumulated depreciation difference		870	928
<b>Provisions</b>			
	12)		
Provisions for pensions		39	49
Other provisions		51	60
		90	109
<b>Non-current liabilities</b>			
	13)		
Bonds		1,860	1,773
Loans from financial institutions		295	451
Pension loans		643	790
Advances received		1	1
Trade payables		–	1
Payables to Group companies		21	21
Other liabilities		194	158
Total non-current liabilities		3,014	3,195
<b>Current liabilities</b>			
	14)		
Bonds		–	59
Loans from financial institutions		48	4
Pension loans		147	16
Advances received		2	5
Trade payables		227	218
Payables to Group companies		1,396	1,354
Payables to participating interest companies		37	29
Other liabilities		64	43
Accruals and deferred income		183	242
Total current liabilities		2,104	1,970
Total liabilities		5,118	5,165
<b>Total equity and liabilities</b>		<b>10,782</b>	<b>10,906</b>



# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(All amounts in millions of euros unless otherwise stated.)

## Accounting policies

The parent company financial statements are prepared in accordance with Finnish Accounting Standards. The main differences in accounting policies between the Group and the parent company relate to the measurement of derivative financial instruments and biological assets and the 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 destination.

## 2 OTHER OPERATING INCOME

EURm	Year ended 31 Dec.	
	2010	2009
Gains on sale of non-current assets	56	390
Rental income	17	18
Gains on sale of emission rights <sup>1)</sup>	4	6
Other	2	1
<b>Total</b>	<b>79</b>	<b>415</b>

<sup>1)</sup> Emissions trading rights are accounted for on a net basis.

## 3 PERSONNEL EXPENSES

EURm	Year ended 31 Dec.	
	2010	2009
<b>Wages and salaries</b>		
Managing director and members of the Board of Directors <sup>2)</sup>	4	3
Other wages and salaries	384	385
<b>Total</b>	<b>388</b>	<b>388</b>

<sup>2)</sup> See Notes to the consolidated financial statements, Note 7.

EURm	Year ended 31 Dec.	
	2010	2009
Average number of personnel	7,458	8,036

Owing to the corporate structure of the Group, the average number of personnel has not been divided by segment.

## 4 DEPRECIATION AND VALUE ADJUSTMENTS

EURm	Year ended 31 Dec.	
	2010	2009
<b>Depreciation according to plan</b>		
Intangible rights	3	3
Other capitalised expenditure	30	29
Buildings	36	39
Machinery and equipment	221	239
Other tangible assets	9	9
<b>Total</b>	<b>299</b>	<b>319</b>
<b>Value adjustments</b>		
Non-current assets	-2	3
<b>Total</b>	<b>297</b>	<b>322</b>

## 5 EXTRAORDINARY ITEMS

EURm	Year ended 31 Dec.	
	2010	2009
<b>Extraordinary income</b>		
Group contributions received	14	1
Gains on mergers	-	3
<b>Total</b>	<b>14</b>	<b>4</b>
<b>Extraordinary expenses</b>		
Group contributions paid	-93	-
Other items	-	-1
<b>Total</b>	<b>-93</b>	<b>-1</b>
<b>Total</b>	<b>-79</b>	<b>3</b>

## 6 INCOME TAXES

EURm	Year ended 31 Dec.	
	2010	2009
Income taxes for the financial period	25	-
Income taxes from previous periods	-	-3
<b>Total</b>	<b>25</b>	<b>-3</b>

### Deferred income taxes

Deferred income tax assets and liabilities of the parent company are not recorded on the balance sheet.

Deferred tax liability mainly comprises depreciation differences, for which the deferred tax liability at 31 December 2010 was EUR 226 million (241 million).

Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued assets is EUR 181 million (183 million).

## 7 INTANGIBLE ASSETS

EURm	As at 31 Dec.	
	2010	2009
<b>Intangible rights</b>		
Acquisition cost at 1 Jan.	16	18
Increases	17	19
Decreases	-18	-22
Transfers between balance sheet items	-	1
Acquisition cost at 31 Dec.	15	16
Accumulated depreciation at 1 Jan.	-11	-10
Accumulated depreciation on decreases and transfers	4	5
Depreciation for the period	-3	-3
Value adjustments	-	-3
Accumulated depreciation at 31 Dec.	-10	-11
Book value at 31 Dec.	5	5

EURm	As at 31 Dec.	
	2010	2009
<b>Other capitalised expenditure</b>		
Acquisition cost at 1 Jan.	439	383
Increases	17	37
Decreases	-13	-7
Transfers between balance sheet items	19	26
Acquisition cost at 31 Dec.	462	439
Accumulated depreciation at 1 Jan.	-208	-185
Accumulated depreciation on decreases and transfers	14	6
Depreciation for the period	-30	-29
Accumulated depreciation at 31 Dec.	-224	-208
Book value at 31 Dec.	238	231
<b>Advance payments</b>		
Acquisition cost at 1 Jan.	7	27
Increases	25	5
Transfers between balance sheet items	-19	-25
Book value at 31 Dec.	13	7

## 8 TANGIBLE ASSETS

EURm	As at 31 Dec.	
	2010	2009
<b>Land and water areas</b>		
Acquisition cost at 1 Jan.	508	494
Increases	3	22
Decreases	-9	-6
Transfers between balance sheet items	-	-2
Acquisition cost at 31 Dec.	502	508
Revaluations at 1 Jan.	541	545
Reversal of revaluation	-8	-4
Revaluations at 31 Dec.	533	541
Book value at 31 Dec.	1,035	1,049
<b>Buildings</b>		
Acquisition cost at 1 Jan.	1,155	1,150
Increases	7	17
Decreases	-4	-16
Transfers between balance sheet items	5	4
Acquisition cost at 31 Dec.	1,163	1,155
Accumulated depreciation at 1 Jan.	-614	-585
Accumulated depreciation on decreases and transfers	3	11
Depreciation for the period	-36	-39
Value adjustments	-	-1
Accumulated depreciation at 31 Dec.	-647	-614
Book value at 31 Dec.	516	541
<b>Machinery and equipment</b>		
Acquisition cost at 1 Jan.	5,210	5,447
Increases	33	45
Decreases	-38	-292
Transfers between balance sheet items	4	10
Acquisition cost at 31 Dec.	5,209	5,210
Accumulated depreciation at 1 Jan.	-3,818	-3,871
Accumulated depreciation on decreases and transfers	37	291
Depreciation for the period	-221	-239
Value adjustments	2	1
Accumulated depreciation at 31 Dec.	-4,000	-3,818
Book value at 31 Dec.	1,209	1,392

EURm	As at 31 Dec.	
	2010	2009
<b>Other tangible assets</b>		
Acquisition cost at 1 Jan.	203	202
Increases	1	2
Decreases	-9	-1
Acquisition cost at 31 Dec.	195	203
Accumulated depreciation at 1 Jan.	-136	-129
Accumulated depreciation on decreases and transfers	5	2
Depreciation for the period	-9	-9
Accumulated depreciation at 31 Dec.	-140	-136
Book value at 31 Dec.	55	67
<b>Advance payments and construction in progress</b>		
Acquisition cost at 1 Jan.	10	16
Increases	27	8
Transfers between balance sheet items	-8	-14
Book value at 31 Dec.	29	10

## 9 INVESTMENTS

EURm	As at 31 Dec.	
	2010	2009
<b>Holdings in Group companies</b>		
Acquisition cost at 1 Jan.	5,233	4,465
Increases	49	870
Decreases	-32	-102
Acquisition cost at 31 Dec.	5,250	5,233
Accumulated depreciation at 1 Jan.	-474	-281
Value adjustments	-	-193
Accumulated depreciation at 31 Dec.	-474	-474
Book value at 31 Dec.	4,776	4,759

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.

