The Biofore Company

ANNUAL REPORT 2012

CONTENTS

Contents

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 2012 can be found under the sections for each business area. The GRI content index is on pages 52–53. To find out more about UPM's responsibility agenda, please visit www.upm.com/responsibility.

MORE WITH BIOFORE

UPM leads the integration of bio and forest industries into a sustainable future characterised by innovation, responsibility and resource efficiency. **www.upm.com**

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

biofibrils > page 34
biochemicals > page 34
biofuels for transport > page 34
bioenergy – heat and electricity > page 14
labels and composites > pages 28 and 34
pulp, paper, plywood, wood products > pages 16–27 and 30–31

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

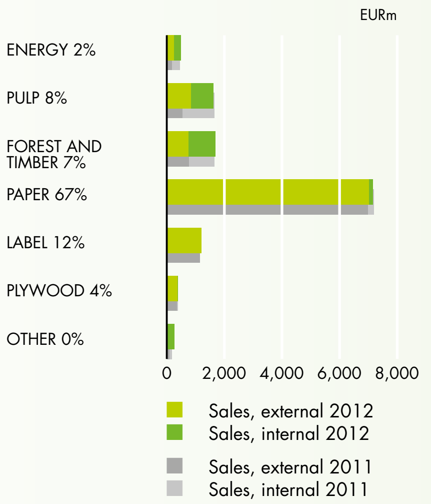
Key financial information 2012

UPM is the Biofore Company and creates value from renewable and recyclable materials.

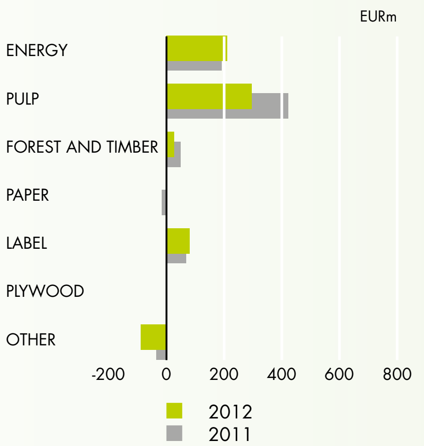
In 2012, UPM's sales totalled EUR 10.4 billion. UPM has production plants in 17 countries and a global sales network. UPM employs approximately 22,000 employees worldwide.

UPM shares are listed on the NASDAQ OMX Helsinki stock exchange. At the end of 2012, UPM had 97,255 shareholders.

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



OPERATING PROFIT BY BUSINESS AREA
(excluding special items)



SALES, EUR MILLION

2012 10,438
2011 10,068
+4%

Sales grew mainly due to higher external sales in Pulp and Energy business areas.

OPERATING CASH FLOW, EUR MILLION

2012 1,014
2011 1,041
–3%

Consistently solid cash flow.

EBITDA, EUR MILLION

2012 1,269
2011 1,383
–8%

Stable financial performance. Pulp prices decreased from 2011 historically high levels.

NET DEBT, EUR MILLION

2012 3,010
2011 3,592
–16%

Solid cash flow enabled significant reduction in net debt.

OPERATING PROFIT, EUR MILLION*)

2012 530
2011 682
–22%

*) excluding special items

MARKET CAPITALISATION, EUR MILLION

2012 4,633
2011 4,466
+4%

EPS, EUR*)

2012 0.70
2011 0.93
–25%

*) excluding special items

DIVIDEND, EUR*)

2012 0.60
2011 0.60
0%

*) 2012: Board's proposal

KEY FIGURES 2010–2012

	2012	2011	2010
Sales, EURm	10,438	10,068	8,924
Operating profit, EURm	–1,350	459	755
excl. special items, EURm	530	682	731
Profit (loss) before tax, EURm	–1,406	417	635
Earnings per share, EUR	–2.39	0.88	1.08
excl. special items, EUR	0.70	0.93	0.99
Operating cash flow per share, EUR	1.93	1.99	1.89
Return on equity, %	neg.	6.3	8.2
excl. special items, %	5.0	6.7	7.5
Dividend per share (2012: Board's proposal), EUR	0.60	0.60	0.55
Shareholders' equity per share at end of period, EUR	11.23	14.22	13.64
Gearing ratio at end of period, %	51	48	46
Capital expenditure, EURm	352	1,179	257

ENERGY AND PULP

Energy	2012	2011	2010
Sales, EURm	480	452	567
Operating profit excl. special items, EURm	210	192	237
Capital employed on 31 Dec., EURm	901	1,022	886
Personnel on 31 Dec.	101	96	72

Pulp	2012	2011	2010
Sales, EURm	1,624	1,648	1,698
Operating profit, excl. special items, EURm	296	423	577
Capital employed on 31 Dec., EURm	2,536	2,558	2,455
Personnel on 31 Dec.	1,504	1,441	1,413

Forest and Timber	2012	2011	2010
Sales, EURm	1,691	1,651	1,521
Operating profit, excl. special items, EURm	27	50	181
Capital employed on 31 Dec., EURm	1,709	1,841	1,799
Personnel on 31 Dec.	2,059	2,638	2,735

• The Energy business area generates low-emission energy and operates on the Nordic and Central European energy markets. UPM's energy generation capacity consists of hydropower, nuclear power, condensing power and wind power.

• The Pulp business area produces high quality chemical pulp for the global market. Four modern, efficient mills in Finland and Uruguay, sustainable wood sourcing and plantation operations form the basis of UPM's reliable and competitive pulp business.

• The Forest and Timber business area comprises Wood Sourcing, Forestry and Biomass businesses as well as UPM Timber. Wood Sourcing secures competitive wood and biomass for all UPM businesses. The Biomass business sells wood and biomass to external customers and the Forestry business provides private forest owners with forest services and manages UPM-owned forests. UPM Timber provides sawn timber and further processed wood products for advanced building applications.

PAPER

Paper	2012	2011	2010
Sales, EURm	7,150	7,184	6,269
Operating profit, excl. special items, EURm	2	–16	–254
Capital employed on 31 Dec., EURm	3,375	5,735	5,284
Personnel on 31 Dec.	12,627	13,877	11,901

• UPM is the world's leading producer of graphic papers, with 21 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. UPM's Paper business aims for competitive advantage and growth in developing markets with cost efficiency, sustainable products, reliability and professional customer services.

ENGINEERED MATERIALS

Label	2012	2011	2010
Sales, EURm	1,202	1,150	1,100
Operating profit, excl. special items, EURm	81	68	87
Capital employed on 31 Dec., EURm	525	513	504
Personnel on 31 Dec.	2,873	2,629	2,543

Plywood	2012	2011	2010
Sales, EURm	387	376	347
Operating profit, excl. special items, EURm	3	0	–18
Capital employed on 31 Dec., EURm	261	258	242
Personnel on 31 Dec.	2,445	2,586	2,737

• UPM Raflatac, the Label business of UPM, provides self-adhesive label materials for product and information labelling for both high-volume and specialised end-use applications. UPM Raflatac has 15 factories and 21 slitting and distribution terminals covering all main markets. UPM is the second-largest producer of self-adhesive label materials worldwide.

• The UPM Plywood business offers plywood and veneer, mainly for construction, transport and other manufacturing industries. UPM develops new plywood solutions and products, including UPM Grada, formable wood material. UPM is a leading plywood supplier in Europe.

Dear shareholder,

In 2012, UPM's financial position remained stable, and by the end of the year the company's balance sheet was stronger than it was a year before. The transformation of the company proceeded briskly. In line with the Biofore strategy, we invested in the development of growth businesses, whereas in our mature businesses we made efficiency improvements and improved our cost-competitiveness.

The profitability of our businesses continued at a similar level to that of 2011; UPM EBITDA for the full year was slightly lower, while our operating cash flow remained strong. During the year, we were able to reduce our net debt by EUR 582 million. Considering last year's volatile economic environment, this is a noteworthy achievement.

With respect to our growth businesses, Energy was an outstanding performer. Additionally, Pulp and Label, as well as UPM's paper business in Asia, continued to perform well.

The profitability of the Paper Business Group overall was weak, although it continued to maintain a healthy cash flow. Paper was able to significantly reduce costs and improve its cost structure, but other the decrease in market prices and lower delivery volumes undermined the profit improvement potential of the business.

Significant efficiency improvements were implemented in the Plywood and Timber business areas, and the results started to be visible towards the end of the year.

Turnover increased somewhat, mainly due to growing external sales in the Pulp and Energy business areas.

In terms of earnings, we were not able to reach the level of 2011, mainly due to the fact that the pulp market returned to normal after a peak year.

Earnings per share, excluding special items, was EUR 0.70 compared to EUR 0.93 during 2011.

The Biofore Company – significant new initiatives

Our target is to generate more than 50% of our sales from well-performing growth businesses by the end of this decade. Last year, our business portfolio was developed in line with the Biofore strategy.

The most significant strategic initiative was made in wood-based renewable biofuels: UPM is constructing the world's first biorefinery to produce high quality, second-generation renewable diesel from crude tall oil in Lappeenranta, Finland.

Renewable diesel is a new opportunity for the company's growth prospects. In the longer term, biocomposites, biofibrils and biochemicals will complement UPM's range of innovative new products.

We also continued to make progress in Asia. We strengthened our position in Asian paper segments and in the label material value chain by building a new woodfree speciality machine in Changshu mill, China. The machine will start operating at the end of 2014.

The Label business invested in specialty products and service terminals in several emerging markets.

All growth initiatives also support the strong profitability of our growth businesses.

In the Paper Business, the Myllykoski integration was completed and synergy benefits materialised as expected.

Paper, Plywood and Timber sales have decreased by 11% in mature markets since 2007. However, these businesses have a fundamental role in implementing our strategy. We expand our growth businesses with the cash flow generated by our mature businesses. In order to reach the targets, it is imperative to improve margins and release capital from our mature businesses.

UPM's decision to change the asset values of the Paper and Energy business areas to better represent their fair values had strategic implications. The new asset values reflect not only the current profitability of the Paper business in Europe, but also the importance of the Energy business as a growth area for the company.

Recognised responsibility

Sustainability and responsibility are at the core of UPM's operations. We are strongly committed to continuous improvement in economic, social and environmental performance. To enhance transparency with our stakeholders, we have adopted the Global Reporting Initiative (GRI) reporting framework.

In 2012, UPM's Biofore strategy and consistent efforts received third-party recognition. We received the highest score for our climate change disclosure in the Nordic Carbon Disclosure Leadership Index. The company was also listed as the only forest industry company worldwide in the Dow Jones Sustainability Indexes. UPM was also chosen as Supersector Leader in Basic Resources sector, which consists of dozens of companies which utilise natural resources. The companies which perform better than their competition are selected in the Indexes.

While UPM received particularly high scores in environmental performance, Dow Jones is placing an even greater emphasis on social responsibility. Transparent reporting and a strong commitment to workplace safety and people development raised UPM in comparison with other companies. With the company-wide Step Change in Safety initiative, we were able almost halve the lost-time accident frequency within just one year.

It is impressive how UPMers have committed to shared targets both in safety and in other development initiatives. I wish to thank our management and employees for renewing with courage and working well together.

Outlook

Economic growth in Europe is expected to remain low in the early part of 2013, with a negative impact on the European graphic paper markets in particular. Growth market economies are expected to fare better, supporting the global pulp and label materials markets, as well as paper markets in Asia and wood products markets outside Europe.

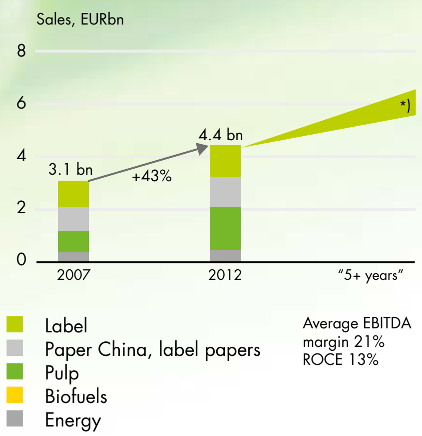
UPM has a strong and versatile business portfolio with profitable businesses which we continue to grow with measured steps. In Paper, we work hard to maintain our strong cash flow.

Also in 2013, UPM's Biofore thinking stands for the versatile and advanced use of forest biomass, as well as being competitive and at the forefront of developments. The Board's dividend proposal of EUR 0.60 indicates the owners' confidence in UPM's positive development.

Jussi Pesonen
President and CEO

Expanding well performing growth businesses with cash flow from mature businesses

GROWTH BUSINESSES

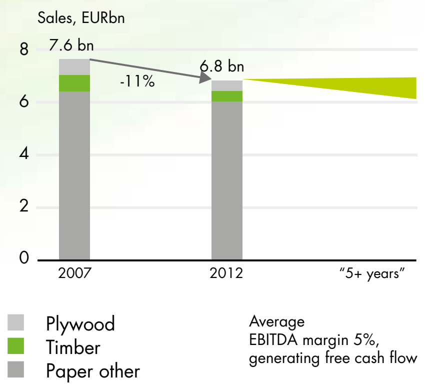


Growth actions 2012

- Paper machine in China
- Biofuel refinery
- Labelstock expansion

*) This is not a forecast, but one scenario from some of UPM's existing growth opportunities

MATURE BUSINESSES



Actions in mature areas 2012

- Divestment of Metsä Fibre shares
- Divestment of packaging papers
- Myllykoski synergies and asset restructuring
- Exit of Stracel paper mill
- Schongau CHP power plant
- Plywood, Timber restructuring

MORE WITH BIOFORE

Creating more with less is UPM's means for better material efficiency. Sustainable and efficient use of resources brings with it advantages with regard to energy, production and cost efficiency.

UPM products are produced in a way that uses less water and energy and generates less waste, thereby giving products more economic and environmental value.

Recycling allows UPM to maximise the lifecycle of biomass and manufacture products in an eco-efficient manner. This is all thanks to UPM's long-term efforts to enhance the resource efficiency and sustainability of its operations.

Innovation plays a key role in developing products that provide resource-efficient alternatives for the future. With elements of ecodesign built into the entire product development process, UPM's new products find innovative ways to replace non-renewable materials with renewable, recyclable and low-impact alternatives.

The focus is on creating tangible results from biofuels, biocomposites, biofibrils and CO_2-neutral energy.

Here are just a few examples of what "More with Biofore" means to UPM.

MORE	LESS
PROFITABILITY	ENVIRONMENTAL FOOTPRINTS
RESOURCE EFFICIENCY	ENERGY USE
RESPONSIBILITY	IMPACT ON WATER RESOURCES
INNOVATION	WASTE
RECYCLABILITY	OIL-BASED RAW MATERIALS

READ MORE The cases in the annual report and www.upm.com/responsibility

Strategic direction for UPM's businesses

Changing operating environment

The world around us is changing fast and the future will bring both opportunities and challenges that we have not experienced before. Global demand for all resources – oil, food, water and energy – is surging, driven by global population growth, urbanisation and a growing middle class in emerging markets.

Furthermore, the shifting of economic power from West to East, climate change and the increasing pace at which business is conducted and digital technologies becoming integrated into our everyday lives will considerably change the operating environment.

The majority of the change drivers support UPM's businesses in the long term, but they do not affect all UPM businesses equally. UPM focuses its growth efforts on markets and regions that have the most promising future potential. To support this strategy, UPM has divided its business portfolio into two groups:

Mature businesses: efficiently run businesses operating in mature markets
- European paper
- Plywood
- Forest and Timber

Growth businesses: businesses with attractive future growth and profitability prospects
- Energy
- Biofuels
- Pulp
- Asian paper and label papers
- Label

In addition, UPM is developing a range of new businesses with high added value, large target markets and synergies with the existing businesses. Biocomposites, biofibrils and biochemicals are examples of these new opportunities. They will broaden the existing product scope and offer opportunities for future growth. (Read more on page 34).

This clarification of business roles is a logical step in UPM's transformation. The continuing decline in demand for paper in the western hemisphere shows that the 2008 decision to focus UPM's growth efforts on businesses with sustained value creation has been right.

	Business area	Strategic targets	Actions in 2012
GROWTH BUSINESSES	ENERGY	Expand in low-emission power generation	• OL4 planning • OL3 construction continued
GROWTH BUSINESSES	PULP	Grow in cost competitive pulp	• Forest plantation development
GROWTH BUSINESSES	BIOFUELS	Grow in advanced biofuels	• Construction of Lappeenranta biorefinery to produce wood-based renewable diesel in Finland • Biomass-To-Liquid (BTL) technology development; NER300 technology grant
GROWTH BUSINESSES	LABEL	Growth through product renewal and in emerging markets	• Acquisition of Gascogne's labelstock operations in Switzerland • Special labels factory start-up in USA • Slitting and distribution terminals opened in Argentina, Mexico, Ukraine and Vietnam
GROWTH BUSINESSES	ASIAN AND LABEL PAPERS	Growth in Asia	• Investment in wood-free speciality paper machine in Changshu, China
GROWTH BUSINESSES	NEW BUSINESS DEVELOPMENT	Biocomposites market entry and business creation Further application development of biofibrils and biochemicals	• UPM ForMi pilot manufacturing started for furniture, household and electronics end-uses
MATURE BUSINESSES	EUROPEAN PAPER	Consolidation in Europe Focus on European profitability	• Myllykoski integration completed • Divestment of packaging papers • Closure of Albbruck and Stracel paper mills • Mill CHP power plant investment at Schongau
MATURE BUSINESSES	FOREST AND TIMBER	Secure competitive biomass	• Finnish forestry development • Restructuring of Finnish sawn timber and further processing businesses; sale of Kajaani sawmill, closure of Heinola and Aureskoski further processing mills
MATURE BUSINESSES	PLYWOOD	Operational efficiency and flexibility	• Savonlinna plywood mill modernisation completed • Restructuring of operations, customer-driven organisation
GROUP			• Sale of RFID business • 11% of Metsä Fibre shares sold to Metsäliitto

DRIVERS FOR UPM'S BUSINESSES

WHAT ARE WE TARGETING?

As The Biofore Company, we create value from renewable and recyclable materials within fibre-based, energy-related and high added-value growth businesses

Generate more than 50% of sales from well-performing growth businesses within 5–8 years

Generate strong cash flow through improved margins and release capital from mature businesses

Maintain a solid balance sheet

Increase UPM's earnings and value

LOW-EMISSION AND RENEWABLE ENERGY

Energy prices and security of supply

Integrating European markets

Climate change

FAST MOVING CONSUMER GOODS, RETAIL

Ageing population in developed markets

GDP growth, urbanisation and growing middle class in emerging markets

ADVERTISING, OFFICE COMMUNICATION

Digitalisation – from print to screen

Change in economic gravity from mature to emerging markets

BIO-BASED MATERIALS

Raw materials scarcity

Sustainability and renewability

Replacing oil-based materials

Strategy implementation and business targets

As the Biofore Company, UPM's vision is to lead the integration of bio and forest industries. Cost competitiveness and materials and energy efficiency, combined with high-quality products and the ability to quickly adapt to changing circumstances, strengthen UPM's competitive position, create new opportunities and increase shareholder value in the long term.

Future-oriented R&D, innovation and new business development are important for the company's long-term success.

Each business area has a defined strategic role and clear targets.

Biofuels is a promising future growth business for UPM. The first biorefinery is under construction in Lappeenranta, Finland and is scheduled for completion in 2014.

The Energy business area's target is to expand in cost competitive, low-emission power generation. Pulp aims to develop competitive plantation-based production, while the goal of the Label business area is to achieve product renewal and expansion, particularly in fast growing markets.

The Paper business area is seeking growth in the attractive Asian markets and in the growing label papers segment. UPM's presence in Asia and its position in the label materials value chain will be strengthened by the investment in a new wood-free speciality paper machine at UPM's Changshu mill in China. In the mature European markets, Paper is focusing on improving margins and generating strong cash flow.

Plywood continues to work on operational efficiency and renewing its business while Forest and Timber concentrates on securing competitive biomass.

UPM's strategy relies on the successful implementation of all of these efforts.

Focus on responsibility and leadership

Corporate responsibility is an integral part of all our operations. UPM is strongly committed to continuous improvement in economic, social and environmental performance. Over the past year, UPM has focused on improving safety at work and environmental performance of the production units in particular. (Read more on pages 17 and 37).

Achieving the ambitious targets requires high performing people and teams to drive business transformation. This also highlights the importance of being an attractive employer with inspiring and empowering leaders, offering diverse opportunities to perform and grow. To ensure the sustainable success of our businesses and people who are making it happen, UPM's management is paying special attention to performance orientation and values-based behaviour.

EVENTS

1 FEB: UPM announces that it will build the world's first biorefinery to produce wood-based renewable diesel

31 MARCH: UPM completes the sale of its RFID business to SMARTRAC N.V.

19 APRIL: UPM sells its11% share in Metsä Fibre Oy to Metsäliitto Cooperative

25 MAY: UPM announces the sale of the closed Albbruck paper mill to the German Karl Group

18 JUNE: UPM ForMi biocomposite replaces plastic as the cover material in mobile phone microscopes

27 JUNE: UPM is named "Most Innovative Company" at 2012 Ethical Corporation Awards

3 JULY: UPM announces that VPK Packaging Group NV and Klingele Papierwerke have made an offer for the acquisition of assets and part of the land at the UPM Stracel paper mill site in France

13 SEPT: UPM is listed as the only forestry and paper company worldwide in the Dow Jones Sustainability Indexes (DJSI)

18 DEC: EU awards NER300 technology grant for UPM's biorefinery project in France. UPM has not made any investment decision on the project

CASE

Dow Jones Sustainability Indexes
Member 2012/13

CARBON DISCLOSURE PROJECT

UPM'S BIOFORE STRATEGY RECOGNISED EXTERNALLY

The cornerstones of UPM's Biofore strategy are the versatile use of renewable and recyclable wood biomass combined with innovation, efficiency and sustainability. In 2012, UPM's strategy and continued efforts gained recognition from several external parties.

UPM was listed as the only forestry and paper company worldwide in the Dow Jones Sustainability Indexes (DJSI) and was chosen as Supersector Leader in the Basic Resources sector for 2012–2013. In particular, UPM was recognised for its high environmental performance, as well as its strong focus on the development of Occupational Health and Safety and for the increased transparency of its corporate responsibility reporting.

UPM also received highest score for its climate change disclosure in the Nordic Carbon Disclosure Leadership Index. The index is compiled annually by the Carbon Disclosure Project (CDP). Successful energy efficiency campaigns, investments in renewable energy and innovations in the development of a low carbon economy are good examples of UPM's approach to mitigating climate change.

UPM was named 'Most Innovative Company' at the 2012 Ethical Corporation Awards. UPM was acknowledged for its ecodesign concept and overall sustainability thinking. UPM's innovative approach has led to new products, such as the world's first diesel manufactured from wood raw material.

READ MORE
www.upm.com/responsibility

UPM as an investment

UPM aims to increase shareholder value

UPM aims to increase profitability, growth outlook and the valuation of the company by renewing its business portfolio.

Part of UPM's strategy is to achieve more than 50% of sales from well-performing growth businesses within 5–8 years. Increasing the share of highly profitable businesses with good growth potential helps the long term profitability of the company. Increasing the share of businesses that are perceived to be more valuable also helps to boost share value.

UPM's focus is also on improving margins and maximising cash flow from the mature businesses. Solid cash flow is important for reshaping the business portfolio and is also the basis for UPM's dividend policy.

Responsibility is an integral part of UPM's Biofore strategy. Good corporate governance, target-oriented leadership, appropriate working conditions and community involvement are important in UPM's way of working. UPM's expertise in renewable and recyclable materials, low-emission energy and resource efficiency is the key in innovating new sustainable business opportunities with high added value. Proactive corporate responsibility work also enables efficient identification and mitigation of business impacts and risks. UPM's consistent efforts in this area gained external recognition in 2012 (read more on page 8).

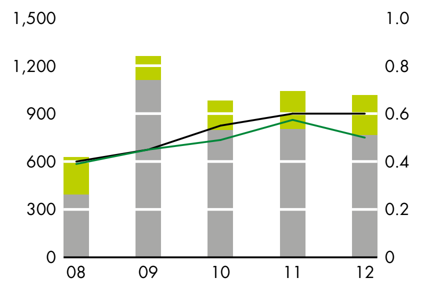
Dividend policy

UPM intends to pay an annual dividend of least one third of the net cash flow from operating activities minus operational capital expenditure. To promote dividend stability, net cash flow will be calculated as an average over a three-year period. Remaining funds will be shared between growth capital expenditure and debt reduction. The net cash flow from operating activities for 2012 was EUR 1,014 million and operational capital expenditure was EUR 248 million.

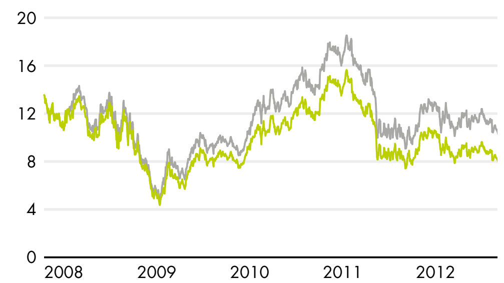
	2012	2011	2010	2009	2008
Share price at 31 Dec, EUR	8.81	8.51	13.22	8.32	9.00
Earnings per share, excluding special items, EUR	0.70	0.93	0.99	0.11	0.42
Dividend per share, EUR	0.60*)	0.60	0.55	0.45	0.40
Operating cash flow per share, EUR	1.93	1.99	1.89	2.42	1.21
Effective dividend yield, %	6.8	7.1	4.2	5.4	4.4
P/E ratio	12.6	9.2	13.4	75.6	21.4
P/BV ratio[1)]	0.78	0.60	0.97	0.66	0.77
EV/EBITDA ratio[2)]	6.0	5.8	7.6	7.6	7.5
Market capitalisation, EUR million	4,633	4,466	6,874	4,326	4,680

*) 2012: Board's proposal
1) P/BV ratio = Share price at 31.12./Equity per share
2) EV/EBITDA ratio = (Market capitalisation + Net debt)/EBITDA

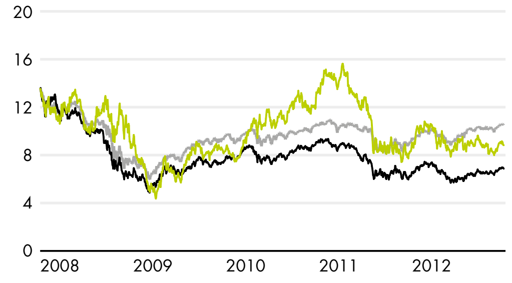
CASH FLOW-BASED DIVIDEND POLICY



UPM SHARE PRICE 2008–2012 AND TOTAL SHAREHOLDER RETURN



UPM SHARE PRICE 2008–2012 COMPARED WITH INDICES



Financial targets

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 2012, the minimum target for return on equity, as defined above, was 6.5%.

The gearing ratio is to be kept below 90%.

Earnings sensitivities

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 2012, UPM's estimated net currency flow for the coming 12 months was EUR 1,960 million. The US dollar represented the biggest exposure, at EUR 1,130 million.

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

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

	EURm
Publication papers	440
Fine and speciality papers	251
Label materials	120
Plywood	36
Sawn timber and further processing	34
Chemical pulp (net effect)	3

FOREIGN CURRENCY NET CASH FLOW

	EURm
USD	1,130
GBP	560
JPY	250
Others, total	20

Cost structure

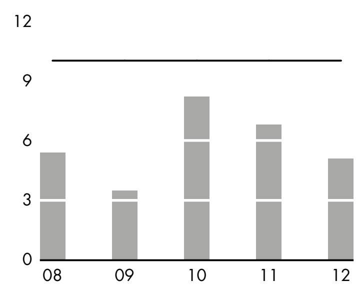
The company's biggest cost items are the cost of fibre raw material and personnel expenses.

COSTS, EXCLUDING DEPRECIATION

%	2012	2011
Delivery of own products	9	9
Wood and fibre	24	24
Energy	10	11
Fillers, coating and chemicals	12	12
Other variable costs	19	17
Personnel expenses	15	15
Other fixed costs	11	12
Total	**100**	**100**

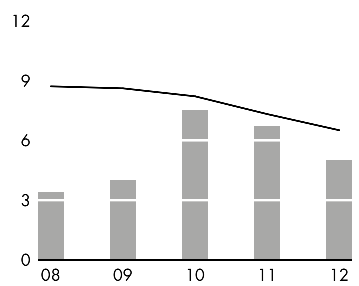
Costs totalled EUR 9.3 billion in 2012 (2011: 9.0 billion)

OPERATING PROFIT EXCLUDING SPECIAL ITEMS COMPARED WITH TARGET



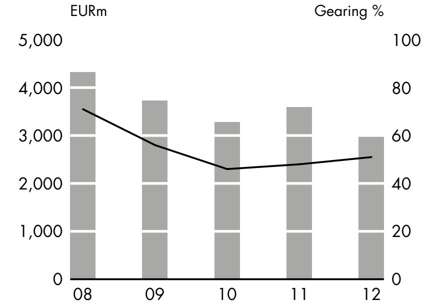
Operating profit excluding special items, % of sales
Target > 10%

ROE COMPARED WITH TARGET



ROE excluding special items, %
Minimum target

NET DEBT AND GEARING



Net debt
Gearing ratio, %

Risk management

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 66.**

Energy

Solid performance

Buoyed up by favourable fundamentals and good hedging performance.

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

The total electricity generation capacity of the Energy business area is 1,721 MW.

UPM owns nine hydropower plants in Finland.

UPM has a 43.9% shareholding in the energy company Pohjolan Voima Oy (PVO), which generates approximately 15 TWh of electricity annually.

- **UPM's shares in PVO consist of hydropower, nuclear power and condensing power.**
- **PVO is a majority shareholder (58.47%) in Teollisuuden Voima Oyj (TVO), a nuclear power producer with a total capacity of 1,760 MW.**
- **UPM has a 581 MW share (33%) in the nuclear power production capacity of TVO's Olkiluoto 1 and 2.**

UPM owns 19% of Kemijoki Oy's hydropower shares.

Business performance

Operating profit increased, mainly due to a higher hydropower volume and a good hedging performance. The average electricity sales price decreased by 2% to EUR 45.2/MWh (46.2/MWh).

2012 was characterised by several positive developments. The hydrological balance remained favourable during the whole year due to wet weather conditions. The Finnish area price was above the Nordic system price as nuclear maintenance work and transmission cable maintenance work between Finland and Sweden continued; at the same time, Russian imports decreased substantially. The organisation and its competencies were also broadly in place by the start of the year.

Business development

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

Over the past few years, UPM Energy business areas has been actively seeking out and obtaining competences, and has developed the organisation into a market-driven business model. In 2012, the Energy business area continued to develop its organisation and capabilities 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.

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

In 2012, UPM Energy started trading on the European Energy Exchange (EEX). Previously, UPM used bilateral deals with large German energy companies when acquiring energy for UPM's German and Austrian paper mills. Compared to bilateral deals, hedging in the EEX offers more flexibility and enables more dynamic market activities. The new operation brings hedging in Germany and Austria to the same level as for the Nordic energy exchange NASDAQ OMX.

The largest on-going project is at TVO, which involves a third nuclear power reactor, OL3, at Olkiluoto, Finland, that has an annual nuclear power generation capacity of 1,630 MW. In 2012, the civil construction works were largely completed and the main components of the reactor were installed. Through PVO, UPM is entitled to a 491MW capacity, which accounts for approximately 30% of the new plant's output.

In July 2010, the Finnish parliament ratified the government's favourable decision-in-principle concerning TVO's application to construct OL4, its fourth nuclear power plant unit. The application for a building permit must be filed by June 2015. Through its shareholdings in PVO, UPM is entitled to an indirect share of approximately 30% of the OL4 project. UPM participates in the financing of the bidding and engineering phase of OL4. Once the bidding and engineering phase is complete, UPM will evaluate the project's feasibility.

UPM has continuously upgraded its own hydropower production assets. An asset development project is currently on-going at Voikkaa hydropower plant, where the refurbishment of two units was completed in 2012 and where the refurbishment of a third unit continues in 2013.

In 2012, UPM acquired minority shareholder TuuliSaimaa's shares in VentusVis Oy, a wind power development company. The operations focus on developing UPM's areas of land for wind power production. Based on preliminary wind measurements, UPM has several land assets that are well suited to wind energy production.

Portfolio management

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

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

Market review

There was a significant improvement in the hydrological situation at the end of 2011, and the balance remained well above the long-term average level during 2012 due to rainy weather conditions in the Nordic countries. By the end of 2012, the Nordic hydrological situation deteriorated and was a mere 1.5% (1.8 TWh) above the long-term average level.

The average electricity spot price on the Nordic electricity exchange in 2012 was EUR 36.6/MWh, 26% lower than in 2011 (49.3/MWh). The high availability of hydropower was also reflected in price development.

As a result of the weak European economy and oversupply of emission allowances, the demand-supply balance has been negatively affected and price development at the emission market has been weak. At the end of December, the CO_2 emission allowance price was EUR 6.7/t, 7% lower than on the same date the year before (7.2/t).

The front-year forward price on the Nordic electricity exchange was EUR 37.6/MWh at the end of 2012, 9% lower than at the end of 2011 (41.5/MWh).

R&D

The Energy business area focuses on improving efficiency and cost competitiveness of biomass-based energy technologies.

The Energy business area is participating in a research programme that targets the use of a more diverse source of biomass fuel that is more readily available. The business area is also participating in a joint research programme that covers the entire value chain of biocoal, i.e. torrefied biofuel, to replace coal in energy production.

