The Biofore Company UPM

Annual report 2011

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The forest of new opportunities

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 2011 can be found under the sections for each business area. The GRI content index is on pages 74–76. To find out more about UPM's responsibility agenda, please visit www.upm.com/responsibility.

Vision

UPM – The Biofore Company

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. Cost leadership, change readiness, engagement and safety of our people form the foundation of our success.

Purpose

We create value from renewable and recyclable materials by combining 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

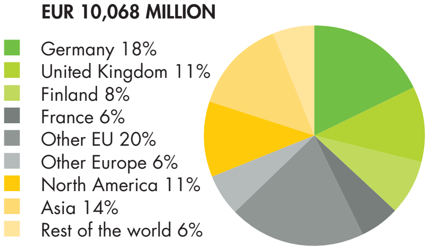
In 2011, UPM's sales totalled EUR 10.1 billion. UPM has production plants in 16 countries and a global sales network. UPM employs approximately 24,000 employees worldwide. UPM shares are listed on the NASDAQ OMX Helsinki stock exchange

Energy and Pulp

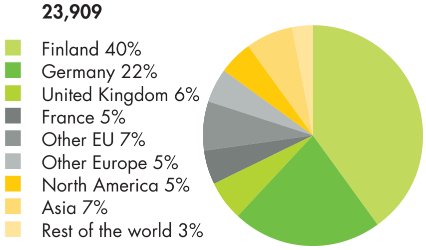
UPM is a significant generator of low-emission energy and a leading producer of chemical pulp. The Energy and Pulp Business Group also covers wood products, sawn timber and forestry businesses and is responsible for wood and biomass sourcing for the whole company. UPM seeks growth in competitive pulp, low-emission energy and biofuels.

Market presence

UPM'S SALES BY MARKET 2011
EUR 10,068 MILLION



UPM'S PERSONNEL BY AREA 31.12.2011
23,909



Paper

UPM is the world's leading producer of graphic papers, with 22 modern and sustainable paper mills in Europe, China and the United States. In addition to paper manufacturers, many of the mills are large bioenergy producers and recycling centres. 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 businesses with high value-added growth which are based on UPM's proprietary materials know-how. UPM is the second-largest producer of self-adhesive label materials worldwide and the largest supplier of plywood in Europe. UPM drives label and plywood product renewal and develops new solutions and products.

- The Energy business area generates low-emission energy and operates on the Nordic and Central European energy markets
- The Pulp business area produces high-quality chemical pulp for the global market. Four modern mills and sustainable wood sourcing and plantation operations form the basis of UPM's reliable and competitive pulp business
- The Forest and Timber business area offers wood and biomass to UPM businesses and external customers as well as forestry services. Its offering also includes sawn timber for the building and joinery industries and wood-based products for home interiors and construction
- Wood, the primary raw material, is renewable. Biodiversity is an integral part of UPM's sustainable forest management

Energy	2011	Share of Group[1)]
Sales, EURm	452	2%
Capital employed on 31 Dec., EURm	1,022	8%
Personnel on 31 Dec.	96	0%

Pulp	2011	Share of Group[1)]
Sales, EURm	1,648	5%
Capital employed on 31 Dec., EURm	2,558	21%
Personnel on 31 Dec.	1,441	6%

Forest and Timber	2011	Share of Group[1)]
Sales, EURm	1,651	8%
Capital employed on 31 Dec., EURm	1,841	15%
Personnel on 31 Dec.	2,638	11%

1) Sales % represents share of external sales

- The Paper business area offers a wide range of papers including magazine papers and newsprint as well as fine and speciality papers
- The main customers are publishers and printers as well as distributors and paper converters
- UPM paper is a sustainable choice. In paper production, UPM mostly uses bioenergy and nearly one third of fibre raw material is recycled fibre. All wood and wood fibre is responsibly sourced

Paper	2011	Share of Group[1)]
Sales, EURm	7,184	69%
Capital employed on 31 Dec., EURm	5,735	47%
Personnel on 31 Dec.	13,877	58%

1) Sales % represents share of external sales

- The Label business area provides self-adhesive label materials for product and information labelling
- The Plywood business area offers plywood and veneer, mainly for construction, transport and other manufacturing industries
- In addition to its well-established businesses, the business group consists of UPM ProFi wood plastic composite products

Label	2011	Share of Group[1)]
Sales, EURm	1,150	11%
Capital employed on 31 Dec., EURm	513	4%
Personnel on 31 Dec.	2,629	11%

Plywood	2011	Share of Group[1)]
Sales, EURm	376	4%
Capital employed on 31 Dec., EURm	258	2%
Personnel on 31 Dec.	2,586	11%

1) Sales % represents share of external sales

Key financial information 2011

SALES, EUR MILLION

2011 10,068 +13%
2010 8,924

Sales grew mainly due to higher sales prices and the Myllykoski acquisition

NET DEBT, EUR MILLION

2011 3,592 +9%
2010 3,286

Solid cash flow ensured strong balance sheet after the Myllykoski acquisition

EBITDA, EUR MILLION

2011 1,383 +3%
2010 1,343

Higher sales prices offset the noticeably higher variable costs

GEARING, %

2011 48 +2 percentage points
2010 46

OPERATING PROFIT, EUR MILLION*

2011 682 −7%
2010 731

* excluding special items

MARKET CAPITALISATION, EUR MILLION

2011 4,466 −35%
2010 6,874

EPS, EUR

2011 0.88 −19%
2010 1.08

DIVIDEND, EUR*

2011 0.60 +9%
2010 0.55

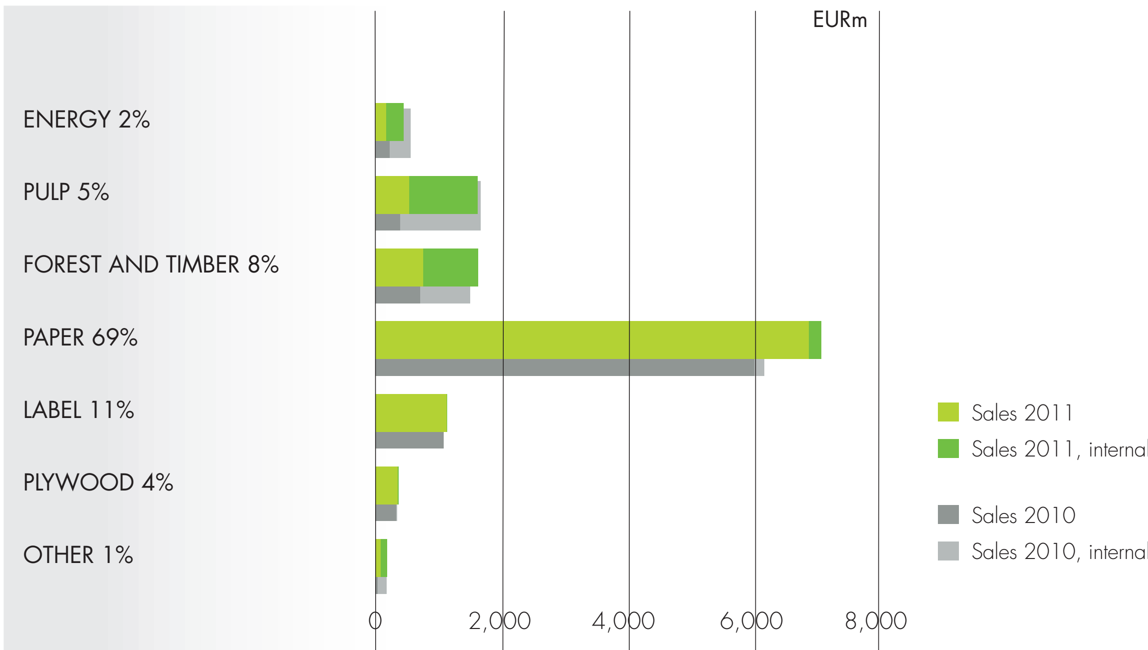
* 2011: Board's proposal

KEY FIGURES 2009–2011

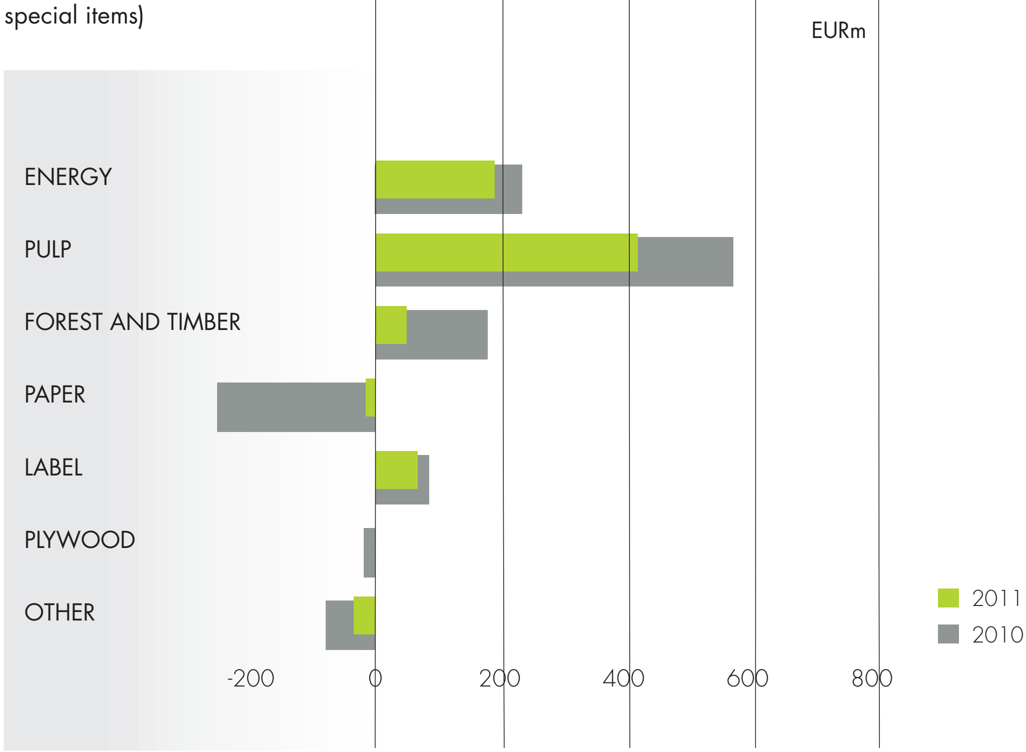
	2011	2010	2009
Sales, EURm	10,068	8,924	7,719
Operating profit, EURm	459	755	135
excl. special items, EURm	682	731	270
Profit (loss) before tax, EURm	417	635	187
Earnings per share, EUR	0.88	1.08	0.33
excl. special items, EUR	0.93	0.99	0.11
Operating cash flow per share, EUR	1.99	1.89	2.42
Return on equity, %	6.3	8.2	2.8
Dividend per share (2011: Board's proposal), EUR	0.60	0.55	0.45
Shareholders' equity per share at end of period, EUR	14.22	13.64	12.67
Gearing ratio at end of period, %	48	46	56
Capital expenditure, EURm	1,179	257	913

Our EBITDA and operating cash flow improved and our strong financial position continued. Prices of all production inputs increased substantially but we succeeded in raising prices to cover the cost increases. However, during the latter part of the year the deterioration of pulp prices and lower demand for paper and wood products had a clear impact on our profitability.

SALES BY BUSINESS AREA
(Sales % represents share of external sales)



OPERARTING PROFIT BY BUSINESS AREA
(excluding special items)



Dear shareholder,

Although our markets have been affected by the uncertainties in the world economy, UPM was in a good position at the end of 2011 and the outlook for the first half of 2012 is fairly stable. The company transformation proceeded well in 2011 and we are ready to take the next steps in implementing our vision as The Biofore Company.

During 2011 our EBITDA and operating cash flow improved on 2010 and thus our strong financial position continued. Prices of all production inputs increased substantially compared to 2010 but clearly higher product prices covered the cost increases.

However, during the latter part of the year the economic outlook deteriorated clearly which resulted in weaker demand for our products. Lower pulp prices and demand for paper and wood products had a clear impact on our profitability. Our earnings decreased as demand weakened and variable costs continued to be high.

Our sales increased by 13%, mainly due to the Myllykoski acquisition. In terms of earnings, we were not able to reach the level of 2010. Earnings per share, excluding special items, was EUR 0.93, compared with EUR 0.99 in the previous year. EBITDA was EUR 1,383 million, 13.7% of sales.

The Myllykoski integration proceeded well

The Myllykoski acquisition was the major strategic signpost in 2011. Addressing the challenging situation in the European paper business has been our top priority.

The transaction, the integration and the related restructuring of our magazine paper business have all proceeded in line with our plans. The consolidation has improved our cost position in the paper markets. Furthermore, our customer offering in paper has been enhanced both in terms of product range as well as geographic scope.

In 2011, we have closed over one million tonnes of paper capacity. The synergy benefits targeted are well on the way to being successfully achieved and will start to be visible from the first quarter of 2012. The full run rate of EUR 200 million in benefits is expected in 2013.

With this transaction, we have created 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 have better financial resources to implement our growth plans in emerging markets and our other businesses.

The Biofore Company

In 2011, we continued to implement the company vision as the Biofore Company. We are reshaping our portfolio and we aim to complement our existing businesses with innovative and sustainable new products with high added value in the long term.

This meant divesting some non-core assets and moving into new product areas and markets.

Just after the closing of the Myllykoski transaction we started preparing the divestment of the packaging paper business.

We reduced our shareholding in Finnish pulp producer Metsä-Botnia to 11% and announced the sale of the RFID business to SMARTRAC.

We expanded our plantation grounds in Uruguay and entered Latin American markets in the labelstock business by acquiring Gumtac, a labelstock business in Brazil.

During 2011, we launched a new biocomposite product, UPM ForMi, in which wood fibres replace non-renewable materials. It is suited to a variety of industrial and consumer end-uses including electronics and automotive industries and has generated positive interest.

The fibril cellulose proceeded from a R&D initiative into the pre-commercial phase.

The investment preparations for the first wood-based biofuels biorefinery in the world were intensified at the end of the year.

UPM is strongly committed to continuous improvement in economic, social and environmental performance. Company values, Code of Conduct and leadership behaviours form the foundation of the company's operations. To enhance transparency towards our stakeholders, we have adopted the Global Reporting Initiative (GRI) reporting framework.

Solid financial position is required to support long term development and growth. Engaged employees and safe working conditions are critical success factors for us. Therefore we also introduced a Group-wide change initiative "Step change in safety" with the aim of bringing UPM's safety performance to a world-class level.

These are only a few highlights of the transformation initiatives taking place across all our businesses. The change readiness of UPMers has reached a completely new level and I wish to thank our management and employees for renewing with courage and working on things together.

Outlook fairly stable

As for the outlook for 2012 in UPM's businesses, market conditions are estimated to have stabilised. The demand and price outlook for UPM's products is broadly stable for early 2012 compared with late 2011, taking into account seasonal variations.

Costs are expected to decrease in the early part of 2012. Steady demand and moderating cost inflation provide a good foundation for stable profits. Operating profit in the first half of 2012, excluding special items, is expected to be at around the same level as in the second half of 2011.

The Board of Directors proposes a dividend of EUR 0.60, which means a 9% rise on the annual dividend for 2011. It is an indication of strong confidence in the continued positive development.

Also in 2012 UPM's Biofore attitude stands for versatile and advanced use of wood, being competitive and at the forefront of developments.

Jussi Pesonen
President and CEO

UPM – The Biofore Company

fibril cellulose
> see page 55

biochemicals
> see page 53

biofuels for transport
> see page 54

bioenergy – heat and electricity
> see page 20

labels and composites
> see page 42 and 55

pulp, paper, plywood, wood products

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

As the Biofore Company, UPM's vision is to integrate the bio and forest industries. Our target is to create value from renewable and recyclable materials by combining expertise and technologies within fibre-based, energy-related and engineered materials businesses. Cost leadership, change readiness and innovation strengthen our competitive position, create new markets and increase shareholder value in the long term.

Corporate responsibility is an integral part of all our operations. UPM is strongly committed to continuous improvement in economic, social and environmental performance. Solid financial position is required to support long term development and growth. Engaged employees and safe working conditions are critical success factors for us.

Company in transformation

In line with the future business environment, we are renewing our business portfolio to shift our focus to markets and businesses with sustained growth and value creation. While the focus of world economy is shifting to emerging markets, their importance is also underlined in UPM's growth.

Cost efficient industrial operations in the forest fibre value chain form the basis of UPM's businesses, whereas energy-related and engineered materials businesses offer new growth opportunities.

In line with UPM's Biofore thinking, we aim to complement our existing businesses with innovative new products with high added value in the long term.

Biofuels, biocomposites and fibril cellulose are examples of UPM's aspiration to pursue new business opportunities.

Strategy implementation

UPM's strategy relies on successful implementation of business area strategies. Each business area has a defined strategic role and clear targets.

Energy will expand in cost competitive low-emission energy. Pulp aims to grow its share of competitive pulp. Forest and Timber business is strengthening the company's position in wood and biomass markets. Paper will secure the profitability in Europe and seek growth in emerging markets. The Label business is focused on driving product renewal and growing in emerging markets. Plywood targets improving its profitability and renewing products and technologies.

UPM applies market-based operating model in all businesses while simultaneously drawing benefits from internal Group synergies. Competitive access to critical inputs, especially forest-based biomass and energy are integral ingredients of the company's success.

STRATEGIC OBJECTIVES/STRATEGIC STEPS IN 2011

ENERGY AND PULP	PAPER	ENGINEERED MATERIALS
EXPAND IN COST COMPETITIVE LOW-EMISSION ENERGY	FOCUS ON EUROPEAN PROFITABILITY	PROFITABLE GROWTH IN SELF-ADHESIVE LABEL MATERIALS
• Participation in the bidding and engineering phase of the Olkiluoto 4 nuclear power plant unit of Teollisuuden Voima Oyj in Finland • 0.8% stake in the Finnish energy company Pohjolan Voima Oy acquired in connection with the Myllykoski acquisition	• Adjustment of European paper capacity • Cost synergies of EUR 200 million identified • Significant improvement in working capital turnover	• Acquisition of Brazilian labelstock coating and slitting operations • New slitting and distribution terminal opened in Moscow, Russia
DEVELOP SECOND-GENERATION BIOFUELS	CONSOLIDATION IN EUROPE	PLYWOOD RENEWAL
• The environmental impact assessment for a biorefinery to produce hydrotreated biofuels finalised at Kaukas mill site in Finland • Rauma, Finland, or Strasbourg, France selected as possible locations for the biorefinery producing biodiesel	• Myllykoski acquisition completed	• Streamlining of headquarter operations, sales and mill maintenance
GROW IN COMPETITIVE PULP	GROWTH IN CHINA AND OTHER DEVELOPING MARKETS	DRIVE PRODUCT RENEWAL
• Market-based business model developed further and a global sales organisation created • Increase of land ownership in Uruguay	• Preparations of Asian growth opportunities continued	• Introduction of new tailored solutions and end-use speciality products in Label • Introduction of the formable plywood UPM Grada to the market and development of a new plywood vehicle floor solution
NEW BUSINESS DEVELOPMENT		
• Began pre-commercial production of fibril cellulose		• Launch of new biocomposite, UPM ForMi

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.

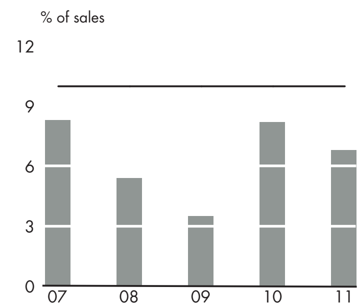
The company's long term target is an operating profit margin that exceeds 10%. The return on equity target is at least five percentage points above the yield of a 10-year risk-free investment such as the Finnish government's euro-denominated bonds. At the end of 2011, the minimum target for return on equity, as defined above, was 7.3%.

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.

Dividend policy

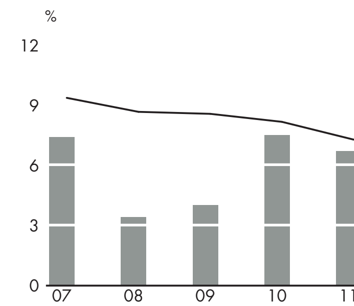
UPM intends to pay as an annual dividend at least one third of net cash flow from operating activities less operational capital expenditure. To promote stability in dividends, net cash flow will be calculated as an average over a three-year period. Remaining funds are to be allocated between growth capital expenditure and debt reduction. The net cash flow from operating activities for 2011 was EUR 1,041 million and operational capital expenditure EUR 237 million.

OPERATING PROFIT EXCLUDING SPECIAL ITEMS COMPARED WITH TARGET



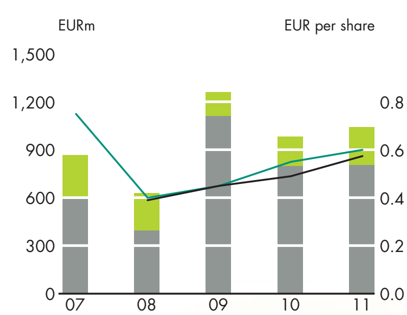
Operating profit excluding special items, % of sales
Target > 10%

ROE COMPARED WITH TARGET



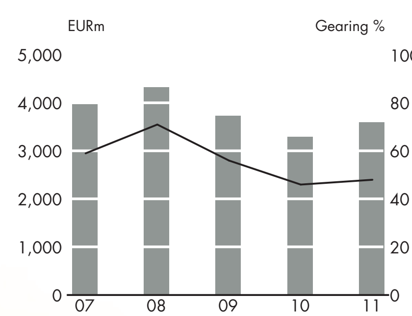
ROE excluding special items, %
Minimum target

CASH FLOW-BASED DIVIDEND POLICY

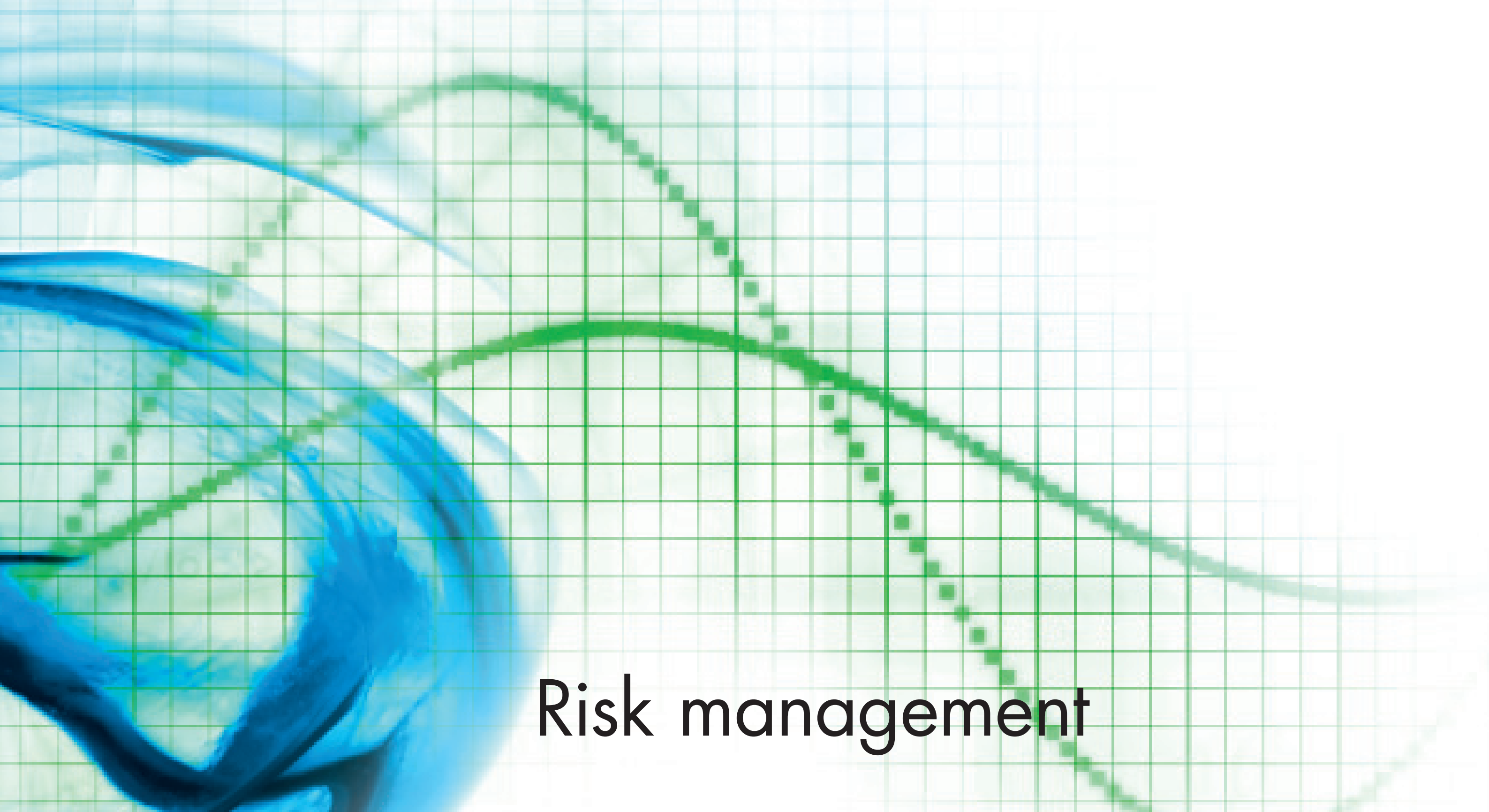


Operational capex
Cash flow from operating activities less operational capex
Minimum dividend based on dividend policy
Actual dividend, Board's proposal for 2011

NET DEBT AND GEARING



Net debt
Gearing ratio, %



Risk management

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 2011, UPM's estimated net currency flow for the coming 12 months was EUR 1.8 billion. The US dollar represented the biggest exposure, at EUR 880 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.

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

	EURm
Publication papers	510
Fine and speciality papers	260
Label materials	115
Plywood	35
Sawn timber and further processing	34
Chemical pulp (net effect)	–18

FOREIGN CURRENCY NET CASH FLOW

	EURm
USD	880
GBP	610
JPY	290
Others, total	50

Estimate for the next 12 months on 31 Dec. 2011

COSTS, EXCLUDING DEPRECIATION

%	2011	2010
Delivery of own products	9	10
Wood and fibre	24	25
Energy	11	11
Fillers, coating and chemicals	12	12
Other variable costs	17	16
Personnel expenses	15	16
Other fixed costs	12	10
Total	100	100

Costs totalled EUR 9.0 billion in 2011 (2010: 7.6 billion)

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

RISK DESCRIPTION	IMPACT	MANAGEMENT

STRATEGIC RISKS

Structural changes in paper usage may result in decline in paper demand which leads to overcapacity	Lower operating rates and weaker pricing power in the industry	Ensure cost efficiency of operations also at low operating rates 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 alternative sources
Delay in OL3 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 preparation to ensure the strategic fit, right valuation and effective integration
Regulatory changes such as EU climate policy and new requirements for CO_2 emissions	Subsidies for alternative uses of wood raw material create new competition and increase costs	Communicate the employment and value-added creation impacts of such policies clearly 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
Payment default or customer bankruptcy	Loss of income	Active management of credit risks and use of credit insurance

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 and systems Emergency and business continuity procedures

[1)] **A more detailed description of risks and risk management is included in the Report of the Board of Directors on page 96.**

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

UPM's Energy business area's generation capacity in Finland consists of hydropower, nuclear power, condensing power and wind power

The total electricity generation capacity of the Energy business area is 1,714 MW

Nine UPM-owned hydropower plants in Finland

44.0% shareholding of the associated energy company Pohjolan Voima Oy (PVO), which generates approximately 15 TWh of electricity annually

UPM's shares consist of hydro, nuclear and condensing power

PVO is a majority shareholder (58.39%) in Teollisuuden Voima Oyj (TVO), a nuclear power producer with a total capacity of 1,760 MW

UPM has a 581 MW share (33%) of Olkiluoto 1 and 2 nuclear power production capacity

19% of Kemijoki Oy's hydropower shares (1,105 MW)

BUSINESS PERFORMANCE

SALES −20 %
2011 452
2010 567
EUR million

OPERATING PROFIT * −45
2011 192
2010 237
EUR million

* excluding special items

	2011	2010	2009
Sales, EURm	452	567	472
of which internal sales	275	336	337
Operating profit excl. special items, EURm	192	237	162
Capital employed (average), EURm	956	882	870
ROCE excl. special items, %	20.1	26.9	18.6
Personnel on 31 Dec.	96	72	66
Electricity deliveries, GWh	8,911	9,426	8,865

Operating profit decreased, mainly due to the lower sales price and lower condensing power generation. The average electricity sales price decreased by 6% to EUR 46.2/MWh (48.9/MWh).

BUSINESS DEVELOPMENT

UPM aims to grow in the Nordic and European CO_2 emission-free energy market by utilising cost competitive energy sources. UPM has consistently developed its capabilities and its organisation in multi-commodity energy trading. The derivative trading platform has also been developed as the traded volumes have grown and new products and markets have been introduced (read more on page 19).

In 2011, UPM continued to expand physical and derivatives trading activities and to seek growth in renewable and low-emission sectors. The physical markets ensure that supply and demand are balanced at all times. Trading in the derivative markets offers a higher degree of predictability for UPM's profits, as the purchase cost and sales price of electricity is secured in advance.

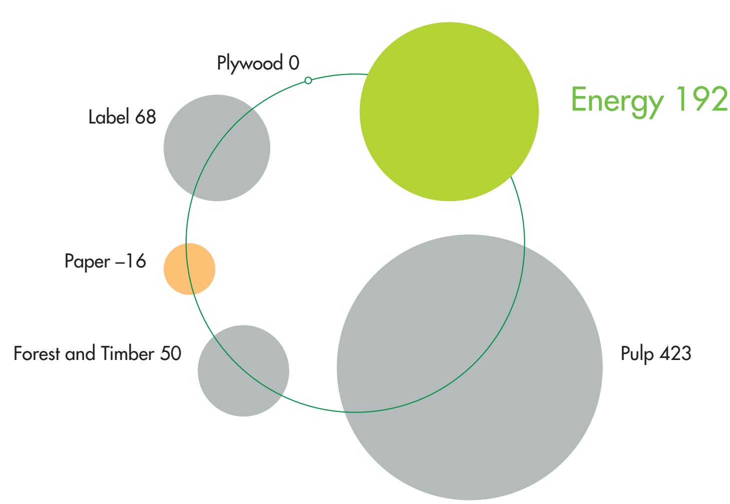
The Energy business area's market analysis team was established in 2011 continuing the development in the fundamen-

POWER GENERATION CAPACITY OF OWN POWER PLANTS AND THROUGH SHAREHOLDINGS

	Nominal MW
Hydropower	702
Nuclear power	581
Condensing power	431
Wind power	2
Total in Energy business area	**1,716**
Combined heat and power and hydropower at mill sites	1,561
Total UPM	**3,277**

UPM´S OPERATING PROFIT 2011 EUR 682 MILLION

(excl. special items)
Other operations EUR –35 million



tal understanding of the energy markets. Role of portfolio management in Central European markets increased after UPM acquired Myllykoski operations in August.

The largest ongoing project is at TVO, which involves a third nuclear power reactor (OL3) at Olkiluoto in Finland with an annual nuclear power generation capacity of 1,630 MW. It is estimated that the new power unit will begin operation in 2014. Through PVO, UPM is entitled to a 491 MW share, representing approximately 30% of the new plant's output.

In July 2010, the Finnish Parliament ratified the favourable decision-in-principle made by the Government concerning TVO's application to construct OL4, its fourth nuclear power plant unit. The application for a building permit for OL4 must be filed by June 2015 at the latest. UPM will participate in the financing of the bidding and engineering phase. Through its associate company PVO, UPM is entitled to an indirect share of approximately 30% of the OL4 project.

In March, UPM established VentusVis Oy, a wind power development company, in co-operation with TuuliSaimaa Oy in Finland. The operations focus on developing UPM's land areas for wind power production.

In August, UPM's acquisition of Myllykoski operations was completed. The transaction also included Myllykoski Oyj's 0.8% stake in the Finnish energy company Pohjolan Voima Oy. After this UPM's total ownership of PVO increased to 44.0%.

Portfolio management

The Energy business area operates in the power generation and in physical and derivatives trading. It also manages a centralised European energy portfolio. Electricity is traded on Nord Pool Spot AS and NASDAQ OMX Commodities.

The Energy business area is an active participant in the Nordic and Central European energy markets for electricity, gas, coal and emission allowances. In addition, it is responsible for UPM's electricity distribution in Finland and procures electricity and gas for other businesses within the company.

MARKET REVIEW

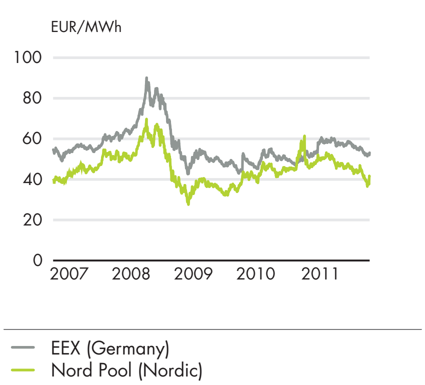
The Nordic hydrological balance was 19 TWh above the long term average at the end of 2011. Significant improvements were seen during the third quarter of 2011 due to the extremely rainy weather in Norway and Sweden.

The average electricity spot price on the Nordic electricity exchange in 2011 was EUR 47.0/MWh, approximately 11% lower than in 2010 (53.1/MWh).

Oil and coal market prices increased in comparison to the previous year. During 2011, market prices for Brent oil increased from approximately USD 93/barrel to approximately USD 127/barrel whereas the front year contract for coal was traded on average 16% higher than in 2010.

At the end of December, the CO_2 emission allowance price was EUR 7.2/t, 49% lower than on the same date the previous year (14.2/t).

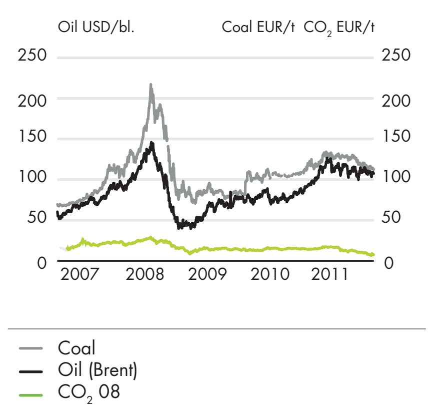
ELECTRICITY 1-YEAR FORWARD PRICE



Source: Nord Pool, EEX

The front year forward price in the Nordic electricity exchange was EUR 41.5/MWh at the end of 2011, 32% lower than at the end of 2010 (61.4/MWh).

FUEL AND CO_2 EMISSION ALLOWANCE PRICES



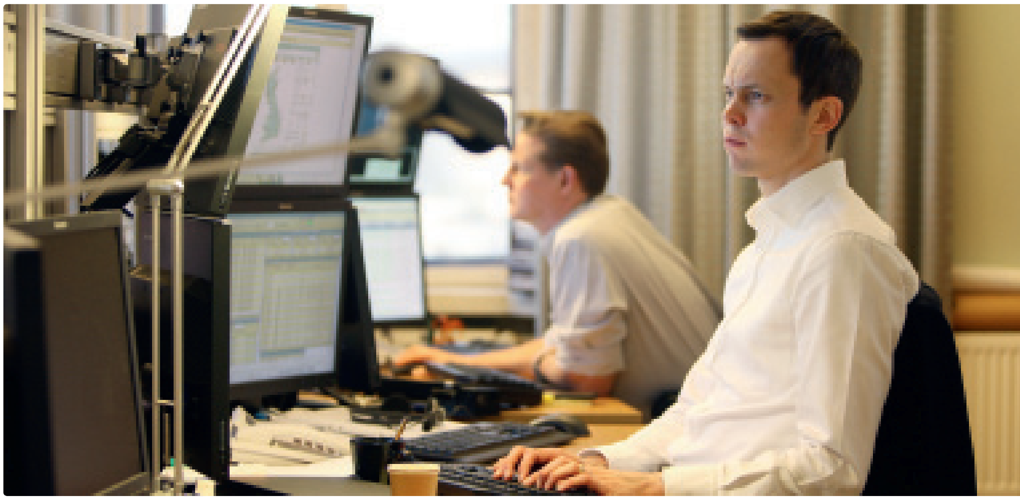
Source: Nord Pool, EEX, IPE

Oil and coal market prices increased in comparison to the previous year. The CO_2 emission allowance price fell significantly during 2011, trading between EUR 6.9 and 17.4/t over the course of the year.

Energy market operations are at the core of UPM Energy's activities

UPM builds new competencies for the changing energy markets

New team is a platform for UPM's goal to grow in low-emission energy



Portfolio Managers Juha Kortessalmi (left) and Timo Javanainen closely watch monitors at UPM's energy trading desk in Helsinki.

UPM Energy diversifies its competencies

The UPM Energy business area has been actively developing its competencies and has recruited energy experts from many fields. Just in the past year, some 20 new energy experts, e.g. energy market analysts, traders, portfolio managers and biomass procurement experts have joined the UPM Energy team.

Over the past few years, the former support function has been converted into a completely new market-based business requiring high level of knowledge. Mathematicians, economists and electrical and power plant engineers are working towards a common target – to get the best out of UPM's power production assets and help paper mills to procure their energy the best way possible.

On-the-job learning is an important part of the competence development. The focus is on cross-team task forces and empowerment.

"In 2011, we completed a People plan for UPM Energy. The plan supports the business strategy by defining the most important competence development areas and relevant developmental actions for the organisation. This plan is then cascaded to every individual in the form of a personal development plan via the performance management process," says Anne Särkilahti, Director of Physical Portfolio Management at UPM Energy.

An active player in the energy market

UPM is in the same position as any other big electricity producer in Finland, selling electricity to the wholesale market. UPM Energy is currently trading power, gas, coal and emission allowances on Nord Pool Spot, NASDAQ OMX, EEX, ECX and OTC markets. UPM was one of the first companies to start trading spot electricity on the Nordic power exchange Nord Pool in 1998.

The operating team is primarily based in Helsinki and Tampere in Finland and in Augsburg in Germany.

Active participant in the energy markets

Energy is a market-driven business for UPM. In electricity generation, UPM favours a wide range of low-emission energy sources and focuses on energy efficiency and energy savings in its businesses.

ELECTRICITY MARKET

External electricity sales

3.5 TWh

UPM

Energy as business

All electricity sales are made at market prices

UPM is an active participant in the Nordic and Central European energy markets for electricity, gas, coal and emission allowances

ENERGY BUSINESS AREA

ELECTRICITY GENERATION

TWh	2011	2010
Hydropower	3.1	2.9
Nuclear power	4.6	4.5
Condensing power	1.1	1.8
Total	8.8	9.2

5.3 TWh

Internal electricity sales

Growth in low-emission energy generation

UPM aims to grow in the Nordic and European CO_2 -emission-free energy market by leveraging cost competitive energy sources

UPM is the second-largest generator of biomass-based energy in Europe

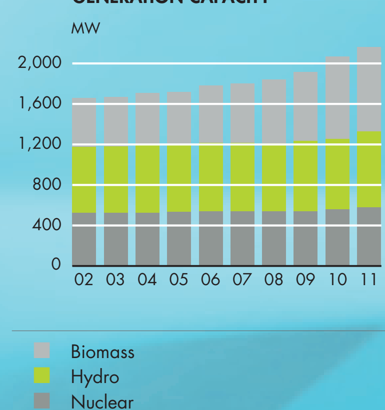
UPM is currently investing in new, safe nuclear power generation in Finland

79% of UPM's electricity generated by UPM is free from fossil-fuel CO_2 emissions

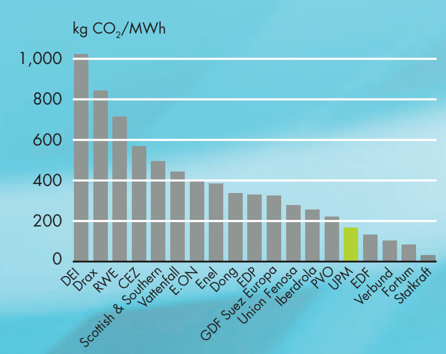
67% of all fuel used by UPM is based on renewable biomass

UPM has invested over EUR 1 billion on biomass-based power and heat generation (CHP) at the production sites over the past 10 years, more than doubling this capacity

UPM'S CO_2 EMISSION-FREE POWER GENERATION CAPACITY



SPECIFIC CO_2 EMISSIONS IN ELECTRICITY GENERATION



Source: PWC 2011, UPM

Electricity purchases

5.0 TWh

UPM group level electricity self-suffiency 91%

UPM PRODUCTION

ELECTRICITY CONSUMPTION

TWh	2011	2010
Mills in Finland	8.1	8.2
Mills outside Finland	7.8	6.9
Net sales	3.5	3.9
Total	19.4	19.0

5.7 TWh

Electricity from 30 CHP plants at paper and pulp mills

COMBINED HEAT AND POWER PLANTS AT MILL SITES

TWh	2011	2010
Electricity generation	5.7	4.8
Heat generation	25.1	24.6

FUELS USED FOR HEAT GENERATION

TWh	2011	2010
Black liquor	16.4	16.3
Bark and other biomass	8.7	8.3
Heat recovered from TMP production	1.6	1.7
Renewable fuels total	26.7	26.3
Peat	1.0	1.0
Purchased heat	0.3	0.2
Natural gas	7.4	6.9
Oil	0.7	0.5
Coal	3.3	3.1
Total	39.4	38.0

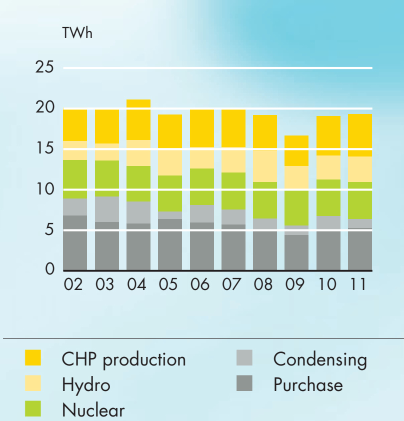
Substantial savings from energy efficiency improvements

UPM's continuous target is to improve energy efficiency

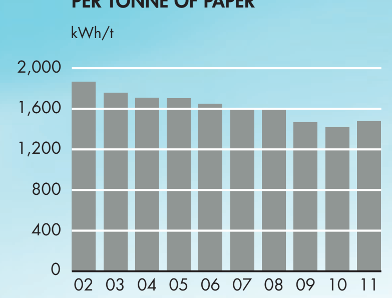
In 2011, UPM gained a total of EUR 19 million from its energy saving investments and achieved 112,000 t avoidance in CO_2 emissions and 420,000 MWh reduction in energy consumption

UPM's research programme on energy saving in mechanical pulping which was carried out in 2009–2011, identified savings up to 30% in energy consumption in the process (read more on page 40)

UPM GROUP'S ELECTRICITY SUPPLY



UPM'S ELECTRICITY CONSUMPTION PER TONNE OF PAPER

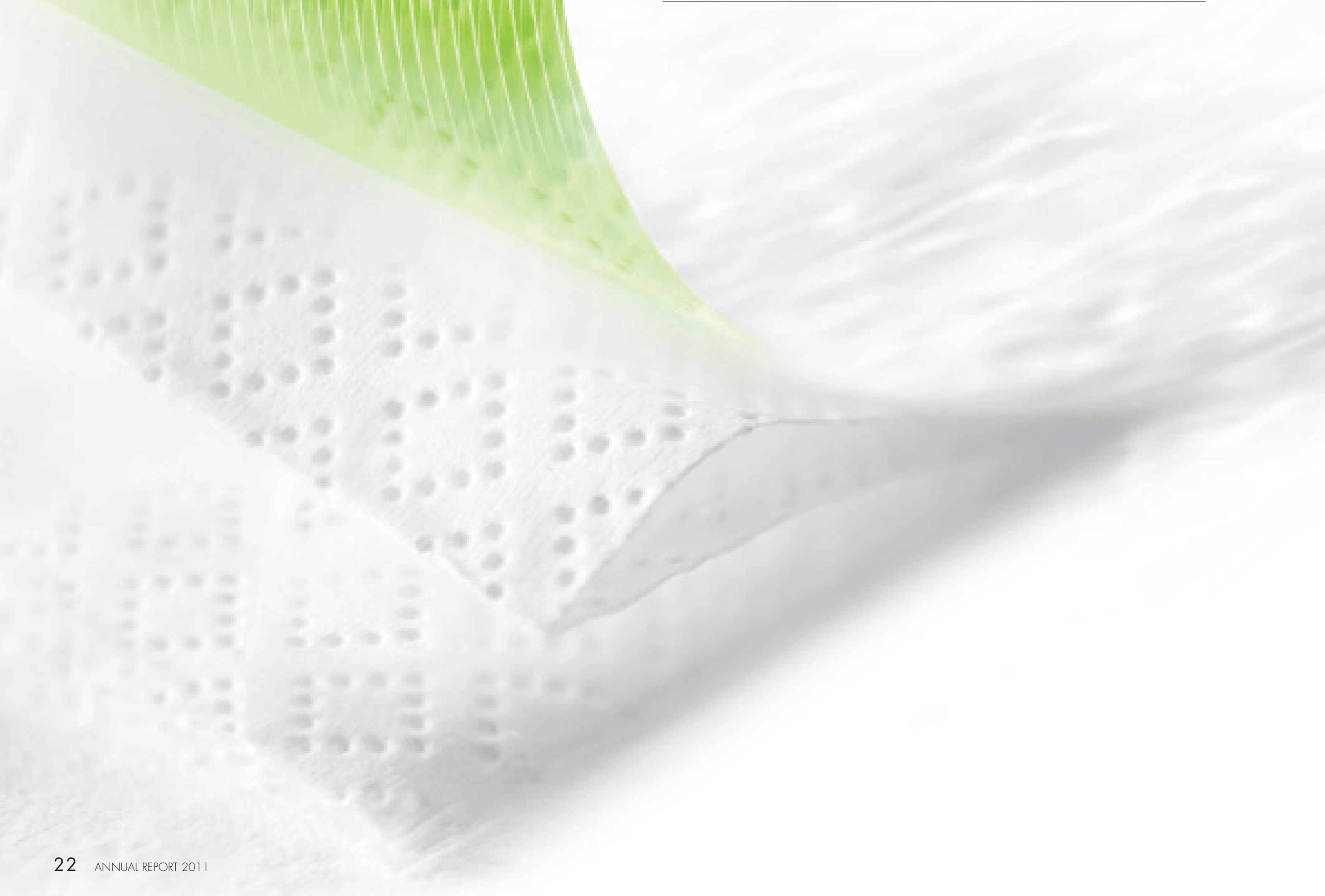


The 2011 figures include data from former Myllykoski mills for 5 months, from August to December.

Pulp

UPM's annual chemical pulp production capacity is 3.2 million tonnes from the four modern and efficient pulp mills based in Uruguay and Finland

- Bleached hardwood kraft pulp (BHKP) production from eucalyptus in Uruguay
- Bleached hardwood kraft pulp (BHKP) production from birch and bleached softwood kraft pulp (BSKP) production from pine and spruce in Finland
- Eucalyptus plantations and two nurseries in Uruguay
- UPM's pulp mills produce renewable energy in their recovery boilers and provide CO_2-neutral biomass-based electricity for the Uruguayan and Nordic markets



BUSINESS PERFORMANCE

SALES −3 %

2011 1,648
2010 1,698

EUR million

OPERATING PROFIT * −154

2011 423
2010 577

EUR million

* excluding special items

Operating profit decreased, mainly due to the lower pulp sales prices and higher wood costs. Pulp deliveries increased by 3%.

	2011	2010	2009
Sales, EURm	1,648	1,698	653
of which internal sales	1,105	1,301	590
Operating profit excl. special items, EURm	423	577	−127
Capital employed (average), EURm	2,396	2,473	1,668
ROCE excl. special items, %	17.7	23.3	−7.6
Personnel on 31 Dec.	1,441	1,413	1,516
Pulp deliveries, 1,000 t	2,992	2,919	1,759

PULP PRODUCTION CAPACITY

1,000 t/a	January 2012
Fray Bentos	1,100
Kaukas	740
Pietarsaari	790
Kymi	570
Production capacity, total	3,200

BUSINESS DEVELOPMENT

UPM aims to grow as a responsible producer of competitive high-quality pulp and to become an active market player in the global pulp market.

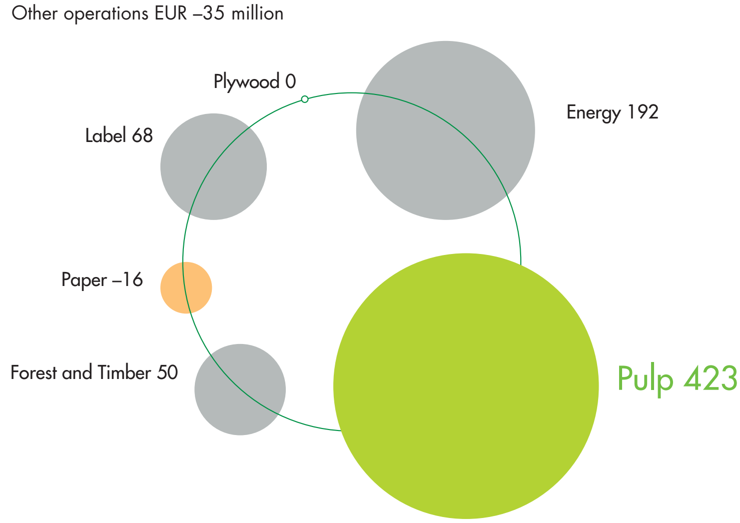
In 2011, UPM continued to develop its plantation operations. In January, UPM's plantation company, Forestal Oriental acquired approximately 25,000 hectares of land in Uruguay in order to improve wood procurement options and to support self-sufficiency in supplying the Fray Bentos pulp mill.