EURm	As at 31 Dec.	
	2010	2009
<b>Receivables from Group companies</b>		
Acquisition cost at 1 Jan.	55	48
Increases	3	25
Decreases	-14	-18
Book value at 31 Dec.	44	55
<b>Holdings in participating interest companies</b>		
Acquisition cost at 1 Jan.	327	545
Increases	5	82
Decreases	-	-203
Transfers between balance sheet items	-	-97
Acquisition cost at 31 Dec.	332	327
Revaluations at 1 Jan.	103	103
Revaluations at 31 Dec.	103	103
Book value at 31 Dec.	435	430

Decreases and transfers in 2009 related to the sale of approximately 30% of Metsä-Botnia Ab shares.

EURm	As at 31 Dec.	
	2010	2009
<b>Receivables from participating interest companies</b>		
Acquisition cost at 1 Jan.	2	–
Increases	1	2
Book value at 31 Dec.	3	2
<b>Other shares and holdings</b>		
Acquisition cost at 1 Jan.	210	112
Increases	–	1
Decreases	–1	–
Transfers between balance sheet items	–	97
Acquisition cost at 31 Dec.	209	210
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	270	271
<b>Other receivables</b>		
Acquisition cost at 1 Jan.	9	10
Increases	8	3
Decreases	–1	–4
Acquisition cost at 31 Dec.	16	9
Accumulated depreciation on decreases and transfers	–	5
Value adjustments	–	–5
Book value at 31 Dec.	16	9

There were no loans granted to the company's Managing Director and members of the Board of Directors at 31 December 2010 or 2009.

## 10 CURRENT RECEIVABLES

EURm	As at 31 Dec.	
	2010	2009
Trade receivables	625	537
Loan receivables	705	653
Other receivables	36	34
Prepayments and accrued income	40	79
Total at 31 Dec.	1,406	1,303

### Main items included in prepayments and accrued income

Personnel expenses	3	4
Interest income	9	10
Derivative financial instruments	1	59
Income taxes	20	–
Other items	7	6
At 31 Dec.	40	79

### Receivables from Group companies

Trade receivables	511	448
Loan receivables	682	649
Prepayments and accrued income	1	61
At 31 Dec.	1,194	1,158

### Receivables from participating interest companies

Trade receivables	8	11
Loans receivables	4	4
At 31 Dec.	12	15

## 11 SHAREHOLDERS' EQUITY

EURm	Share capital	Revaluation reserve	Reserve for invested non-restricted equity	Retained earnings	Total shareholders' equity
Balance at 1 January 2009	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
Balance at 1 January 2010	890	546	1,145	2,123	4,704
Revaluations	–	–8	–	–	–8
Dividend paid	–	–	–	–234	–234
Profit for the financial period	–	–	–	242	242
Balance at 31 December 2010	890	538	1,145	2,131	4,704

EURm	As at 31 Dec.	
	2010	2009
<b>Distributable funds at 31 Dec.</b>		
Reserve for invested non-restricted equity	1,145	1,145
Retained earnings from previous years	1,889	1,678
Profit for the financial period	242	445
Distributable funds at 31 Dec.	3,276	3,268

**12 PROVISIONS**

EURm	As at 31 Dec.	
	2010	2009
Provisions for pensions	39	49
Restructuring provisions	20	30
Environmental provisions	14	17
Other provisions	17	13
Total at 31 Dec.	90	109

**13 NON-CURRENT LIABILITIES**

EURm	As at 31 Dec.	
	2010	2009
Bonds	1,860	1,773
Loans from financial institutions	295	451
Pension loans	643	790
Advances received	1	1
Trade payables	–	1
Other liabilities	215	179
Total at 31 Dec.	3,014	3,195

**Payables to Group companies**

Other liabilities	21	21
At 31 Dec.	21	21

**Maturity of non-current liabilities**

In 2–5 years					
Bonds			1,010		983
Loans from financial institutions			88		242
Pension loans			424		498
Advances received			1		1
Trade payables			–		1
Payables to Group companies			21		21
			1,544		1,746
Later than 5 years					
Bonds			850		790
Loans from financial institutions			207		209
Pensions loans			219		292
Other liabilities			194		158
			1,470		1,449
Total at 31 Dec.			3,014		3,195

**Bonds**

	Interest rate %	Currency of bond	Nominal value issued m	2010 EURm	2009 EURm
<b>Fixed-rate</b>					
1997–2027	7.450	USD	375	281	260
2000–2030	3.550	JPY	10,000	92	75
2002–2012	6.125	EUR	600	600	600
2002–2014	5.625	USD	500	374	347
2002–2017	6.625	GBP	250	290	281
2003–2018	5.500	USD	250	187	174
				1,824	1,737
<b>Floating-rate</b>					
2002–2010	1.898	EUR	59	–	59
2002–2012	1.965	EUR	25	25	25
2002–2012	2.204	EUR	11	11	11
				36	95
Total at 31 Dec.				1,860	1,832
Current portion				–	–59
Non-current portion				1,860	1,773

**14 CURRENT LIABILITIES**

EURm	As at 31 Dec.	
	2010	2009
Bonds	–	59
Loans from financial institutions	48	4
Pension loans	147	16
Advances received	2	5
Trade payables	317	278
Other liabilities	1,318	1,299
Accruals and deferred income	272	309
Total at 31 Dec.	2,104	1,970

**Main items included in accruals and deferred income**

Personnel expenses	96	97
Interest expenses	9	13
Derivative financial instruments	152	183
Other items	15	16
At 31 Dec.	272	309

**Payables to Group companies**

Trade payables	58	31
Other liabilities	1,249	1,256
Accruals and deferred income	89	67
At 31 Dec.	1,396	1,354

**Payables to participating interest companies**

Trade payables	32	29
Other liabilities	5	–
At 31 Dec.	37	29

**15 CONTINGENT LIABILITIES**

EURm	As at 31 Dec.	
	2010	2009
<b>Mortgages<sup>1)</sup></b>		
As security against own debts	763	764
<b>Guarantees</b>		
Guarantees for loans		
On behalf of Group companies	995	1,419
On behalf of participating interest companies	7	8
Other guarantees		
On behalf of Group companies	58	64

**Other commitments<sup>2)</sup>**

Leasing commitments for next year	60	18
Leasing commitments for subsequent years	134	164
Other commitments	79	–

<sup>1)</sup> The mortgages given relate mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

<sup>2)</sup> Other commitments relate to electricity 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.