BUSINESS PERFORMANCE

SALES

2012	480	+6%
2011	452	EUR million

OPERATING PROFIT *)

2012	210	+18
2011	192	EUR million

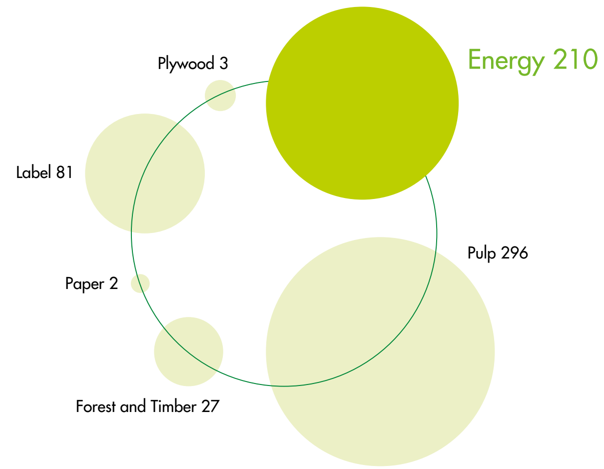
*) excluding special items

CAPACITY TO GENERATE POWER THROUGH OWN POWER PLANTS AND SHAREHOLDINGS

	Nominal MW
Hydropower	707
Nuclear power	581
Condensing power	431
Wind power	2
Total in Energy business area	**1,721**
Combined heat and power and hydropower at mill sites	1,525
Total UPM	**3,246**

UPM'S OPERATING PROFIT 2012 EUR 530 MILLION

(excl. special items)
Other operations EUR –89 million



KEY FIGURES

	2012	2011	2010
Sales, EURm	**480**	452	567
of which internal sales	**230**	275	336
Operating profit excl. special items, EURm	**210**	192	237
Capital employed (average), EURm	**939**	956	882
ROCE excl. special items, %	**22.4**	20.1	26.9
Personnel on 31 Dec.	**101**	96	72
Deliveries, GWh	**9,486**	8,911	9,426

CASE

VERIFIED RENEWABLE ENERGY

UPM has registered all of its European power plants producing renewable energy in the system for guarantees of origin by the end of 2012. Registered power plants are entitled to guarantees of origin, which prove that the electricity being sold, is produced from renewable energy sources.

UPM's nine Finnish hydropower plants and 12 European combined heat and power plants (CHP) located at paper and pulp mill sites are registered in the system. The production methods at each plant have been verified by a verification body.

Approximately 50% of all electricity produced by UPM has been registered with a guarantee of origin. UPM's renewable energy production supports the European Union's climate targets.

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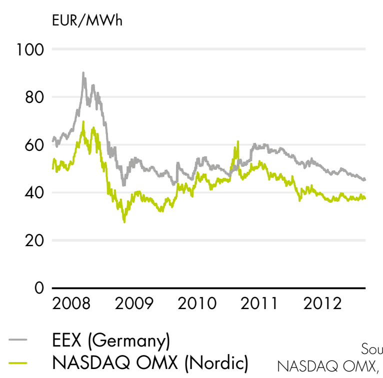
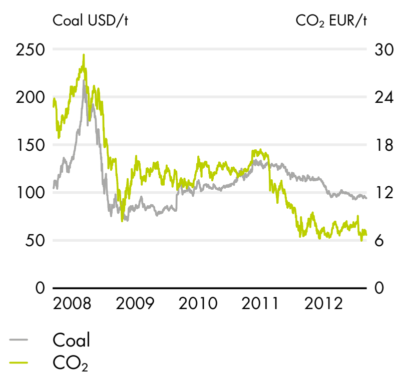
ELECTRICITY 1-YEAR FORWARD PRICE



Source: NASDAQ OMX, EEX

FUEL AND CO_2 EMISSION ALLOWANCE PRICES



Source: ICE

Active operator 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

ENERGY AS BUSINESS

All electricity sales are made at market prices

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

UPM Energy operates in power generation and physical and derivatives trading

ENERGY BUSINESS AREA

ELECTRICITY GENERATION, TWH

2012 9.5
2011 8.8

+8%

TWh	2012	2011
Hydropower	4.0	3.1
Nuclear power	4.7	4.6
Condensing power	0.8	1.1
Total	**9.5**	**8.8**

EXTERNAL ELECTRICITY SALES

6.4 TWh

INTERNAL ELECTRICITY SALES

3.1 TWh

ELECTRICITY PURCHASES

7.1 TWh

UPM PRODUCTION

ELECTRICITY CONSUMPTION, TWH

2012 16.4
2011 15.9

+3%

ELECTRICITY

6.2 TWh

HEAT

26.9 TWh

COMBINED HEAT AND POWER PLANTS AT MILL SITES, TWH

TWh	2012	2011
Electricity generation	6.2	5.7
Heat generation	26.9	25.1

FUELS USED FOR HEAT GENERATION

TWh	2012	2011
Black liquor	16.6	16.4
Bark and other biomass	8.8	8.7
Heat recovered from TMP production	1.7	1.6
Renewable fuels total	**27.1**	**26.7**
Peat	0.8	1.0
Purchased heat	0.4	0.3
Natural gas	9.1	7.4
Oil	0.6	0.7
Coal	3.3	3.3
Total	**41.3**	**39.4**

GROWTH IN LOW-EMISSION ENERGY GENERATION

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

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

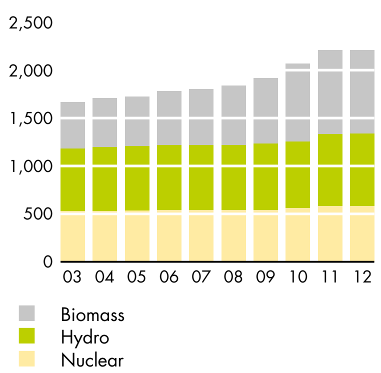
UPM is currently investing in new, safe nuclear power generation in Finland

81% of electricity generated by UPM is free from fossil-fuel CO_2 emissions

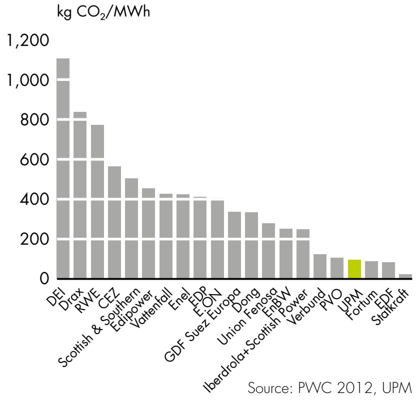
65% of all fuel used by UPM is based on renewable biomass

UPM's investments on biomass-based power and heat generation (CHP) at the production sites has more than doubled the capacity

UPM'S CO_2 EMISSION-FREE POWER GENERATION CAPACITY

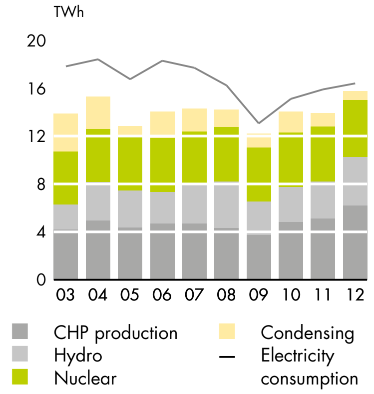


SPECIFIC CO_2 EMISSIONS IN ELECTRICITY GENERATION

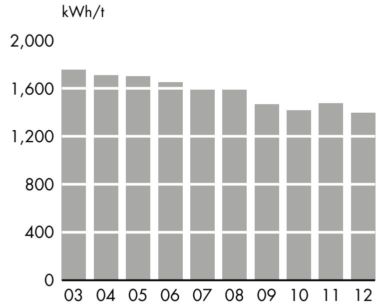


Source: PWC 2012, UPM

UPM GROUP'S ELECTRICITY SUPPLY



UPM'S ELECTRICITY CONSUMPTION PER TONNE OF PAPER



CONTINUOUS ENERGY EFFICIENCY IMPROVEMENTS

UPM's continuous target is to improve energy efficiency

From its energy saving investments carried out in 2012, UPM gained savings of EUR 3.8 million and achieved 20,000 t avoidance in CO_2 emissions and 87,000 MWh reduction in energy consumption. The annual savings are EUR 6.2 million, 45,000 t and 176,000 MWh

UPM is building a new combined heat and power plant at the UPM Schongau mill in Germany as well as upgrading its own hydropower production assets in Finland

Pulp

Growing with a global customer base

UPM is increasing its market presence as a pulp supplier for customers in a wide range of growing end-use areas around the world.

UPM's annual chemical pulp production capacity is 3.2 million tonnes, produced by four modern, efficient pulp mills in Uruguay and Finland.

In Uruguay, hardwood pulp is produced from eucalyptus.

In Finland, hardwood pulp is produced from birch, and softwood pulp is produced from pine and spruce.

UPM has 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

Operating profit decreased, mainly due to the lower pulp sales prices. In the first half of 2012, production was strong. In the second half of 2012, performance was weaker due to mill maintenance shutdowns and some production disruptions.

Business development

UPM is an active operator in the global pulp market and continuously increases its market presence as a reliable pulp supplier for customers in a wide range of growing end-use areas, including tissue, board and speciality papers, as well as printing and writing papers.

UPM aims to grow further as a responsible pulp producer. UPM is a reliable supplier with particular strengths in high quality, efficient logistics, capability of providing different pulp qualities and outstanding environmental performance in wood sourcing and mill operations.

The Pulp business area sold approximately 3.1 million tonnes of pulp in 2012, 1.6 million tonnes of which were sold to external customers globally.

In 2012, UPM continued to develop its pulp sales and marketing organisation around the world, including technical expertise for customer support in China. In April, UPM sold its remaining 11% share of Metsä Fibre Oy to Metsäliitto Cooperative. The agency agreement with Metsä Fibre will terminate by the end of 2013. In 2012, UPM took over pulp sales in all markets outside of Europe, and by the end of 2013, UPM will operate its own sales organisation in all markets.

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

In March, UPM began the rebuild of the effluent treatment plant at the Pietarsaari pulp mill in Finland. The rebuild covers all the main phases of waste water treatment and will improve the mill's production efficiency and environmental performance. The investment is valued at approximately EUR 30 million.

In September, the renewed hardwood pulp production line at the Kymi mill in Finland introduced an oxygen delignification stage. The renewal creates savings in terms of the use of raw materials and the consumption of bleaching chemicals, and decreases the pulp mill's effluent load.

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 the 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 tree breeding programme, and these varieties are propagated in the company's own technologically advanced nurseries.

BUSINESS PERFORMANCE

SALES

2012 1,624
2011 1,648

–1% EUR million

OPERATING PROFIT *)

2012 296
2011 423

–127 EUR million

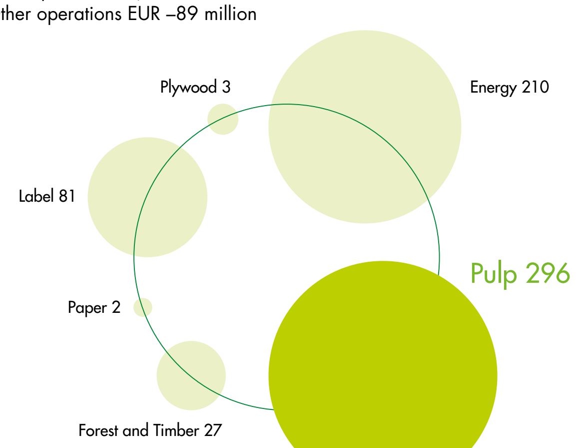
*) excluding special items

PULP PRODUCTION CAPACITY

1,000 t/a	January 2013
Fray Bentos	1,100
Kaukas	740
Pietarsaari	790
Kymi	570
Production capacity, total	**3,200**

UPM'S OPERATING PROFIT 2012 EUR 530 MILLION

(excl. special items)
Other operations EUR –89 million



KEY FIGURES

	2012	2011	2010
Sales, EURm	**1,624**	1,648	1,698
of which internal sales	**789**	1,105	1,301
Operating profit excl. special items, EURm	**296**	423	577
Capital employed (average), EURm	**2,566**	2,396	2,473
ROCE excl. special items, %	**11.5**	17.7	23.3
Personnel on 31 Dec.	**1,504**	1,441	1,413
Deliveries, 1,000 t	**3,128**	2,992	2,919

Forestal Oriental owns 232,000 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. In co-operation with local private landowners, the company's FOMENTO programme works to encourage them to use their farmland in sustainable plantation forestry.

Market review

Global chemical pulp market prices fluctuated during 2012. However, average 2012 prices were lower than in 2011. USD-denominated market prices rose in the first half of the year, eased during the third quarter, and started increasing again towards the end of the year. Destocking dented trends in pulp price growth temporarily, whereas end-use demand remained fairly robust throughout the year. Some price increases were implemented at the end of 2012. The decrease in EUR-denominated pulp prices was lessened by the USD strengthening.

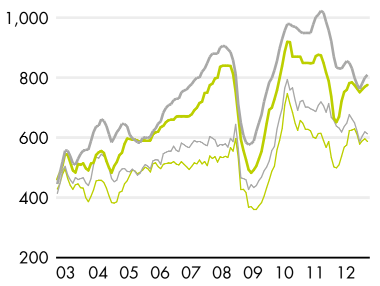
In 2012, the average softwood pulp (NBSK) market price was EUR 634/tonne (689/tonne) and the average hardwood pulp (BHKP) market price was EUR 585/tonne (581/tonne). At the end of the year, the softwood pulp market price was 613/tonne (639/tonne) and the hardwood pulp market price was EUR 587/tonne (499/tonne).

Global chemical pulp shipments increased by 3% from the previous year. The increase in shipments was mainly attributed to China, where shipments grew 14% from 2011. Shipments to the rest of Asia, Africa, Latin America and Eastern Europe increased as well, whereas shipments to mature markets decreased in comparison with the previous year.

R&D

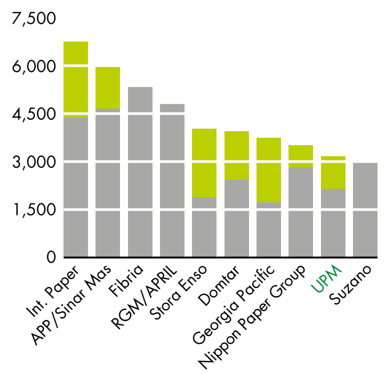
UPM is continuously improving the environmental performance of its mills. In Pulp business area, the consumption of process water has been defined a strategic development project. The aim is to improve the existing mill processes and to develop the next generation pulp process, where the need of process water per tonne of pulp is further reduced from today's level. At UPM's newest mill in Fray Bentos, the consumption of process water is one of the lowest in the industry.

CHEMICAL PULP MARKET PRICES



Source: FOEX Indexes Ltd.

WORLD'S BIGGEST PRODUCERS OF CHEMICAL PULP*)



*) Dissolving and Fluff pulp excluded
Source: Pöyry, UPM

EVENTS

20 MARCH: UPM decides to rebuild the effluent treatment plant at the Pietarsaari pulp mill in Finland

27 APRIL: UPM's new nursery in Guichón, Uruguay is inaugurated

28 SEPT: New oxygen delignification is brought into use at Kymi pulp mill in Finland

CASE

CLEAN RUN FOCUSES ON ENVIRONMENTAL PERFORMANCE

UPM's Clean Run campaign, launched in 2011, aims to further improve UPM's environmental performance at mill sites and to promote awareness of process disturbances on effluent and emissions.

The campaign encourages employees to report and react to minor discharge deviations at the mills. This will help to prevent issues from escalating and impacting on the environment.

Clean Run is in full swing at the pulp and paper mills. In 2013, it will expand to other businesses at UPM.

During the campaign, UPM has standardised its guidelines and created a common database to report environmental observations and deviations. The new reporting system, which is available to all employees, enables consistent follow-up on deviations each month. The aim is to develop operations and to learn from others.

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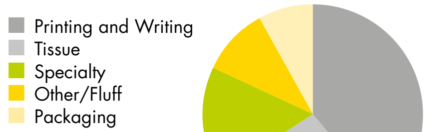
GLOBAL END-USE DISTRIBUTION OF CHEMICAL PULP



Source: Hawkins Wright

Active operator 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 34% of recycled fibre.

MARKET PULP

PULP AS BUSINESS

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

All chemical pulp sales and purchases are made at market prices

UPM's strengths are high quality, efficient logistics as well as outstanding environmental performance in wood sourcing and mill operations

PULP BUSINESS AREA

PULP PRODUCTION, MILLION TONNES

2012 3.1
2011 3.0
+3%

EXTERNAL PULP SALES

1.6 million tonnes

INTERNAL PULP SALES

1.5 million tonnes

EXTERNAL PULP PURCHASES

1.5 million tonnes

PAPER

FIBRE CONSUMPTION, MILLION TONNES

2012 8.3
2011 8.1
+2%

Fibre consumption

1,000 t	2012	2011
Chemical pulp	3,078	3,121
Mechanical pulp	2,375	2,435
Recycled fibre pulp	2,815	2,575
Total	**8,268**	**8,131**

Fibre production at paper mills

1,000 t	2012	2011
Mechanical pulp	2,314	2,382
Recycled fibre pulp	2,796	2,565
Total	**5,110**	**4,947**

PAPER DELIVERIES

10.7 million tonnes

RECOVERED PAPER

3.6 million tonnes

DIVERSIFIED FIBRE PORTFOLIO IN PAPER PRODUCTION

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

UPM Paper is a sustainable choice throughout the entire lifecycle

Recycled fibre represents 34% of all fibre raw materials used in paper production

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

GROWTH IN COST COMPETITIVE PULP

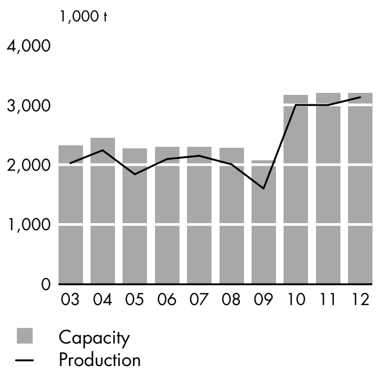
UPM aims to grow as a producer of high quality cost competitive pulp

UPM is active operator in the global pulp market

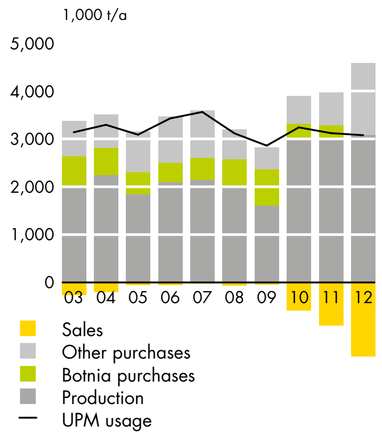
UPM is a reliable and responsible pulp supplier for customers in wide range of end-uses, including tissue, board and speciality papers as well as printing and writing papers

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

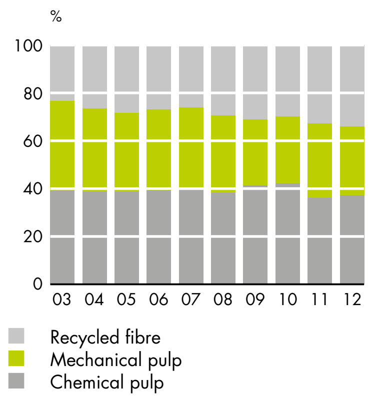
UPM'S CHEMICAL PULP CAPACITY AND PRODUCTION



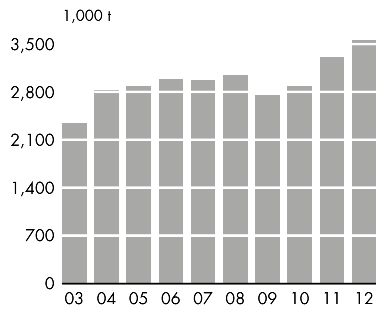
UPM'S CHEMICAL PULP SOURCING



FIBRE RAW MATERIALS USED IN UPM'S PAPER



UPM'S RECOVERED PAPER CONSUMPTION



Source: Pöyry, UPM

ONE THIRD IS RECYCLED FIBRE

UPM is the world's largest user of recovered paper for the production of graphic papers, consuming 3.6 million tonnes of recovered fibre in 2012

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 they wear out they can be used as fuel for renewable energy generation

Forest and Timber
Sharpening focus

UPM carried out restructuring and divestments to increase concentration on operations.

WOOD AND BIOMASS SOURCING
Sources approximately 25 million cubic metres of wood and biomass a year from around the world.

FORESTRY BUSINESS
Offers high quality forest services to forest owners, which includes the management of some 1.1 million hectares of privately owned forests in Finland and the UK.

Manages nearly one million hectares of UPM-owned certified forests.

BIOMASS BUSINESS
Responsible for the sale of wood and biomass to external customers.

UPM TIMBER
Produces and sells sustainable and advanced sawn timber products for building and joinery industries.

Business performance

Operating profit decreased, mainly due to a smaller increase in the fair value of biological assets. In sawn timber, lower fixed costs offset the negative impact of lower average sawn timber prices.

Business development

UPM aims to strengthen its position in selected wood and biomass markets and to secure the competitive supply of wood and biomass to all UPM businesses. In addition to managing UPM's forests, the Forestry business aims to establish and maintain relationships with forest owners by providing a wide range of forestry services. In the Biomass business, UPM aims to become a leading supplier of renewable biomass-based solid fuel materials in Europe. Sawmills operating close to pulp and paper mills have a central role in UPM's wood raw material supply chain, as their by-products are used in the production of pulp, paper and energy.

Restructuring of the UPM Timber business

In April, UPM Timber clarified the strategy of its Timber and Living businesses and announced plans to restructure operations. The new operating model in Finland is based on integrated wood sourcing to UPM mills, and efficient sawmill operations.

These restructuring measures in Finland involved the closure of the Aureskoski and Heinola further processing mills and the sale of the Kajaani sawmill to Pölkky Oy.

In January 2013, UPM announced that it will begin a sales process for its Pestovo sawmill and further processing mill in Russia as well as further processing mill in Aigrefeuille in France.

Wood Sourcing and Forestry

In January, UPM established four jointly owned forests in Finland, with the aim of improving the profitability of forestry, promoting active forest ownership and stabilising wood supplies.

In May, UPM announced a plan to reorganise its wood sourcing and forest service operations in Finland. This restructuring aims at strengthening co-operation with UPM's production units.

Wood sourcing in Central Europe was also reorganised, emphasising close co-operation with the units that use wood and biomass in the region. As a result of a strategic review, UPM sold the UPM Tilhill landscape and arboricultural businesses in the United Kingdom.

In September, UPM was granted a FSC group certificate, which enables UPM to offer private forest owners and communities the possibility of joining the FSC group scheme and becoming certified in accordance with the Finnish FSC standard that came into effect in 2011.

As part of land-use management, UPM continued to sell planned Bonvesta lake shore plots as well as its forest assets in those areas located furthest away from UPM's mills in Finland. The total amount of land assets sold was 31,000 hectares. The size of the deals varied from hundreds of square metres to thousands of hectares. The customers comprised private individuals, institutional investors and organisations. In connection with the significant transactions, a long-term agreement on wood sales and forest management was also signed.

Market review

Wood and forest biomass sourcing

In Finland, total wood purchases in the Finnish private wood market were 28.2 million cubic metres, 11% higher than in 2011 (25.3 million) yet 10% lower than the long-term average. Market activity improved in the first half of 2012 and slowed during the second half of the year.

Finnish wood market prices decreased slightly compared to the previous year. Log market prices remained high in comparison with the long-term average prices, whereas pulpwood prices were in line with long-term average levels.

In August, Russia became a member of the World Trade Organization (WTO). In time, Russian trade barriers are expected to be gradually removed, which may broaden wood sourcing opportunities for UPM mills located in areas where sourcing from Russia is economically viable. Birch import volumes increased, while pine and spruce imports from Russia remained low in 2012.

In Central Europe, wood market prices developed somewhat unevenly, and on average prices were on the same level or slightly higher. UPM's wood sourcing in Central European markets have increased following UPM's acquisition of Myllykoski operations in August 2011.

Timber

In Western Europe, the demand for sawn timber remained weak during 2012 due to the slowing economy and weakening building activity in particular. Demand has remained stable in North Africa and the Middle East as well as in Asia.

The average price of sawn timber decreased in 2012 due to weakening demand.

BUSINESS PERFORMANCE

SALES

2012	1,691	+2%
2011	1,651	EUR million

OPERATING PROFIT *)

2012	27	–23
2011	50	EUR million

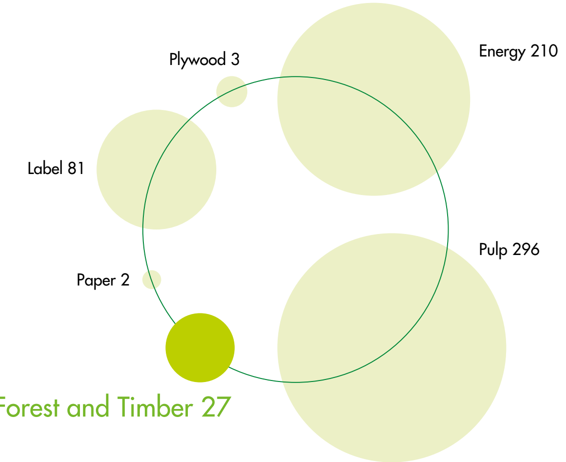
*) excluding special items

FORESTS OWNED BY UPM

	Hectares
Finland	852,000
United Kingdom	7,000
United States	75,000
Total	**935,000**

UPM'S OPERATING PROFIT 2012 EUR 530 MILLION

(excl. special items)
Other operations EUR –89 million



KEY FIGURES

	2012	2011	2010
Sales, EURm	**1,691**	1,651	1,521
of which internal sales	**943**	880	800
Operating profit excl. special items, EURm	**27**	50	181
Capital employed (average), EURm	**1,772**	1,812	1,709
ROCE excl. special items, %	**1.5**	2.8	10.6
Personnel on 31 Dec.	**2,059**	2,638	2,735
Deliveries of sawn timber, 1,000 m³	**1,696**	1,683	1,729

EVENTS

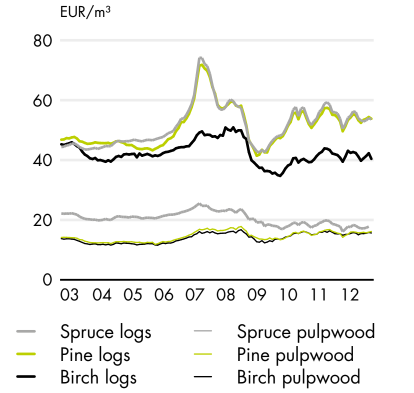
11 APRIL: UPM announces plans to restructure its Finnish sawn timber and further processing businesses

29 JUNE: UPM sells its Kajaani sawmill to Pölkky Oy and announces the closure of Aureskoski and Heinola further processing mills

20 JULY: UPM Tilhill sells its landscape and arboricultural businesses to Ground Control Ltd

31 AUG: UPM Timber sold its 50% share in the export company Rets Timber to Stora Enso

MONTHLY STUMPAGE PRICES FOR LOGS AND PULPWOOD IN FINLAND

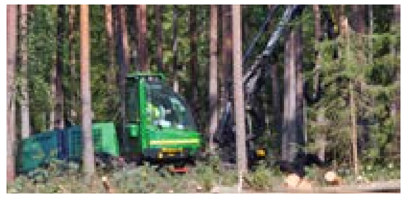


Source: Metla

EXPORT PRICES FOR FINNISH SAWN TIMBER

Source: Metla

CASE



UPM PROMOTES JOINTLY OWNED FORESTS

UPM has established four regional, jointly owned forests in Finland. With the forests, UPM aims to improve the profitability and operating conditions in the Finnish forestry sector and to promote stable wood supply to the market.

Jointly owned forests can be used to form larger forest entities, to avoid splitting up forest properties and to promote active forest ownership. UPM is the only forest industry company to have established several jointly owned forests.

Since 2012, forest owners have been able to incorporate their forest estates into UPM's jointly owned forests. In exchange for their estate, the owners receive shares of the jointly owned forest equivalent to the value of their estate.

The shareholders benefit from efficient wood production, a regular income from wood sales and the forest services provided by UPM.

UPM's jointly owned forests are FSC certified. The profitability of the jointly owned forests is measured by return on investment, which is affected by the yield from stand growth, the costs of and income from forestry, and changes in forest value.

The first forest owners from outside UPM joined UPM's jointly owned forests in 2012.

READ MORE
www.upm.com/biofore

Adding value to sustainably sourced wood and biomass

Wood is a renewable material and the primary raw material for UPM's businesses. The company's expertise on material efficiency and optimising the wood flows provides a solid platform for developing new sustainable higher value-added businesses.

WOOD SOURCING AND RELATED BUSINESSES

UPM is an active participant in the wood and wood-based biomass markets in North and Central Europe, as a buyer, seller and service provider

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

UPM sells wood and biomass and provides forestry services to external customers

UPM's nursery in Finland produces approximately 17 million seedlings and the nurseries in Uruguay produce approximately 35 million eucalyptus seedlings per year

UPM aims to be a significant supplier of renewable biomass-based solid fuel materials in Europe

SUSTAINABLE FORESTRY AND WOOD SOURCING

UPM ensures all wood and wood fibre is sustainably sourced

All of UPM's forests and plantations are certified

All of UPM's wood supplies are covered by a third-party-verified chains-of-custody and 77% of wood used is certified

UPM's global biodiversity programme aims to maintain and increase biodiversity in forests

UPM WOOD AND BIOMASS RESOURCES

FORESTS OWNED BY UPM [1)]

	Hectares
Finland	852,000
United Kingdom	7,000
United States	75,000
Total	**935,000**

PLANTATIONS OWNED BY UPM [1)]

	Hectares
Uruguay	232,000

[1)] In addition, UPM manages 1.1 million hectares of privately owned forests and 151,000 hectares of plantations.

EXTERNAL WOOD SALES

5.3 million m³

INTERNAL WOOD SALES

4.9 million m³

WOOD MARKET

WOOD AND BIOMASS PURCHASES IN 17 COUNTRIES, MILLION M³

2012	25.2
2011	26.8

-6%

25.2 million m³

IN 2012, OF UPM'S WOOD CONSUMPTION

20% ORIGINATED FROM THE COMPANY'S OWN FORESTS AND PLANTATIONS

UPM WOOD AND BIOMASS USE

WOOD CONSUMPTION, MILLION M³

2012	24.3
2011	25.2

-4%

WOOD DELIVERIES TO UPM MILLS

1,000 m³	2012	2011
Finland	16,591	17,152
Germany	1,093	1,196
Austria	833	781
Russia	613	639
France	306	416
United Kingdom	313	322
Estonia	119	150
United States	879	708
Uruguay	3,527	3,867
Total	**24,274**	**25,231**

LOGS
- Plywood 0.7 million m³
- Wood products 1.7 million m³

PULPWOOD
- Pulp 3.1 million t
- Paper 10.7 million t

FOREST RESIDUES
- Heat 26.9 TWh
- Electricity 9.5 TWh
- Biofuels
- Biocomposites
- Biofibrils
- Biochemicals

Recycling

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

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

Paper

Securing cash flow

Myllykoski integration work ran smoothly in an increasingly challenging market environment.

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

UPM's annual paper production capacity is 12.2 million tonnes, manufactured in 21 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

Operating profit increased slightly in 2012. Fixed costs decreased on a comparable basis due to the realisation of Myllykoski synergies. Variable costs also decreased, mainly due to lower fibre costs and Myllykoski synergies. However, the reduction of 10% in comparable deliveries limited the improvement in profitability. The average price of all paper deliveries decreased slightly. Cash flow continued healthy supported by low investment needs.

Business development

The Paper business area focuses on cost leadership and European profitability to secure strong cash flow. The business area is also seeking growth in China and other emerging markets, as well as globally, in label papers.

The year 2012 was characterised by the integration of Myllykoski Group. The acquisition was made in August 2011, and through the deal, UPM aims to strengthen the cost leadership of Paper operations in Europe. The annual cost synergies of the acquisition, including the restructuring measures, are estimated to amount to approximately EUR 200 million. The integration process was well planned and well implemented, and the predicted synergy benefits were realised. During 2012, synergy benefits reduced the costs of the Paper business by approximately EUR 170 million, and the full cost synergies of EUR 200 million are expected to be visible in 2013.

Synergy benefits released from the integration of Myllykoski improved UPM's cost competitiveness considerably. However, the improvement in profitability remained small as delivery volumes were lower than expected.

In August, UPM decided to expand on attractive growth markets by investing in the label materials value chain, involving the construction of a new wood-free speciality paper machine at the UPM Changshu mill in China. UPM already holds a strong position in these markets, being the market leader in label papers both in China and globally, and the market leader in office papers in China.

Both label paper and uncoated wood-free papers have a healthy demand outlook in Asia. The annual growth of UPM's label paper mix is expected to be 8% in Asia and 4% globally. In uncoated wood-free grades, UPM is focusing on high quality office paper, where the Chinese market is expected to grow by 8% per annum.

The new machine is a wood-free speciality paper machine capable of producing up to 360,000 tonnes of uncoated wood-free grades and high quality label papers. The start-up is planned by the end of 2014. The investment will also include future-orientated infrastructure projects at the Changshu site. The total investment cost is EUR 390 million. The investment also provides an excellent platform to strengthen partnerships with self-adhesive labelstock customers and expand into new end-uses in Asia.

In February, UPM decided to build a new combined heat and power plant at the UPM Schongau mill in Germany. The rationale is to reduce energy costs significantly as well as to secure the energy supply for the mill. The total investment is EUR 85 million and the start-up is planned by the end of 2014. The power plant will replace the old plant facility, which has been in operation for more than 40 years.

In June, UPM concluded the sale of its packaging paper operations at the UPM Pietarsaari and UPM Tervasaari mills to the Swedish paper company Billerud. The deal is strategically important as it is the first time that UPM has divested production lines at its mills, leading to two companies sharing the same paper mill site.

In January, UPM ceased paper production at the Albbruck paper mill in Germany, and in August, sold the premises to the German Karl Group.

EVENTS

15 JAN: UPM closes the Albbruck paper mill and transfers the sheeting lines to Plattling in Germany

1 FEB: UPM announces the sale of the packaging paper operations at the Pietarsaari and Tervasaari mills in Finland to Swedish manufacturer Billerud

1 FEB: UPM builds a new combined heat and power plant at the Schongau mill in Germany

7 AUG: UPM announces that it will build a new paper machine producing label papers and uncoated wood-free papers at the Changshu mill in China

UPM'S PRODUCTION CAPACITIES AND MARKET POSITIONS

Paper business area	Paper production capacities 1,000 t/a	UPM's market position Europe	Global
Magazine papers[1]	5,610	1	1
Newsprint	2,730	1	2
Fine papers	3,310	3	4
Speciality papers	560	1–2	
Total	**12,210**		

[1] Excluding the UPM Stracel mill which was closed in January 2013 and 50% of the jointly owned UPM Madison mill.

CASE

UPM USES RECOVERED PAPER EFFICIENTLY

With 3.6 million tonnes, UPM is the world's largest user of recovered paper in the graphic paper industry. UPM maximises resource efficiency and prolongs the lifecycle of its products through recycling.