In February, UPM announced a plan to build a second nursery in Uruguay to secure the availability of high-quality seedlings and seed material. The new nursery will be completed in March 2012.

UPM also continued to study opportunities for new locations for plantation-based operations and growth options for pulp production in the southern hemisphere.

UPM´S OPERATING PROFIT 2011 EUR 682 MILLION

(excl. special items)
Other operations EUR –35 million



In June, UPM sold approximately 6.7% of Metsä-Botnia's shares to Metsä-Botnia. UPM also signed a call option to the Finnish Metsäliitto Group for the remaining 11% of Metsä-Botnia shares still owned by UPM.

UPM continued to maintain and develop its pulp production processes and decided to modernise the birch pulp production line at the Kymi mill in Finland. The project will add new technology in order to reduce raw material consumption and the environmental impact of the process. The start-up will be in March 2012.

Sales

The Pulp business area operates as both a seller and a buyer of pulp. UPM is continuously increasing its market presence and aims to be a reliable pulp supplier for customers in wide range of the growing end-use areas, including tissue, board and speciality papers as well as printing and writing papers. In 2011, the development of sales and marketing operations continued and UPM increased its market impact, especially in Asia.

The Pulp business area sold approximately 2,992,000 tonnes of pulp in 2011, 890,000 tonnes of which was sold to external customers 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, secures the supply of pulpwood to UPM Fray Bentos pulp mill and is the centre of expertise for UPM plantation operations worldwide. The plantations are FSC and PEFC certified.

Forestal Oriental has developed highly-productive, locally-adapted Eucalyptus varieties through its genetic improvement programme, and these varieties are propagated within the company's own technologically advanced nursery.

Forestal Oriental owns 229,000 hectares of land, approximately 60% of which 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 long term annual harvest of pulp wood in these areas covers currently 70% of the demand for wood raw material for the Fray Bentos pulp mill. The remaining 30% is purchased from independent suppliers.

In co-operation with local private landowners, the company's FOMENTO programme works to encourage the suppliers to diversify the use of their farmland using sustainable plantation forestry.

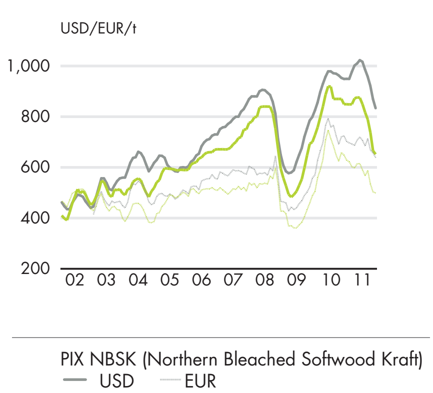
MARKET REVIEW

In 2011, global chemical pulp market prices decreased in comparison to 2010. In the first half of the year, USD-denominated market prices rose, reaching a record high in June. As a result of weakening market conditions, market prices started to decrease rapidly in the second half of 2011.

In 2011, the average softwood pulp (NBSK) market price was EUR 689/tonne (704/tonne) and the average hardwood pulp (BHKP) market price was EUR 581/tonne (639/tonne). At the end of the year, the softwood pulp market price was 639/tonne (724/tonne) and the hardwood pulp market price was EUR 499/tonne (648/tonne).

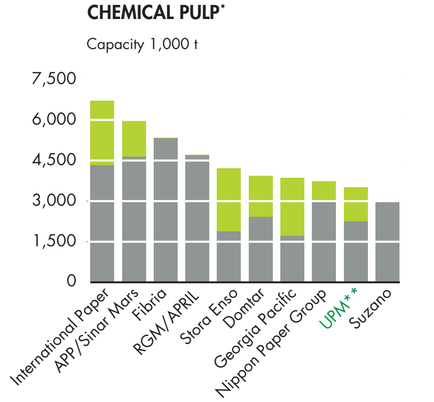
Global chemical pulp shipments increased by 4% from the previous year. The increase in shipments was mainly attributed to China, where shipments grew 30% from 2010. Shipments to Europe, North America and Latin America decreased in comparison with the previous year. In general, 2011 was characterised by strong monthly fluctuations in the global market pulp demand. Market pulp producer inventories increased throughout most of the year.

MARKET PULP PRICES — CHEMICAL PULP



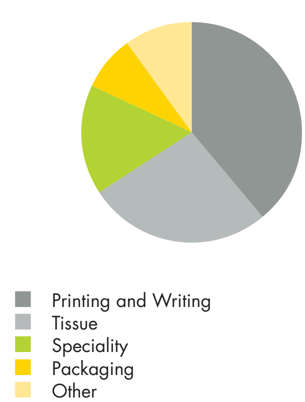
Source: FOEX Indexes Ltd.

WORLD'S BIGGEST PRODUCERS OF CHEMICAL PULP*



* Dissolving and Fluff pulp excluded
** incl. share of Botnia
Source: Pöyry, UPM

GLOBAL END-USE DISTRIBUTION OF BLEACHED CHEMICAL PULP



Source: Pöyry

UPM is a key member of The New Generation Plantations Project (NGPP), which is a project to develop sustainable plantation practices coordinated by WWF International

UPM hosted a conference with WWF in London to launch the NGPP report on how this concept applies to bioenergy and carbon storage

All UPM plantations are FSC and PEFC certified

UPM's two nurseries in Uruguay provide eucalyptus seedlings for the plantations. The NGP Project responds to a growing need to better understand the role that plantations can play in future societies.

Working with WWF for future plantations

WWF's New Generation Plantations Project (NGPP) identifies and promotes new-generation plantation practices. New generation plantations are forest plantations that maintain ecosystem integrity, protect the high conservation values and are developed through effective stakeholder participation, while contributing to economic growth and employment.

UPM has been one of the key members of the NGPP since it began 2008. The NGPP responds to a growing need for a better understanding of the role that well-managed and appropriately located plantations can play in future societies. The target is to promote key features of healthy, diverse and multi-functional forest landscapes, compatible with biodiversity conservation and human needs.

"Plantations that do not replace natural habitats, but help recover over-grazed and degraded land, can help build a greener future economy. Such plantations could help supply the world's future demand for timber, fibre and bioenergy without further depletion of its natural capital. They just have to be done right," says Rodney Taylor, WWF International's Forest Director.

Taylor continues: "The project gives WWF a much deeper understanding of what is possible and the challenges faced by the participating companies. There are certainly lots of examples of new-generation practices. If we put them all together, we might have a new-generation plantation."

In 2011, UPM hosted a conference in London to launch the publication of the NGPP report on how this concept applies to bioenergy and carbon storage. The report included two UPM case studies on sustainable plantation management in the UK. "We are happy to provide even more transparency to our operations to all relevant stakeholders by sharing our case studies," confirms Vice President Javier Solari, who is responsible for UPM plantations in the southern hemisphere.

Read more on the project on www.upm.com/responsibility and www.newgenerationplantations.com.

Active participant in the pulp market

Chemical pulp is a market-driven business for UPM. In papermaking, UPM uses a diversified portfolio of sustainable fibre sources, including 32% of recycled fibre.

MARKET PULP

External pulp customers

0.9 million tonnes

UPM

Pulp as business

UPM is a large seller and buyer of chemical pulp

UPM sells pulp to a wide and growing range of end-uses and buys pulp to optimise logistics costs and mix

All chemical pulp sales and purchases are made at market prices

PULP BUSINESS AREA

1,000 t/a	2011	2010
Chemical pulp production[1]	2,996	2,999

[1] In addition, UPM sourced 282,000 tonnes chemical pulp from Metsä-Botnia.

2.1 million tonnes

Internal pulp sales

Growth in competitive pulp

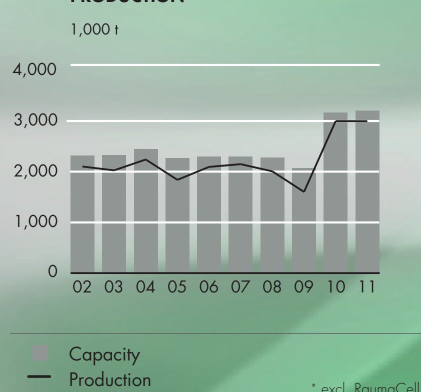
UPM aims to grow as a producer of competitive high-quality pulp

UPM aims to become an active player in the global pulp market

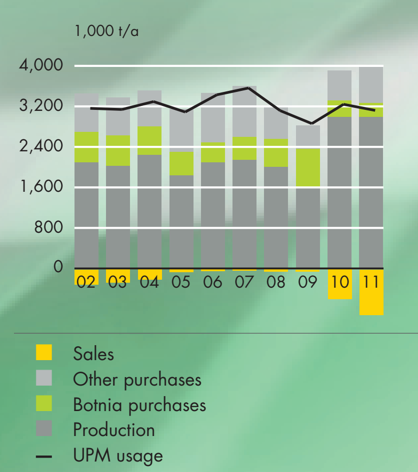
UPM is a reliable and responsible pulp supplier for customers in wide and growing range of end-uses, including tissue, board, printing and writing as well as speciality papers

35% of UPM's pulp production capacity is plantation-based eucalyptus pulp

UPM'S PULP CAPACITY AND PRODUCTION*



UPM'S CHEMICAL PULP SOURCING



External pulp suppliers

1.0 million tonnes

UPM chemical pulp self-suffiency 96%

PAPER

FIBRE CONSUMPTION

1,000 t/a	2011	2010
Chemical pulp	3,121	3,241
Mechanical pulp	2,435	2,154
Recycled fibre pulp	2,575	2,291
Total	**8,131**	**7,686**

FIBRE PRODUCTION AT PAPER MILLS

Mechanical pulp	2,382	2,102
Recycled fibre pulp	2,565	2,289
Total	**4,947**	**4,391**

Paper deliveries
10.6 million tonnes

Recovered paper
3.3 million tonnes

Diversified fibre portfolio in paper production

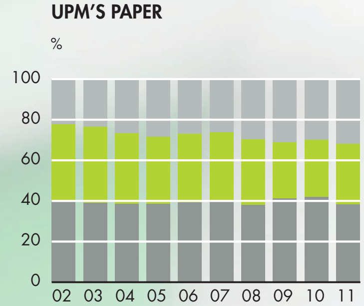
Having a diversified fibre portfolio within paper production enables the company to optimise product quality, operational efficiency and production costs

UPM Paper is a sustainable choice throughout the entire lifecycle

Recycled fibre represents 32% of all fibre raw materials used in paper production

UPM is committed to responsible sourcing in terms of both environmental and social aspects

FIBRE RAW MATERIALS USED IN UPM'S PAPER



Recycled fibre
Mechanical pulp
Chemical pulp

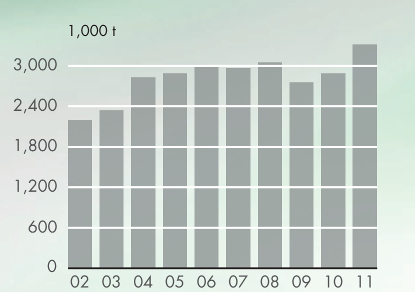
One third is recycled fibre

UPM is the world's largest user of recovered paper for the production of graphic papers, consuming 3.3 million tonnes of recovered fibre in 2011

UPM's paper mills Chapelle Darblay in France, Hürth and Schwedt in Germany and Shotton in the UK produce paper from 100% recycled fibre

Fibres in paper products can be reused 4 to 6 times to make new paper and after that they can be used as fuel for renewable energy generation

UPM'S RECOVERED PAPER CONSUMPTION



Source: Pöyry, UPM

The 2011 figures include data from former Myllykoski mills for 5 months, from August to December.

Forest and Timber

The Forest and Timber business area ensures competitive and efficient supply of wood and biomass in a sustainable way to all UPM businesses, and manages the sales of biomass to external customers. The business area also offers forest services for private forest owners and manages forests owned by UPM. It is also responsible for the production and sales of sawn timber and wood-based products

WOOD AND BIOMASS SOURCING

Sources annually approximately 27 million cubic metres of wood and biomass globally from private forest owners and business-to-business partners

FORESTRY BUSINESS

Offers high-quality forest services to forest owners and, as part of that service, manages some 0.7 million hectares of privately owned forests in Finland and the UK

Nearly one million hectares of UPM-owned certified forests in Finland, the UK and the USA

Nursery in Finland

BIOMASS BUSINESS

Biomass business is responsible for the sales of wood and biomass to external customers

UPM TIMBER

Produces and sells sustainable and advanced sawn timber products made from Nordic red and whitewood for building and joinery industries

The annual production capacity is 2.3 million cubic metres

UPM LIVING

Specialised in the production and sales of wood-based products for home interiors, garden and industrial uses

The annual production capacity is 0.4 million cubic metres

BUSINESS PERFORMANCE

SALES +9%
2011 1,651
2010 1,521
EUR million

OPERATING PROFIT * –131
2011 50
2010 181
EUR million

* excluding special items

	2011	2010	2009
Sales, EURm	1,651	1,521	1,337
of which internal sales	880	800	719
Operating profit excl. special items, EURm	50	181	22
Capital employed (average), EURm	1,812	1,709	1,717
ROCE excl. special items, %	2.8	10.6	1.3
Personnel on 31 Dec.	2,638	2,735	3,067
Deliveries, 1,000 m^3	1,683	1,729	1,497

Operating profit decreased, mainly due to a smaller increase in the fair value of biological assets. In sawn timber, wood costs were higher and average sawn timber prices decreased from 2010.

BUSINESS DEVELOPMENT

UPM aims to strengthen its position on the wood and biomass market and to secure competitive supply of wood and biomass to all UPM businesses. The different businesses within the Forest and Timber business area strive for profitable growth.

In January, UPM Timber decided to reorganise its operations in Finnish and Russian production units, staff functions and in sales units abroad. The decided measures affected 45 employees.

In February, UPM announced a plan to expand its nursery in Joroinen, Finland. The first seedlings from the new greenhouse will be planted during the 2012 planting season.

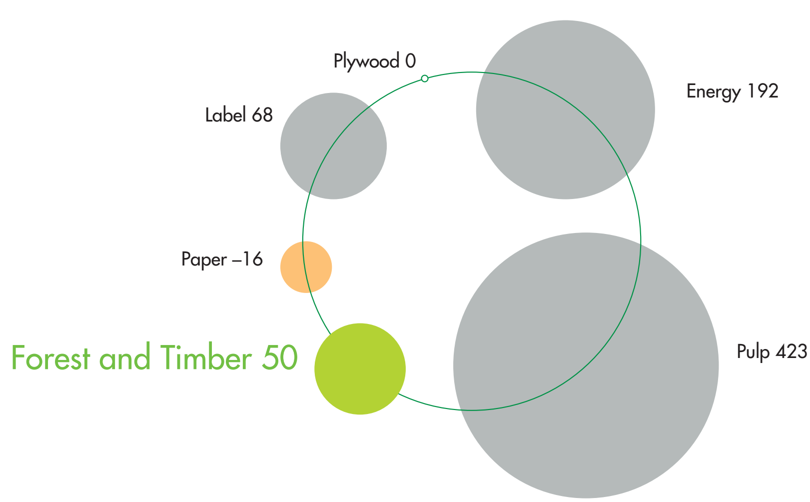
UPM aims at building with wood and seeks growth by differentiating its wood-based products (UPM Living) from its sawn timber (UPM Timber). In March, UPM divided its business into independent sawn timber and wood-based product businesses to enhance its service ability for building and joinery, as well as other industrial customers and consumers.

FORESTS OWNED BY UPM

	Hectares
Finland	883,000
United Kingdom	7,000
United States	76,000
Total	**966,000**

UPM´S OPERATING PROFIT 2011 EUR 682 MILLION

(excl. special items)
Other operations EUR –35 million



In April, UPM and International Paper signed an agreement on the sale of UPM's ownership in the Russian logging company ZAO Tikhvinsky Komplexny Lespromkhoz. The transaction was completed in July.

In September, UPM was the first in Finland to be awarded a certificate for complying with the new FSC standard. The FSC certificate covers around half of UPM's forests in Finland. UPM's forests have previously been awarded a PEFC certificate. (Read more on page 73).

Since October, wood and biomass sourcing and forestry businesses have been organised under common management.

The weakening market situation, the availability of cost competitive raw material and poor business profitability brought on a need to continue production curtailments in UPM Timber and UPM Living in Finland during 2011.

MARKET REVIEW

Wood and forest biomass sourcing

In Finland, total wood purchases in the Finnish private wood market were 25.3 million cubic metres, which was 24% lower than 2010 (33.2 million) and lower than the long term average. Market activity remained modest in the first half of 2011, increased during the third quarter of the year and slowed down again towards the end of the year.

Finnish wood market prices remained high in comparison with the long term average prices.

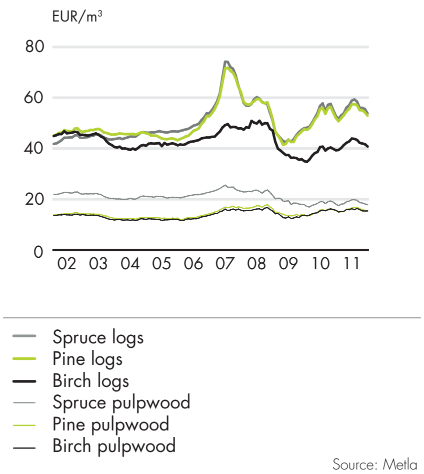
In Central Europe, wood market prices increased due to higher demand and through energy wood competition. UPM's wood sourcing in Central European markets increased after UPM acquired Myllykoski operations in August.

Timber

Sawn timber demand in Europe continued to be weak in 2011 due to economic uncertainty and low building activity. Sawn timber exports from Finland decreased by 5% from the previous year. Political unrest in North Africa had a negative impact on European export volumes.

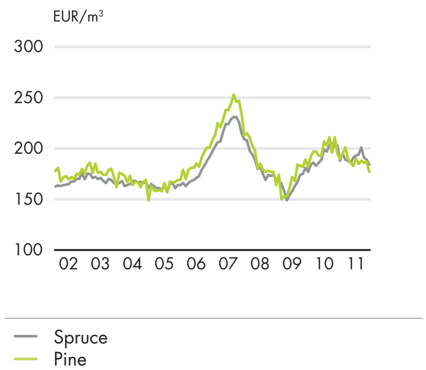
High sawn timber supply from Scandinavia continued throughout the year and put pressure on sawn timber market prices, which decreased from 2010.

MONTHLY STUMPAGE PRICES FOR LOGS AND PULPWOOD IN FINLAND



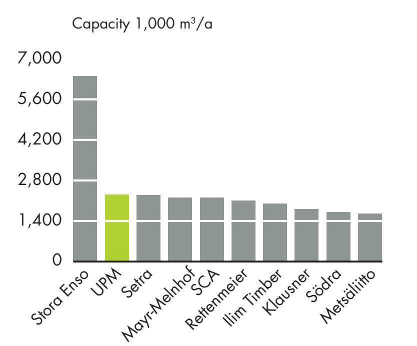
Source: Metla

EXPORT PRICES FOR FINNISH TIMBER



Source: National Board of Customs

EUROPE'S BIGGEST SAWN TIMBER PRODUCERS



Source: UPM, companies www pages

Pulpwood market prices increased by 2–4% and log market prices by 3–8% from the previous year, depending on the species.

Export prices for Finnish timber decreased by 2–6% from the previous year, depending on species.

UPM is committed to sustainability at every stage of a product's life

Wood is a versatile building material: it is strong and ecological and can be reused and recycled

With its sustainable products, UPM will partner with the World Design Capital Helsinki 2012

UPM showcased its UPM Living wood-based products at the Flow music and arts festival in Helsinki in August 2011.

UPM Living develops sustainable wood products for home and garden

Wood's renewability is only one aspect of its excellent environmental credentials as a building material. In 2011, UPM established a new business unit, UPM Living, which manufactures wood-based products for home decoration and building materials both for consumers and industrial customers using advanced technology and in-depth material knowledge. UPM Timber continues to produce certified Nordic sawn timber.

Anu Puustinen, Finnish architect and a member of the UPM Living Design Pool, says that wood's potential as a material is enormous.

"Wood is genuine and in itself it is already an ecological product. It is not necessarily just a surface either and the wooden structure of a house can be emphasised, for example as a visible element of décor," she says.

The other members on the UPM Living Design Pool are architects Harri Helorinne, Jarkko Kallio and Ville Hara as well as industrial designer Jaana Karell.

World Design Capital 2012 pavilion made of UPM's wood products

When the entire world of design turns its gaze on Helsinki and Finland in 2012, UPM will have a great opportunity to show Biofore thinking in practice.

Fresh Finnish design will emerge in partnership with World Design Capital Helsinki 2012, when the pavilion acting as the meeting place for the design year is constructed from UPM's wood materials. The pavilion, which will be built in the centre of Helsinki, will be made from renewable and recyclable wood products.

WORLD DESIGN CAPITAL HELSINKI 2012

Read more about UPM's wood-based products at www.upmliving.com.

Adding value to sustainably sourced wood and biomass

Renewable wood and biomass are the primary raw materials for UPM's businesses. The company's expertise on biomass processing and sourcing provides a solid platform for developing new businesses.

WOOD MARKETS

External wood biomass sales

6.2 million m^3

UPM

Wood and biomass as business

UPM is a major participant in the wood and biomass markets, both as a buyer and seller

UPM aims to strengthen its position in the wood and biomass markets and secure competitive biomass for the company

The UPM Wood Sourcing and Forestry Business manages the company's forests and provides forestry services to external customers

After the investments made in 2011, UPM's nursery in Finland produces approximately 16 million seedlings and the nurseries in Uruguay produce approximately 35 million eucalyptus seedlings per year

UPM aims to be the leading supplier of renewable biomass-based solid fuels to European energy markets

Sustainability in wood and biomass sourcing

UPM ensures all wood and wood fibre is responsibly sourced

All of UPM's forests and plantations are certified

All of UPM's wood supplies are covered by a third-party-verified chain of custody and 78% of wood used is certified

UPM's global biodiversity programme aims to maintain and increase biodiversity in forests as well as promote best practice in sustainable forestry

UPM WOOD AND BIOMASS RESOURCES

FORESTS OWNED BY UPM [1)]

	Hectares
Finland	883,000
United Kingdom	7,000
United States	76,000
Total	**966,000**

PLANTATIONS OWNED BY UPM [1)]

	Hectares
Uruguay	229,000

[1)] In addition, UPM manages 0.7 million hectares of privately owned forests and 200,000 hectares of plantations.

4.8 million m^3

Internal wood sales

Wide range of forest services

UPM offers a wide range of wood trade and forestry services to the forest owners and forest investors

In addition to timber sales, the services include preparation of plans and production forecasts, planting and maintenance operations as well as legal and advisory services

A well-managed forest brings revenue, pleasure and recreational values to its owner

Wood and biomass purchases in 20 countries

26.8 million m^3

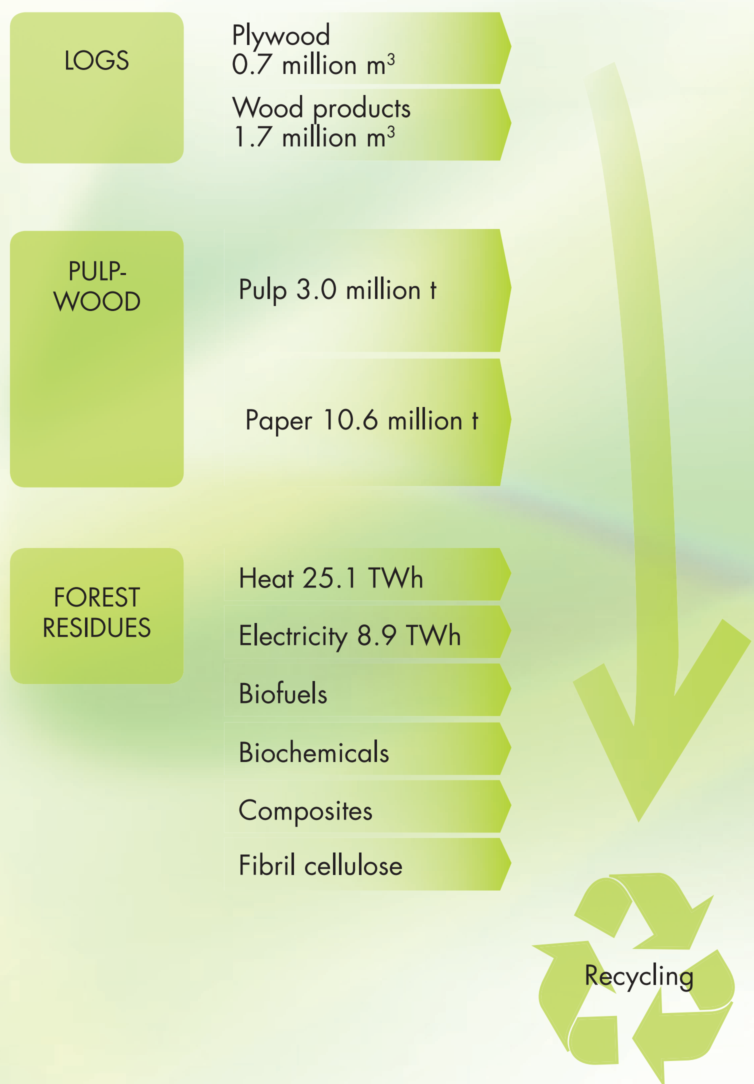
In 2011, 16% of UPM's wood consumption originated from the company's own forests and plantations

UPM WOOD AND BIOMASS USE 1)

WOOD DELIVERIES TO UPM MILLS

1,000 m^3	2011	2010
Finland	17,152	16,928
Germany	1,196	643
Austria	781	813
Russia	639	951
France	416	446
United Kingdom	322	299
Estonia	150	122
United States	708	546
Uruguay	3,867	4,247
Total	**25,231**	**24,995**

1) In addition, UPM supplied biomass equivalent to 9.1 TWh (8.3) energy production, mainly to its own and part-owned power plants.



Development of new businesses

Businesses based on renewable and recyclable raw materials form the core of UPM's Biofore strategy

Having a wide range of expertise in biomass processing and recycling combined with the existing sourcing network provides a solid platform for the development of new, higher value-added businesses

Many of UPM's current and new products provide renewable and recyclable alternatives to non-renewable materials

The 2011 figures include data from former Myllykoski mills for 5 months, from August to December.

Paper

UPM's Paper business area produces magazine paper, newsprint and fine and speciality papers for a wide range of end-uses

UPM's annual paper production capacity is 12.7 million tonnes, manufactured in 22 modern paper mills in Finland, Germany, the United Kingdom, France, Austria, China and the United States

The main customers are publishers, retailers, printers, distributors and paper converters

UPM has a global paper sales network and an efficient logistics system

The combined heat and power (CHP) plants operating on paper mill sites are included in the Paper business area

BUSINESS PERFORMANCE

SALES +15%
2011 7,184
2010 6,269
EUR million

OPERATING PROFIT * +238
2011 –16
2010 –254
EUR million

* excluding special items

Profitability improved. However, despite 7% higher paper prices, the business area incurred an operating loss due to increased variable and fixed costs. Paper deliveries increased by 7%, mainly due to the Myllykoski acquisition.

	2011	2010	2009
Sales, EURm	7,184	6,269	5,767
Operating profit excl. special items, EURm	–16	–254	346
Capital employed (average), EURm	5,437	5,465	5,714
ROCE excl. special items, %	–0.3	–4.6	6.1
Personnel on 31 Dec.	13,877	11,901	12,187
Deliveries, 1,000 t Publication papers	7,071	6,123	5,667
Fine and speciality papers	3,544	3,791	3,354
Total	**10,615**	**9,914**	**9,021**

PAPER SALES BY MARKET

EURm	2011	%
Europe	4,850	68
United States and Canada	771	11
Asia	1,105	15
Rest of the world	458	6
Total	**7,184**	**100**

BUSINESS DEVELOPMENT

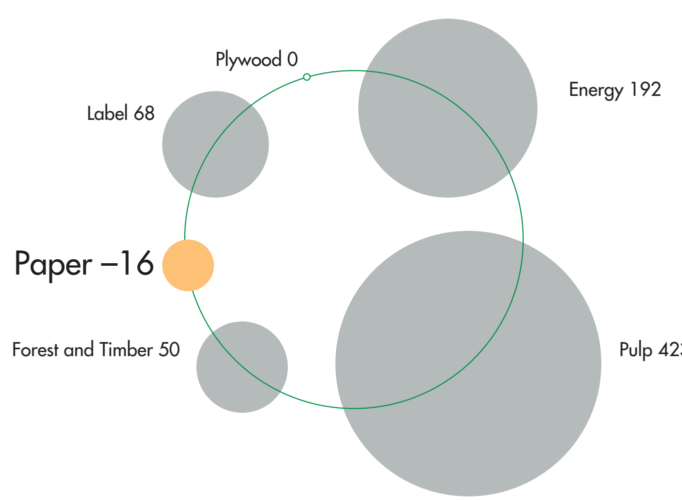
The Paper business area has a strong focus on cost leadership and European profitability. In addition to cost efficiency throughout the supply chain, it also creates a competitive advantage with sustainable products, reliability and innovative customer services. In addition, the business area is seeking growth in China and other emerging markets.

In December 2010, UPM announced the acquisition of Myllykoski Oyj and Rhein Papier GmbH, and in July 2011, the EU commission approved the acquisition. The Myllykoski acquisition was completed in August.

The transaction included six publication paper mills in Germany and Finland with a total production capacity of 2.8 million tonnes, including the 50% ownership of the Madison Paper publication paper mill in the United States. The Myllykoski acquisition

UPM´S OPERATING PROFIT 2011 EUR 682 MILLION

(excl. special items)
Other operations EUR –35 million



drives to strengthen the cost leadership of Paper operations. (Read more on page 38).

At the end of August, UPM announced a plan to reduce 1.3 million tonnes of publication paper capacity in Europe to improve the profitability and cost efficiency of UPM's paper business and to adapt the company's paper production to the needs of its global customer base. The plan also included restructuring of overlapping paper sales, supply chain networks and global functions. The total annual cost synergies from the plan are estimated to be EUR 200 million of which large majority is expected to be achieved by the end of 2012.

Since September, UPM temporarily closed the paper machine 2 producing uncoated fine paper at UPM Nordland Papier in Germany.

In December, UPM ceased production at the Myllykoski paper mill in Finland and permanently closed paper machine 3 at the UPM Ettringen paper mill. UPM also restructured overlapping operations in the supply chain, paper sales and functions in the Ettringen, Plattling and Hürth mills in Germany.

The plan also included the closure of the UPM Albbruck mill in Germany and the transfer of sheeting lines from Albbruck to Plattling mill. The decision of the closure was finalised in January 2012 and production ceased at the end of January 2012.

In addition, as a part of planned measures UPM announced the sale or other exit of the UPM Stracel paper mill in France from UPM Paper business by September 2012.

In connection with the closures, UPM started to implement the "From Job to Job" programme and actions agreed in the social plans at the mills in order to alleviate the effects caused by the closure of the mill. The programme includes active measures that promote re-employment, retraining and relocation (read more on page 63).

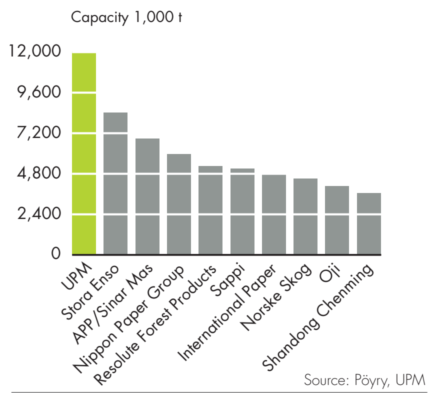
In 2011, UPM continued to improve cost efficiency within the supply chain. The combined UPM and Myllykoski businesses provided opportunities to create and optimise synergies in the supply chain. In 2011, the Paper business area's working capital turnover improved significantly.

In addition to supply chain efficiency, UPM also continued to work on energy efficiency improvements in the manufacturing process and material efficiency, especially for fibre and water. (Read more on page 41).

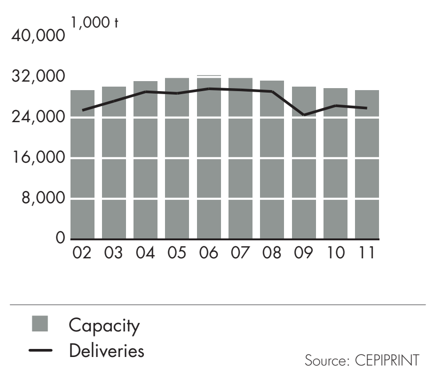
Restructuring measures and cost efficiency improvements will further strengthen the cost competitiveness of UPM's paper operations and reduce the future need for major maintenance investments.

The strict investment policy continued throughout the 2011. Total investments within the Paper business area remained at a low level, totalling EUR 159 million in 2011 (158 million).

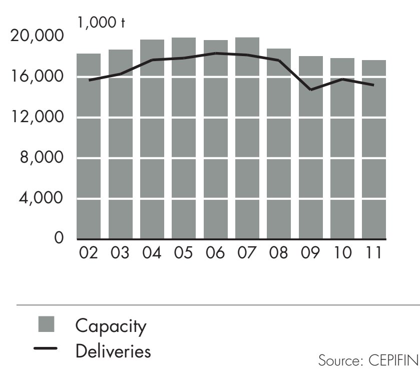
WORLD'S BIGGEST GRAPHIC PAPERS PRODUCERS



PUBLICATION PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE



FINE PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE



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[1)]	5,775	1	1
Newsprint	2,730	1	3
Fine papers	3,310	3	3
Speciality papers	865	1–4	
Total	12,680		

1) Excluding the UPM Albbruck mill which was closed in January 2012.

MARKET REVIEW

In Europe, publication paper prices increased by approximately 13% in comparison to 2010 and fine paper prices increased by 3% compared to the full year of 2010. In North America, market prices for magazine papers were 12% higher.

In Asia, market prices for fine papers increased during the first half of 2011, but decreased in the second half of the year.

The year 2011 was characterised by high cost inflation for chemical pulp and recovered paper. Cost inflation peaked during the third quarter of 2011 and started to decrease gradually towards the end of the year. Energy and logistics costs increased in 2011.

In Europe, graphic papers demand declined by 4% and in North America by 6% in 2011. In Asia, graphic papers demand grew by 2%.

Magazine advertising expenditure decreased slightly by 1% both in Western Europe and in North America. However, In Germany, the biggest market in Europe, magazine advertising expenditure grew by 1%. Magazine advertising expenditure in the Eastern European market decreased clearly with the exception of Russia where advertising expenditure increased by approximately 10%. In China, magazine advertising grew by 5%.

Newspaper advertising expenditure decreased by 2% in Europe, but there was strong growth in the emerging markets like India and Turkey.

Direct mail end-use and the retail sector remained stable in line with the previous year and. Direct mail continues to play a very important role in multi-channel marketing campaigns. According to several studies, both response rates and ROI are high when direct mail was included in the media mix.

Internet media continued to grow throughout the year and contributed to the positive development seen in total advertising expenditure. The role of printed media as an advertising medium remained stable in comparison to all other media. Advertisers and media brand owners are focused on multi-channel platforms, which use both print and online media.

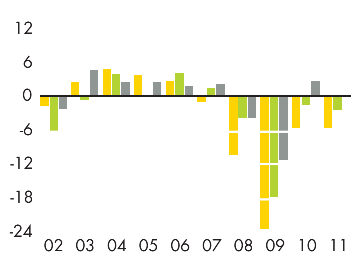
In Europe, office papers demand decreased by 1% from 2010. Paper distributor inventories decreased during the first half of 2011 and remained low throughout the second half of the year. At the end of the year, the inventories were clearly below pre-recession levels.

The market balance in the European graphic papers market weakened in comparison to 2010 as the increase in net exports and reductions in production capacity did not fully offset the negative impact of declining demand. The net export from Europe was 5.9 million tonnes, an increase of 7% from 2010. Production capacity was cut, especially for magazine and newsprint papers, with the net production capacity of graphic papers seeing a reduction of 4% (2.1 million tonnes) within Europe. In addition, a further 3% reduction in 2012 was announced at the end of the year.

In label and packaging papers, demand grew in the beginning of 2011, but started to decrease in the second quarter and continued to weaken through to the end of the year.

ADVERTISING IN PRINTED MEDIA*

%-change, y-o-y, in current prices

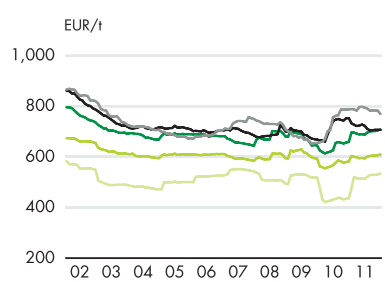


North America
Europe
Asia

Source: Zenith Optimedia
* Excl. direct mail

^ Developing markets represents the increasing share of print advertising expenditure. In Europe, the expenditure remained slightly negative. Advertising in direct mail has remained stable.

PAPER PRICES IN EUROPE



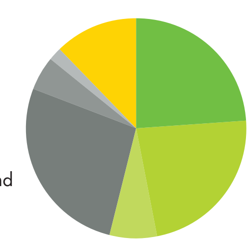
WFUr 80 g
WFCr 100 g
LWC off 60 g
SC rg 56 g
Newsprint 45 g

Source: RISI/PPI

^ Market prices for publication papers increased by approximately 13% and for fine papers by 3% from 2010.

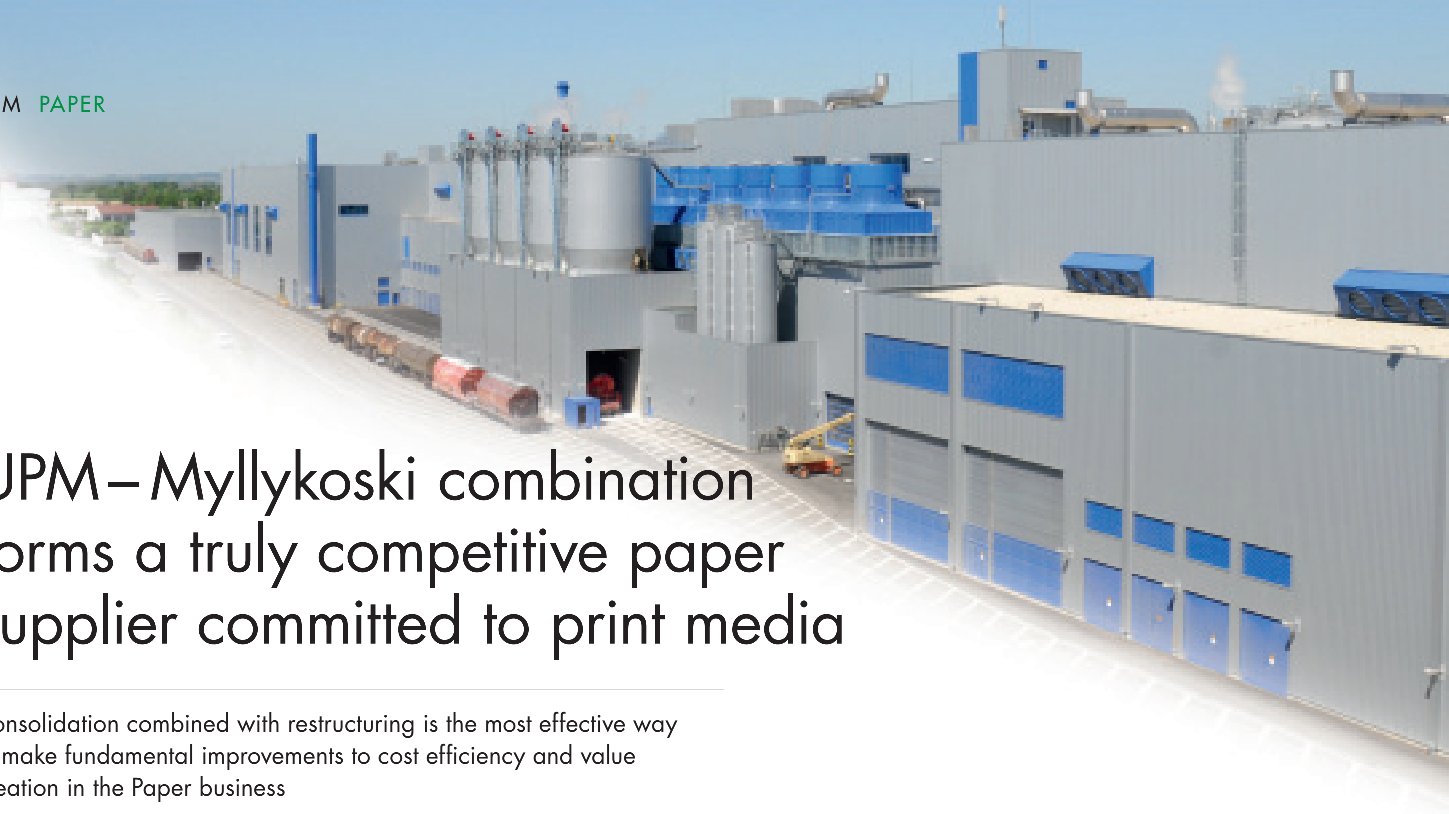
GRAPHIC PAPER END-USES IN EUROPE

Newspapers
Magazines
Catalogues
Direct marketing
Books and Directories
Business forms and Envelopes
Cut size



Source: CEPI, UPM

^ Approximately 80% of graphic paper demand is driven by advertising.



UPM–Myllykoski combination forms a truly competitive paper supplier committed to print media

Consolidation combined with restructuring is the most effective way to make fundamental improvements to cost efficiency and value creation in the Paper business

After the capacity closures and the realisation of cost synergies, UPM's cost competitiveness will be better than before the acquisition

UPM is able to serve its customers better through an improved product portfolio and a stronger geographic presence

Low levels of investment required to maintain the modern production capacity

ACQUISITION OF MYLLYKOSKI AND RHEIN PAPIER

UPM acquired Myllykoski Corporation and Rhein Papier GmbH in August 2011. The acquisition was initially agreed in December 2010 and approval was received from EU Commission in July 2011.

THE TRANSACTION INCLUDED	Six publication paper mills in Germany and Finland with a total production capacity of 2.8 million tonnes, including 50% ownership of the Madison Paper publication paper mill in the USA
	0.8% ownership of the Finnish energy company Pohjolan Voima Oy
	The enterprise value of the acquisition was EUR 835 million
	Annual cost synergies are expected to total EUR 200 million during 2013

Consolidation is the best way to improve value creation in the European paper business

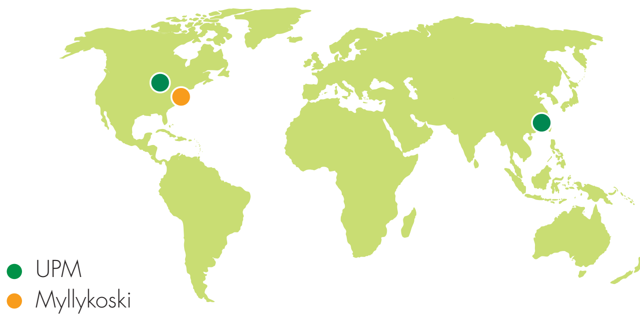
The Myllykoski acquisition is a significant strategic step for UPM and is especially important for the company's magazine paper business. UPM is determined to improve the cost efficiency and profitability of its European paper operations.

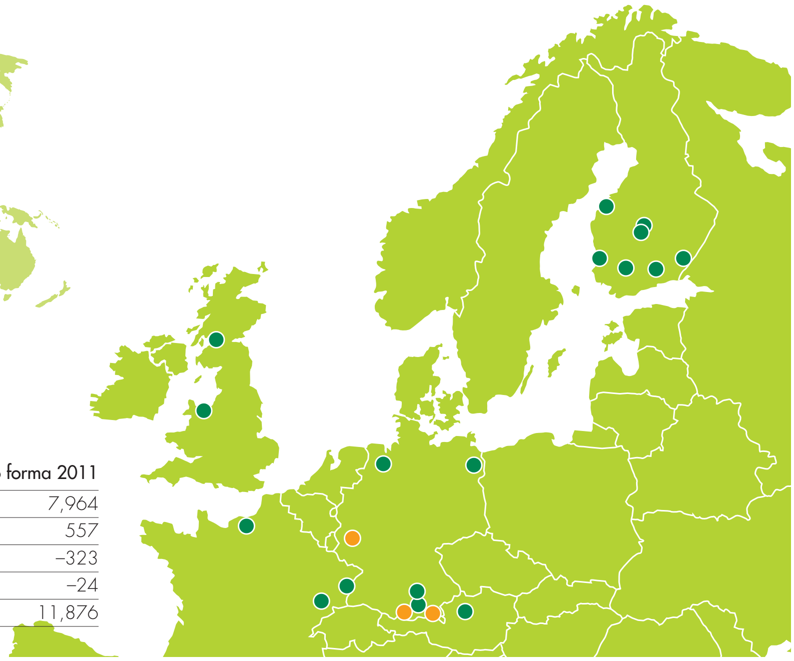
Profitability in the European publication paper industry has been poor for nearly ten years.

The growth in demand is shifting to markets outside of Europe and at the same time, electronic media is posing a challenge for print media.

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

In this operating environment, cost leadership and rationalising production are necessary in order to achieve sustainable profitability and value creation. Consolidation is the best way to achieve fundamental improvements in cost efficiency and the optimal production platform for customer needs.





PAPER BUSINESS AREA

EURm	Reported 2011	Pro forma adjustments	Pro forma 2011
Sales	7,184	780	7,964
EBITDA	517	40	557
Operating profit	–315	–8	–323
excl. special items	–16	–8	–24
Paper deliveries, 1,000 t	10,615	1,261	11,876

Pro forma as if the transaction had occurred 1 January 2011. Pro forma adjustments include 7 months of 2011. Myllykoski operations are included in the reported figures from August 2011.

Plan to improve long term competitiveness

As part of the Myllykoski integration, UPM performed a comprehensive review of the long term competitiveness of its publication paper mills.

On 31 August 2011, UPM announced a plan to adjust its magazine paper capacity to match the needs of its global customer base. The planned measures included permanently removing 1.2 million tonnes of magazine paper capacity in Finland, Germany and France and 110,000 tonnes of newsprint capacity in Germany. The plan also included restructuring the overlapping paper sales, supply chain networks and global functions.

The implementation of the plan will reduce the number of employees by approximately 1,170. In connection with the mill closures, UPM has started to implement social plans in order to alleviate the effects caused by the closure of the mills. The plans include active measures that promote re-employment, retraining and relocation. (Read more on page 63).

Improved cost competitiveness and customer offering

The total annual synergy benefits from the Myllykoski acquisition, including the planned actions, are estimated to total EUR 200 million. The acquisition is estimated to have a positive impact on UPM's earnings per share in 2012.

After the planned actions and realisation of cost synergies, UPM expects to achieve lower unit costs for magazine papers than before the Myllykoski acquisition. The level of investment required to maintain UPM's modern paper production portfolio in the future is low.

UPM is able to better serve its customers through its improved product portfolio and geographic presence. UPM's local presence is also stronger, particularly in the Central European markets.

"With this acquisition we are making a fundamental improvement to our competitiveness, both in terms of cost efficiency and our customer offering. We have formed a truly competitive paper supplier committed to print media," says Jyrki Ovaska, President of the Paper Business Group.

"The atmosphere throughout the integration project has been positive. We have been able to progress quickly through the integration process and at the same time take good care of the customer interface."

"As the economic outlook is uncertain, it is also important to ensure the efficient use of our remaining capacity and achieve the cost synergies of EUR 200 million."

UPM's continuous target is to improve energy efficiency

Research programme resulted in energy savings of up to 30%

Fruitful co-operation between R&D and mills

The operators and supervisors start up the new low-energy thermo-mechanical pulping line at the Kaipola paper mill in Finland.

Significant energy savings in mechanical pulping

In paper production, a remarkable share of energy is consumed in the production of mechanical pulp, one of the main ingredients in magazine paper.

The aim of UPM's strategic research programme concerning energy saving in mechanical pulping, carried out during 2009–2011, was to develop and implement new, energy efficient production technologies. To reach the target of 30% reduction in electricity consumption, a reassessment of the traditional pulp manufacturing principles in co-operation with mills and research was required.

Savings with process development

In 2011, new energy efficient pulp production concepts were implemented at several mills. The process improvements were made by updating production lines with new technology and by simplifying processes.

For example, the grinding technology was modernised at the Plattling mill in Germany and Madison in the USA. In addition, energy efficient solutions were implemented in thermo-mechanical pulping processes at the Kaipola and Rauma mills in Finland and Steyrermühl in Austria.

The research that has been done over the years to find energy efficient solutions was put into practice in the successful co-operation between UPM's R&D and its paper mills.

"The results have, in many ways, been even better than anticipated, with energy savings of 10-30% in mill applications. Several million euro savings at the mills encourage to continue the development at other UPM mills," says Vuokko Pietarila, Programme Manager.

The aim of UPM's water programme is to use water responsibly in all of its operations

UPM is investigating the management and the material efficiency of water use at several of its mills

The target is to reduce waste water volumes and chemical oxygen demand (COD) by 15% between 2008 and 2020

Process engineer Samppa Kutvonen participates in the pilot water management system project at the UPM Hürth paper mill.

UPM makes its water use more efficient

Water is an essential raw material in the pulp and paper production process. UPM also uses water as a power source and 20% of the company's electricity is produced using emission-free hydropower.

In 2011, UPM carried out several projects aimed at improving water management. The water footprint study performed at the German Nordland paper mill in 2010 was extended to include a water use sustainability assessment. Other water footprint studies are ongoing in UPM's plywood and wood plastic composite businesses.

"By working with the Water Footprint Network, UPM has taken a leading role in reviewing sustainable water use in the paper industry. UPM's pilot study shows that when forests are managed sustainably, paper products will have little contribution for the growing concerns about water scarcity," says Executive Director Ruth Mathews from the Water Footprint Network.