**Derivative 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 2006 – 31 December 2010

		Number of shares
2005	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
2010	Options exercised	-
	Number of shares at 31 Dec. 2010	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 790.5 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2010 (805.9 million). This represented 152.0% (155.0%) of the total number of shares. The highest quotation was EUR 13.57 in December and the lowest EUR 7.37 in February. The total value of shares traded in 2010 was EUR 8,243 million (5,691 million).

During the year, 0.30 million 2005H share options were traded for EUR 0.01 million (0.22 million and EUR 0.03 million) and 0.68 million 2007A options were traded for EUR 1.52 million.

### 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 801,049 (1,234,911 ) 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 0.15% of the shares (0.24%) and 0.15% of the voting rights (0.24%). At the end of the year, President and CEO Jussi Pesonen owned 162,814 shares and 1,000,000 share options. Exercise of these options would increase the number of the company's shares by 1,000,000, which at 31 December 2010 would have represented 0.19% 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 258,210 shares and 2,920,054 share options. Exercise of these options would increase the number of the company's shares by 2,920,054 which at 31 December 2010 would have represented 0.56% of the company's shares and voting rights.

**Biggest registered shareholders at 31 December 2010**

	Shares at 31 December 2010	% of shares	% of votes
Ilmarinen Mutual Pension Insurance Company	18,343,560	3.53	3.53
Varma Mutual Pension Insurance Company	14,728,899	2.83	2.83
The State Pension Fund	4,850,000	0.93	0.93
Gustaf Serlachius (representing 4 shareholders)	4,489,870	0.86	0.86
Svenska litteratursällskapet i Finland	3,831,302	0.74	0.74
Mandatum Life Insurance Company	3,258,247	0.63	0.63
OP-Delta Investment Fund	2,950,000	0.57	0.57
Sellan Inderessenter Ab	2,100,000	0.40	0.40
Etera Mutual Pension Insurance Company	1,950,000	0.38	0.38
The Local Government Pensions Institution	1,732,708	0.33	0.33
Nominees & registered foreign owners	292,085,872	56.17	56.17
Others	169,649,630	32.63	32.63
Total	519,970,088	100.00	100.00

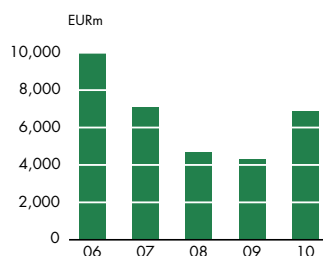
The company has received the following notifications from shareholders: On 23 June 2010, BlackRock Inc. announced its ownership in UPM had declined below 5% of the company's shares and voting rights. Franklin Templeton on 27 July 2009 announced its ownership in UPM had declined below 5% of the company's shares and voting rights.



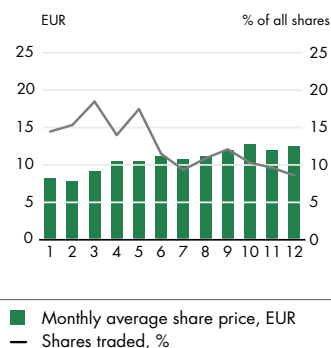
### SHARE PRICE IN 2010



### MARKET CAPITALISATION



### MONTHLY AVERAGE SHARE PRICE AND SHARES TRADED 1-12/2010

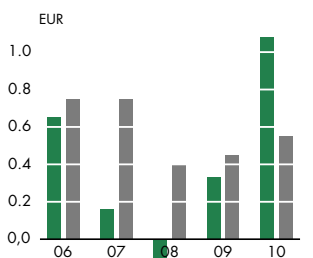


### SHARE PRICE IN 2006-2010



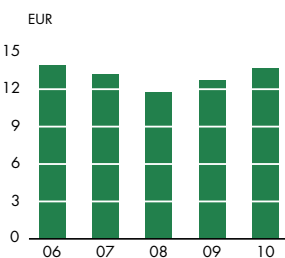
— UPM share price at end of month  
— MSCI (Morgan Stanley Capital International)  
Forest Products & Paper World Index

### EARNINGS AND DIVIDEND PER SHARE

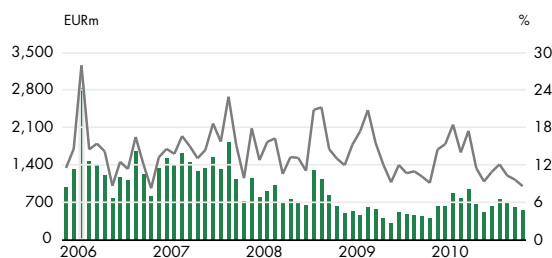


■ Earnings per share  
■ Dividend per share (2010: proposal)

### SHAREHOLDERS' EQUITY PER SHARE

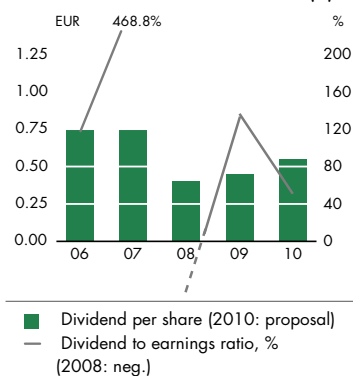


### SHARE TRADED ON HELSINKI STOCK EXCHANGE 2006-2010



■ Monthly trading in UPM shares on Helsinki stock exchange, EURm  
— Trading in UPM shares as % of total number of shares

### DIVIDEND PER SHARE (EUR) AND DIVIDEND TO EARNINGS RATIO (%)



■ Dividend per share (2010: proposal)  
— Dividend to earnings ratio, %  
(2008: neg.)

Tables of this page are unaudited.

**Distribution of shareholders at 31 December 2010**

Size of shareholding	Number of shareholders	% of share-holders	Number of shares, million	% of shares
1 – 100	18,837	20.75	1.2	0.2
101 – 1,000	51,301	56.51	22.1	4.3
1,001 – 10,000	18,914	20.83	52.8	10.2
10,001 – 100,000	1,566	1.72	38.2	7.3
100,001 –	170	0.19	120.7	23.2
Total	90,788	100.00	235.0	45.2
Nominee-registered			284.8	54.8
Not registered as book entry units			0.2	0.0
Total			520.0	100.0

**Shareholder breakdown by sector at 31 December, %**

	2010	2009	2008	2007	2006
Companies	4.1	3.8	2.8	2.2	1.8
Financial institutions and insurance companies	5.1	4.6	3.2	2.5	2.1
Public bodies	9.8	8.5	8.1	6.4	5.2
Non-profit organisations	6.4	6.3	6.0	6.0	6.1
Households	18.4	17.5	14.9	14.1	13.5
Non-Finnish nationals	56.2	59.3	65.0	68.8	71.3
Total	100.0	100.0	100.0	100.0	100.0

**UPM's share option programmes**

Options	Number of options	Number of shares	Exercise price per share		Subscription period	Options exercised 2010
			at date of issue €	at 31 Dec. 2010 €		
2007C	5,000,000	5,000,000	10.49	10.49	1.10.2012–31.10.2014	–
2007B	5,000,000	5,000,000	6.24	6.24	1.10.2011–31.10.2013	–
2007A	5,000,000	5,000,000	12.40	12.40	1.10.2010–31.10.2012	–