Material efficiency saves raw materials both during production and at the end of the lifecycle: paper does not generate waste as it can be recycled into a raw material. Paper can be recycled up to six times after its first use, and even after the fibres wear out, they can still be used to generate renewable bioenergy.

UPM has expanded its recycled paper range to include fine and speciality papers, such as office, postal and preprint papers that are made of 100% recovered paper. UPM also received the first EU Ecolabel for newsprint since the criteria were approved in 2012. To meet the criteria, the paper must be produced using at least 70% recovered fibres.

The share of recycled fibre represents one third of all fibre raw materials used in UPM's paper production.

As Russia currently has no organised system for collecting paper from households for recycling, UPM participated in an educational project in schools in St Petersburg. In co-operation with a recovered paper collecting company, UPM set up a paper collection in 151 schools. The schoolchildren collected over 600 tonnes of paper in a competition and, in January 2013, the winners visited the UPM Kaipola paper mill in Finland where the recovered paper is turned into raw material.

The UPM Shotton mill in the UK provides a good example of material efficiency and how to utilise raw materials at all phases of their lifecycle. The mill's materials recovery facility sorts up to 270,000 tonnes of mixed materials, including 120,000 tonnes of newspapers and magazines. The facility also further processes materials such as plastics, cans and other household recyclables sourced from across the UK.

BUSINESS PERFORMANCE

SALES

2012	7,150	0%
2011	7,184	EUR million

OPERATING PROFIT *)

2012	2	+18
2011	–16	EUR million

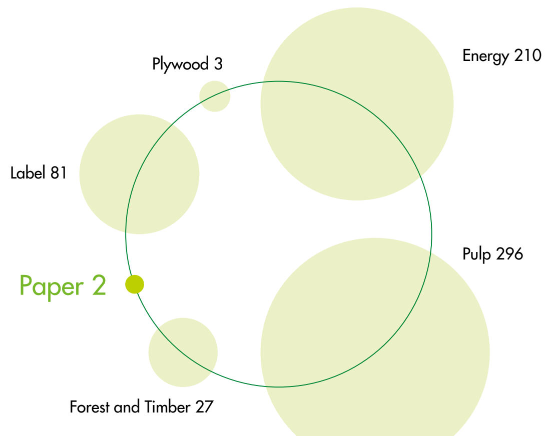
*) excluding special items

PAPER SALES BY MARKET

EURm	2012	%
Europe	4,715	66
United States and Canada	812	12
Asia	1,094	15
Rest of the world	529	7
Total	**7,150**	**100**

UPM'S OPERATING PROFIT 2012 EUR 530 MILLION

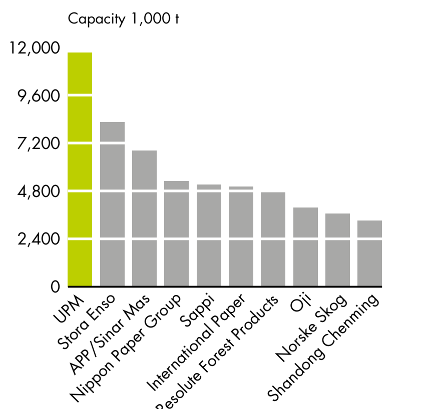
(excl. special items)
Other operations EUR –89 million



KEY FIGURES

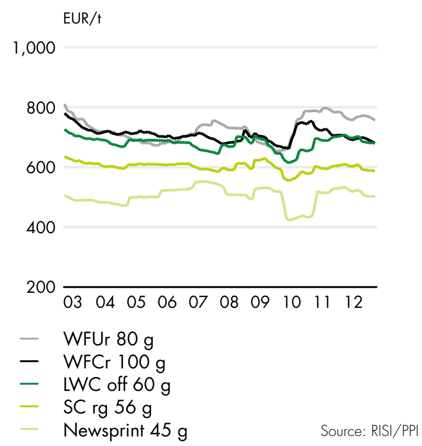
	2012	2011	2010
Sales, EURm	**7,150**	7,184	6,269
Operating profit excl. special items, EURm	**2**	–16	–254
Capital employed (average), EURm	**5,470**	5,437	5,465
ROCE excl. special items, %	**0.0**	–0.3	–4.6
Personnel on 31 Dec.	**12,627**	13,877	11,901
Deliveries, 1,000 t			
Publication papers	**7,230**	7,071	6,123
Fine and speciality papers	**3,481**	3,544	3,791

WORLD'S BIGGEST GRAPHIC PAPERS PRODUCERS



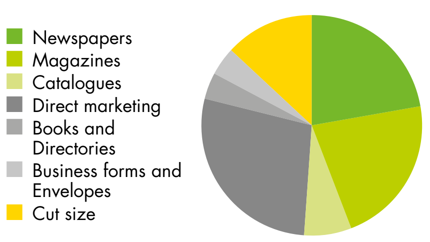
Source: Pöyry, UPM

PAPER PRICES IN EUROPE



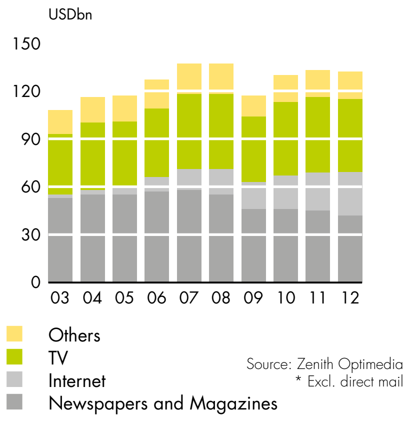
Source: RISI/PPI

GRAPHIC PAPER END-USES IN EUROPE



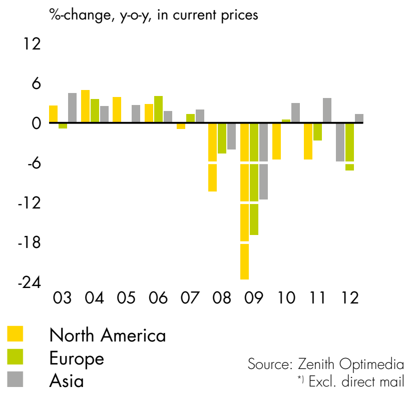
Source: Euro-Graph, RISI, UPM

EUROPEAN ADVERTISING EXPENDITURE BY MEDIA



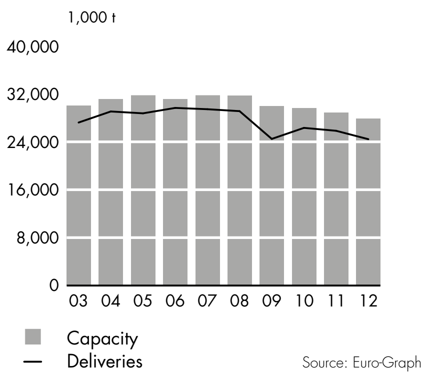
Source: Zenith Optimedia
* Excl. direct mail

ADVERTISING IN NEWSPAPERS AND MAGAZINES*)



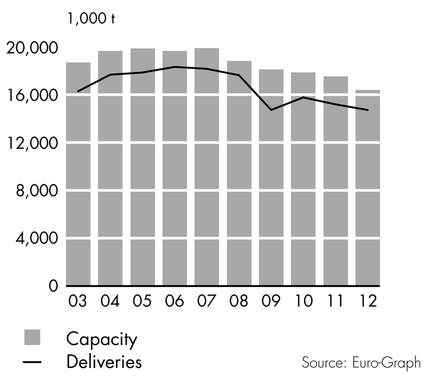
Source: Zenith Optimedia
*) Excl. direct mail

PUBLICATION PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE



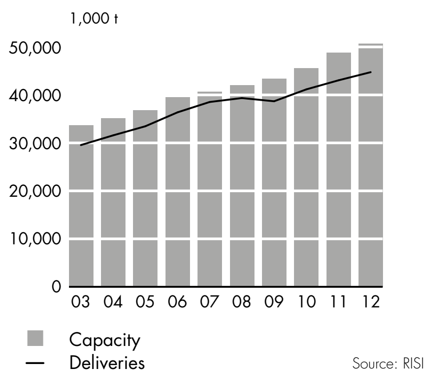
Source: Euro-Graph

FINE PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN EUROPE



Source: Euro-Graph

FINE PAPER PRODUCTION CAPACITIES AND TOTAL DELIVERIES IN ASIA



Source: RISI

In January 2013, UPM ceased paper production and signed an agreement on the sale of assets and part of the land of the UPM Stracel paper mill site in Strasbourg, France.

In October, UPM announced that it would start a new review of costs and structures to improve the profitability of its European paper operation in connection with the release of the third-quarter report.

In January 2013, UPM announced its plans to take further restructuring measures to improve the cost competitiveness of its European operations. The plan includes to permanently reducing paper capacity in Europe by 580,000 tonnes. Streamlining of the Paper business group and UPM's global functions are also included in the plan.

UPM plans to permanently close the PM 3 at UPM Rauma mill in Finland and the PM 4 at UPM Ettringen in Germany by the end of first half of 2013. Both machines are producing uncoated magazine paper, in total 420,000 tonnes annually.

In France, UPM plans to sell UPM Docelles mill in France. The process will be given maximum six months. Docelles is producing uncoated wood-free papers, 160,000 tonnes annually.

Including UPM Stracel paper mill closure in January 2013, the plans are estimated to result in annual fixed cost savings of EUR 90 million, and one-time cash costs of EUR 100 million. If all plans will be implemented, UPM's personnel would be reduced by approximately 860 persons. The plans would affect several countries.

The strict capital expenditure policy was continued in 2012. Capital expenditure within the Paper business area was EUR 176 million (159 million). The largest ongoing investments are the combined heat and power plant project in UPM Schongau in Germany and the specialty paper machine at the UPM Changshu mill in China.

Market review

The European paper market was negatively impacted by the recession in Europe. In 2012, demand for graphic papers declined by 6% compared to the previous year. Graphic paper prices decreased during the course of the year and were on average 2% lower than in 2011. Similarly, demand slowed in North America. Demand for magazine papers decreased by 7% in North America. Market prices for magazine paper decreased in the first half of 2012, and remained stable in the second half of the year. In North America, magazine paper prices were on average 2% lower than in 2011.

Magazine publishers in Europe experienced a slight decrease in readership and circulation figures. Advertising pages decreased, mainly due to the weak economy but also due to advertisers allocating spending from print to digital media, following changes in consumers' time usage. Magazine advertising expenditure decreased by 5% in Europe and North America compared to the previous year. Spending on magazine advertising, on the other hand, increased by 12% in developing countries like China, Russia, India and Turkey in 2012.

The year 2012 was also challenging for newspaper publishers. Both printed newspaper titles and circulations decreased in Europe. Expenditure on newspaper advertising in Europe decreased by 7% in 2012.

Direct mail end-use and demand from the retail sector remained stable in 2012. According to several studies, direct mail continues to play an important role in multi-channel marketing campaigns.

Spending on internet advertising continued to grow throughout the year and contributed to the slight positive development seen in the total advertising expenditure in 2012. The role of printed media as an advertising medium decreased slightly, but remains strong in the core of the multi-channel media and advertising platforms.

Demand for office papers decreased by 4% in Europe in 2012 driven by changes in consumer copying habits and new technologies.

In Asia, market prices for fine paper increased slightly during the first half of 2012, but decreased in the second half of the year. On average, prices were 7% lower than in 2011. Buoyed by a growing middle class and positive economic growth, demand for fine papers increased by 4% in Asia in 2012.

The growth in demand for label papers slowed globally during 2012, but still remained healthy in China and other developing markets. Long-term growth prospects are encouraging, at a level of 4% per annum globally, as growth follows regional consumer spending and GDP development.

R&D

Research and development work target mainly material efficiency and short and medium term energy savings.

In terms of material efficiency, the focus is on process waste and recyclable surplus materials coming from paper mills. The material efficiency programme embarked on 17 projects at nine UPM paper mills. The objective is to reduce process water consumption and lower the amount of suspended solids.

A programme concerning energy saving in mechanical pulping was carried out during 2009–2011. The aim was to develop and implement new, energy efficient production technologies. During 2012, energy efficient thermo-mechanical pulp production applications continued to be implemented at the mills. Thanks to the projects, energy consumption per tonne of pulp was reduced by 15% at the Kaipola and 21% at the Rauma and Steyrermühl paper mills. New projects are ongoing at the Jämsänkoski, Rauma and Kaipola mills.

CASE
ECONOMIST DOES MORE WITH LESS

2012 saw the 20th anniversary of the Rio Earth Summit. UPM's case study on the internationally renowned news and business publication, The Economist, provides a real-life example of how to add more value with fewer resources and less impact. The case study reveals how much progress just one magazine has made in terms of sustainability in only 20 years.

To achieve this dramatic improvement, UPM has made significant investments in areas such as new wastewater treatment facilities and state-of-the-art biomass-based renewable energy plants. All this means more efficient paper production, less water, less waste, less energy and a lower carbon footprint.

The Economist

WATER USED
–35%

PRODUCTION WASTE
–90%

CARBON EMISSIONS
–90%

CERTIFIED WOOD FIBRE
+100%

Label

Growth in specialty labels and new markets

Growth strategy advanced thanks to acquisitions and greenfield investments in both special products and new growth markets.

UPM's Label business, UPM Raflatac, manufactures self-adhesive label materials for product and information labelling for both high-volume and specialised end-use applications.

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. However, in recent years, big label printers have become an increasingly large part of UPM's customer base and their role in the industry has also increased.

Business performance

Operating profit increased from the previous year, mainly due to lower raw material costs and a favourable product mix. Fixed costs increased due to expanded operations.

Business development

UPM Raflatac continued to expand its product offering and presence in rapidly growing markets, as well as continued to strengthen its position in specialty labelstock products, particularly in developed markets. During 2012, several measures were taken to fulfil the growth strategy, both through acquisitions and through organic investments.

To strengthen its offering in specialty products, UPM Raflatac acquired the labelstock business operations in Switzerland from the Gascogne Group at the end of August. UPM immediately adjusted the cost structure and organisation of the acquired operations, and moved part of the production to other factories in order to improve the financial performance of the acquired operations. UPM also made progress in specialty labels in the US, as production started in a new factory in North Carolina.

To meet growing demand in Latin America and to extend its product offering and presence in the region, UPM Raflatac opened a new slitting and distribution terminal in Buenos Aires in Argentina in March and in Mexico City in April. These actions are a great complement to the labelstock acquisition in Brazil, which was completed in 2011.

In Asia, UPM Raflatac opened a new slitting and distribution terminal in Ho Chi Minh City, Vietnam, and invested in new hotmelt adhesive mixing and coating technology at the factory in Changshu, China. The new manufacturing capabilities allow a wider product range in Asia.

To strengthen its position in the growing Eastern European market, UPM Raflatac also opened a new slitting and distribution terminal in Kiev, Ukraine, in August.

Market review

Label materials have a wide range of end-uses: food and beverage labelling, retail and logistics, applications in personal care, home care and durables, and 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.

The label materials market offers growth potential around the world. In terms of volume, growth potential is strongest in the emerging markets of Asia and Latin America. In Europe, the United States and Japan, growth is mainly driven by product renewal and tailored solutions. Although there is most growth in emerging markets, the main volume still comes from mature markets.

Due to macro-economic weakness, growth in the global demand for self-adhesive labelstock gradually decreased over the year but picked up somewhat in the fourth quarter. Demand in Western Europe is estimated to have decreased marginally, whereas in North America demand is estimated to have experienced a modest growth. In Asia, demand was cut around the summer period but growth strengthened towards the end of the year. In Latin America, the year started out with robust growth but a clear slow-down was experienced around the middle of the year. Over the whole year, small growth in global demand was experienced. Products driven by private consumption – e.g. those for food, beverage and personal care end-uses – fared better than products used in industrial production and logistics.

Average raw material costs decreased in the first half of 2012 following a significant inflation in 2011. In the second half of 2012, raw material costs levelled off. Average sales prices increased, mainly as a result of an improved product mix.

R&D

The R&D focus is twofold: on the one hand introducing and increasing the amount of specialty products and on the other reducing cost of standard products through thinner raw materials.

In 2012, a significant number of new tailored label solutions and end-use specific specialty products were introduced e.g. for wine and security end-uses. More sustainable solutions, often constructed of thinner raw materials, were also developed for various end-use areas and introduced to the market. These new solutions allowed a reduction of the gauge of many film and paper materials for both face materials as well as liners.

Over the past few years, UPM has also put a significant amount of effort into material efficiency. The objective is to maximise the reuse of raw materials and minimise the amount of waste produced. UPM's RafCycle waste management concept facilitates the reuse of waste from the self-adhesive labelstock industry. Waste from labelstock manufacturing, label printing, labelling and packing is used to produce UPM ProFi wood plastic composite products or paper, or is turned into energy.

EVENTS

20 MARCH: UPM Raflatac opens a new slitting and distribution terminal in Buenos Aires, Argentina

17 APRIL: UPM Raflatac opens a new slitting and distribution terminal in Mexico City

27 APRIL: UPM Raflatac opens a new factory for speciality labelstock products in the USA

1 JUNE: UPM Raflatac announces the acquisition of Gascogne's labelstock operations in Martigny, Switzerland

10 AUG: UPM Raflatac opens a slitting and distribution terminal in Kiev, Ukraine

16 NOV: UPM Raflatac opens a new labelstock slitting and distribution terminal in Ho Chi Minh City, Vietnam

BUSINESS PERFORMANCE

SALES

2012	1,202	+5% EUR million
2011	1,150	

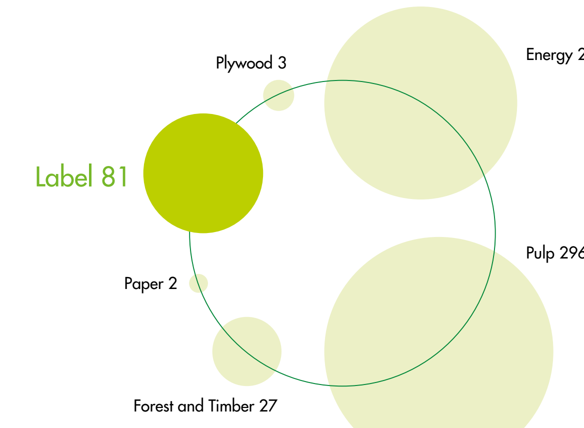
OPERATING PROFIT *)

2012	81	+13 EUR million
2011	68	

*) excluding special items

UPM'S OPERATING PROFIT 2012 EUR 530 MILLION

(excl. special items)
Other operations EUR –89 million



KEY FIGURES

	2012	2011	2010
Sales, EURm	**1,202**	1,150	1,100
Operating profit excl. special items, EURm	**81**	68	87
Capital employed (average), EURm	**524**	486	509
ROCE excl. special items, %	**15.5**	14.0	17.1
Personnel on 31 Dec.	**2,873**	2,629	2,543

CASE

LABELS SPECIALISE

UPM Raflatac is investing heavily in the production of specialty products in the USA. In Europe, the company has developed new solutions and expanded its range of high added value products by acquiring Gascogne Laminates in Switzerland. In China, UPM Raflatac is investing in hotmelt technology and significantly expanding its product range.

UPM Raflatac strongly believes in new, innovative label materials, but also invests in the renewal of its existing products.

The principles of sustainable development have a significant impact on the label business, just as they do on other businesses. In practice, this means using materials more efficiently and introducing new, thinner materials.

The ProLiner PP30 liner solution is a good example of a product that helps UPM Raflatac to achieve significantly better material efficiency in line with UPM's Biofore vision. ProLiner is lighter than other corresponding products. As a result, it increases the efficiency of production logistics and the productivity of the entire production chain.

UPM Raflatac is expanding its range of specialty products for demanding applications. In these products, special attention has been paid to durability, adhesion and functionality. Typical end-uses include pharmaceutical and tyre industries, security applications and durable consumer goods.

READ MORE
www.upm.com/biofore

GROWTH IN EMERGING MARKETS

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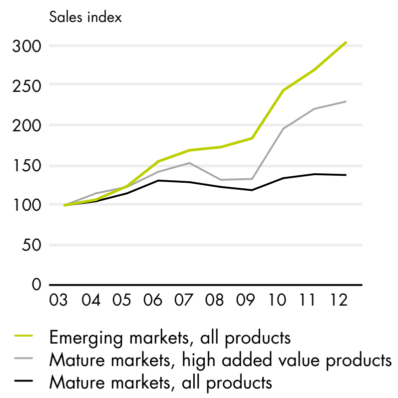
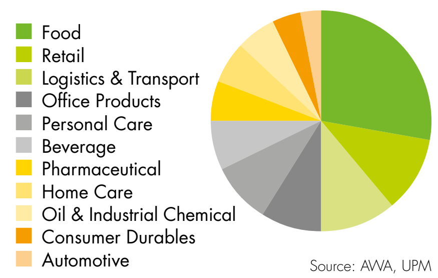


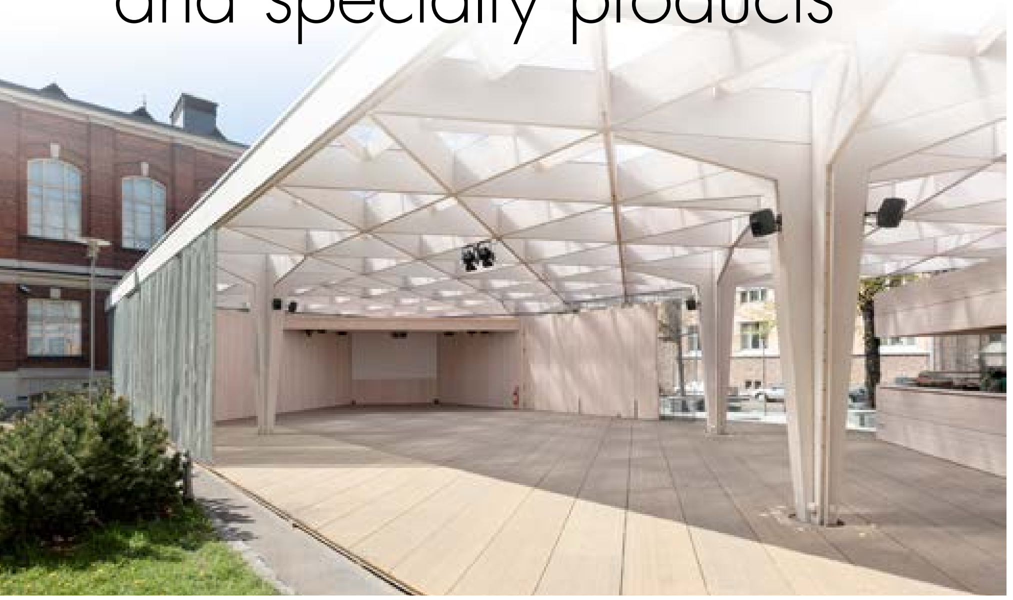
GLOBAL LABELSTOCK END-USES



Source: AWA, UPM

Plywood

Profitability through streamlining and specialty products



Plywood seeks growth opportunities in specialty products in order to offset weak market conditions in Europe.

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

UPM's annual plywood and veneer production capacity is approximately one million cubic metres.

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

Business performance

Operating profit increased slightly due to higher delivery volumes and lower fixed costs. Prices were roughly at the previous year's level, whereas variable costs, such as wood and logistics, increased.

Business development

UPM's Plywood business area focuses on cost efficiency and improvement in earnings. It also aims to grow in terms of solutions for more demanding end-uses and through new products and composite material solutions. 2012 was characterised by slowing plywood demand in Europe and the implementation of internal measures to lower fixed costs.

In September 2011, UPM announced a plan to restructure and streamline its plywood operations. Headquarter operations, mill maintenance and the international sales organisations were reorganised. The plan was carried out during the first half of 2012 and resulted in significant cost savings. Yet these benefits were partly offset by cost inflation.

In order to mitigate the effects of continued weak demand in the European construction industry, UPM's Plywood business has looked for opportunities outside of Europe and in more demanding end-use segments in particular, such as in the LNG (liquefied natural gas) industry. Investment activity in LNG terminals and carriers is high, and the outlook is promising. The main reasons behind the development are increased demand, oil supply uncertainty and technological innovations in the exploration and production of natural gas.

In order to stand out in the highly competitive plywood market in Europe, UPM Plywood also strives to improve customer focus, agility and cost competitiveness.

In June 2012, the extension and modernisation work at the Savonlinna birch plywood mill in Finland was completed. As a result of the renewal, the mill is one of the world's most technically advanced mills, with a broad product offering of high quality special birch plywood.

Market review

Having experienced growth in plywood demand in Europe during 2011, demand once again decreased in 2012. Compared with pre-recession levels, demand in Europe is significantly lower. As in the previous year, demand in industrial applications was slightly stronger, whereas the market decline was led by construction-related end-use segments.

Activity in the European construction industry weakened gradually during the year. However, during the first half of the year, a demand-supply balance in spruce plywood was supported by some delivery problems from overseas, resulting in lower softwood plywood imports to the European market. During the year, demand was more positive in birch plywood, reflecting a healthier demand in industrial applications and LNG infrastructure.

Due to challenging market conditions, price competition intensified in Europe, especially in standard grades from low-cost producers in Latin America and Russia. However, UPM's plywood prices remained largely at the previous year's level due to the ability to serve customers with short lead times at a time when customers want to minimise their inventories.

EVENTS

14 JUNE: The extension and the modernisation work at the UPM Savonlinna plywood mill in Finland is complete and the improved mill is inaugurated

Wet weather conditions affected log availability in the fourth quarter.

In November, UPM announced plans to curtail production at its plywood mills in Finland in response to challenging market and raw material conditions.

R&D

Plywood's product and technology development work has been concentrating on developing new customer-based solutions and improving production technology to reinforce growth and competitiveness.

Plywood is a solid and lightweight material with good durability even in the most challenging conditions. For high voltage transformer applications, UPM has developed a new product based on birch plywood. Due to its versatile strength and isolating properties, the material has become an important component in the products of leading transformer fabricants.

UPM Plywood R&D has also participated in improving its own production processes by developing machines and intelligence-based technologies. The new technology will help guide production processes and optimise tailor-made product properties more precisely.

BUSINESS PERFORMANCE

SALES

2012	387	+3%
2011	376	EUR million

OPERATING PROFIT *)

2012	3	+3
2011	0	EUR million

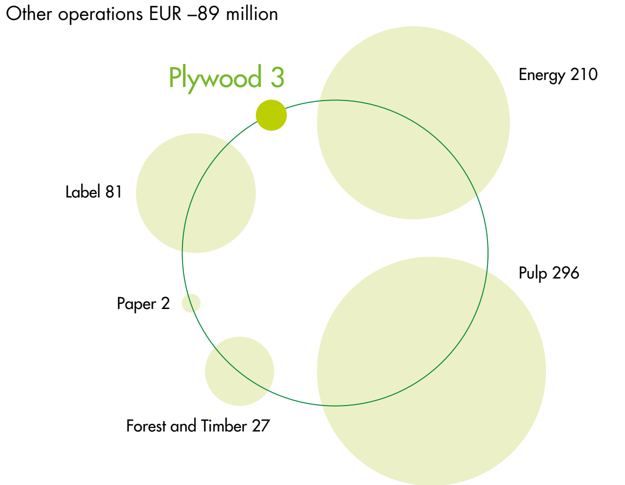
*) excluding special items

PLYWOOD SALES BY MARKET

EURm	2012	%
Europe	339	88
Asia	36	9
Rest of the world	12	3
Total	**387**	**100**

UPM'S OPERATING PROFIT 2012 EUR 530 MILLION

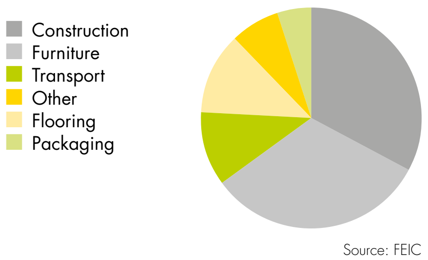
(excl. special items)
Other operations EUR –89 million



KEY FIGURES

	2012	2011	2010
Sales, EURm	**387**	376	347
Operating profit excl. special items, EURm	**3**	0	–18
Capital employed (average), EURm	**267**	253	243
ROCE excl. special items, %	**1.1**	0.2	–7.4
Personnel on 31 Dec.	**2,445**	2,586	2,737
Deliveries, 1,000 m³	**679**	656	638

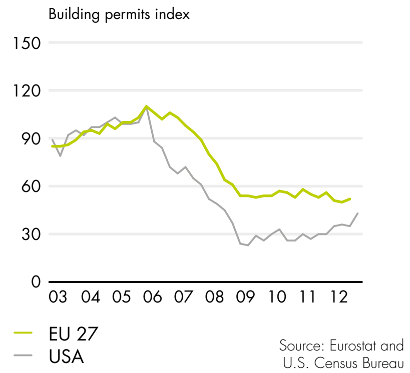
PLYWOOD END-USES IN EUROPE



Source: FEIC

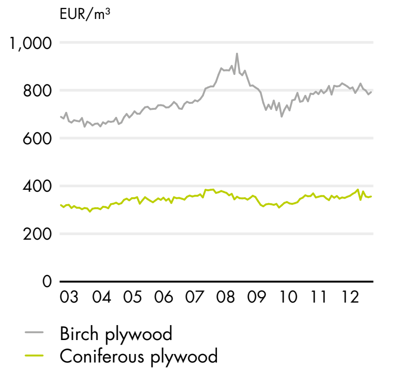
BUILDING PERMITS

(Index 1.1.2001=100)



Source: Eurostat and U.S. Census Bureau

EXPORT PRICES FOR FINNISH PLYWOOD



Source: Finnish Customs

CASE

SUPERIOR CUSTOMER PROMISE

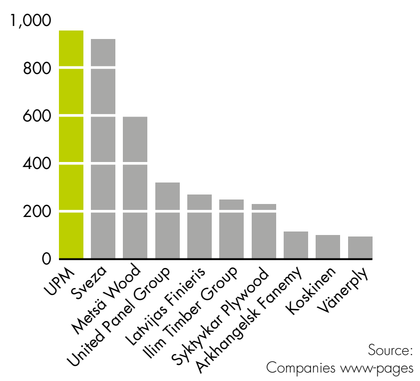
The aim of UPM Plywood is to provide its customers with the best customer experience in the business. In 2012, UPM Plywood introduced an operating model that would make it possible to provide customers with a superior customer experience and differentiate UPM from its competitors.

The main elements of the customer promise are quality, delivery reliability and customer service. These elements are strongly based on UPM's hundred-year-long experience in the plywood business and the most extensive sales network in the field, supported by the company's global logistics network. Thanks to these assets, UPM can offer its customers a product and service package that is clearly distinguishable from those of its competitors.

UPM serves its plywood customers locally in all key markets, either through its own sales offices or through agents. The mills in Finland, Russia and Estonia support each other and ensure the high quality and timely manufacturing of products in all situations.

READ MORE
www.upm.com/biofore

EUROPE'S BIGGEST PLYWOOD PRODUCERS



Source: Companies www-pages

UPM as a business partner

With 10.4 billion sales, UPM offers a wide range of renewable and recyclable products to be further processed into a variety of useful everyday products, and also provides services that meet the needs of a versatile range of customers. The interface with customers and suppliers is based on continuous dialogue and collaboration.

UPM's interaction with customers is based on continuous dialogue and regular customer satisfaction surveys.

Customers value UPM's comprehensive product range, reliability and excellent environmental performance.

UPM complemented its responsible sourcing framework with the UPM Supplier Code, which defines suppliers' minimum compliance requirements in terms of responsibility.

UPM's businesses vary in the products and services they offer. Each business has its own customer management process and way of interacting with customers. A comprehensive understanding of the markets, knowledge of end-uses and an understanding of customers' needs form the basis of UPM's customer relationship management.

UPM's target is to provide customers with solutions that improve customers' business processes, with a special focus on creating mutual benefits with increased efficiency. Topics related to environmental performance are also at the centre of UPM's customer offering.

Customers value UPM's versatile product range, reliability, product quality and excellent environmental performance. In services, customers appreciate local customer services and technical support, as well as reliability.

Collaboration with customers

In addition to a continuous operative dialogue, UPM is engaged in various development projects with customers. Many of the projects are related to product development, supply chain efficiency and optimisation, as well as the co-planning of activities.

Customer satisfaction is measured regularly in most businesses through customer satisfaction surveys conducted by a third party. These serve as a tool for developing actions, and bring an important customer dimension to performance management.

Customers interested in responsibility

Based on the dialogue and surveys, UPM's customers are interested in the company's environmental performance and the sustainability of its operations.

Product safety, forest certification and chains-of-custody, the origin of wood, eco-labels, carbon footprints, recyclability and waste reduction are among the most important topics.

UPM offers product declarations and environmental data for most products as a tool to provide customers with information on the sustainability of products and the supply chain.

Suppliers are an integral part of UPM value creation

The objective of UPM's sourcing operations is to ensure that the supplier base is capable of both delivering cost-effective and innovative material and service solutions to UPM businesses and meeting future requirements and expectations. UPM aims to be a professional partner to suppliers and to develop relationships in a responsible manner that delivers long-term benefits to both parties.

Today, UPM has over 22,000 approved suppliers around the world that deliver a variety of raw materials, products and services. UPM continuously evaluates the number and quality of suppliers and seeks to develop key supplier relationships.

UPM Sourcing's strategic priority is the continuous improvement of innovation, cost leadership, supply capability and optimised product/service quality together with suppliers.

UPM's risk assessment process covers risks in the supply chain. Besides economic risks, environmental and social risks have also been considered in the assessment. Typical risks associated with suppliers are related to quality or availability issues, or non-compliance with criteria set by UPM.

Requirements for suppliers

UPM follows clearly defined selection and follow-up processes when evaluating suppliers. Strategic fit, service range, product performance, quality and sustainability are the important factors when selecting and evaluating suppliers. Additional specific requirements are used for areas such as chemicals, safety, logistics, pulp and packaging.

Suppliers are encouraged to apply management systems based on internationally recognised standards (such as ISO9001, ISO14001 and OHSAS18001) and the best techniques and practices available. Based on risk assessments, UPM identifies suppliers whose operations will then be evaluated or audited to ensure that the set requirements are met.

UPM requires all suppliers to apply the principles of the Code of Conduct and to fulfil its criteria concerning social and environmental responsibility. These supplier requirements are defined in the UPM Supplier Code (read more about responsible sourcing on page 40).