At the end of the year, UPM started to pilot a water management system at the UPM Hürth mill in Germany, in co-operation with the Alliance of Water Stewardship (AWS).

UPM investigates the scarcity of water resources

The scarcity of water resources is one of the environmental concerns of the immediate future. UPM examined the scarcity of its water resources utilising the Water Scarcity Index tool. According to the results, UPM mills are situated in areas where water is abundant and scarcity is not a problem.

In 2011, a material efficiency programme was launched at all UPM paper mills. The objectives of the programme are to decrease the amount of suspended matter in waste water and the use of process water consumption. These objectives are being pursued by investments and sharing best practices between mills.

In the beginning of 2011, UPM started a three-year research programme concerning efficient water use in the future pulp mills. Trial runs have been carried out at UPM's Fray Bentos pulp mill in Uruguay.

Read more about UPM's responsible water use at www.upm.com/responsibility.

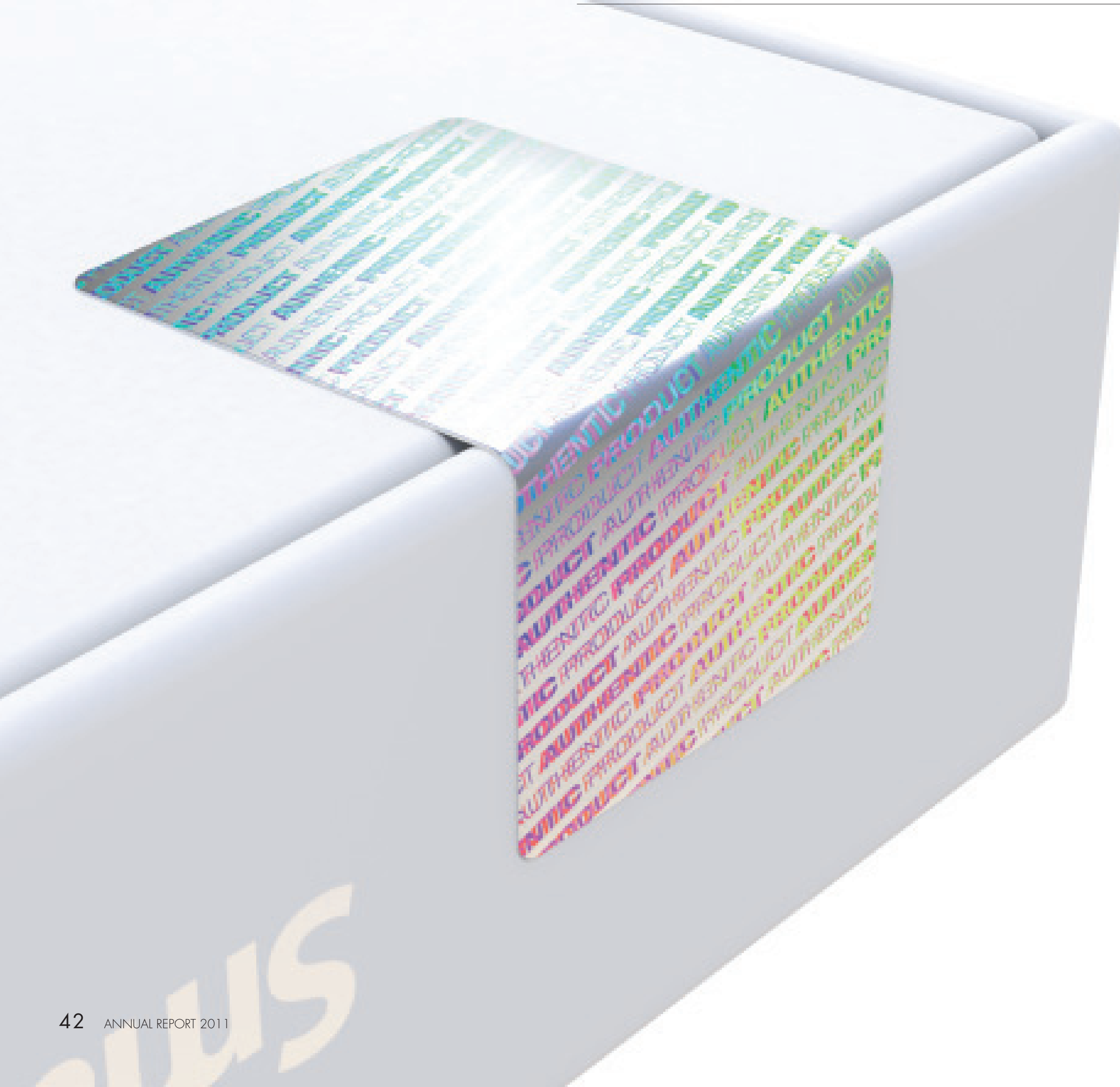
Label

The Label business of UPM, UPM Raflatac, manufacturers self-adhesive label materials for product and information labelling for both high-volume and specialised end-use applications

12 factories and approximately 20 slitting terminals covering all main markets

Products are sold worldwide through a global network of sales offices and slitting and distribution terminals

Customers are mainly small and medium-sized label printers although in recent year, the role of big label printers has grown as UPM's customers as well as in the industry



BUSINESS PERFORMANCE

* excluding special items

	2011	2010	2009
Sales, EURm	1,150	1,100	943
Operating profit excl. special items, EURm	68	87	43
Capital employed (average), EURm	486	509	503
ROCE excl. special items, %	14.0	17.1	8.5
Personnel on 31 Dec.	2,629	2,543	2,595

Operating profit decreased, mainly due to significantly higher raw material costs. Sales prices of self-adhesive label materials in local currencies increased clearly.

BUSINESS DEVELOPMENT

UPM Raflatac continued to increase its focus on rapidly growing markets. It also aims to utilise further growth opportunities through product renewal.

To extend the product offering and further support customers' growth in Latin America, UPM Raflatac acquired the Brazilian labelstock coating and slitting business of BIC Group in May. The labelstock factory employs some 50 people.

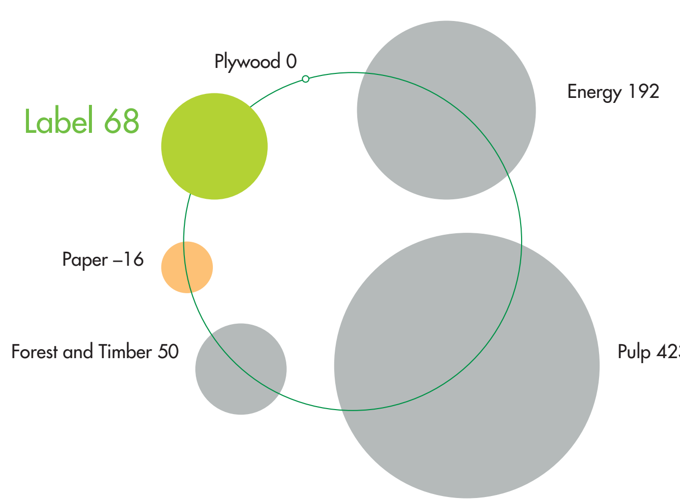
In September, UPM Raflatac opened a new slitting and distribution terminal in Moscow, Russia. The terminal supplies the local labelling market with high-quality film and paper labelstock.

In 2011, UPM Raflatac continued to increase its focus on new product development towards more specialised applications in order to capture further growth opportunities, particularly in developed markets.

UPM´S OPERATING PROFIT 2011 EUR 682 MILLION

(excl. special items)

Other operations EUR –35 million



Increased prices of raw material continued to drive product and value chain development towards thinner, fit-for-purpose material constructions and improved utilisation of recycling opportunities (read more on page 45).

MARKET REVIEW

The label materials market is growing globally and approximately 80% of the growth is in the emerging markets of Asia, Latin America and Eastern Europe. Although the growth is in emerging markets, the main volume still comes from mature markets.

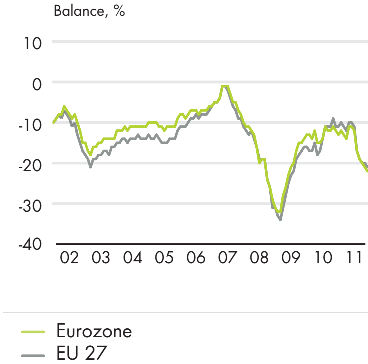
Label materials have a wide range of end-uses; food and beverage labelling, retail and logistics, applications in personal care and home care and durables, security and pharmaceutical labelling. Roughly 80% of self-adhesive labelstock demand is driven by private consumption and the remaining 20% depends on industrial production. Continuous product development creates new end-use applications.

In the first half of 2011, demand increased slightly in Europe and North America in comparison with the same period the previous year. In the second half of 2011, demand was more volatile and experienced a decline, especially in Europe.

In the rapidly growing consumer markets of Asia and Latin America, market growth continued throughout the year but at a more moderate pace than in 2010.

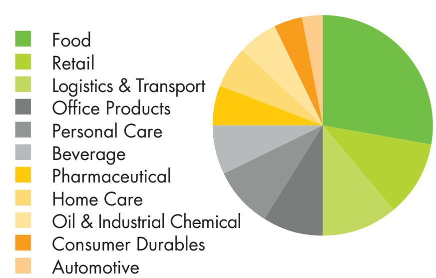
The year 2011 was characterised by high cost inflation in all main raw materials. Cost inflation peaked during the third quarter of 2011 and started to decrease gradually towards the end of the year.

EUROPEAN COMMISSION CONSUMER CONFIDENCE INDICATOR



Source: European Commission Business and Consumer Survey

GLOBAL LABELSTOCK END-USES



Source: AWA, UPM

Consumer confidence was impacted by the uncertainties in the economy.

80% of self-adhesive labelstock demand is driven by private consumption.

UPM's objective is to maximise the reuse of raw materials and minimise the amount of waste produced

With the help of the unique RafCycle waste management concept, by-products from the self-adhesive labelstock industry are used to produce UPM ProFi wood plastic composite products or paper or turned into energy

UPM's RafCycle waste management concept gives a second life to self-adhesive label by-products that would otherwise be incinerated or landfilled.

RafCycle recycles labelstock by-products

The processes of UPM Raflatac's labelstock factories, UPM Raflatac's label-printing customers as well as the end users who label their products produce valuable industrial labelstock by-products. The RafCycle waste management concept ensures that these by-products are given a new life as the raw material of UPM ProFi wood plastic composite products, an energy source at UPM paper mills or a raw material in paper production.

Maximising the reuse of raw materials and recycling go hand in hand with UPM's Biofore thinking. The by-products from self-adhesive labelstock production are the principal raw material for UPM ProFi wood plastic composite products. The by-products can also be used as fuel in UPM's combined heat and power plants. Siliconised release paper can be recycled into pulp and further back into UPM paper products by de-siliconising.

Previously, these by-products were incinerated or taken to landfills because recycling products that contain paper, plastic film, adhesive and silicone has been challenging.

In 2011, RafCycle enabled recycling by-products from UPM Raflatac's customers and end users in addition to the by-products produced at UPM Raflatac's own factories. In addition to being beneficial for the environment, RafCycle benefits UPM Raflatac's customers and end users financially as well.

"With the help of the RafCycle concept, UPM strives to find solutions and uses for the by-products of the labelstock industry's entire value chain. The interest towards the concept is growing constantly," says Erkki Nyberg, Director of Business Development for the Engineered Materials Business Group at UPM.

Read more about RafCycle concept at www.rafcycle.com.

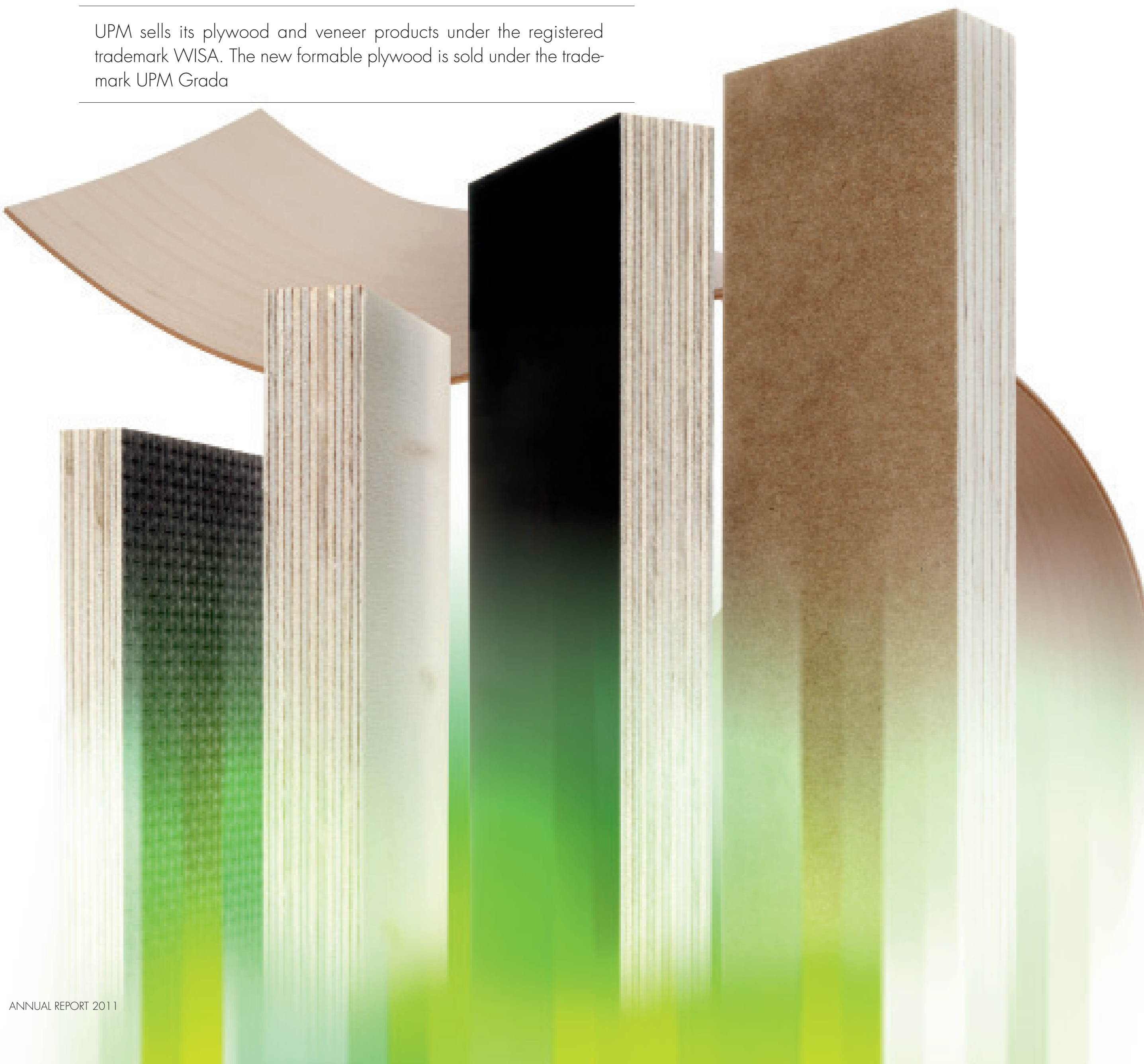
Plywood

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

The annual plywood and veneer production capacity is approximately one million cubic metres

The main customers are within construction, vehicle building and parquet industries

UPM sells its plywood and veneer products under the registered trademark WISA. The new formable plywood is sold under the trademark UPM Grada



BUSINESS PERFORMANCE

SALES +8%
2011 376
2010 347
EUR million

OPERATING PROFIT * +18
2011 0
2010 –18
EUR million

* excluding special items

	2011	2010	2009
Sales, EURm	376	347	306
Operating profit excl. special items, EURm	0	–18	–51
Capital employed (average), EURm	253	243	266
ROCE excl. special items, %	0.2	–7.4	–19.2
Personnel on 31 Dec.	2,586	2,737	3,292
Deliveries, 1,000 m^3	656	638	567

Operating profit increased, mainly due to higher sales prices and 3% higher delivery volumes.

BUSINESS DEVELOPMENT

UPM's Plywood business area focuses on cost efficiency and earnings improvement. It also aims to grow in terms of solutions for more demanding end-uses and through new products and composite material solutions.

In May, UPM sold its Lohja veneer mill in Finland to the mill's operative management. The production capacity of the Lohja veneer mill is approximately 14,000 cubic metres of birch veneer.

In September, UPM announced a plan to restructure its plywood operations in Finland. As a result of the co-operative negotiations, the number of operational, sales and mill maintenance personnel at the plywood headquarters of UPM in Finland will be reduced by 97 persons. The reduction in personnel will be completed by mid-2012.

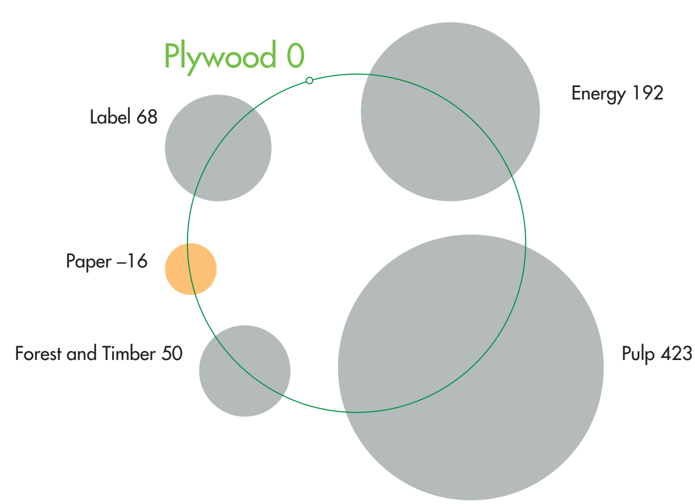
UPM Plywood also reorganised its international sales organisation to one geographical area based structure. As a

PLYWOOD SALES BY MARKET

EURm	2011	%
Europe	348	93
Asia	20	5
Rest of the world	8	2
Total	**376**	**100**

UPM'S OPERATING PROFIT 2011 EUR 682 MILLION

(excl. special items)
Other operations EUR –35 million



result of the simplified structure and clarified responsibilities the organisation outside Finland was reduced by 17 persons.

The Savonlinna birch plywood mill in Finland is undergoing significant expansion and renewal. Once the investment is completed in mid-2012, the mill will become one of the world's most technically advanced mills with broad product offering of high quality special birch plywood.

Product and technology development is an integral part of operations within the business area. The aim is to improve competitiveness, seek growth by developing new and improved product solutions based on customer and market needs. In addition, UPM Plywood aims to create permanent competitive advantage by developing the efficiency of production technology (read more on page 49).

In 2011, UPM introduced the formable UPM Grada plywood to the market. It is based on novel technology to manufacture layered composites. It allows the plywood to be formed after manufacturing and it is well-suited to many end-uses, such as furniture and various industrial applications.

MARKET REVIEW

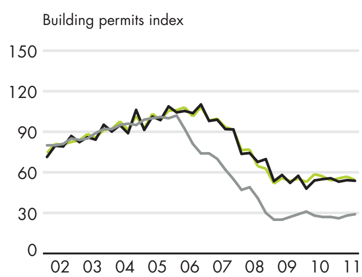
Plywood demand in Europe increased in 2011 compared with 2010, but it still remained significantly below pre-recession demand level. Demand growth was more positive in birch plywood and the spruce plywood market also grew compared with the previous year.

In the first half of 2011, market demand was strong and growth was mainly driven by industrial end-uses such as vehicle building. Demand in construction-related end-uses remained modest in 2011 as construction activity remained low throughout the year.

In the second half of 2011, plywood demand growth first slowed down and, towards the end of the year, even declined compared with the previous year as a result of the economic uncertainty in Europe.

Plywood market prices increased compared with the previous year.

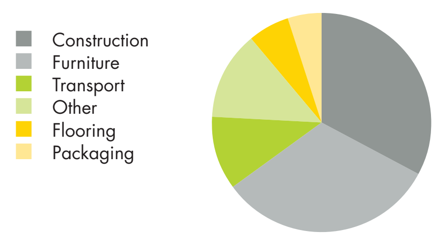
BUILDING PERMITS
(INDEX 1.1.2001= 100)



Source: EU Commission Economic and Financial affairs, U.S. Cencus Burea

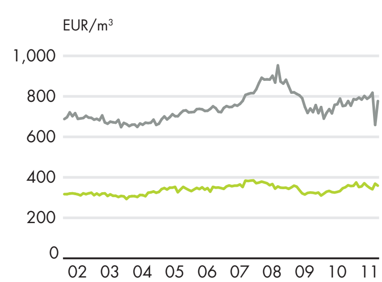
^ **Building permits remained flat and clearly below the long term average level.**

PLYWOOD END-USES IN EUROPE



Source: FEIC, FAOSTAT

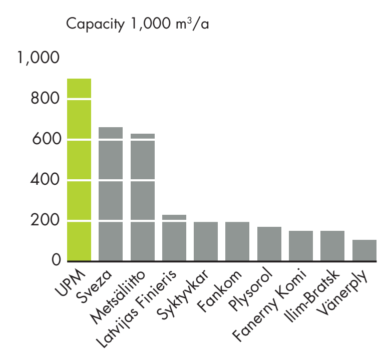
EXPORT PRICES FOR FINNISH PLYWOOD



Source: Finnish Forest Industries Federation

^ **Export prices for Finnish plywood increased from the previous year.**

EUROPE'S BIGGEST PLYWOOD PRODUCERS



Source: Companies www-pages

Plywood is a technical material that has been refined in various ways in order to improve its properties, such as durability

The new plywood products and services developed by UPM support the principles of ecodesign, starting from the design process

Plywood is a true Biofore product by nature

A house made by Danish architects from UPM's spruce plywood provides a new model for sustainable building.

Plywood research and development enables sustainable end products

Plywood has many good properties, the most important being the excellent weight-to-strength-to-price ratio, which competing materials have not been able to attain.

UPM has developed a new plywood floor solution for trailer chassis that makes it possible to save energy in transportation.

The new technology, which has been developed in co-operation with UPM's partners, allows the floor to be bonded to the trailer chassis, eliminating the need for screws. Bonding provides increased structural rigidity, which makes it possible to design lighter trailer chassis. In 2011, dozens of trailers using the WISA Bonded Floor solution were introduced in Europe.

Durable and safe furniture in a more efficient way

UPM Grada Plywood, the formable plywood based on UPM's new composite technology, can be formed after manufacturing making production of form pressed products more efficient. It also enables furniture manufacturers to cut out liquid glues and a number of work phases requiring manual labour.

The composite is extremely rigid, which enables thinner structures to be used that are still very durable. Another significant benefit is that the adhesive used in UPM Grada Plywood does not contain any formaldehyde.

The plywood house with a small carbon footprint

In 2011, UPM Plywood supported a pilot project by two Danish architects in which they built a house using WISA-Spruce plywood.

The modules and components of the 'Print a House' concept were designed using computer simulation and manufactured using a CNC machine. The result was a family house that was easy to assemble on site. The house is ecological, healthy to live in and it has a small carbon footprint. No concrete was used in the construction.

SUCCESS FACTORS

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

R&D and developing businesses

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

- UPM aims to complement its existing businesses with innovative products with high added value
- UPM launched a new biocomposite, UPM ForMi, in which wood fibres replace non-renewable raw material
- UPM started pre-commercial production of fibril cellulose
- Significant energy savings of 30% were achieved in mechanical pulping

The aim of UPM's R&D programmes and business development is to provide support for its businesses by ensuring the competitiveness of its current products, and to develop new technologies and products for UPM's emerging businesses.

In 2011, UPM's direct expenditure on research and development projects was approximately EUR 50 million (45 million), or 0.5% (0.5%) of the Group's sales. Approximately half of UPM's R&D input is targeted towards new technologies and businesses.

Partnering with various research institutes

Tekes – the Finnish Funding Agency for Technology and Innovation – has become an important partner for UPM by co-financing several research projects, such as the development of energy savings technologies and biochemical competence, and the creation of fibril cellulose. These projects have been executed in co-operation with research institutes and universities. In 2011, UPM received approximately EUR 4.7 million (7.2 million) from Tekes for its research projects.

In addition, UPM is a partner with a 15% share in Forestcluster Ltd, established as a strategic centre of excellence to the Finnish forest cluster. These research programmes support UPM's internal R&D activities.

Exploring new business opportunities

As an essential part of the Biofore strategy, UPM has invested in R&D activities over the last few years to identify new ways in which value can be added to biomass.

UPM puts its expertise into practice in developing technologies and concepts for producing biofuels. In 2011, UPM applied for EU's NER300 grant for advanced biodiesel biorefinery investment for the optional locations in Finland and France. In addition, an environmental impact assessment (EIA) was approved for a liquid biorefinery producing hydrotreated biofuels at UPM's Kaukas mill in Finland. (Read more on page 54).

In 2011, UPM launched a new biocomposite, UPM ForMi, in which wood fibres replace non-renewable raw material. In addition, UPM started pre-commercial production of fibril cellulose at Otaniemi, Espoo, Finland. This project, initiated by UPM in 2008, includes the VTT Technical Research Centre of Finland and Aalto University as partners (read more on page 55).

Another research area focuses on extracting biochemicals released when wood disintegrates. Value is added to these components by modifying them further, therefore making them available for new applications that are developed together with potential customers. The final product can act, for example, as a barrier material, glue, plastic, resin or bio-based chemical.

In 2011, UPM donated a five-year professorship to Lappeenranta University of Technology in the area of separation technologies to strengthen and speed up research in this field, which in turn supports biorefinery concept development.

30% energy savings in mechanical pulping

In the Paper Business Group, UPM's strategic research programme concerning energy saving in mechanical pulping, carried out during 2009–2011, savings of up to 30% in energy consumption were identified (read more on page 40).

Other research programmes concern de-inking recycling. UPM is investigating how to recycle de-inking waste by using it as raw material for new applications, instead of incinerating it or sending it to landfill.

As a response to the packaging market demands, UPM has developed sustainable speciality papers for packaging end-uses. UPM SwanBarrier and UPM SwanBarrier light speciality papers are made of material that is coated on one side and are suitable for flexo printing and are approved for direct contact with dry food. UPM SwanBarrier Plus is designed for industrial wrapping purposes. The papers are recyclable and disposable.

New label and plywood products

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

In 2011, a significant number of new tailored label solutions and end-use speciality products were introduced. More sustainable solutions were developed for the retail end-use area. UPM Raflatac also developed products for new, growing printing technologies such as UV inkjet.

UPM Plywood's product and technology development concentrated on the development of new product solutions for various end-uses as well as the development of the efficiency of production technology.

In 2011, UPM Plywood finalised development of a new concept for a bonded vehicle floor solution. In addition, a new technology for manufacturing layered composites was developed and its first application – UPM Grada formable plywood – was introduced to the markets in January (read more on page 49).

UPM ProFi's terrace system awarded the CE marking

UPM's terrace deck system made of wood plastic composite, UPM ProFi Deck, was awarded the CE marking in 2011. The quality mark confirms that the product complies with the safety, health and environmental requirements set out by the EU Construction Products Directive.

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.

UPM ProFi has production plants in Lahti, Finland and in Bruchsal, Germany. The R&D work for material development and new product innovations is located in Lahti.

A new competence centre for eucalyptus research

UPM has a global network of research centres supporting the businesses. The focus at the UPM Research Centre in Lappeenranta, Finland, is mainly on fibres and fibre raw materials, papers, coating, printing and biofuels. The UPM Biorefinery Development Centre for piloting biofuels and biochemicals is located in Lappeenranta.

UPM's recycled fibre research is based in Augsburg, Germany. The WISA R&D Centre for plywood and composites is located in Lahti, while labelstock R&D takes place in Tampere, Finland.

The UPM Asia R&D Centre in China is responsible for researching local raw materials, as well as manufacturing and technical customer service support for UPM's production units in China and the Asia Pacific region.

In 2011, UPM established a new competence centre in conjunction with the Fray Bentos pulp mill in Uruguay. The competence centre focuses on researching eucalyptus species and their impact on end-product properties. The centre works in co-operation with Uruguayan research institutes and universities.

UPM will build the world's first biorefinery producing wood-based biodiesel

UPM will build a biorefinery producing biofuels from crude tall oil at UPM's Kaukas mill site in Lappeenranta, Finland. The industrial scale investment is the first of its kind globally. The investment decision was made in February 2012.

The biorefinery will produce annually approximately 100,000 tonnes of advanced second generation biodiesel for transport. The biorefinery is scheduled to start up in 2014. UPM's total investment will amount to approximately EUR 150 million.

An environmental impact assessment (EIA) for the biorefinery was completed in January 2011 and the environmental permit was issued in December.

UPM's advanced biodiesel, UPM BioVerno, is an innovation which will decrease greenhouse gas emissions of transport up to 80% in comparison to fossil fuels. The product's characteristics correspond to those of the traditional oil-based fuels and highly complement today's vehicles and fuel distribution systems.

The main raw material of UPM's hydrotreatment biorefinery in Lappeenranta is crude tall oil, which is a residue of chemical pulp production. A significant part of the raw material comes from UPM's own pulp mills in Finland.

Next biorefinery in planning

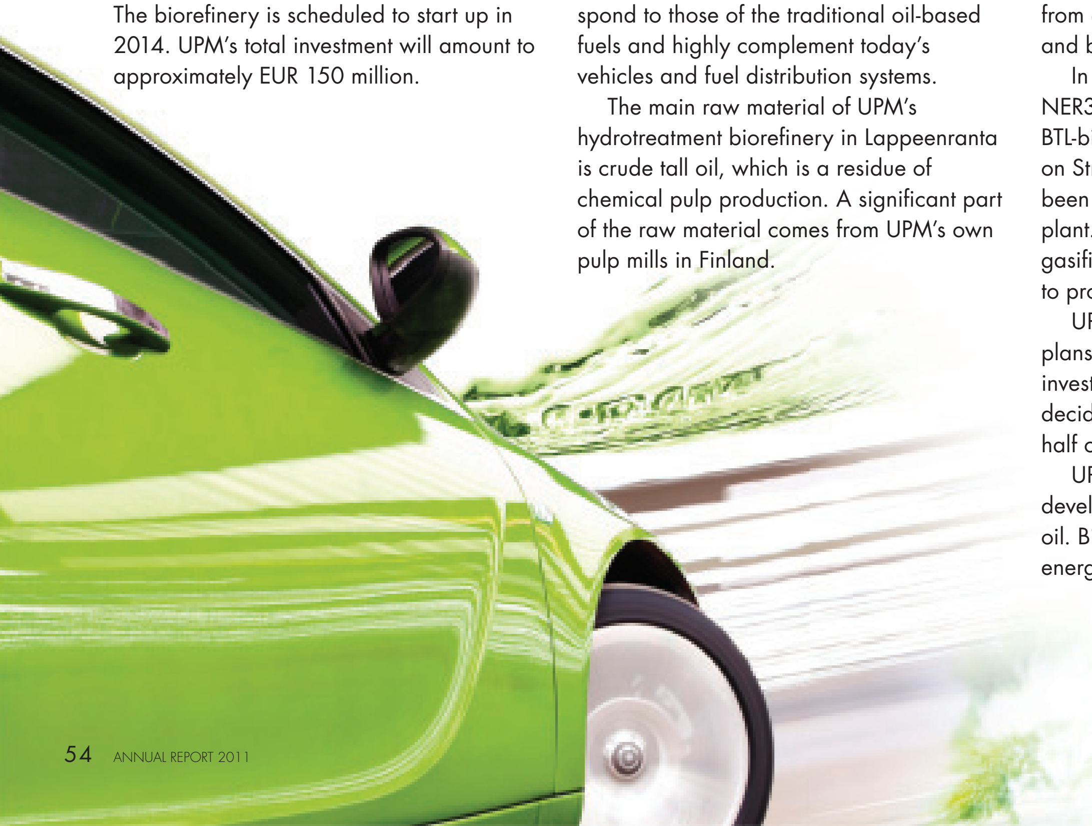
UPM has been developing technologies and concepts for the production of advanced biofuels. All production concepts are based on non-food raw materials.

Together with Andritz/Carbona, UPM has been developing and piloting the gasification and gas handling technology to produce BTL-biodiesel (biomass-to-liquid) from energy wood: logging residues, stumps and bark.

In 2011, UPM applied for the EU's NER300-grant for the investment in BTL-biodiesel. UPM's Rauma mill in Finland on Stracel mill in Strasbourg, France, have been selected as possible locations for the plant. The planned biorefinery would use gasification and the Fischer-Tropsch process to produce biodiesel.

UPM will assess its other biorefinery plans after the EU has decided on its investment grants. The EU is expected to decide on the NER300 grants in the second half of 2012.

UPM has also continued to research and develop a concept to produce advanced bio oil. Bio oil is produced by pyrolysis of energy wood.



New biocomposite and fibril cellulose are the result of consistent R&D work

The new fibre-based products reflect the company's renewal and Biofore strategy

The New Businesses and Development team analyses and evaluates commercialisation possibilities of the UPM ForMi biocomposite and fibril cellulose.

UPM's product range is expanding with new innovative materials

The new biocomposite, UPM ForMi, and fibril cellulose provide excellent examples of new innovative products and materials that have a strong synergy with UPM's current businesses.

High-quality biocomposite material

UPM ForMi is suitable for manufacturing both industrial goods and consumer products. "The new biocomposite has extensive opportunities, from electronic and automotive industries to furniture, tableware and other goods for everyday living," says Stefan Fors, Director of New Businesses and Development.

The biocomposite is made of virgin wood fibres and clean plastic polymers. The share of renewable material can reach up to 60%, meaning that the product is recyclable and can be burned for energy at the end of its lifecycle. Moreover, UPM ForMi's carbon footprint is 30–60% lower than traditional plastics.

Fibril cellulose can be used in a wide range of applications

In 2011, UPM started pre-commercial production of fibril cellulose at Otaniemi, Espoo, Finland. The target is to commercialise the material by providing different types of fibril cellulose for extensive customer testing.

In the first stage, products are used in paper and packaging materials, as well as in the concrete and paint industries. UPM's fibril cellulose can be used to make products tougher, lighter or thinner. It can also be used in many industrial applications requiring a high stabilisation capacity and high viscosity.

"UPM's fibril cellulose provides new properties and design opportunities for traditional materials. For example, we have produced the first industrial-scale batch of speciality paper reinforced with fibril cellulose at the UPM Tervasaari mill," describes Esa Laurinsilta, Director of New Businesses and Development.

Responsibility in action

UPM's responsibility agenda is formed around key principles and targets covering financial, social and environmental responsibility

- Corporate responsibility is an integral part of UPM's operations
- UPM has set forward-looking responsibility targets for each responsibility principle and follows their development annually
- UPM's Biofore vision sets the focus on the cost effective, innovative and sustainable use of renewable raw materials and safety of our people
- Areas requiring improvement are mapped, and action is taken to guarantee a change in direction

The foundation of UPM's corporate responsibility agenda is the company's Biofore vision. It sets out direction for innovation, product development and safe and sustainable operations. The vision also highlights the role our products play in today's society. UPM's renewable and recyclable raw materials and products have sustainability credentials that are hard to match in the emerging resource-scarce era.

Ambitious targets setting the direction

UPM's corporate responsibility agenda is based on key areas of responsibility, measures and targets that create the framework of responsibility for all UPM operations.

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

UPM's current performance in relation to these targets can be seen in the enclosed table.

Continuously mapping out stakeholder views

A key element of managing the responsibility agenda is a constant follow-up of stakeholder views. UPM's stakeholders have been identified in the company's stakeholder strategy work. The key stakeholders are investors, customers, employees, communities, suppliers, non-governmental organisations (NGO's), governments and regulators, as well as the media (see more on page 59).

In 2011, UPM undertook several stakeholder engagement surveys in co-operation with third parties. The surveys aimed at identifying how stakeholders perceive the company and what the key areas requiring development are. These studies also provide an input into assessing the impact of emerging sustainability trends and risks faced by the company's operations.

Issues such as climate change or water-related issues, which have a wide-ranging impact on companies and consumers worldwide, also affect UPM's operations. Energy efficiency, minimising solid waste to landfill and a best-in-class water footprint have therefore been selected as the key measures for UPM. Likewise, local engagement and responsible restructuring are key focus areas on UPM's social responsibility front.

Although climate change or water scarcity megatrends could potentially become a risk, UPM — as the Biofore Company — has opportunities, as our products are based on renewable raw materials, the majority of our energy generation and use is CO_2-neutral and most of our products are recyclable. These strengths will position UPM well in an operating environment where renewable and recyclable resources will be acknowledged for their environmental credentials.

Based on feedback from the stakeholder panels, UPM's stakeholders clearly know and appreciate the Biofore vision and the strong track record in environmental care. It was also perceived that UPM needs to communicate the sustainability story more openly, and to share the benefits of the Biofore brand with stakeholders. UPM continues to put efforts into promoting the sustainability agenda, together with its partners.

UPM adopts GRI reporting framework

In order to further improve transparency, UPM has adopted the Global Reporting

KEY TRENDS	KEY AREA OF RESPONSIBILITY	MEASURE	TARGET[1]	ACHIEVEMENT 2011 Progress in target achievement
	ECONOMIC			
POWER SHIFT IN WORLD ECONOMY	PROFIT Shareholder value creation	• Operating profit margin • Return on equity • Gearing ratio	• Operating profit margin > 10% • Return on equity at least 5 percentage points above the yield of a 10-year risk-free investment • Gearing ratio to be kept below 90%	●●●○○ ●●●○○ ●●●●●
	GOVERNANCE Accountability and compliance	• Group Management System • Code of Conduct	• Code of Conduct training and monitoring further developed	●●●●○
	SOCIAL			
DEMOGRAPHIC CHANGE	LEADERSHIP Responsible leadership	• High employee engagement • Behaviour in line with company values and Code of Conduct • Change management practices in place	• Continuous improvement in Employee Engagement Index	●●●●●
	PEOPLE DEVELOPMENT High performing people	• Personal performance reviews with employees and target setting • Development of key competencies	• Continuous improvement in Change Management and Innovation Indices	●●●●● ●●●●●
	WORKING CONDITIONS Safe and encouraging working environment	• Ensuring human rights • Equal opportunities • Good employee/employer relations • Zero accidents goal and continuous actions to reduce absenteeism • End-to-end responsibility throughout the supply chain	• Annual improvement in lost-time accident frequency (2009–2011) 10% • Global absenteeism below (2009–2011) 3.5%	●●●●● ●●●○○
	COMMUNITY INVOLVEMENT Local commitment	• Employment opportunities • Co-operation and initiatives with local stakeholders • Responsible restructuring	• Continuous sharing of best practices of local stakeholder initiatives	●●●○○
	ENVIRONMENTAL			
CLIMATE CHANGE	PRODUCTS Taking care of the entire lifecycle	• Renewable raw materials • Recyclable or biodegradable products • High share of certified products • Third-party environmental eco-labels • Lifecycle assessment	• Environmental management systems certified in of production units by 2020 • Environmental declarations for all product groups by 2020 • Growth in the share of eco-labeled products by 2020[3] 25%	●●●●○ ●●●●○ ○○○○○
	CLIMATE Creating climate solutions	• Improve energy efficiency • Maximise use of carbon-neutral energy • Increase biobased energy	• Reduction in fossil CO_2 by 2020 15%	○○○○○
RESOURCE SCARCITY	WATER Using water responsibly	• Best-in-class[2] water footprint and effluent quality • Net water consumption	• Reduction in waste water volume by 2020[4] 15% • Reduction in COD load by 2020[4] 15%	●●●●● ●●●●●
	FOREST Keeping forests full of life	• Maximise share of certified fibre and meet UPM biodiversity programme targets for managed forests	• Share of certified fibre by 2020 80%	●●●●●
	WASTE Reduce, reuse and recycle	• Minimise solid waste to landfill • Reuse waste	• Reduction in waste to landfill by 2020 25%	●●●●●

1) Environmental targets: from 2008 levels
2) Best-in-class = leading the industry sector
3) Includes paper, pulp, timber, plywood
4) Numerical targets relevant for pulp and paper production

Initiative (GRI) reporting framework. Our CR reporting follows the GRI sustainability reporting guidelines (version 3.0). The reporting in English has been assured by an independent third party, Pricewaterhouse-Coopers Oy, and congruence between the English and Finnish versions has been checked. PricewaterhouseCoopers has checked our reporting and has confirmed it to meet the GRI requirements for the Application Level B+. The GRI content index can be found on pages 74–76 and an extended version of the GRI content index, including detailed descriptions of the scope of the report and data measurement techniques, is available at: www.upm.com/responsibility. The GRI framework adds to UPM's reporting on our responsibility agenda, and brings a further element of transparency.

Continuous improvement and dialogue

UPM's responsibility principles are part of the company's strategy process, which is a prerequisite for continuous improvement and the attention of the management. For example, a three-year "Step Change in Safety 2012–2014" initiative was started in 2011 to ensure sufficient focus on occupational health and safety across the company (read more on page 64).

Most of UPM's production units are situated in locations where UPM's role as an employer is significant. Restructuring in the European forest industry has sometimes strained the relationship between the company and the local community.

In case of restructuring, UPM has continued to put efforts into "From Job to Job" programmes and similar measures. UPM also develops tools and platforms to foster dialogue between the company and our stakeholders in all UPM locations. For more on responsible restructuring, see page 63.

Managing the responsibility agenda

UPM's Corporate Responsibility agenda is managed by the Group Executive Team (GET), headed by the President and CEO. GET sets the agenda and direction for future development. The daily CR agenda is managed by the Corporate Responsibility team, which co-ordinates the various initiatives by business areas and functions.

In 2011, UPM introduced the CR Network in order to ensure fluid communications and development work between different parts of the company on responsibility matters.

Committing to responsible business practice

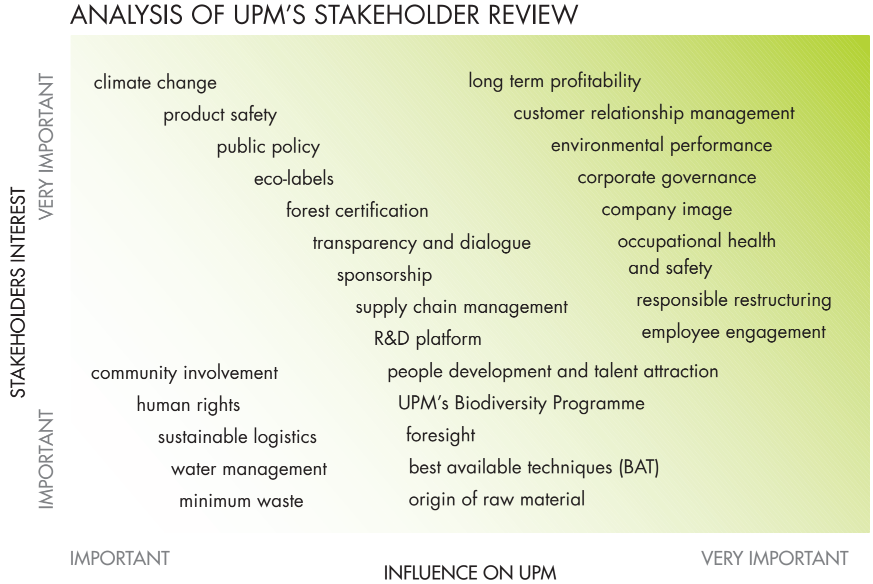
UPM is committed to the ten principles of the UN Global Compact, which are derived from internationally recognised standards in the areas of human rights, labour, the environment and anti-corruption.

UPM's Code of Conduct sets the standards of responsible behaviour to all of our employees and provides the basis of UPM's approach to human and labour rights, ethical business conduct, safety, environmental care and safeguarding company assets. In addition, UPM's suppliers are also required to commit to the principles of the Code of Conduct.

To ensure that all employees understand and follow the rules laid down in our Code, UPM set the target that every employee should receive Code-related training, either online or face to face. The training consisted of practical cases highlighting topics of high importance to UPM — integrity, safety and environmental responsibility.

By end of the year 2011, over 17,000 employees had taken the training (82%). The training is also an essential part of the induction programme arranged for the new employees joining UPM from Myllykoski.

ANALYSIS OF UPM'S STAKEHOLDER REVIEW



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 2011 can be found under the sections for each business area. The GRI content index is on pages 74–76.

To find out more about UPM's responsibility agenda, please visit www.upm.com/responsibility.

Local commitment is a key principle and focus area within social responsibility for UPM

Stakeholder engagement is based on concrete projects and actions

UPM continued working with WWF in the New Generation Plantations Project

UPM actively engages with a wide range of stakeholders.

Co-operation based on continuous dialogue

UPM's relationships with environmental and community groups have been developed over the years around tangible projects, based on everyday discussions and dialogue. UPM has long traditions in engaging with the community at most of its production locations.

Co-operation with WWF and other environmental groups

In 2011, UPM partnered with WWF both in Finland and internationally. In Finland, the UN's "International year of Forests" brought together WWF and UPM to promote WWF's global 2011 "Living Forests Campaign".

In the international arena, UPM continued working with WWF in the New Generation Plantations Project which brings together expertise in plantation design and management in order to further ensure social and environmental sustainability aspects of plantation operations (read more on page 25).

Another successful project, clearly linked to UPM's global biodiversity programme, is the collaboration with Environment Online (ENO) global virtual school's Tree Planting day, which UPM supported in the UK, Uruguay and Finland. The annual event is important in building future generations' relationship with nature and forests.

In 2011, UPM collaborated closely with BirdLife Finland on managing important nesting and resting areas for bird species. For example, UPM and BirdLife Finland jointly restored peat land area for Red Grouse and other peat land species.

Uruguay Foundation achieves positive results

The UPM Foundation has been active in Uruguay since 2006, promoting development in rural areas through education, training and entrepreneurship, to foster a culture of safe and healthy living. In 2011, over 35,000 people in 45 communities benefited from the activities financed by the Foundation.

In partnership with Bio Uruguay, a local NGO, UPM Foundation promoted sustainable farming practices in Sauce de Batovi, a small rural community of 1,000 people located in the country´s largest and poorest province and supported rural families whose livelihoods depend on the land they live in.

"Thanks to UPM Foundation's support, we were able to profoundly transform the community's approach to farming, both technically and culturally," said Alda Rodriguez, Bio Uruguay's leader and project coordinator.

A number of other UPM's projects can be found on www.upm.com/responsibility.

People

The integration of Myllykoski people progressed well. UPM continued to put efforts to responsible restructuring in locations affected by closures and other difficult measures

- UPM launched a corporate-wide initiative, "Step change in safety 2012–2014"
- New leadership principles based on company values were introduced
- Social plans were launched in connection with the Myllykoski and Albbruck paper mill closures

UPM's People strategy is an integral part of UPM business strategies. The target is to ensure that UPM employees are high performers.

UPM complies with international, national and local laws and regulations in human resources management and respects international agreements in reference to human and labour rights. UPM fosters a leadership culture that supports its values. It actively promotes employee well-being and motivation and provides opportunities for development.

UPM respects the freedom of association and abides by legally binding collective agreements.

Employee participation and consultation are organised in accordance with international and national rules and regulations. UPM promotes equal opportunities and objectivity in employment and career development and respects employee privacy.

At the end of 2011, UPM employed 23,909 employees in total. The increase in the number of employees is mainly attributable to the Myllykoski acquisition. The integration of Myllykoski people to UPM started immediately after closing the deal. Induction programmes for ex-Myllykoski employees started in November.

Occupational Health and Safety as top priority

In 2011, there were no fatal work-related accidents at UPM. The long term positive development in lost-time accident frequency (the number of lost-time work accidents per one million hours of work) continued. In 2011, UPM's lost-time accident frequency was 15.2 (17.0). A slight positive development continued in Paper and Label.

The positive development seen in absences due to illness and accidents at work stopped in 2011. UPM's target of 3.5% was not met in 2011 as UPM's global absenteeism was 3.65% (3.53%). Absences increased from the previous year in Paper, Pulp and Plywood. At the country level, absences increased in Germany, France, Finland, China and the USA.

UPM's long term objective is to prevent work-related illnesses or injuries among its personnel. To underline the critical importance of safety, UPM launched a company-wide safety initiative, "Step change in safety 2012–2014", which aims to significantly improve UPM's safety results (read more on page 64).

Occupational Health and Well-being

Co-operation between the employer, labour organisation, employee and occupational health organisation form the basis for improving occupational health. UPM employees from various countries are covered by the national occupational health law.

Employees' well-being is monitored locally with various metrics and indicators, such as the annual employee engagement survey (EES), accident and absenteeism and occupational health checks in line with national legal requirements. Based on the information, individuals and work communities are monitored and local measures are planned to support well-being at work.

Many of UPM's business units arrange regular well-being events locally. Employees are encouraged to take care of their personal well-being, for example by taking sports that improve their physical condition.

UPM's target is to provide a healthy and safe working environment for employees. Most of the UPM's premises are regularly assessed to ensure that there is a good environment to work in.

Strengthening the corporate culture

UPM aims to strengthen its corporate culture to support the company's vision. The aim is to create a culture that encourages achievements, fast learning and renewal. UPM invests in developing the corporate leadership culture by engaging employees in dialogue and different activities regarding leadership-related topics.

In 2011, UPM developed a leadership framework that covers three dimensions of leadership: leading business, leading people and leading yourself. The framework forms the basis for all UPM's development actions and initiatives on leadership. The aim is to ensure that all three elements are in balance in UPM's leadership culture.

The leadership development programme for top management continued. The theme in 2011 was innovation and cultural change. In middle management development, the focus continued to be on people and change leadership programmes. Furthermore, a mentoring programme and several business/function-specific development programmes continued with good results.

Investing in people development

UPM invests in the development of all employees. The focus is on supporting learning at work. UPM utilises the 70/20/10 model. While 70% of learning takes place on-the-job, 20% of learning comes from learning from others and from their experiences and 10% is training off-the-job.