## KEY FIGURES 2001–2010

Adjusted share-related indicators 2001–2010 <sup>1)</sup>

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Earnings per share, EUR (diluted 2010: 1.08)	1.08	0.33	−0.35	0.16	0.65	0.50	1.76	0.60	0.96	1.93
Shareholders' equity per share, EUR	13.64	12.67	11.74	13.21	13.90	14.01	14.46	13.36	13.85	13.09
Dividend per share, EUR	<sup>2)</sup> 0.55	0.45	0.40	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Dividend to earnings ratio, %	50.9	136.4	neg.	468.8	115.4	150.0	42.6	125.0	78.1	39.0
Effective dividend yield, %	4.2	5.4	4.4	5.4	3.9	4.5	4.6	5.0	4.9	4.0
P/E ratio	12.2	25.2	neg.	86.4	29.4	33.1	8.9	24.8	15.9	9.7
Operating cash flow per share, EUR	1.89	2.42	1.21	1.66	2.32	1.63	1.90	2.40	2.73	3.32
Dividend distribution, EURm	<sup>2)</sup> 286	234	208	384	392	392	393	393	390	388
Share price at 31 Dec., EUR	13.22	8.32	9.00	13.82	19.12	16.56	16.36	15.12	15.30	18.63
Market capitalisation, EURm	6,874	4,326	4,680	7,084	10,005	8,665	8,578	7,917	7,960	9,681
Shares traded, EURm 3)	8,243	5,691	10,549	16,472	16,021	11,358	9,731	9,117	10,827	7,645
Shares traded (1,000s)	790,490	805,904	932,136	952,300	876,023	697,227	625,950	645,988	597,078	443,240
Shares traded, % of all shares	152.0	155.0	180.1	182.1	167.4	133.6	119.5	123.4	115.1	88.1
Lowest quotation, EUR	7.37	4.33	8.15	13.01	15.36	15.05	14.44	11.05	12.61	14.00
Highest quotation, EUR	13.57	9.78	13.87	20.59	20.91	18.15	17.13	17.10	22.25	19.93
Average quotation for the period, EUR	10.43	7.06	11.32	17.30	18.29	16.29	15.55	14.11	18.13	17.24
Number of shares, average (1,000s)	519,970	519,955	517,545	522,867	523,220	522,029	523,641	523,130	518,935	495,784
Number of shares at end of period (1,000s)	519,970	519,970	519,970	512,569	523,259	523,093	524,450	523,579	520,232	517,436

Share prices and shares traded are based on trading on the NASDAQ OMX Helsinki stock exchange.

## Notes to the tables on pages 150–151

<sup>1)</sup> Figures for 2002–2010 are reported in accordance with International Financial Reporting Standards (IFRS) and for 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.com](http://www.upm.com).

<sup>2)</sup> Proposal.

<sup>3)</sup> Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

**Financial indicators 2001–2010 <sup>1)</sup>**

EURm	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Sales	8,924	7,719	9,461	10,035	10,022	9,348	9,820	9,787	10,417	9,918
EBITDA	1,343	1,062	1,206	1,546	1,678	1,428	1,435	1,442	1,957	2,055
% of sales	15.0	13.8	12.7	15.4	16.7	15.3	14.6	14.7	18.8	20.7
Operating profit, excluding special items	731	270	513	835	725	558	470	429	963	1,394
% of sales	8.2	3.5	5.4	8.3	7.2	6.0	4.8	4.4	9.2	14.1
Operating profit	755	135	24	483	536	318	685	368	861	1,614
% of sales	8.5	1.7	0.3	4.8	5.3	3.4	7.0	3.8	8.3	16.3
Profit (loss) before tax	635	187	-201	292	367	257	556	425	710	1,333
% of sales	7.1	2.4	-2.1	2.9	3.7	2.7	5.7	4.3	6.8	13.4
Profit (loss) for the period	561	169	-180	81	338	261	920	312	500	955
% of sales	6.3	2.2	-1.9	0.8	3.4	2.8	9.4	3.2	4.8	9.6
Exports from Finland and foreign operations	8,139	7,054	8,515	9,170	9,102	8,397	8,791	8,697	9,475	8,948
Exports from Finland	3,882	3,442	4,371	4,546	4,644	4,006	4,301	4,539	4,759	4,635
Non-current assets	10,557	10,581	10,375	10,639	11,355	12,321	12,802	13,509	14,336	12,874
Inventories	1,299	1,112	1,354	1,342	1,255	1,256	1,138	1,144	1,224	1,289
Other current assets	1,956	1,912	2,040	1,972	1,859	1,964	1,887	1,938	2,064	2,368
Assets, total	13,812	13,605	13,781	13,953	14,469	15,541	15,827	16,591	17,624	16,431
Total equity	7,109	6,602	6,120	6,783	7,289	7,348	7,612	7,029	7,237	6,838
Non-current liabilities	4,922	5,432	5,816	4,753	4,770	5,845	5,966	7,322	8,104	5,992
Current liabilities	1,781	1,571	1,828	2,417	2,410	2,348	2,249	2,240	2,283	3,601
Total equity and liabilities	13,812	13,605	13,781	13,953	14,469	15,541	15,827	16,591	17,624	16,431
Capital employed at year end	11,087	11,066	11,193	11,098	11,634	12,650	12,953	12,811	13,689	13,519
Return on equity, %	8.2	2.8	neg.	1.2	4.6	3.5	12.6	4.4	6.8	15.5
Return on capital employed, %	6.6	3.2	0.2	4.3	4.7	3.4	6.0	5.1	7.4	15.6
Cash flow from operating activities	982	1,259	628	867	1,215	853	997	1,258	1,418	1,645
Equity to assets ratio, %	51.5	48.6	44.5	48.8	50.4	47.3	48.2	42.5	41.1	41.5
Gearing ratio, %	46	56	71	59	56	66	61	69	71	89
Net interest-bearing liabilities	3,286	3,730	4,321	3,973	4,048	4,836	4,617	4,874	5,135	6,041
Capital expenditure	257	913	551	708	699	749	686	720	620	3,850
% of sales	2.9	11.8	5.8	7.1	7.0	8.0	7.0	7.4	6.0	38.8
Capital expenditure excluding acquisitions	252	229	532	683	631	705	645	703	568	827
% of sales	2.8	3.0	5.6	6.8	6.3	7.5	6.6	7.2	5.5	8.3
Personnel at year end	21,869	23,213	24,983	26,352	28,704	31,522	33,433	34,482	35,579	36,298

Formulae for calculating indicators are given on page 153.