Supplier management and collaboration

UPM must re-think and continuously develop collaboration with suppliers in order to achieve success in an increasingly competitive environment. UPM manages and develops its supplier base and has long-term plans in place with some 400 suppliers in order to ensure systematic performance and quality development.

In conjunction with selected suppliers, UPM builds strategic partnerships that require long-term commitment and openness between companies. This co-operation aims at the joint optimisation of the entire value chain, while sharing best practices for areas such as supply chains, manufacturing and product development.

In addition, UPM participates in dialogue with stakeholders at a national, European and global level through its membership of industry and business associations and other networks.

UPM also collects regular feedback from its suppliers through a survey. The latest survey from 2011 showed a clear improvement in suppliers' opinion about the co-operation. Based on the survey results, UPM has defined which actions are to be developed further. The next survey is planned to be conducted in 2013.

Transportation in a key role

Logistics form the foundation for the company's on-time deliveries. UPM Logistics is responsible for UPM's sea traffic and port operations, forest logistics and distribution.

UPM delivers approximately 21,000 loads of products and raw materials globally every week. Of all UPM deliveries, 69% are by rail and road and 31% are by sea traffic.

The majority of UPM's haulage is handled by contract partners. UPM aims to create strategic long-term alliances in order to create benefits for the company and its customers. The criteria for forming these alliances are: level of service, safety, flexibility, stability, efficiency, and the ability to meet environmental demands and social responsibility demands. UPM has set compulsory requirements for the handling, transportation and warehousing of UPM products.

As more stringent regulations on transport emissions come into force, UPM is developing alternative logistics and fuel solutions with alliance partners. UPM's own biofuels project is closely related to this development.

Regarding the new sulphur regulation approved by the European Parliament in September 2012, UPM is working together with shipping lines and ship owners to find ways of complying with the coming regulation, which comes into effect from 2015. The expected impact on sea freights is high: 30–50% higher freight prices will create a significant cost risk to UPM's sea traffic in the EU region.

CUSTOMER COLLABORATION IN UPM'S BUSINESSES

	Energy	Pulp	Wood Sourcing, Forestry and Biomass business	Timber products	Paper	Label	Plywood
Product range	Trading in physical and derivatives electricity markets	Softwood and hardwood pulp	Wood and wood-based biomass (logs, pulpwood, chips, forest residues etc.), forest estates and lakeshore plots	Sawn timber and further processed products	Newsprint, magazine papers, fine papers, selected speciality papers	Self-adhesive paper and film labelstock	Plywood products for construction, vehicle flooring, concrete forming, LNG carriers and veneer products for parquet industry
Services	No services to external customers	Technical and supply chain services, environmental product data	Forest services, including wood trade, wood and biomass supply solutions	Technical support, supply chain services, environmental product data	Technical support, training and consultancy, stocking and vendor-managed inventory services, environmental services	Technical support, services tailored to end-use needs, environmental services	Technical support and supply chain services, services tailored to end-use needs
Customer industries	Electricity supply sector in the Nordic countries and Central Europe	Producers of printing and writing papers, tissue, speciality papers and packaging	All UPM businesses using wood or wood-based biomass, forest owners, energy companies, wood processing industry	Building, construction, furniture, joinery and packaging industries	Newspaper and magazine publishers, retailers and cataloguers, printers, distributors, converters	Label printers, packers, brand owners in e.g. food, beverage, personal care, pharmaceutical, retail and logistics	Construction, transportation and parquet industries
Sales and distribution	Electricity exchanges (Nord Pool, Nasdaq OMX, EEX, ECX) and OTC markets	• Own sales network, agents • Own distribution	• Own wood sourcing network in North Europe, Central Europe and overseas • Forest services through network of offices in Finland and the UK • Biomass business: own sales network in Europe	• Own sales network, agents, distributors, direct sales • Deliveries from the mills to customers	• Global sales and agent network and distributors (paper merchants) • Own distribution and partners	• Roll products: through slitting and finishing terminals • Sheet products: through agents and merchants	• Own sales network supported by agents • Landed stocks in main markets • Direct sales to major industrial customers and to selected distribution partners
Measurement of customer satisfaction	–	Continuous dialogue, customer surveys	Continuous dialogue and regular customer surveys	Continuous dialogue and collection of feedback, annual customer surveys	Continuous dialogue, annual customer surveys	Customer surveys every other year, continuous dialogue, meetings, trainings, seminars	Continuous dialogue, bi-annual customer surveys
Actions in 2012	Follow-up with electricity market rules and regulations	• Strengthening of the sales organisation, particularly in Asia and Europe • First customer survey • Focus on pulp quality and appearance	• Development of supply chain efficiency and services • Implementation of new way of operating • Development of web solutions to improve customer service	• Product range and customer services • Improvement of deliveries to optimise production to meet customers' required properties • Optimisation of raw material use	• Solving customers' challenges, i.e. timely supply and the right selection of paper • Joint product development • Promotional campaigns for office papers with merchants • Supply chain efficiency and footprint optimisation	• Joint product development • Local solutions for recycling labelstock by-products • Focus on environmental issues • Improved product packaging	• Proactive sales management and customer-orientated organisation • Defining value propositions with customers • Customer categorisation
Target	To capture more value in the physical and derivatives electricity market	To strengthen the position in growing end-use areas	To secure competitive wood and biomass for all UPM businesses in a sustainable manner and expand the offering to external customers	To strengthen the market position and improve the customer service level further	To secure the competitive advantage by offering reliability and professional customer services	To ensure the mutual benefits of future customer projects and increase the responsiveness further	To strengthen the market position in selected businesses by offering services to improve customers' process efficiency

Innovations in new and existing businesses

Innovation plays a key role in developing products that provide resource-efficient alternatives for the future. UPM's innovative new products replace non-renewable materials with renewable, recyclable and low-impact alternatives.

UPM is building the world's first biorefinery for producing wood-based renewable diesel.

The focus is on developing biofuels, biocomposites, biofibrils and CO_2-neutral energy.

The majority of UPM's R&D input is targeted towards new technologies and businesses.

Creating more with less is UPM's means for better material efficiency.

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

UPM's development expenditure has steadily increased, especially in growth businesses. In total, UPM spent approximately EUR 81 million on research and development for existing and developing businesses, which equates to 6.7% of UPM's operating cash flow.

On top of the direct R&D expenditure of approximately EUR 45 million (50 million), the figures include negative operating cash flow and capital expenditures in developing businesses.

Focus on wood-based renewable diesel

UPM is developing a range of new businesses with the potential for increasing added value in UPM's value chain. These new businesses are based on UPM's long-term development work and synergies with existing businesses.

UPM plans to become a major player in high quality, advanced biofuels for transport. Biofuels provide good business opportunities for UPM with high added value, large target markets and synergies with the existing businesses.

UPM is currently building the world's first biorefinery for producing wood-based renewable diesel in Lappeenranta, Finland. The biorefinery uses hydrotreatment technology, and the main raw material, crude tall oil, is a residue of pulp manufacturing. Production is scheduled to start in the summer of 2014. (Read more on page 35).

UPM's R&D activities are focused on discovering new technologies, processes and innovative raw materials for biofuel production in co-operation with strategic partners.
In the second phase of this research work, the aim is to extend biofuel production to new raw materials, such as pyrolysis oil.

NEW BUSINESSES

BIOFUELS	First large-scale investment on-going
BIOCOMPOSITES	Pilot plant start-up in Q1 2012
BIOFIBRILS	Pilot plant start-up in Q3 2011
BIOCHEMICALS	Mill scale concepts under development
NEW AREAS	

One example of UPM's current R&D programmes into biofuels is the automotive engine testing programme, which aims to meet the required standards and regulations set by European authorities.

In December, the European Commission awarded UPM a grant of EUR 170 million for a solid wood-based biorefinery (BTL) project in Strasbourg, France. The planned biorefinery would produce renewable diesel from energy wood, such as logging residue or bark. The EU's NER300 programme (New Entrants Reserve) supports new technology development and is a key policy for reducing Europe's carbon footprint.

UPM will continue to clarify the investment prerequisites in France. The investment decision is subject to the economic operating environment and the long-term outlook for the market price and availability of wood. The final assessment on the investment will be made in 2014.

Creating new business opportunities

In 2012, UPM continued the development and commercialisation of the bio-based products and solutions in three selected areas – biocomposites, biofibrils and biochemicals. All these areas have taken important steps forward in product development with customers and external partners.

UPM ForMi is a recyclable composite material that is manufactured from cellulose fibre and plastics. With UPM ForMi, as much as 50% of oil-based non-renewable raw material can be replaced with renewable fibres. (Read more on page 39).

UPM ForMi has received FSC and PEFC forest certificates. Products manufactured from UPM ForMi comply with food contact material requirements stipulated in EU and US Food and Drug Administration (FDA) regulations. The composite also complies with EU toy safety regulations.

UPM ForMi is already being used in the manufacture of furniture, electronics and various household goods. Production of UPM ForMi started in Lahti, Finland in January 2012.

UPM Biofibrils are micro- and nano-fibrillated cellulose products that can be used for shaping materials and giving them new characteristics. They are suitable for many industrial applications that require a high stabilisation capacity and high viscosity.

In 2012, the focus of UPM Biofibrils was on developing pilot- and plant-scale industrial applications. UPM managed to produce different grades of biofibrils at the pilot plant in Finland.

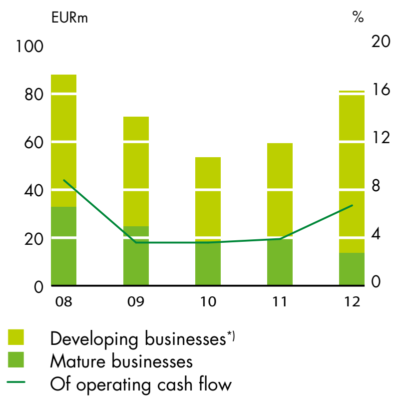
UPM has also been running trials to test biofibrils on paper applications at several UPM paper mills. Externally, the main development work has been concentrated on concrete, oil-field drilling fluid and industrial coating applications.

UPM ProFi develops new applications

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. UPM ProFi products are used for outdoor, indoor and industrial applications.

The R&D work of the UPM ProFi Deck product development in 2012 concentrated on

UPM'S DEVELOPMENT EXPENDITURE



*) Includes negative operating cash flow and capital expenditures

creating new coating techniques and developing production processes to be able to use the recycled plastics as raw material.

New coating techniques will provide the possibility for wider variation of colours, new functionalities and innovative applications in the future. In addition, R&D has been focused on expanding the UPM ProFi decking product portfolio to penetrate new sales channels.

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

Exploring resource efficiency

UPM's R&D focus in mature businesses is on improving resource and material efficiency. UPM is studying ways to exploit deinking process waste and recycle surplus materials from paper mills. The aim is to find innovations and technologies in co-operation with paper mills in order to use waste streams more efficiently.

In Austria, the Steyrermuhl paper mill has developed a new construction product made of fly ash from the thermal recovery of biogenic waste materials. The product is used for the stabilisation and improvement of soils.

The use of fly ash at the mill has decreased landfill waste significantly and reduced potential CO_2 emissions by approximately 50,000 tonnes of CO_2 per year on average.

In addition, UPM participated in a construction project in Finland to prepare a gravel road using fly ash, fibre clay and cement as a stabiliser that will improve the frost and insulation properties of the road.

Partnering with research institutes

Tekes – the Finnish Funding Agency for Technology and Innovation – has become an important partner for UPM by supporting several research projects, such as the development of energy-saving technologies and biochemical competence, and the creation of biofibrils technology. These projects have been carried out in co-operation with research institutes, universities and other companies.

In 2012, UPM received approximately EUR 3.7 million (4.7 million) from Tekes for its research projects.

UPM is a shareholder in the Finnish Bioeconomy Cluster (FIBIC) that evolved from the research strategy of Forestcluster Ltd. FIBIC research programmes concentrate on the bioeconomy and products based on renewable materials; they also support UPM's internal R&D activities.

Global network of research centres

UPM has a global network of research centres supporting its businesses. The focus at the UPM Research Centre in Lappeenranta, Finland, is mainly on fibre raw materials, paper 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.

At the Fray Bentos pulp mill in Uruguay, UPM's 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.

NOTE:
Information regarding research and development in the existing businesses can be found under each business area.

CASE

FROM RESIDUE TO RENEWABLE DIESEL

UPM is building the world's first biorefinery to produce wood-based renewable diesel on the UPM Kaukas mill site in Lappeenranta, Finland.

UPM's renewable diesel, UPM BioVerno, is an innovative product which is based on the company's own R&D work. It will reduce greenhouse gas emissions of transport up to 80% compared to fossil fuels. Its properties are similar to those of oil-based fuels, and it is ideal for use in fuel stations and modern cars.

The biorefinery uses hydrotreatment technology, and the main raw material, crude tall oil, is a residue of pulp manufacturing. A significant proportion of the tall oil is obtained from UPM's Finnish pulp mills. By refining the crude tall oil, UPM is able to use the wood from pulp production more efficiently than before, without the need to increase harvesting volumes.

The ground-breaking work at the mill site began in the summer of 2012, after the investment decision had been made in February. The piling of the area continued late into the autumn, and the foundation stone laying ceremony was held in November 2012.

The construction work will continue until spring and the assembly of the machinery will begin in summer 2013. The UPM Lappeenranta biorefinery will be completed in 2014 and, once started up, will annually produce approximately 100,000 metric tonnes of renewable diesel for road transport.

UPM's biorefinery project has aroused a lot of interest in the media, at seminars and among customers and other stakeholders. In November 2012, the Finnish Forest Association awarded the UPM biofuel business the Pro Silvis medal for its innovative, bold and open-minded contribution to developing the forest-based bioeconomy.

UPM as an employer

The main objective of UPM's People strategy is to drive the company's renewal into the Biofore Company by enhancing the UPM culture.

As a result of the "Step Change in Safety" initiative, safety results improved significantly.

UPM continued to build on its values-based leadership culture and competences.

All UPM sites in Finland are now non-smoking sites as of January 2013.

A collaborative way of working and two-way communication were reinforced.

UPM strives for high performing people. Achievements and personal growth are attained by strengthening employees' empowerment through business-driven performance management.

UPM's processes focus on enabling continuous competence and career development within the company. UPM makes investments to develop multi-skilled employees and their professional competences as well as to ensure that key talents are retained.

An additional focus area in recent years has been the reinforcement of a collaborative way of working and two-way communication.

Employees around the globe

UPM is an international work community with employees in 45 countries. UPM's global operations offer a variety of tasks all over the world, both in existing businesses as well as in new businesses.

UPM aims to offer its employees meaningful jobs where they are able to achieve results, and a motivating and safe working environment with a focus on employees' wellbeing. As an employer, UPM's reward and recognition processes place emphasis on high performance. Responsibility is an integral part of UPM's Biofore strategy and its everyday operations.

At the end of 2012, UPM had a total of 22,068 employees. The reduction of 1,841 employees is for the most part attributable to the restructuring and sale of businesses. At the same time, the number of employees in the growth businesses increased.

UPM promotes active participation

UPM complies with international, national and local laws and regulations and respects international agreements with regard to human and labour rights. UPM respects the freedom of association and abides by legally binding collective agreements. UPM promotes equal opportunities and objectivity in employment and career development and respects employee privacy.

Employee participation and consultation are organised in accordance with international and national rules and regulations.

The UPM European Forum is the Group's official international co-operative body, and representatives from UPM's mills in Europe attend its meetings. The European Forum met twice in 2012. Meetings covered topical issues and open dialogue related to the business situation and changes within the company and the business environment.

Another way of promoting employee participation is the annual Employee Engagement Survey (EES). (Read more about the 2012 results on page 38).

UPM does not collect or report on its employees' union membership on a global level due to differences in national legislation in various countries. The estimated percentage of employees covered by collective agreement mechanisms is 67%.

Striving for achievements, personal growth and renewal

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

UPM's performance management process is used systematically to set strategy-related targets and development plans for employees around the world. The focus of personal performance reviews is clear target setting, feedback and individually agreed development measures.

UPM organises training and coaching for managers in order to develop their performance management skills. In 2012, 84% (82%) of all UPM employees had a personal performance review with their managers.

Building values-based leadership

UPM invests in strengthening its leadership culture in order to support the company's vision. The aim is to create a culture that encourages high performance, fast learning and renewal. UPM's values are: Trust and be trusted, achieve together and renew with courage.

In 2012, UPM continued to build its leadership culture and competences. UPM's leadership framework, which was developed in 2011, covers three dimensions of leadership: leading business, leading people and leading yourself. Based on this framework, new leadership competences were defined in order to ensure that the right leadership capabilities are being developed within the company. Values-based behaviours were also integrated into annual performance discussions.

The leadership development programme for top management continued. The theme in 2012 was safety and cultural change in leadership. In middle management development, the focus continued to be on people and change management programmes.

A key focus for UPM was on the front-line managers' development programme, with a strong emphasis on the collaborative way of working and two-way communication. Front-line managers in the production environment manage approximately 60% of UPM employees globally. In addition, a mentoring programme and several business/function-specific development programmes continued with good results.

Providing a motivating and safe working environment

The health and safety of employees, visitors and all other people affected by UPM's operations are of paramount importance. UPM's aim is to be the industry leader in safety.

As a result of the company-wide "Step Change in Safety" initiative, safety results improved significantly. In 2012, there were no fatal work-related accidents at UPM. UPM's lost-time accident frequency (the number of lost-time work accidents per one million hours of work) decreased in all businesses. Lost-time accident frequency at UPM level nearly halved to 9 (15).

Absences due to illness and accidents reduced slightly from 2011. UPM's global absenteeism was 3.5% (3.7%). Absenteeism decreased compared with previous year in all businesses except Plywood. At country level, absences increased in Russia and Germany, whereas there was positive development in Finland.

The 2012 Safety award was given to Fray Bentos pulp mill in Uruguay. As a result of the active preventative safety measures taken, Fray Bentos achieved a new UPM production site record: over two years without lost-time accidents. Overall, eight production sites achieved zero lost-time accidents in 2012.

Monitoring employees' wellbeing

Co-operation between the employer, labour organisation, employee and occupational health organisation form the basis for improving occupational health. Employees' wellbeing is monitored locally using various metrics and indicators, such as the annual employee engagement survey (EES), accidents and absenteeism and occupational health checks in line with national legal requirements.

Based on this information, individuals and work communities are monitored and local measures are put in place to support wellbeing at work. Most of UPM's premises are regularly assessed to ensure that they offer a good working environment. In 2012, UPM continued to encourage a healthy lifestyle, for example by supporting physical exercise opportunities and promoting healthy eating habits and smoking cessation. UPM also supports employees in rehabilitation in order to ensure a safe and speedy return to work after an illness or accident.

CASE

SAFETY STARTS WITH ME

2012 was the first full year in UPM's company-wide workplace safety initiative "Step change in safety 2012–2014". During the year, UPM renewed its safety standards and guidelines, incentives for employees and key performance indicators, which are monitored and reported each month.

UPM has focused on preventive actions in order to identify and share information on the potential risks and hazards before incidents occur. Regular management safety walks and discussions were organised to monitor progress in the business units.

The targets of the initiative are to significantly reduce the lost-time accident frequency and to eliminate fatal accidents at UPM premises. The 2012 results show very positive development, as the lost-time accident frequency nearly halved to 9 (15). The target for the end of 2014 is below five.

The 2012 theme "Safety starts with me" underlined the importance of everyone, at every level of the organisation, being committed to working safely and how everyone has a role to play in making UPM a safe place to work.

As well as its own employees, UPM has also involved subcontractors and visitors in the new safety culture. UPM requires its subcontractors to follow the safety rules, enabling them to carry out their work safely whilst on UPM premises.

In 2012, UPM decided that all UPM sites in Finland will become non-smoking as of 1 January 2013. Some UPM sites in the UK and France are already non-smoking.

Recognising high performance

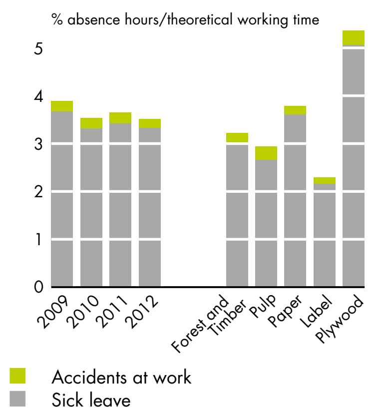
UPM employs a total compensation approach consisting of base salary, benefits and incentives, which are determined by UPM's global rules, local legislation and market practice. Intangible recognition is also included in the reward portfolio. Emphasis is placed on striving for high performance when decisions are made regarding pay. For significant individual or team achievements, there is a separate Achievement award practice in use.

All of UPM's employees 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.

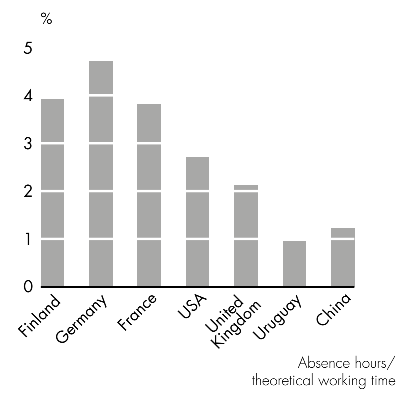
In order to underline the importance of the "Step Change in Safety" initiative, a safety target is set for every employee. In addition, a new Safety Award and recognition practice was launched in 2012.

The total amount of annual incentives for the year 2012 is EUR 38 million.

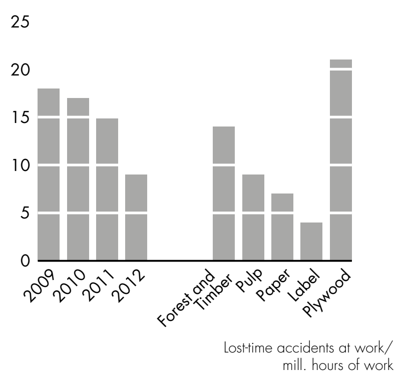
ABSENTEEISM, ALL UPM PERSONNEL



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



LOST-TIME ACCIDENT FREQUENCY, ALL UPM PERSONNEL



UPM has two long-term incentive programmes: a Performance Share Plan for senior executives and a Deferred Bonus Plan for other key employees. Based on the results of the 2011 earning period, 347,000 shares were earned under the Deferred Bonus Plan. These shares will be distributed to the nominated participants in 2014. Based on the results of 2012, the estimated number of earned shares to be delivered to the participants in 2015, is 640,000 shares.

The earning period for the Performance Share Plan is three years. The first plan covers the years 2011–2013 and the second plan covers the years 2012–2014. Approximately 600 key employees are covered by the plans. The programmes were launched in 2011 and are run on an annual basis. These programmes will replace the Share Ownership Plan and Stock Option Programmes launched in 2007. The Share Ownership Plan has already ceased and the Stock Option Plan will cease in 2014.

Ensuring responsible restructuring

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

In 2012, UPM continued the company's "From Job to Job programme" in connection with the closure of the Myllykoski paper mill in Finland in December 2011.

In January 2012, UPM ceased paper production at the Albbruck paper mill in Germany; the premises were sold to the German Karl Group in August. In January 2013, UPM ceased paper production and signed an agreement on the sale of assets and part of the land of the Stracel mill in Strasbourg, France. UPM implements a social plan at the mills in order to alleviate the effects caused by personnel reductions in a responsible way.

In addition, UPM restructured its sawn timber and further processing operations. Measures taken in Finland included the closure of Aureskoski and Heinola further processing mills and the sale of Kajaani sawmill to Pölkky Oy.

CASE

DIALOGUE WITH EMPLOYEES

The annual Employee Engagement Survey (EES) is an important tool for obtaining feedback and promoting employee participation. The survey provides information about development in the workplace and provides feedback to managers.

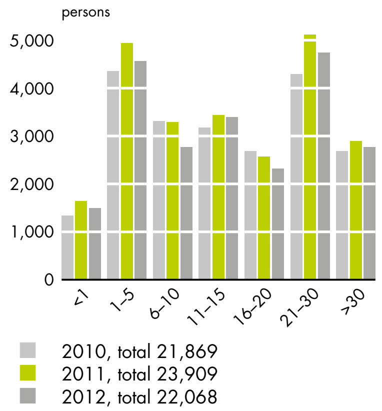
In 2012, a record number of employees – 78% – participated in the survey. The overall engagement index increased to 63% from the previous year (60%), showing improved satisfaction with UPM as an employer. Manager effectiveness index has steadily increased since 2007.

EES results provide a good basis for discussing work and the working environment in teams. Every manager is responsible for reviewing the results and discussing achievements and follow-up actions with his/her team.

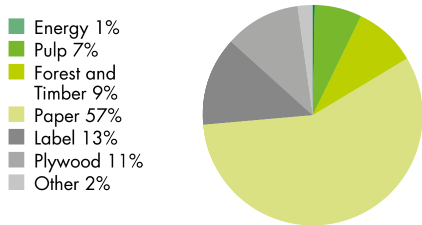
Based on the survey's results, the company-wide areas for development are being carried over from 2011. Workplace safety remains high up on UPM's agenda. Another important area is the development of front-line supervisors' communication skills as part of the front-line manager development programme.

Measures will continue to be implemented with the aim of creating a culture in which high performance is better recognised. It is important to share best practices in this area.

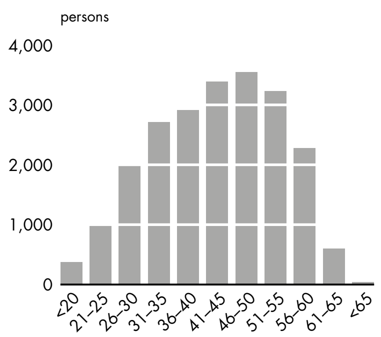
EMPLOYEES' YEARS OF SERVICE WITH UPM 2010–2012



UPM'S PERSONNEL BY BUSINESS AREA 2012 22,068

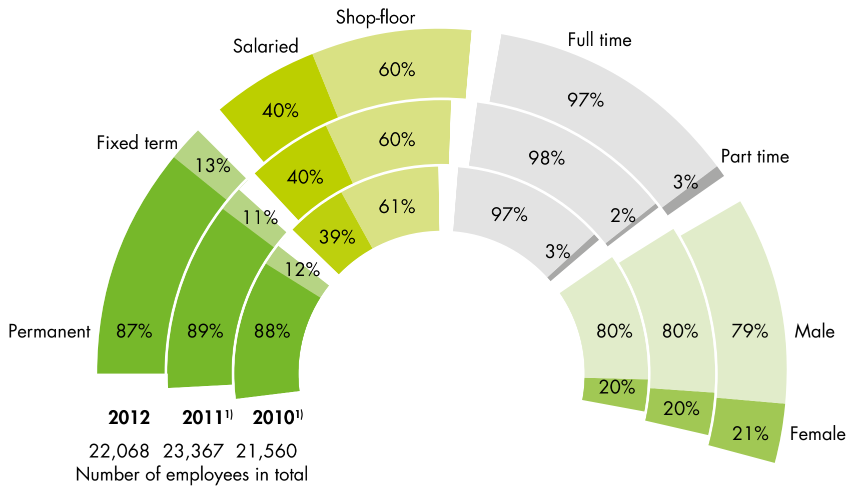


AGE STRUCTURE OF UPM PERSONNEL 2012



UPM PERSONNEL'S GENDER DISTRIBUTION

UPM PEOPLE IN FIGURES



	2012	2011[1]	2010[1]
Turnover %[2]	15.06	10.17	15.46
Turnover% (voluntary)[2]	5.95	5.20	6.61
Average age of personnel	42.8	43.0	42,5
People development			
Average training hours[3] (hours employee)	17.3	15.5	15.7
OHS figures			
Lost-time accident frequency	9	15	17
Absenteeism %	3.5	3.7	3.5

[1] HR figures for 2010 and 2011 reflect active employees, figures for 2012 reflects total headcount
[2] Due to the change in calculation method to exclude seasonal employees, all figures have been recalculated
[3] Reflects active employees excluding the 2011 acquired Myllykoski business units

PERSONNEL BY COUNTRY

31 Dec.	2012	2011	2010
Finland	8,636	9,639	9,411
Germany	4,714	5,332	3,668
United Kingdom	1,205	1,497	1,484
France	1,146	1,195	1,203
Russia	970	1,006	1,081
Austria	546	572	576
Poland	454	369	326
Estonia	217	201	196
Spain	212	226	252
Switzerland	110	12	11
Italy	65	71	72
Turkey	39	39	36
Belgium	35	36	29
Sweden	29	24	20
Other Europe	98	104	106
China	1,430	1,414	1,367
United States	1,017	1,080	1,001
Uruguay	576	554	533
Malaysia	185	170	176
Australia	86	91	94
South Africa	72	82	80
Brazil	48	44	10
India	36	33	31
Rest of the world	142	118	106
Total	**22,068**	**23,909**	**21,869**

CASE

SUSTAINABLE INNOVATIONS WITH DESIGN STUDENTS

In the autumn 2012, around 20 students of advanced product design were given the task of creating a new sustainable product or application made of UPM ForMi, a recyclable composite material made from cellulose fibre and plastics.

The students on the UPM-supported course at the Aalto University School of Arts, Design and Architecture worked in six teams for two months, getting to know the raw material and its potential, creating ideas and narrowing the options down to the products they felt have the biggest potential for mass production.

Their aim was to come up with a concept for a product that would also support UPM's Biofore strategy, tick the three boxes of sustainability, good market potential and implementation possibilities on an industrial scale.

In addition to creating new products, the co-operation was beneficial in increasing mutual understanding about process industry requirements and the main drivers of product design today. These drivers are currently linked with people's changing behaviours and the demand for products to have multiple lifecycles, increasing product value.

The international teams received valuable experience in discovering the properties of a completely new material and aligning lifecycle approach and sustainability into product design. An excursion to the UPM Kymi pulp and paper mill was also included in the course.

The results were presented to UPM in December. "We were very impressed by the students' work. All suggested product designs were linked to the material and all are technically possible to make. This has been the first project of its kind for us and made us see things from a different perspective," says Stefan Fors from UPM New Businesses and Development.

READ MORE about UPM Formi www.upm.com/formi

UPM as a responsible company

The foundation for corporate responsibility at UPM is the company's Biofore strategy. It sets the direction for innovation, product development and safe and sustainable operations. UPM's business-driven corporate responsibility agenda ensures that areas requiring improvement are continuously mapped out and measures are taken to guarantee a change in direction.

UPM was listed as the only forestry and paper company worldwide in the Dow Jones Sustainability Indexes (DJSI).

UPM's responsibility principles and targets were renewed.

UPM continued its strong focus on stakeholder engagement and adopted the AA1000 Accountability Principles Standard.

A key aspect of the Biofore strategy relates to the role that renewable and recyclable raw materials can play in the emerging resource-scarce era. Creating more with less is UPM's means for better material efficiency and a response to global sustainability megatrends, such as resource scarcity. (Read more on page 5).

UPM recognises the opportunities created by the increased focus on non-fossil energy generation and resource efficiency. The company has long focused on innovation and resource and material efficiency, as well as on developing products that are sustainable throughout their entire lifecycle. As a flagship example of this strategy, UPM decided to invest in wood-based biofuels in 2012. UPM is also developing new innovative bio-based materials to replace fossil alternatives. (Read more on page 34).

UPM's Biofore strategy received external recognition in 2012 when UPM was listed as the only forestry and paper company worldwide in the Dow Jones Sustainability Indexes (DJSI) and was chosen as the Supersector Leader in the Basic Resources sector for 2012–2013.

Focus on material issues

Corporate responsibility is an integral part of the company's long-term business development, which enables UPM to partner and create value with stakeholders, benefitting both the business and local communities.

UPM continuously monitors global sustainability megatrends, following up on weak signals in relation to the changing operating environment. When assessing the impact on UPM, the

EVENTS

8 MAY: UPM becomes a member of Cleantech Finland

22 MAY: UPM plants thousands of trees with school children in Finland, the UK, Russia, China, the US and Uruguay

27 JUNE: UPM is named "Most Innovative Company" at 2012 Ethical Corporation Awards

13 SEPT: UPM is listed as the only forestry and paper company worldwide in the Dow Jones Sustainability Indexes (DJSI)

25 SEPT: UPM announces that it will become a non-smoking workplace in Finland as of 1 Jan 2013

19 OCT: UPM ranked in the Nordic Carbon Disclosure Leadership Index with top scores

CASE

UPM'S SUPPLIER CODE IS THE BASIS FOR RESPONSIBLE SOURCING

UPM requires its suppliers to apply the principles of the company's Code of Conduct and to fulfil its criteria on social and environmental responsibility. UPM also expects its suppliers to actively promote the requirements among its suppliers.

In 2012, UPM complemented its responsible sourcing framework with the UPM Supplier Code. The Supplier Code, based on UPM's Code of Conduct, defines suppliers' minimum compliance requirements in terms of responsibility with regard to matters such as environmental impact, human rights, labour practices, health and safety, and product safety.

The Supplier Code applies to all product and service providers and is complemented with more detailed rules, guidelines and supplier requirements, such as the list of Restricted Substances for paper and pulp businesses.

The aim is for 80% supplier spend to be qualified based on the UPM Supplier Code. In 2012, a total of 56% of supplier spend was qualified according to the requirements set by the company.

Other means of ensuring compliance are supplier questionnaires during supplier qualification, supplier audits and monitoring of performance against agreed key performance indicators.

Contractor safety on UPM premises was one of the focus areas for 2012. As part of the safety initiative, UPM has created new methods and standards for managing the safety of contractors, subcontractors and their employees.