UPM values were renewed in 2010. In 2011, the value renewal dialogue continued with focus on value-based behaviours. Over 2,400 employees gave their opinion on how best to describe values as actual behaviours. After discussion, 12 behaviours were agreed and they are now being integrated into everyday life in different areas of the organisation.

In the production environment, the focus was to develop the competencies of frontline managers. UPM's various businesses organised tailored trainings, in which the manager's role and responsibilities, safety issues and leadership were discussed. Based on the experience from the trainings, a modular programme has been created for developing leadership skills for supervising shop floor employees. The programme will be implemented from 2012 onwards.

UPM's performance management process was used systematically to set strategy-related targets and development plans for employees worldwide. The focus of personal performance reviews (PPR) was on improving performance management through clear target setting, feedback and individually-agreed development activities. In 2011, 82% of all UPM employees had a personal performance review with their managers.

In 2011, new IT tools were introduced to all UPM employees enabling new, smarter ways of working. The aim is to collaborate effectively across organisational boundaries and thus learn from each other and create new networks and ideas. During the change programme, 1,200 training sessions were organised. The work continues in 2012.

Employee participation and community involvement

UPM actively seeks to maintain and develop good relations with all its stakeholders. UPM's own personnel and local communities are among the key stakeholders. Dialogue, feedback and good co-operation in line with UPM's values are the most important ways of promoting mutual understanding (read more on page 59).

The UPM European Forum is the Group's official 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 2011. Meetings covered topical issues and open dialogue related to the business situation and changes within the company and the business environment.

UPM does not collect or report on its employees' union membership on a global level due to differencies in national legislations in various countries. The estimated percentage of employees covered by collective agreement mechanisms is 71%.

Engaging people

One way of getting feedback and promoting employee participation is the Employee Engagement Survey (EES) which was conducted in 2011. In total, 76% of employees participated in the survey.

The survey provides information to be used for development actions in the workplace. The overall engagement index showed improved satisfaction with UPM as an employer and there was also a positive development in manager effectiveness. Since there has been a focus on safety across the company, this aspect was given more emphasis in the survey with additional safety questions. As a result, a new Occupational Health and Safety Index was introduced.

Based on the survey's results, three company-wide focus areas for development were defined. They are: workplace safety, encouraging high performers with particular emphasis on frontline managers' communications competencies, as well as conducting corrective actions based on the previous survey results in the various teams.

Short and long term rewards

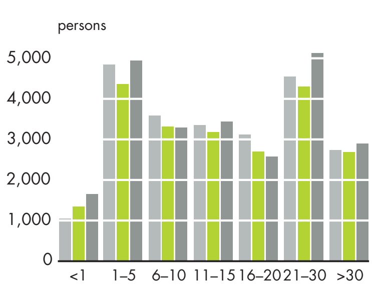
UPM utilises a Total Compensation approach consisting of base salary, benefits and incentives, which are determined by UPM's global rules, local legislation and market practice. All of UPM's personnel belong to a unified annual short term incentive scheme. The plan combines company and business level targets and personal and/or team performance targets. EBITDA is one of the key financial indicators for the company and business level targets. In order to underline the importance of the "Step change in safety" initiative, a new safety target is set for every employee. The total amount of annual incentives paid for the year 2011 was EUR 34 million.

Long term incentive programmes based on the Share Ownership Plan and Stock Option Programme for key personnel

PERSONNEL BY COUNTRY

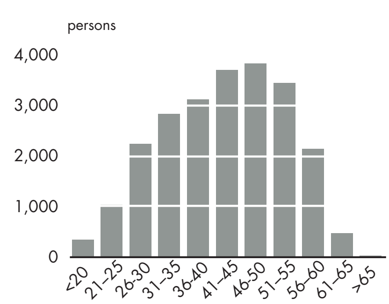
31 Dec.	2011	2010	2009
Finland	9,639	9,411	10,682
Germany	5,332	3,668	3,620
United Kingdom	1,497	1,484	1,546
France	1,195	1,203	1,321
Russia	1,006	1,081	1,026
Austria	572	576	619
Poland	369	326	334
Spain	226	252	251
Estonia	201	196	191
Italy	71	72	76
Turkey	39	36	21
Belgium	36	29	28
Sweden	24	20	20
Other Europe	116	117	132
China	1,414	1,367	1,320
United States	1,080	1,001	1,005
Uruguay	554	533	524
Malaysia	170	176	173
Australia	91	94	88
South Africa	82	80	91
Brazil	44	-	-
India	33	31	23
Rest of the world	118	116	122
Total	23,909	21,869	23,213

EMPLOYEES' YEARS OF SERVICE WITH UPM 2009–2011

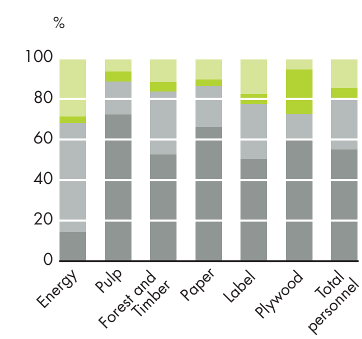


2009, total 23,213
2010, total 21,869
2011, total 23,909

AGE STRUCTURE OF UPM PERSONNEL 2011



UPM PERSONNEL'S GENDER DISTRIBUTION



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

HR IN FIGURES

Key HR indicators[1]			2011	2010	2009
Summary of personnel					
	Number of active employees in total		23,367	21,560	22,279
	Personnel by employee type				
		Salaried	9,239	8,516	8,687
		Shop-floor	14,128	13,044	13,592
	Personnel by contract type				
		Open[2]	20,729	18,993	19,594
		Fixed term	2,638	2,567	2,685
	Personnel by working time				
		Full time	22,870	20,970	21,729
		Part time	497	590	550
	Average age of personnel		43.0	42.5	42.5
	Turnover, %		15.25	15.44	15.25
		Turnover, % (voluntary)	4.80	6.50	6.56
People development					
	Average training hours[3] (Hours/Employee)		15.5	15.7	18.2
	Completion rates for Employee Engagement Survey, %[3]		76	71	69

[1] Figures reflect active employees on 31 Dec. 2011
[2] No contract end date
[3] Excluding the 2011 acquired Myllykoski business units

continued in accordance with the decisions made in 2007. In 2011, 224,112 shares were distributed to the nominated key employees under the Share Ownership Plan. From the beginning of 2011 onwards, new long term incentive programmes commencing annually, a Performance Share Plan for senior executives and a Deferred Bonus Plan for other key employees, were launched replacing the Share Ownership Plan and Stock Option Programmes. Approximately 560 key employees were covered by the new plans in 2011.

Responsible restructuring

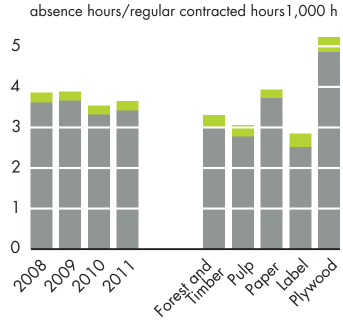
UPM's activities on permanently closed sites typically focus on retraining, re-employment, relocation within the company as well as supporting entrepreneurship. The active measures promoting employment and retraining are conducted in close co-operation with various authorities and other external parties.

UPM launched a new "From Job to Job programme" in connection with the closure of the Myllykoski paper mill in Finland and implements a social plan in the Albbruck paper mill in Germany in order to alleviate the effects caused by personnel reductions in a responsible way.

The programme is based on the model first implemented at Voikkaa in 2006. The programme has proven to be successful for example in Kajaani where UPM established the Renforsin Ranta business park in 2008 offering employment to more than 400 people.

ABSENTEEISM %, ALL UPM PERSONNEL

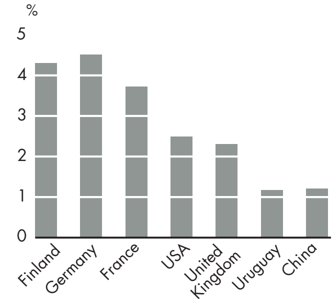
absence hours/regular contracted hours1,000 h



Accidents at work
Sick leave

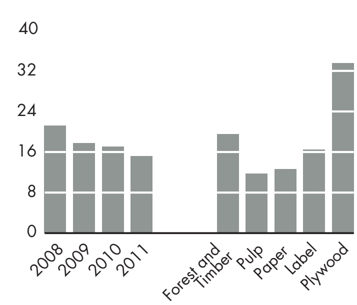
ABSENTEEISM DUE TO SICKNESS AND ACCIDENTS AT WORK, ALL UPM PERSONNEL

%



absence hours/
regular contracted hours

LOST-TIME ACCIDENT FREQUENCY, ALL UPM PERSONNEL



lost-time accidents at work/
mill. hours of work

Workplace safety is a top priority in UPM's operations

UPM has launched a company-wide safety initiative "Step change in safety 2012–2014"

Targets: no fatal accidents at UPM premises and a significant reduction in accident frequency

UPM's Safety Principles, Safety first, Safety starts with me and We can prevent all accidents, are familiar to Dave Clancy, rollshop mechanical technician at the UPM Shotton paper mill in the UK.

Safety first

The health, safety and security of employees, visitors, subcontractors and all other people impacted by UPM's operations are of paramount importance to UPM. Despite the hard work and long term positive development in UPM's safety performance, the accident frequency (the number of lost-time work accidents per one million hours of work) has remained too high, at 15.

As a result, UPM has launched a company-wide safety initiative called "Step change in safety 2012–2014". In 2011, UPM included safety in the company's vision and revised its Safety rule, which forms the foundation of its safety work. In conjunction with the initiative, key company-wide performance indicators and incentives, as well as a new set of safety standards, will be introduced. Attention will also be paid on the resources.

The UPM Occupational Health and Safety Award 2011 was given to the UPM Blandin paper mill in Minnesota, USA. The award, presented since 2007, is given as recognition for a determined commitment to improving health and safety matters in the workplace.

Good local practices shared

Blandin paper mill places a strong focus on safety management and has the best score in the Occupational Health and Safety audits. In 2011, the mill also introduced an ergonomics programme as part of its well-being and health management.

"Blandin employees show their commitment through participation in safety activities such as training, conducting audits, identifying unsafe conditions, reporting near misses, following safety rules, serving on safety teams and more. We measure safety participation and know that there is a direct correlation between safety performance and participation," says Joe Maher, General Manager of the mill.

UPM Changshu paper mill in China holds the record for the most lost-time accident free days – more than two years without any accidents. The result has been reached by local safety programme and integrating safety systematically into the daily operations: communications, safety observations, preventative safety analysis, audit procedures and learnings from the best internal and external safety practices.

In May 2011, the UPM Raflatac Changshu labelstock factory was the first labelstock factory to reach a lost time accident-free year. Near-miss reporting and safety observations are part of the factory's continuous training programme.

UPM seeks to give young people opportunities to get acquainted with the developing Biofore company

UPM needs new competencies and skills for current businesses and particularly for new developing businesses

Future employees are an important stakeholder group for UPM

In the summer of 2011, UPM offered some 160 young people aged 15–17 a different kind of summer job. They planted seedlings in 60 locations across Finland during a two-week period.

Investing in future talent

Out of approximately 14,000 summer job applications, UPM was able to provide summer jobs to over 1,000 young people in Finland. They were working at the production plants, at UPM Forest Finland, at the UPM Service Centre in Tampere and at the Group Head Office.

In 2011, UPM Forest implemented a trainee programme in Finland. The 11 trainees, who are located in offices across Finland, are going through an 18-month training programme to become versatile professionals in forestry business.

UPM also promoted the Youth Forum of the Finnish Paper Engineers' Association by supporting the international exchange of future engineers. Ten students were awarded a scholarship at UPM's paper mills and UPM Raflatac labelstock factories and R&D Centre across the world.

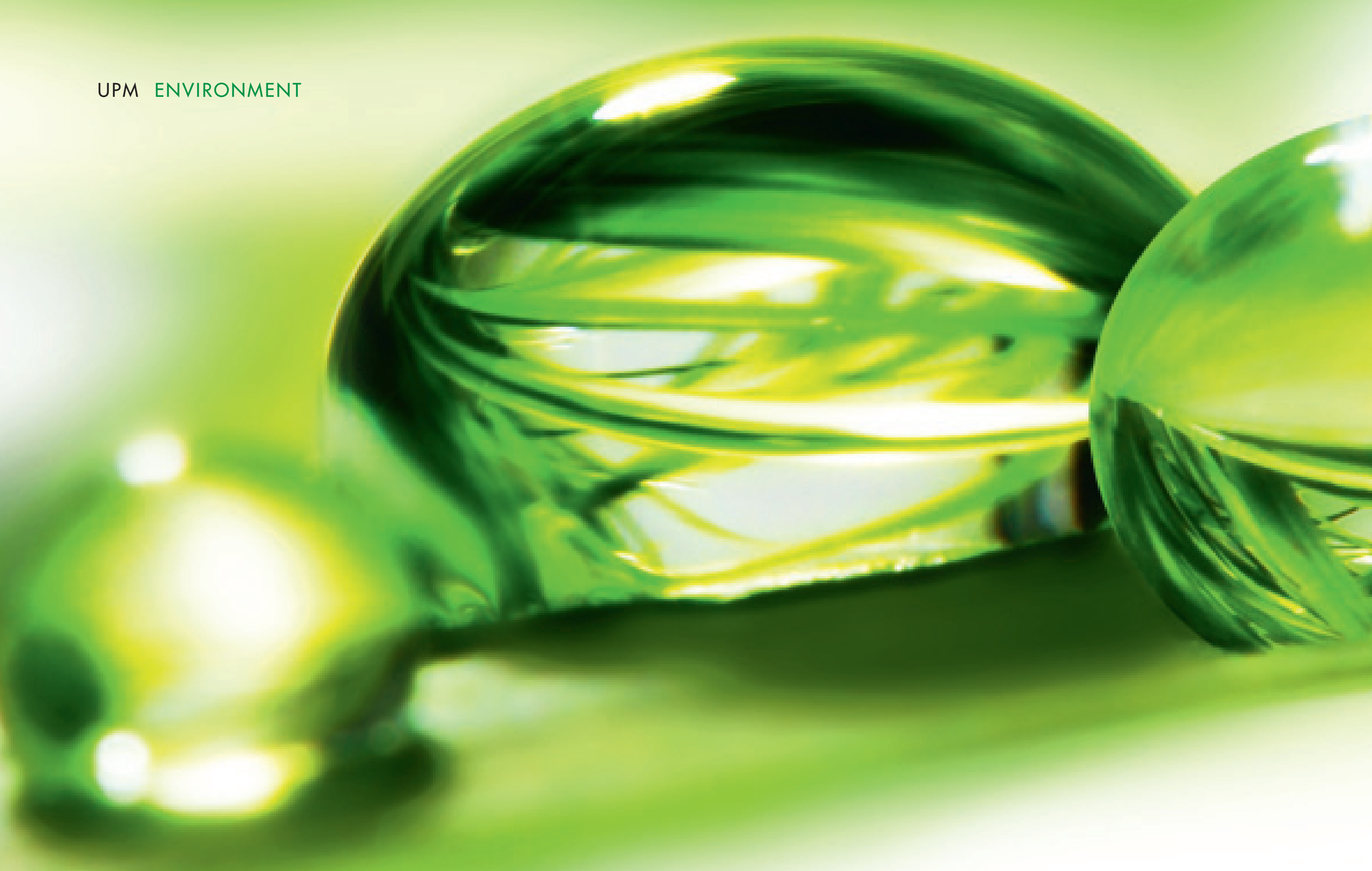
Getting started during school years

In the summer of 2011, UPM employed some 160 young people aged 15–17, who planted trees in 60 locations across Finland in UPM-owned and managed forests with the help of UPM Silvesta forest workers.

Around half a million seedlings were planted during a two-week period and the trees will be ready for harvesting in 60 to 80 years.

"The response from both the young people and the forest workers was positive, even though that the summer was quite hot and planting trees is hard work," says Jukka Koivumäki, Managing Director at UPM Silvesta.

In 2011, UPM was also involved in the Enterprise Village project for children aged between 11 and 13. This is an educational programme on the economy and working life, which includes lessons held at the students' schools and a day in a miniature society.



Environmental performance

UPM minimises its environmental footprint by focusing on the environmental performance of all UPM operations and products throughout their entire lifecycle

- UPM was the first in Finland to be awarded the FSC certificate for its Finnish forests after the new Finnish FSC standard was endorsed
- With the Myllykoski integration, UPM introduced equal environmental targets into all the mills, including sharing best practices in environmental performance
- UPM concluded several studies and assessments with external stakeholders such as a Water Footprint study, an Environmental Footprint study and a multi-site EMAS report
- A new ecodesign concept was introduced for UPM's product design processes

UPM'S ENVIRONMENTAL TARGETS BY 2020*

Sustainable products	25% growth in the share of eco-labelled products Environmental management systems certified in 100% of production units Environmental declarations for 100% of product groups
Climate	15% reduction in fossil CO_2
Water	15% reduction in waste water volume and COD load
Forest	80% share of certified fibre
Waste	25% reduction in waste to landfill

*from 2008 levels

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

The majority of UPM's production sites, as well as the forestry operations, are covered 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). In 2011, the Docelles paper mill received certification. UPM was one of the first companies to achieve a multi-site EMAS coporate registration. The pilot project covered 15 paper and pulp mills.

Investments and costs

In 2011, UPM's environmental investments totalled EUR 14 million (18 million), the largest being low-NOx burners for gas boilers at the Schongau paper mill in Germany.

UPM's environmental costs, which mainly consisted of effluent treatment and waste management totalled EUR 112 million (90 million), including depreciation.

In 2011, 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 preventive measures were taken.

Reaching for the 2020 targets

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

Products – Taking care of the entire lifecycle

UPM provides sustainable products that are made from renewable, biodegradable and recyclable raw materials.

All UPM's businesses have adopted ecodesign in their product development processes, meaning that environmental aspects are systematically integrated into product design at an early stage. (Read more on page 72).

UPM uses independent, widely accepted eco-labels such as the EU Eco-label, PEFC and FSC forest certification labels. UPM offers a high share of products carrying an independent accredited eco-label.

The range of products with the EU Eco-label that UPM offers has increased significantly. UPM is the largest producer of graphic and copying papers awarded the EU Eco-label. UPM also offers products with regional environmental labels such as Blue Angel in Germany. In 2011, the Docelles paper mill in France received a Blue Angel label for its recycled paper products.

In 2011, UPM was one of WWF Finland's main partners for the United Nation's "International Year of Forests". UPM was involved in activities such as Check Your Paper, WWF's global database of eco-rated paper products for responsible producers, distributors and buyers.

Climate – Creating climate solutions

UPM is continuously developing its operations in order to reduce its carbon footprint and to improve its energy efficiency. UPM's products store carbon and offer an alternative to non-renewable materials.

UPM maximises the use of carbon dioxide-neutral energy and aims to increase the use of biomass-based energy. Biomass-based fuels make up approximately 80% of the fuels used by UPM in Finland and approximately 63% of those used worldwide. In 2011, the share of biomass-based

For 2011, former Myllykoski operations are included in UPM's environmental data for the full year.

fuels decreased by 5% compared to 2010 due to the acquisition of paper mills with high share of fossil fuels. UPM is the second largest biomass-based electricity provider in Europe.

In 2011, UPM continued to invest in renewable energy sources. UPM continued its modernisation programme for its hydropower plants to improve their operational efficiency and environmental safety.

In addition, UPM established a wind power development company VentusVis Oy in Finland in co-operation with TuuliSaimaa Oy. The operations focus on developing UPM's land areas for wind power production.

Over the past few years, UPM has significantly improved energy efficiency by effective process development and equipment modifications, as well as engaging employees in a global energy-saving campaign. The strategic research programme on energy saving in mechanical pulping carried out between 2009 and 2011, has resulted in savings of up to 30% in energy consumption. (Read more on page 40).

Water – Using water responsibly

UPM focuses on using water resources sustainably and aims to be the best in class with regard to its water consumption and effluent quality. UPM aims to minimise the impact of its operations on local water resources and to safeguard the natural water cycle in forests.

In 2011, UPM carried out several projects aimed at improving water management in co-operation with its partners. UPM is also investigating the management and the material efficiency of water use at several of its mills as part of the company's water programme. (Read more on page 41).

UPM is actively involved in the development and calculation of water footprint. The Water Footprint study performed at the German Nordland paper mill in 2010 was extended to include a water use sustainability assessment. The results of the study, carried out together with the Water Footprint Network, were published in Stockholm's World Water Week in August 2011.

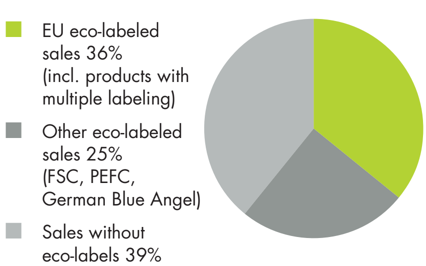
Forest – Keeping forests full of life

UPM operates according to the principles of sustainable forest management – the origin of wood is always known and legitimate. UPM manages its forests to enhance biological diversity, natural ecosystems and the carbon cycle.

Chain of custody and forest certifications are means of promoting legal and sustainable wood sourcing. In 2011, UPM was the first in Finland to be awarded a certificate for complying with the new FSC standard. UPM's forests have previously been awarded a PEFC certificate. (Read more on page 73).

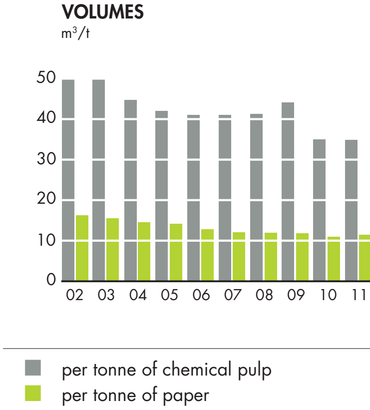
UPM has worked systematically to increase the amount of certified wood. In

UPM'S ECO-LABELED SALES*

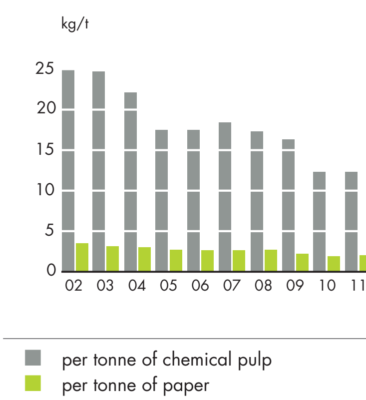


* incl. Paper, Pulp, Timber and Plywood

UPM'S PROCESS WASTEWATER VOLUMES



UPM'S COD LOAD



^ In 2011, 61% of UPM's overall sales of paper, chemical pulp, plywood and timber products were eco-labelled. The figure includes FSC, PEFC, EU Eco-label as well as national eco-labels.

^ UPM has decreased wastewater volumes per tonne of paper and per tonne of chemical pulp by 30% over the last ten years.

^ The COD load has decreased by over 40% per tonne of paper, and by 50% per tonne of pulp over the last ten years.

2011, approximately 78% (78%) of all wood used by UPM originated from certified forests and 81% (79%) of UPM's paper was produced by using fibre that meets the criteria of either the FSC or the PEFC forest certification schemes.

In 2011, UPM actively participated in WWF's New Generation Plantations Project (read more on page 25). Wide co-operation projects with BirdLife were carried out in Finland, the UK and Uruguay. (Read more on stakeholder engagement on page 59).

Waste – Reduce, reuse, recycle

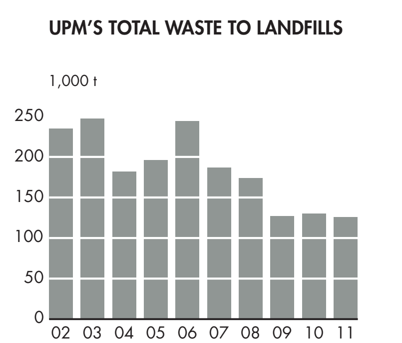
UPM is committed to maximising the reuse of materials and minimising waste generation. Nearly all organic production residues, including bark and wood residues, as well as fibre-containing solids from deinking and effluent treatment, are used in energy generation at UPM's mill sites.

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. Today, over 90% of all UPM's production waste is reused or recycled.

UPM has developed innovative ways to reduce its own waste and reuse waste in new products. UPM is the world's largest user of recovered paper in the graphic paper industry. With the help of the unique RafCycle concept, by-products of the labelstock industry are used to produce UPM ProFi wood plastic composite products or paper, or they are turned into energy. (Read more on page 45).

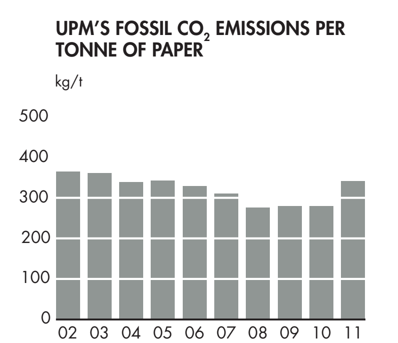
2011 was the first full year in operation for the materials recovery facility at UPM's Shotton paper mill in the UK. The state-of-the-art facility has the capacity to sort 270,000 tonnes of comingled materials sourced from across the UK and, with recovery rates at 99%, has been designed to achieve the highest recovery rates in the UK. A remarkable share of recyclable materials is newspapers and magazines that can be used at the mill as raw material.

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 2011 can be found under the sections for each business area. The GRI content index is on pages 74–76. To find out more about UPM's responsibility agenda, please visit www.upm.com/responsibility.



^ The amount of solid waste sent to landfill was at the same level as in 2010 even if the production increased. The main reason is the increased usage of ash for land construction and capping.

^ The average share of certified fibre supplied to UPM's mills is at a high and stable level of nearly 80%.



^ Since 1990, specific CO_2 (carbon dioxide) emissions per tonne of paper has reduced by approximately 25%. Due to acquisition of paper mills with a high share of fossil fuels, CO_2 emissions increased in 2011.

For 2011, former Myllykoski operations are included in UPM's environmental data for the full year.

UPM’s material balance 2011

The UPM material balance 2011 sums up the total material, energy and emission flows to and from UPM units worldwide. In the long term, UPM is continuously finding ways to improve its material and energy efficiency and reduce its emissions. Due to the acquisition of Myllykoski, nearly all figures increased compared to 2010, such as the usage of recovered paper and the fossil CO_2 emissions. However, UPM was able to keep the amount of solid waste sent to landfills at the same level as in 2010 even if the production increased.

Energy

Most of the electrical and thermal energy at UPM is used for paper and pulp production

In order to reduce the environmental load caused by energy generation, UPM favours the use of renewable and other CO_2-neutral energy sources as well as natural gas

UPM’s continuous target is to improve energy efficiency

ENERGY

	2011
Fossil fuels, GWh	15,000
Renewable fuels, GWh [1]	25,000
Purchased electricity, GWh	12,000
Purchased heat, GWh	500

[1] 85% from own processes (e.g. bark, fibre sludge, black liquor)

Raw materials

Supplier criteria, which include social and environmental responsibility, are used for all materials

Certified chain of custody systems are used to ensure that wood is sourced from sustainably managed forests

RAW MATERIALS

	2011
Wood, m^3	27,200,000
Market pulp, t	1,300,000
Recovered paper, t	3,800,000
Purchased paper for converting, t	150,000
Minerals, t	3,000,000
Plastics, adhesives, resins, films, t	150,000

Water

Water is an essential resource for pulp and paper production

Water is used within the process and for cooling

Most of the water used is taken from rivers or lakes. A small amount is taken from ground water, in which case water levels are monitored

WATER UPTAKE [1]

	2011
Surface water, million m^3	430
Groundwater, million m^3	80
Sanitare water, million m^3	10

[1] The scope is pulp and paper mills: the impact of other UPM units is minor. Rainwater is not used in the process but it can be gathered and led to watercourses, depending on the site.

Emission into the air

The majority of UPM's airborne emissions are caused by energy generation at its pulp and paper mills

Choice of fuels, combustion technology and flue gas purification are the primary ways to reduce these emissions

EMISSIONS INTO AIR

	2011
SO_2, t	4,600
NO_x, t	11,300
CO_2 (fossil)[1], t	4,400,000

[1] UPM's direct fossil fuel CO_2 emissions include emissions from its own power plants and a respective share of co-owned power plants corresponding to UPM's energy supply. External power plants or boilers are considered in the case of heat supply, and in addition for Hürth for electricity as there is a direct supply from the neighbouring power plant. The main source for indirect CO_2 emissions is power purchased from the grid. Calculated based on either supplier data 2010 or national grid CO_2 factors (IEA), additional 3.3 million t fossil CO_2 are generated.

Products

UPM's products are mainly based on renewable raw materials that are recyclable and biodegradable

Third-party-verified eco-labels are commonly used to certify good environmental performance

PRODUCTS

	2011
Paper[1], t	12,000,000
Chemical pulp[1], t	900,000
Fluff pulp, t	60,000
Converting materials, t	450,000
Plywood and veneer, m^3	700,000
Sawn timber, m^3	1,800,000
Heat, GWh	600
Electricity, GWh	5,000

[1] Paper and chemical pulp volumes differ from the overall production of the paper and pulp mills because the paper purchased by converting factories from the Group's paper mills as well as internally used chemical pulp have been deducted from the number of products sold.

Solid waste

All production sites have reduced the volume of solid waste and improved handling by sorting waste at the source

A large part of the process waste is either used as raw material or in energy generation

Ash from mill power plants consitutes the most significant amount of solid waste

SOLID WASTE

	2011
For reuse, t	1,360,000
To landfills, t	126,000
To municipal incineration plants, t	5,000
Hazardous waste for special treatment[1], t	4,500

[1] Hazardous waste is mainly oil and other oil waste that is either reused or incinerated.

Emission into water

UPM's paper and pulp production is the main source of emissions into water

UPM aims to have best-in-class effluent quality

All effluents are treated in primary and secondary effluent treatment plants before released into watercourses

Emission levels and environmental impacts are regularly monitored

EMISSIONS INTO WATER [1]

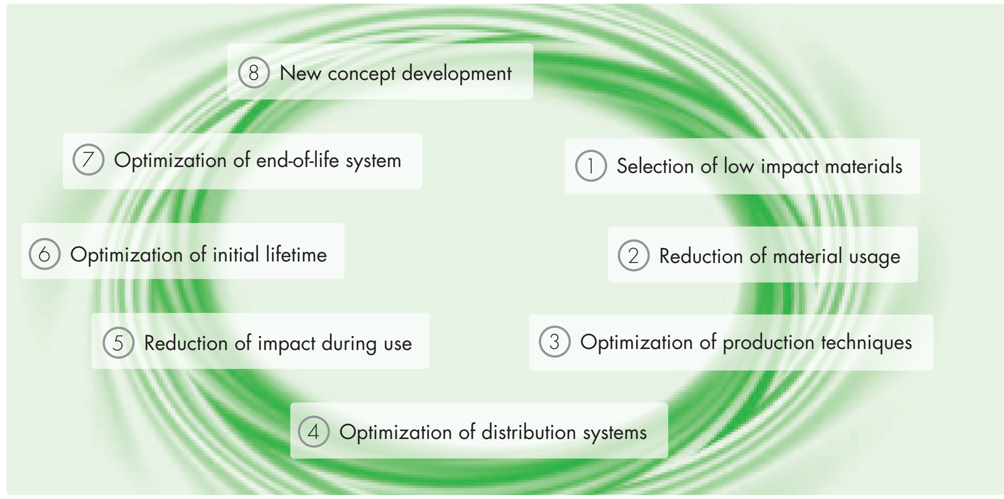
	2011
COD [2], t	82,300
BOD7 [2], t	10,700
AOX, t	300
Process waste water, million m^3	260

[1] The scope is pulp and paper mills: the impact of other UPM units is minor.
[2] Information includes the load from the Augsburg, Caledonian and Hürth paper mills to external effluent treatment plants. COD is not measured at the Madison paper mill.

The 2011 figures include data from former Myllykoski mills for the full year.

UPM provides sustainable products that are primarily made from renewable, biodegradable and recyclable materials

Design that takes environmental impacts widely into consideration turn less into more and save costs



Adapted from Lafferty, Marstrander and Ruud, 2003

UPM's Biofore thinking entails that each phase of the product lifecycle, including raw materials, production, distribution, use and disposal, is taken into consideration when assessing the environmental impacts of a product.

Ecodesign introduces lifecycle thinking to product design

Ecodesign means that environmental aspects are systematically integrated into product design at an early stage. UPM's all businesses and R&D are adopting ecodesign in their product development processes. UPM's Biofore thinking entails that each phase of the product lifecycle, including raw materials, production, distribution, use and disposal, is taken into consideration when assessing the environmental impacts of a product. Good design can significantly decrease the environmental impacts of a product as the majority of the final product's environmental impacts are defined during product development.

Making our own processes and the processes of our customers and suppliers more efficient and decreasing the environmental impacts of our products saves everyone's costs throughout the value chain.

Aiming at minimising the environmental impacts

UPM aims at minimising the environmental impacts of its products throughout their lifecycle. For instance, the UPM developed manufacturing process for formable plywood improves the energy and material efficiency of the product and significantly decreases its environmental impacts due to the new, innovative composite technology.

Environmental labels verified by third parties and certified management systems expressing the sustainability of production and products are an essential part of the ecodesign concept.

Responsible sourcing is also a key element in ecodesign. UPM uses a Restricted Substances List, adopted in 2010, to ensure that it provides safe products. UPM and its suppliers have used the list during the development of several products and found substitutive raw materials that are in accordance with the principles of sustainable development.

UPM aims to maximise the share of certified fibre and promotes best practices in sustainable forestry globally

The share of eco-labelled products is 61%

UPM is the frontrunner in forest certification

Stakeholder dialogue is an essential part of the FSC process for sustainable forest management.

UPM awarded FSC certificate for Finnish forests

UPM is the first in Finland to be awarded a certificate to demonstrate compliance with the new FSC standard. The FSC certificate covers around half of UPM's forests in Finland. UPM's forests have previously been awarded a PEFC certificate.

"The FSC certification of Finnish forests further expands UPM's portfolio of eco-labelled products. We already have the market's most extensive selection of paper products with the EU eco-label. Forest certificates are a guarantee to our customers that our wood fibre comes from sustainably managed forests," says Thomas Ehrnrooth, Vice President, Marketing and Communications, Paper Business Group.

The first UPM products manufactured from FSC-certified Finnish fibre became available on the market in the autumn of 2011.

Co-operation with environmental organisations

Finland's new FSC standard was approved in January 2011 and a certificate of compliance with the new standard has been available for Finnish forests since May. An agreement on the new Finnish FSC standard and its requirements was met in negotiations between environmental organisations and the forest industry.

WWF and UPM have been working closely together for a long time. Liisa Rohweder, President of WWF Finland, is pleased that UPM is setting an example for other Finnish companies by obtaining FSC certification.

"We hope that more forest owners will start to adhere to the FSC standard," says Rohweder. UPM will also start to offer FSC certification to private forest owners as a forestry service.

GRI content index

The UPM Annual Report 2011 follows the framework and indicators of the Global Reporting Initiative's (GRI) reporting guidelines G3 and meets the requirements for the GRI's Application Level B+, which refers to the quantity of indicators. The index below shows how and where the GRI indicators are addressed in the annual report and the company internet pages. An extended version of the GRI content index can be found at www.upm.com/responsibility.

AR = Annual Report 2011
● Fully reported
○ Partially reported

Profile	Location	Level
1. STRATEGY AND ANALYSIS		
1.1 CEO's statement	AR Pages 6–7	●
1.2 Key impacts, risks and opportunities	AR Pages 10, 13, 56–58	●
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation	AR Page 112	●
2.2 Primary brands, products and services	AR Pages 2–3	●
2.3 Operational structure	AR Pages 2–3, 112, 149	●
2.4 Location of headquarters	AR Page 108	●
2.5 Number of countries and locations of operations	AR Pages 2, 102–103	●
2.6 Nature of ownership and legal form	AR Pages 112, 161	●
2.7 Markets served	AR Pages 2–3	●
2.8 Scale of the reporting organisation	AR Pages 2–3, 165	●
2.9 Significant changes regarding size, structure or ownership	AR Page 38	●
2.10 Awards received in the reporting period	Extended GRI content index	●
3. REPORT PARAMETERS		
Report profile		
3.1 Reporting period	1 January 2011–31 December 2011	●
3.2 Date of most previous report	24 February 2011	●
3.3 Reporting cycle	Annual	●
3.4 Contact point for questions regarding the report or its content	AR Page 108	●
Report scope and boundary		
3.5 Process for defining report content	AR Pages 56, 58	●
3.6 Boundary of the report	Extended GRI content index	●
3.7 Limitations on the scope or boundary of the report	Extended GRI content index	●
3.8 Basis for reporting subsidiaries, joint ventures and other entities affecting comparability	Extended GRI content index	●
3.9 Data measurement techniques and the bases of calculations	Extended GRI content index	●
3.10 Explanation of re-statements	Extended GRI content index	●
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods	AR Pages 38–39, 98, Extended GRI content index	●
Assurance		
3.13 Assurance policy and practice	AR Pages 58, 77	●

Profile		
4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT		
Governance		
4.1 Governance structure	AR Pages 81–83	●

Profile	Location	Level
4.2 Position of the Chairman of the Board	AR Page 86	●
4.3 Independence of the Board members	AR Page 86	●
4.4 Mechanisms for shareholder and employee consultation	AR Pages 62, 81	●
4.5 Executive compensation and linkage to organisation's performance	AR Pages 84–85	●
4.6 Process for avoiding conflicts of interest	AR Pages 86–87	●
4.7 Process for determining the Board members' expertise in strategic management and sustainability	AR Pages 82, 87, 90–91	●
4.8 Implementation of mission or values statements, Code of Conduct and other principles	AR Pages 1, 58, 61, Extended GRI content index	●
4.9 Procedures of the Board for overseeing management of sustainability performance, including risk management	AR Pages 81, 88	●
4.10 Processes for evaluating the Board's performance	AR Pages 81–82	●
Commitments to external initiatives		
4.11 Addressing the precautionary approach	AR Pages 104–105	●
4.12 Voluntary charters and other initiatives	AR Page 59, Extended GRI content index	●
4.13 Memberships in associations	AR Page 25, Extended GRI content index	●
Stakeholder engagement		
4.14 List of stakeholder groups	AR Page 56	●
4.15 Identification and selection of stakeholders	AR Page 56	●
4.16 Approaches to stakeholder engagement	AR Pages 25, 56–59, 62, 65	●
4.17 Key topics raised through stakeholder engagement	AR Pages 56, 62, 73	●

5. PERFORMANCE INDICATORS

ECONOMIC INDICATORS

Management approach to economic responsibility	AR Pages 4, 10–13, 56–58	●
EC3 Coverage of defined benefit plan obligations	AR Pages 141–143	●
EC4 Significant subsidies received from government	AR Pages 53, 105, 130	●
Indirect economic impacts		
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts	AR Page 63	○

ENVIRONMENTAL INDICATORS

Management approach to environmental responsibility	AR Pages 56–58, 66–69, Extended GRI content index	●
Materials		
EN1 Materials used by weight or volume	AR Page 70	●
EN2 Percentage of materials used that are recycled input materials	AR Pages 27, 70	●
Energy		
EN3 Direct energy consumption	AR Pages 20–21, 70	●
EN4 Indirect energy consumption by primary source	AR Pages 20–21, 70	○
EN5 Energy saved due to conservation and efficiency improvements	AR Pages 20–21, 40	●
EN6 Initiatives to provide energy-efficient or renewable energy based products and services	AR Pages 40, 54, 68	●
Water		
EN8 Total water withdrawal by source	AR Page 70	●
EN9 Water sources significantly affected by withdrawal of water	AR Page 41, Extended GRI content index	○
EN10 Percentage and total volume of water recycled and reused	Extended GRI content index	○
Biodiversity		
EN11 Location and size of land holdings in biodiversity-rich habitats	AR Page 24, Extended GRI content index	●
EN12 Significant impacts on biodiversity in protected areas and biodiversity-rich areas outside protected areas	Extended GRI content index	●
EN13 Habitats protected or restored	Extended GRI content index	●
EN14 Managing impacts on biodiversity	AR Pages 25, 32, 68, Extended GRI content index	●
Emissions, effluents and waste		
EN16 Total direct and indirect greenhouse gas emissions	AR Page 71	●
EN18 Initiatives to reduce greenhouse gas emissions	AR Page 21	●

Profile	Location	Level
EN20 NOx, SOx and other significant air emissions	AR Page 71	●
EN21 Total water discharge by quality and destination	AR Pages 68, 71	●
EN22 Total amount of waste by type and disposal method	AR Pages 69, 71, Extended GRI content index	●
Products and services		
EN26 Mitigating environmental impacts of products and services	AR Pages 45, 49, 54, 55, 68, 72–73, Extended GRI content index	●
SOCIAL INDICATORS		
Management approach to social responsibility	AR Pages 56–58, 61–63, 72	●
LABOUR PRACTISES AND DECENT WORK		
Employment		
LA1 Total workforce by employment type/employment contract and region	AR Pages 62–63	●
LA2 Total number and rate of employee turnover by age group, gender and region	AR Page 63	○
Labour/management relations		
LA4 Coverage of collective bargaining agreements	AR Page 62	●
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	AR Pages 62, 79, Extended GRI content index	●
Occupational health and safety		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees	AR Pages 61	○
LA7 Injuries, lost days, absentee rates and fatalities	AR Pages 61, 63–64, Extended GRI content index	●
LA8 Education, training, counseling, prevention, and risk-control in place to assist workforce members, their families, or community programs members regarding serious diseases.	AR Page 61	○
Training and education		
LA10 Average hours of training per year per employee	AR Page 63	○
LA11 Programs for skills management and lifelong learning	AR Pages 61–63, Extended GRI content index	●
LA12 Employees receiving performance and career development reviews	AR Page 62	●
Diversity and equal opportunity		
LA13 Composition of governance bodies and breakdown of employees	AR Pages 62, 90–91, Extended GRI content index	●
HUMAN RIGHTS		
Investment and procurement practises		
HR3 Employee training on policies and procedures concerning human rights relevant to operations	AR Page 58, Extended GRI content index	●
SOCIETY		
Community		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage impacts of operations on communities (incl. entering, operating, and exiting)	AR Page 63	○
Corruption		
SO3 Percentage of employees trained in anti-corruption policies and procedures	AR Page 58	●
Public Policy		
SO6 Contributions to political parties, politicians and related institutions	Extended GRI content index	●
SO7 Number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practises and their outcomes	AR Page 103	●
Compliance		
SO8 Significant fines and sanctions for non-compliance with laws and regulations	Extended GRI content index	●
PRODUCT RESPONSIBILITY		
Product and service labelling		
PR3 Type of product information required by procedures	AR Pages 53, 67–68, 73, Extended GRI content index	●
PR5 Practises related to customer satisfaction and results of customer satisfaction surveys	Extended GRI content index	●

We have self-declared our reporting to be Application Level B+ of the GRI G3 Guidelines.
PricewaterhouseCoopers Oy has checked our reporting and has confirmed it to be Application Level B+.

Independent assurance report

To the Management of UPM-Kymmene Corporation

We have been engaged by the Management of UPM-Kymmene Corporation (hereinafter also the "Company") to perform a limited assurance engagement on corporate responsibility performance indicators in the areas of economic, social and environmental responsibility, disclosed in UPM-Kymmene Corporation's Annual Report 2011 in sections "Business Areas" as part of cases and "Success Factors", and on its website in section "Responsibility", for the period of January 1, 2011 to December 31, 2011 (hereinafter "CR Reporting"). The assured performance indicators cover all fully or partially reported indicators, which are listed in section 5 "Performance Indicators" of the GRI Content Index disclosed in UPM-Kymmene Corporation's Annual Report 2011 and on its website.

The scope of the CR Reporting covers UPM-Kymmene Group.

Management's responsibility

The Management of UPM-Kymmene Corporation is responsible for preparing the CR Reporting in accordance with the Reporting criteria as set out in the Company's reporting instructions and the Sustainability Reporting Guidelines of the Global Reporting Initiative (version 3.0).

Practitioner's responsibility

Our responsibility is to express a conclusion on the CR Reporting based on our work performed. Our assurance report has been made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to UPM-Kymmene Corporation for our work, for this report, or for the conclusions that we have reached.

We have not been engaged to provide assurance on amounts or other disclosures relating to the prior reporting periods presented in the CR Reporting.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the CR Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the CR Reporting. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the CR Reporting. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of UPM-Kymmene Corporation.
- Assessing how UPM-Kymmene Group employees apply the reporting instructions and procedures of the Company.
- Visiting UPM-Kymmene Corporation's Head Office as well as four sites in China, Finland, and Germany.
- Interviewing employees responsible for collection and reporting of the information presented in the CR Reporting at UPM-Kymmene Group level and at the different sites where our visits took place.
- Inspecting relevant documents and systems for gathering, analysing and aggregating the information presented in the CR Reporting as well as testing on a sample basis.
- Assessing the data consolidation process of the information presented in the CR Reporting at UPM-Kymmene Group level.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the CR Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria. Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for corporate responsibility information. This independent assurance report should not be used on its own as a basis for interpreting UPM-Kymmene Corporation's performance in relation to its principles of corporate responsibility.

Helsinki, 16 February 2012

PricewaterhouseCoopers Oy

Juha Wahlroos
Authorised Public Accountant

Sirpa Juutinen
Partner
Sustainability & Climate Change

Main events 2011

01

17 UPM concludes the environmental impact assessment for the Kaukas liquid biorefinery to produce hydrotreated biofuels. The main products of the biorefinery will be transportation biofuels.

UPM announces it has selected Rauma or Strasbourg as the possible location for a biorefinery that would produce second-generation biodiesel from energy wood: logging residues, stumps and bark.

20 UPM announces that its plantation company, Forestal Oriental, has increased its land ownership by 25,000 hectares in Uruguay in order to improve wood procurement options and to support a self-sufficient wood supply to the Fray Bentos pulp mill.

02

22 UPM Raflatac announces its acquisition of Gumtac, the Brazilian label-stock coating and slitting business, in Brazil. Gumtac employs some 50 people in its operations in Rio de Janeiro. The acquisition is closed in May.

23 UPM expands its nursery in Joroinen, Finland, and builds a second nursery in Uruguay in order to secure the availability of high-quality seedlings and seed material.

03

8 UPM establishes a wind power development company in Finland in co-operation with TuuliSaimaa Oy. The new company, VentusVis Oy, focuses on developing UPM's land areas for wind power production.

31 UPM Timber divides its business into sawn timber and a further processing business, UPM Living, to enhance its service ability for timber and building industry customers.

04

7 UPM's Annual General Meeting decides a dividend of EUR 0.55 per share. All Board members are re-elected for a term continuing until the end of the next Annual General Meeting. At the organisation meeting of the Board of Directors, Mr Björn Wahlroos is re-elected as Chairman, and Mr Berndt Brunow is re-elected as Deputy Chairman.

13 UPM announces the sale of the Russian logging company ZAO Tikhvinsky Komplexny Lespromkhoz to International Paper. The transaction is closed in July.

19 The energy company Pohjolan Voima Oy sells its 25% stake in Fingrid, the Finnish electricity transmission system operator, to the State of Finland and the Ilmarinen Mutual Pension Insurance Company. Pohjolan Voima is UPM's associated company in which UPM owns 44% of shares.

05

6 UPM announces the sale of its Lohja veneer mill to the mill's operative management.

23 UPM achieves multinational corporate EMAS registration in the renewed EU's environmental management system. The corporate registration includes 15 pulp and paper mills in five EU countries and all data is third-party verified. UPM is one of the very first companies to achieve this registration.

25 UPM announces it will begin production of coated fine paper sheets at its Kymi fine paper mill in Kouvola, Finland, in autumn 2012.

06

30 UPM and the Finnish pulp producer Metsä-Botnia agree a transaction whereby Metsä-Botnia has redeemed approximately 6.7% of Metsä-Botnia's shares owned by UPM for EUR 140 million. UPM also agrees to give a call option to the Finnish Metsäliitto Group for the remaining 11% of Metsä-Botnia still owned by UPM after the redemption and cancellation of the redeemed shares.

UPM acquires M-real Corporation's 35% holding in Myllykoski Paper Oy and the capital loan M-real has granted to Myllykoski Paper Oy for a total of EUR 10.5 million. The transaction is closed in September.

07

13 The European Commission approves UPM's acquisition of Myllykoski Corporation and Rhein Papier GmbH. The companies announced the transaction on 21 December 2010.

08

1 UPM completes the Myllykoski acquisition, which consists of six publication paper mills in Germany and Finland and a 50% share of a paper mill in the United States, as well as Myllykoski Oyj's 0.8% stake in the Finnish energy company Pohjolan Voima Oy.

For the financing of the acquisition, UPM issues five million new UPM shares to the direct and indirect owners of Myllykoski and Rhein Papier, and EUR 800 million in long term debt.

31 UPM announces its plan to permanently remove 1.2 million tonnes of magazine paper capacity in Finland, Germany and France, and 110,000 of newsprint capacity in Germany, to match the needs of its global customer base. The plan also includes restructuring of the overlapping paper sales and supply chain networks and global functions. The plan will reduce the number of employees by approximately 1,170. Annual synergy benefits of the Myllykoski acquisition are estimated to total approximately EUR 200 million.

Production at the UPM Myllykoski mill in Kouvola, Finland and the PM 3 at the UPM Ettringen mill in Germany cease in December. The UPM Albbruck mill in Germany is closed in January 2012.

31 UPM Plywood announces plans to improve efficiency in its head quarter operations, sales and mill maintenance in Finland. Employee negotiations are completed in October.

09

28 UPM Raflatac opens a new slitting and distribution terminal in Moscow, Russia.

10

31 UPM launches UPM ForMi, a new biocomposite in which wood fibres replace non-renewable raw material. The new composite is made from virgin wood fibres and clean plastic polymers, and is suitable for various industrial and consumer end-uses such as the electronic and automotive industries.