**Deliveries and production**

	Deliveries					Production (2001 – 2004)				
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Electricity, (1,000 MWh)	9,426	8,865	10,167	10,349						
Pulp (1,000 t)	2,919	1,759	1,982	1,927						
Papers, total (1,000 t)	9,914	9,021	10,641	11,389	10,988	10,172	10,886	10,232	10,046	8,298
Sawn timber (1,000 m <sup>3</sup> )	1,729	1,497	2,132	2,325	2,457	2,016	2,409	2,408	2,201	2,035
Plywood (1,000 m <sup>3</sup> )	638	567	806	945	931	827	969	936	905	786

## QUARTERLY FIGURES 2009–2010

EURm	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q1-Q4/10	Q1-Q4/09
<b>Sales</b>	2,357	2,312	2,216	2,039	2,108	1,913	1,841	1,857	8,924	7,719
Other operating income	8	42	17	9	18	5	7	17	76	47
Costs and expenses	-2,052	-1,938	-1,877	-1,770	-1,810	-1,603	-1,627	-1,734	-7,637	-6,774
Change in fair value of biological assets and wood harvested	85	14	31	19	9	-13	10	11	149	17
Share of results of associated companies and joint ventures	-1	-2	8	3	1	-21	-22	-53	8	-95
Depreciation, amortisation and impairment charges	-190	-190	-192	-193	-200	-185	-201	-193	-765	-779
<b>Operating profit (loss)</b>	207	238	203	107	126	96	8	-95	755	135
Gains on available-for-sale investments, net	-	-	1	-	-	-1	-	-	1	-1
Exchange rate and fair value gains and losses	2	-11	4	1	-	-3	3	-9	-4	-9
Interest and other finance costs, net	-36	-28	-27	-26	185	-28	-37	-58	-117	62
<b>Profit (loss) before tax</b>	173	199	181	82	311	64	-26	-162	635	187
Income taxes	-29	-21	-12	-12	-16	-24	18	4	-74	-18
<b>Profit (loss) for the period</b>	144	178	169	70	295	40	-8	-158	561	169
<b>Attributable to:</b>										
Owners of the parent company	144	178	169	70	295	40	-8	-158	561	169
Non-controlling interest	-	-	-	-	-	-	-	-	-	-
	144	178	169	70	295	40	-8	-158	561	169
Basic earnings per share, EUR	0.28	0.34	0.33	0.13	0.57	0.08	-0.02	-0.30	1.08	0.33
Diluted earnings per share, EUR	0.28	0.34	0.33	0.13	0.57	0.08	-0.02	-0.30	1.08	0.33
Earnings per share, excluding special items, EUR	0.27	0.28	0.29	0.15	0.21	0.14	0.03	-0.27	0.99	0.11
Average number of shares basic (1,000)	519,970	519,970	519,970	519,970	519,958	519,954	519,954	519,954	519,970	519,955
Average number of shares diluted (1,000)	522,193	521,742	521,333	520,018	518,876	521,036	519,954	519,954	521,321	519,955
Special items in operating profit (loss)	-5	34	4	-9	-60	-35	-23	-17	24	-135
Operating profit (loss), excl. special items	212	204	199	116	186	131	31	-78	731	270
% of sales	9.0	8.8	9.0	5.7	8.8	6.8	1.7	-4.2	8.2	3.5
Special items before tax	-5	34	4	-9	155	-35	-23	-17	24	80
Profit (loss) before tax, excl. special items	178	165	177	91	156	99	-3	-145	611	107
% of sales	7.6	7.1	8.0	4.5	7.4	5.2	-0.2	-7.8	6.8	1.4
Return on equity, excl. special items, %	8.0	8.6	8.9	4.6	7.4	5.0	0.8	neg.	7.5	1.0
Return on capital employed, excl. special items, %	7.5	6.8	7.3	4.3	7.2	4.9	1.3	neg.	6.4	2.5
EBITDA	318	384	353	288	362	334	238	128	1,343	1,062
% of sales	13.5	16.6	15.9	14.1	17.2	17.5	12.9	6.9	15.0	13.8
<b>Sales by segment</b>										
Energy	153	124	116	174	128	108	100	136	567	472
Pulp	413	489	455	341	226	156	132	139	1,698	653
Forest and Timber	402	387	393	339	348	295	309	385	1,521	1,337
Paper	1,656	1,672	1,540	1,401	1,558	1,454	1,388	1,367	6,269	5,767
Label	276	284	280	260	252	242	226	223	1,100	943
Plywood	91	83	97	76	81	73	77	75	347	306
Other operations	42	45	51	40	35	21	21	34	178	111
Internal sales	-676	-772	-716	-592	-520	-436	-412	-502	-2,756	-1,870
<b>Sales, total</b>	2,357	2,312	2,216	2,039	2,108	1,913	1,841	1,857	8,924	7,719
<b>Operating profit (loss) excl. special items by segment</b>										
Energy	68	44	44	81	48	27	36	51	237	162
Pulp	132	199	162	84	35	-9	-60	-93	577	-127
Forest and Timber	79	31	52	19	35	5	-10	-8	181	22
Paper	-68	-64	-61	-61	82	132	95	37	-254	346
Label	16	24	24	23	17	20	9	-3	87	43
Plywood	-5	-3	-3	-7	-3	-10	-10	-28	-18	-51
Other operations	-10	-27	-19	-23	-28	-34	-29	-34	-79	-125
<b>Operating profit (loss) excl. special items, total</b>	212	204	199	116	186	131	31	-78	731	270
% of sales	9.0	8.8	9.0	5.7	8.8	6.8	1.7	-4.2	8.2	3.5

# 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, %:

$$\frac{\text{Profit before tax}^{2)} + \text{interest expenses and other financial expenses}}{\text{Total equity} + \text{interest-bearing liabilities (average)}} \times 100$$

### 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:

$$\text{Interest-bearing liabilities} - \text{interest-bearing assets} - \text{listed shares}$$

### 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), %:

$$\frac{\text{Operating profit}}{\text{Non-current assets} + \text{stocks} + \text{trade receivables} - \text{trade payables (average)}} \times 100$$

<sup>1)</sup> Treasury shares were shown in the balance sheet in 2001.

<sup>2)</sup> 2001: Profit/loss before extraordinary items and tax.

<sup>3)</sup> 2001: Profit/loss before extraordinary items and tax – income tax +/- minority interest.

## Formulae for calculation of adjusted share-related indicators

### Earnings per share:

$$\frac{\text{Profit for the period attributable to owners of the parent company}^{3)}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

### Shareholders' equity per share:

$$\frac{\text{Equity attributable to owners of the parent company}}{\text{Adjusted number of shares at end of period}}$$

### 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:

$$\text{Total number of shares} \times \text{share price at end of period}$$

### Adjusted share price at end of period:

$$\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$$

### Adjusted average share price:

$$\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$$

### Operating cash flow 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

	31.12.2010	30.09.2010	30.06.2010	31.03.2010	31.12.2009	30.09.2009	30.06.2009	31.03.2009
USD	1.3362	1.3648	1.2271	1.3479	1.4406	1.4643	1.4134	1.3308
CAD	1.3322	1.4073	1.2890	1.3687	1.5128	1.5709	1.6275	1.6685
JPY	108.65	113.68	108.79	125.93	133.16	131.07	135.51	131.17
GBP	0.8608	0.8600	0.8175	0.8898	0.8881	0.9093	0.8521	0.9308
SEK	8.9655	9.1421	9.5259	9.7135	10.2520	10.2320	10.8125	10.9400



# 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 31 December, 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, 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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view 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 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 express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about 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 are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

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, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. 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.