Key trends	Key area of responsibility	Measure	Target
POWER SHIFT IN WORLD ECONOMY	**ECONOMIC**		
	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	• > 90% coverage of participation to UPM Code of Conduct training by 2015 [2]
DEMOGRAPHIC CHANGE	**SOCIAL** [2]		
	LEADERSHIP Responsible leadership	• Employee engagement • Commitment to Code of Conduct • UPM values and values-based behaviours	• Employee engagement index overall favourable score exceeding 70% by 2015 • Employee engagement survey response rate reaching 70% and over by 2015
	PEOPLE DEVELOPMENT High performing people	• Target setting and personal performance reviews with employees • UPM considered as an attractive employer • Growth opportunities for employees	• Employee Personal Performance Review (PPR) coverage exceeding 90% globally by 2015
	WORKING CONDITIONS Safe and encouraging working environment	• Commitment to work safety and employee wellbeing • Continuous actions to reduce absenteeism • Ensuring human rights • Promoting diversity and equal opportunities • Good employee/employer relations	• No fatal accidents (continuous) • Lost-time accident frequency below 5 (per million hours or work) by 2015 • Annual targets set for the reporting of near misses and safety observations
	COMMUNITY INVOLVEMENT Local commitment	• Employment opportunities • Co-operation and initiatives with local stakeholders • Responsible restructuring	• Continuous development of strategic sustainability initiatives with leading NGOs • Continuous sharing of best practices of stakeholder initiatives
	RESPONSIBLE SOURCING Value creation through responsible business practices	• Cost efficient solutions, innovation and growth through supplier collaboration • Transparent responsibility requirements and open dialogue with suppliers • Promotion of economic, social, and environmental responsibility throughout supply chain	• > 80% of UPM supplier spend qualified against UPM Supplier Code by 2015 [5] • Continuous supplier auditing based on systematic risk assessment practices
CLIMATE CHANGE	**ENVIRONMENTAL** [1]		
	PRODUCTS Taking care of the entire lifecycle	• Renewable raw materials • Recyclable or biodegradable products • Third-party eco-labels • Lifecycle assessment	• Environmental management systems certified in 100% of production units (continuous) • Environmental declarations for all product groups (continuous) • 25% growth in the share of eco-labeled products by 2020 [3]
	CLIMATE Creating climate solutions	• Energy efficiency • Carbon-neutral energy • Bio-based energy	• 15% reduction in fossil CO_2 emissions by 2020 [3]
RESOURCE SCARCITY	**WATER** Using water responsibly	• Sustainable water management	• 15% reduction in waste water volume by 2020 [4] • 20% reduction in COD load by 2020 [4]
	FOREST Keeping forests full of life	• Third-party verified sustainable forest management standards • Chains-of-custody • Biodiversity	• Maintain high share of certified fibre 85% • 100% coverage of chains-of-custody (continuous)
	WASTE Reduce, reuse and recycle	• Resource efficiency • Waste reused and recycled • Waste to landfill	• 40% reduction in waste to landfill by 2020

Achievement 2012 — Progress towards target achievement

1) Environmental targets: from 2008 levels
2) Social targets: from 2011 levels
3) Includes paper, timber, plywood, pulp and label
4) Numerical targets relevant for pulp and paper production
5) Covers all UPM business-to-business spend including wood and wood-based biomass sourcing and excluding energy

issue at hand is analysed in terms of both risk and opportunity. Issues such as climate change or water use, which have a far-reaching impact on companies and consumers worldwide, also affect UPM's operations.

Although climate change or water scarcity could potentially become a risk, UPM also sees opportunities in these cases as its products are based on renewable raw materials, the majority of its energy generation and use is based on CO_2-neutral sources and most of its products are recyclable. These strengths mean that UPM will be well-positioned in an operating environment where renewable and recyclable resources are acknowledged for their environmental credentials.

Renewed principles and targets to reflect focus areas

UPM has focused its efforts on a number of key areas of responsibility, which are derived from the Biofore strategy. These key areas have been translated into corporate responsibility principles, with corresponding measures and forward-looking targets.

These principles form the responsibility framework for all UPM operations, reflecting UPM's approach to view corporate responsibility from a holistic perspective that covers economic, social and environmental aspects.

UPM has selected energy efficiency, minimised solid waste to landfill and sustainable water consumption as key measures for environmental responsibility. In terms of social responsibility, local engagement, safety and responsible restructuring are key focus areas.

In 2012, UPM developed its corporate responsibility agenda further by updating its responsibility targets, underlining material topics for the company and its stakeholders. The existing responsibility principles were also revisited, and a new principle on responsible sourcing was introduced as a result.

UPM's responsibility principles and current performance in relation to the relevant targets can be found in the table on page 41.

Managing the responsibility agenda

UPM's responsibility principles form part of the company's strategy process, which is a prerequisite for continuous improvement and also ensures the attention of members of management.

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

The Corporate Responsibility network, which is made up of representatives from different businesses and functions across the company, ensures open communication and the smooth running of development work between different parts of the company in matters relating to responsibility.

Transparency in reporting

At corporate level, UPM follows the Global Reporting Initiative's (GRI) reporting guidelines (version 3.0), as the company wants to make sure that it presents all material corporate responsibility information in an accurate and transparent manner.

The corporate responsibility information in English (see the Independent Assurance Report on page 54) has been assured by an independent third party, PricewaterhouseCoopers Oy, and congruence between the English and Finnish versions has been checked.

PricewaterhouseCoopers has checked that UPM's corporate responsibility reporting for 2012 meets the GRI requirements for the Application Level B+. The GRI content index can be found on pages 52–53 and an extended version of the GRI content index, including detailed descriptions of the scope of the reporting and data measurement techniques, is available at www.upm.com/responsibility.

To additionally underline the company's strong focus on stakeholder engagement and sustainable development, UPM is committed to the principles of inclusivity, materiality and responsiveness, as defined in the AA1000 AccountAbility Principles Standard (2008).

Committing to responsible business practice

UPM sees responsible business practice as a prerequisite for the success of its Biofore strategy. UPM's Code of Conduct is an important tool for ensuring that all UPM employees understand the importance of responsibility and ethical behaviour in everyday business situations.

The Code of Conduct sets the standard of responsible behaviour for all employees and provides the basis for UPM's approach to human and labour rights, ethical business conduct, safety, environmental care and safeguarding company assets.

To ensure that all employees understand and follow the rules set out in the Code, UPM requires all of its employees to participate in training on the Code of Conduct. This training, which was launched in 2011, continued throughout 2012. By the end of the year, over 18,550 employees had attended the training (86%). The training session is also an essential part of UPM's induction programme for new employees.

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

In order to further improve understanding on human rights issues and their impact on the business, UPM started preparing a human rights compliance assessment in 2012, based on the business and human rights framework devised by John Ruggie, Special Representative of the UN Secretary-General for Business and Human Rights.

CASE

PROMOTING RURAL EDUCATION IN CHINA

In the Yunnan province in south-western China, UPM, together with the Beijing Green and Shine Foundation, donated some 3,000 books to launch the "Mini Library" project in two primary schools.

The project aims to develop rural areas in China by promoting education and reading in schools that have limited access to information and books.

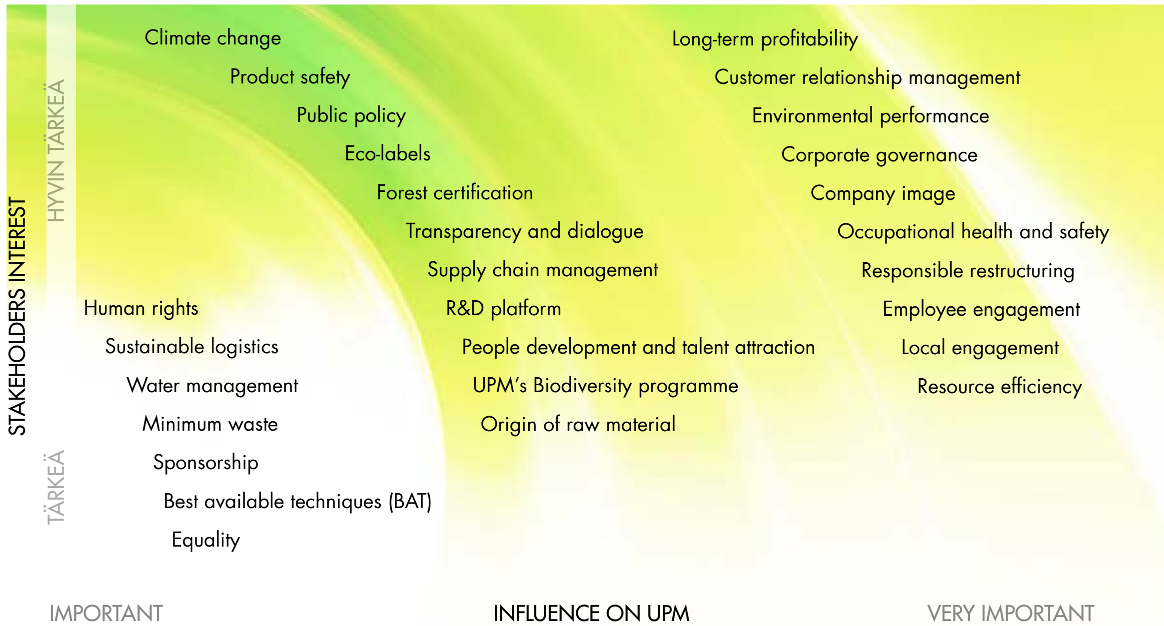
With UPM's help, the Foundation was able to set up the first batch of mini libraries in Yunnan, a less developed area in China, where there is a stronger need to improve local education and cultivate reading habits.

Pupils aged between 6 and 11 can now enjoy classical literature, fairy tales and history and nature books. University volunteers also helped pupils to set up the library and organised interactive reading sessions.

UPM will continue to be involved in the project, setting up mini libraries in more schools in Yunnan and other parts of China. The project provides a good platform for strengthening UPM's stakeholder engagement in China and reinforces UPM's role as a responsible paper supplier in China.

The Beijing Green and Shine Foundation, founded in 2008, has so far launched more than 80 mini libraries in 13 rural provinces. In Yunnan, the Foundation plans to set up mini libraries in more than 15 schools in the region over the coming years.

ANALYSIS OF UPM'S STAKEHOLDER REVIEW



UPM continuously tracks stakeholder views, monitors global sustainability megatrends and follows up on weak signals relating to the changing operating environment. Material topics are analysed from both the risk and opportunity point of view.

Raising concerns

UPM does not tolerate any violations against the UPM Code of Conduct or the rules and guidelines that accompany it. The company has efficient internal procedures in place to deal with alleged breaches of the Code of Conduct.

Concerns related to the Code of Conduct can be reported confidentially and anonymously directly to the Head of Internal Audit via Report Misconduct channel, which is also publicly available on the company's website. All complaints are reviewed by the company's internal audit function and reported on a quarterly basis to the UPM Audit Committee, which is made up of three independent members of the Board.

Employees who violate the Code are subject to disciplinary action up to and including termination of employment.

In 2012, no major concerns were reported through the UPM Report Misconduct channel and only 14 cases were raised in total. In all of the cases, the company made the corrective actions considered appropriate to the circumstances. The complaints related to suspected failure to adhere to safety regulations and UPM's values as well as suspected conflicts of interest. Two of the cases involved misconduct and led to disciplinary action. None of the cases were related to child labour, or forced or compulsory labour.

CASE

MULTI-STAKEHOLDER APPROACH THROUGH THE FORESTS DIALOGUE

In 2012, UPM started to engage with The Forests Dialogue (TFD) in order to participate in the collaboration on the most pressing local and global issues facing forests and people.

Through its process, TFD brings together representatives from indigenous peoples, NGOs like the International Union for Conservation of Nature (IUCN) and WWF, women's organisations, finance institutions like the World Bank, research institutes such as the Center for International Forestry Research CIFOR, family forest owner organisations and companies to build trust, share perspectives and information and ultimately lead to collaborative-based change.

UPM participates in several of TFD's current initiatives such as Food, Fuel, Fiber and Forest (4Fs) and climate initiatives. The 4Fs Initiative focuses on the role and value of forests, and the supply of food, fuel and fibre in a more resource-restricted future.

"Success in achieving change towards more sustainable forests within the TFD process depends on reaching agreement among the participants and the commitment of its partners to action. UPM's involvement with The Forests Dialogue can help find those win-win collaborative solutions and spur action to contribute to sustainable land and resource use and the sustainable management of forests", says Gary Dunning, Executive Director of TFD.

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 2012 can be found under the sections for each business area. The GRI content index is on pages 52–53.

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

Active and transparent dialogue with stakeholders

Dialogue, feedback and good co-operation in line with UPM's values – trust and be trusted, achieve together and renew with courage – are the most important ways of promoting mutual understanding with stakeholders.

UPM undertook several stakeholder engagement studies in 2012.

UPM continues to develop tools and platforms to foster dialogue between the company and its stakeholders.

UPM's Biofore vision forms the foundation of its corporate responsibility agenda and stakeholder dialogue. 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 (NGOs), governments and regulators, as well as the media.

UPM acknowledges that its operations greatly affect the surrounding communities both economically and socially, and that there is a particularly strong impact when the company invests in a production unit or restructures or closes production units. The company focuses on ensuring transparent and active dialogue when taking action in these situations in order to meet the expectations of local stakeholders.

Addressing stakeholder views

A key element of managing the responsibility agenda is constantly following up on stakeholder views. Based on feedback, UPM's stakeholders clearly know and appreciate the Biofore vision and the company's strong track record in environmental performance.

However, increased proactivity in terms of sharing the objectives of the Biofore strategy with stakeholders is expected. UPM is continuing to work on promoting the Biofore agenda and specifically on developing more transparent reporting processes with regard to actions taken in the area of responsibility.

In 2012, UPM conducted several stakeholder engagement surveys in co-operation with third parties. The surveys include various customer satisfaction surveys, supplier surveys and the annual Employee Engagement Survey. UPM also carried out a global survey on sustainable plantation management which involved extensive in-depth interviews with global experts. The aim of the survey was to map key issues, trends and expectations related to plantation management. The results were used in further development of UPM's sustainable plantation management principles.

These various stakeholder surveys were designed to identify how stakeholders perceive UPM and the key areas for development. The studies also provide information that is used to assess the impact of emerging sustainability trends and risks posed to the company's operations.

UPM conducted a comprehensive internal and external benchmarking study on stakeholder engagement in 2012. The study revealed that various engagement practices exist across the company. Developing a more systematic and comprehensive stakeholder engagement process was identified as a development area in the study.

Read more about UPM's various engagement methods with its business partners on page 32.

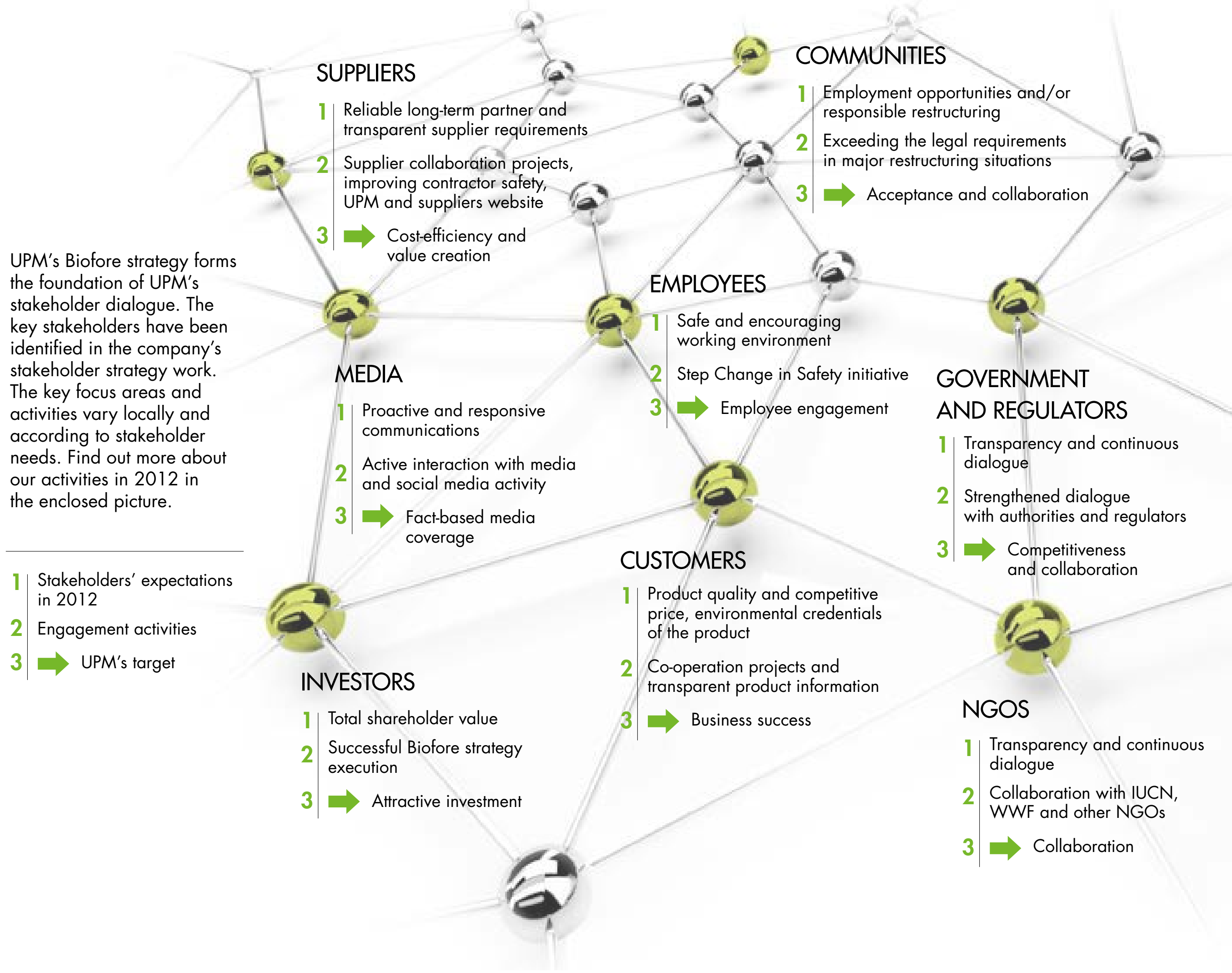
Stakeholder forums for sharing best practice

UPM is continuously developing tools and platforms to foster dialogue between the company and its stakeholders in all UPM locations. Several UPM mills already have long-established community forums in place, such as the UPM Blandin Advisory panel in the United States and the Steyremühl Bürgerbeirat in Austria.

In order to promote the sharing of best practice between different mills, UPM launched a global initiative in 2012 to develop a common stakeholder forum model. UPM Kaukas mill in Lappeenranta will act as a pilot for the development work in 2013.

THE FOCUS OF UPM'S STAKEHOLDER ENGAGEMENT WORK IN 2012

UPM's Biofore strategy forms the foundation of UPM's stakeholder dialogue. The key stakeholders have been identified in the company's stakeholder strategy work. The key focus areas and activities vary locally and according to stakeholder needs. Find out more about our activities in 2012 in the enclosed picture.



DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED BY UPM

(EUR MILLION)

UPM's economic impact is significant in the surrounding communities. The company's operations contribute to local, regional and national economies by generating economic benefits for different stakeholder groups. The related direct monetary flows indicate the extent of added value globally.

DIRECT ECONOMIC VALUE CREATED	
REVENUES Sales	10,438
Income from sale of assets	246
Income from financial investments	132
Other income	49
	10,865

UPM The Biofore Company

ECONOMIC VALUE DISTRIBUTED	
Operating costs	–7,964
Employee wages and benefits	–1,369
Payments to providers of loans	–96
Dividend distribution	–315
Tax payments to governments and donations	–74
	–9,818

ECONOMIC VALUE RETAINED 1,047

CASE

SUPPORTING SOCIAL DEVELOPMENT IN URUGUAY

UPM plays an important role in the social and economic development of rural areas in Uruguay through its financial support to the UPM Foundation.

"We support programmes that engage a large number of people and have long- term effects", says UPM Foundation Manager Magdalena Ibañez.

In 2012, the UPM Foundation's biggest achievement was the start-up of the first technical high school with a curriculum adapted to the rural environment in the small town of Tacuarembó in north eastern Uruguay.

The school's 35 students of 12 years of age are now able to continue their education in their home region. "Traditionally, there are several small communities where young people cannot study due to the lack of resources. We have also been working together with public education institutes, non-profit organisations and a group of farmers in the region", she explains.

During 2012, the Foundation's support reached some 10,000 people across five regions of Uruguay. Since the Foundation was established in 2006, more than 200 projects have been run together with 50 non-profit organisations across the country.

The Foundation is financed by the eucalyptus plantation forestry company Forestal Oriental and the UPM Fray Bentos pulp mill, but chooses which projects to support independently. The board of the foundation consists of seven members, of which four are independent of UPM.

The UPM Foundation promotes the development of communities through education, training and entrepreneurship. The goal is to facilitate, encourage and activate grassroots projects in order to promote the long-term, sustainable development of local communities.

Environmental solutions in collaboration with stakeholders

UPM promotes sustainable solutions that minimise the environmental footprint of products over their entire lifecycle and offer stakeholders sustainable credentials. UPM has long-term 2020 environmental targets.

In 2012, UPM received new EU ecolabels, including the world's first for newsprint.

UPM invested in efficient energy generation and water treatment in Germany and Finland.

Creating more with less is UPM's means for better material efficiency.

In 2012, the strategy for sustainability and the consistent work performed in this area gained external recognition, with UPM being listed as the only forestry and paper company worldwide in the Dow Jones Sustainability Indexes (DJSI).

Increased transparency

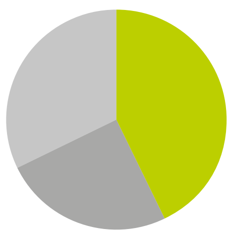
Products with eco-labels, environmental declarations and certified operations and production are all ways of informing stakeholders about the sustainability, transparency and risk management. UPM provides comprehensive environmental information assured by third parties from the corporate level right through to the mills and individual products. (Read more about environmental transparency on page 47).

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.

All of UPM's European pulp and paper mills are now registered with the EU Eco-Management and Audit Scheme (EMAS).

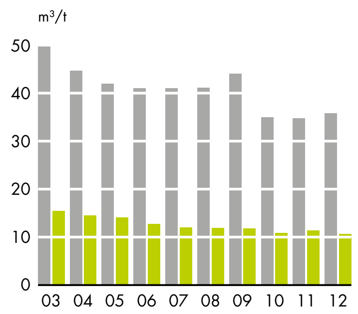
In 2012, the Fray Bentos pulp mill in Uruguay became the first ever non-European mill to be included in the EMAS. Registration with EMAS is the continuation of a pilot project between UPM, EU, Finnish Environmental Institute SYKE, the Finnish Ministry of the Environment and Finnish auditor company Inspecta Certification. UPM's corporate registration and the relevant environmental statement cover a total of 20 pulp and paper mills.

UPM'S ECO-LABELED SALES*)



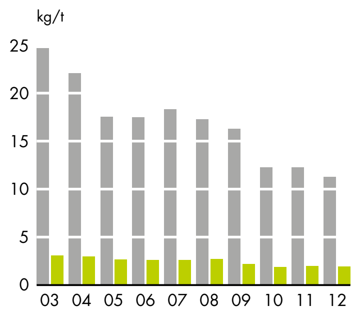
In 2012, 68% (61%) of UPM's overall sales of paper, chemical pulp, plywood and timber products were eco-labeled. The figure includes FSC, PEFC and EU Ecolabels as well as national eco-labels.

UPM'S PROCESS WASTEWATER VOLUMES



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

UPM'S COD LOAD



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

UPM'S ENVIRONMENTAL TARGETS BY 2020*

Sustainable products	Environmental management systems certified in 100% of production units (continuous)
	Environmental declarations for all product groups (continuous)
	25% growth in the share of eco-labeled products 1)
Climate	15% reduction in fossil CO_2 emissions 1)
Water	15% reduction in waste water volume 2)
	20% reduction in COD load 2)
Forest	Maintain high share of certified fibre 85%
	100% coverage of chains-of-custody (continuous)
Waste	40% reduction in waste to landfill

*) From 2008 levels
1) Includes paper, timber, plywood, pulp and label
2) Numerical targets relevant for pulp and paper production

EVENTS

20 JAN: UPM Plywood introduces a tool to calculate logistics carbon footprint

20 MARCH: UPM rebuilds biological effluent treatment plant at the Pietarsaari pulp mill in Finland

2 APRIL: WWF and UPM Raflatac work together to save the Oder River in Poland

15 MAY: EU Ecolabel is awarded to UPM Plattling papers

5 SEPT: UPM expands its forest services in Finland by obtaining FSC certification

12 SEPT: In addition to all of UPM's European pulp and paper mills, the Fray Bentos pulp mill in Uruguay is the first non-European mill to be included in EMAS

27 SEPT: UPM produces the first newsprint to carry the EU Ecolabel

Investments for resource effectiveness

In 2012, UPM's environmental investments totalled EUR 35 million (14 million). The largest investments were made in waste water treatment. The biological effluent treatment plant at the Pietarsaari pulp mill in Finland will be rebuilt.

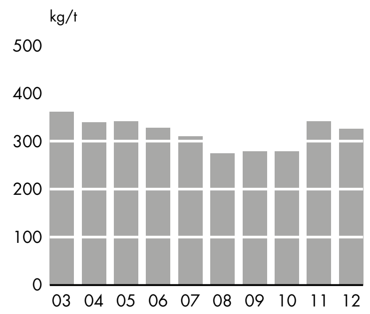
UPM's environmental costs, which were mainly attributable to effluent treatment and waste management, totalled EUR 133 million (112 million), including depreciation.

No significant environmental incidents occurred in 2012. However, there were several minor temporary deviations from permit conditions. These deviations were reported to the relevant authorities immediately, and corrective and preventive measures were taken. The measures form part of UPM´s internal Clean Run campaign, which aims to further improve UPM's environmental performance and to promote environmental awareness. (Read more on page 17).

Taking care of the entire lifecycle

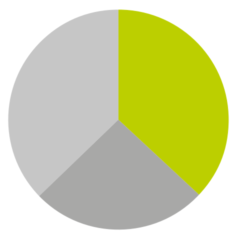
UPM provides sustainable products to customers and consumers. These products are made from renewable, biodegradable and recyclable raw materials. Environmental services are product-specific and they are based on customer needs.

UPM'S FOSSIL CO_2 EMISSIONS PER TONNE OF PAPER



Since 1990, specific CO_2 (carbon dioxide) emissions per tonne of paper have reduced by approximately 30%. After a major increase in 2011, due to the acquisition of new paper mills, the downward trend continued in 2012.

SOURCES OF UPM'S GREENHOUSE GAS EMISSIONS*)



In 2012, UPM assessed its direct and indirect greenhouse gas emissions more closely. This holistic overview shows that more than 60% of the emissions are related to UPM's energy use, but that raw materials and transport of goods are also having a relevant impact. More details on www.upm.com/responsibility.

CASE

TRANSPARENCY BRINGS COMPETITIVE EDGE

UPM provides comprehensive environmental information, assured by third parties, from the corporate level to the mills and individual products. The improving figures indicate increasing efficiency in production processes and good overall environmental performance.

The third-party assured reporting highlights the efforts UPM has made in terms of environmental performance. "In a global business, all players should be evaluated by the same criteria. Consequently, our commitment to continuous improvement and transparency enhance our competitive advantage and leading position in this field," says Päivi Salpakivi-Salomaa, Vice President, Environment.

At the corporate level, UPM follows the Global Reporting Initiative's (GRI) reporting guidelines, which enable companies and organisations to measure and report their sustainability performance. Currently, UPM meets the requirements for GRI's Application Level B+, indicating that UPM wants to present its relevant global corporate-level information in a transparent manner.

UPM has certified all 20 of its European pulp and paper mills, in accordance with the voluntary EU Eco-Management and Audit Scheme (EMAS). EMAS promotes legal compliance and mitigation of environmental impacts on the local area. In 2012, UPM extended this to the Fray Bentos pulp mill in Uruguay, which became the first non-European mill to be certified by EMAS.

"We're delighted to see that EMAS is going global. Third-party verification of the environmental data increases transparency, and gives credibility to companies using EMAS around the world," states Soledad Blanco, Director from the Environment Directorate General of the European Commission.

UPM provides detailed information on the environmental performance of a number of its products via environmental product declarations. The transparency has been acknowledged in the 2012 WWF Environmental Paper Awards.

All of 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 and cover the entire lifecycle.

UPM uses eco-labels, such as the EU Ecolabel, PEFC and FSC forest certification labels. These labels demonstrate a commitment on the part of UPM to meet a wide range of sustainability criteria, set by external stakeholders.

UPM's range of products that feature the EU Ecolabel has increased significantly. UPM is the largest producer of EU Ecolabeled newsprint, graphic and copying papers. In 2012, UPM became the first company to produce EU Ecolabeled newsprint. The Annual Report 2012 is one of the first publications awarded the EU Ecolabel for printed products.

UPM also offers products with regional environmental labels, such as Blue Angel in Germany.

The transparency has been acknowledged in the 2012 WWF Environmental Paper Awards.

Effective energy usage and solutions benefit the climate

UPM's products store carbon and offer an alternative to non-renewable materials. UPM is continuously developing its operations in order to reduce its carbon footprint and to improve the company's energy efficiency. UPM's energy efficiency audits, which were started some 15 years ago, are one example of the measures that the company is taking.

UPM maximises the share of carbon dioxide-neutral energy and aims to increase the use of biomass-based energy. Biomass-based fuels make up approximately 84% of the fuels used by UPM in Finland and approximately 65% of those used worldwide.

In 2012, UPM continued to invest in efficient energy generation and will build a new combined heat and power plant (CHP) at Schongau paper mill in Germany. The power plant, scheduled for completion in 2014, will serve both the mill and surrounding households.

In addition, UPM, engineering company Metso and energy companies Helsingin Energia and PVO-Lämpövoima have announced plans to conduct the world's first research programme covering the entire value chain. The aim of this programme is to investigate the possibilities of using biocoal, i.e. torrefied biofuel, to replace coal in energy production.

UPM Plywood introduced an online tool that is used to calculate the carbon emissions produced when transporting plywood.

UPM received highest score in the Nordic Carbon Disclosure Leadership Index, which evaluates companies' climate reporting.

Less water – more responsibility

UPM uses water responsibly with regard to the company's water consumption and effluent quality. The target is to minimise the impact of operations on local water resources and to safeguard the natural water cycle in forests.

UPM's water programme progressed well in 2012. At the Pietarsaari pulp mill, UPM will rebuild the biological effluent treatment plant. The material efficiency programme continued and several projects were carried out with the aim of improving water management at the production sites.

In Pulp business area, the consumption of process water has been defined a strategic development project. The aim is to improve the existing mill processes and to develop the next generation pulp process, where the need of process water per ton of pulp is further reduced from today's level. At Fray Bentos mill, which is the newest mill In UPM, the consumption of process water is one of the lowest in the industry.

UPM also conducted an extensive study of bio-indicator monitoring. The ecological state of the effluent recipient water areas at all UPM pulp and paper mill sites was evaluated in order to learn more about the value of bio-indicators as a measure of the state of the environment.

In 2012, WWF and UPM Raflatac worked together in order to protect the Oder River Valley in Poland. The aim of the project, entitled "the Rivers for Life", is to protect the river's wildlife and improve the safety of people living in the valley.

More forest certification – keeping forests full of life

Biomass is a renewable raw material, and forms the basis for UPM's products. UPM manages its forests with a view to enhancing biological diversity, natural ecosystems and the carbon cycle, and operates according to the principles of sustainable forest management. The wood that the company uses is procured legally from known sources.

The chain of custody and forest certifications are ways of promoting legal and sustainable wood sourcing.

UPM has worked systematically to increase the amount of certified wood. UPM's forest services were expanded to offer FSC certification as a service to forest owners in Finland.

CASE

FOCUS ON WATER

UPM continued to make good progress with its water programme in 2012.

In Paper, the material efficiency programme embarked on 17 projects at nine UPM paper mills. The objective is to reduce process water consumption and lower the amount of suspended solids.

Recent investments in effluent plants are good examples of how UPM puts sustainable water management into practice.

The rebuild of the effluent treatment plant at the Pietarsaari pulp mill in Finland will increase the mill's production efficiency and reduce its environmental impacts. The investment is valued at approximately 30 million euro. Water treatment processes have also been improved at the UPM Plattling and UPM Nordland paper mills in Germany.

UPM's Kymi pulp mill in Finland introduced an oxygen delignification stage in its pulp production line in order to reduce water emissions and the need for bleaching chemicals.

UPM tested a water management system in co-operation with the European Water Stewardship (EWS) at the UPM Hürth mill in Germany. The EWS standard determines the level of sustainable water management practices.

"Through a pilot project, we have assisted UPM with the implementation of the EWS standard at the mill. There are 54 indicators that evaluate eventual risks and impacts arising from the operation's water management. According to the final report, the mill's performance was at a very high level. It was one of the best pilot studies we have completed so far," states Maria Valle from EWS.

In 2012, approximately 77% (78%) of all wood used by UPM was sourced from certified forests and 80% (81%) of UPM's paper was produced using fibre that meets the criteria of either the FSC or the PEFC forest certification schemes.

UPM also continued its co-operation with WWF's New Generation Plantations Project in Uruguay in order to develop and promote sustainable plantation practices.

In addition, UPM's own forests were awarded with an FSC and a PEFC certificate in 2012.

UPM conducted a pilot study with the world's largest environmental organisation IUCN (The International Union for Conservation of Nature) in 2012 in order to review the implementation of the UPM Global Biodiversity Programme in Finland and the UK. UPM also participated actively in multi-stakeholder dialogue with The Forests Dialogue (TFD) on sustainable forest management. Wide-reaching co-operation projects with BirdLife were carried out in Finland, the UK and Uruguay. (Read more on stakeholder engagement on page 44).

Less waste – reduce, reuse, recycle

UPM is committed to maximising the reuse of materials and minimising the generation of waste. 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 the power plants forms the most significant proportion of solid waste at UPM. A large amount of the ash is reused in applications ranging from building roads to constructing 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, and is the world's largest user of recovered paper in the graphic paper industry. (Read more on page 25).

UPM´s in-house solution for recycling by-products of the labelstock industry is available throughout the industry in Europe. Thanks to the UPM's unique RafCycle waste management concept, by-products are used to produce UPM ProFi wood plastic composite products or paper; alternatively, they are converted into energy.

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 2012 can be found under the sections for each business area and on www.upm.com/biofore. The GRI content index is on pages 52–53.