31 UPM announces it will participate in the financing of the bidding and engineering phase of the Olkiluoto 4 nuclear power plant unit of Teollisuuden Voima Oyj (TVO). UPM's share of the financing is approximately EUR 90 million. UPM's participating in the financing corresponds to its share of the ownership in TVO through Pohjolan Voima Oy.

11

3 Employee negotiations at the Myllykoski paper mill in Finland are completed and UPM decides to permanently cease production at the mill by the end of the year. UPM starts to implement a "From Job to Job programme" at the mill in order to alleviate the effects caused by the closing of the mill. The programme includes active measures that promote re-employment, retraining and relocation.

15 UPM announces it has started pre-commercial production of fibril cellulose at Otaniemi, Espoo, Finland in order to provide different types of fibril cellulose for extensive customer testing. UPM's objective is to create the preconditions needed for industrial-scale production.

15 UPM and Telko sign a distribution agreement for UPM's new biocomposite product UPM ForMi. Telko will sell the natural fibre composite developed by UPM through its global distribution network.

12

1 UPM announces plans to improve production efficiency at the Aureskoski further processing mill in Finland and at the Pestovo sawmill in Russia, as well as at UPM Silvesta Oy, UPM's forestry services company in Finland.

12 UPM applies for building permit in the city of Helsinki in order to build a new head office in the Töölönlahti area, in Helsinki city centre. The operating costs of the new office are lower than those of the current head office. The new five-storey building demonstrates the use of UPM products and wood as construction material. The new building will be completed in the autumn of 2013.

15 UPM establishes a competence centre for eucalyptus research at the Fray Bentos pulp mill in Uruguay. The new centre will be operational during the first half of 2012.

22 UPM announces the sale of its RFID business to SMARTRAC and the acquisition of indirect 10.6% shareholding of SMARTRAC. The deal, which is subject to regulatory approvals, is expected to close during the first quarter of 2012.

> learn more www.upm.com

Corporate governance

UPM's corporate governance is based on the Finnish Companies Act, the company's Articles of Association, the rules of NASDAQ OMX Helsinki Ltd and the standards of the Finnish Financial Supervisory Authority. In addition, UPM complies with the recommendations of the Finnish Corporate Governance Code of 2010 issued by the Securities Market Association

UPM's Corporate Governance Statement, prepared in accordance with Recommendation no. 54 of the Finnish Corporate Governance Code, is presented on pages 86–89

Control and governance

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 86 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). 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.

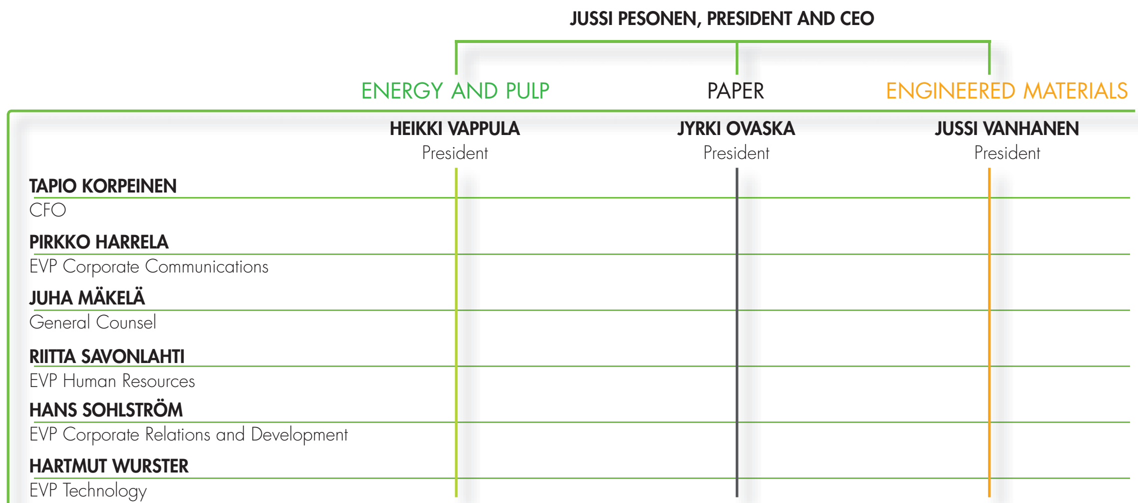
In accordance with the Finnish Corporate Governance Code, the Directors will provide the Board with sufficient information for the assessment of their qualifications and independence. Based on the information provided by the Directors, the Board has determined all of the Directors to be independent of 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 86.

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

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.

appointed the members of the Committees and their chairmen from the Directors. It has also adopted charters for the Committees which are available on UPM's website (www.upm.com). In 2011, 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 86.

SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2011

Name	Total Shares
Matti Alahuhta	47,192
Berndt Brunow	285,799
Karl Grotenfelt	43,053
Wendy E. Lane	18,850
Jussi Pesonen	195,294
Ursula Ranin	17,772
Veli-Matti Reinikkala	22,022
Robert J. Routs	5,589
Björn Wahlroos	228,513

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 86.

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 co-ordination between the Business Groups and functions.

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

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

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).

UPM's public insiders include 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 both public and the permanent insiders (i.e. employees of the company who regularly receive inside information) of the company. 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 at the conclusion of the next Annual General Meeting. The 2011 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.

AUDITOR'S FEES

EURm	2011	2010
Audit	2.7	2.4
Audit-related	0.1	0.1
Tax consulting	0.9	1.3
Other services	1.0	0.3
Total	4.7	4.1

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 effectively. The Internal Audit function is subordinate to the President and CEO, but reports regularly and has direct access to the Audit Committee.

Remuneration

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 2011 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:

	2011		2010	
	Annual fees (EUR)	of which shares (pcs)	Annual fees (EUR)	of which shares (pcs)
Chairman	175,000	4,976	175,000	5,320
Deputy Chairman	120,000	3,412	120,000	3,648
Chairman of the Audit Committee	120,000	3,412	120,000	3,648
Members*	95,000	2,701	95,000	2,888

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

Out of these annual fees, totalling EUR 890,000 in 2011, 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	2011	2010
Salaries and benefits		
Salaries	1,034	1,044
Incentives	1,140	19
Share rewards	899	1,844
Benefits	23	22
Total	3,096	2,929
Pension costs		
Finnish statutory pension scheme	396	188
Voluntary pension plan	663	648
Total	1,059	836

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	2011	2010
Salaries and benefits		
Salaries	3,155	3,072
Incentives	2,076	487
Share rewards	2,805	5,042
Benefits	137	136
Total	8,173	8,737
Pension costs		
Finnish statutory pension scheme	847	546
Voluntary pension plan	405	381
Total	1,252	927

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 all share-based long term incentive plans are prepared by the Human Resources Committee in consultancy with independent advisors and approved by the Board. Terms and conditions of stock option programmes are resolved by the General Meeting.

Short term incentive plans

The short term incentive plan for the President and CEO and the members of the Group Executive Team is linked to achievement of the predetermined financial targets of the Group or Business Group (70% of the total maximum) and individual targets of the 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 2011, the financial target was based on EBITDA.

Long term incentive plans

The company's long term incentives as of 2011 consist of the Performance Share Plan for senior executives and the Deferred Bonus Plan for other key employees. These two plans replace the earlier Share Ownershop Plan for 2008–2010, and the Stock Option Programme 2007.

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

Deferred Bonus Plan

The Deferred Bonus Plan is targeted to 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 commenced at the beginning of 2011 and the earned shares will be delivered in the spring of 2014. The estimated number of shares under the plan for the earning period 2011 is approximately 250,000 shares. In 2011, 521 persons were included in the plan. For the earning period 2012, the estimated maximum number of shares is approximately 1,800,000 shares. For 2012, approximately 580 persons are included in the plan.

The above indicated estimates of the maximum share rewards 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.

2008–2010 Share Ownership Plan

The Share Ownership Plan 2008–2010 included three earning periods for the years 2008, 2009 and 2010. The number of the reward shares was based on predetermined financial targets, which were decided separately for each earning period by the Board of Directors. The earning criterion for the last

SHARES AND STOCK OPTIONS HELD BY THE MEMBERS OF THE GROUP EXECUTIVE TEAM AT 31 DECEMBER 2011

	Shares		Options		
Name	Shares total	of which restricted*	2007A options	2007B options	2007C options
Jussi Pesonen**	195,294	102,480	100,000	340,000	360,000
Pirkko Harrela	35,488	23,120	80,000	80,000	70,000
Tapio Korpeinen**	45,792	45,312	85,000	170,000	180,000
Juha Mäkelä	32,068	25,620	80,000	80,000	100,000
Jyrki Ovaska**	64,812	51,240	55,000	170,000	180,000
Riitta Savonlahti	28,570	25,620	0	80,000	70,000
Hans Sohlström	43,382	23,120	32,800	80,000	70,000
Jussi Vanhanen**	45,792	45,312	45,000	170,000	180,000
Heikki Vappula**	25,920	25,920	0	40,000	180,000
Hartmut Wurster	38,692	28,120	0	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.

earning period 2010 was based on the operating cash flow. Of the set target, 46.4% was achieved resulting to a payout of 133,864 shares to the President and CEO and the members of the Group Executive team. The reward shares are subject to two years' restriction period and, as a general rule, the holders of reward shares are obligated to return the reward shares, if the employment in the company is terminated during the restriction period.

Stock Option Programme

The Stock Option Programme includes three option series: 2007A, 2007B and 2007C. These option series entitle holders to subscribe for a maximum of 15 million company shares. Each of the series has a two-year subscription period, ending on 31 October of 2012, 2013 and 2014, respectively.

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 years. For the President and CEO, the target pension is 60% of the average indexed earnings calculated according to the Finnish statutory pension scheme from the last ten years of employment. The costs of lowering the retirement age to 60 years is covered by supplementing statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company prior to the age of 60 years, 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 years. 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 years.

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.

Corporate Governance Statement

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

The statement has been prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code. UPM presents the statement as a separate report, which is available on the company's website www.upm.com. The report of the Board of Directors is presented on page 96.

Composition and operations of the Board of Directors

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

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

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

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

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

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

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

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

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

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

The Board held twelve meetings in 2011. On average, the Directors attended 96% of the meetings.

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

- Establishing and evaluating the strategic direction
- Approving and evaluating business and strategic plans
- Reviewing and approving financial objectives and major corporate plans
- Establishing acceptance limits for capital expenditures, investments, divestures and financial commitments
- Overseeing strategic and operational risk management and internal control
- Appointing the President and CEO and the members of the Group Executive Board and Group Executive Team, and
- Determining the dividend policy and presenting a proposal for the payment of the dividend to the Annual General Meeting.

Composition and operations of the Committees of the Board of Directors

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

Audit Committee
In 2011, the Audit Committee comprised Karl Grotenfelt as Chairman and Wendy E. Lane and Veli-Matti Reinikkala as members.

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

The Audit Committee held four meetings in 2011. The members attended all of the committee meetings.

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

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

Further responsibilities include:
- Monitoring the effectiveness of the internal control, internal audit and risk management systems
- Evaluating the qualifications and independence of the statutory auditor
- Preparing the proposal for the election of the statutory auditor, and
- Evaluating the performance of the internal audit.

Human Resources Committee
In 2011, the Human Resources Committee comprised Berndt Brunow as Chairman and Ursula Ranin and Robert J. Routs as members.

The Human Resources Committee held four meetings in 2011. The members attended all of the committee meetings.

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

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

The Nomination and Corporate Governance Committee held five meetings during 2011. The members attended all of the committee meetings.

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

President and CEO
Jussi Pesonen
President and Chief Executive Officer
Born 1960
M.Sc.(Eng.)

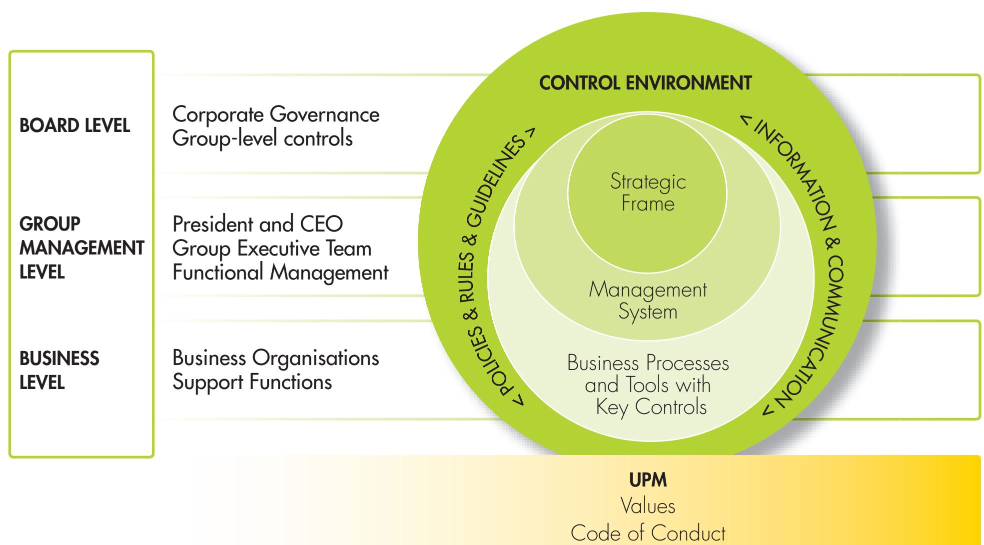
The President and CEO is responsible for the day-to-day management of the company's affairs in accordance with the instructions and orders given by the Board of Directors.

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

The President and CEO may undertake such measures that are considered unusual or extensive in view of the scope and nature of the company's business only with the authorization of the Board of Directors, unless the time required to obtain such authorization would cause substantial harm to the company, in which case the President and CEO pursues prior consultation with the chairman of the Board of Directors.

Internal control and risk management pertaining to financial reporting

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



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

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

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

Control environment

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

The framework consists of

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

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

Risk assessment

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

Control activities

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

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

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

The results of the control risk assessment and testing of the process-level controls are analysed, and reported to the Audit Committee.

Information and communication of internal controls

Internal controls are documented and filed in the internal control database. The internal control process is reviewed on an ongoing basis, including possible changes to the internal controls. Regular communication from internal control process owners provides detailed definitions of the controls and states the minimum requirements for the relevant internal control.

Monitoring

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

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

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

Board of Directors 31 December 2011

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.)

President and CEO of Sampo plc 2001–2009. Chairman of the Board of Mandatum Bank plc 1998–2000, CEO and Vice Chairman of the Board of Mandatum & Co Ltd 1992–1997 and Member of the Executive Committee and Executive Vice President of the Union Bank of Finland 1985–1992. Prior to 1985, Professor of Economics.

Chairman of the Board of Sampo plc, Nordea Bank AB (publ) and 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 Finnpap and UPM-Kymmene Corporation.

Chairman of the Board of Lemminkäinen Corporation and of Oy Karl Fazer Ab. Board member of Oy Nautor Ab, Hartwall Capital Oy and Hanken School of Economics.

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 Famigro Oy since 1986. 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.

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. Several management positions in UPM paper divisions 1987–2001.

Chairman of the Board of Ilmarinen Mutual Pension Insurance Company. Board member of UPM-Kymmene Corporation, Outokumpu Oyj and East Office of Finnish Industries Oy. Chairman of the Board of the Confederation of European Paper Industries (CEPI) and Board member of the Finnish Forest Industries Federation (FFIF).

URSULA RANIN

Member since 2006
Member of the Human Resources Committee
Independent of the Company and significant shareholders

Born 1953
LL.M., B.Sc. (Econ.)

Employed by Nokia Group within the legal function 1984–2005; 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. CFO of ABB Industry 1994–1996. Before 1994, various positions in paper and packaging companies in Finland.

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, the Refining and Marketing business) 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 Aegon N.V. Member of the Supervisory Board of KPN N.V. and Royal DSM N.V. Board member of Canadian Utilities Ltd., A.P.Möller-Maersk A/S and AECOM Technology Corporation.

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 Paper Divisions 1987–2001. COO of the paper divisions and deputy to the President and CEO 2001–2004. President and CEO since 2004.

Chairman of the Board of Ilmarinen Mutual Pension Insurance Company. Board member of UPM-Kymmene Corporation, Outokumpu Oyj and the East Office of Finnish Industries Oy. Chairman of the Board of the Confederation of European Paper Industries (CEPI) and board member of the Finnish Forest Industries Federation (FFIF).

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 positions 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 Oy. Board member of Teollisuuden Voima Oyj and Kemijoki Oy. Supervisory board member of Varma Mutual Pension Insurance Company.

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 the Printing Papers Division 1984–2001. President, Fine and Speciality Papers Division 2002–2003. President, Magazine Paper Division 2004–2008.

Chairman of EUROGRAPH, the Association of European Publication Paper Producers. Board member 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 Finnpap, Sales Manager at Samab Cia in Brazil 1995–1999. Project Manager and Head of New Ventures, UPM, Converting Division 1999–2001. Management positions 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 Peikko Group Oy and 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 in Finnpap and UPM Paper 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 law firms 1991–1996. Positions as legal counsel and senior legal counsel in KONE Corporation 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 in ABB 1990–1994. Human Resources Manager in Nokia Mobile Phones, Salo Operations 1995–2000. Senior Vice President, Human Resources in Raisio Group 2000–2001. Senior Vice President, Human Resources in Elcoteq Network Corporation 2001–2004.

Board member of Itella Corporation.

HANS SOHLSTRÖM

Executive Vice President,
Corporate Relations and 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 business development, marketing and profit unit management with Kymmene Corporation, Finnpap and UPM 1984–1998 in Finland, France and Germany. Senior management positions in sales and marketing at UPM 1998–2007. Executive Vice President, New Businesses and Biofuels 2007–2008.

Chairman of the German-Finnish Chamber of Commerce (DFHK). Vice Chairman of the Finnish Forest Industries Federation (FFIF). Co-chairman of the Russian Northern Dimension Business Council's Forest Industry Working Group.

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 2011

Report of the Board of Directors

The market in 2011

The year 2011 began with a momentum of recovery in the global economy. In Europe, the overall growth was picking up but the economic structure for the region remained unbalanced as core nations showed signs of overheating with inflation and some countries continued to struggle with slow growth, high unemployment and external debt. In the U.S., stimulatory fiscal and monetary policies began to take effect but downside risk nevertheless remained. As developed countries struggled to recover, emerging countries continued to drive growth in the rest of the world. In China, the economy began to move towards consumer-led growth which created inflationary pressure and increased the need to protect the competitiveness of exporters.

In the second half of the year, the uncertainty in the global economy increased regarding the sovereign debt crisis in the Eurozone, monetary and fiscal policy in the U.S. and the struggle to restrain inflation and appreciating currencies in the emerging markets.

The overall growth in the global economy in 2011 was about 4%. The growth was mainly driven by emerging markets particularly China. However, the economy also began to decelerate in China as a result of tighter monetary policy and declining export growth.

The Euro strengthened against the US dollar during the first half of the year before dropping off and finishing the year about 3% below where it had started, which began to improve the competitiveness of European exporters.

The year 2011 was characterised by high cost increases for all main raw materials. Prices for all main commodities and raw materials, such as fibre, chemicals, oil and gas increased compared with 2010. Raw material market prices peaked during the third quarter of 2011 and started to decrease gradually towards the end of the year.

In Finland, demand for wood raw material remained clearly lower compared with the previous year. Market prices for pulpwood and logs increased and continued to remain above long term average prices. In Central Europe, wood market prices increased due to higher demand and increased energy wood competition.

Global chemical pulp shipments increased by 4% compared with the previous year. The increase in demand was mainly attributed to China as shipments to Europe, North America and Latin America decreased in comparison with the previous year. Monthly demand fluctuated strongly.

Global chemical pulp market prices decreased compared with 2010. In the first half of the year, market prices rose, reaching a record high in June. As a result of weakening market conditions, market prices started to decrease rapidly in the second half of 2011.

Global recovered fibre demand grew in the first half of the year and prices increased to new record high levels in the summer of 2011. In the second half of the year, recovered fibre demand declined due to the weakening global economy and prices consequently decreased.

Global advertising expenditure is estimated to have grown by almost 4% from 2010. Internet media continued to grow throughout the year and contributed to positive developments in total advertising expenditure. The role of print media as an advertising medium remained stable.

Graphic papers demand declined by 4% in Europe and by 6% in North America. In Asia, paper demand grew by 2% even though the Chinese economy was also affected by the weakening global economy.

In Europe, publication paper prices increased by approximately 13% from 2010. Fine paper prices increased by 3% compared to the full year of 2010.

In North America, market prices for magazine papers were 12% higher than in 2010. In Asia, market prices for fine papers increased during the first half of 2011 but decreased in the second half of the year.

Consumer-driven label material market is growing globally. Growth in the retail sector was mainly driven by increasing consumer goods demand in the emerging markets of Asia, South America and Africa. In the western markets, consumer spending increased slightly as consumers remained relatively price sensitive due to uncertainties in the economy. However, in addition to growth in the new markets, global retailers expanded their operations through comprehensive multi-channel strategies both in developed and emerging markets.

In Europe, construction activity remained low throughout the year 2011, which had an impact on the demand for wood-based material. Building permits and new housing starts remained flat and clearly below the long term average level.

Key figures

	2011	2010
Sales, EURm	10,068	8,924
EBITDA, EURm [1]	1,383	1,343
% of sales	13.7	15.0
Operating profit (loss), EURm	459	755
excluding special items, EURm	682	731
% of sales	6.8	8.2
Profit (loss) before tax, EURm	417	635
excluding special items, EURm	572	611
Net profit (loss) for the period, EURm	457	561
Earnings per share, EUR	0.88	1.08
excluding special items, EUR	0.93	0.99
Diluted earnings per share, EUR	0.87	1.08
Return on equity, %	6.3	8.2
excluding special items, %	6.7	7.5
Return on capital employed, %	4.4	6.6
excluding special items, %	5.8	6.4
Operating cash flow per share, EUR	1.99	1.89
Shareholders' equity per share at end of period, EUR	14.22	13.64
Gearing ratio at end of period, %	48	46
Net interest-bearing liabilities at end of period, EURm	3,592	3,286
Capital employed at end of period, EURm	12,110	11,087
Capital expenditure, EURm	1,179	257
Capital expenditure excluding acquisitions and shares, EURm	340	252
Personnel at end of period	23,909	21,869

[1] 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
2011 compared with 2010

Sales for 2011 were EUR 10,068 million, 13% higher than the EUR 8,924 million in 2010. Sales increased mainly due to higher sales prices in Paper, Label and Plywood, and the inclusion of the acquired Myllykoski Corporation and Rhein Papier GmbH, as of 1 August 2011.

EBITDA was EUR 1,383 million, 13.7% of sales (1,343 million, 15.0% of sales).

Sales prices increased in Paper, Label and Plywood, offsetting the negative impact of noticeably higher variable costs. Higher sales prices improved EBITDA by approximately EUR 475 million.

Variable costs were clearly higher than last year. The costs of wood and recovered paper increased by about EUR 177 million compared with last year. Costs of chemicals and coating materials increased noticeably. Costs of energy increased by about EUR 42 million. Other variable costs also increased.

Delivery volumes increased in Pulp, Label and Plywood, but decreased in Energy and sawn timber. Paper deliveries decreased on a comparable basis. Changes in delivery volumes had a positive impact on EBITDA.

Fixed costs were approximately EUR 62 million higher than last year, excluding the impact of the acquisition of Myllykoski Corporation and Rhein Papier GmbH.

Operating profit was EUR 459 million, 4.6% of sales (755 million, 8.5% of sales). In total, operating profit includes net charges of EUR 223 million as special items. The special income of EUR 86 million in Energy relates to the associated company Pohjolan Voima Oy's sale of Fingrid Oyj shares. In Paper, the special items of EUR 299 million comprise a one-off gain of EUR 28 million, transaction and other costs of EUR 29 million related to the acquisition of Myllykoski Corporation and Rhein Papier GmbH, and net charges of EUR 230 million relating mainly to the closures of the Myllykoski and Albbruck mills, including write-offs of EUR 68 million from non-current assets. In other businesses, special items totalled net charges of EUR 10 million.

The operating profit excluding special items was EUR 682 million, 6.8% of sales (731 million, 8.2% of sales).

The increase in the fair value of biological assets net of wood harvested was EUR 64 million compared with EUR 149 million a year before.

The share of results of associated companies and joint ventures was EUR 82 million (8 million). This includes a special income of EUR 86 million, derived from Pohjolan Voima Oy's sale of Fingrid Oyj shares in the second quarter.

Profit before tax was EUR 417 million (635 million) and excluding special items EUR 572 million (611 million). Profit before tax includes a capital gain of EUR 68 million as a special item from the sale of 6.7% of Metsä-Botnia shares in the second quarter. Interest and other finance costs net were EUR 80 million (117 million). This includes dividend income of EUR 25 million from Metsä-Botnia in the first quarter. Exchange rate and fair value gains and losses resulted in a loss of EUR 33 million (loss of EUR 4 million).

Income taxes were EUR 40 million positive (74 million negative). The impact on taxes from special items was EUR 125 million positive (21 million positive). This also includes a EUR 30 million decrease in deferred tax liabilities in the fourth quarter, relating to the change in corporate tax rate in Finland.

Profit for the period was EUR 457 million (561 million) and earnings per share were EUR 0.88 (1.08). Earnings per share excluding special items were EUR 0.93 (0.99). Operating cash flow per share was EUR 1.99 (1.89).

Financing

In 2011, cash flow from operating activities before capital expenditure and financing was EUR 1,041 million (982 million). Net working capital increased by EUR 73 million (increased by EUR 139 million).

The gearing ratio as of 31 December 2011 was 48% (46%). Net interest-bearing liabilities at the end of the period came to EUR 3,592 million (3,286 million).

On 1 August 2011, UPM raised EUR 800 million of long-term debt to finance the acquisition of Myllykoski Oyj and Rhein Papier GmbH.

On 31 December 2011, UPM's cash funds and unused committed credit facilities totalled EUR 1.9 billion.

Personnel

In 2011, UPM had an average of 23,067 employees (22,689). At the beginning of the year, the number of employees was 21,869 and at the end of the year it was 23,909. The increase in the number of employees is mainly attributable to the acquisition of Myllykoski Corporation and Rhein Papier GmbH.

More information (unaudited) on personnel is published in UPM's Annual Report 2011.

Capital expenditure and divestments

In 2011, capital expenditure was EUR 1,179 million, 11.7% of sales (EUR 257 million, 2.9% of sales) and, excluding acquisitions and share purchases, EUR 340 million, 3.4% of sales (EUR 252 million, 2.8% of sales). Operational capital expenditure totalled EUR 237 million (186 million).

In January, UPM's plantation company, Forestal Oriental, acquired approximately 25,000 hectares of land in Uruguay for a total cost of about EUR 50 million.

In May, UPM acquired Gumtac, the Brazilian labelstock coating and slitting business of the BIC Group.

In June, UPM sold approximately 6.7% of Metsä-Botnia's shares to Metsä-Botnia for EUR 141 million. UPM recorded a tax exempt capital gain of EUR 68 million from the sale of the shares. After the redemption and cancellation of the redeemed shares, UPM owns 11% of Metsä-Botnia.

In July, UPM sold its Russian logging company ZAO Tikhvinsky Komplexny Lespromkhoz to International Paper.

In August, UPM acquired Myllykoski Corporation and Rhein Papier GmbH. The enterprise value of the acquisition was EUR 835 million.

In December, UPM signed a contract to sell its RFID business to SMARTRAC for an indirect 10.6% ownership in SMARTRAC. The closing of the deal is expected to take place during the first quarter of 2012.

Acquisition of Myllykoski and Rhein Papier

On 1 August 2011, UPM completed the acquisition of Myllykoski Corporation and Rhein Papier GmbH. The agreement was announced on 21 December 2010 and the Competition Directorate-General of the EU Commission approved the transaction on 13 July 2011.

Myllykoski Corporation and Rhein Papier GmbH consisted of six publication paper mills in Germany and Finland. The total annual paper production capacity was 2.6 million tonnes. In addition, a 50% share of the Madison Paper publication paper mill in the United States and a 0.8% share of the Finnish energy company Pohjolan Voima Oy were included in the acquisition. On 23 September, UPM completed the acquisition of M-real Corporation's 35% holding in Myllykoski Paper Oy.

For the financing, UPM issued five million new UPM shares, of which 4.8 million shares were directed to the owners of Myllykoski Corporation and Rhein Papier GmbH, and raised EUR 800 million in long-term debt.

If the transaction had occurred on 1 January 2011, UPM's sales would have been EUR 10,848 million for 2011 and operating profit would have been EUR 451 million (excluding special items EUR 674 million). Profit for the period would have been EUR 439 million.

Group - Pro forma key figures

EURm	Reported 1–12/2011	Pro forma adjustments	Pro forma 1–12/2011
Sales	10,068	780	10,848
EBITDA	1,383	40	1,423
Operating profit	459	–8	451
excluding special items	682	–8	674
Profit before tax	417	–25	392
excluding special items	572	–25	547
Profit for the period	457	–18	439

Paper Business Area - Pro forma key figures

EURm	Reported 1–12/2011	Pro forma adjustments	Pro forma 1–12/2011
Sales	7,184	780	7,964
EBITDA	517	40	557
Operating profit	–315	–8	–323
excluding special items	–16	–8	–24
Paper deliveries, 1,000 t	10,615	1,261	11,876

Restructuring measures to improve the long-term competitiveness of UPM's publication paper business

As part of the Myllykoski integration, UPM performed a comprehensive review of the long-term competitiveness of its publication paper mills. The review covered asset efficiency, production input availability and costs, as well as end-use markets.

On 31 August, UPM announced a plan to adjust its magazine paper capacity to match the needs of its global customer base. Therefore, UPM started negotiations with employees on the plan to permanently remove 1.2 million tonnes of magazine paper capacity in Finland, Germany and France, and 110,000 tonnes of newsprint capacity in Germany. The plan also includes restructuring overlapping paper sales and supply chain networks and global functions.

After concluding negotiations with the employees, Myllykoski paper mill in Finland (annual production capacity 600,000 tonnes of magazine papers) was closed down on 9 December 2011 and paper machine 3 at Ettringen paper mill in Germany (annual production capacity 110,000 tonnes of newsprint) was closed down on 14 December 2011. In January 2012 it was announced that the Albbruck mill in Germany (annual production capacity 320,000 tonnes of magazine papers) would be closed by the end of January 2012. The Albbruck decision finalised the paper capacity closure plans.

Sale or other exit is planned for the Stracel paper mill in France (annual production capacity 280,000 tonnes of magazine papers). The sales process is expected to be completed within twelve months of the initial announcement.

The completion of the measures is estimated to reduce the number of employees by approximately 1,170. Based on the plan, UPM booked a EUR 68 million write-off in fixed assets and costs of EUR 230 million in the third and fourth quarters 2011. Net cash impact from the restructuring amounts to approximately EUR 225 million. Annual cost synergies of the Myllykoski acquisition including the announced actions are estimated to total approximately EUR 200 million.

Business area reviews

Energy

2011 compared with 2010

Operating profit excluding special items was EUR 192 million, EUR 45 million lower than last year (237 million). Sales decreased by 20% to EUR 452 million (567 million). External sales were EUR 177 million (231 million). The electricity sales volume was 8,911 GWh (9,426 GWh).

Operating profit excluding special items decreased compared with the same period last year, mainly due to the lower sales price and condensing power generation. The average electricity sales price decreased by 6% to EUR 46.2/MWh (48.9/MWh).

Energy	2011	2010
Sales, EURm	452	567
EBITDA, EURm [1]	204	236
% of sales	45.1	41.6
Share of results of associated companies and joint ventures, EURm	77	7
Depreciation, amortisation and impairment charges, EURm	–3	–6
Operating profit, EURm	278	237
% of sales	61.5	41.8
Special items, EURm [2]	86	–
Operating profit excl. special items, EURm	192	237
% of sales	42.5	41.8
Electricity deliveries, GWh	8,911	9,426
Capital employed (average), EURm	956	882
ROCE (excl. special items), %	20.1	26.9

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

2) In 2011, special income of EUR 86 million relates to the associated company Pohjolan Voima Oy's sale of Fingrid Oyj shares.

Market review

The average electricity spot price on the Nordic electricity exchange in 2011 was EUR 47.0/MWh, about 11% lower than in the same period last year (53.1/MWh).

Oil and coal market prices increased compared with the last year. During 2011, oil market prices increased from about USD 93/barrel to about USD 127/ barrel. The CO_2 emission allowance price was EUR 7.2/t on 31 December, 49% lower than on the same date last year (14.2/t).

The front year forward price in the Nordic electricity exchange was EUR 41.5/MWh at the end of 2011, 32% lower than on the same date last year (61.4/MWh).

The total Nordic hydrological balance improved towards the end of the period due to extremely rainy weather in Norway and Sweden, and was about 15% above the long term average at the end of the period. However, the Finnish hydrological balance remained 8% below long term average.

Pulp

2011 compared with 2010

Operating profit excluding special items was EUR 423 million, EUR 154 million lower than last year (577 million). Sales decreased by 3% to EUR 1,648 million (1,698 million). Deliveries increased by 3% to 2,992,000 tonnes (2,919,000).

Operating profit excluding special items decreased from last year mainly due to the lower pulp sales price and higher wood costs.

Pulp	2011	2010
Sales, EURm	1,648	1,698
EBITDA, EURm [1]	554	723
% of sales	33.6	42.6
Change in fair value of biological assets and wood harvested, EURm	7	2
Share of results of associated companies and joint ventures, EURm	1	–
Depreciation, amortisation and impairment charges, EURm	–139	–148
Operating profit, EURm	423	577
% of sales	25.7	34.0
Special items, EURm	–	–
Operating profit excl. special items, EURm	423	577
% of sales	25.7	34.0
Pulp deliveries, 1,000 t	2,992	2,919
Capital employed (average), EURm	2,396	2,473
ROCE (excl. special items), %	17.7	23.3

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

Market review

In 2011, global chemical pulp market prices decreased in comparison to 2010. In the first half of the year, USD-dominated market prices rose, reaching a record high in June. As a result of weakening market conditions, market prices started to decrease rapidly in the second half of 2011.

The average softwood pulp (NBSK) market price in terms of euro, at EUR 689/tonne, was 2% lower than last year (EUR 704/ tonne). At the end of the year, the NBSK market price was EUR 639/tonne (EUR 724/tonne).

The average hardwood pulp (BHKP) market price in terms of euro was EUR 581/tonne, which was 9% lower than last year (EUR 639/tonne). At the end of the year, the BHKP market price was EUR 499/tonne (EUR 648/tonne).

Global chemical pulp shipments increased by 4% from the previous year. This increase in shipments was mainly attributed to China, where shipments grew 30% from 2010. Shipments to Europe, North America and Latin America decreased in comparison with the previous year. Market pulp producer inventories increased.

Forest and Timber

2011 compared with 2010

Operating profit excluding special items was EUR 50 million (EUR 181 million). Sales increased by 9% to EUR 1,651 million (1,521 million). Sawn timber deliveries decreased by 3% to 1,683,000 cubic metres (1,729,000).

Operating profit excluding special items decreased from the same period last year, mainly due to a smaller increase in the fair value of biological assets. In sawn timber, wood costs were higher, and sales prices decreased from last year.

The increase in the fair value of biological assets (growing trees) net wood harvested was EUR 57 million (147 million). The increase in the fair value of biological assets was EUR 129 million (225 million). The cost of wood raw material harvested from the Group's own forests was EUR 72 million (78 million).

Forest and Timber	2011	2010
Sales, EURm	1,651	1,521
EBITDA, EURm [1]	12	52
% of sales	0.7	3.4
Change in fair value of biological assets and wood harvested, EURm	57	147
Share of results of associated companies and joint ventures, EURm	2	3
Depreciation, amortisation and impairment charges, EURm	–21	–21
Operating profit, EURm	52	218
% of sales	3.1	14.3
Special items, EURm [2]	2	37
Operating profit excl. special items, EURm	50	181
% of sales	3.0	11.9
Sawn timber deliveries, 1,000 m^3	1,683	1,729
Capital employed (average), EURm	1,812	1,709
ROCE (excl. special items), %	2.8	10.6

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

2) In 2011, special items include an income of EUR 1 million from a change in UK pension schemes and an income of EUR 1 million from reversal of restructuring provisions. 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.

Market review

In Finland, total wood purchases in the Finnish private wood market were 25.3 million cubic metres, which was 24% lower than 2010 (33.2 million) and lower than the long term average. Market activity remained modest in the first half of 2011, increased during the third quarter of the year and slowed down again towards the end of the year.

Wood market prices remained high in comparison with the long term average prices.

Pulpwood market prices increased by 2–4% and log market prices by 3–8% from the previous year, depending on the species.

Demand for sawn timber in Europe continued to be weak in 2011 due to economic uncertainty and low building activity.

The high supply of sawn timber from Scandinavia continued throughout the year putting pressure on sawn timber market prices, which decreased from 2010.

Paper

2011 compared with 2010

Since August 2011, the Myllykoski Corporation and Rhein Papier GmbH GmbH have been part of the Paper business area.

Operating loss excluding special items was EUR 16 million (a loss of EUR 254 million). Sales increased by 15% to EUR 7,184 million (6,269 million). Paper deliveries increased by 7% to 10,615,000 tonnes (9,914,000). Deliveries of publication papers (magazine papers and newsprint) increased by 15%, mainly due to the Myllykoski acquisition. Deliveries of fine and speciality papers decreased by 7% from last year.

Profitability improved from last year. However, despite higher paper prices, the Paper business area incurred an operating loss due to increased variable and fixed costs. The average paper price for all paper deliveries when translated into euro was 7% higher than last year.

In December, UPM ceased production at the Myllykoski paper mill in Finland and permanently closed paper machine 3 at the UPM Ettringen paper mill.

UPM also announced the plan to permanently close the Albbruck mill in Germany. The decision for the closure was reached in January 2012.

Paper	2011	2010
Sales, EURm	7,184	6,269
EBITDA, EURm [1]	517	275
% of sales	7.2	4.4
Share of results of associated companies and joint ventures, EURm	2	1
Depreciation, amortisation and impairment charges, EURm	–603	–527
Operating profit, EURm	–315	–272
% of sales	–4.4	–4.3
Special items, EURm [2]	–299	–18
Operating profit excl. special items, EURm	–16	–254
% of sales	–0.2	–4.1
Deliveries, publication papers, 1,000 t	7,071	6,123
Deliveries, fine and speciality papers, 1,000 t	3,544	3,791
Paper deliveries total, 1,000 t	10,615	9,914
Capital employed (average), EURm	5,437	5,465
ROCE (excl. special items), %	–0.3	–4.6

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

2) In 2011, special items include a one-off gain of EUR 28 million and transaction and other costs of EUR 29 million related to the acquisition of Myllykoski Corporation and Rhein Papier GmbH. In addition special items include an income of EUR 5 million from a change in UK pension schemes, restructuring charges of EUR 298 million relating mainly to the closures of the Myllykoski and Albbruck mills, including write-offs of EUR 68 million from non-current assets, and other restructuring measures of EUR 5 million. 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.

Market review

In 2011, demand for publication papers in Europe was approximately 3% lower than last year and for fine papers 4% lower than a year ago. In North America, demand for magazine papers decreased by 7% from last year. In Asia, demand for fine papers grew.

In Europe, publication paper prices in 2011 increased by about 13% fine paper prices by about 3% in comparison with the previous year.

In North America, the average US dollar price for magazine papers was 12% higher than in 2010. In Asia, market prices for fine papers increased during the first half but decreased in the second half of the year.

Label

2011 compared with 2010

Operating profit excluding special items was EUR 68 million (87 million). Sales increased by 5% to EUR 1,150 million (1,100 million).

Operating profit excluding special items decreased from last year, mainly due to significantly higher raw material costs.

Sales prices of self-adhesive label materials in local currencies increased clearly compared to the previous year but were not high enough to cover high raw material cost inflation.

In May 2011, UPM completed the acquisition of Gumtac, the Brazilian labelstock coating and slitting business of the BIC Group.

Label	2011	2010
Sales, EURm	1,150	1,100
EBITDA, EURm [1)]	101	123
% of sales	8.8	11.2
Depreciation, amortisation and impairment charges, EURm	–33	–34
Operating profit, EURm	68	88
% of sales	5.9	8.0
Special items, EURm [2)]	–	1
Operating profit excl. special items, EURm	68	87
% of sales	5.9	7.9
Capital employed (average), EURm	486	509
ROCE (excl. special items), %	14.0	17.1

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

2) In 2011, special items include charges of EUR 2 million related to restructuring of European operations and an income of EUR 2 million from a change in UK pension schemes. In 2010, special items of EUR 2 million relate to impairment reversals and EUR 1 million relates to restructuring charges.

Market review

In the first half of 2011, demand for self-adhesive label materials increased slightly in Europe and North America in comparison with the same period the previous year. In the second half of 2011, demand was more volatile and experienced a decline, especially in Europe.

In the rapidly growing consumer markets of Asia and Latin America, market growth continued throughout the year but at a more moderate pace than in 2010.

The year 2011 was characterised by high cost inflation in all main raw materials. Cost inflation peaked during the third quarter of 2011 and started to decrease gradually towards the end of the year.

Plywood

2011 compared with 2010

Operating profit excluding special items was EUR 0 million (loss of EUR 18 million). Sales increased by 8% to EUR 376 million (347 million). Plywood deliveries increased by 3% to 656,000 cubic metres (638,000).

Operating profit excluding special items increased from last year due to higher sales prices and delivery volumes.

In May, UPM sold its Lohja veneer mill to the mill's operative management. The annual production capacity of the Lohja veneer mill is about 14,000 cubic metres of birch veneer.

In September, UPM announced a plan to restructure its plywood operations in Finland. UPM Plywood also reorganised its sales network.

Plywood	2011	2010
Sales, EURm	376	347
EBITDA, EURm [1)]	18	1
% of sales	4.8	0.3
Depreciation, amortisation and impairment charges, EURm	–18	–19
Operating profit, EURm	–7	–17
% of sales	–1.9	–4.9
Special items, EURm [2)]	–7	1
Operating profit excl. special items, EURm	0	–18
% of sales	0.0	–5.2
Deliveries, plywood, 1,000 m^3	656	638
Capital employed (average), EURm	253	243
ROCE (excl. special items), %	0.2	–7.4

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

2) In 2011, special items include charges of EUR 4 million related to restructuring of operations in Finland and charges of EUR 3 million relating to a net loss from asset sales. Special items in 2010 include a capital gain of EUR 1 million from asset sale in Finland.

Market review

In 2011, plywood demand in Europe increased from last year, although it still remained below the pre-recession level.

Growth in demand in Europe was driven by industrial end uses such as transport. Demand in industrial end uses increased until the end of the third quarter of the year and decreased in the fourth quarter, mainly due to lower construction activity. Demand in the distribution segment increased in the first half of the year but decreased in the second half of the year as economic uncertainty hit the European construction sector.

Plywood market prices increased from last year.

Other operations

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

2011 compared with 2010

Excluding special items, operating loss was EUR 35 million (loss of EUR 79 million). Sales amounted to EUR 188 million (178 million).

In December, UPM announced a plan to sell its RFID business to SMARTRAC N.V. The deal is expected to be closed during the first quarter of 2012.

Other operations	2011	2010
Sales, EURm	188	178
EBITDA, EURm [1]	–23	–67
Share of results of associated companies and joint ventures, EURm	–	–3
Depreciation, amortisation and impairment charges, EURm	–11	–10
Operating profit, EURm	–40	–76
Special items, EURm [2]	–5	3
Operating profit excl. special items, EURm	–35	–79
Capital employed (average), EURm	287	278
ROCE (excl. special items), %	–12.2	–28.4

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

2) In 2011, special items include restructuring charges of EUR 5 million. Special items in 2010 include mainly a capital gain of EUR 3 million from asset sale in Finland.

Outlook for 2012

Global economic growth is expected to continue in 2012. In Europe, however, the on-going sovereign debt crisis introduces uncertainty to the economic outlook. Economists estimate that the Euro zone will experience a mild recession in the early part of 2012.

In UPM's businesses, market conditions are estimated to have stabilised. While the second half of 2011 was characterised by weakening demand, the demand and price outlook for UPM's products is broadly stable for early 2012 compared with late 2011, taking into account seasonal variations.

Costs are expected to decrease in the early part of 2012 from the fourth quarter of 2011. Raw material market prices started to decrease during the fourth quarter and this is expected to result into slightly lower variable costs in the first quarter of 2012 compared with the fourth quarter of 2011. The cost synergies from the Myllykoski acquisition and the associated restructuring measures will also start to be visible from the first quarter onwards.

Operating profit excluding special items in the first half of 2012 is expected to be at around the same level as in second half of 2011.

Capital expenditure for 2012 is forecast to be around EUR 350 million.

UPM's hydropower generation volume is expected to continue at a relatively good rate in the early part of the year. UPM's average electricity sales price in Q1/2012 is expected to be about the same as in Q4/2011.

Chemical pulp deliveries in Q1/2012 are expected to increase from the Q4/2011 level. Market prices for chemical pulp are expected to have reached the bottom by the end of 2011. The average price of UPM's pulp deliveries is estimated to be slightly lower in Q1/2012 than in Q4/2011, following the price erosion during Q4.

Weak market conditions are expected to continue in the sawn timber business. UPM is making temporary closures to adjust to the market situation.

Graphic paper demand in Europe in the early part of the year is expected to be somewhat lower than last year. Solid demand is expected to continue in Asia. UPM's paper deliveries are expected to be seasonally somewhat lower in Q1/2012 than in Q4/2011. The average price of UPM's paper deliveries in euros is expected to be at about the same level in Q1/2012 as in Q4/2011. In December 2011 and January 2012, UPM has permanently closed down a total of 1 million tonnes of publication paper production capacity.

Label materials deliveries are expected to be at about the same level in Q1/2012 as in Q4/2011. Sales prices in local currencies are expected to be stable and variable costs are expected to decrease from Q4.

Plywood deliveries are expected to be at about the same level in Q1/2012 as in Q4/2011. Sales prices are expected to be stable from Q4.

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 8,835 million (8,243 million) in total were traded on the NASDAQ OMX Helsinki stock exchange during 2011. This is estimated to represent about two thirds of all trading volume in UPM shares. The highest quotation was EUR 15.73 in April and the lowest EUR 7.34 in November.

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 7 April 2011, 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 Annual General Meeting amended the terms and conditions of the company's stock options 2007 so that either new shares or existing shares held by the company may be subscribed for based on the stock options. The approved amendment does not affect the maximum total number of shares that may be subscribed for or acquired based on the stock options.

The Annual General Meeting, held on 22 March 2010, authorised the Board to decide on the issuance of shares and/or the transfer of the company's own shares held by the company and/or the issue of 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) 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 rights. This authorisation is valid until 22 March 2013.

As part of the Myllykoski transaction, UPM issued five million new shares in directed share issue. These shares were registered with the Trade Register on 3 August 2011. As part of the contractual arrangements relating to the Myllykoski transaction, a total of 211,481 UPM shares of the new shares were returned to UPM without consideration upon their issue.

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.

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 2011 was 524,972,838. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 559,970,088.

In 2011, 300 shares were subscribed for through exercising 2007A share options, and 2,450 shares were subscribed for through exercising 2007B share options.

The listing of 2007B stock options on the NASDAQ OMX Helsinki stock exchange commenced on 3 October 2011.

At the end of the period, the company held 211,481 of its own shares.

Company directors

At the Annual General Meeting held on 7 April 2011, the following nine members were re-elected to the Board of Directors: Matti Alahuhta, Berndt Brunow, Karl Grotenfelt, Wendy E. Lane, Jussi Pesonen, Ursula Ranin, Veli-Matti Reinikkala, Robert J. Routs and Björn Wahlroos.

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, Björn Wahlroos was re-elected as Chairman and Berndt Brunow was re-elected as Deputy Chairman.

In addition, the Board of Directors re-elected from among its members Karl Grotenfelt as Chairman of the Audit Committee and Wendy E. Lane and Veli-Matti Reinikkala as members of the committee. Berndt Brunow was re-elected as Chairman of the Human Resources Committee and Ursula Ranin and Robert J. Routs were re-elected as members. Furthermore, Björn Wahlroos was re-elected as Chairman of the Nomination and Corporate Governance Committee and Matti Alahuhta and Karl Grotenfelt were re-elected as members.

Litigation and other legal actions

In Finland, UPM is participating in the project to construct a new nuclear power plant, Olkiluoto 3, through its associated company Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj ("TVO"), holding 58.47% of the shares. UPM's indirect share of the capacity of Olkiluoto 3 is approximately 30%. The agreed start-up of the power plant was originally scheduled for summer 2009 but the construction of the unit has been delayed. AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit on a fixed-price turnkey contract, has informed TVO that the unit is scheduled to be ready for regular electricity production in August 2014.

According to TVO, the supplier initiated arbitration proceedings concerning the delay at Olkiluoto 3 and related costs in December 2008, and in June 2011, the supplier submitted its updated claim, which includes updated claimed amounts with specified sums of indirect items and interest. The said updated monetary claim amounts to approximately EUR 1.9 billion. TVO has considered and found the supplier's claim to be without merit. 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. TVO will update its counterclaim during the arbitration proceedings, which may continue for several years, and the claimed and counterclaimed amounts may change.

In Uruguay, there is one pending litigation against the government of Uruguay related to the Fray Bentos pulp mill.

On 31 March 2011, Metsähallitus filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the roundwood market. Metsähallitus currently claims jointly and severally from the three companies an aggregate capital amount of EUR 159.4 million, of which alternatively and independently from UPM EUR 22.6 million, in maximum as damages it allegedly incurred. In addition to the claims on capital amounts, Metsähallitus also claims for compensation relating to value added tax and interests. In late 2011, fifty-two Finnish municipalities, parishes, certain individuals and companies filed claims for damages, value added tax and interest against UPM and two other Finnish forest companies. The aggregate capital amount of the claims is EUR 44.4 million, of which the claimants claim alternatively and independently from UPM EUR 22.1 million. In addition certain individuals and companies have filed claims for damages, value added tax and interest against UPM and two other Finnish forest companies. The details of these claims are not yet known to UPM. UPM considers all the claims unfounded in their entirety.