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 and the consolidated 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 of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 16 February 2011

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Juha Wahlroos  
Authorised Public Accountant

# GLOSSARY OF TERMS

The following explanations are not intended as technical definitions, but to assist the average reader in understanding the terms used in this annual report.

## ADVANCED BIOFUELS

Liquid, high-quality transportation fuels that are produced from non-wood and bio-based raw materials.

## BAT (BEST AVAILABLE TECHNOLOGY)

The best available technology that allows for solutions that are technically, economically and environmentally the most efficient and advanced.

## BHKP

Bleached hardwood kraft pulp from birch or eucalyptus.

## 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 that 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 that 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. Forest biomass refers to any tree material produced by forest growth.

## 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.

## BSKP

Bleached softwood kraft pulp from pine and spruce.

## 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<sub>2</sub>

Combustion product of carbon. Fossil carbon dioxide emissions arise from fossil fuels like coal, oil and gasoline.

## CO<sub>2</sub>-FREE ENERGY

Energy that is generated from non-fossil energy sources without combustion, like hydro, wind, sun, geothermal or nuclear power.

## CO<sub>2</sub>-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, for example, to show the origin of wood.

## CHP (COMBINED HEAT AND POWER)

Combined heat and power (CHP) production (or cogeneration) is when both electricity and heat are produced at a thermal power plant. The heat is used, for example, in industry or district heating, or as 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.

## CONDENSING POWER

Power generated through a final steam turbine stage where the steam is exhausted into a condenser and cooled to a liquid to be recycled back into a boiler.

## DEINKING

The process whereby the ink and impurities are removed from recovered paper.

**ECOEFFICIENCY**

Ecoefficiency means improving the productivity of natural resources. More products and services are produced, and wellbeing is increased with fewer raw materials, less energy and less waste.

**ECO-LABEL**

The European Eco-label is a voluntary scheme established in 1992, encouraging businesses to market products and services that fulfil criteria related to the impact of the product or service on the environment throughout its lifecycle.

**EIA**

An environmental impact assessment (EIA) is an assessment of the possible impacts that a project may have on the environment. It takes natural, social and economic aspects into consideration.

**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 target of emissions trading is to reduce emissions where it is most cost efficient to do so. The European emissions trading system (EU ETS) has been in use since 2005. In the EU ETS "cap and trade" system, there is a limit on the total amount of certain greenhouse gases that can be emitted by the installations. Within this cap, companies receive emission allowances, which they can sell to or buy from the market as needed. At the end of each year, companies must surrender enough allowances to cover all their emissions. The number of allowances is reduced over time so that total emissions fall. The changes to be introduced in 2013, notably a progressive move towards auctioning allowances, will further enhance the effectiveness of the system.

**ENERGY WOOD**

Logging residues, stumps and small-diameter trees removed during clearing and thinning operations.

**FACE MATERIAL**

The top layer of self-adhesive labelstock. The face can be paper, film or another material that is bonded to the adhesive layer and forms the functional part of the label construction.

**FIBRE**

The basic structural unit of pulp and 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 determines whether a forest is managed in a responsible manner. There are two global 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.

**HARDWOOD**

*See Pulp*

**HYDROTREATED BIOFUELS**

Biofuels produced by hydrotreatment technology from non-food liquid feedstocks, such as fats, oils and forest industry by-products.

**IEA (INTERNATIONAL ENERGY AGENCY)**

Forum of countries committed to the advancement of global energy security, policy and technology through co-operation.

**ISO**

International Organisation for Standardisation (ISO), whose ISO 9000 quality standards and 14000 environmental standards are used extensively 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.

**MFS (MACHINE-FINISHED SPECIALITY)**

Uncoated, machine-finished speciality paper, containing mechanical pulp and recycled fibre as raw materials. 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 mainly manufactured from 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 in 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).

**NBSK**

Northern bleached softwood kraft pulp from pine and spruce.

**NEWSPRINT**

Uncoated paper manufactured mainly from mechanical pulp or recycled paper and used for newspapers and directories.

**NON-WOOD FEEDSTOCKS**

Biomass residues originating from production, harvesting and processing in farming areas. Non-wood feedstocks or agricultural residues 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.

**OHSAS**

Occupational Health and Safety Management System.

**PRIME LABELLING**

Primary labelling usually carries high-quality, multi-colour printing used for branding and product decoration (e.g. premium beverages, personal care and luxury products).

**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.

**DEINKED PULP**

Recovered paper that has been processed using chemicals, thus removing printing inks and other unwanted elements and freeing the paper fibres.

**HARDWOOD PULP**

Pulp obtained from deciduous trees, which have the advantage of shorter fibres, enhancing 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, enhancing 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 fillers and glazed in a supercalender. SC paper is used for printing magazines with large circulations.

**SECOND-GENERATION BIOFUELS (2G BIOFUELS)**

Second-generation biofuels significantly reduce CO<sub>2</sub> emissions in transport compared to the 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 materials.

**SELF-ADHESIVE LABELSTOCK**

The combination of the 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.

**SOFTWOOD**

*See Pulp*

**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.

**UNCOATED FINE PAPER (WFO)**

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.

**VIP, VARIABLE INFORMATION PRINTING**

Labels for variable information labelling (e.g. catch-weight, sell-by-date, bar codes) are either blank, or pre-printed with conventional printing techniques. They are often overprinted using a VIP printing technique such as copier, direct thermal, laser or ink-jet printing.

**WATER FOOTPRINT**

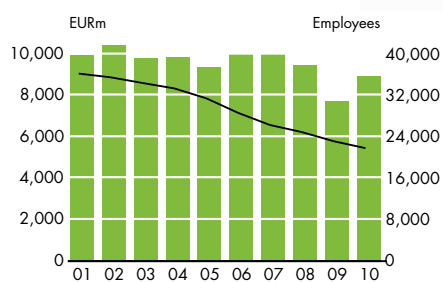
An indicator of the total volume of freshwater that is used to produce the goods and services consumed by the individual or community or produced by the business.

**WOODFREE, FREE SHEET OR FINE PAPER**

Papers used by the graphics industry and in offices. These papers may be coated or uncoated.