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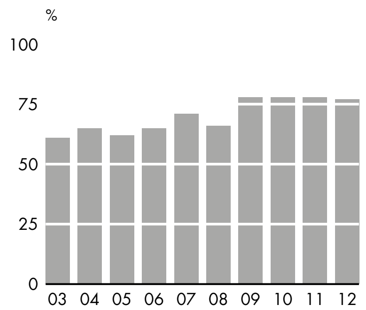
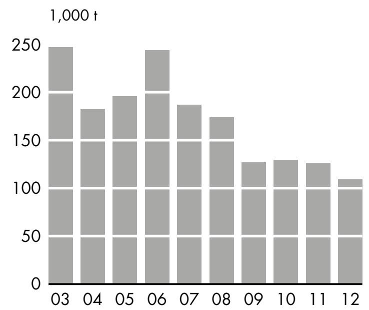
CERTIFIED WOOD SUPPLIED TO MILLS



The average share of certified fibre supplied to UPM's mills remains at a high and stable level of 77% (78%).

UPM'S TOTAL WASTE TO LANDFILLS



The total amount of solid waste sent to landfill decreased by over 50% in the last ten years. The further decrease from 2011 to 2012 was the result of increased use of ash for land construction and capping.

CASE

FURTHER DISCUSSIONS WITH WWF ON SUSTAINABLE PLANTATIONS

In 2012, UPM continued to work with WWF's New Generation Plantations Project (NGPP) in order to develop and promote sustainable plantation practices.

In November, UPM co-hosted NGPP's conference in Uruguay. The international conference brought together forestry, plantation and sustainability experts from across the world, global companies, NGOs and representatives of the Uruguayan government, with the aim of discussing best practice in sustainable plantation forestry.

The conference highlighted that social issues are the main challenge with regard to long-term sustainability in plantations. In future, much greater emphasis is required in order to ensure that the benefits of development are shared fairly with local communities.

The discussions between WWF, government and industry have resulted in the mutual understanding that the future need of fibre will also be met with plantations. By following the best practice, the environmental and social needs must be taken into account.

"Well-managed plantations can have a positive role to play in economic, social and environmental development when they are managed in accordance with the concepts of the New Generation Plantation Project," said Luis Neves Silva from WWF International, Manager of the NGPP.

UPM's approach to plantation management is in line with the New Generation Plantation Principles. Wherever the company operates, it respects the rights of local communities and protects ecosystems and natural forests. All of UPM's eucalyptus plantations in Uruguay are FSC and PEFC certified.

READ MORE
www.upmplantationlife.com

UPM's material balance 2012

UPM's material balance sums up the total material, energy and emission flows to and from UPM worldwide. In 2010, UPM set long-term environmental targets for 2020, as well as defined indicators to measure performance in key areas. In 2012, UPM revised the targets and tightened when reasonable. UPM aims to continuously reduce environmental impacts over the entire lifecycle of its products; the company bases its annual performance evaluation on these indicators.

In 2012, the majority of the total consumption and emission figures were significantly lower than 2011. This is the result of reduction of inefficient paper production capacity and efforts taken to increase material efficiency and decrease emissions at other production units.

ENERGY

The majority of electrical and thermal energy is used for paper and pulp production. However, pulp mills are producing more energy than they are using.

UPM has invested significantly in renewable and CO_2-neutral energy to reduce the environmental load from energy generation.

UPM's CO_2 target is strongly connected to energy sources and energy efficiency.

ENERGY

	2012
Fossil fuels, GWh	14,000
Renewable fuels [1], GWh	25,000
Purchased electricity [2], GWh	15,000
Purchased heat, GWh	400

[1] 91% from UPM processes (e.g. bark, fibre sludge, black liqour)
[2] Includes UPM shares of hydro, nuclear and condensing power as well as purchases from the market

RAW MATERIALS

Biomass is the basis for all UPM businesses. Certified chain of custody systems ensure that wood is sourced from sustainably managed forests.

UPM's Supplier Code defines suppliers' minimum compliance requirements in terms of responsibility with regard to matters such as environmental impact, human rights, labour practices, health and safety, and product safety.

The targets for raw materials concern the certified fibre share and the coverage of chains of custody.

RAW MATERIALS

	2012
Wood, m³	24,300,000
Market pulp, t	1,600,000
Recovered paper, t	3,600,000
Purchased paper for converting, t	180,000
Minerals, t	2,600,000
Plastics, adhesives, resins, films, t	160,000
Co-mingled domestic waste [1], t	150,000

[1] At UPM Shotton, a Material Recovery and Recycling Facility (MRRF) sorts co-mingled waste, of which the recovered paper fraction is reused at the paper mill.

WATER

Water is an essential resource for pulp and paper production. Water is used within the process and for cooling.

The majority of water that is used comes from rivers or lakes. A small amount comes from groundwater, where water levels are monitored.

The targets for water are to decrease process wastewater volume and effluent load.

WATER UPTAKE [1]

	2012
Surface water, million m³	440
Groundwater, million m³	30
Sanitary water, million m³	4

[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.

EMISSIONS TO AIR

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

The choice of fuels, combustion technology and flue-gas purification are the primary ways to reduce these emissions.

The targets for air emissions focus on the reduction of fossil carbon dioxide emissions.

EMISSIONS TO AIR [1]

	2012
Sulphur dioxide, t	3,100
Nitrogen oxides, t	10,500
Carbon dioxide (fossil) [2], t	3,800,000

[1] Direct air emissions include emissions from UPM power plants and a respective share of co-owned power plants connected to UPM's energy supply. External power plants or boilers are considered in terms of heat supply. Hürth is taken into account for electricity as there is a direct supply from the neighbouring power plant.
[2] In addition to direct CO_2 emissions, UPM is also evaluating and reporting its indirect CO_2 and other greenhouse gas emissions. Power purchased from the grid results in an additional 3,000,000 tonnes. Areas such as transport and raw material production result in an additional 4,100,000 tonnes. Detailed information can be found on UPM's website.

PRODUCTS

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

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

The targets for products are to increase the share of eco-labeled products, certified environmental management systems and availability of environmental product declarations.

PRODUCTS

	2012
Paper [1], t	10,600,000
Chemical pulp [1], t	1,500,000
Fluff pulp, t	50,000
Converting materials, t	470,000
Plywood and veneer, m³	700,000
Sawn timber, m³	1,300,000
Heat, GWh	800
Electricity, GWh	5,000
By-products (waste for reuse), dry t	1,270,000

[1] Paper and chemical pulp volumes differ from the overall production of the paper and pulp mills because the paper and chemical pulp used internally have been deducted from the number of products sold.

SOLID WASTE

Much of the process waste is either used as raw material or in energy generation.

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

The target for waste is to reduce the amount of production waste sent to landfills.

SOLID WASTE [1]

	2012
To landfills, dry t	109,000
To temporary storage, dry t	7,200
To municipal incineration plants, dry t	900
Hazardous waste for special treatment [2], t	4,400

[1] Includes process and production waste. From 2012, sorted waste from UPM Shotton's MRRF plant has also been included. Waste from exceptional major demolition/construction work is not included but reported separately. In 2012, demolition of old paper machine buildings resulted in approximately 70,000 dry tonnes of construction waste at UPM Blandin.
[2] The main forms of hazardous waste are oil and other oil waste that is either reused or recycled. UPM is working with local licenced external partners on hazardous waste treatment.

EMISSIONS TO WATER

UPM`s paper and pulp production is the main source of emissions to water.

All effluents are treated both mechanically and biologically in the effluent treatments plants, before being released into watercourses.

Emission levels and environmental impacts are regulated and monitored.

Targets have been set for process wastewater volume and chemical oxygen demand (COD).

EMISSIONS TO WATER [1]

	2012
Chemical oxygen demand [2], t	78,500
Biological oxygen demand (7 days) [2], t	9,900
Absorbable organic halogens, t	270
Process waste water, million m³	250

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

GRI content index

UPM follows the Global Reporting Initiative's (GRI) sustainability reporting guidelines (version 3.0) in its corporate responsibility reporting. The reporting meets the GRI requirements for the 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 2012
● Fully reported
○ Partially reported

Profile	Location	Level
1. STRATEGY AND ANALYSIS		
1.1 CEO's statement	AR Pages 4–5	●
1.2 Key impacts, risks and opportunities	AR Pages 5–8, 11, 41	●
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation	AR Page 83	●
2.2 Primary brands, products and services	AR Pages 3, 33	●
2.3 Operational structure	AR Pages 33, 57	●
2.4 Location of organization's headquarters	AR Page 148	●
2.5 Number of countries and locations of operations	AR Pages 36, 146–147	●
2.6 Nature of ownership and legal form	AR Pages 55	●
2.7 Markets served	AR Pages 24, 33	●
2.8 Scale of the reporting organisation	AR Pages 2, 137	●
2.9 Significant changes regarding size, structure or ownership	AR Page 38, 68	●
2.10 Awards received in the reporting period	AR Page 8, Ext. GRI*)	●
3. REPORT PARAMETERS		
Report profile		
3.1 Reporting period	1 January 2012–31 December 2012	●
3.2 Date of most previous report	23 February 2012	●
3.3 Reporting cycle	Annual	●
3.4 Contact point for questions regarding the report or its content	AR Page 148	●
Report scope and boundary		
3.5 Process for defining report content	AR Page 43	●
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	Extended GRI content index	●
Assurance		
3.13 Policy and current practice with regard to seeking external assurance for the report	AR Page 54	●
4. GOVERNANCE		
Governance		
4.1 Governance structure	AR Pages 55–57	●
4.2 Position of the Chairman of the Board	AR Page 141	●
4.3 Independence of the Board members	AR Pages 56, 141	●
4.4 Mechanisms for shareholder and employee consultation	AR Pages 36, 55–56	●
4.5 Executive compensation and linkage to organisation's performance	AR Pages 58–59	●
4.6 Process for avoiding conflicts of interest	AR Pages 55–56	●
4.7 Process for determining the Board members' expertise in strategic management and sustainability	AR Pages 55, 60–61	●
4.8 Implementation of mission or values statements, Code of Conduct and other principles	AR Pages 32, 40, 42–43	●
4.9 Procedures of the Board for overseeing management of sustainability performance, including risk management	AR Pages 43, 55–56, 143	●
4.10 Processes for evaluating the Board's performance	AR Page 56	●
Commitments to external initiatives		
4.11 Addressing the precautionary approach	AR Page 143	●
4.12 Voluntary charters and other initiatives	AR Page 42	●
4.13 Memberships in associations	Extended GRI content index	●
Stakeholder engagement		
4.14 List of stakeholder groups	AR Page 45	●
4.15 Identification and selection of stakeholders	AR Page 44	●
4.16 Approaches to stakeholder engagement	AR Pages 43–45	●
4.17 Key topics raised through stakeholder engagement	AR Pages 32, 38, 43, 49	●
5. PERFORMANCE INDICATORS		
ECONOMIC PERFORMANCE		
Management approach to economic responsibility	AR Pages 8–9, 41, 143	●
EC1 Direct economic value generated and distributed	AR Page 44	●
EC2 Financial implications, risks and opportunities due to climate change	AR Pages 8, 11, 48	○
EC3 Coverage of defined benefit plan obligations	AR Page 113–115	●
EC4 Significant subsidies received from government	AR Pages 35,101	●
Indirect Economic Impacts		
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts	AR Page 38	○

*) Extended GRI content index

Profile	Location	Level
ENVIRONMENTAL INDICATORS		
Management approach to environmental responsibility	AR Pages 41, 46–49	●
Materials		
EN1 Materials used by weight or volume	AR Page 50	●
EN2 Percentage of materials used that are recycled input materials	AR Pages 19, 25, 50, Ext. GRI*)	●
Energy		
EN3 Direct energy consumption	AR Pages 14–15, 50	●
EN4 Indirect energy consumption by primary source	AR Pages 50	○
EN5 Energy saved due to conservation and efficiency improvements	AR Page 15	●
EN6 Initiatives to provide energy-efficient or renewable energy based products and services	AR Pages 12, 27, 34–35	○
Water		
EN8 Total water withdrawal by source	AR Page 50, Ext. GRI*)	●
EN9 Water sources significantly affected by withdrawal of water	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	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	Extended GRI content index	●
Emissions, effluents and waste		
EN16 Total direct and indirect greenhouse gas emissions	AR Pages 47, 51	●
EN17 Other relevant indirect greenhouse gas emissions by weight	AR Page 47, Ext. GRI*)	●
EN18 Initiatives to reduce greenhouse gas emissions	AR Page 15	●
EN20 NOx, SOx and other significant air emissions	AR Page 51	●
EN21 Total water discharge by quality and destination	AR Pages 51	●
EN22 Total amount of waste by type and disposal method	AR Pages 49, 51, Ext. GRI*)	●
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting	Extended GRI content index	○
Products and services		
EN26 Mitigating environmental impacts of products and services	AR Pages 27, 29, 34–35	●
EN30 Total environmental protection expenditures and investments by type	AR Page 47	○
SOCIAL INDICATORS		
Management approach to social responsibility	AR Pages 32, 36–38, 40–43	●
LABOUR PRACTISES AND DECENT WORK		
Employment		
LA1 Total workforce by employment type, employment contract and region	AR Page 39	●
LA2 Total number and rate of employee turnover by age group, gender and region	AR Page 39	○
Labour/management relations		
LA4 Coverage of collective bargaining agreements	AR Page 36	●
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	AR Page 38, Ext. GRI*)	●
Occupational health and safety		
LA7 Injuries, lost days, absentee rates and fatalities	AR Page 37, Ext. GRI*)	●
LA8 Education, training, counseling, prevention, and risk-control	AR Pages 36–37	○
Training and education		
LA10 Average hours of training per year per employee	AR Page 39	○
LA11 Programs for skills management and lifelong learning	AR Page 36	●
LA12 Employees receiving performance and career development reviews	AR Page 36	●
Diversity and equal opportunity		
LA13 Composition of governance bodies and breakdown of employees	AR Page 38, Ext. GRI*)	●
HUMAN RIGHTS		
HR2 Percentage of significant suppliers and contractors that have undergone hs screening and actions taken	AR Page 40	○
HR3 Employee training on policies and procedures concerning human rights relevant to operations	AR Page 42	○
HR6 Operations identified as having significant risk for child labor	Extended GRI content index	●
HR7 Operations identified as having significant risk for forced or compulsory labor	Extended GRI content index	●
HR9 Number of incidents involving rights of indigenous people and actions taken	Extended GRI content index	●
SOCIETY		
Community		
SO1 Assessment and management of impacts of operations on communities	AR Page 38	○
Corruption		
SO3 Percentage of employees trained in anti-corruption policies and procedures	AR Page 42	○
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 Pages 73–74	●
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 46,48, Ext. GRI*)	●
PR5 Practises related to customer satisfaction and results of customer satisfaction surveys	AR Pages 32–33, Ext. GRI*)	●

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

AA1000 Licensed Assurance Provider 000-29

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 for the reporting period of January 1, 2012 to December 31, 2012, disclosed in UPM-Kymmene Corporation's Annual Report 2012, and on its website in section "Responsibility". 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 2012 and on its website (hereinafter "CR Reporting").

Furthermore, the assurance engagement has covered UPM-Kymmene Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

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).

The Management of UPM-Kymmene Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008.

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 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 addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with UPM-Kymmene Corporation, the AA1000 Assurance Standard 2008 requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that UPM-Kymmene Corporation does not adhere, in all material respects, to the AA1000 Accountability Principles and that the CR Reporting is not reliable, in all material respects, based on 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 the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material sustainability topics as well as assessing the CR Reporting based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as four sites in Finland and Germany.
- Interviewing employees responsible for collection and reporting of the information presented in the CR Reporting at the Group level and at the different sites where our visits took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Assessing the systems and practices used for the collection and consolidation of quantitative information.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation does not adhere, in all material respects, to the AA1000 Accountability Principles.

Furthermore nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation's CR Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Reporting is not reliable, in all material respects, based on the Reporting criteria.

Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for sustainability information. This independent assurance report should not be used for interpreting UPM-Kymmene Corporation's performance in relation to its principles of corporate responsibility.

Observations and recommendations

Based on our limited assurance engagement, we provide the following observations and recommendations in relation to UPM-Kymmene Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Regarding Inclusivity:** UPM-Kymmene Corpora tion has a strong commitment to stakeholder engagement. The company has an extensive stakeholder engagement process in place to ensure the identification of relevant stakeholders as well as their concerns and expectations. We recommend that the Company further develops the systematic management of stakeholder engagement, with central coordination and support in terms of its content, yet enabling flexibility at the local level.
- **Regarding Materiality:** UPM-Kymmene Corporation has processes in place to evaluate and determine the materiality of sustainability topics. These processes are aligned with the processes for organisational decision making and strategy development. We recommend that in the forthcoming materiality assessments, the issue identification at regional and local levels is further aligned with the Group level review of material topics that cut across the entire business.
- **Regarding Responsiveness:** UPM-Kymmene Corporation is committed to being responsive to its stakeholders, which is evident from the ongoing and wide-ranging communication on sustainability issues in media, forums and other communication channels. The Company makes significant efforts to address especially its environmental impacts. We recommend that the Company continues to increase its transparency also in other areas, such as in social and supply chain issues.

Practitioner's independence and qualifications

PricewaterhouseCoopers' own Global Independence Policy is applicable to PricewaterhouseCoopers Oy, its partners and professional staff, including all members of the assurance engagement team.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as the relevant industry knowledge, to undertake this assurance engagement.

Helsinki, 15 February 2013

PricewaterhouseCoopers Oy

Juha Wahlroos Authorised Public Accountant	Sirpa Juutinen Partner, Sustainability & Climate Change

Corporate governance

UPM-Kymmene Corporation is a publicly listed limited liability company domiciled in Finland and its corporate governance is based on the Finnish Companies Act, the Securities Market Act, UPM'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 issued by the Securities Market Association.

UPM's Corporate Governance Statement, prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code, is presented on pages 141–143.

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 General Meeting of Shareholders elects members to the Board of Directors, and the Board appoints the President and CEO. The President and CEO is assisted by the company's Group Executive Board and Group Executive Team, whose members are appointed by the Board of Directors.

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. UPM's Annual General Meeting 2012 was held on 30 March in Helsinki, Finland. A total of 1,745 shareholders attended the meeting in person or through a legal or proxy representative, representing 40.2% of the company's registered share capital and voting rights at the time of the meeting.

Under the Finnish Companies Act, matters to be decided upon at a General Meeting include:

- Amendment to the Articles of Association
- Adoption of the financial statements
- Decision on the use of the profit shown on the adopted balance sheet
- Discharge from liability for the President and CEO, and the Board of Directors
- Election of members of the Board of Directors and resolution on their remuneration
- Election of the company's auditor and resolution on audit fee

A shareholder has the right to have the General Meeting deal with a matter falling within its competence, provided that the shareholder submits a written request to the Board of Directors well in advance of the meeting so that the matter can be included in the notice of the meeting. The request is deemed to be delivered on time if the Board of Directors has been notified of the request at least four weeks prior to 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 pre-registered for the meeting by the end of the pre-registration period set by the company.

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 Articles of Association do not contain other limitations concerning the election of members of the Board of Directors. According to the Board Charter, a person who has reached 70 years of age will not be proposed for re-election unless there is a specific reason to do so.

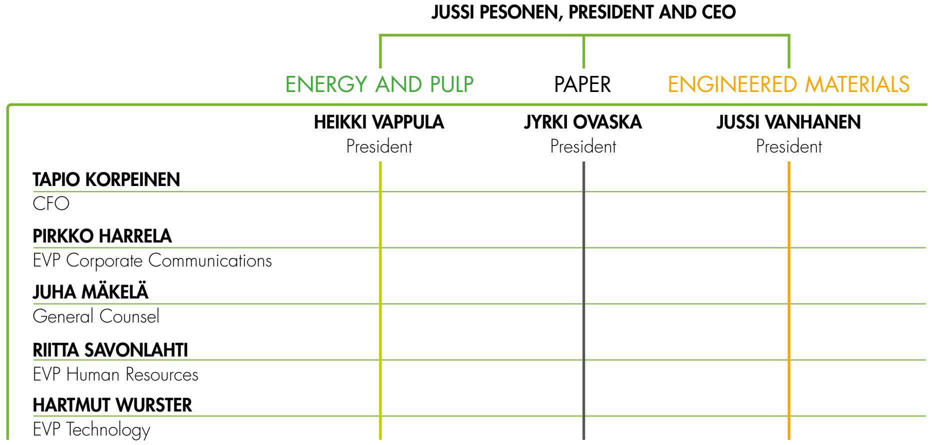
The Directors must have the qualifications required to perform their duties and must be able to devote a sufficient amount of time to Board work. The Board appoints a Chairman and a Deputy Chairman from its members. The Board of Directors is deemed to have a quorum if more than half of its members are present and one of them is either the Chairman or the Deputy Chairman.

UPM's Annual General Meeting 2012 set the number of Directors at nine and decided to re-elect Matti Alahuhta, Berndt Brunow, Karl Grotenfelt, Wendy E. Lane, Jussi Pesonen, Ursula Ranin, Veli-Matti Reinikkala and Björn Wahlroos to the Board. Kim Wahl was elected as a new member of the Board, replacing Robert J. Routs, who was not available for re-election.

Björn Wahlroos was re-elected Chairman and Berndt Brunow as Deputy Chairman of the Board of Directors. Mr Wahlroos has served as Board Chairman since his election to the Board in 2008 and Mr Brunow as Deputy Chairman since 2005.

The Directors' personal details, their career histories and key positions of trust are presented on pages 60–61. The Directors' shareholdings in the company at the end of the year are presented in the table on the following page. Up-to-date information on Directors' shareholdings and any changes therein can be found on the corporate website www.upm.com. Information on Directors' remuneration in 2012 is provided on page 58.

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.

SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS ON 31 DECEMBER 2012

Director	Shares
Matti Alahuhta	51,109
Berndt Brunow	290,747
Karl Grotenfelt	48,001
Wendy E. Lane	22,767
Jussi Pesonen	195,294
Ursula Ranin	22,689
Veli-Matti Reinikkala	25,939
Kim Wahl	3,917
Björn Wahlroos	235,729

The shareholdings above also include shares held by Directors' closely associated persons and controlled entities.

Independence of the members of the Board of Directors

The company's Nomination and Corporate Governance Committee reviews annually the independence of the members of the Board of Directors based on information provided by the Directors. In February 2012, prior to making its proposal to the Annual General Meeting for the election of the members of the Board of Directors, the Committee determined that all Director nominees were independent of the company and of its significant shareholders with the exception of President and CEO Jussi Pesonen, who is not independent of the company.

Board responsibilities

The Board of Directors' duties and responsibilities are defined in the Board Charter approved by the Board of Directors. The Charter is available on the corporate website www.upm.com in the Investors section under Governance.

Pursuant to its Charter, the Board of Directors deal with all matters pertaining to its area of responsibility under Finnish law. Under the Finnish Companies Act, the Board of Directors is responsible for the administration and appropriate organisation of the company's operations and the appropriate arrangement of control of the company's accounts and finances.

Further responsibilities of the Board of Directors include:

- Establishing and evaluating the company's 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, divestitures and financial commitments
- Overseeing strategic and operational risk management and internal control
- Appointing the President and CEO, the members of the Group Executive Board and Group Executive Team, and approving their compensation
- Determining the dividend policy and presenting a proposal for payment of the dividend to the Annual General Meeting

In accordance with the Board Charter, the Board of Directors reviews annually its performance and working methods.

The Board of Directors convenes according to a pre-determined meeting schedule and when deemed necessary. The meeting schedule is based on the company's financial reporting schedule and is complemented by the Board of Directors' strategy and budget meetings. Items are discussed in Board meetings based on a pre-prepared agenda. Minutes are kept for each meeting and the minutes are reviewed and approved by the Board. In 2012, the Board held 11 meetings. On average, the Directors attended 97.9% of the meetings.

Committees of the Board of Directors

The Board of Directors has established three committees composed of its members: the Audit Committee, the Human Resources Committee and the 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 of Directors has adopted Charters for the Committees including the duties and responsibilities of the Committees and the desirable qualifications of Committee members. These Charters are available on the corporate website. The Committee chairmen report to the Board of Directors on Committee activities on a regular basis. In addition, minutes are kept for all Committee meetings and distributed to all Directors.

Committee members

The Board appoints the members of the Committees and their chairmen annually. A Committee always has at least three members. In 2012, all Board Committees fulfilled their respective independence and desirable qualification requirements as set out in the Finnish Corporate Governance Code and Committee Charters. The President and CEO may not be appointed as a member of these Committees.

In 2012, the Audit Committee comprised Karl Grotenfelt as Chairman and Wendy E. Lane and Kim Wahl (since 30 March) as members. Veli-Matti Reinikkala served as committee member until 30 March. The Committee held four meetings during the year. On average, the members attended 91.8% of the meetings.

The Human Resources Committee comprised Berndt Brunow as Chairman and Ursula Ranin and Veli-Matti Reinikkala (since 30 March) as members. Former Director Robert J. Routs served as Committee member until 30 March. The Committee held three meetings, all of which were attended by all of its members.

The Nomination and Corporate Governance Committee comprised Björn Wahlroos as Chairman and Matti Alahuhta and Karl Grotenfelt as members. The Committee held four meetings, all of which were attended by all of its members.

President and CEO

The Board of Directors appoints the President and CEO of the company. Jussi Pesonen has served as the company's President and CEO since January 2004. The Board has approved his service contract, including financial benefits and other terms of service. Mr Pesonen has also been a member of UPM's Board of Directors since March 2007.

The President and CEO is responsible for developing the overall strategic and business plans for submission to the Board and for 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 company's accounts complying with the law and the company's financial administration and management being organised in a reliable manner. The President and CEO supplies the Board of Directors with the information required to perform its duties.

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

The performance of the President and CEO is evaluated annually by the Human Resources Committee.

Information on the President and CEO's financial benefits, retirement age and severance pay is available on pages 58–59.

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, as well as matters relating to investments and divestitures. The main duties of the Group Executive Team, on the other hand, are matters pertaining to functional plans, corporate procedures and co-ordination between the Business Groups and Global 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. Business Areas also have their own management teams.

Members of the Group Executive Board and Group Executive Team are presented in the illustration on the previous page. Their personal details, career histories and key positions of trust are presented on pages 62–63. Information on the management's financial benefits and share and stock option holdings in the company is provided on pages 58–59.

Insider guidelines

The Board of Directors has adopted the company's Insider Policy, which sets out guidelines for the company's insiders and for the management and administration of insider matters.

The company complies with the securities laws and regulations applicable to the company, including the Guidelines for Insiders issued by NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industries.

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 auditor in charge. The holdings of the public insiders are public information and are available on the corporate website and from Euroclear Finland Ltd.

Certain trading procedures apply to both public and permanent insiders (i.e. employees of the company who regularly receive inside information) of the company. The Board of Directors decides on the closed window periods, during which time the company's securities must not be traded in, on an annual basis. The closed window periods are four-week periods preceding and including the disclosure date of the company's annual or quarterly results. Trading is allowed during the open window periods, which are three-week periods commencing on the first business day following disclosure of the company's annual or quarterly results. When necessary, project-specific insider registers will be established and, trading restrictions will be imposed as a result. Persons possessing inside information are not allowed to trade in the company's securities. The company's Insider Administration monitors compliance with the trading restrictions.

Auditor

For the audit of the company's administration and accounts, the Annual General Meeting elects an auditor, which must be a firm of public accountants authorised by the Central Chamber of Commerce of Finland. The auditor's term of office begins at the end of the Annual General Meeting in which it is elected and ends at the conclusion of the next Annual General Meeting. The Annual General Meeting 2012 re-elected PricewaterhouseCoopers Oy, a firm of 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	2012	2011
Audit	2.9	2.7
Audit-related	–	0.1
Tax consulting	1.0	0.9
Other services	0.5	1.0
Total	4.4	4.7

Risk management and internal audit

The Board of Directors has approved the company's Risk Management Policy. All Business Groups and Areas, mills and functions of the UPM Group are within the scope of the Policy. Each unit is 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 regularly reports to 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 47 of the Finnish Corporate Governance Code. The Remuneration Statement contains a description of the financial benefits for the Board of Directors, and the President and CEO, as well as the decision-making process and the main principles of remuneration. The Remuneration Statement is available on the corporate website.

Financial benefits for the Board of Directors

The Annual General Meeting 2012 approved the Nomination and Corporate Governance Committee's proposal that the fees of the Board and Committee members remain unchanged. The fees of non-executive Directors are presented in the enclosed table.

Of these annual fees, totalling EUR 890,000, 60% was paid in cash and 40% in the form of company shares purchased on the Board members' behalf. The company is responsible for any costs and transfer tax related to the acquisition of company shares to the Board members. The Board members do not receive any financial benefits from Board membership other than their annual fees.

	2012		2011	
	Annual fees (EUR)	of which shares (pcs)	Annual fees (EUR)	of which shares (pcs)
Chairman	175,000	7,216	175,000	4,976
Deputy Chairman	120,000	4,948	120,000	3,412
Chairman of the Audit Committee	120,000	4,948	120,000	3,412
Members*)	95,000	3,917	95,000	2,701

*) The President and CEO does not receive any financial benefits for his role as a member of the Board.

Financial benefits for the President and CEO

The annual salary and other financial benefits for the President and CEO were as follows:

SALARIES, FEES AND OTHER BENEFITS FOR THE PRESIDENT AND CEO

EUR 1,000	2012	2011
Salaries and benefits		
Salaries	1,059	1,034
Incentives	508	1,140
Share rewards*)	–	899
Benefits	36	23
Total	1,603	3,096
Pension costs		
Finnish statutory pension scheme	276	396
Voluntary pension plan	672	663
Total	948	1,059

*) Share rewards from the earning period 2010 under the Share Ownership Plan 2008–2010.

Financial benefits for the Group Executive Team

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

GROUP EXECUTIVE TEAM*)

EUR 1,000	2012	2011
Salaries and benefits		
Salaries	2,975	3,155
Incentives	496	2,076
Share rewards**)	–	2,805
Benefits	121	137
Total	3,592	8,173
Pension costs		
Finnish statutory pension scheme	522	847
Voluntary pension plan	456	405
Total	978	1,252

*) 8 members in 2012, 9 members in 2011.
**) Share rewards from the earning period 2010 under the Share Ownership Plan 2008–2010.

Decision-making process in relation to management remuneration

All decisions related to remuneration of 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 consultation with independent advisors and approved by the Board. Terms and conditions of stock option programmes are resolved by the General Meeting of Shareholders.

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 members (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 2012, 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 Ownership Plan for 2008–2010, and the Stock Option Programme 2007.

Performance Share Plan

The Performance Share Plan is targeted at 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 shares earned are delivered after the earning period has closed. The earning criteria for 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 813,000 shares, of which up to 150,000 are payable to the President and CEO, and 310,000 to the other members of the Group Executive Team. In 2012, 35 persons were included in the plan. For the earning period of 2012–2014, the maximum number of shares payable under the plan is 1,324,000 shares, of which up to 219,000 are payable to the President and CEO, and 460,000 to the other members of the Group Executive Team. For 2012, 40 persons were included in the plan.

Deferred Bonus Plan

The Deferred Bonus Plan is targeted at other key personnel in 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 share delivery, the share rewards earned 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 shares earned will be delivered in the spring of 2014. The number of shares to be delivered under the plan for the earning period of 2011 is 347,000 shares excluding eventual dividend adjustment for 2013. At year-end 2012, 459 persons were included in the 2011 plan. For the earning period of 2012, the estimated maximum number of shares is 640,000 shares. At year-end 2012, 566 persons were included in the 2012 plan.

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

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

Share Ownership Plan 2008–2010

The Share Ownership Plan 2008–2010 included three earning periods for the years 2008, 2009 and 2010. The number of reward shares was based on predetermined financial targets, which were decided separately for each earning period by the Board of Directors. The earning criterion for the last earning period in 2010 was based on the operating cash flow. Of the set target, 46.4% was achieved resulting in a payout of 133,864 shares to the President and CEO, and the members of the Group Executive team. The reward shares, which were delivered in April 2011, are subject to a two-year restriction period and, as a general rule, the holders of reward shares are obligated to return the reward shares if their employment 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.

SHARES AND STOCK OPTIONS HELD BY THE MEMBERS OF THE GROUP EXECUTIVE TEAM ON 31 DECEMBER 2012

	Shares		Options		
Name	Shares total	of which restricted*)	2007A options	2007B options	2007C options
Jussi Pesonen**)	195,294	32,480	0	170,000	360,000
Pirkko Harrela	35,488	8,120	0	20,000	70,000
Tapio Korpeinen**)	45,792	15,312	0	70,000	180,000
Juha Mäkelä	32,068	8,120	0	40,000	100,000
Jyrki Ovaska**)	64,812	16,240	0	95,000	180,000
Riitta Savonlahti	24,570	8,120	–	27,205	70,000
Jussi Vanhanen**)	45,792	15,312	0	25,000	180,000
Heikki Vappula**)	25,920	13,920	0	40,000	180,000
Hartmut Wurster	38,692	8,120	0	0	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 their shareholdings above include shares held by their closely associated persons and controlled entities.

Pension agreements

In accordance with the service contract of the President and CEO, the retirement age of 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 10 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 before reaching 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 fully vested rights corresponding to 100% of the accumulated account. Executives who become members of the Group Executive Team after 1 January 2010 will be entitled to fully vested rights five years after becoming a member of the Group Executive Team. The German member of the Group Executive Team is covered by a local book reserve pension arrangement, as is common in Germany, allowing for 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 by the company prior to the retirement age. If the company gives notice of termination to the President and CEO, a severance compensation of 24 months' base 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 compensation 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 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 from the date of the event that triggered the change in control, or within three months in the case of the President and CEO, and will receive compensation equivalent to 24 months' base salary.

For further information on remuneration, see the Remuneration Statement on the corporate website.

Board of Directors 31 December 2012

Björn Wahlroos

Chairman
Member and Chairman 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 Hartwall Capital Oy Ab.

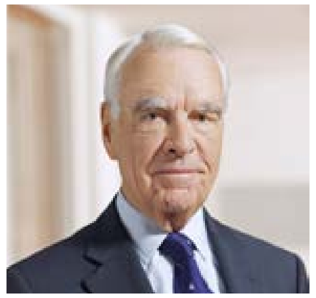
Matti Alahuhta

Member since 2008.
Member of the Nomination and Corporate Governance Committee.
Independent of the Company and significant shareholders.

Born 1952
D.Sc. (Eng.)

President and CEO of KONE Corporation since 2006 and Board member of KONE Corporation since 2003. President of KONE Corporation 2005–2006. Executive Vice President of Nokia Corporation 2004, President of Nokia Mobile Phones 1998–2003 and President of Nokia Telecommunications 1993–1998.