No provisions have been made in UPM's accounts for any of the claims.

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 2011. 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 3% of UPM's sales in 2011, and the ten largest customers represented approximately 14% 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. UPM 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 2011.

Operational risks

Availability and price of major inputs. In 2011, third-party suppliers accounted for approximately 84% 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. 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 UPM is dependent on conditions of the financial markets and the Group'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 UPM 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 Group'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 the 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 2011, UPM's direct expenditure on research and development projects was approximately EUR 50 million (45 million), or 0.5% (0.5%) of the Group's sales. Approximately half of UPM's R&D input is targeted towards new technologies and businesses.

Tekes – the Finnish Funding Agency for Technology and Innovation – has become an important partner for UPM by co-financing several research projects, such as the development of energy savings technologies and biochemical competence, and the creation of fibril cellulose. In 2011, UPM received approximately EUR 4.7 million (7.2 million) from Tekes for its research projects.

In the field of biofuels UPM applied for EU's NER300 grant for advanced biodiesel biorefinery investment for the optional locations in Finland and France. In addition, an environmental impact assessment (EIA) was approved for a liquid biorefinery producing hydrotreated biofuels at UPM's Kaukas mill in Finland.

Together with Andritz/Carbona, UPM has been developing and piloting the gasification and gas handling technology to produce BTL-biodiesel (biomass-to-liquid) from energy wood: logging residues, stumps and bark.

UPM launched a new biocomposite, UPM ForMi, in which wood fibres replace non-renewable raw material. In addition, UPM started pre-commercial production of fibril cellulose at Otaniemi, Espoo, Finland.

In the Paper Business Group, UPM's strategic research programme concerning energy saving in mechanical pulping, carried out during 2009–2011, identified savings of up to 30% in energy consumption. Other research programmes concern how to recycle de-inking waste by using it as raw material for new applications launched.

In Label, UPM continued to focus on developing new technology platforms, and new product solutions and innovations. In 2011, a significant number of new tailored solutions and end-use speciality products were introduced.

In 2011, UPM Plywood finalised development of a new concept for a bonded vehicle floor solution. In addition, a new technology for manufacturing layered composites was developed and its first application launched.

UPM's terrace deck system made of wood plastic composite, UPM ProFi Deck, was awarded the CE marking in 2011. The quality mark confirms that the product complies with the safety, health and environmental requirements set out by the EU Construction Products Directive.

The Environment

Environmental performance

UPM has defined sustainable products as well as climate, water, forest and waste management, as the key areas of its environmental responsibility. UPM is following long term environmental targets that were set in 2010 for the year 2020. In addition, UPM has defined indicators to measure performance in key areas that are the basis of the annual performance evaluation.

In 2011, UPM's environmental investments totaled EUR 14 million (18 million). UPM's environmental costs, which mainly consisted of effluent treatment and waste management totaled EUR 112 million (90 million), including depreciation.

In 2011, 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 preventive measures were taken.

Sustainable customer solutions

UPM is working continuously to reduce the environmental impacts over the entire lifecycle of its products that are made from renewable, biodegradable and recyclable raw materials.

UPM uses independent, widely accepted eco-labels such as the EU Eco-label, PEFC and FSC forest certification labels. In 2011, the share of products certified by the FSC and PEFC forest certification schemes decreased to 38% (41%) of all UPM products.

The majority of UPM's production sites, as well as forestry operations, are covered by management systems certified according to ISO 9001, ISO 14001 and OHSAS 18001.

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). In 2011, the Docelles paper mill received certification. UPM´s pilot for a multi-site EMAS, the first in the sector and covering 15 mills, was completed.

Mitigating climate change

UPM maximises the use of carbon dioxide-neutral energy and aims to increase the use of biomass-based energy. Biomass-based fuels make up 81% of the fuels used by UPM in Finland and 67% of those used worldwide. UPM is the second largest biomass-based electricity provider in Europe.

UPM has continued to invest in renewable energy sources. In 2011, UPM established a wind power development company VentusVis Oy in Finland in co-operation with TuuliSaimaa Oy.

Using water responsibly

UPM has decreased water use per tonne of paper by 30% over the last ten years. The chemical oxygen demand (COD) load has decreased by 51% per tonne of paper, and by 44% per tonne of pulp in the last ten years.

UPM is actively involved in the development and calculation of water footprint. The Water Footprint study performed at the German Nordland paper mill in 2010 was extended to include a water-use sustainability assessment. The results of the study, carried out together with the Water Footprint Network, were published in Stockholm's World Water Week in August 2011.

Keeping forests full of life

UPM has worked systematically to increase the amount of certified wood. In 2011,approximately 78% (78) of all wood used by UPM originated from certified forests and 81% (79) of UPM's paper was produced by using fibre that meets the criteria of the FSC and PEFC forest certification schemes.

In 2011, UPM was the first Finnish company to be awarded a certificate for complying with the new FSC standard. UPM's forests have previously been awarded a PEFC certificate.

Furthermore, UPM participated in WWF's New Generation Plantations Project. Wide co-operation projects with BirdLife were carried out in Finland, the UK and Uruguay.

Waste reduce, reuse and recycle

Today, more than 90% of all UPM's production waste is reused or recycled. Nearly all organic production residues, including bark and wood residues, as well as fibre-containing solids from deinking and effluent treatment, are used in energy generation at UPM's mill sites.

Ash 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.

With the help of the unique RafCycle concept, by-products of the labelstock industry are used to produce UPM ProFi wood plastic composite products or paper, or they are turned into energy.

2011 was the first full year in operation for the materials recovery facility at UPM's Shotton paper mill in the UK. The state-of-the-art facility has the capacity to sort 270,000 tonnes of comingled materials sourced from across the UK and, with recovery rates at 99%, has been designed to achieve the highest recovery rates in the UK.

The amount of waste sent to landfill sites has gradually declined in past years. In 2011, UPM was able to maintain the amount at the same level as in 2010 even though the production increased due to the acquired paper mills. The total amount of waste was 126,000 tonnes in 2011.

Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 31 December 2011.

Corporate Governance Statement

UPM presents the Corporate Governance Statement as a separate report which is available in UPM's Annual Report 2011 on pages 86–89 and on the company's website www.upm.com.

Board of Directors' proposal for the distribution of profits

On 31 December 2011, the distributable funds of the parent company were EUR 3,401,097,196.18. The Board of Directors proposes to the Annual General Meeting of shareholders of UPM-Kymmene Corporation to be held on 30 March 2012 that a dividend of EUR 0.60 per share be paid on the shares outstanding at the record date for the dividend payment, 4 April 2012.

On 1 February 2012, there are 524,761,357 outstanding shares and the corresponding amount to be paid in dividends is EUR 314.9 million.

The Board of Directors proposes that the dividend be paid on 13 April 2012.

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 the 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 2011

Helsinki, 1 February 2012

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 2011	2010
Sales	4	10,068	8,924
Other operating income	6	86	76
Costs and expenses	7	–9,013	–7,637
Change in fair value of biological assets and wood harvested	8	64	149
Share of results of associated companies and joint ventures	9	82	8
Depreciation, amortisation and impairment charges	10	–828	–765
Operating profit (loss)	4	459	755
Gains on available-for-sale investments, net	11	71	1
Exchange rate and fair value gains and losses	12	–33	–4
Interest and other finance costs, net	12	–80	–117
Profit (loss) before tax		417	635
Income taxes	13	40	–74
Profit (loss) for the period		457	561
Attributable to:			
Owners of the parent company		457	561
Non-controlling interests		–	–
		457	561
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	14	0.88	1.08
Diluted earnings per share, EUR	14	0.87	1.08

Consolidated statement of comprehensive income

EURm	Note	Year ended 31 December 2011	2010
Profit (loss) for the period		457	561
Other comprehensive income for the period, net of tax:			
Translation differences		112	288
Net investment hedge		–6	–69
Cash flow hedges		22	–70
Available-for-sale investments		2	15
Share of other comprehensive income of associated companies		–	9
Other comprehensive income for the period, net of tax	13, 27	130	173
Total comprehensive income for the period		587	734
Total comprehensive income attributable to:			
Owners of the parent company		587	734
Non-controlling interests		–	–
		587	734

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 2011	2010
Assets			
Non-current assets			
Goodwill	16	1,022	1,022
Other intangible assets	17	458	424
Property, plant and equipment	18	6,242	5,860
Investment property	19	39	22
Biological assets	20	1,513	1,430
Investments in associated companies and joint ventures	21	717	573
Available-for-sale investments	22	260	333
Non-current financial assets	23	415	323
Deferred tax assets	28	508	359
Other non-current assets	24	238	211
		11,412	10,557
Current assets			
Inventories	25	1,429	1,299
Trade and other receivables	26	2,003	1,661
Income tax receivables		26	26
Cash and cash equivalents		495	269
		3,953	3,255
Assets classified as held for sale		24	–
Total assets		15,389	13,812

EURm	Note	As at 31 December 2011	2010
Equity and liabilities			
Equity attributable to owners of the parent company			
Share capital	27	890	890
Treasury shares		–2	–
Translation differences		161	55
Fair value and other reserves	27	129	90
Reserve for invested non-restricted equity		1,199	1,145
Retained earnings		5,084	4,913
		7,461	7,093
Non-controlling interests		16	16
Total equity		7,477	7,109
Non-current liabilities			
Deferred tax liabilities	28	675	629
Retirement benefit obligations	29	490	424
Provisions	30	326	150
Interest-bearing liabilities	31	3,750	3,649
Other liabilities	32	79	70
		5,320	4,922
Current liabilities			
Current interest-bearing liabilities	31	883	330
Trade and other payables	33	1,667	1,417
Income tax payables		38	34
		2,588	1,781
Liabilities related to assets classified as held for sale		4	–
Total liabilities		7,912	6,703
Total equity and liabilities		15,389	13,812

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	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2010		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
Total comprehensive income for the period		–	–	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
Total transactions with owners for the period		–	–	–	4	–	–231	–227	–	–227
Balance at 31 December 2010	27	890	–	55	90	1,145	4,913	7,093	16	7,109
Balance at 1 January 2011		890	–	55	90	1,145	4,913	7,093	16	7,109
Profit (loss) for the period		–	–	–	–	–	457	457	–	457
Translation differences		–	–	112	–	–	–	112	–	112
Net investment hedge, net of tax		–	–	–6	–	–	–	–6	–	–6
Cash flow hedges, net of tax		–	–	–	22	–	–	22	–	22
Available-for-sale investments		–	–	–	2	–	–	2	–	2
Share of other comprehensive income of associated companies		–	–	–	–	–	–	–	–	–
Total comprehensive income for the period		–	–	106	24	–	457	587	–	587
Share issue			–2	–	–	54	–	52	–	52
Share-based compensation, net of tax		–	–	–	16	–	–3	13	–	13
Dividend paid	15	–	–	–	–	–	–286	–286	–	–286
Other items		–	–	–	–1	–	3	2	–	2
Total transactions with owners for the period		–	–2	–	15	54	–286	–219	–	–219
Balance at 31 December 2011	27	890	–2	161	129	1,199	5,084	7,461	16	7,477

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

EURm	Note	Year ended 31 December 2011	2010
Cash flow from operating activities			
Profit (loss) for the period		457	561
Adjustments to profit (loss) for the period	5	792	740
Interest received		7	4
Interest paid		–72	–92
Dividends received		37	1
Other financial items, net		–13	–16
Income taxes paid		–94	–77
Change in working capital	5	–73	–139
Net cash generated from operating activities		1,041	982
Cash flow from investing activities			
Capital expenditure		–286	–241
Acquisition of subsidiaries, net of cash acquired	5	–17	–
Acquisition of shares in associated companies		–1	–4
Proceeds from sale of tangible and intangible assets		32	55
Proceeds from disposal of subsidiaries		3	–
Proceeds from disposal of shares in associated companies		1	–
Proceeds from disposal of available-for-sale investments		141	1
Increase in non-current receivables		–4	–6
Net cash used in investing activities		–131	–195
Cash flow from financing activities			
Proceeds from non-current liabilities		801	167
Payments of non-current liabilities		–1,149	–855
Payments of current liabilities, net		–7	–23
Dividends paid		–286	–234
Other financing cash flow		–30	–21
Net cash used in financing activities		–671	–966
Change in cash and cash equivalents		239	–179
Cash and cash equivalents at beginning of year		269	438
Foreign exchange effect on cash and cash equivalents		–13	10
Change in cash and cash equivalents		239	–179
Cash and cash equivalents at end of year		495	269

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 16 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 1 February 2012. 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 per cent 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 balance sheet presented are translated at the closing rate at the date of that balance sheet. All resulting translation differences are recognised as a separate component in other comprehensive income. On consolidation, exchange differences arising from the translation of 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 transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The fair value changes of 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 2010, 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 at Place ("DAP"). 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

Under the Group's long term incentive plans the Group has granted share options to executive management and key personnel. In addition, the Group has established a Share Ownership Plan for the years 2008-2010 for its executive management. From 2011 the Group's long term incentive plans are long-term share incentive plans, a Performance Share Plan for senior executives and a Deferred Bonus Plan for other key employees. 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 shortage 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 2011
In 2011, the Group has adopted the following new, revised and amended standards and interpretations:

Revised IAS 24 Related Party Disclosures became 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 clarifies the definition of a related party. The revised standard has not had an impact on the Group's financial statements.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues became 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 has not had an impact on the Group's financial statements.

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 became 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 has not had an impact on the Group's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments became 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 has not had an impact on the Group's financial statements.

Amendments related to Improvements to IFRSs (issued 2010) became 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 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:

The amendment to IFRS 7 Financial Instruments: Disclosures is effective for annual periods beginning on or after 1 July 2011. The amendment requires 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 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.

IFRS 9 Financial Instruments – Classification and Measurement standard represents the first step in replacement of IAS 39. It addresses classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The accounting and presentation for financial liabilities shall remain the same except for those financial liabilities for which fair value option is applied. IASB has issued Exposure Draft - Mandatory Effective

Date of IFRS 9 that proposes to move the mandatory effective date for IFRS 9 to annual periods beginning on or after 1 January 2015 with early application continuing to be permitted. The IFRS 9 standard is expected to have some impacts on accounting for Group's financial assets. The standard is not yet endorsed by the EU.

IFRS 10 Consolidated Financial Statements standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is assessing the impact of the new standard on the Group's financial statements. This standard is not yet endorsed by the EU.

IFRS 11 Joint Arrangements standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, proportional consolidation of joint ventures is no longer allowed. The Group is assessing the impact of the new standard on the Group's financial statements. The standard is not yet endorsed by the EU.

IFRS 12 Disclosure of Interests in Other Entities is effective for annual periods beginning on or after 1 January 2013. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is assessing the impact of the new standard on the Group's financial statements. The standard is not yet endorsed by the EU.

IFRS 13 Fair Value Measurement standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The standard is not expected to have an material impact on the Group's financial statements. The standard is not yet endorsed by the EU.

Revised IAS 27 Separate Financial Statements standard is effective for annual periods beginning on or after 1 January 2013. Revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard is not relevant for the Group's financial statements. The revised standard is not yet endorsed by the EU.

Revised IAS 28 Associates and Joint Ventures standard is effective for annual periods beginning on or after 1 January 2013. Revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The revised standard is not expected to have an impact on the Group's financial statements. The revised standard is not yet endorsed by the EU.

The amendment IAS 1 Presentation of Financial Statements – Other Comprehensive Income is effective for annual periods beginning on or after 1 July 2012. The main change is a requirement for entities to group items presented in 'other comprehensive income' (OCI) based on whether they are potentially reclassifiable to profit or loss subsequently. The amended standard will impact the presentation of items of OCI in Group's future financial statements. The amendment is not yet endorsed by the EU.

The amendment to IAS 19 Employee Benefits is effective for annual periods beginning on or after 1 January 2013. The amendment eliminates the corridor approach and calculate finance costs on a net funding basis. The Group is assessing the impact of the amendment on the Group's financial statements. The amendment is not yet endorsed by the EU.

Interpretation IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine is effective for annual periods beginning on or after 1 January 2013. The interpretation is not relevant for the Group's operations. The interpretation is not yet endorsed by the EU.

The amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities is effective for annual and periods beginning on or after 1 January 2014. The amendment provides clarifications on the application of the offsetting rules. The Group is assessing the impact of the amendment on the Group's financial statements. The amendment is not yet endorsed by the EU.

The amendment to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities is effective for annual and periods beginning on or after 1 January 2013. The amendment requires information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and all recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The Group is assessing the impact of the amendment 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 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 forecast 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 2011, 51% (51%) of the forecast 12-month currency flow was hedged. The table below shows the nominal values of the hedging instruments at 31 December 2011 and 2010.

Nominal values of hedging instruments

Currency	2011 EURm	2010 EURm
USD	377	319
JPY	305	235
GBP	284	232
AUD	42	57
Others	11	60
Total	1,019	903

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 2011 unhedged balance sheet exposures in interest-bearing assets and liabilities amounted to EUR 24 million (17 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 511 million (319 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 2011, 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 1 million (5 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 43 million (41 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2011, 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 million (0 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 28 million (23 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2011, 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 11 million (8 million) lower/higher. The effect in equity would have been EUR 18 million (15 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 2011 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 2011 and 2010 were as follows:

Currency	2011 EURbn	2010 EURbn
EUR	4.2	3.7
USD	0.3	0.4
CNY	0.1	0.1
CAD	–0.8	–0.7
Others	–0.2	–0.2
Total	3.6	3.3

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 2011, 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 (9 million) lower/ higher, mainly as a result of higher/lower interest expense on floating rate interest-bearing liabilities. There would be no effect on equity.

The following assumptions were made when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be 100 basis points parallel shift in applicable interest rate curves.
- In the case of fair value hedges designated for hedging interest rate risk, the changes in the fair values of the hedged items and the hedging instruments attributable to the interest rate movements balance out almost completely in the income statement in the same period. However, the possible ineffectiveness has an effect on the profit of the year.
- Fixed rate interest-bearing liabilities that are measured at amortised cost and which are not designated to fair value hedge relationship are not subject to interest rate risk sensitivity.
- Variable rate interest-bearing liabilities that are measured at amortised cost and which are not designated as hedged items are included in interest rate sensitivity analysis.
- Changes in the market interest rate of interest rate derivatives (interest rate futures, swaps and cross currency swaps) that are not designated as hedging instruments 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 2011 was 6.3 years (6.4 years).

UPM has some financial agreements which have Gearing as financial covenant. According to this covenant gearing should not exceed 110% (31.12.2011 gearing was 48%).

Cash funds and committed credit facilities

EURm	2011	2010
Cash at bank	445	203
Cash equivalents	50	66
Committed facilities	1,400	1,825
of which used	–	–
Used uncommitted credit lines	–24	–34
Long-term loan repayment cash flow	–852	–276
Available liquidity	1,019	1,784

The most important financial programmes in use are:
Uncommited:

- Domestic commercial paper programme, EUR 1,000 million

Commited:

- Revolving Credit Facility, EUR 500 million (matures 2016)

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 creditworthiness criteria. The Group minimises counterparty risk also by using a number of major banks and financial institutions. Creditworthiness of counterparties is constantly monitored by TRM.

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 16% (17%) of the Group's trade receivables as at 31 December 2011 – i.e., approximately EUR 240 million (215 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 2011. 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	2011	2010
+/- EUR 1/MWh in electricity forward quotations			
Effect on profit before taxes	+ / -	1.1	1.9
Effect on equity	+ / -	2.6	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 110%.

The following capitalisation table sets out the Group's total equity and interest-bearing liabilities and gearing ratios:

EURm	As at 31 December 2011	2010
Equity attributable to owners of the parent company	7,461	7,093
Non-controlling interests	16	16
Total equity	7,477	7,109
Non-current interest-bearing liabilities	3,750	3,648
Current interest-bearing liabilities	883	330
Interest-bearing liabilities, total	4,633	3,978
Total capitalisation	12,110	11,087
Interest-bearing liabilities, total	4,633	3,978
Less: Interest-bearing financial assets, total	–1,041	–692
Net interest-bearing liabilities	3,592	3,286
Gearing ratio, %	48	46

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.

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 2011 Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	1	190	–	191
Derivatives used for hedging	64	384	–	448
Available-for-sale instruments	–	–	147	147
Other receivables	–	–	3	3
At 31 Dec.	65	574	150	789
Liabilities				
Trading derivatives	3	123	–	126
Derivatives used for hedging	30	133	–	163
At 31 Dec.	33	256	–	289

EURm	Fair values as at 31 December 2010 Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	14	161	–	175
Derivatives used for hedging	–	306	–	306
Available-for-sale instruments	–	–	220	220
At 31 Dec.	14	467	220	701
Liabilities				
Trading derivatives	20	121	–	141
Other liabilities	–	–	3	3
Derivatives used for hedging	42	107	–	149
At 31 Dec.	62	228	3	293

The following table presents the changes in level 3 instruments for the year ended 31 December 2011

EURm	Available-for-sale instruments	Other receivables	Other liabilities	Total
Opening balance	220	–	–3	217
Transfers into level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Gains and losses	–	–	–	–
Recognised in income statement	–75	3	3	–69
Recognised in statement of comprehensive income	2	–	–	2
Closing balance	147	3	–	150

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

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 mill sites are included in the Pulp and Paper segments.

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.

Forest and Timber

The Forest and Timber segment includes forests, wood procurement, sawmills and further processing.

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 13 million tonnes including the Myllykoski Corporation and Rhein Papier GmbH paper mills acquired in August 2011.

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 approximately 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 the 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 2011

EURm	Energy	Pulp	Forest and Timber	Paper	Label	Ply-wood	Other operations	Eliminations and re-conciliations	Group
External sales	177	543	771	6,984	1,149	357	87	–	10,068
Internal sales	275	1,105	880	200	1	19	101	–2,581	–
Total sales [1]	452	1,648	1,651	7,184	1,150	376	188	–2,581	10,068
Share of results of associates and joint ventures	77	1	2	2	–	–	–	–	82
Operating profit	278	423	52	–315	68	–7	–40	–	459
Gains on available-for-sale investments, net									71
Finance costs, net									–113
Income taxes									40
Profit (loss) for the period									457
Special items in operating profit [2]	86	–	2	–299	–	–7	–5	–	–223
Operating profit excluding special items	192	423	50	–16	68	0	–35	–	682
Assets [3]	459	2,736	1,959	6,234	632	274	334	–184	12,444
Associates and joint ventures [3]	585	4	7	109	–	7	5	–	717
Unallocated assets									2,228
Total assets									15,389
Liabilities [4]	22	182	125	609	119	22	45	–184	940
Unallocated liabilities									6,972
Total liabilities									7,912
Other items									
Depreciation and amortisation	3	139	21	524	33	18	11	–	749
Impairment charge	–	–	–	79	–	–	–	–	79
Capital expenditure [5]	4	95	18	995	21	31	15	–	1,179
Capital expenditure, excluding acquisitions and shares	4	95	18	159	18	31	15	–	340
Capital employed, 31 December [6]	1,022	2,558	1,841	5,735	513	258	294	–111	12,110
Capital employed, average	956	2,396	1,812	5,437	486	253	287	–28	11,599
Return on capital employed, excluding special items % [7]	20.1	17.7	2.8	–0.3	14.0	0.2	–12.2	–	5.8
Personnel at year end	96	1,441	2,638	13,877	2,629	2,586	642	–	23,909
Personnel, average	88	1,481	2,734	12,956	2,574	2,663	571	–	23,067

1) The Group's sales comprise mainly of product sales.

2) In 2011, special income of EUR 86 million in the Energy segment relates to the associated company Pohjolan Voima Oy's sale of Fingrid Oyj shares. In the Forest and Timber segment special items include an income of EUR 1 million from a change in UK pension schemes and an income of EUR 1 million from reversal of restructuring provisions. In the Paper segment special items include a one-off gain of EUR 28 million and transaction and other costs of EUR 29 million related to the acquisition of Myllykoski Corporation and Rhein Papier GmbH. In addition special items in the Paper segment include an income of EUR 5 million from a change in UK pension schemes, restructuring charges of EUR 298 million relating mainly to the closures of the Myllykoski and Albbruck mills, including write-offs of EUR 68 million from non-current assets, and other restructuring measures of EUR 5 million. Special items in the Label segment include charges of EUR 2 million related to restructuring of European operations and an income of EUR 2 million from a change in UK pension schemes. In the Plywood segment special items include charges of EUR 4 million related to restructuring of operations in Finland and charges of EUR 3 million relating to a net loss from asset sales. In Other operations special items include restructuring charges of EUR 5 million.

3) 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.

4) Segment liabilities include trade payables and advances received.

5) 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 and other shares.

6) Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

7) 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 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 [1]	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 for the period									561
Special items in operating profit [2]	–	–	37	–18	1	1	3	–	24
Operating profit excluding special items	237	577	181	–254	87	–18	–79	–	731
Assets [3]	472	2,517	1,919	5,705	647	260	330	–216	11,634
Associates and joint ventures [3]	446	40	5	72	–	6	4	–	573
Unallocated assets									1,605
Total assets									13,812
Liabilities [4]	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 [5]	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 [6]	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 % [7]	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

1) The Group's sales comprise mainly of product sales.

2) 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.

3) 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.

4) Segment liabilities include trade payables and advances received.

5) 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 and other shares.

6) Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

7) 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 2011	2010
Germany	1,793	1,371
United Kingdom	1,132	1,011
Finland	836	809
France	556	504
Other EU countries	2,050	1,923
Other European countries	561	533
United States	999	969
Canada	54	54
China	545	479
Uruguay	44	27
Rest of world	1,498	1,244
Total	10,068	8,924

Total assets by country

EURm	As at 31 December 2011	2010
Germany	3,175	2,308
United Kingdom	630	607
Finland	7,088	6,453
France	362	422
Other EU countries	376	460
Other European countries	129	134
United States	623	581
Canada	167	178
China	807	802
Uruguay	1,747	1,616
Rest of world	285	251
Total	15,389	13,812

Capital expenditure by country

EURm	Year ended 31 December 2011	2010
Germany	718	24
United Kingdom	9	15
Finland	269	125
France	8	10
Poland	6	3
Other European countries	15	19
North America	60	24
China	8	4
Uruguay	78	21
Rest of world	8	12
Total	1,179	257

5 Acquisitions and disposals and notes to the cash flow statement

Acquisitions

On 1 August 2011, UPM completed the acquisition of Myllykoski Corporation and Rhein Papier GmbH ("Myllykoski"). Myllykoski Corporation and Rhein Papier GmbH consisted of six publication paper mills in Germany and in Finland. The total annual paper production capacity was 2.6 million tonnes. In addition, a 50% share of the Madison Paper publication paper mill in the United States was included in the acquisition. The transaction also included the acquisition of Myllykoski Corporation's 0.8% share in the Finnish energy company Pohjolan Voima Oy and M-real Corporation's 35% holding in Myllykoski Paper Oy.

For the financing of the acquisition, UPM issued five million new UPM shares of which 4.8 million shares were directed to the owners of Myllykoski Corporation and Rhein Papier GmbH and drew EUR 800 million in long term debt. UPM estimates that the transaction will have an immediate positive impact on cash flow and a positive impact on earnings per share from 2012. UPM has announced an estimate of annual synergy benefits of approximately EUR 200 million.

If the transaction had occurred on 1 January 2011, UPM's sales for January–December 2011 would have been EUR 10,848 million and profit for the period EUR 439 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the 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 2011, together with the consequential tax effects.

Information on the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated income statement for the reporting period is not disclosed because it would be impracticable. The acquired businesses have been integrated into the Group's activities since the acquisition date and relevant information is therefore not available.

The following table summarises the consideration transferred and the recognised amounts of identifiable assets acquired and liabilities assumed at 1 August 2011:

EURm	At 1 August 2011
Consideration	
Cash	17
Equity instruments (4.8 million shares)	52
Total consideration transferred	69
Recognised amounts of identifiable assets acquired and liabilities assumed	
Customer relationships and other intangible assets (Note 17)	78
Property, plant and equipment (Note 18)	656
Investments in associated companies and joint ventures (Note 21)	108
Non-current financial assets	6
Other non-current assets	2
Inventories	138
Trade and other receivables	186
Cash and cash equivalents	–
Retirement benefit obligations	–66
Provisions	–13
Interest-bearing liabilities	–772
Trade and other payables	–196
Deferred tax liabilities, net (Note 28)	–30
Total identifiable net assets	97
Gain on bargain purchase	28
	69

The fair value of EUR 52 million for the 4.8 million shares issued as part of the consideration paid was based on the volume weighted average price of UPM share on NASDAQ OMX Helsinki on 29 July 2011.

The acquisition related costs of EUR 15 million are included in other operating expenses.

Gain on bargain purchase of EUR 28 million was recognised from the acquisition as other operating income. The recognition of bargain purchase gain was due to distressed sale caused by the weak paper market situation and difficult financing environment during the year 2010 which affected the operations of the acquired companies.

The fair value of trade and other receivables includes trade receivables with fair value of EUR 178 million. The gross contractual amount for trade receivables due is EUR 183 million, of which EUR 5 million is expected to be uncollectible.

The fair values of the acquired identifiable assets and liabilities assumed are provisional pending on the final valuations.

On 10 May 2011, UPM acquired the Gumtac, the Brazilian label-stock coating and slitting business of the BIC Group. The acquisition was announced in February 2011. Gumtac employs approximately 35 people in its operations in Rio de Janeiro. By combining Gumtac's operations with UPM Raflatac the Group expects to further grow the business with label printer partners in Brazil and throughout South America.

If the Gumtac business had been included in the Group from 1 January 2011, it would have increased the Group's sales by EUR 4 million. Arising from the acquisition, Group recognised as other operating income an insignificant one-time bargain purchase gain.

The following table summarises the consideration paid for business and the amounts of the net assets acquired recognised at the acquisition date:

EURm	At 10 May 2011
Total consideration transferred, cash	3
Intangible assets (Note 17)	1
Property, plant and equipment and other assets (Note 18)	2
Total identifiable net assets	3
Gain on bargain purchase	0

The fair value of the acquired net assets is provisional pending on the final valuations.

In 2010, no acquisitions were made.

Disposals

In July 2011, UPM sold its Russian logging company ZAO Tihkvinsky Komplexny Lespromkhoz to International Paper.

In 2010, there were no disposals.

Notes to the consolidated cash flow statement

Adjustments to profit (loss) for the period

EURm	Year ended 31 December 2011	2010
Change in fair value of biological assets and wood harvested	–64	–149
Share of results of associated companies and joint ventures	–82	–8
Depreciation, amortisation and impairment charges	828	765
Capital gains on sale of non-current assets, net	–81	–52
Gain on bargain purchase	–28	–
Finance costs, net	113	121
Taxes	–40	74
Change in restructuring provisions	177	–36
Other adjustments	–31	25
Total	792	740

Change in working capital

EURm	Year ended 31 December 2011	2010
Inventories	13	–145
Current receivables	–109	–78
Current non-interest-bearing liabilities	23	84
Total	–73	–139

6 Other operating income

EURm	Year ended 31 December 2011	2010
Gains on sale of non-current assets	21	55
Rental income, investment property	4	7
Rental income, other	10	6
Emission rights received (Note 7)	23	32
Derivatives held for trading	–23	–54
Exchange rate gains and losses	16	22
Other [1]	35	8
Total	86	76

[1] In 2011, includes a gain on bargain purchase of EUR 28 million.

7 Costs and expenses

EURm	Year ended 31 December 2011	2010
Change in inventories of finished goods and work in progress	13	–41
Production for own use	–12	–8
Materials and services		
Raw materials, consumables and goods	5,663	4,859
Derivatives designated as cash flow hedges	5	–
External services [1]	808	665
	6,476	5,524
Personnel expenses		
Salaries and fees	1,015	950
Share-based payments (Note 37)	15	13

EURm	Year ended 31 December 2011	2010
Indirect employee costs		
Pension costs-defined benefit plans (Note 29)	19	35
Pension costs-defined contribution plans	182	119
Post-employment medical benefits (Note 29)	1	1
Other indirect employee costs [2]	130	114
	332	269
Other operating costs and expenses		
Rents and lease expenses	53	48
Emission expenses (Note 6)	10	21
Losses on sale of non-current assets	9	3
Other operating expenses [3]	1,102	858
	1,174	930
Costs and expenses, total	9,013	7,637

1) External services mainly comprise distribution costs of products sold.

2) Other indirect employee expenses primarily include other statutory social expenses, excluding pension expenses.

3) Other operating expenses include, among others, energy and maintenance expenses as well as expenses relating to services and the company's administration.

The research and development costs included in costs and expenses were EUR 50 million (45 million).

Government grants

In 2011, the Group recognised government grants of EUR 1 million (2 million) as reduction of non-current assets, relating to a materials recovery facility in UK. Government grants recognised as deduction of costs and expenses, related mainly to compensations for research and development costs, totalled to EUR 9 million (10 million) in 2011. In addition, the Group received emission rights from governments, Note 17.

Remuneration paid to members of the Board of Directors and the Group Executive Team

In accordance with the decision made by the 2011 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 2011 and 2010 60% was paid in cash and 40% in the form of the company shares purchased on the members' behalf. In 2011, 4,976 (5,320) company shares were paid to the Chairman, 3,412 (3,648) shares to the Deputy Chairman of the Board of Directors and the Chairman of the Audit Committee respectively and 2,701 (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

	Shareholdings 31 Dec. 2011 [1]	Fees (EUR 1,000) 2011	2010
Board members			
Björn Wahlroos, Chairman	228,513	175	175
Berndt Brunow, Deputy Chairman	285,799	120	120
Matti Alahuhta	47,192	95	95
Karl Grotenfelt	43,053	120	120
Wendy E. Lane	18,850	95	95
Ursula Ranin	17,772	95	95
Veli-Matti Reinikkala	22,022	95	95
Robert J. Routs	5,589	95	95
Jussi Pesonen, President and CEO	195,294	–	–
Total	864,084	890	890

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

Salaries, fees and other benefits of the Group Executive Team

EUR 1,000	Year ended 31 December 2011	2010
President and CEO Jussi Pesonen		
Salaries and benefits		
Salaries	1,034	1,044
Incentives	1,140	19
Share rewards	899	1,844
Benefits	23	22
Total	3,096	2,929
Pension costs		
Finnish statutory pension scheme	396	188
Voluntary pension plan	663	648
Total	1,059	836
Group Executive Team (excluding the President and CEO)		
Salaries and benefits		
Salaries	3,155	3,072
Incentives	2,076	487
Share rewards	2,805	5,042
Benefits	137	136
Total	8,173	8,737
Pension costs		
Finnish statutory pension scheme	847	546
Voluntary pension plan	405	381
Total	1,252	927

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 reward plans 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 4.3 million (8.5 million) including share options of EUR 4.0 million (2.7 million) and share rewards of EUR 0.3 million (5.8 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 2011 were EUR 0.3 million (0.3 million), and for other members of the Group Executive Team EUR 0.2 million (0.2 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' base salary.

Auditor's fees

EURm	Year ended 31 December 2011	2010
Audit	2.7	2.4
Audit-related	0.1	0.1
Tax consulting	0.9	1.3
Other services	1.0	0.3
Total	4.7	4.1

8 Change in fair value of biological assets and wood harvested

EURm	Year ended 31 December 2011	2010
Wood harvested	–98	–102
Change in fair value [1]	162	251
Total	64	149

[1] 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 2011	2010
Pohjolan Voima Oy [1]	77	6
Others	5	2
Total	82	8

[1] In 2011, includes the sale of Fingrid Oyj shares of EUR 86 million.

10 Depreciation, amortisation and impairment charges

EURm	Year ended 31 December 2011	2010
Depreciation on property, plant and equipment		
Buildings	102	102
Machinery and equipment	555	576
Other tangible assets	26	32
	683	710
Depreciation on investment property		
Buildings	2	2
Amortisation of intangible assets		
Intangible rights	23	20
Other intangible assets	41	37
	64	57
Impairment charges on property, plant and equipment		
Land areas	4	–
Buildings	4	–
Machinery and equipment	56	1
	64	1
Impairment of intangible assets		
Emission allowances	8	–
Other intangible assets	7	–
	15	–
Impairment reversal		
Machinery and equipment	–	–5
Depreciation, amortisation and impairment charges, total	828	765

On 31 August 2011, UPM announced a plan to adjust its magazine paper capacity to match the needs of its global customer base and started negotiations with employees on the plan to permanently remove 1.2 million tonnes of magazine paper capacity in Finland, Germany and France, and 110,000 tonnes of newsprint capacity in Germany. Based on the plan, UPM booked a EUR 68 million write-off in the Paper segment's property, plant and equipment and other intangible assets.

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.

11 Gains on available-for-sale investments, net

EURm	Year ended 31 December 2011	2010
Fair value gains and losses	3	–
Net gains and losses on disposals [1]	68	1
Total	71	1

[1] In 2011, includes a tax exempt capital gain of EUR 68 million on the sales of 6.7% of Oy Metsä-Botnia Ab's shares.

12 Finance costs

EURm	Year ended 31 December 2011	2010
Exchange rate and fair value gains and losses		
Derivatives held for trading	60	197
Fair value gains on derivatives designated as fair value hedges	76	113
Fair value adjustment of borrowings attributable to interest rate risk	–95	–116
Foreign exchange gain/loss on financial liabilities measured at amortised cost	–59	–126
Foreign exchange gain/loss on loans and receivables	–15	–72
	–33	–4
Interest and other finance costs, net		
Interest expense on financial liabilities measured at amortised cost	–190	–207
Interest income on derivative financial instruments	107	121
Interest income on loans and receivables	7	4
Gains and losses on sale of associated companies and joint ventures shares	–4	–
Dividend income from available-for-sale investments	26	–
Other financial expenses	–26	–35
	–80	–117
Total	–113	–121

Net gains and losses on derivative financial instruments included in the operating profit

EURm	Year ended 31 December 2011	2010
Derivatives designated as cash flow hedges	12	–47
Derivatives held for trading	–23	–54
Total	–11	–101

The aggregate foreign exchange gains and losses included in the consolidated income statement

EURm	Year ended 31 December 2011	2010
Sales	3	–41
Other operating income	16	22
Net financial items	2	–4
Total	21	–23

13 Income taxes

EURm	Year ended 31 December 2011	2010
Major components of tax expenses		
Current tax expense	102	55
Change in deferred taxes (Note 28)	–142	19
Income taxes, total	–40	74
Income tax reconciliation statement		
Profit before tax	417	635
Computed tax at Finnish statutory rate of 26%	108	165
Difference between Finnish and foreign rates	–8	–9
Non-deductible expenses and tax-exempt income	–75	–44
Tax loss with no tax benefit	3	1
Results of associated companies	–21	–2
Change in tax legislation	–35	–4
Change in recoverability of deferred tax assets	–11	–26
Other	–1	–7
Income taxes, total	–40	74
Effective tax rate	–9.6%	11.7%

Profit before taxes for 2011 and 2010 include income not subject to tax from subsidiaries operating in tax free zones.

Profit before tax for 2011 includes a tax-exempt capital gain of EUR 68 million from the sale of a 6.7% of Oy Metsä-Botnia Ab's shares and a tax-exempt dividend income of EUR 25 million from Metsä-Botnia. In addition, profit before tax includes a gain on bargain purchase of EUR 28 million related to acquisition of Myllykoski Corporation and Rhein Papier GmbH. Change in tax legislation includes a tax income of EUR 5 million from tax rate changes in UK and a tax income of EUR 30 million from tax rate change in Finland.

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.

Tax effects of components of other comprehensive income

EURm	Year ended 31 December 2011			2010		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences	112	–	112	288	–	288
Net investment hedge	–6	–	–6	–93	24	–69
Cash flow hedges	31	–9	22	–94	24	–70
Available-for-sale investments	2	–	2	15	–	15
Share of other comprehensive income of associated companies	–	–	–	9	–	9
Other comprehensive income	139	–9	130	125	48	173

14 Earnings per share

	Year ended 31 December 2011	2010
Profit (loss) attributable to owners of the parent company, EURm	457	561
Weighted average number of shares (1,000)	521,965	519,970
Basic earnings per share, EUR	0.88	1.08

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

Profit (loss) attributable to owners of the parent company, EURm	457	561
Profit (loss) used to determine diluted earnings per share, EURm	457	561
Weighted average number of shares (1,000)	521,965	519,970
Effect of options [1]	1,935	1,351
Weighted average number of shares for diluted earnings per share (1,000)	523,900	521,321
Diluted earnings per share, EUR	0.87	1.08

[1] The dilution effect is calculated to determine the number of shares that could have been acquired at fair value (the average price for shares traded) based on the monetary subscription rights of the outstanding options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the options. 13.1 million (13.6 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 2011 were EUR 286 million (EUR 0.55 per share) and in 2010 EUR 234 million (EUR 0.45 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 315 million, EUR 0.60 per share, will be paid in respect of 2011.

16 Goodwill

EURm	As at 31 December 2011	2010
Acquisition cost at 1 Jan.	1,602	1,597
Translation differences	–	5
Acquisition cost at 31 Dec.	1,602	1,602
Accumulated impairment at 31 Dec.	–580	–580
Carrying value at 1 Jan.	1,022	1,017
Carrying value at 31 Dec.	1,022	1,022

Goodwill by reporting segment

EURm	As at 31 December 2011	2010
Pulp	202	202
Forest and Timber	1	1
Paper	799	799
Label	7	7
Plywood	13	13
Total	1,022	1,022

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 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 2011 for Paper was 9.68% (8.65%), and for Pulp (Finland) 11.22% (11.30%).

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 2011, a hypothetical decrease of more than 1.4% 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 amount is most sensitive to pulp sales prices and the cost of wood raw material. As at 31 December 2011, a decrease of more than 13.5% in pulp prices of Pulp (Finland), and a decrease of more than 4.0% 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 2011	2010
Intangible rights		
Acquisition cost at 1 Jan.	464	458
Additions	2	2
Companies acquired	56	–
Disposals	–	–3
Companies sold	–4	–
Reclassifications	–	–1
Translation differences	4	8
Acquisition cost at 31 Dec.	522	464
Accumulated amortisation and impairment at 1 Jan.	–189	–170
Amortisation	–23	–20
Companies acquired	–5	–
Disposals	1	3
Companies sold	4	–
Translation differences	–1	–2
Accumulated amortisation and impairment at 31 Dec.	–213	–189
Carrying value at 1 Jan.	275	288
Carrying value at 31 Dec.	309	275
Other intangible assets [1]		
Acquisition cost at 1 Jan.	583	560
Additions	21	32
Companies acquired	59	–
Disposals	–4	–19
Companies sold	–1	–
Reclassifications	–6	6
Translation differences	1	4
Acquisition cost at 31 Dec.	653	583
Accumulated amortisation and impairment at 1 Jan.	–470	–448
Amortisation	–42	–38
Companies acquired	–38	–
Impairment charges	–7	–
Disposals	3	19
Companies sold	1	–
Reclassifications	15	–
Translation differences	–2	–3
Accumulated amortisation and impairment at 31 Dec.	–540	–470
Carrying value at 1 Jan.	113	112
Carrying value at 31 Dec.	113	113
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	9	7
Additions	14	6
Companies acquired	1	–
Reclassifications	–9	–4
Acquisition cost at 31 Dec.	15	9
Carrying value at 1 Jan.	9	7
Carrying value at 31 Dec.	15	9

EURm	As at 31 December 2011	2010
Emission rights		
Acquisition cost 1 Jan.	27	16
Additions [2]	26	41
Companies acquired	6	–
Disposals and settlements	–30	–30
Acquisition cost 31 Dec.	29	27
Impairment charges	–8	–
Accumulated amortisation and impairment at 31 Dec.	–8	–
Carrying value at 1 Jan.	27	16
Carrying value at 31 Dec.	21	27
Other intangible assets, total	458	424

[1] Other intangible assets consist primarily of capitalised software assets.
[2] 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 2011	2010
Land and water areas		
Acquisition cost at 1 Jan.	617	591
Additions	65	13
Companies acquired	59	–
Disposals	–16	–7
Reclassifications	4	–
Translation differences	10	20
Acquisition cost at 31 Dec.	739	617
Accumulated depreciation and impairment at 1 Jan.		
Companies acquired	–8	–
Impairment charges	–4	–
Accumulated depreciation and impairment at 31 Dec.	–12	–
Carrying value at 1 Jan.	617	591
Carrying value at 31 Dec.	727	617
Buildings		
Acquisition cost at 1 Jan.	3,207	3,145
Additions	16	8
Companies acquired	445	–
Disposals	–6	–14
Companies sold	–3	–
Reclassifications	–35	9
Translation differences	24	59
Acquisition cost at 31 Dec.	3,648	3,207

EURm	As at 31 December 2011	2010
Accumulated depreciation and impairment at 1 Jan.	–1,702	–1,592
Depreciation	–102	–101
Companies acquired	–323	–
Impairment charges	–4	–
Disposals	4	11
Companies sold	3	–
Reclassifications	63	–1
Translation differences	–9	–19
Accumulated depreciation and impairment at 31 Dec.	–2,070	–1,702
Carrying value at 1 Jan.	1,505	1,553
Carrying value at 31 Dec.	1,578	1,505
Machinery and equipment		
Acquisition cost at 1 Jan.	12,937	12,712
Additions	101	58
Companies acquired	2,791	–
Disposals	–149	–109
Companies sold	–2	–
Reclassifications	257	38
Translation differences	121	238
Acquisition cost at 31 Dec.	16,056	12,937
Accumulated depreciation and impairment at 1 Jan.	–9,483	–8,894
Depreciation	–555	–575
Companies acquired	–2,333	–
Impairment charges	–56	–1
Impairment reversal	–	5
Disposals	138	106
Companies sold	2	–
Reclassifications	–66	3
Translation differences	–73	–127
Accumulated depreciation and impairment at 31 Dec.	–12,426	–9,483
Carrying value at 1 Jan.	3,454	3,818
Carrying value at 31 Dec.	3,630	3,454
Other tangible assets		
Acquisition cost at 1 Jan.	871	876
Additions	7	5
Companies acquired	60	–
Disposals	–8	–23
Reclassifications	2	3
Translation differences	4	10
Acquisition cost at 31 Dec.	936	871
Accumulated depreciation and impairment at 1 Jan.	–707	–687
Depreciation	–27	–31
Companies acquired	–37	–
Disposals	8	18
Reclassifications	–4	–
Translation differences	–3	–7
Accumulated depreciation and impairment at 31 Dec.	–770	–707
Carrying value at 1 Jan.	164	189
Carrying value at 31 Dec.	166	164

EURm	As at 31 December 2011	2010
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	120	41
Additions	113	133
Companies acquired	4	–
Disposals	–1	–
Reclassifications	–97	–55
Translation differences	2	1
Acquisition cost at 31 Dec.	141	120
Carrying value at 1 Jan.	120	41
Carrying value at 31 Dec.	141	120
Property, plant and equipment, total	6,242	5,860

Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease contracts:

EURm	As at 31 December 2011	2010
Buildings		
Acquisition cost	28	–
Accumulated depreciation	–	–
Carrying value at 31 Dec.	28	–
Machinery and equipment		
Acquisition cost	158	51
Accumulated depreciation	–35	–39
Carrying value at 31 Dec.	123	12
Other tangible assets		
Acquisition cost	1	–
Accumulated depreciation	–	–
Carrying value at 31 Dec.	1	–
Leased assets, total	152	12

Capitalised borrowing costs

In 2011, the borrowing costs capitalised as part of non-current assets amounted to EUR 0 million (0 million). In 2011, amortisation of capitalised borrowing costs was EUR 7 million (8 million). In 2011 and 2010 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 1.76% (1.50%), which represents the costs of the loan used to finance the projects.

Assets classified as held for sale

In 22 December 2011, UPM reached an agreement with SMARTRAC N.V. whereby UPM sells its RFID business to SMARTRAC for an indirect 10.6% ownership in SMARTRAC through the company OEP Technologie B.V. The closing of the deal is expected to take place during the first quarter of 2012. The transaction is still subject to regulatory approvals.

Resulting from the sales agreement, UPM's RFID companies, UPM RFID Oy, UPM RFID Inc. and UPM Raflatac RFID Co. Ltd., which are part of the Other operations, were classified as assets held for sale and related liabilities as at 31 December 2011:

EURm	As at 31 December 2011	2010
Intangible assets	1	–
Property, plant and equipment	8	–
Inventories	7	–
Trade and other receivables	7	–
Cash and cash equivalents	1	–
Assets, total	24	–
Deferred tax liabilities	1	–
Trade and other payables	3	–
Liabilities, total	4	–

19 Investment property

EURm	As at 31 December 2011	2010
Acquisition cost at 1 Jan.	75	72
Additions	8	–
Reclassifications	–8	3
Acquisition cost at 31 Dec.	75	75
Accumulated depreciation and impairment at 1 Jan.	–53	–50
Depreciation	–2	–2
Reclassifications	19	–1
Accumulated depreciation and impairment at 31 Dec.	–36	–53
Carrying value at 1 Jan.	22	22
Carrying value at 31 Dec.	39	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 2011 was EUR 33 million (17 million) and the fair value of investment property in other countries at 31 December 2011 was EUR 11 million (13 million).