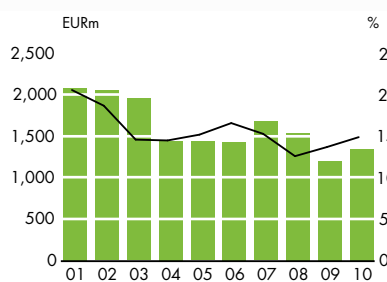
# KEY FINANCIAL INFORMATION 2001–2010

## SALES AND PERSONNEL



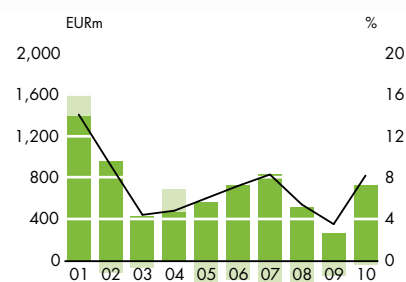
■ Sales  
— Personnel

## EBITDA



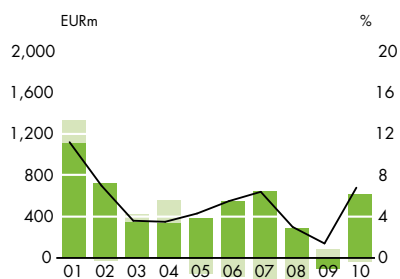
■ EBITDA  
— % sales

## OPERATING PROFIT



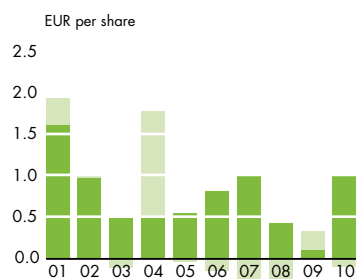
■ Special items  
■ Operating profit excl. special items  
— % sales excl. special items

## PROFIT BEFORE TAXES



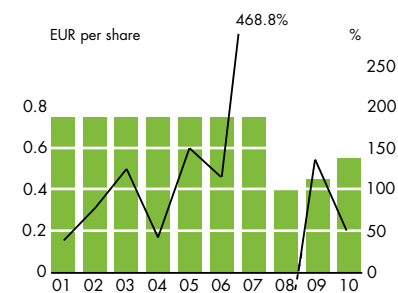
■ Special items  
■ Profit before taxes excl. special items  
— % sales excl. special items

## EARNINGS PER SHARE



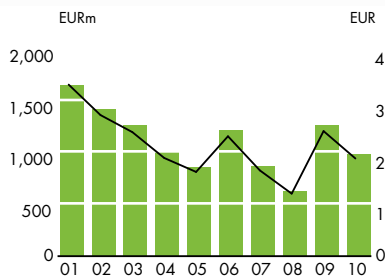
■ Special items  
■ Excl. special items

## DIVIDEND PER SHARE



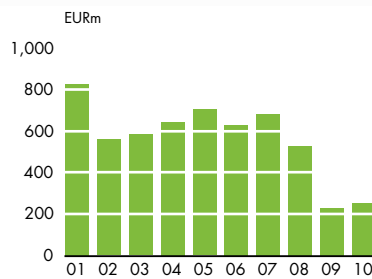
■ Dividend per share EUR  
— Dividend/earnings

### CASH FLOW FROM OPERATIONS

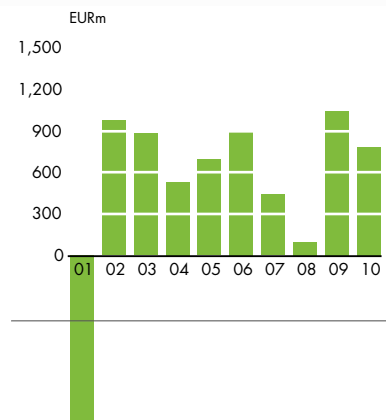


■ Cash flow from operations  
— Per share, EUR

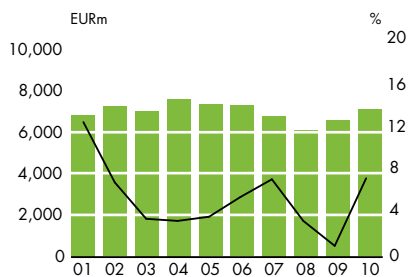
### CAPITAL EXPENDITURE EXCLUDING ACQUISITIONS