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



Karl Grotenfelt

Member since 2004.
Chairman of the Audit Committee, Member of the Nomination and Corporate Governance Committee.
Independent of the Company and significant shareholders.

Born 1944
LL.M.

Chairman of the Board of Directors of Famigro Oy 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.
Independent of significant shareholders, 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 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.

Veli-Matti Reinikkala

Member since 2007.
Member of the Human Resources 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.

Kim Wahl

Member since 2012.
Member of the Audit Committee.
Independent of the Company and significant shareholders.

Born 1960
MBA, Harvard Graduate School of Business Administration
BA, Business Economics (University of San Diego)

Chairman of the Board of the investment firm Stromstangen AS since 2009. Deputy Chairman and Co-founder of the European private equity firm IK Investment Partners 1989–2009. Associate, Corporate Finance, Goldman, Sachs & Co. 1986–1989. Prior to 1986, positions in International Marketing and Financial Analyst at Trade Commission of Norway, Merrill Lynch and Norsk Hydro, Petroleum Division.

Member of the Industrial Advisory Board of IK Investment Partners. Board member of Aspelin-Ramm Gruppen AS, Kavli Holding AS and Intermediate Capital Group plc. Chairman of Voxtra Foundation. Adjunct Professor at INSEAD business school.

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 persons:

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 the 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 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 the UK 1996–2002. Vice President of Nokia Mobile Phones Supply Line Management 2002–2006. Senior Vice President, UPM Sourcing 2006–2010.

Vice Chairman of the Board of the Finnish Forest Industries Federation (FFIF).

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 at 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 European Association of Graphic Paper Producers and the Owners' Committee of Madison Paper Industries. 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 Oyj 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 at ABB 1990–1994. Human Resources Manager at Nokia Mobile Phones, Salo Operations 1995–2000. Senior Vice President, Human Resources at Raisio Group 2000–2001. Senior Vice President, Human Resources at Elcoteq Network Corporation 2001–2004.

Board member of Itella Corporation and Management Institute of Finland MIF Ltd.

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 at Hamburger AG and Brigl & Bergmeister in Austria 1982–1987. Senior management positions at Haindl Group 1987–2001. President, UPM, Newsprint Division 2002–2008.

Vice Chairman 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 2012

Report of the Board of Directors

The market in 2012

The global economy experienced a diverging development in 2012. The euro area fell into the second recession in four years. Meanwhile the US economy sustained moderate growth. In China, growth in the economy continued, but at a slower pace than before. The global GDP growth decreased to approximately 3% in 2012, compared to 4% in the previous year. Unlike in 2011, emerging markets did not pick up the slack in developed countries.

In Europe austerity measures, the ongoing sovereign debt crisis and fears about the euro area's future kept confidence low, and unemployment increased. In the US uncertainty regarding monetary and fiscal policy as well as the political gridlock relating to possible spending cuts and tax increases hindered further progress to reach sustainable growth. The unemployment rate in the US decreased only marginally.

In China, the economy began decelerating in 2011 as a result of tighter monetary policy, lower investment activity and declining export growth. In 2012, growth in China decreased to its slowest rate in three years. To counter the slowdown China's central bank took measures to boost lending, and the Chinese government approved new infrastructure projects to spur growth in 2012.

In UPM's businesses, market conditions stabilised in the beginning of 2012, after deteriorating during the second half of 2011. Stimulatory policies revived business conditions momentarily during the spring, before fading away as renewed concerns arose.

The Euro weakened against the US dollar during the first half of the year, before strengthening and finishing the year on approximately same level it had started on. Compared to the previous year, the Euro was on average 8% weaker which supported the competitiveness of European exporters.

Having experienced high cost increases for virtually all major raw materials in the previous year, development was fairly stable in 2012. Overall, raw material prices increased slightly during the first half of the year before decreasing gradually towards the end of the year.

In Finland, wood market prices decreased slightly compared to the previous year. In Central Europe, wood market prices were on average somewhat higher than the previous year.

Recovered fibre prices increased slightly during the first half of the year, before easing in the second half. On average prices were lower than in 2011.

The Nordic hydrological balance was well above the long-term average level during 2012 due to rainy weather conditions in the Nordic countries. By year end 2012, the Nordic hydrological situation had returned to close to the long-term average level. The average electricity market price on the Nordic electricity exchange in 2012 decreased, as the high availability of hydropower was also reflected in price developments.

Global chemical pulp shipments increased by 3% from the previous year. The increase in shipments was mainly attributed to China, where shipments grew by 10% from 2011. Shipments to the rest of Asia, Africa, Latin America and Eastern Europe also increased, whereas shipments to mature markets decreased compared with last year.

Global chemical pulp market prices fluctuated during 2012, but on average were lower than in 2011. USD-denominated market prices rose in the first half of the year, eased during the third quarter, then started to increase again towards year end. End-use demand remained fairly robust during the whole year.

The European paper market was negatively impacted by the recession in Europe. In 2012 graphic paper demand declined by 6% compared to the previous year. Graphic paper prices decreased slightly during the course of the year.

In North America, magazine paper demand decreased by 7%. Magazine paper prices were on average slightly lower than in 2011.

Paper demand growth continued in Asia, buoyed by a growing middle class and continued, although lower, economic growth. Fine paper demand increased in Asia by 4% in 2012. Market prices for fine paper increased slightly during the first half of 2012, but decreased in the second half of the year. On average prices were lower than in 2011.

From an end-use perspective, magazine publishers in Europe experienced a slight decrease in readerships and circulations. Advertising pages decreased, mainly due to the weak economy but also due to advertisers allocating spending from print to digital media, following changing consumer time usage. On the other hand, magazine advertising spending increased in emerging markets in 2012.

Year 2012 was also challenging for newspaper publishers. Both printed newspaper titles and circulation decreased in Europe. Expenditure on newspaper advertising in Europe decreased.

Direct mail end-use and demand from the retail sector remained stable in 2012.

Internet advertising spending continued to grow throughout the year and contributed to the slight positive development seen in total advertising expenditure in 2012. The role of printed media as an advertising medium decreased slightly.

Demand growth for label papers slowed globally during 2012, however still remaining healthy in China and other emerging markets.

Global demand growth for self-adhesive labelstock gradually decreased during the year. Demand in mature markets remained broadly stable whereas growth continued, but at a slower rate, in emerging markets. Private consumption driven products - e.g. food, beverage and personal care end-uses, fared better than products used in industrial production and logistics.

Demand for wood-based materials decreased in 2012. The decline was led by construction-related end-use segments, whereas demand remained more stable in industrial applications. Activity in the European construction industry weakened gradually during the year. Sawn timber demand remained stable in North Africa and the Middle East as well as in Asia.

Key figures

	2012	2011
Sales, EURm	10,438	10,068
EBITDA, EURm 1)	1,269	1,383
% of sales	12.2	13.7
Operating profit (loss), EURm	–1,350	459
excluding special items, EURm	530	682
% of sales	5.1	6.8
Profit (loss) before tax, EURm	–1,406	417
excluding special items, EURm	447	572
Net profit (loss) for the period, EURm	–1,254	457
Earnings per share, EUR	–2.39	0.88
excluding special items, EUR	0.70	0.93
Diluted earnings per share, EUR	–2.38	0.87
Return on equity, %	neg.	6.3
excluding special items, %	5.0	6.7
Return on capital employed, %	neg.	4.4
excluding special items, %	4.7	5.8
Operating cash flow per share, EUR	1.93	1.99
Shareholders' equity per share at end of period, EUR	11.23	14.22
Gearing ratio at end of period, %	51	48
Net interest-bearing liabilities at end of period, EURm	3,010	3,592
Capital employed at end of period, EURm	9,838	12,110
Capital expenditure, EURm	352	1,179
Capital expenditure excluding acquisitions and shares, EURm	342	340
Personnel at end of period	22,068	23,909

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
2012 compared with 2011

Sales in 2012 were EUR 10,438 million, 4% higher than the EUR 10,068 million in 2011. Sales increased mainly due to higher external sales in Pulp and Energy business areas.

EBITDA was EUR 1,269 million, 12.2% of sales (1,383 million, 13.7% of sales).

The main negative earnings drivers related to paper delivery volumes and decreased sales prices in Paper and Pulp business areas.

Fixed costs were EUR 97 million lower than the previous year, on a comparable basis.

Variable costs were slightly lower than the previous year, mainly due to lower fibre and energy costs. Other variable costs were higher than the previous year.

Operating profit excluding special items was EUR 530 million, 5.1% of sales (682 million, 6.8%). Reported operating loss was EUR 1,350 million (profit of EUR 459 million, 4.6% of sales).

Operating loss included net charges totalling EUR 1,880 million (223 million) as special items. In Energy, special items of EUR -6 million relate to an adjustment in UPM's share of the capital gain from the Fingrid sale that was booked in 2011. In Forest and Timber, an impairment charge of EUR 31 million and restructuring charges of EUR 17 million were booked. Impairment charges of EUR 1,771 million were booked in Paper, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations. In addition, special items in Paper include other impairment charges of EUR 8 million, restructuring charges of EUR 80 million and a net gain of EUR 35 million from the sale of the packaging paper operations. In Label, restructuring charges of EUR 3 million were recognised. In Other operations, special items amounted to a net income of EUR 1 million.

The increase in the fair value of biological assets net of wood harvested was EUR 45 million (64 million), including gains on sales of forest land. The share of results of associated companies and joint ventures was EUR -14 million (82 million) and excluding special items EUR -8 million (-4 million).

Profit before tax excluding special items was EUR 447 million (572 million). Reported loss before tax was EUR 1,406 million (profit of EUR 417 million). Loss before tax includes a capital gain of EUR 34 million (68 million) from the sale of Metsä Fibre shares. Interest and other financing costs net were EUR 105 million (80 million). Exchange rate and fair value gains and losses resulted in a gain of EUR 11 million (loss of EUR 33 million).

Income taxes were EUR 152 million positive (40 million positive). Special items in taxes were EUR 230 million positive (125 million positive).

Loss for the year was EUR 1,254 million (profit of EUR 457 million) and earnings per share were EUR -2.39 (0.88). Earnings per share excluding special items were EUR 0.70 (0.93). Operating cash flow per share was EUR 1.93 (1.99).

Financing

In 2012, cash flow from operating activities before capital expenditure and financing totalled EUR 1,014 million (1,041 million). Working capital decreased by EUR 44 million during the period (increase of EUR 73 million). Cash flow included payments of EUR 182 million related to restructurings, mainly in the Paper business area.

The gearing ratio as of 31 December 2012 was 51% (48%). Net interest-bearing liabilities at the end of the period came to EUR 3,010 million (3,592 million).

On 31 December 2012, UPM's cash funds and unused committed credit facilities totalled EUR 1.9 billion.

Personnel

In 2012, UPM had an average of 23,040 employees (23,067). At the beginning of the year the number of employees was 23,909, and at the end of 2012 it was 22,068.

More information (unaudited) on personnel is published in UPM's Annual Report 2012.

Capital expenditure

During 2012, capital expenditure was EUR 352 million, 3.4% of sales (1,179 million, 11.7% of sales). Capital expenditure excluding acquisitions was EUR 342 million, 3.3% of sales (340 million, 3.4% of sales). Operational capital expenditure totalled EUR 248 million (237 million).

In February 2012, UPM announced that it will invest in a biorefinery, which produces biofuels from crude tall oil in Lappeenranta, Finland. The biorefinery will produce approximately 100,000 tonnes of advanced second generation biodiesel for transport every year. The biodiesel production is expected to begin in 2014. The total investment will amount to approximately EUR 150 million.

In February 2012, UPM announced that it will build a new combined heat and power plant at the UPM Schongau mill in Germany. The target is to significantly reduce energy costs as well as to secure energy supply. The start-up is planned by the end of 2014. Total investment is approximately EUR 85 million.

In March 2012, UPM began the rebuild of the Pietarsaari pulp mill's effluent treatment plant. The project is expected to be completed at the end of 2013. The total investment is approximately EUR 30 million.

In August 2012, UPM announced that it will grow in the Asian paper and label materials market by building a new woodfree speciality paper machine at the Changshu mill in China. The new paper machine will be capable of producing label papers and uncoated woodfree grades. The total investment cost is CNY 3,000 million (EUR 390 million), and the machine is expected to start up by the end of 2014.

In August 2012, UPM acquired the labelstock business operations in Switzerland from the Gascogne Group. The acquisition supports UPM's growth in special labelstock products in Europe. Gascogne's labelstock operations' sales totalled EUR 44 million in 2011.

In December 2012, the European Commission awarded UPM a grant under the NER 300-programme totalling EUR 170 million for a solid wood-based biorefinery (BTL) project in Strasbourg, France. The company will continue to clarify prerequisites of the investment. The final assessment on the investment will be made in 2014.

Divestments

In March 2012, UPM completed the sale of its RFID business to SMARTRAC N.V. UPM became an indirect shareholder of SMARTRAC with a 10.6% economic interest through the company OEP Technologie B.V., a holding company controlled by One Equity Partners and one of the major shareholders of SMARTRAC.

In April 2012, UPM sold its 11% share in Metsä Fibre Oy (formerly Oy Metsä-Botnia Ab) to Metsäliitto Cooperative for EUR 150 million. UPM reported a one-off gain of EUR 34 million from the transaction in Q2 2012.

In June 2012, UPM concluded the sale of its packaging paper operations at the Pietarsaari and Tervasaari mills to the Swedish paper company Billerud. UPM recorded a net gain of EUR 35 million from the disposed operations comprising the capital gain from the transaction of EUR 51 million and a charge of EUR 16 million related to goodwill allocated to the disposed operations. The enterprise value of the transaction was EUR 130 million.

In August 2012, UPM sold the closed Papierfabrik Albbruck GmbH to the German Karl Group. UPM permanently ceased graphic paper production at the mill in January 2012.

In August, UPM sold its 50% share in the export company Rets Timber Oy Ltd to the other owner Stora Enso.

In July 2012, UPM announced that VPK Packaging Group NV and Klingele Papierwerke had made an offer for the acquisition of assets and part of the land at the UPM Stracel paper mill site in Strasbourg, France. VPK and Klingele plan to convert the Stracel mill into a recycled fibre-based containerboard unit, producing fluting and test liner. On 7 January 2013 UPM announced that it had agreed on the social plan in negotiations with employees. The mill ceased production of coated magazine paper on 4 January 2013. In 2012, UPM booked charges of EUR 68 million for the Stracel mill restructuring.

Paper assets impaired to reflect the current profitability in the European paper business

The continuing challenges in the European economy have significantly impacted the consumption of paper, exacerbating the effect of structural changes in paper end-uses and resulting in further decline in the demand of graphic paper in Europe. High costs and significant overcapacity continue to challenge industry operators.

In these circumstances, UPM has not been able to improve the profitability of its European graphic paper business as much as targeted. As UPM management does not expect significant enough improvement in its Paper business profitability in the foreseeable future, the company recorded an impairment charge of EUR 1,771 million in the Paper business area in Q4 2012, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets.

The goodwill impairment charge relates to acquisitions made in 1997–2001. After the charge, the Paper business area has no goodwill left. The fixed asset impairment charge relates to the mature European graphic paper operations.

Myllykoski acquisition synergies

On 1 August 2011, UPM completed the acquisition of Myllykoski Corporation and Rhein Papier GmbH. On 31 August 2011, UPM announced a plan to adjust its magazine paper production capacity and realise cost synergies from the acquisition.

The annual cost synergies of the Myllykoski acquisition including the restructuring measures are estimated to total approximately EUR 200 million from 2013 onwards. Approximately 60% of the total synergies are expected to come from fixed costs and 40% from variable costs.

The realisation of the synergies has proceeded according to the original plan. During 2012, synergy benefits reduced Paper business' costs by approximately EUR 170 million. Despite the reduction in delivery volumes, fixed costs per tonne in magazine paper production decreased slightly. Variable costs in 2012 were lower than in 2011, partly due to the cost synergies. The full cost synergies of EUR 200 million are expected to be visible in 2013.

At the end of 2012, the measures taken so far had reduced the Paper business area's number of employees by approximately 1,100.

The total permanent capacity removal is 1.2 million tonnes of magazine papers and 110,000 tonnes of newsprint. The Myllykoski paper mill in Finland (annual production capacity 600,000 tonnes of magazine papers) and paper machine 3 at the Ettringen paper mill in Germany (annual production capacity 110,000 tonnes of newsprint) were closed in December 2011. The Albbruck mill in Germany (annual production capacity 320,000 tonnes of magazine papers) was closed in January 2012. The Stracel mill in France (annual production capacity 270,000 tonnes of magazine papers) ceased production on 4 January 2013.

In August 2012, UPM sold the closed Papierfabrik Albbruck GmbH to the German Karl Group.

Restructuring of the sawn timber and further processing operations

In June 2012, UPM decided to restructure its sawn timber and further processing operations in Finland, and to renew its business strategy in the Timber and Living businesses.

In September 2012, UPM sold its Kajaani sawmill to Pölkky Oy.

In December 2012, UPM closed the Aureskoski and Heinola further processing mills, resulting in a personnel reduction of 97 employees.

The restructuring also includes the common sales and management staff functions, reducing staff function jobs by 42.

As part of the clarification of the Timber business strategy, on 10 January 2013, UPM announced starting a search for a buyer for the Pestovo mill production area for restructuring or reorientation of production. Negotiations began with the employees, affecting all of the approximately 180 sawmill employees.

In Q2 2012, UPM booked impairment charges of EUR 31 million and made a EUR 12 million provision for restructuring costs.

Business area reviews

Energy

2012 compared with 2011

Operating profit excluding special items for Energy was EUR 210 million (192 million). Sales increased by 6% to EUR 480 million (452 million). External sales were EUR 250 million (177 million). The volume of electricity sales was 9,486 GWh (8,911 GWh).

Operating profit excluding special items improved compared with the previous year, mainly due to higher hydropower volume. The average electricity sales price decreased by 2% to EUR 45.2/MWh (46.2/MWh).

Energy	2012	2011
Sales, EURm	480	452
EBITDA, EURm [1]	225	204
% of sales	46.9	45.1
Share of results of associated companies and joint ventures, EURm	–18	77
Depreciation, amortisation and impairment charges, EURm	–3	–3
Operating profit, EURm	204	278
% of sales	42.5	61.5
Special items, EURm [2]	–6	86
Operating profit excl. special items, EURm	210	192
% of sales	43.8	42.5
Electricity deliveries, GWh	9,486	8,911
Capital employed (average), EURm	939	956
ROCE (excl. special items), %	22.4	20.1

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 2012, special items of EUR –6 million relate to an adjustment in UPM's share of the capital gain reported in 2011. 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 Finnish area spot price on the Nordic electricity exchange in 2012 was EUR 36.6/MWh, 26% lower than during the previous year (49.3/MWh), impacted by the exceptionally high water reservoirs and hydropower volumes in the Nordic countries. Coal prices were lower than the previous year. The CO_2 emission allowance price was EUR 6.7/tonne at the end of the period, 7% lower than on the same date the previous year (7.2/tonne).

The front year forward price in the Nordic electricity exchange was EUR 37.6/MWh at the end of the period, 9% lower than on the same date the previous year (41.5/MWh).

Pulp

2012 compared with 2011

Operating profit excluding special items for Pulp decreased to EUR 296 million (423 million). Sales decreased by 1% to EUR 1,624 million (1,648 million). Deliveries grew by 5% to 3,128,000 tonnes (2,992,000).

Operating profit excluding special items decreased from the previous year, mainly due to lower pulp sales prices.

Pulp	2012	2011
Sales, EURm	1,624	1,648
EBITDA, EURm [1]	427	554
% of sales	26.3	33.6
Change in fair value of biological assets and wood harvested, EURm	15	7
Share of results of associated companies and joint ventures, EURm	1	1
Depreciation, amortisation and impairment charges, EURm	–147	–139
Operating profit, EURm	296	423
% of sales	18.2	25.7
Special items, EURm	–	–
Operating profit excl. special items, EURm	296	423
% of sales	18.2	25.7
Pulp deliveries, 1,000 t	3,128	2,992
Capital employed (average), EURm	2,566	2,396
ROCE (excl. special items), %	11.5	17.7

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

Market review

In 2012, the average softwood pulp (NBSK) market price was EUR 634/tonne, 8% lower than during 2011 (EUR 689/tonne). At the end of the year, the NBSK market price was EUR 613/tonne. The average hardwood pulp (BHKP) market price was EUR 585/tonne, 1% higher than in 2011 (EUR 581/tonne). At the end of the year, the BHKP market price was EUR 587/tonne.

Global chemical pulp shipments increased by 3% from the previous year. The increase in shipments was mainly attributed to China, where shipments grew 10% from 2011. Shipments to the rest of Asia, Africa, Latin America and Eastern Europe increased as well, whereas shipments to mature markets decreased in comparison with the previous year.

Forest and Timber

2012 compared with 2011

Operating profit excluding special items for Forest and Timber was EUR 27 million (50 million). Sales increased by 2% to EUR 1,691 million (1,651 million).

In sawn timber, fixed costs decreased significantly. Sawn timber prices decreased.

The increase in the fair value of biological assets net of wood harvested was EUR 30 million (increase of EUR 57 million). The increase in the fair value of biological assets (growing trees) was EUR 101 million (129 million), including gains on sales of forest land. The cost of wood harvested from own forests was EUR 71 million (72 million).

In August, UPM sold its 50% share in the export company Rets Timber Oy Ltd to the other owner, Stora Enso.

In September 2012, Kajaani saw mill was sold to Pölkky Oy.

In December, UPM ceased glue lam production in Heinola and further processing in Aureskoski.

In July 2012, UPM sold the UPM Tilhill Landscape and Arboricultural businesses in the United Kingdom to Ground Control.

In 2012, UPM sold 31,000 hectares of forest land. Among the biggest deals were the sales of 7,200 hectares to the German fund Latifundium in July and 6,000 hectares to the Finnish wealth management company Taaleritehdas in December.

Forest and Timber	2012	2011
Sales, EURm	1,691	1,651
EBITDA, EURm 1)	13	12
% of sales	0.8	0.7
Change in fair value of biological assets and wood harvested, EURm	30	57
Share of results of associated companies and joint ventures, EURm	1	2
Depreciation, amortisation and impairment charges, EURm	–49	–21
Operating profit, EURm	–21	52
% of sales	–1.2	3.1
Special items, EURm 2)	–48	2
Operating profit excl. special items, EURm	27	50
% of sales	1.6	3.0
Sawn timber deliveries, 1,000 m³	1,696	1,683
Capital employed (average), EURm	1,772	1,812
ROCE (excl. special items), %	1.5	2.8

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

2) In 2012, special items of EUR 43 million relate to the restructuring of sawn timber and further processing operations including an impairment charge of EUR 31 million. In addition special items include restructuring charges of EUR 2 million in Wood sourcing and forestry operations and other restructuring charges of EUR 3 million. 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.

Market review

In Finland, total wood purchases in the Finnish private wood market were 28.2 million cubic metres, 11% higher than in 2011 (25.3 million) but 10% lower than the long-term average. Market activity was higher in the first half of 2012 and slowed during the second half of the year.

Finnish wood market prices decreased slightly compared to the previous year. Log market prices remained high in comparison with the long-term average prices, whereas pulpwood prices were in line with long-term average levels.

In Central Europe, wood market prices developed somewhat unevenly, but on average prices were slightly higher.

In Western Europe, the demand for sawn timber decreased gradually during 2012 due to the slowing economy and weakening building activity in particular. Demand remained stable in North Africa and the Middle East, as well as in Asia.

The average price of sawn timber decreased in 2012.

Paper

2012 compared with 2011

Operating profit excluding special items was EUR 2 million (loss of EUR 16 million). Sales were EUR 7,150 million (7,184 million). Paper deliveries increased by 1% to 10,711,000 tonnes (10,615,000).

Deliveries of publication papers (magazine papers and newsprint) increased by 2%, mainly due to the acquisition of Myllykoski. Deliveries of fine and speciality papers decreased by 2%. Proforma paper deliveries decreased by 10%.

Operating profit excluding special items improved by EUR 18 million from the previous year. On a comparable basis, fibre costs and fixed costs decreased. This was largely offset by lower delivery volumes.

The average price for all paper deliveries in euros decreased by 1% from the previous year.

In January 2012, UPM ceased production at the Albbruck paper mill in Germany.

In June 2012, UPM sold the packaging paper operations of the Tervasaari and Pietarsaari mills.

In July 2012, UPM announced that VPK Packaging Group NV and Klingele Papierwerke had made an offer for the acquisition of assets and part of the land at the UPM Stracel paper mill site in Strasbourg, France. On 7 January 2013 UPM announced that it had agreed on the social plan in negotiations with employees. The mill ceased production of coated magazine paper on 4 January 2013.

Paper	2012	2011
Sales, EURm	7,150	7,184
EBITDA, EURm 1)	542	517
% of sales	7.6	7.2
Share of results of associated companies and joint ventures, EURm	3	2
Depreciation, amortisation and impairment charges, EURm	–2,322	–603
Operating profit, EURm	–1,822	–315
% of sales	–25.5	–4.4
Special items, EURm 2)	–1,824	–299
Operating profit excl. special items, EURm	2	–16
% of sales	0.0	–0.2
Deliveries, publication papers, 1,000 t	7,230	7,071
Deliveries, fine and speciality papers, 1,000 t	3,481	3,544
Paper deliveries total, 1,000 t	10,711	10,615
Capital employed (average), EURm	5,470	5,437
ROCE (excl. special items), %	0.0	–0.3

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.

2) In 2012, special items include impairment charges of EUR 1,771 million, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations, restructuring charges of EUR 60 million and impairment charges of EUR 8 million related to the Stracel mill closure, and other restructuring charges of EUR 20 million. In addition, special items include a net gain of EUR 35 million including a capital gain of EUR 51 million from the sale the packaging paper operations of the Pietarsaari and Tervasaari mills and a charge of EUR 16 million from goodwill allocated to the operations sold. 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.

Market review

In 2012, demand for publication papers in Europe was 8% lower, and for fine papers 4% lower, than in 2011. In North America, demand for magazine papers decreased by 7% from the previous year. In Asia, demand for fine papers grew.

In Europe, publication paper prices decreased by 1% compared to 2011, and decreased in the fourth quarter of 2012 by 1% compared to the third quarter of 2012.

Fine paper prices decreased in 2012 by 3%, and decreased in the fourth quarter of 2012 by 1% compared to the third quarter of 2012.

In North America, the average US dollar price for magazine papers decreased in 2012 by 2% from the previous year and increased in the fourth quarter of 2012 by 2% compared to the third quarter of 2012. In Asia, market prices for fine papers decreased 7% compared to 2011, and remained stable in the fourth quarter compared to the third quarter of 2012.

Label

2012 compared with 2011

Operating profit excluding special items for Label was EUR 81 million (68 million). Sales increased by 5% to EUR 1,202 million (1,150 million).

Operating profit increased from the previous year, mainly due to lower raw material costs and an improved product mix. Fixed costs increased due to expanded operations.

At the end of August 2012, UPM Raflatac completed the acquisition of the labelstock business operations of Gascogne Laminates Switzerland.

Label	2012	2011
Sales, EURm	1,202	1,150
EBITDA, EURm 1)	115	101
% of sales	9.6	8.8
Depreciation, amortisation and impairment charges, EURm	–34	–33
Operating profit, EURm	78	68
% of sales	6.5	5.9
Special items, EURm 2)	–3	–
Operating profit excl. special items, EURm	81	68
% of sales	6.7	5.9
Capital employed (average), EURm	524	486
ROCE (excl. special items), %	15.5	14.0

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 2012, special items of EUR 3 million relate to restructuring charges. 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.

Market review

Growth in the global demand for self-adhesive labelstock gradually decreased over the year. Demand in Western Europe is estimated to have decreased slightly, whereas in North America demand is estimated to have experienced a small growth. In Asia, demand was soft around the summer period but growth strengthened towards the end of the year. In Latin America, the year started out with robust growth but a clear slow-down was experienced around the middle of the year. Over the whole year, growth in global demand was moderate.

Plywood

2012 compared with 2011

Operating profit excluding special items for Plywood was EUR 3 million (0 million). Sales increased by 3% to EUR 387 million (376 million).

Operating profit excluding special items increased due to higher delivery volumes and lower fixed costs. Variable costs increased.

The extension and modernisation work at the Savonlinna mill was completed during the second quarter.

Plywood	2012	2011
Sales, EURm	387	376
EBITDA, EURm 1)	24	18
% of sales	6.2	4.8
Depreciation, amortisation and impairment charges, EURm	–21	–18
Operating profit, EURm	3	–7
% of sales	0.8	–1.9
Special items, EURm 2)	–	–7
Operating profit excl. special items, EURm	3	0
% of sales	0.8	0.0
Deliveries, plywood, 1,000 m^3	679	656
Capital employed (average), EURm	267	253
ROCE (excl. special items), %	1.1	0.2

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

2) In 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.

Market review

In 2012, plywood demand is estimated to have declined in Europe compared to the same period of 2011. As in the previous year, demand in industrial applications was slightly stronger, whereas the market decline was led by construction-related end-use segments. Due to challenging market conditions, price competition intensified in Europe.

Other operations

Other operations include the wood plastic composite unit UPM ProFi, biofuels, development units, logistic services and Group services.

2012 compared with 2011

Excluding special items, the operating loss for Other operations was EUR 89 million (35 million). Sales amounted to EUR 255 million (188 million).

UPM's sale of RFID business to SMARTRAC N.V. was completed on 31 March 2012.

Other operations	2012	2011
Sales, EURm	255	188
EBITDA, EURm 1)	–77	–23
Share of results of associated companies and joint ventures, EURm	–1	–
Depreciation, amortisation and impairment charges, EURm	–11	–11
Operating profit, EURm	–88	–40
Special items, EURm 2)	1	–5
Operating profit excl. special items, EURm	–89	–35
Capital employed (average), EURm	195	287
ROCE (excl. special items), %	neg.	neg.

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 2012, special items include restructuring charges of EUR 17 million, reimbursement of fine of EUR 6 million, and a capital gain of EUR 12 million from the sale of RFID business. In 2011, special items include restructuring charges of EUR 5 million.

Outlook for 2013

Economic growth in Europe is expected to remain very low in the early part of 2013. This will have a negative impact on the European graphic paper markets in particular. The hydrological situation in the Nordic countries is normalising and the forward electricity prices for 2013 are slightly higher than the realised market prices in 2012. Growth market economies are expected to fare better, which is supportive for the global pulp and label materials markets as well as paper markets in Asia and wood products markets outside Europe.

In H1 2013, UPM's performance will be underpinned by continued stable overall outlook for growth businesses such as energy, pulp and label, as compared to H2 2012. However, slightly lower publication paper prices, adverse currency development and lower delivery volumes are expected to have a clear negative impact on the European paper business profitability, as compared with H2 2012. UPM's cost level is expected to be stable.

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 by 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).

In 2012, UPM shares worth EUR 5,534 million (8,835 million) in total were traded on the NASDAQ OMX Helsinki stock exchange. This is estimated to represent approximately 60% of all trading volume in UPM shares. The highest quotation was EUR 10.98 in February and the lowest was EUR 7.82 in June.

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 30 March 2012, 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, 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 a directed share issue in August 2011.

UPM has two option series that would entitle the holders to subscribe for a total of 10,000,000 shares. Share options 2007B and 2007C may both 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 2012 was 526,124,410, including subscriptions of 1,151,572 shares during 2012 through exercising 2007B share options. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 554,970,388.

At the end of 2012, the company held 230,737 of its own shares, representing approximately 0.04% of the total number of the company's shares and voting rights. Of these shares, 19,256 shares have been returned to the company in accordance with the Group's share reward scheme due to the termination of employment contracts.

The listing of 2007C share options on the NASDAQ OMX Helsinki stock exchange commenced on 1 October 2012.

The share subscription period for share options 2007A ended on 31 October 2012. During the entire share subscription period 300 shares were subscribed for through exercising 2007A share options.

Company directors

At the Annual General Meeting held on 30 March 2012, the following eight 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 and Björn Wahlroos. As Robert J. Routs had informed the company that he would not be available for a new term, Kim Wahl was elected as a new Board member.

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

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

In addition, the Board of Directors elected from among its members Karl Grotenfelt as Chairman of the Audit Committee, and Wendy E. Lane and Kim Wahl as members of the Committee. Berndt Brunow was elected as Chairman of the Human Resources Committee, and Ursula Ranin and Veli-Matti Reinikkala were elected as members. Furthermore, Björn Wahlroos was elected as Chairman of the Nomination and Corporate Governance Committee, and Matti Alahuhta and Karl Grotenfelt were elected as members.

Litigation

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. In addition to the state-owned forest administrator Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amounts of all of the claims amount to EUR 237 million in the aggregate jointly and severally against UPM and two other companies, or alternatively and individually against UPM in the aggregate EUR 55 million. In addition to the claims on capital amounts, the claimants are also claiming for compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

In Uruguay, there is one pending litigation case against the government of Uruguay regarding the Fray Bentos pulp mill.

In November 2012, UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along rights under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of the shares in Metsä Fibre to Itochu Corporation. UPM claims jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million in damages. Metsäliitto and Metsä Board sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto exercised a call option to purchase UPM's remaining 11% ownership in Metsä Fibre for EUR 150 million. No receivables have been recorded by UPM on the basis of claims presented in the arbitration proceedings.

In Finland, UPM is participating in the project to construct a new nuclear power plant, Olkiluoto 3, through its shareholdings in 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.

Based on the information submitted by AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit under a fixed-price turnkey contract, TVO estimates that the nuclear power plant unit will not be ready for regular electricity production in 2014. The Supplier is responsible for the schedule.

The Supplier initiated arbitration proceedings before an International Chamber of Commerce (ICC) arbitration tribunal in relation to 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. In 2012 TVO has submitted its updated claim and defense in the arbitration proceedings. The updated quantification estimate of TVO's costs and losses is approximately EUR 1.8 billion. The arbitration proceedings may continue for several years, and the claimed and counterclaimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

During the second quarter of 2012, the arbitration tribunal made a decision regarding an interpretation dispute in treating the plant delivery installments already paid. In accordance with the decision, parts of a few installments, totaling approximately EUR 100 million, previously transferred to a blocked account by TVO under the plant contract have been released to the Supplier, and TVO has paid interest the net amount of which is approximately EUR 23 million. The decision did not take position on the delay of the plant unit and the costs resulting from the delay.