The amounts recognised in the income statement

EURm	Year ended 31 December 2011	2010
Rental income	4	7
Direct operating expenses arising from investment properties that generate rental income	3	5

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 2011	2010
At 1 Jan.	1,430	1,293
Additions	51	8
Disposals	–38	–32
Wood harvested	–100	–102
Change in fair value	164	250
Translation differences	6	13
At 31 Dec.	1,513	1,430

The pre-tax discount rates used in to determine fair value in 2011 were 7.50% (7.50%) for Finnish forests and 10% (10%) for Uruguayan forests. A decrease (increase) of 1 percentage point 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 2011	2010
At 1 Jan.	573	553
Additions	1	13
Companies acquired	108	–
Disposals	–3	–
Share of results after tax (Note 9)	82	8
Dividends received	–11	–1
Reclassification	–37	–
Translation differences	4	–
At 31 Dec.	717	573

Investments in associated companies at 31 December 2011 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 2011	2010
Sale and leaseback contracts included in investments in associated companies		
Acquisition cost	12	10
Accumulated increases/decreases	–1	2
Carrying value at 31 Dec.	11	12

Associated companies and joint ventures

	Group holding percentage % 2011	2010	Carrying value, EURm 2011	2010
Associated companies				
Austria Papier Recycling Ges.m.b.H., AT	33.30	33.30	–	–
Oy Keskuslaboratorio-Centrallaboratorium Ab, FI	43.81	38.65	1	1
Paperinkeräys Oy, FI	33.09	22.98	5	3
Pohjolan Voima Oy, FI	44.03	43.09	643	531
Powest Oy, FI [1]	10.30	9.98	4	14
RETS Timber Oy Ltd, FI	50.00	50.00	6	4
Steveco Oy, FI	40.19	34.32	3	3
Others			14	11
At 31 Dec.			676	567
Joint ventures				
Kainuun Voima Oy, FI	50.00	50.00	6	6
Madison Paper Industries, US	50.00	–	35	–
At 31 Dec.			41	6
Associated companies and joint ventures at 31 Dec.			717	573

[1] The Group's share of voting right in Powest Oy is 0.63% (0.61%). The Group is entitled to 52.87% (51.22%) of the respective dividends of Powest Oy.

Pohjolan Voima Oy ("PVO") holds a 58.47% 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:

2011 EURm	Assets	Liabilities	Sales	Profit/ Loss
Associated companies and joint ventures				
Pohjolan Voima Oy, FI	1,440	796	498	77
Others	174	101	364	5
Total	1,614	897	862	82

2010 EURm	Assets	Liabilities	Sales	Profit/ Loss
Associated companies and joint ventures				
Pohjolan Voima Oy, FI	1,397	865	456	6
Others	138	96	295	2
Total	1,535	961	751	8

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 2011	2010
The amount of assets and liabilities related to investments in joint ventures		
Non-current assets	56	30
Current assets	19	4
Non-current liabilities	–15	–18
Current liabilities	–18	–9
Net assets	42	7

EURm	Year ended 31 December 2011	2010
The income and expenses related to investments in joint ventures		
Sales	46	14
Expenses	–45	–14
Profit	1	–
The average number of employees in the joint ventures	254	42

Transactions and balances with associates and joint ventures

EURm	Year ended 31 December 2011	2010
Sales to associates and joint ventures	153	153
Purchases from associates and joint ventures	356	341
Receivables from associates and joint ventures	29	22
Payables to associates and joint ventures	36	38
Loan receivables from associates and joint ventures [1]		
At 1 Jan.	14	14
Loans granted	–	4
Repayments	–4	–4
At 31 Dec.	10	14

[1] Loans to associated companies and joint ventures include current and non-current loan receivables.

22 Available-for-sale Investments

EURm	As at 31 December 2011	2010
At 1 Jan.	333	320
Disposals	–101	–2
Changes in fair values	28	15
At 31 Dec.	260	333

At 31 December 2011, the available-for-sale investments include only investments in unlisted equity shares.

On 30 June 2011, the Group sold approximately 6.7% of Oy Metsä-Botnia Ab's shares to Metsä-Botnia. After the redemption and cancellation of the redeemed shares, UPM owns 11% of Metsä-Botnia. As at 31 December 2011 the carrying amount of the remaining ownership was EUR 147 million. The fair value is based on the discounted value of the expected cash flows of the investment. The carrying amount would be approximately EUR 58 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, EURm 2011	2010
Oy Metsä-Botnia Ab	8,373	11.00	147	220
Kemijoki Oy	100,797	4.13	106	106
Other			7	7
Carrying value of available-for-sale investments at 31 Dec.			260	333

23 Non-current financial assets

EURm	As at 31 December 2011	2010
Loan receivables from associated companies	5	5
Other loan receivables	23	22
Derivative financial instruments	387	296
At 31 Dec.	415	323

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 2011	2010
Defined benefit plans (Note 29)	193	172
Other non-current assets	45	39
At 31 Dec.	238	211

25 Inventories

EURm	As at 31 December 2011	2010
Raw materials and consumables	603	547
Work in progress	40	46
Finished products and goods	745	662
Advance payments	41	44
At 31 Dec.	1,429	1,299

26 Trade and other receivables

EURm	As at 31 December 2011	2010
Trade receivables	1,463	1,244
Loan receivables	8	30
Other receivables	221	146
Derivative financial instruments	252	185
Prepayments and accrued income	59	56
At 31 Dec.	2,003	1,661

Ageing analysis of trade receivables

EURm	As at 31 December 2011	2010
Undue	1,258	1,123
Past due up to 30 days	124	79
Past due 31–90 days	44	21
Past due over 90 days	37	21
At 31 Dec.	1,463	1,244

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 2011. In 2011, impairment of trade receivables amounted to EUR 9 million (0 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 2011	2010
Personnel expenses	3	7
Indirect taxes	8	16
Other items	48	33
At 31 Dec.	59	56

27 Equity and reserves

Share capital

EURm	Number of shares (1,000)	Share capital
At 1 Jan. 2010	519,970	890
At 31 Dec. 2010	519,970	890
Share issue	5,000	–
Exercise of share options	3	–
At 31 Dec. 2011	524,973	890

Shares

At 31 December 2011, the number of the company's shares was 524,972,838. 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 2011, the company held 211,481 of its own shares, 0.04% of the total number of shares. The shares were returned upon their issue to UPM without consideration as part of the contractual arrangements relating to the Myllykoski transaction.

As at 31 December 2010, 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 the transfer of the company's own shares held by the company and/or the issue of 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.

As part of the Myllykoski transaction, UPM issued five million new shares in directed share issue. These shares were registered with the Trade Register on 3 August 2011.

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.

In 2011, 300 shares were subscribed for through exercising 2007A share options and 2,450 shares through exercising 2007B share options

If all remaining 14,997,250 share options issued in 2007 are fully exercised, the number of the company's shares will increase by a total of 14,997,250, i.e. by 2.86%.

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 6.67%, i.e. by 34,997,250 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 2011	2010
Fair value reserve of available-for-sale investments	38	36
Hedging reserve	–39	–61
Legal reserve	53	53
Share premium reserve	50	50
Share-based compensation	27	12
At 31 Dec.	129	90

Changes in hedging reserve

EURm	Year ended 31 December 2011	2010
Hedging reserve at 1 Jan.	–61	9
Gains and losses on cash flow hedges	31	–139
Transfers to sales	6	48
Transfers to costs and expenses	–4	–
Transfers to financial costs	–2	–
Transfers to initial cost of property, plant and equipment	–	–3
Tax on gains and losses on cash flow hedges	–9	36
Tax on transfers to income statement	–	–12
Hedging reserve at 31 Dec.	–39	–61

Components of other comprehensive income

EURm	Year ended 31 December 2011	2010
Translation differences	112	288
Net investment hedge	–6	–69
Cash flow hedges		
gains/losses arising during the year	22	–103
reclassification adjustments	–	33
	22	–70
Available-for-sale investments		
gains/losses arising during the year	28	15
reclassification adjustments	–26	–
	2	15
Share of other comprehensive income of associated companies	–	9
Other comprehensive income	130	173

28 Deferred income taxes

Reconciliation of the movements of deferred tax asset and liability balances during the year 2011

EURm	As at 1 Jan. 2011	Charged to the income statement	Charged to OCI	Translation differences	Acquisitions and disposals	As at 31 Dec. 2011
Deferred tax assets						
Intangible assets and property, plant and equipment	27	23	–	2	25	77
Inventories	26	–3	–	–	–	23
Retirement benefit obligations and provisions	75	18	–	–	6	99
Other temporary differences	36	–8	–	–	14	42
Tax losses and tax credits carried forward	377	30	–	–	–	407
Deferred tax assets, total	541	60	–	2	45	648
Deferred tax liabilities						
Intangible assets and property, plant and equipment	537	–84	–	2	27	482
Biological assets	227	5	–	–	–	232
Retirement benefit obligations and provisions	45	2	–	–	–	47
Other temporary differences	2	–5	9	–	48	54
Deferred tax liabilities, total	811	–82	9	2	75	815
The amounts recognised in the balance sheet						
Assets	359	115	–	2	32	508
Liabilities	629	–27	9	2	62	675
Deferred tax liabilities, less deferred tax assets	270	–142	9	–	30	167

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 2010

EURm	As at 1 Jan. 2010	Charged to the income statement	Charged to OCI	Translation differences	Acquisitions and disposals	As at 31 Dec. 2010
Deferred tax assets						
Intangible assets and property, plant and equipment	117	–91	–	1	–	27
Inventories	20	6	–	–	–	26
Retirement benefit obligations and provisions	90	–16	–	1	–	75
Other temporary differences	3	33	–	–	–	36
Tax losses and tax credits carried forward	318	36	–	23	–	377
Deferred tax assets, total	548	–32	–	25	–	541
Deferred tax liabilities						
Intangible assets and property, plant and equipment	608	–74	–	3	–	537
Biological assets	213	14	–	–	–	227
Retirement benefit obligations and provisions	28	17	–	–	–	45
Other temporary differences	20	30	–48	–	–	2
Deferred tax liabilities, total	869	–13	–48	3	–	811
The amounts recognised in the balance sheet						
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.

At 31 December 2011, net operating loss carry-forwards for which the Group has recognised a deferred tax asset amounted to EUR 1,381 million (1,263 million), of which EUR 638 million (476 million) was attributable to German subsidiaries and EUR 606 million (643 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 187 million in 2011 (166 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 15 million (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 countries in which it operates.

The most significant pension plan in Finland is the Finnish Statutory Employment 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 and accounted for as defined contribution plan.

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.

Defined benefit plans

EURm	As at 31 December 2011	2010
Present value of obligations	1,132	1,033
Fair value of plan assets	–584	–596
	548	437
Unrecognised actuarial gains and losses	–299	–230
Net liability	249	207
Other long-term employee benefits	39	45
Other long-term employee benefits - companies acquired	9	–
Defined benefit asset reported in the assets (Note 24)	193	172
Total liability in balance sheet	490	424

Pension benefits

The amounts recognised in the balance sheet

EURm	As at 31 December 2011	2010
Present value of funded obligations	633	597
Present value of unfunded obligations	479	414
	1,112	1,011
Fair value of plan assets	–584	–596
Unrecognised actuarial gains and losses	–297	–226
Net liability	231	189

The amounts recognised in the income statement

EURm	Year ended 31 December 2011	2010
Current service cost	9	10
Interest cost	48	46
Expected return on plan assets	–38	–34
Actuarial gains and losses	11	13
Past service cost	–11	–
Total included in personnel expenses (Note 7)	19	35

The actual return on plan assets was EUR 4 million (69 million).

The movement in the present value of defined benefit obligations

EURm	As at 31 December 2011	2010
Defined benefit obligation at 1 Jan.	1,011	973
Current service cost	9	10
Interest cost	48	46
Actuarial gains and losses	34	15
Benefits paid	–45	–44
Past service cost	–11	–
Companies acquired	57	–
Translation differences	9	11
Defined benefit obligation at 31 Dec.	1,112	1,011

The movement in the fair value of plan assets

EURm	As at 31 December 2011	2010
Fair value of plan assets at 1 Jan.	596	540
Expected return on plan assets	38	34
Actuarial gains and losses	–43	35
Contributions by the employer	31	24
Benefits paid	–45	–44
Translation differences	7	7
Fair value of plan assets at 31 Dec.	584	596

Contributions to the Group's defined benefit pension plans are expected to be EUR 32 million in 2012.

The major categories of plan assets as a percentage of total plan assets

	As at 31 December 2011	2010
Equity instruments	55%	60%
Debt instruments	32%	30%
Property	8%	7%
Money market	5%	3%
Total	100%	100%

In Finland, pension plan assets include the company's ordinary shares with a fair value of EUR 0.5 million (0.7 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 2011	2010
Present value of unfunded obligations	20	22
Unrecognised actuarial gains and losses	–2	–4
Net liability	18	18

The amounts recognised in the income statement

EURm	Year ended 31 December 2011	2010
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 2011	2010
Defined benefit obligation at 1 Jan.	22	21
Interest cost	1	1
Actuarial gains and losses	–2	–
Contributions by plan participants	1	2
Benefits paid	–3	–4
Translation differences	1	2
Defined benefit obligation at 31 Dec.	20	22

The movement in the fair value of plan assets

EURm	As at 31 December 2011	2010
Fair value of plan assets at 1 Jan.	–	–
Contributions by plan participants	1	2
Contributions by the employer	2	2
Benefits paid	–3	–4
Fair value of plan assets at 31 Dec.	–	–

Contributions to the Group's post-employment medical benefit plans are expected to be EUR 2 million in 2012.

Pension benefits and post-employment medical benefits

The principal actuarial assumptions used as at 31 December

	Finland		Germany		UK		Austria		US		Other	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Discount rate %	4.25	4.40	4.25	4.40	4.90	5.40	4.25	4.40	4.25	4.50	4.23	4.74
Inflation rate %	2.00	2.00	2.00	2.00	2.20	3.50	2.00	2.00	3.00	3.00	2.00	2.00
Expected return on plan assets %	6.14	6.53	N/A	N/A	6.10	6.71	N/A	N/A	N/A	N/A	4.02	4.31
Future salary increases %	3.25	3.25	2.50	2.50	N/A	N/A	2.50	2.50	N/A	N/A	2.73	2.74
Future pension increases %	2.63	2.63	2.00	2.00	3.25	3.25	1.25	1.25	N/A	N/A	1.00	1.00
Expected average remaining working years of participants	12.1	12.1	12.9	13.4	N/A	N/A	8.2	8.2	8.8	8.6	8.1	8.9

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 8.4% in 2010, 8.2% in 2011 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 2011

EURm	Finland	Germany	UK	Austria	US	Other	Total
Present value of funded obligations	277	–	330	–	–	26	633
Present value of unfunded obligations	–	420	–	40	20	19	499
Fair value of plan assets	–312	–	–258	–	–	–14	–584
Unrecognised actuarial gains and losses	–97	–57	–133	–9	–2	–1	–299
Net liability	–132	363	–61	31	18	30	249

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

Funded status for pension and post-employment medical benefit plans

	As at 31 December				
EURm	2011	2010	2009	2008	2007
Present value of defined benefit obligations	1,132	1,033	994	918	1,203
Fair value of plan assets	584	596	540	573	753
Deficit	548	437	454	345	450
Experience adjustments on plan liabilities	–2	–10	14	–13	21
Experience adjustments on plan assets	–43	35	58	–153	8

30 Provisions

EURm	Restructuring provisions	Termination provisions	Environmental provisions	Emission rights provision	Other provisions	Total
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
At 1 Jan. 2011	35	52	18	22	23	150
Translation difference	–	–	–	–	–	–
Additional provisions and increases to existing provisions	140	81	3	13	8	245
Companies acquired	–	2	6	3	–	11
Utilised during year	–26	–14	–4	–22	–4	–70
Unused amounts reversed	–2	–3	–	–1	–4	–10
At 31 Dec. 2011	147	118	23	15	23	326

Provisions

Restructuring provisions include charges related primarily to mill closures. Termination provisions are concerned with operational restructuring primarily in Germany and Finland. In Finland provisions include also unemployment arrangements and disability pensions. Unemployment pension provisions are recognised 2–3 years before the granting and settlement of the pension.

In 2011, the provisions relate mainly to the measures to improve the long-term competitiveness of UPM's publication paper business. On 31 August 2011, UPM announced a plan to adjust its capacity to match its customer needs. The plan includes removal of 1.3 million tonnes of production capacity. UPM made decisions to close the Myllykoski mill (capacity of 600,000 tonnes) in Finland, and the Albbruck mill (320,000 tonnes) and paper machine 3 (110,000 tonnes) at the Ettringen mill in Germany. In addition, a sale or other exit is planned for the Stracel mill (280,000 tonnes) in France.

In 2010, UPM did not recognise charges for any significant new provisions.

Environmental provisions include expenses relating to closed mills and the remediation of industrial landfills.

The company takes part in government programmes aimed at reducing greenhouse gas emissions. In 2011, the Group has recognised a provision amounting to EUR 15 million (22 million) to cover the obligation to return emission rights. The company possesses emission rights worth EUR 21 million (27 million) as intangible assets.

Allocation between non-current and current provisions

EURm	As at 31 December 2011	2010
Non-current provisions	119	81
Current provisions	207	69
Total	326	150

31 Interest-bearing liabilities

EURm	As at 31 December 2011	2010
Non-current interest-bearing liabilities		
Bonds	1,525	2,041
Loans from financial institutions	1,125	406
Pension loans	554	761
Trade payables	–	8
Finance lease liabilities	185	94
Derivative financial instruments	114	117
Other liabilities	247	222
	3,750	3,649
Current Interest-bearing liabilities		
Current portion of long-term debt	852	286
Short-term loans	–	11
Derivative financial instruments	6	10
Other liabilities	25	23
	883	330
Total interest-bearing liabilities	4,633	3,979

As of 31 December 2011 the contractual maturity of interest-bearing liabilities

EURm	2012	2013	2014	2015	2016	2017+	Total
Bonds							
Repayments	636	–	387	–	–	882	1,905
Interests	115	77	77	56	56	322	703
	751	77	464	56	56	1,204	2,608
Loans from financial institutions							
Repayments	58	100	16	304	207	541	1,226
Committed facilities	–	–	–	–	–	–	–
Interests	34	23	26	30	21	27	161
	92	123	42	334	228	568	1,387
Pension loans							
Repayments	141	141	74	74	74	148	652
Interests	28	22	17	13	10	9	99
	169	163	91	87	84	157	751
Finance lease liabilities							
Repayments	16	91	11	55	3	25	201
Interests	7	7	1	1	1	3	20
	23	98	12	56	4	28	221
Other loans							
Repayments	1	2	2	2	2	213	222
Interests	–	–	–	–	–	–	–
	1	2	2	2	2	213	222
Interest rate swaps (liabilities)							
Repayments	4	3	12	4	6	71	100
Interests	4	2	3	4	5	2	20
	8	5	15	8	11	73	120
Current loans							
Repayments	25	–	–	–	–	–	25
Interests	–	–	–	–	–	–	–
	25	–	–	–	–	–	25
Guarantees, repayments	6	–	–	–	–	–	6
Long term loans repayments excl. committed facilities	852	334	490	435	286	1,809	4,206

As of 31 December 2010 the contractual maturity of interest-bearing liabilities

EURm	2011	2012	2013	2014	2015	2016+	Total
Bonds							
Repayments	–	636	–	374	–	850	1,860
Interests	112	112	75	75	53	364	791
	112	748	75	449	53	1,214	2,651
Loans from financial institutions							
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
Pension loans							
Repayments	157	151	150	83	83	250	874
Interests	37	30	24	18	15	20	144
	194	181	174	101	98	270	1,018
Finance lease liabilities							
Repayments	4	3	3	4	1	83	98
Interests	3	4	4	4	3	4	22
	7	7	7	8	4	87	120
Other loans							
Repayments	45	1	2	1	1	210	260
Interests	7	6	6	6	6	83	114
	52	7	8	7	7	293	374
Interest rate swaps (liabilities)							
Repayments	–	–	–	14	–	90	104
Interests	1	3	6	6	9	113	138
	1	3	6	20	9	203	242
Current loans							
Repayments	34	–	–	–	–	–	34
Interests	–	–	–	–	–	–	–
	34	–	–	–	–	–	34
Guarantees, repayments	7	–	–	–	–	–	7
Long term loans repayments excl. committed facilities	276	851	252	476	109	1,603	3,567

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. 2011 EURm	2010 EURm
Fixed rate					
1997–2027	7.450	USD	375	414	352
2000–2030	3.550	JPY	10,000	119	105
2002–2012	6.125	EUR	600	600	616
2002–2014	5.625	USD	500	420	405
2002–2017	6.625	GBP	250	346	320
2003–2018	5.500	USD	250	227	207
				2,126	2,005
Floating-rate					
2002–2012	2.123	EUR	25	25	25
2002–2012	2.702	EUR	11	11	11
				36	36
Total at 31 Dec.				2,162	2,041
Current portion				637	–
Non-current portion				1,525	2,041

Fair value hedge of non-current interest-bearing liabilities

Fair value hedge accounting results in a cumulative fair value adjustment totalling EUR 345 million (250 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 364 million (288 million) in assets. The effect of the fair value hedge ineffectiveness on the income statement was loss EUR 19 million (loss EUR 3 million).

Net interest-bearing liabilities

EURm	As at 31 December 2011	2010
Total interest-bearing liabilities	4,633	3,979
Interest-bearing financial assets		
Non-current		
Loan receivables	14	13
Derivative financial instruments	357	282
Other receivables	29	19
	400	314
Current		
Loan receivables	6	9
Other receivables	8	4
Derivative financial instruments	132	97
Cash and cash equivalents	495	269
	641	379
Interest-bearing financial assets	1,041	693
Net interest-bearing liabilities	3,592	3,286

Finance lease liabilities

As at 31 December 2011 the Group has one power plant acquired under a sale and leaseback agreement and another power plant acquired under a finance lease agreement. The Group uses the energy generated by these plants for its own production. The Group also has a finance lease arrangement over the usage of a waste water treatment plant. In addition, the Group leases certain production assets under long term arrangements.

Finance lease liabilities – minimum lease payments

EURm	As at 31 December 2011	2010
No later than 1 year	23	7
1–5 years	170	26
Later than 5 years	28	87
	221	120
Future finance charges	–20	–22
Finance lease liabilities – the present value of minimum lease payments	201	98

Finance lease liabilities – the present value of minimum lease payments

EURm	As at 31 December 2011	2010
No later than 1 year	16	4
1–5 years	160	11
Later than 5 years	25	83
Total	201	98

32 Other liabilities

EURm	As at 31 December 2011	2010
Derivative financial instruments	19	24
Other	60	46
Total	79	70

33 Trade and other payables

EURm	As at 31 December 2011	2010
Advances received	8	7
Trade payables	903	713
Amounts due to associates and joint ventures	28	32
Accrued expenses and deferred income	466	440
Derivative financial instruments	150	139
Other current liabilities	112	86
Total	1,667	1,417

Trade and other payables mature within 12 months.

Main items included in accrued expenses and deferred income

EURm	As at 31 December 2011	2010
Personnel expenses	192	182
Interest expenses	74	71
Indirect taxes	16	20
Other items [1]	184	167
Total	466	440

[1] Consists mainly of customer rebates.

34 Financial instruments by category

2011 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
Non-current financial assets								
Available-for-sale investments	–	–	260	–	–	260	260	22
Non-current financial assets								
Loan receivables	–	28	–	–	–	28	28	23
Derivative financial instruments	5	–	–	382	–	387	387	23
						415	415	23
Current financial assets								
Trade and other receivables								
Trade and other receivables	3	1,689	–	–	–	1,692	1,692	26
Prepayments and accrued income	–	59	–	–	–	59	59	26
Derivative financial instruments	186	–	–	66	–	252	252	26
						2,003	2,003	
Carrying amount by category	194	1,776	260	448	–	2,678	2,678	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	3,636	3,636	3,467	31
Derivative financial instruments	94	–	–	20	–	114	114	31
						3,750	3,581	31
Other liabilities								
Other liabilities	–	–	–	–	60	60	60	32
Derivative financial instruments	1	–	–	18	–	19	19	32
						79	79	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	877	877	877	31
Derivative financial instruments	6	–	–	–	–	6	6	31
						883	883	31
Trade and other payables								
Trade and other payables	–	–	–	–	1,051	1,051	1,051	33
Accrued expenses and deferred income	–	–	–	–	466	466	466	33
Derivative financial instruments	25	–	–	125	–	150	150	33
						1,667	1,667	
Carrying amount by category	126	–	–	163	6,090	6,379	6,210	

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
Non-current financial assets								
Available-for-sale investments	–	–	333	–	–	333	333	22
Non-current financial assets								
Loan receivables	–	27	–	–	–	27	27	23
Derivative financial instruments	17	–	–	279	–	296	296	23
						323	323	23
Current financial assets								
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	
Carrying amount by category	175	1,503	333	306	–	2,317	2,317	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
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
Other liabilities								
Other liabilities	1	–	–	–	45	46	46	32
Derivative financial instruments	17	–	–	7	–	24	24	32
						70	70	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	320	320	320	31
Derivative financial instruments	10	–	–	–	–	10	10	31
						330	330	31
Trade and other payables								
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	
Carrying amount by category	144	–	–	149	5,173	5,466	5,335	

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

	As at 31 December			
	2011	2011	2011	2010
EURm	Positive fair values	Negative fair values	Net fair values	Net fair values
Interest rate swaps				
Fair value hedges	319	–	319	262
Held for trading	63	–	63	66
Forward foreign exchange contracts				
Cash flow hedges	20	–76	–56	–18
Net equity hedges	–	–37	–37	–49
Held for trading	69	–28	41	38
Currency options				
Held for trading	–	–	–	–
Cross currency swaps				
Cash flow hedges	–	–20	–20	–21
Fair value hedges	45	–	45	26
Held for trading	57	–95	–38	–65
Commodity Contracts				
Cash flow hedges	65	–30	35	–42
Held for trading	1	–3	–2	–6
Interest rate forward contracts				
Held for trading	–	–	–	–
Total	639	–289	350	191

Notional amounts of derivative financial instruments

	As at 31 December	
EURm	2011	2010
Interest rate swaps	2,315	2,478
Forward foreign exchange contracts	4,560	3,993
Currency options	28	8
Cross currency swaps	841	800
Commodity contracts	278	275
Interest rate forward contracts	3,456	2,442

36 Principal subsidiaries as at 31 December 2011

Name of the subsidiary, country of incorporation	Group holding %
Blandin Paper Company, US	100.00
Forestal Oriental S.A., UY	100.00
Gebrüder Lang GmbH Papierfabrik, DE	100.00
Lignis GmbH & Co. KG, DE	74.90
MD Papier GmbH, DE	100.00
Myllykoski Sales GmbH, DE	100.00
Myllykoski Paper Oy, FI	100.00
Nordland Papier GmbH, DE	100.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
Papierfabrik Albbruck GmbH, DE	100.00
PT UPM Raflatac Indonesia, ID	100.00
Rhein Papier GmbH, DE	100.00
STAG-Wasserkraft Ges.m.b.H., AT	100.00
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	100.00
Technical Services Paper GmbH, DE	100.00
Tilhill Forestry Ltd, UK	100.00
OOO UPM-Kymmene, RU	100.00
UPM (China) Co., Ltd, CN	100.00
UPM-Kymmene (UK) Ltd, UK	100.00

Name of the subsidiary, country of incorporation	Group holding %
UPM-Kymmene A/S, DK	100.00
UPM-Kymmene AB, SE	100.00
UPM-Kymmene Austria GmbH, AT	100.00
UPM-Kymmene B.V., NL	100.00
OOO UPM-Kymmene Chudovo, RU	100.00
UPM-Kymmene 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	99.99
UPM-Kymmene NV/SA, BE	99.60
UPM-Kymmene Otepää AS, EE	100.00
UPM-Kymmene Pty. Ltd., AS	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 Asia Pacific Pte. Ltd, SG	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 Sähkönsiirto Oy, FI	100.00
UPM Raflatac (Changshu) Co., Ltd, CN	100.00
UPM Raflatac (S) Pte Ltd, SG	100.00
UPM Raflatac s.r.l., AR	100.00
UPM Raflatac Canada Holdings Inc., CA	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 Sdn. Bhd., MY	100.00
UPM Raflatac South Africa (Pty) Ltd, ZA	100.00
UPM Raflatac Sp.z.o.o., PL	100.00
UPM RFID Inc., US	100.00
UPM RFID Oy, FI	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 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 was no more than 15,000,000, entitling subscription for a total of no more than 15,000,000 UPM-Kymmene Corporation shares. 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

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.

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 maximum number of shares payable under the plan for earning period 2011–2013 is 872,500 shares. In 2011, 38 persons were included in the 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 commenced at the beginning of 2011 and the earned shares will be delivered in the spring of 2014. The number of shares, to which the bonuses give an entitlement to, will be based on the trade volume weighted average share price during the five trading days immediately following the publication of UPM's financial result for the year. Assuming the 2011 year-end share price of EUR 8.51 the number of the shares under the plan for earning period 2011 is approximately 300,000 shares. In 2011, 521 persons were included in the plan.

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.

For the years 2008–2010 the company's long-term incentives included also shares awarded under the Share Ownership Plan. The Share Ownership Plan included three earning periods for the years 2008, 2009 and 2010.

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

The reward shares from Share Ownership Plan 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 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 payout in 2011 of 224,112 shares to 29 key employees. Of this amount, 32,480 shares were given to the President and CEO, and a total of 101,384 shares to other Group Executive Team members.

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.

Changes in the numbers of share options granted

	2011		2010	
	Weighted average exercise price, EUR	Number of share options	Weighted average exercise price, EUR	Number of share options
Outstanding 1 Jan.	9.69	13,549,000	11.74	11,913,000
Share options granted	–	–	10.49	4,850,000
Share options forfeited	8.00	–108,500	7.88	–342,000
Share options exercised	6.91	–2,750	–	–
Share options expired	–	–	19.30	–2,872,000
Outstanding 31 Dec.	9.71	13,437,750	9.69	13,549,000
Exercisable share options 31 Dec.		8,635,750		4,253,000

Weighted average remaining contractual life was 22 and 35 months as at 31 December 2011 and 2010, respectively.

Outstanding share option plans as at 31 December 2011

Plan/Distribution of share options	Class	Exercise price at 1 Jan.	Exercise price at 31 Dec.	Total number of share options	Number of share options granted	Exercise period	Vesting schedule
2007/2010	C	10.49	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	Vested
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 2011 and 2010:

	2011	2010
Share price, EUR	–	12.22
Exercise price, EUR	–	10.49
Volatility 1)	–	44%
Risk-free interest rate	–	1%
Assumed annual dividend yield	–	4%
Expected option life, year	–	4

1) Volatility is a measure of price changes expressed in terms of the standard deviation of the price of the security in question over the period of analysis. In the calculations volatility is based on three- and four-year periods. Volatility is reported as an annual percentage figure.

Assumed forfeiture used in 2010 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 2011 and 2010. Shares and share options held by members of the Board of Directors and members of the Group Executive Team are disclosed in pages 82 and 85. 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 44.03% 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 2011 was EUR 266 million (263 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.

UPM acquired paper companies Myllykoski Corporation in Finland and Rhein Papier GmbH in Germany on 1 August 2011. The transaction included a 50% direct and a 10% indirect investment in a paper company, Madison Paper Industries ("Madison") in the United States. In UPM, the company is accounted for as a joint venture using equity method. Madison operates a super-calendered paper mill with annual capacity of 200,000 tonnes. During the five month period of August–December 2011, UPM had no transactions with Madison.

The Group's recovered paper purchases in 2011 from associated companies and joint ventures were close to 620.000 tons (540.000 tons). In Finland, the Group organises its producer's responsibility of recovered paper collection through Paperinkeräys Oy, in which the Group has 33,1% interest. Austria Papier Recycling G.m.b.H purchases recovered paper in Austria, in which the Group has a 33,3% equity interest. LCI s.r.l. is an Italian recovered paper purchasing company in which the Group has a 50,0% interest. The purchases from those three companies represented approximately 70 % (80%) of total purchase amount from associated companies and joint ventures. Recovered paper purchases are based on market prices.

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 2011 the contributions paid by UPM to the foundation amounted to EUR 10 million (9 million). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation's assets at 31 December 2011 was EUR 275 million (294 million), of which 49% was in the form of equity instruments, 33% in the form of debt instruments and 18% invested in property and money market.

The Group participates in two UK Pension Schemes which operate within two separate 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 invited to join the Group's sole UK Defined Contribution Pension Scheme. The Group made contributions of EUR 5 million (0 million) to the Defined Benefit Schemes in 2011. The fair value of the UK Defined Benefit fund assets at 31 December 2011 was EUR 258 million, of which 61% was invested in equity instruments, 32% in debt instruments and 7% in property and money market.

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 to construct a new nuclear power plant, Olkiluoto 3, through its associated company Pohjolan Voima Oy. Pohjolan Voima Oy is a majority shareholder of Teollisuuden Voima Oyj ("TVO"), holding 58.47% of the shares. UPM's indirect share of the capacity of Olkiluoto 3 is approximately 30%. The agreed start-up of the power plant was originally scheduled for summer 2009 but the construction of the unit has been delayed. AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit on a fixed-price turnkey contract, has informed TVO that the unit is scheduled to be ready for regular electricity production in August 2014.

According to TVO, the supplier initiated arbitration proceedings concerning the delay at Olkiluoto 3 and related costs in December 2008, and in June 2011, the supplier submitted its updated claim, which includes updated claimed amounts with specified sums of indirect items and interest. The said updated monetary claim amounts to approximately EUR 1.9 billion. TVO has considered and found the supplier's claim to be without merit. 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. TVO will update its counterclaim during the arbitration proceedings, which may continue for several years, and the claimed and counterclaimed amounts may change.

In Uruguay, there is one pending litigation against the government of Uruguay related to the Fray Bentos pulp mill.

On 31 March 2011, Metsähallitus filed a claim for damages against UPM and two other Finnish forest companies. The claim relates to the Market Court decision of 3 December 2009 whereby the defendants were deemed to have breached competition rules in the roundwood market. Metsähallitus currently claims jointly and severally from the three companies an aggregate capital amount of EUR 159.4 million, of which alternatively and independently from UPM EUR 22.6 million, in maximum as damages it allegedly incurred. In addition to the claims on capital amounts, Metsähallitus also claims for compensation relating to value added tax and interests. In late 2011, fifty-two Finnish municipalities, parishes, certain individuals and companies filed claims for damages, value added tax and interest against UPM and two other Finnish forest companies. The aggregate capital amount of the claims is EUR 44.4 million, of which the claimants claim alternatively and independently from UPM EUR 22.1 million. In addition certain individuals and companies have filed claims for damages, value added tax and interest against UPM and two other Finnish forest companies. The details of these claims are not yet known to UPM. UPM considers all the claims unfounded in their entirety.

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.

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 9 million (14 million) at 31 December 2011. They are included in the amounts disclosed in the table under "Other commitments".

Commitments

EURm	As at 31 December 2011	2010
On own behalf		
Mortgages and pledges	709	764
On behalf of associated companies and joint ventures		
Guarantees	6	7
On behalf of others		
Guarantees	5	2
Other commitments, own		
Operating leases, due within 12 months	54	28
Operating leases, due after 12 months	343	80
Other commitments	87	164
Total	1,204	1,045
Mortgages and pledges	709	764
Guarantees	11	9
Operating leases	397	108
Other commitments	87	164
Total	1,204	1,045

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 2011	2010
Proportionate interest in joint ventures' commitments	23	22
Contingent liabilities relating to the Group's interest in the joint ventures	5	5
Share of associated companies contingent liabilities[1]	143	329

[1] Includes mortgages and pledges of EUR 23 million (29 million), operating leases EUR 0 million (180 million) and other commitments EUR 120 million (120 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.

The future aggregate minimum lease payments under non-cancellable operating lease contracts

EURm	As at 31 December 2011	2010
No later than 1 year	54	28
1–2 years	47	23
2–3 years	35	17
3–4 years	32	10
4–5 years	29	9
Later than 5 years	200	21
Total	397	108

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 2011	2010
Folio sheeting plant/Plattling	19	19	–
Folio sheeting/Kymi	16	12	–
O_2 delignification for HW/Kymi pulp	13	12	–
PM 8 rebuild/Tervasaari	20	10	17
Cutsize capacity increase/Changshu	10	9	–

40 Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 31 December 2011.

Parent company accounts (Finnish Accounting Standards, FAS)

Income statement

EURm	Note	Year ended 31 Dec. 2011	2010
Turnover	1	4,238	4,124
Change in inventories of finished goods and work in progress		29	33
Production for own use		8	6
Other operating income	2	165	79
Materials and services			
Materials and consumables			
Purchases during the financial period		–2,466	–2,404
Change in inventories		–6	21
External services		–317	–304
		–2,789	–2,687
Personnel expenses	3		
Wages and salaries		–395	–388
Social security expenses			
Pension expenses		–73	–73
Other social security expenses		–23	–21
		–491	–482
Depreciation and value adjustments	4		
Depreciation according to plan		–284	–299
Value adjustments to goods held as non-current assets		–	2
		–284	–297
Other operating costs and expenses		–387	–346
Operating profit		489	430
Financial income and expenses			
Income from investments held as non-current assets			
Dividends from Group companies		6	69
Dividends from participating interest companies		11	1
Dividends from other shares and holdings		26	–
Interest income from Group companies		12	1
Other interest and financial income			
Other interest income from Group companies		7	7
Other interest income from other companies		3	1
Other financial income from Group companies		1	3
Other financial income from other companies		1	–
Interest and other financial expenses			
Interest expenses to Group companies		–38	–38
Interest expenses to other companies		–65	–60
Other financial expenses to Group companies		–11	–76
Other financial expenses to other companies		–64	–49
Total financial income and expenses		–111	–141
Profit before extraordinary items		378	289
Extraordinary items	5		
Extraordinary income		19	14
Extraordinary expenses		–41	–93
Total extraordinary items		–22	–79
Profit before appropriations and taxes		356	210
Appropriations			
Increase or decrease in accumulated depreciation difference		73	57
Income taxes	6	–70	–25
Profit for the financial period		359	242

Cash flow statement

EURm	Note	Year ended 31 Dec. 2011	2010
Operating activities			
Profit before extraordinary items		378	289
Financial income and expenses		111	141
Adjustments to operating profit	1	127	226
Change in working capital	2	15	–83
Interest paid		–98	–101
Dividends received		43	11
Interest received		10	10
Other financial items		–27	32
Income taxes paid	3	–65	–45
Net cash generated from operating activities		494	480
Investing activities			
Investments in tangible and intangible assets		–135	–131
Proceeds from sale of tangible and intangible assets		60	62
Investments in shares and holdings		–26	–53
Proceeds from sale of shares and holdings		162	23
Increase in other investments		–911	–5
Decrease in other investments		14	15
Net cash used in investing activities		–836	–89
Financing activities			
Increase in non-current liabilities		801	142
Decrease in non-current liabilities		–213	–332
Increase or decrease in current liabilities		295	–78
Share issue		52	–
Dividends paid		–286	–234
Group contributions received and paid		–80	2
Net cash used in financing activities		569	–500
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		187	296
Change in cash and cash equivalents		227	–109
Cash and cash equivalents at end of year		414	187

Notes to the cash flow statement

	2011	2010
1 Adjustments to operating profit		
Depreciation	284	299
Gains and losses on sale of non-current assets	–140	–52
Value adjustments on non-current assets	–	–2
Change in provisions	–17	–19
Total	127	226
2 Change in working capital		
Inventories	–22	–67
Current receivables	19	–72
Current non-interest-bearing liabilities	18	56
Total	15	–83

3 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 2011	2010
Assets			
Non-current assets			
Intangible assets	7		
Intangible rights		6	5
Other capitalised expenditure		230	238
Advance payments		14	13
Total intangible assets		250	256
Tangible assets	8		
Land and water areas		1,026	1,035
Buildings		492	516
Machinery and equipment		1,068	1,209
Other tangible assets		53	55
Advance payments and construction in progress		37	29
Total tangible assets		2,676	2,844
Investments	9		
Holdings in Group companies		4,762	4,776
Receivables from Group companies		942	44
Holdings in participating interest companies		435	435
Receivables from participating interest companies		3	3
Other shares and holdings		231	270
Other receivables		15	16
Total investments		6,388	5,544
Total non-current assets		9,314	8,644
Current assets			
Inventories			
Raw materials and consumables		229	235
Finished products and goods		303	274
Advance payments		35	36
Total inventories		567	545
Current receivables	10		
Trade receivables		110	106
Receivables from Group companies		1,180	1,194
Receivables from participating interest companies		16	12
Loan receivables		1	19
Other receivables		76	36
Prepayments and accrued income		38	39
Total current receivables		1,421	1,406
Cash and cash equivalents		414	187
Total current assets		2,402	2,138
Total assets		11,716	10,782

EURm	Note	As at 31 December 2011	2010
Equity and liabilities			
Shareholders' equity	11		
Share capital		890	890
Revaluation reserve		532	538
Reserve for invested non-restricted equity		1,199	1,145
Retained earnings		1,843	1,889
Profit for the financial period		359	242
Total equity		4,823	4,704
Appropriations			
Accumulated depreciation difference		797	870
Provisions	12		
Provisions for pensions		33	39
Other provisions		40	51
Total provisions		73	90
Non-current liabilities	13		
Bonds		1,269	1,860
Loans from financial institutions		1,082	295
Pension loans		472	643
Advances received		1	1
Payables to Group companies		21	21
Other liabilities		209	194
Total non-current liabilities		3,054	3,014
Current liabilities	14		
Bonds		636	–
Loans from financial institutions		35	48
Pension loans		134	147
Advances received		4	2
Trade payables		229	227
Payables to Group companies		1,664	1,396
Payables to participating interest companies		33	37
Other liabilities		60	64
Accruals and deferred income		174	183
Total current liabilities		2,969	2,104
Total liabilities		6,023	5,118
Total equity and liabilities		11,716	10,782

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. 2011	2010
Gains on sale of non-current assets	146	56
Rental income	15	17
Gains on sale of emission rights [1]	3	4
Other	1	2
Total	165	79

[1] Emissions trading rights are accounted for on a net basis.

3 Personnel expenses

EURm	Year ended 31 Dec. 2011	2010
Wages and salaries		
Managing director and members of the Board of Directors [2]	4	4
Other wages and salaries	391	384
Total	395	388

[2] See Notes to the consolidated financial statements, Note 7.

	Year ended 31 Dec. 2011	2010
Average number of personnel	7,289	7,458

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. 2011	2010
Depreciation according to plan		
Intangible rights	4	3
Other capitalised expenditure	32	30
Buildings	36	36
Machinery and equipment	205	221
Other tangible assets	7	9
Total	284	299
Value adjustments		
Non-current assets	–	–2
Total	284	297

5 Extraordinary items

EURm	Year ended 31 Dec. 2011	2010
Extraordinary income		
Group contributions received	19	14
Total	19	14
Extraordinary expenses		
Group contributions paid	–41	–93
Total	–41	–93
Total extraordinary items	–22	–79

6 Income taxes

EURm	Year ended 31 Dec. 2011	2010
Income taxes for the financial period	70	25
Total	70	25

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 2011 was EUR 195 million (226 million). Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued assets is EUR 169 million (181 million).

7 Intangible assets

EURm	As at 31 Dec. 2011	2010
Intangible rights		
Acquisition cost at 1 Jan.	15	16
Increases	12	17
Decreases	–9	–18
Acquisition cost at 31 Dec.	18	15
Accumulated depreciation at 1 Jan.	–10	–11
Accumulated depreciation on decreases and transfers	2	4
Depreciation for the period	–4	–3
Accumulated depreciation at 31 Dec.	–12	–10
Book value at 31 Dec.	6	5
Other capitalised expenditure		
Acquisition cost at 1 Jan.	462	439
Increases	17	17
Decreases	–4	–13
Transfers between balance sheet items	8	19
Acquisition cost at 31 Dec.	483	462
Accumulated depreciation at 1 Jan.	–224	–208
Accumulated depreciation on decreases and transfers	3	14
Depreciation for the period	–32	–30
Accumulated depreciation at 31 Dec.	–253	–224
Book value at 31 Dec.	230	238
Advance payments		
Acquisition cost at 1 Jan.	13	7
Increases	13	25
Decreases	–4	–
Transfers between balance sheet items	–8	–19
Book value at 31 Dec.	14	13

8 Tangible assets

EURm	As at 31 Dec. 2011	2010
Land and water areas		
Acquisition cost at 1 Jan.	502	508
Increases	5	3
Decreases	–8	–9
Acquisition cost at 31 Dec.	499	502
Revaluations at 1 Jan.	533	541
Reversal of revaluation	–6	–8
Revaluations at 31 Dec.	527	533
Book value at 31 Dec.	1,026	1,035
Buildings		
Acquisition cost at 1 Jan.	1,163	1,155
Increases	6	7
Decreases	–2	–4
Transfers between balance sheet items	6	5
Acquisition cost at 31 Dec.	1,173	1,163
Accumulated depreciation at 1 Jan.	–647	–614
Accumulated depreciation on decreases and transfers	2	3
Depreciation for the period	–36	–36
Accumulated depreciation at 31 Dec.	–681	–647
Book value at 31 Dec.	492	516

EURm	As at 31 Dec. 2011	2010
Machinery and equipment		
Acquisition cost at 1 Jan.	5,209	5,210
Increases	46	33
Decreases	–98	–38
Transfers between balance sheet items	18	4
Acquisition cost at 31 Dec.	5,175	5,209
Accumulated depreciation at 1 Jan.	–4,000	–3,818
Accumulated depreciation on decreases and transfers	98	37
Depreciation for the period	–205	–221
Value adjustments	–	2
Accumulated depreciation at 31 Dec.	–4,107	–4,000
Book value at 31 Dec.	1,068	1,209
Other tangible assets		
Acquisition cost at 1 Jan.	195	203
Increases	3	1
Decreases	–	–9
Transfers between balance sheet items	1	–
Acquisition cost at 31 Dec.	199	195
Accumulated depreciation at 1 Jan.	–140	–136
Accumulated depreciation on decreases and transfers	1	5
Depreciation for the period	–7	–9
Accumulated depreciation at 31 Dec.	–146	–140
Book value at 31 Dec.	53	55
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	29	10
Increases	33	27
Transfers between balance sheet items	–25	–8
Book value at 31 Dec.	37	29

9 Investments

EURm	As at 31 Dec. 2011	2010
Holdings in Group companies		
Acquisition cost at 1 Jan.	5,250	5,233
Increases	25	49
Decreases	–39	–32
Acquisition cost at 31 Dec.	5,236	5,250
Accumulated depreciation at 1 Jan.	–474	–474
Accumulated depreciation at 31 Dec.	–474	–474
Book value at 31 Dec.	4,762	4,776

The principal subsidiaries are disclosed in the consolidated financial statements, Note 36.

EURm	As at 31 Dec. 2011	2010
Receivables from Group companies		
Acquisition cost at 1 Jan.	44	55
Increases	910	3
Decreases	–12	–14
Book value at 31 Dec.	942	44

EURm	As at 31 Dec. 2011	2010
Holdings in participating interest companies		
Acquisition cost at 1 Jan.	332	327
Increases	–	5
Acquisition cost at 31 Dec.	332	332
Revaluations at 1 Jan.	103	103
Revaluations at 31 Dec.	103	103
Book value at 31 Dec.	435	435
Receivables from participating interest companies		
Acquisition cost at 1 Jan.	3	2
Increases	–	1
Book value at 31 Dec.	3	3
Other shares and holdings		
Acquisition cost at 1 Jan.	209	210
Decreases	–39	–1
Acquisition cost at 31 Dec.	170	209
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	231	270
Other receivables		
Acquisition cost at 1 Jan.	16	9
Increases	–	8
Decreases	–1	–1
Book value at 31 Dec.	15	16

There were no loans granted to the company's Managing Director and members of the Board of Directors at 31 December 2011 or 2010.