### CASH FLOW AFTER INVESTING ACTIVITIES

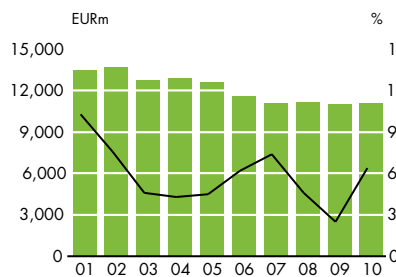


### EQUITY AND ROE



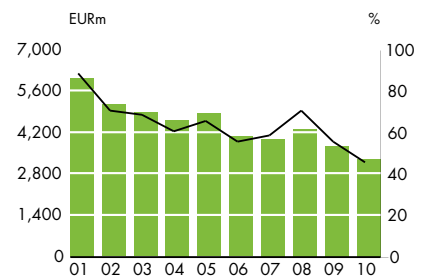
■ Equity  
— ROE excl. special items

### CAPITAL EMPLOYED AND ROCE



■ Capital employed  
— ROCE excl. special items

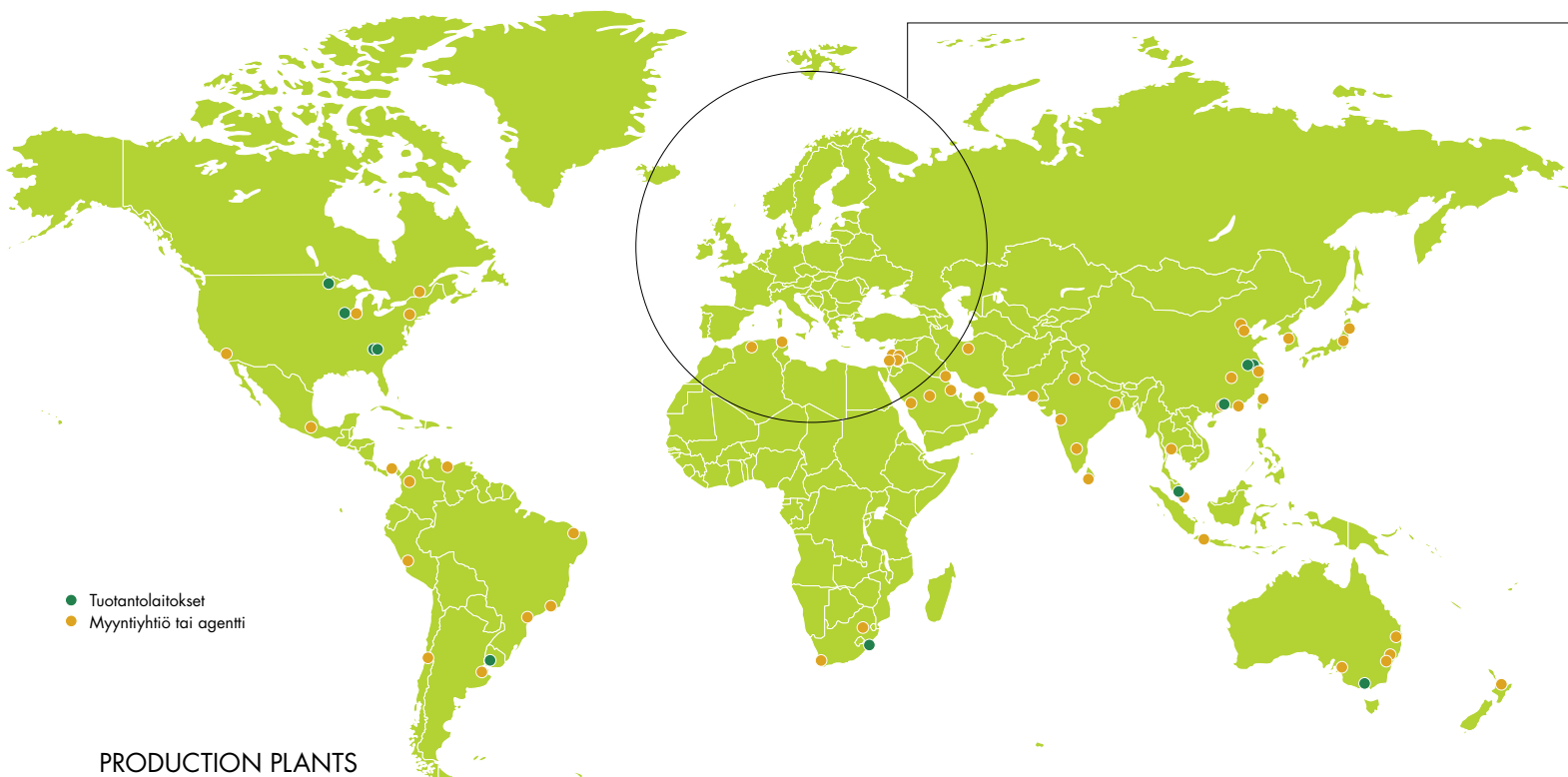
### NET INTEREST-BEARING LIABILITIES AND GEARING



■ Net interest-bearing liabilities  
— Gearing %



# 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 (Kuusankoski)  
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  
- Pello (Ristiina)  
- Savonlinna  
- Jyväskylä (Säynätsalo)

### Veneer mills

UPM  
- Kalso (Vuohijärvi)  
- Lohja

### Sawmills

UPM, Alholma (Pietarsaari)  
UPM, Kajaani  
UPM, Kaukas (Lappeenranta)  
UPM, Korkeakoski (Juupajoki)  
UPM, Seikkuri (Pori)

### Further processing mills

UPM, Aureskoski  
UPM, Heinola  
UPM, Kaukas (Lappeenranta)

### Wood plastic composite factory

UPM ProFi, Lahri

### Hydro power plants

- Harjavalta  
- Kallioinen (Sotkamo)  
- Kaltimo (Joensuu)  
- Katerma (Kuhmo)  
- Kelti (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 mill

UPM, Aigrefeuille

### GERMANY

Paper mills  
UPM, Augsburg

### UPM, Schongau

UPM, Schwedt  
UPM, 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

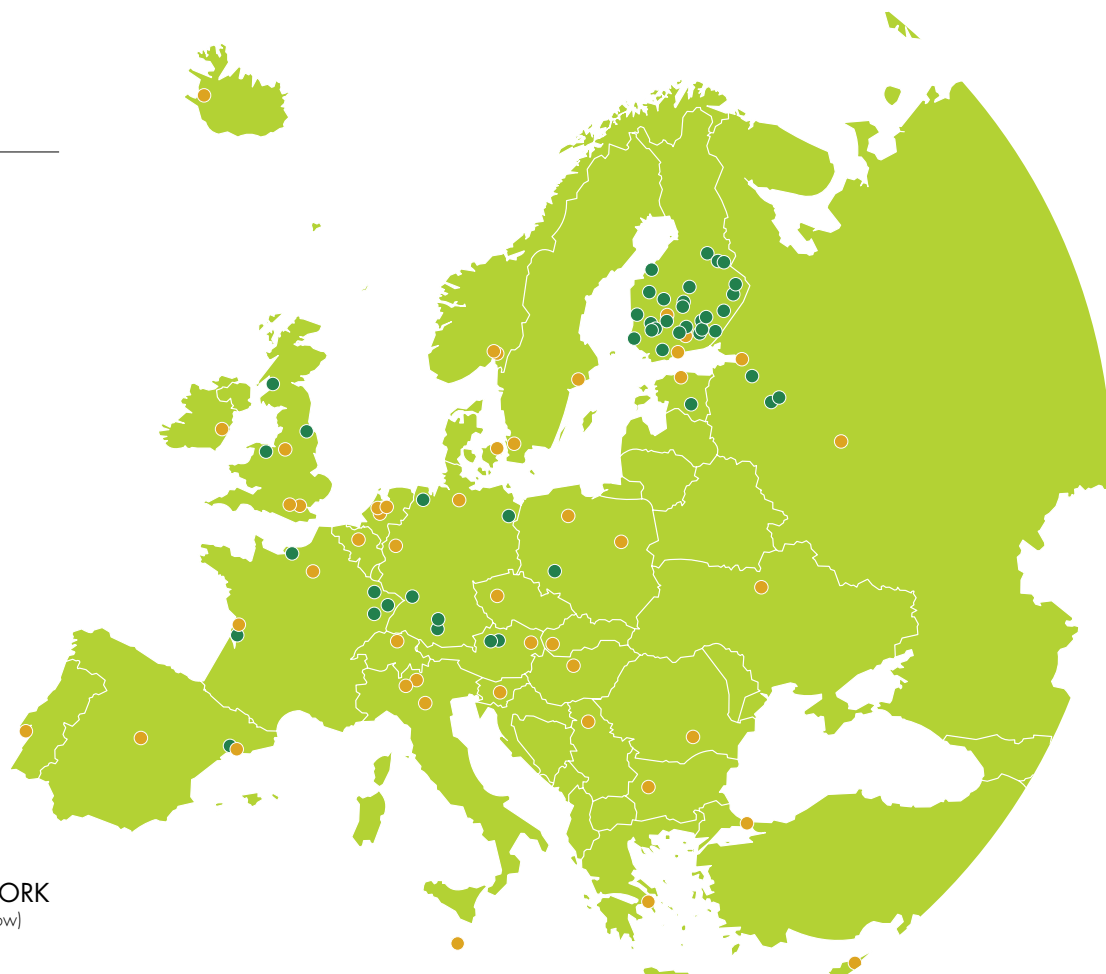
Blandin paper mill, Grand  
Rapids, MN

### 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  
South Africa

### OCEANIA

Australia  
New Zealand

# ADDRESSES

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E-mail [profi@upm.com](mailto:profi@upm.com)

## ANNUAL GENERAL MEETING

The UPM-Kymmene Corporation will hold its Annual General Meeting on Thursday 7 April 2011 at 14:00, at the Helsinki Exhibition and Convention Centre, Messuaukio 1, 00520 Helsinki, Finland. Instructions for those wishing to attend will be given in the summons to the meeting, and can also be found on the company's website at [www.upm.com/agm](http://www.upm.com/agm).

## DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.55 per share be paid for the 2010 financial year. The dividend will be paid to the shareholders who are registered in the company's shareholder register held by Euroclear Finland Ltd. on 12 April 2011, which is the record date for the dividend payment. The Board of Directors proposes that the dividend payment be made on 20 April 2011.

## FINANCIAL INFORMATION IN 2011

UPM will publish the interim reports in 2011 as follows:

The Interim Report for January–March 2011 on 28 April 2011

The Interim Report for January–June 2011 on 3 August 2011

The Interim Report for January–September 2011 on 26 October 2011



[www.upm.com](http://www.upm.com)