10 Current receivables

EURm	As at 31 Dec. 2011	2010
Trade receivables	613	625
Loan receivables	678	705
Other receivables	77	36
Prepayments and accrued income	53	40
Total at 31 Dec.	1,421	1,406
Main items included in prepayments and accrued income		
Personnel expenses	1	3
Interest income	19	9
Derivative financial instruments	–	1
Income taxes	16	20
Other items	17	7
At 31 Dec.	53	40
Receivables from Group companies		
Trade receivables	487	511
Loan receivables	677	682
Other receivables	1	–
Prepayments and accrued income	15	1
At 31 Dec.	1,180	1,194
Receivables from participating interest companies		
Trade receivables	16	8
Loans receivables	–	4
At 31 Dec.	16	12

11 Shareholders' equity

EURm	Share capital	Revaluation reserve	Reserve for invested non-restricted equity	Retained earnings	Total shareholders' equity
Balance at 1 January 2010	890	546	1,145	2,123	4,704
Dividend paid	–	–	–	–234	–234
Revaluations	–	–8	–	–	–8
Profit for the financial period	–	–	–	242	242
Balance at 31 December 2010	890	538	1,145	2,131	4,704
Balance at 1 January 2011	890	538	1,145	2,131	4,704
Share issue	–	–	54	–2	52
Dividend paid	–	–	–	–286	–286
Revaluations	–	–6	–	–	–6
Profit for the financial period	–	–	–	359	359
Balance at 31 December 2011	890	532	1,199	2,202	4,823

EURm	As at 31 Dec. 2011	2010
Distributable funds at 31 Dec.		
Reserve for invested non-restricted equity	1,199	1,145
Retained earnings from previous years	1,843	1,889
Profit for the financial period	359	242
Distributable funds at 31 Dec.	3,401	3,276

12 Provisions

EURm	As at 31 Dec. 2011	2010
Provisions for pensions	33	39
Restructuring provisions	11	20
Environmental provisions	13	14
Other provisions	16	17
Total at 31 Dec.	73	90

13 Non-current liabilities

EURm	As at 31 Dec. 2011	2010
Bonds	1,269	1,860
Loans from financial institutions	1,082	295
Pension loans	472	643
Advances received	1	1
Other liabilities	230	215
Total at 31 Dec.	3,054	3,014
Payables to Group companies		
Other liabilities	21	21
At 31 Dec.	21	21
Maturity of non-current liabilities		
In 2–5 years		
Bonds	387	1,010
Loans from financial institutions	544	88
Pension loans	337	424
Advances received	1	1
Payables to Group companies	21	21
	1,290	1,544
Later than 5 years		
Bonds	882	850
Loans from financial institutions	538	207
Pensions loans	135	219
Other liabilities	209	194
	1,764	1,470
Total at 31 Dec.	3,054	3,014

Bonds

	Interest rate %		Nominal value issued m	As at 31 Dec. 2011 EURm	2010 EURm
Fixed-rate					
1997–2027	7.450	USD	375	290	281
2000–2030	3.550	JPY	10,000	100	92
2002–2012	6.125	EUR	600	600	600
2002–2014	5.625	USD	500	387	374
2002–2017	6.625	GBP	250	299	290
2003–2018	5.500	USD	250	193	187
				1,869	1,824
Floating-rate					
2002–2012	2.123	EUR	25	25	25
2002–2012	2.702	EUR	11	11	11
				36	36
Total at 31 Dec.				1,905	1,860
Current portion				636	–
Non-current portion				1,269	1,860

14 Current liabilities

EURm	As at 31 Dec. 2011	2010
Bonds	636	–
Loans from financial institutions	35	48
Pension loans	134	147
Advances received	4	2
Trade payables	322	317
Other liabilities	1,575	1,318
Accruals and deferred income	263	272
Total at 31 Dec.	2,969	2,104
Main items included in accruals and deferred income		
Personnel expenses	95	96
Interest expenses	15	9
Derivative financial instruments	139	152
Customer rebates	10	8
Other items	4	7
At 31 Dec.	263	272
Payables to Group companies		
Trade payables	68	58
Other liabilities	1,507	1,249
Accruals and deferred income	89	89
At 31 Dec.	1,664	1,396
Payables to participating interest companies		
Trade payables	25	32
Other liabilities	8	5
At 31 Dec.	33	37

15 Contingent liabilities

EURm	As at 31 Dec. 2011	2010
Mortgages [1]		
As security against own debts	708	763
Guarantees		
Guarantees for loans		
On behalf of Group companies	941	995
On behalf of participating interest companies	6	7
Other guarantees		
On behalf of Group companies	83	58
Other commitments[2]		
Leasing commitments for next year	25	60
Leasing commitments for subsequent years	129	134
Other commitments	1	79

1) The mortgages given relate mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

2) 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 2007 – 31 December 2011

		Number of shares
2006	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
2011	Share issue	5,000,000
	Options exercised	2,750
	Number of shares at 31 Dec. 2011	524,972,838

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 791.0 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2011 (790.5 million). This represented 151.5% (152.0%) of the total number of shares. The highest quotation was EUR 15.73 in April and the lowest EUR 7.34 in November. The total value of shares traded in 2011 was EUR 8,835 million (8,243 million).

During the year, 4.71 million 2007A share options were traded for EUR 8.98 million (0.68 million and EUR 1.52 million) and 0.64 million 2007B options were traded for EUR 1.62 million.

Treasury shares

As at 31 December 2011, the company held 211,481 of its own shares, 0.04% of the total number of shares. The shares were returned upon their issue to UPM without consideration as part of the contractual arrangements relating to the Myllykoski transaction.

As at 31 December 2010, the company did not hold any of its own shares.

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 864,084 (801,049) 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 0.16% of the shares (0.15%) and 0.16% of the voting rights (0.15%). At the end of the year, President and CEO Jussi Pesonen owned 195,294 shares and 800,000 share options. Exercise of these options would increase the number of the company's shares by 800,000, which at 31 December 2011 would have represented 0.15% of the company's shares and voting rights.

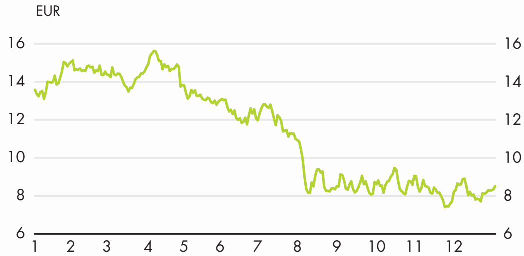
At the end of the year, the other members of the Group Executive Team owned a total of 360,516 shares and 2,467,800 share options. Exercise of these options would increase the number of the company's shares by 2,467,800 which at 31 December 2011 would have represented 0.47% of the company's shares and voting rights.

Biggest registered shareholders at 31 December 2011

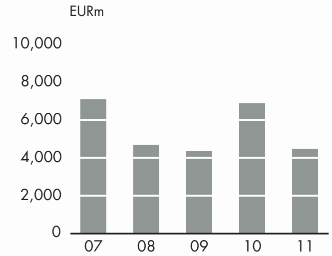
	Shares at 31 December 2011	% of shares	% of votes
Ilmarinen Mutual Pension Insurance Company	21,353,560	4.07	4.07
Varma Mutual Pension Insurance Company	16,441,899	3.13	3.13
Mandatum Life Insurance Company	9,884,102	1.88	1.88
The State Pension Fund	5,950,000	1.13	1.13
Svenska litteratursällskapet i Finland	3,831,302	0.73	0.73
Gustaf Serlachius (representing 4 shareholders)	3,815,870	0.73	0.73
The Local Government Pensions Institution	3,483,473	0.66	0.66
Etera Mutual Pension Insurance Company	3,100,000	0.59	0.59
OP-Delta Investment Fund	2,840,000	0.54	0.54
Folketrygdfondet	2,362,697	0.45	0.45
Nominees & registered foreign owners	272,213,225	51.85	51.85
Others	179,696,710	34.23	34.23
Total	524,972,838	100.00	100.00

During 2011, the company received the following notifications of changes in holdings pursuant to Chapter 2, Section 9 of the Securities Market Act: On 8 April 2011, UPM has received an announcement according to which Norges Bank's holding in UPM had fallen below 5% after a share lending transaction. On 21 April 2011, UPM has received an announcement according to which Norges Bank's holding in UPM had exceeded 5% of UPM's shares and voting rights.

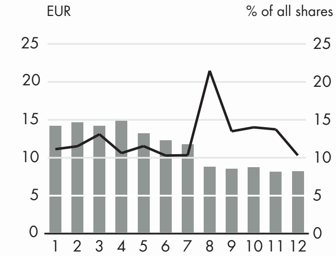
SHARE PRICE IN 2011



MARKET CAPITALISATION



MONTHLY AVERAGE SHARE PRICE AND SHARES TRADED 1–12/2011

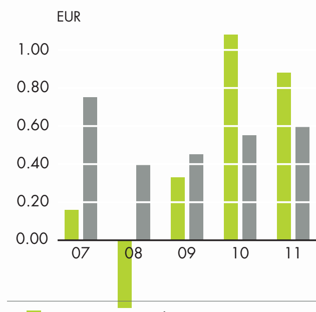


Monthly average share price, EUR
Shares traded, %

SHARE PRICE IN 2007–2011

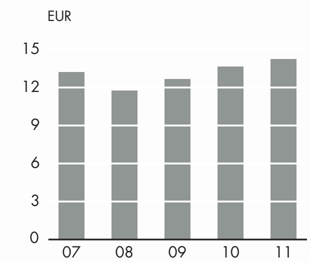
UPM share price at end of month
MSCI (Morgan Stanley Capital International) Forest Products & Paper World Index

EARNINGS AND DIVIDEND PER SHARE

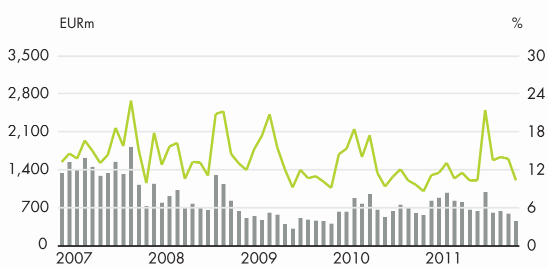


Earnings per share
Dividend per share (2011: proposal)

SHAREHOLDERS' EQUITY PER SHARE

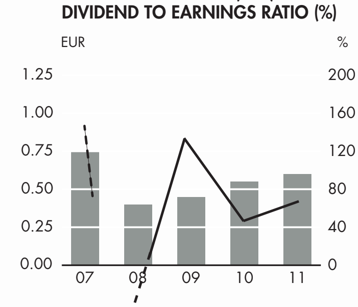


SHARES TRADED ON HELSINKI STOCK EXCHANGE 2007–2011



Monthly trading in UPM shares on NASDAQ OMX Helsinki, EURm
Trading in UPM shares as % of total number of shares

DIVIDEND PER SHARE (EUR) AND DIVIDEND TO EARNINGS RATIO (%)



Dividend per share (2011: proposal)
Dividend to earnings ratio, % (2008: neg.)

Charts in this page are unaudited.

Distribution of shareholders at 31 December 2011

Size of shareholding	Number of shareholders	% of share-holders	Number of shares, million	% of shares
1 – 100	20,393	21.20	1.3	0.2
101 – 1,000	54,318	56.47	23.3	4.4
1,001 – 10,000	19,579	20.36	54.4	10.4
10,001 – 100,000	1,700	1.77	42.7	8.2
100,001 –	196	0.20	142.4	27.1
Total	96,186	100.00	264.1	50.3
Nominee-registered			260.7	49.7
Not registered as book entry units			0.2	0.0
Total			525.0	100.0

Shareholder breakdown by sector at 31 December, %

	2011	2010	2009	2008	2007
Companies	4.2	4.1	3.8	2.8	2.2
Financial institutions and insurance companies	6.5	5.1	4.6	3.2	2.5
Public bodies	11.3	9.8	8.5	8.1	6.4
Non-profit organisations	6.3	6.4	6.3	6.0	6.0
Households	19.9	18.4	17.5	14.9	14.1
Non-Finnish nationals	51.8	56.2	59.3	65.0	68.8
Total	100.0	100.0	100.0	100.0	100.0

UPM's share option programmes

			Exercise price per share			
Options	Number of options	Number of shares	at date of issue €	at 31 Dec. 2011 €	Subscription period	Options exercised 2011
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	2,450
2007A	5,000,000	5,000,000	12.40	12.40	1.10.2010–31.10.2012	300

Key figures 2002–2011

Adjusted share-related indicators 2002–2011

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Earnings per share, EUR (diluted 2011: 0.87)	0.88	1.08	0.33	−0.35	0.16	0.65	0.50	1.76	0.60	0.96
Shareholders' equity per share, EUR	14.22	13.64	12.67	11.74	13.21	13.90	14.01	14.46	13.36	13.85
Dividend per share, EUR	[1] 0.60	0.55	0.45	0.40	0.75	0.75	0.75	0.75	0.75	0.75
Dividend to earnings ratio, %	68.2	50.9	136.4	neg.	468.8	115.4	150.0	42.6	125.0	78.1
Effective dividend yield, %	7.1	4.2	5.4	4.4	5.4	3.9	4.5	4.6	5.0	4.9
P/E ratio	9.7	12.2	25.2	neg.	86.4	29.4	33.1	8.9	24.8	15.9
Operating cash flow per share, EUR	1.99	1.89	2.42	1.21	1.66	2.32	1.63	1.90	2.40	2.73
Dividend distribution, EURm	[1] 315	286	234	208	384	392	392	393	393	390
Share price at 31 Dec., EUR	8.51	13.22	8.32	9.00	13.82	19.12	16.56	16.36	15.12	15.30
Market capitalisation, EURm	4,466	6,874	4,326	4,680	7,084	10,005	8,665	8,578	7,917	7,960
Shares traded, EURm [2]	8,835	8,243	5,691	10,549	16,472	16,021	11,358	9,731	9,117	10,827
Shares traded (1,000s)	790,967	790,490	805,904	932,136	952,300	876,023	697,227	625,950	645,988	597,078
Shares traded, % of all shares	151.5	152.0	155.0	180.1	182.1	167.4	133.6	119.5	123.4	115.1
Lowest quotation, EUR	7.34	7.37	4.33	8.15	13.01	15.36	15.05	14.44	11.05	12.61
Highest quotation, EUR	15.73	13.57	9.78	13.87	20.59	20.91	18.15	17.13	17.10	22.25
Average quotation for the period, EUR	11.17	10.43	7.06	11.32	17.30	18.29	16.29	15.55	14.11	18.13
Number of shares, average (1,000s)	521,965	519,970	519,955	517,545	522,867	523,220	522,029	523,641	523,130	518,935
Number of shares at end of period (1,000s)	524,973	519,970	519,970	519,970	512,569	523,259	523,093	524,450	523,579	520,232

Formulae for calculating indicators are given on page 167.

1) Proposal.

2) Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

Financial indicators 2002–2011

EURm	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Sales	10,068	8,924	7,719	9,461	10,035	10,022	9,348	9,820	9,787	10,417
EBITDA	1,383	1,343	1,062	1,206	1,546	1,678	1,428	1,435	1,442	1,957
% of sales	13.7	15.0	13.8	12.7	15.4	16.7	15.3	14.6	14.7	18.8
Operating profit, excluding special items	682	731	270	513	835	725	558	470	429	963
% of sales	6.8	8.2	3.5	5.4	8.3	7.2	6.0	4.8	4.4	9.2
Operating profit	459	755	135	24	483	536	318	685	368	861
% of sales	4.6	8.5	1.7	0.3	4.8	5.3	3.4	7.0	3.8	8.3
Profit (loss) before tax	417	635	187	–201	292	367	257	556	425	710
% of sales	4.1	7.1	2.4	–2.1	2.9	3.7	2.7	5.7	4.3	6.8
Profit (loss) for the period	457	561	169	–180	81	338	261	920	312	500
% of sales	4.5	6.3	2.2	–1.9	0.8	3.4	2.8	9.4	3.2	4.8
Exports from Finland and foreign operations	9,252	8,139	7,054	8,515	9,170	9,102	8,397	8,791	8,697	9,475
Exports from Finland	4,313	3,882	3,442	4,371	4,546	4,644	4,006	4,301	4,539	4,759
Non-current assets	11,412	10,557	10,581	10,375	10,639	11,355	12,321	12,802	13,509	14,336
Inventories	1,429	1,299	1,112	1,354	1,342	1,255	1,256	1,138	1,144	1,224
Other current assets	2,524	1,956	1,912	2,040	1,972	1,859	1,964	1,887	1,938	2,064
Assets, total	15,389	13,812	13,605	13,781	13,953	14,469	15,541	15,827	16,591	17,624
Total equity	7,477	7,109	6,602	6,120	6,783	7,289	7,348	7,612	7,029	7,237
Non-current liabilities	5,320	4,922	5,432	5,816	4,753	4,770	5,845	5,966	7,322	8,104
Current liabilities	2,588	1,781	1,571	1,828	2,417	2,410	2,348	2,249	2,240	2,283
Total equity and liabilities	15,389	13,812	13,605	13,781	13,953	14,469	15,541	15,827	16,591	17,624
Capital employed at year end	12,110	11,087	11,066	11,193	11,098	11,634	12,650	12,953	12,811	13,689
Return on equity, %	6.3	8.2	2.8	neg.	1.2	4.6	3.5	12.6	4.4	6.8
Return on capital employed, %	4.4	6.6	3.2	0.2	4.3	4.7	3.4	6.0	5.1	7.4
Cash flow from operating activities	1,041	982	1,259	628	867	1,215	853	997	1,258	1,418
Equity to assets ratio, %	48.6	51.5	48.6	44.5	48.8	50.4	47.3	48.2	42.5	41.1
Gearing ratio, %	48	46	56	71	59	56	66	61	69	71
Net interest-bearing liabilities	3,592	3,286	3,730	4,321	3,973	4,048	4,836	4,617	4,874	5,135
Capital expenditure	1,179	257	913	551	708	699	749	686	720	620
% of sales	11.7	2.9	11.8	5.8	7.1	7.0	8.0	7.0	7.4	6.0
Capital expenditure excluding acquisitions	340	252	229	532	683	631	705	645	703	568
% of sales	3.4	2.8	3.0	5.6	6.8	6.3	7.5	6.6	7.2	5.5
Personnel at year end	23,909	21,869	23,213	24,983	26,352	28,704	31,522	33,433	34,482	35,579

Formulae for calculating indicators are given on page 167.

Deliveries and production

	Deliveries							Production (2002 – 2004)		
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Electricity (GWh)	8,911	9,426	8,865	10,167	10,349					
Pulp (1,000 t)	2,992	2,919	1,759	1,982	1,927					
Papers, total (1,000 t)	10,615	9,914	9,021	10,641	11,389	10,988	10,172	10,886	10,232	10,046
Sawn timber (1,000 m^3)	1,683	1,729	1,497	2,132	2,325	2,457	2,016	2,409	2,408	2,201
Plywood (1,000 m^3)	656	638	567	806	945	931	827	969	936	905

Quarterly figures 2010–2011

EURm	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q1–Q4/11	Q1–Q4/10
Sales	2,686	2,603	2,423	2,356	2,357	2,312	2,216	2,039	10,068	8,924
Other operating income	24	27	15	20	8	42	17	9	86	76
Costs and expenses	–2,425	–2,527	–2,064	–1,997	–2,052	–1,938	–1,877	–1,770	–9,013	–7,637
Change in fair value of biological assets and wood harvested	49	1	11	3	85	14	31	19	64	149
Share of results of associated companies and joint ventures	–2	1	84	–1	–1	–2	8	3	82	8
Depreciation, amortisation and impairment charges	–201	–264	–180	–183	–190	–190	–192	–193	–828	–765
Operating profit (loss)	131	–159	289	198	207	238	203	107	459	755
Gains on available-for-sale investments, net	5	–2	68	–	–	–	1	–	71	1
Exchange rate and fair value gains and losses	–13	–4	–14	–2	2	–11	4	1	–33	–4
Interest and other finance costs, net	–29	–23	–27	–1	–36	–28	–27	–26	–80	–117
Profit (loss) before tax	94	–188	316	195	173	199	181	82	417	635
Income taxes	8	79	–21	–26	–29	–21	–12	–12	40	–74
Profit (loss) for the period	102	–109	295	169	144	178	169	70	457	561
Attributable to:										
Owners of the parent company	102	–109	295	169	144	178	169	70	457	561
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
	102	–109	295	169	144	178	169	70	457	561
Basic earnings per share, EUR	0.20	–0.21	0.56	0.33	0.28	0.34	0.33	0.13	0.88	1.08
Diluted earnings per share, EUR	0.19	–0.21	0.57	0.32	0.28	0.34	0.33	0.13	0.87	1.08
Earnings per share, excluding special items, EUR	0.16	0.19	0.26	0.32	0.27	0.28	0.29	0.15	0.93	0.99
Average number of shares basic (1,000)	524,790	523,128	519,970	519,970	519,970	519,970	519,970	519,970	521,965	519,970
Average number of shares diluted (1,000)	526,154	523,184	523,080	523,182	522,193	521,742	521,333	520,018	523,900	521,321
Special items in operating profit (loss)	–16	–295	88	–	–5	34	4	–9	–223	24
Operating profit (loss), excl. special items	147	136	201	198	212	204	199	116	682	731
% of sales	5.5	5.2	8.3	8.4	9.0	8.8	9.0	5.7	6.8	8.2
Special items in financial items	–	–	68	–	–	–	–	–	68	–
Special items before tax	–16	–295	156	–	–5	34	4	–9	–155	24
Profit (loss) before tax, excl. special items	110	107	160	195	178	165	177	91	572	611
% of sales	4.1	4.1	6.6	8.3	7.6	7.1	8.0	4.5	5.7	6.8
Impact on taxes from special items	33	84	5	3	9	–5	14	3	125	21
Return on equity, excl. special items, %	4.6	5.6	7.4	9.3	8.0	8.6	8.9	4.6	6.7	7.5
Return on capital employed, excl. special items, %	4.6	4.6	6.6	7.8	7.5	6.8	7.3	4.3	5.8	6.4
EBITDA	301	331	372	379	318	384	353	288	1,383	1,343
% of sales	11.2	12.7	15.4	16.1	13.5	16.6	15.9	14.1	13.7	15.0
Sales by segment										
Energy	112	104	108	128	153	124	116	174	452	567
Pulp	349	396	446	457	413	489	455	341	1,648	1,698
Forest and Timber	414	403	440	394	402	387	393	339	1,651	1,521
Paper	1,976	1,895	1,666	1,647	1,656	1,672	1,540	1,401	7,184	6,269
Label	287	292	293	278	276	284	280	260	1,150	1,100
Plywood	88	87	107	94	91	83	97	76	376	347
Other operations	52	58	43	35	42	45	51	40	188	178
Internal sales	–592	–632	–680	–677	–676	–772	–716	–592	–2,581	–2,756
Sales, total	2,686	2,603	2,423	2,356	2,357	2,312	2,216	2,039	10,068	8,924
Operating profit (loss) excl.special items by segment										
Energy	61	39	32	60	68	44	44	81	192	237
Pulp	36	84	143	160	132	199	162	84	423	577
Forest and Timber	29	1	18	2	79	31	52	19	50	181
Paper	4	3	0	–23	–68	–64	–61	–61	–16	–254
Label	15	15	19	19	16	24	24	23	68	87
Plywood	1	–4	4	–1	–5	–3	–3	–7	0	–18
Other operations	1	–2	–15	–19	–10	–27	–19	–23	–35	–79
Operating profit (loss) excl. special items, total	147	136	201	198	212	204	199	116	682	731
% of sales	5.5	5.2	8.3	8.4	9.0	8.8	9.0	5.7	6.8	8.2

Calculation of key indicators

Formulae for calculation of financial indicators

Return on equity, %:

$$\frac{\text{Profit before tax} - \text{income taxes}}{\text{Total equity (average)}} \times 100$$

Return on capital employed, %:

$$\frac{\text{Profit before tax + interest expenses and other financial expenses}}{\text{Total equity + interest-bearing liabilities (average)}} \times 100$$

Equity to assets ratio, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total} - \text{advances received}} \times 100$$

Net interest-bearing liabilities:

Interest-bearing liabilities – interest-bearing assets – listed shares

Gearing ratio, %:

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

EBITDA:

Operating profit + depreciation + amortisation of goodwill + impairment +/– change in value of biological assets +/– share of results of associated companies +/– special items

Return on capital employed (ROCE) for the segments (operating capital), %:

$$\frac{\text{Operating profit}}{\text{Non-current assets + stocks + trade receivables} - \text{trade payables (average)}} \times 100$$

Formulae for calculation of adjusted share-related indicators

Earnings per share:

$$\frac{\text{Profit for the period attributable to owners of the parent company}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

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:

Total number of shares x 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

	31.12.2011	30.9.2011	30.6.2011	31.3.2011	31.12.2010	30.9.2010	30.6.2010	31.3.2010
USD	1.2939	1.3503	1.4453	1.4207	1.3362	1.3648	1.2271	1.3479
CAD	1.3215	1.4105	1.3951	1.3785	1.3322	1.4073	1.2890	1.3687
JPY	100.20	103.79	116.25	117.61	108.65	113.68	108.79	125.93
GBP	0.8353	0.8667	0.9026	0.8837	0.8608	0.8600	0.8175	0.8898
SEK	8.9120	9.2580	9.1739	8.9329	8.9655	9.1421	9.5259	9.7135

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, 2011. 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 or 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.

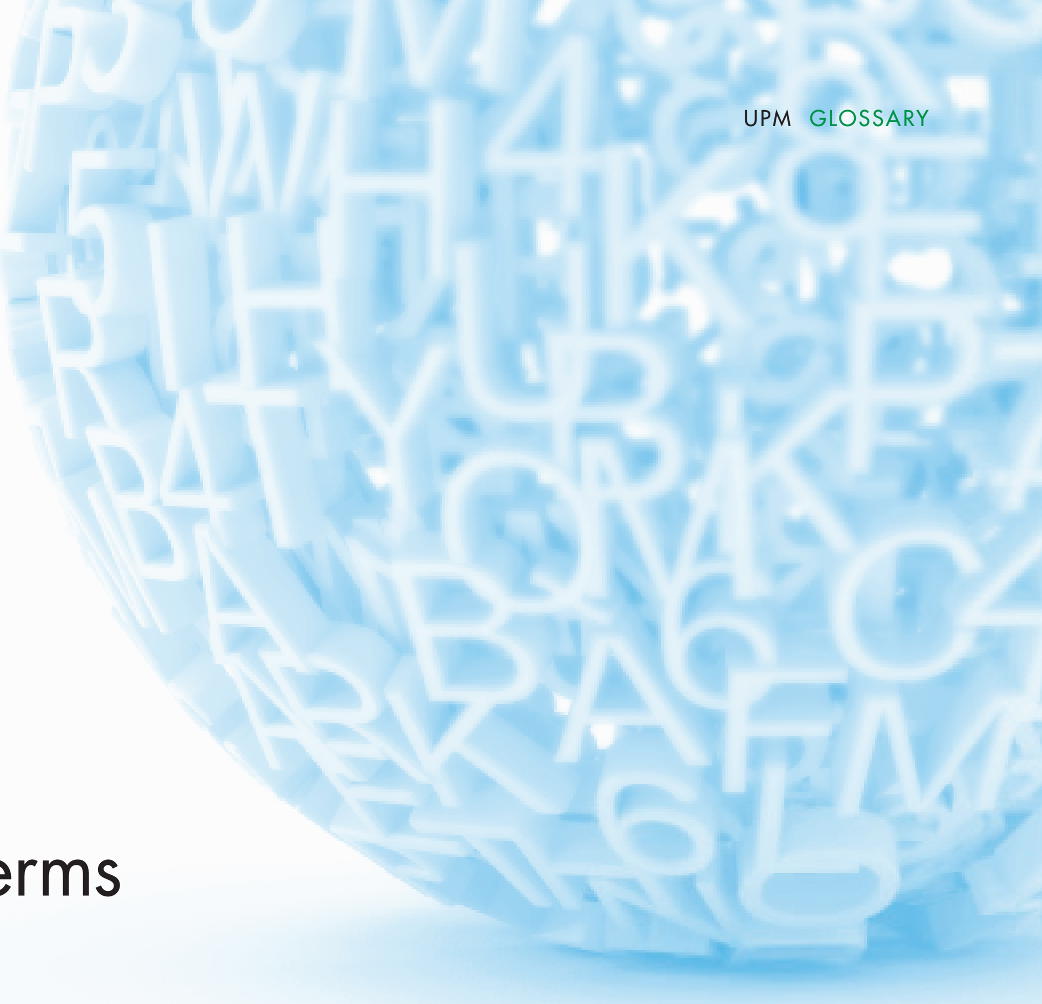
Other Opinions

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 15 February 2012

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 converted to various end products, such as barrier materials, glues, plastics, value-added chemicals etc.

BIOCOMPOSITES
A composite material made of polymers, natural fibres and additives. Its unique properties are utilised in vehicles, packaging, construction materials 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.

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 innovation and 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_2
Combustion product of carbon. Fossil carbon dioxide emissions arise from fossil fuels like coal, oil and gasoline.

CO_2-FREE ENERGY
Energy that is generated from non-fossil energy sources without combustion, like hydro, wind, sun, geothermal or nuclear power.

CO_2-NEUTRAL ENERGY
Energy that is generated from renewable non-fossil energy sources, like biomass, landfill gas, sewage treatment plant gas and biogases.

CARBON FOOTPRINT
An indicator of the total set of greenhouse gas (GHG) emissions, such as carbon dioxide, caused by an organisation, event or product.

CHAIN OF CUSTODY (COC)
An unbroken trail of documentation to guarantee the identity and integrity of the data used, 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.

CRUDE TALL OIL
By-product of wood pulp manufacturing. Raw material of biofuels.

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 well-being is increased with fewer raw materials, less energy and less waste.

ECODESIGN
An approach that takes environmental factors into consideration in the design and development of products and services during their entire lifecycle.

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
Wood that cannot be used for value-added products but is suitable for burning or other energy production, for example forest energy and wood-based side products.

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.

FIBRIL CELLULOSE
Fibrillated cellulose from chemically-produced wood pulp, providing a large range of possibilities to obtain superior material properties for different end products, such as paper, packaging, composites and concrete. Fibres with diameters in the order of 100 nanometres.

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.

FSC
Forest Stewardship Council, established in 1993.

PEFC
Programme for the Endorsement of Forest Certification, established in 1999.

FOREST ENERGY
Logging residues, stumps and small diameter trees removed during clearing and thinning operations and used for energy generation.

GRAVURE PRINTING
Gravure printing is the opposite of letterpress printing, since the design areas are engraved into the cylinder instead of being in relief.

GRI
Global Reporting Initiative. The most widely used framework for corporate responsibility reporting within global companies. The framework sets out the principles and performance indicators that companies use to measure and report their economic, environmental and social performance.

HARDWOOD
Hardwood refers to wood from birch or eucalyptus trees, for example. See Pulp

HYDROTREATED BIOFUELS
Biofuels produced by hydrotreatment technology from non-food liquid feedstocks, such as fats, oils and forest industry by-products.

ISO
International Organisation for Standardisation (ISO), whose ISO 9000 quality standards and 14000 environmental standards are used extensively in industry.

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.

NBSK
Northern bleached softwood kraft pulp from pine and spruce.

NER300
A funding programme managed jointly by the European Commission, European Investment Bank and EU member states for carbon capture and storage demonstration projects and innovative renewable energy technologies. EU will fund from 1 to 3 projects in each member state.

NEWSPRINT
Uncoated paper manufactured mainly from mechanical pulp or recycled paper and used for newspapers and directories.

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 and for other products such as biocomposites and fibril cellulose.

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, forest and other biomass, landfill gas, sewage treatment plant gas and biogases.

SC PAPER
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_2 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.

SOFTWOOD
Softwood refers to wood from pine or spruce trees, for example. 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 (WFU)
Also known as uncoated woodfree paper, this paper is principally used for printing, writing and office end uses. It includes A4 paper used for photocopying.

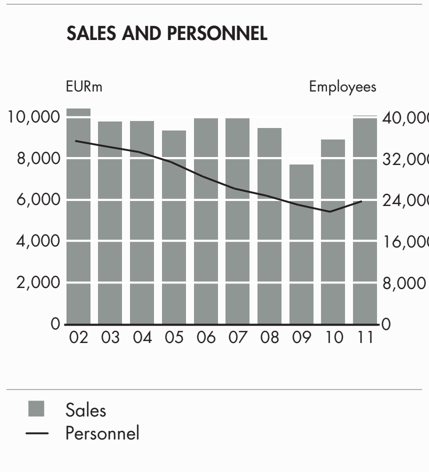
VIP, VARIABLE INFORMATION PRINTING
Labels for variable information labelling (e.g. catch-weight, sell-by-date, bar codes) are either blank, or pre-printed with conventional printing techniques. They are often overprinted using a VIP printing technique such as copier, direct thermal, laser or ink-jet printing.

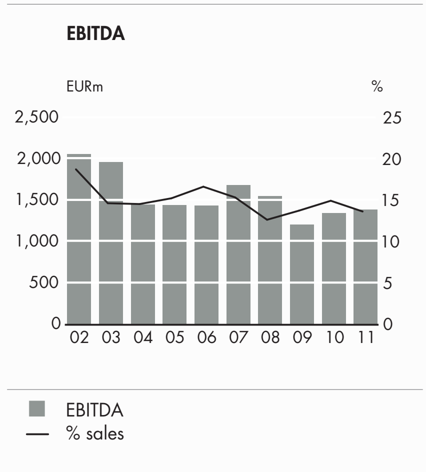
WATER FOOTPRINT
An indicator of the total volume of freshwater that is used to produce the goods and services consumed by the individual or community or produced by the business.

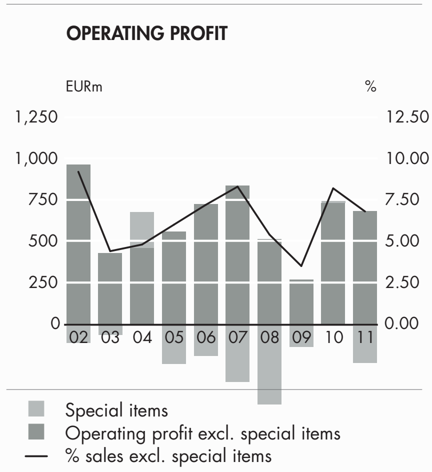
WOODFREE, FREE SHEET OR FINE PAPER
Papers used by the graphics industry and in offices. These papers may be coated or uncoated.

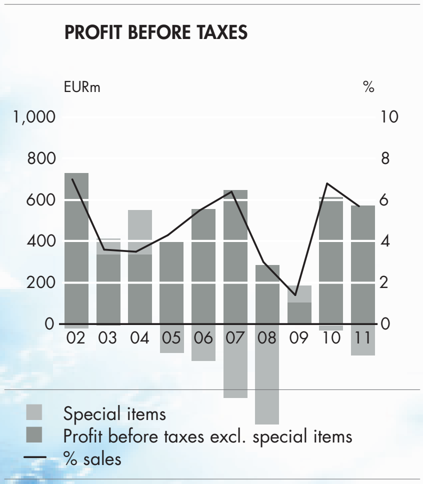
WOOD PRODUCTS
Wood products include sawn timber, further processed and engineered wood products, veneer and plywood products.

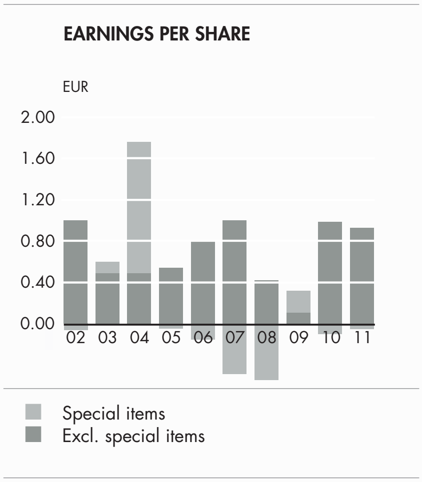
Key financial information 2002–2011

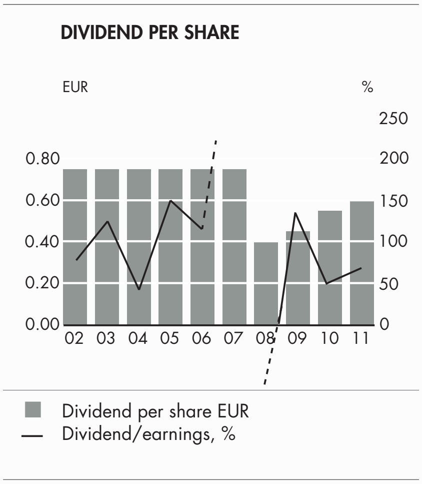




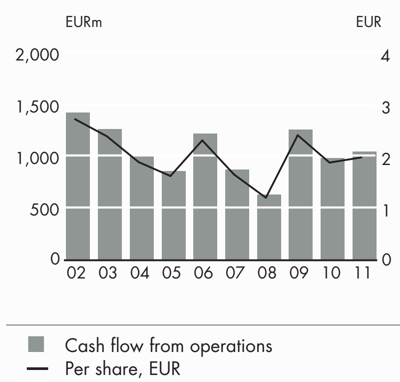




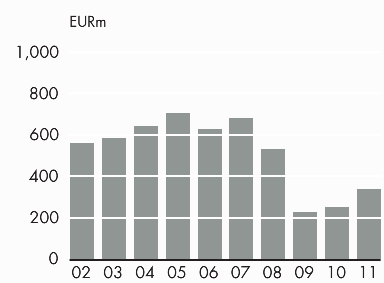




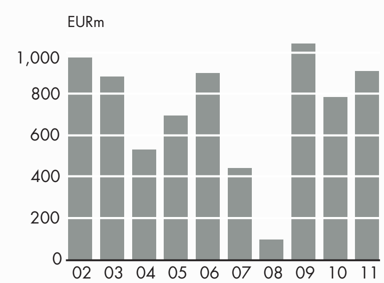
CASH FLOW FROM OPERATIONS



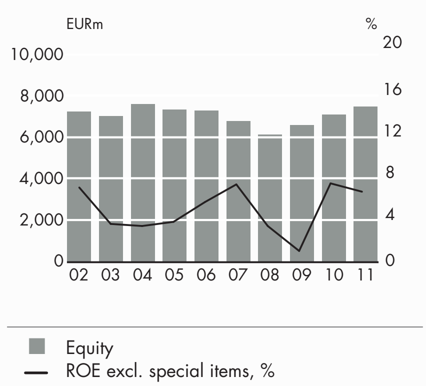
CAPITAL EXPENDITURE EXCLUDING ACQUISITIONS



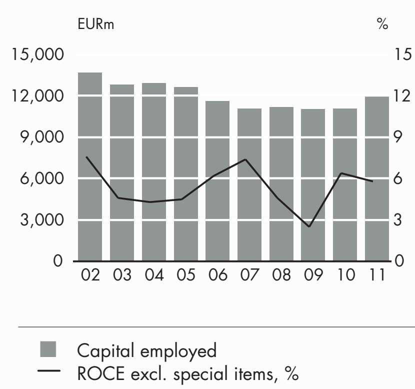
CASH FLOW AFTER INVESTING ACTIVITIES



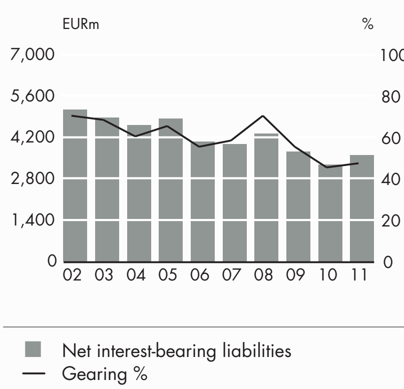
EQUITY AND ROE



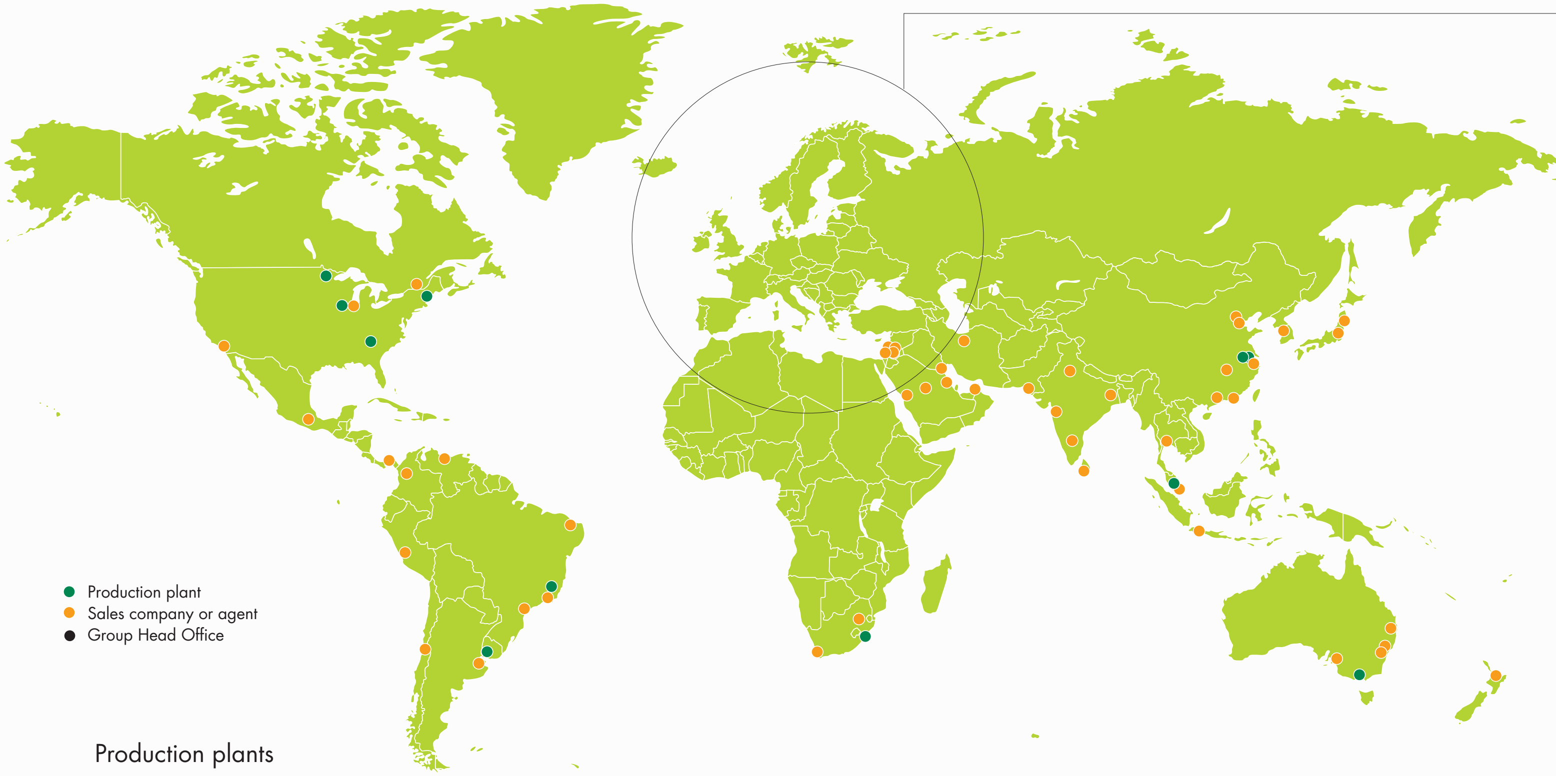
CAPITAL EMPLOYED AND ROCE



NET INTEREST-BEARING LIABILITIES AND GEARING



Production plants and sales network



Production plants

AUSTRALIA
Labelstock factory
UPM Raflatac, Braeside (Melbourne)

AUSTRIA
UPM Steyrermühl paper mill
UPM Steyrermühl sawmill

BRAZIL
Labelstock factory
UPM Raflatac, Rio de Janeiro

CHINA
Paper mill
UPM Changshu

Labelstock factory
UPM Raflatac, Changshu

ESTONIA
Otepää plywood mill

FINLAND
Paper mills
UPM Jämsänkoski (Jämsä)
UPM Kaipola (Jämsä)
UPM Kaukas (Lappeenranta)
UPM Kymi (Kouvola)
UPM Pietarsaari
UPM Rauma
UPM Tervasaari (Valkeakoski)

Pulp mills
UPM Kaukas (Lappeenranta)
UPM Kymi (Kouvola)
UPM Pietarsaari

Labelstock factory
UPM Raflatac Tampere

Plywood mills
UPM
- Joensuu
- Pellos (Ristiina)
- Savonlinna
- Säynätsalo (Jyväskylä)

Veneer mills
UPM
- Kalso (Vuohijärvi)

Sawmills
UPM Alholma (Pietarsaari)
UPM Kajaani
UPM Kaukas (Lappeenranta)
UPM Korkeakoski (Juupajoki)
UPM Seikku (Pori)

Further processing mills
UPM Aureskoski
UPM Heinola
UPM Kaukas (Lappeenranta)

Wood plastic composite factory
UPM ProFi Lahti

Hydro power plants
- Harjavalta
- Kallioinen (Sotkamo)
- Kaltimo (Joensuu)
- Katerma (Kuhmo)
- Keltti (Kouvola)
- Kuusankoski (Kouvola)
- Tyrvää (Sastamala)
- Voikkaa (Kouvola)
- Äetsä

FRANCE
Paper mills
UPM Docelles
UPM Chapelle Darblay
Stracel, Strasbourg

Labelstock factory
UPM Raflatac, Pompey (Nancy)

Further processing mill
UPM, Aigrefeuille

GERMANY
Paper mills
UPM Augsburg
UPM Hürth
UPM Ettringen
UPM Nordland Papier, Dörpen
UPM Plattling
UPM Schongau
UPM Schwedt

Wood plastic composite factory
UPM ProFi, Bruchsal (Karlsruhe)

MALAYSIA
Labelstock factory
UPM Raflatac, Johor

POLAND
Labelstock factory
UPM Raflatac, Kobierzyce (Wroclaw)

RUSSIA
Plywood and veneer mill
UPM Chudovo

Sawmill and further processing mill
UPM Pestovo

SPAIN
Labelstock factory
UPM Raflatac, Polinyà (Barcelona)

SOUTH AFRICA
Labelstock factory
UPM Raflatac, Durban

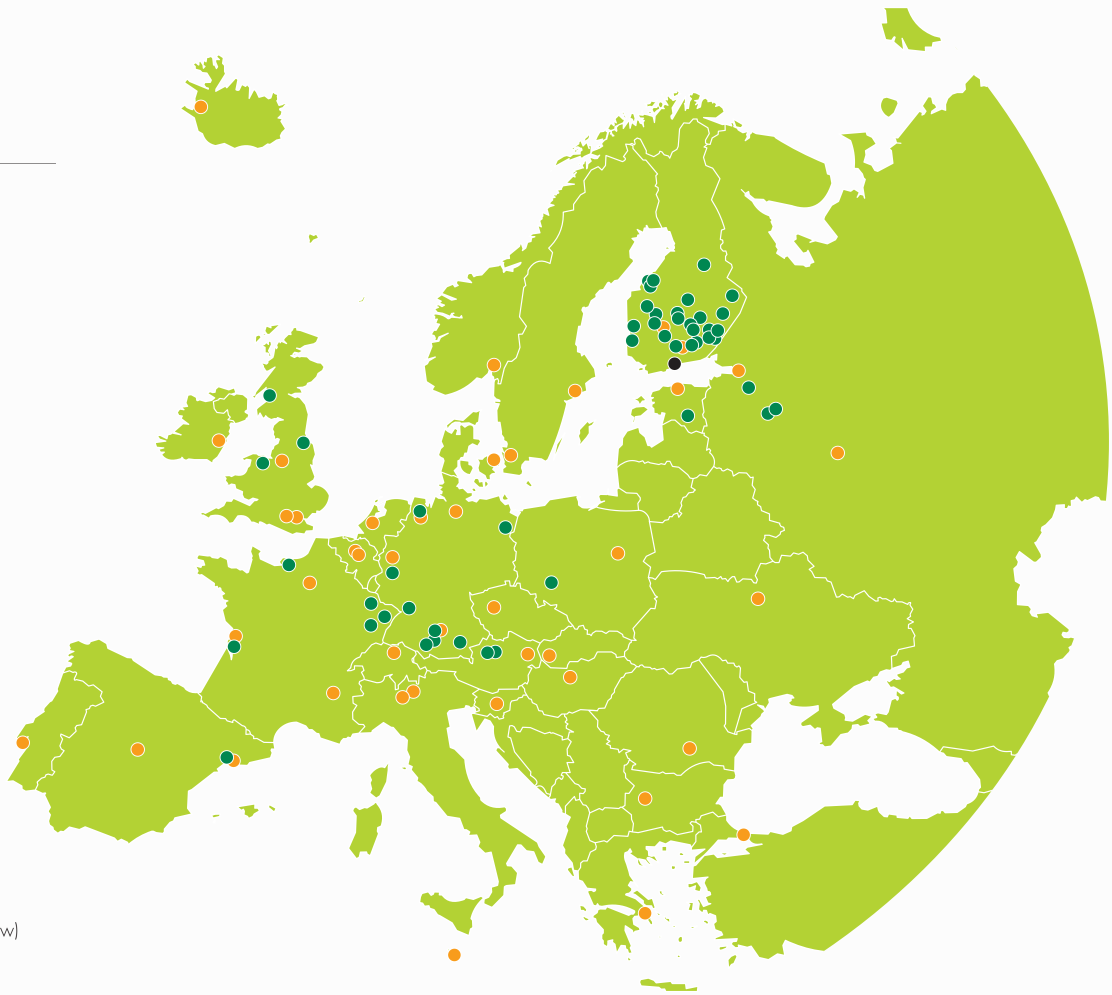
UK
Paper mills
Caledonian Paper, Irvine
Shotton Paper, Shotton

Labelstock factory
UPM Raflatac, Scarborough

URUGUAY
Pulp mill
UPM, Fray Bentos

USA
Paper mill
Blandin, Grand Rapids, MN
UPM Madison, Madison, ME (50%)

Labelstock factories
UPM Raflatac, Mills River, NC
UPM Raflatac, Dixon, IL



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
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
Thailand
United Arab Emirates

AFRICA
South Africa

OCEANIA
Australia
New Zealand

Addresses

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Fax +358 2041 50707
cr@upm.com

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UPM Pulp
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Fax +358 2041 50309
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UPM Forest
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PO Box 32
FI-37601 Valkeakoski, Finland
Tel. +358 2041 6121
Fax +358 2041 6120
metsaviestinta@upm.com

UPM Timber and UPM Living
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PO Box 203
FI-15141 Lahti, Finland
Tel. +358 2041 5113
Fax +358 2041 5112
timber@upm.com
living@upm.com

UPM PAPER BUSINESS GROUP
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Fax +358 2041 50509
paperinfo@upm.com

ENGINEERED MATERIALS BUSINESS GROUP
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FI-00101 Helsinki, Finland
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Fax +358 2041 50514
info@upm.com

Label
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Tesomankatu 31
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FI-33101 Tampere, Finland
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Fax +358 2041 6142
info@upmraflatac.com

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UPM ProFi
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Fax +358 2041 5112
wood@upm.com
profi@upm.com

> **www.upm.com**

Annual General Meeting

UPM-Kymmene Corporation will hold its Annual General Meeting on Friday 30 March 2012 at 14:00, at the Helsinki Exhibition and Convention Centre, Messuaukio 1, 00520 Helsinki, Finland. Instructions for those wishing to attend are given in the notice to the meeting, and can also be found on the company's website at www.upm.com/agm.

Dividend

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.60 per share be paid for the 2011 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 4 April 2012, which is the record date for the dividend payment. The Board of Directors proposes that the dividend payment be made on 13 April 2012.

Financial information in 2012

UPM will publish the interim reports in 2012 as follows:

The Interim Report for January–March 2012 on 26 April 2012
The Interim Report for January–June 2012 on 7 August 2012
The Interim Report for January–September 2012 on 25 October 2012

UPM

www.upm.com

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