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. This includes also risks avoided by careful planning and evaluation of future projects and business environment.

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.

Change in the business portfolio. UPM's strategic direction is to increase the share of growing businesses with positive long-term fundamentals. UPM's current business portfolio is weighted towards paper products, which represented some 67% of UPM's sales in 2012. UPM has developed a strong portfolio of growing businesses, such as Energy, Pulp, emerging market paper and Label. The financing for the business portfolio transformation is dependent to a significant extent on the cash flows from the mature market paper operations.

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 2012, 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 20% of UPM's sales in 2012.

Operational risks

Availability and price of major inputs. In 2012, third-party suppliers accounted for approximately 80% 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 2012, UPM's direct expenditure on research and development was approximately EUR 45 million (50 million), or 0.4% (0.5%) of the Group's sales. Approximately half of UPM's R&D input is targeted towards new technologies and businesses.

Biodiesel production technology is based on UPM's innovations and long-term development work. Biofuels R&D work is concentrating on researching raw materials and its variations used in the biodiesel production besides running automotive engine testing program in order to fulfill required standards and regulations set by European authorities. In the second phase of the research work the aim is to extend biofuels production by new raw materials such as black liquer and pyrolysis oil.

R&D is running together with Pulp Business Area a research program to optimize water use at chemical pulp mills. The goal is to find new solutions how to circulate and purify raw, process and waste waters during the mill operations. At the same time, this would result energy savings and decrease environmental impact due to diminished load of chemical compounds in waste water. The program will support the strategy to extend pulp production in regions with limited water recourses.

R&D is studying possibilities how to exploit deinking process waste and recycle surplus materials coming from paper mills. The aim is to find and test fresh ideas and technologies in cooperation with paper mills in order to use waste streams more efficiently.

UPM and Wetend Technologies Ltd have realized an intensive research project to develop a new filler fiber composite In-Line PCC. The pilot project was realized at the UPM Jämsä River Mills. The process is one of the future technologies that will open new avenues for paper product development, cost efficiency and maintain competiveness of the papermaking business.

In labelstock the product development continued to focus on new technology platforms, and new product solutions and innovations. A significant number of new tailored label solutions and end-use speciality products were introduced. More sustainable solutions were developed for various end-use areas. The new solutions involved decrease significantly down gauged film and paper materials for both face and liners.

Plywood's product and technology development work has been concentrating on developing new customer based solutions and improving production technology to reinforce the growth and competitiveness of the business area constantly.

The R&D work of the UPM ProFi Deck product development in concentrated on creating new coating techniques and developing production processes to be able to use the recycled plastics as raw material. New coating techniques will provide a possibility for wider variation of colors, new functionalities and innovative applications in the future.

New Businesses & Development has continued the development of the biobased products and solutions in three selected areas – biocomposites, biofibrils and biochemicals. All these areas have taken important steps forward in product development with customers and external partners.

UPM ForMi is a recyclable and odourless composite material that is manufactured from cellulose fiber and pure plastic polymers where the proportion of renewable fiber varies from 20 to 50%. The production of UPM ForMi started in Lahti in January 2012.
UPM ForMi is already being used in the manufacture of furniture, electronics and various household goods.

UPM Biofibrils are micro and nanofibrillated cellulose products that can be used for shaping materials and giving them new characteristics. The focus of UPM Biofibrils has been on developing pilot and plant scale industrial applications. At the pilot plant UPM has managed to produce different grades of biofibrils. In order to develop material for internal purposes UPM has been running trials to test Biofibrils on paper applications at several paper mills. Externally the main development work has been concentrated on concrete, oil field drilling fluid and industrial coatings applications.

UPM Biochemicals development work has been done at Biorefinery development center in Lappeenranta (BrDC) and UPM Augsburg research center in Germany. UPM Biochemicals is doing a cooperative research work also with UPM Biofuels.

Tekes – the Finnish Funding Agency for Technology and Innovation – is an important partner for UPM by supporting several research programs. In 2012, UPM received approximately EUR 3.7 million (4.7 million) from Tekes for its research projects.

UPM is an owner in the Finnish Bioeconomy Cluster (FIBIC) that evolves from the research strategy of the Forestcluster Ltd. FIBIC research programs concentrate on bioeconomy and products based on renewable materials that support also UPM's internal R&D activities.

The Environment

Environmental performance and investments

UPM has defined sustainable products as well as climate, water, forest and waste management, as the key areas of its environmental responsibility. UPM has long term 2020 environmental targets. In addition, UPM has defined indicators to measure performance in key areas that are the basis on the annual performance evaluation.

In 2012, UPM's environmental investments totalled EUR 35 million (14 million). The largest investments were made in effluent treatment plants. UPM's environmental costs, which were mainly attributable to effluent treatment and waste management, totalled EUR 133 million (112 million), including depreciation.

In 2012, no significant environmental incidents occurred. However, there were several minor temporary deviations from permit conditions. These deviations were reported to the relevant authorities immediately, and corrective and preventive measures were taken. The measures form part of UPM´s internal Clean Run campaign, which aims to further improve UPM's environmental performance and to promote environmental awareness.

Taking care of the entire lifecycle

UPM provides sustainable products that are made from renewable, biodegradable and recyclable raw materials to customers and consumers. All of UPM's businesses have adopted eco-design in their product development processes, meaning that environmental aspects are systematically integrated into product design at an early stage and cover the entire lifecycle.

UPM uses eco-labels, such as the EU Eco-label, PEFC and FSC forest certification labels. In 2012, UPM's range of products that feature the EU Eco-label increased significantly. UPM is the largest producer of graphic and copying papers awarded with the EU Eco-label. In 2012, UPM became the first company to produce EU Eco-labelled newsprint.

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.

All of UPM's European pulp and paper mills are now registered with the EU Eco-Management and Audit Scheme (EMAS). In 2012, the Fray Bentos pulp mill in Uruguay became the first ever non-European mill to be included in the EMAS.

Effective energy usage and solutions benefit the climate

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 85% of the fuels used by UPM in Finland and approximately 65% of those used worldwide.

In 2012, UPM continued to invest in efficient energy generation and will build a new combined heat and power plant (CHP) at Schongau paper mill in Germany. In addition, UPM and its partners have announced plans to conduct the world's first research programme which aim is to investigate the possibilities of using bio-coal, i.e. torrefied biofuel, to replace coal in energy production.

Less water - more responsibility

UPM has decreased water use per tonne of paper by 31%, and by 28% per tonne of pulp over the last ten years. The chemical oxygen demand (COD) load has decreased by 37% per tonne of paper, and by 54% per tonne of pulp in the last ten years.

In 2012, UPM's material efficiency programme continued and several projects were carried out with the aim of improving water management at the production sites. At the Pietarsaari pulp mill, UPM will rebuild the biological effluent treatment plant. UPM also conducted an extensive study of bio-indicator monitoring. In 2012, WWF and UPM Raflatac worked together in order to protect the Oder River Valley in Poland.

More forest certification - keeping forests full of life

UPM has worked systematically to increase the amount of certified wood. In 2012, approximately 77% (78%) of all wood used by UPM was sourced from certified forests and 80% (81%) of UPM's paper was produced using fibre that meets the criteria of either the FSC or the PEFC forest certification schemes.

UPM continued its co-operation with WWF's New Generation Plantations Project in Uruguay in order to develop and promote sustainable plantation practices.

In addition, UPM's own forests were awarded with an FSC and a PEFC certificate in 2012. UPM's forest services were expanded to offer FSC certification as a service to forest owners in Finland.

Furthermore, UPM conducted a pilot study with the world's largest environmental organisation IUCN (The International Union for Conservation of Nature) in 2012 in order to review the implementation of the UPM Global Biodiversity Programme in Finland and the UK. UPM also participated actively in multi-stakeholder dialogue with The Forests Dialogue (TFD) on sustainable forest management. Wide-reaching co-operation projects with BirdLife were carried out in Finland, the UK and Uruguay.

Less waste - reduce, reuse, recycle

Today, over 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 the power plants forms the most significant proportion of solid waste at UPM. A large amount of the ash is reused in applications ranging from building roads to constructing aggregates. In 2012, over 99% of the ash was reused.

UPM´s in-house solution for recycling paper release liner is available throughout the industry thanks to the UPM RafCycle waste management concept in Europe. 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; alternatively, they are converted into energy.

The amount of waste sent to landfill sites has gradually declined in past years. In 2012, UPM was able to decrease the amount further to 109,000 tonnes. That's 13% less than in 2011.

Events after the balance sheet date

On 17 January 2013, UPM announced that it has adopted the new IFRS standards IFRS 10 (Consolidated Financial Statements) and IFRS 11 (Joint Arrangements) from Q1 2013 onwards.

In the Energy business area, Pohjolan Voima Oy (PVO) hydropower (A) and nuclear power (B, B2) shares, as well as Kemijoki Oy and Länsi-Suomen Voima Oy (LSV) shares, will be recognised as financial assets (available-for-sale investments) at fair value from Q1 2013 onwards. In other business areas, PVO's combined heat and power plants (G shares) and some other investments will be consolidated under IFRS 10 and 11. Previously, all PVO shares have been accounted for as an associated company, using the equity method. Kemijoki has been accounted for as an available-for-sale investment at cost. LSV has been accounted for as a subsidiary.

The adoption of the new IFRS 10 and IFRS 11 standards is estimated to increase UPM's equity by approximately EUR 1,870 million. The reclassification increases the Energy business area's capital employed by approximately EUR 1,950 million to approximately EUR 2,850 million.

From Q1 2013 onwards, comparison financial figures for 2012 will be revised according to the new standards.

On 17 January 2013 UPM announced that it is planning to permanently reduce paper capacity in Europe by a further 580,000 tonnes. The business environment also makes evident the need for streamlining of the Paper Business Group and UPM's global functions to remain cost-competitive in the new business scale.

UPM plans a permanent closure of paper machine 3 at UPM Rauma mill in Finland, a permanent closure of paper machine 4 at UPM Ettringen in Germany, a sale or other exit of UPM Docelles mill in France, and subject to further analysis, streamlining in the Paper Business and UPM's global functions.

If all plans were implemented, UPM's personnel would be reduced by approximately 860 persons. The plans would affect several countries.

According to the plan, the Rauma and Ettringen machine lines would be permanently closed by the end of the first half of 2013. Both machines produce uncoated magazine paper, in total 420,000 tonnes annually.

The employee information and consultation processes will start in line with the local legislation. In the case of Ettringen and Rauma the process will start immediately.

The process for selling the UPM Docelles mill will start immediately. The process will be given a maximum of six months. Docelles produces uncoated woodfree papers, 160,000 tonnes annually.

As for the streamlining of the Paper Business Group and global functions, the process will start following further analysis as of the beginning of February 2013.

Including UPM Stracel, the plans are estimated to result in annual fixed cost savings of EUR 90 million, and one-off cash costs of EUR 100 million.

On 7 January 2013, UPM announced it had finalised the employee information and consultation process and had ceased coated magazine paper production at the UPM Stracel mill. On 24 January 2013, UPM announced that it has signed an agreement on the sale of assets and part of the land of the UPM Stracel paper mill site with Blue Paper SAS, the joint venture company of VPK Packaging Group NV and Klingele Papierwerke. The transaction is expected to be closed during March 2013 once all legal and administrative conditions will be fulfilled. The impact of the sale on 2013 result is estimated to be insignificant.

Corporate Governance Statement

UPM presents the Corporate Governance Statement as a separate report which is available in UPM's Annual Report 2012 on pages 141–143 and on the company's website www.upm.com.

Board of Directors' proposal for the distribution of profits

The Board of Directors proposes to the Annual General Meeting of UPM-Kymmene Corporation to be held on 4 April 2013 that based on the adopted balance sheet as per 31 December 2012 a dividend of EUR 0.60 per share be paid. The dividend will be paid to a shareholder registered in the Company's shareholders' register held by Euroclear Finland Ltd on the record date for dividend payment being 9 April 2013. The Board of Directors proposes that the dividend be paid on 19 April 2013.

On 31 December 2012, the distributable funds of the parent company were EUR 2,969,186,616.59. On the dividend proposal date, 31 January 2013, the Company's registered number of shares is 526,124,410. The aforementioned number of shares includes 230,737 treasury shares held by the Company. Treasury shares held by the Company do not entitle to dividend. Based on this, the proposed dividend would total EUR 315.5 million.

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 the Board of Directors for the year 2012

Helsinki, 31 January 2013

Björn Wahlroos
Chairman

Berndt Brunow

Matti Alahuhta

Karl Grotenfelt

Wendy E. Lane

Jussi Pesonen
President and CEO

Ursula Ranin

Veli-Matti Reinikkala

Kim Wahl

Consolidated financial statements, IFRS

Consolidated income statement

EURm	Note	Year ended 31 December 2012	2011
Sales	4	10,438	10,068
Other operating income	6	108	86
Costs and expenses	7	−9,340	−9,013
Change in fair value of biological assets and wood harvested	8	45	64
Share of results of associated companies and joint ventures	9	−14	82
Depreciation, amortisation and impairment charges	10	−2,587	−828
Operating profit (loss)	4	−1,350	459
Gains on available-for-sale investments, net	11	38	71
Exchange rate and fair value gains and losses	12	11	−33
Interest and other finance costs, net	12	−105	−80
Profit (loss) before tax		−1,406	417
Income taxes	13	152	40
Profit (loss) for the period		−1,254	457
Attributable to:			
Owners of the parent company		−1,254	457
Non-controlling interests		–	–
		−1,254	457
Earnings per share for profit (loss) attributable to owners of the parent company			
Basic earnings per share, EUR	14	−2.39	0.88
Diluted earnings per share, EUR	14	−2.38	0.87

Consolidated statement of comprehensive income

EURm	Note	Year ended 31 December 2012	2011
Profit (loss) for the period		−1,254	457
Other comprehensive income for the period, net of tax:			
Translation differences		−14	112
Net investment hedge		4	−6
Cash flow hedges		46	22
Available-for-sale investments		−37	2
Other comprehensive income for the period, net of tax	13, 27	−1	130
Total comprehensive income for the period		−1,255	587
Total comprehensive income attributable to:			
Owners of the parent company		−1,255	587
Non-controlling interests		–	–
		−1,255	587

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 2012	2011
Assets			
Non-current assets			
Goodwill	16	222	1,022
Other intangible assets	17	357	458
Property, plant and equipment	18	4,846	6,242
Investment property	19	39	39
Biological assets	20	1,476	1,513
Investments in associated companies and joint ventures	21	589	717
Available-for-sale investments	22	147	260
Non-current financial assets	23	431	415
Deferred tax assets	28	686	508
Other non-current assets	24	250	238
		9,043	11,412
Current assets			
Inventories	25	1,377	1,429
Trade and other receivables	26	1,984	2,003
Income tax receivables		21	26
Cash and cash equivalents		468	495
		3,850	3,953
Assets classified as held for sale		–	24
Total assets		12,893	15,389

EURm	Note	As at 31 December 2012	2011
Equity and liabilities			
Equity attributable to owners of the parent company			
Share capital	27	890	890
Treasury shares		–2	–2
Translation differences		151	161
Fair value and other reserves	27	139	129
Reserve for invested non-restricted equity		1,207	1,199
Retained earnings		3,520	5,084
		5,905	7,461
Non-controlling interests		16	16
Total equity		5,921	7,477
Non-current liabilities			
Deferred tax liabilities	28	597	675
Retirement benefit obligations	29	476	490
Provisions	30	205	326
Interest-bearing liabilities	31	3,521	3,750
Other liabilities	32	144	79
		4,943	5,320
Current liabilities			
Current interest-bearing liabilities	31	396	883
Trade and other payables	33	1,564	1,667
Income tax payables		69	38
		2,029	2,588
Liabilities related to assets classified as held for sale		–	4
Total liabilities		6,972	7,912
Total equity and liabilities		12,893	15,389

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 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
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
Balance at 1 January 2012		890	–2	161	129	1,199	5,084	7,461	16	7,477
Profit (loss) for the period		–	–	–	–	–	–1,254	–1,254	–	–1,254
Translation differences		–	–	–14	–	–	–	–14	–	–14
Net investment hedge, net of tax		–	–	4	–	–	–	4	–	4
Cash flow hedges, net of tax		–	–	–	46	–	–	46	–	46
Available-for-sale investments		–	–	–	–37	–	–	–37	–	–37
Total comprehensive income for the period		–	–	–10	9	–	–1,254	–1,255	–	–1,255
Share options exercised		–	–	–	–	8	–	8	–	8
Share-based compensation, net of tax		–	–	–	1	–	5	6	–	6
Dividend paid	15	–	–	–	–	–	–315	–315	–	–315
Total transactions with owners for the period		–	–	–	1	8	–310	–301	–	–301
Balance at 31 December 2012	27	890	–2	151	139	1,207	3,520	5,905	16	5,921

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

EURm	Note	Year ended 31 December 2012	2011
Cash flow from operating activities			
Profit (loss) for the period		–1,254	457
Adjustments	5	2,371	792
Interest received		7	7
Interest paid		–80	–72
Dividends received		15	37
Other financial items, net		–16	–13
Income taxes paid		–73	–94
Change in working capital	5	44	–73
Net cash generated from operating activities		1,014	1,041
Cash flow from investing activities			
Capital expenditure		–374	–286
Acquisition of businesses and subsidiaries, net of cash acquired	5	–10	–17
Acquisition of shares in associated companies		–	–1
Proceeds from sale of tangible and intangible assets		100	32
Proceeds from disposal of subsidiaries	5	–7	3
Proceeds from disposal of shares in associated companies		3	1
Proceeds from disposal of available-for-sale investments		150	141
Increase in other non-current assets		–37	–4
Dividends received		110	–
Net cash used in investing activities		–65	–131
Cash flow from financing activities			
Proceeds from non-current liabilities		126	801
Payments of non-current liabilities		–910	–1,149
Change in current liabilities		115	–7
Share options exercised		8	–
Dividends paid		–315	–286
Other financing cash flow		–	–30
Net cash used in financing activities		–976	–671
Change in cash and cash equivalents		–27	239
Cash and cash equivalents at beginning of year		495	269
Foreign exchange effect on cash and cash equivalents		–	–13
Change in cash and cash equivalents		–27	239
Cash and cash equivalents at end of year		468	495

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 17 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 31 January 2013. 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 most significant 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 when 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 recognised in 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 one 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, 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. 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 teams' 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 investments classified as available-for-sale are recognised in other comprehensive income. When investments 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 investments 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 investments 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 investments 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. 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.

Under the Performance Share Plan the UPM shares are awarded based on the Group's financial performance and under the Deferred Bonus Plan 2011 and 2012 the share incentives are based on the participants´ short-term incentive targets. 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 2012
In 2012, the Group has adopted the following new, revised and amended standards and interpretations:

The amendment to IFRS 7 Financial Instruments: Disclosures became 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 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 yet been early adopted by the Group
The amendment to IAS 12 Income taxes is effective for annual periods beginning on or after 1 January 2013. 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 will not have an impact on the Group's financial statements.

IFRS 9 Financial Instruments represents the first step in replacement of IAS 39. 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 amendment to IFRS 9 that amends 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, IFRS 11 Joint Arrangements standard, IFRS 12 Disclosure of Interests in Other Entities standard, revised IAS 27 Separate Financial Statements standard and revised IAS 28 Associates and Joint Ventures standard are effective for annual periods beginning on or after 1 January 2014. The Group has decided to early adopt the new and revised standards for annual period beginning on 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. 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. 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. Revised IAS 27 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 and revised IAS 28 standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The adoption of the new and revised standards will result into a change the accounting treatment of Pohjolan Voima Oy (PVO) hydropower (A) and nuclear power (B, B2) shares and Länsi-Suomen Voima Oy (LSV) shares that will be recognised as financial assets (available-for-sale investments) at fair value. PVO's combined heat and power plants (G shares) and some other investments will be consolidated as subsidiaries or joint operations under IFRS 10 and IFRS 11. Previously, all PVO shares have been accounted for as an associated company, using equity method and LSV has been accounted for as a subsidiary. The new IFRS 12 standard will increase the disclosures of the consolidated group in the Group's financial statements.

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 will not have a material impact on the Group's financial statements.

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 to IAS 19 Employee Benefits is effective for annual periods beginning on or after 1 January 2013. The amendment eliminates the corridor approach and calculates interest costs on a net funding basis. Upon the adoption the Group will retrospectively recognise all actuarial gains and losses arising from its defined benefit plans and replaces interest cost and expected return of plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The recognition of all actuarial gains and losses retrospectively will have a material impact on the Group's equity, net defined benefit liability and net deferred taxes.

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 amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities is effective for annual 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 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 to IFRS 10, 11 and 12 Transition Guidance is effective for annual periods beginning on or after 1 January 2013. The amendment provides additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendment will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The amendment is not expected to have an impact on the Group's financial statements. The amendment is not yet endorsed by the EU.

The amendments related to Improvements to IFRSs (2009–2011) effective for annual periods beginning on or after 1 January 2013. Through annual improvement projects minor changes to wordings to clarify meaning and the removal of unintended inconsistencies between standards are combined and implemented annually. Six amendments issued relate to five different standards and one interpretation. The Group is assessing the impact of the amendments on the Group's financial statements. The amendments are not yet endorsed by the EU.

The amendment to IFRS 10 Consolidated financial statements is effective for annual periods beginning on or after 1 January 2014. Many funds and similar entities will be exempted from consolidating controlled investees under amendments to IFRS 10, 'Consolidated financial statements'. Amendments have been made to IFRS 10, IFRS 12 and IAS 27. The amendment is not relevant for the Group. 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. 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 2012, 51% (51%) of the forecast 12-month currency flow was hedged.

The table below shows the nominal values of all cashflow hedging instruments at 31 December 2012 and 2011.

Nominal values of hedging instruments

Currency	2012 EURm	2011 EURm
USD	457	377
JPY	279	305
GBP	255	284
AUD	40	42
Others	17	11
Total	1,048	1,019

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 2012 unhedged balance sheet exposures in interest-bearing assets and liabilities amounted to EUR 16 million (24 million). In addition 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 723 million (511 million).

Translation exposure

Translation exposure consists of net investments in foreign subsidiaries. The exchange risks associated with equity of foreign subsidiaries are hedged in Canada, China and Uruguay. The net investments of all other foreign operations remain unhedged.

Foreign exchange risk sensitivity

At 31 December 2012, 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 11 million (1 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been EUR 61 million (43 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2012, 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 25 million (28 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2012, 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 14 million (11 million) lower/higher. The effect in equity would have been EUR 13 million (18 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 2012 the average duration was 7 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 2012 and 2011 were as follows:

Currency	2012 EURbn	2011 EURbn
EUR	4.0	4.2
USD	0.2	0.3
CNY	–0.1	0.1
CAD	–0.8	–0.8
Others	–0.3	–0.2
Total	3.0	3.6

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 2012, 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 2 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 2012 was 6.1 years (6.3 years).

UPM has some financial agreements which have Gearing as financial covenant. According to this covenant gearing should not exceed 110% (31.12.2012 gearing was 51%).

Cash funds and committed credit facilities

EURm	2012	2011
Cash at bank	368	445
Cash equivalents	100	50
Committed facilities	1,400	1,400
of which used	–	–
Used uncommitted credit lines	–111	–24
Long-term loan repayment cash flow	–253	–852
Available liquidity	1,504	1,019

The most important financial programmes in use are:
Uncommitted:
- Domestic commercial paper programme, EUR 1,000 million

Committed:
- 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 18% (16%) of the Group's trade receivables as at 31 December 2012 – i.e., approximately EUR 260 million (240 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 and Central European market areas 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 derivatives price sensitivity

Sensitivity analysis for financial electricity derivatives is based on position on 31 December 2012. 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	2012	2011
+/- EUR 1/MWh in electricity forward quotations			
Effect on profit before taxes	+ / -	5.1	1.1
Effect on equity	+ / -	0.8	2.6

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 2012	2011
Equity attributable to owners of the parent company	5,905	7,461
Non-controlling interests	16	16
Total equity	5,921	7,477
Non-current interest-bearing liabilities	3,521	3,750
Current interest-bearing liabilities	396	883
Interest-bearing liabilities, total	3,917	4,633
Total capitalisation	9,838	12,110
Interest-bearing liabilities, total	3,917	4,633
Less: Interest-bearing financial assets, total	–907	–1,041
Net interest-bearing liabilities	3,010	3,592
Gearing ratio, %	51	48

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 2012 Level 1	Level 2	Level 3	Total balance
Assets				
Trading derivatives	1	92	–	93
Derivatives used for hedging	78	417	–	495
Available-for-sale instruments	–	–	34	34
At 31 Dec.	79	509	34	622
Liabilities				
Trading derivatives	12	124	–	136
Derivatives used for hedging	66	38	–	104
At 31 Dec.	78	162	–	240

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2012

EURm	Available-for-sale instruments	Other receivables	Other liabilities	Total
Opening balance	147	3	–	150
Transfers into level 3	33	–	–	33
Transfers from level 3	–	–	–	–
Gains and losses				
Recognised in income statement	–109	–3	–	–112
Recognised in statement of comprehensive income	–37	–	–	–37
Closing balance	34	–	–	34

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

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 the wood plastic composite unit UPM ProFi, biofuels, development units, logistic services and 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 12 million tonnes.

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 the wood plastic composite unit UPM ProFi, biofuels, development units, logistic services and Group services. The Group services charge 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 2012

EURm	Energy	Pulp	Forest and Timber	Paper	Label	Plywood	Other operations	Eliminations and reconciliations	Group
External sales	250	835	748	7,022	1,202	370	11	–	10,438
Internal sales	230	789	943	128	–	17	244	–2,351	–
Total sales 1)	480	1,624	1,691	7,150	1,202	387	255	–2,351	10,438
Share of results of associates and joint ventures	–18	1	1	3	–	–	–1	–	–14
Operating profit	204	296	–21	–1,822	78	3	–88	–	–1,350
Gains on available-for-sale investments, net									38
Finance costs, net									–94
Income taxes									152
Profit (loss) for the period									–1,254
Special items in operating profit 2)	–6	–	–48	–1,824	–3	–	1	–	–1,880
Operating profit excluding special items	210	296	27	2	81	3	–89	–	530
Assets 3)	463	2,674	1,851	3,872	654	278	266	–162	9,896
Associates and joint ventures 3)	463	7	–	109	–	6	4	–	589
Unallocated assets									2,408
Total assets									12,893
Liabilities 4)	25	145	142	606	129	24	74	–162	983
Unallocated liabilities									5,989
Total liabilities									6,972
Other items									
Depreciation and amortisation	3	147	17	534	34	21	11	–	767
Impairment charge	–	–	32	1,788	–	–	–	–	1,820
Capital expenditure 5)	5	62	9	176	36	15	49	–	352
Capital expenditure, excluding acquisitions and shares	5	62	9	176	26	15	49	–	342
Capital employed, 31 December 6)	901	2,536	1,709	3,375	525	261	194	337	9,838
Capital employed, average	939	2,566	1,772	5,470	524	267	195	–4	11,729
Return on capital employed, excluding special items % 7)	22.4	11.5	1.5	0.0	15.5	1.1	neg.	–	4.7
Personnel at year end	101	1,504	2,059	12,627	2,873	2,445	459	–	22,068
Personnel, average	100	1,562	2,341	13,275	2,770	2,496	496	–	23,040

1) The Group's sales comprise mainly of product sales.

2) In 2012, special items of EUR -6 million in the Energy segment relate to an adjustment in UPM's share of the capital gain reported in 2011. In the Forest and Timber segment special items of EUR 43 million relate to the restructuring of sawn timber and further processing operations including impairment charge of EUR 31 million. In addition, special items include restructuring charges of EUR 2 million in Wood sourcing and forestry operations and other restructuring charges of EUR 3 million. In the Paper segment special items include impairment charges of EUR 1,771 million, including EUR 783 million related to goodwill and EUR 988 million related to fixed assets in European graphic paper operations, restructuring charges of EUR 60 million and impairment charges of EUR 8 million related to the Stracel mill closure, and other restructuring charges of EUR 20 million. In addition, special items include a net gain of EUR 35 million including a capital gain of EUR 51 million from the sale the packaging paper operations of the Pietarsaari and Tervasaari mills and a charge of EUR 16 million from goodwill allocated to the operations sold. In the Label segment special items of EUR 3 million relate to restructuring charges. In Other operations special items include restructuring charges of EUR 17 million, reimbursement of fine of EUR 6 million, and a capital gain of EUR 12 million from the sale of RFID business.

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 2011

EURm	Energy	Pulp	Forest and Timber	Paper	Label	Plywood	Other operations	Eliminations and reconciliations	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	neg.	–	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.

Geographical information

External sales by destination

EURm	Year ended 31 December 2012	2011
Germany	1,885	1,793
United Kingdom	1,035	1,132
Finland	953	836
France	534	556
Other EU countries	2,023	2,050
Other European countries	558	561
United States	1,065	999
Canada	48	54
China	677	545
Uruguay	48	44
Rest of world	1,612	1,498
Total	10,438	10,068

Total assets by country

EURm	As at 31 December 2012	2011
Germany	1,534	3,175
United Kingdom	376	630
Finland	7,187	7,088
France	151	362
Other EU countries	134	376
Other European countries	111	129
United States	465	623
Canada	164	167
China	753	807
Uruguay	1,725	1,747
Rest of world	293	285
Total	12,893	15,389

Capital expenditure by country

EURm	Year ended 31 December 2012	2011
Germany	55	718
United Kingdom	11	9
Finland	194	269
France	7	8
Poland	7	6
Other European countries	17	15
North America	17	60
China	16	8
Uruguay	26	78
Rest of world	2	8
Total	352	1,179

5 Acquisitions and disposals and notes to the cash flow statement

Acquisitions

On 31 August 2012 UPM acquired the labelstock business operations of Gascogne Laminates Switzerland of the Gascogne Group. The acquisition supports UPM's growth in special labelstock products in Europe.

If the business had been included in the Group from 1 January 2012, it would have increased Group's sales by EUR 20 million.

The following table summarises the consideration paid for business and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

EURm	At 31 August 2012
Total consideration transferred, cash	10
Intangible assets (Note 17)	1
Property, plant and equipment (Note 18)	5
Inventory	5
Non-current liabilities	–1
Deferred taxes, net (Note 28)	0
Total identifiable net assets	10
Goodwill	0

The fair value of the acquired net assets is provisional pending on the final valuations.

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. The annual cost synergies of the Myllykoski acquisition are estimated to total 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.

On 10 May 2011, UPM acquired the Gumtac, the Brazilian labelstock 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

Disposals

In March 2012, UPM completed the sale of its RFID business to SMARTRAC N.V. UPM became an indirect shareholder of SMARTRAC with a 10.6% economic interest through the company OEP Technologie B.V., a holding company controlled by One Equity Partners and one of the major shareholders of SMARTRAC. The capital gain on disposal of EUR 12 million was recognised on the sale. The assets and liabilities related to UPM's RFID companies, UPM RFID Oy, UPM RFID Inc. and UPM Raflatac RFID Co. Ltd., were part of the Other operations and were classified as assets held for sale and related liabilities as at 31 December 2011.

In August 2012, UPM sold the closed Papierfabrik Albbruck GmbH to the German Karl Group. UPM permanently ceased graphic paper production at the mill in January 2012. Albbruck was part of the Paper segment.

The following table summarises the aggregate amount of assets and liabilities related to the businesses sold during 2012:

EURm	2012
Other intangible assets (Note 17)	3
Property, plant and equipment (Note 18)	19
Deferred tax assets (Note 28)	7
Other non-current assets	1
Trade and other receivables	21
Cash and cash equivalents	7
Assets classified as held for sale	24
Retirement benefit obligations (Note 29)	–20
Provisions (Note 30)	–32
Trade and other payables	–4
Liabilities related to assets classified as held for sale	–4
Net assets	22
Gain on disposals	11
Total consideration	33
Settled with shares	–32
Settled in cash and cash equivalents	1
Cash in subsidiaries disposed	–8
Net cash arising from disposals	–7

In July 2011, UPM sold its Russian logging company ZAO Tihkvinsky Komplexny Lespromkhoz to International Paper.

Notes to the consolidated cash flow statement

Adjustments

EURm	Year ended 31 December 2012	2011
Change in fair value of biological assets and wood harvested	–45	–64
Share of results of associated companies and joint ventures	14	–82
Depreciation, amortisation and impairment charges	2,587	828
Capital gains on sale of non-current assets, net	–87	–81
Gain on bargain purchase	–	–28
Finance costs, net	94	113
Taxes	–152	–40
Change in restructuring provisions	–77	177
Other adjustments	37	–31
Total	2,371	792

Change in working capital

EURm	Year ended 31 December 2012	2011
Inventories	50	13
Current receivables	–74	–109
Current non-interest-bearing liabilities	68	23
Total	44	–73

The total amount of taxes paid in 2012 amounted to EUR 87 million, which is including taxes of EUR 73 million in operating activities and EUR 14 million in investing activities.

6 Other operating income

EURm	Year ended 31 December 2012	2011
Gains on sale of non-current assets	59	21
Rental income, investment property	4	4
Rental income, other	11	10
Emission rights received (Note 7)	22	23
Derivatives held for trading	5	–23
Exchange rate gains and losses	–10	16
Other [1]	17	35
Total	108	86

[1] In 2011, includes a gain on bargain purchase of EUR 28 million.

7 Costs and expenses

EURm	Year ended 31 December 2012	2011
Change in inventories of finished goods and work in progress	2	13
Production for own use	–17	–12
Materials and services		
Raw materials, consumables and goods	6,017	5,663
Derivatives designated as cash flow hedges	42	5
External services [1]	845	808
	6,904	6,476
Personnel expenses		
Salaries and fees	1,059	1,015
Share-based payments (Note 37)	8	15
Indirect employee costs		
Pension costs-defined benefit plans (Note 29)	40	19
Pension costs-defined contribution plans	120	182
Post-employment medical benefits (Note 29)	1	1
Other indirect employee costs [2]	141	130
	302	332
Other operating costs and expenses		
Rents and lease expenses	58	53
Emission expenses (Note 6)	7	10
Losses on sale of non-current assets	6	9
Other operating expenses [3]	1,011	1,102
	1,082	1,174
Costs and expenses, total	9,340	9,013

[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 Group's administration.

The research and development costs included in costs and expenses were EUR 45 million (50 million).

Government grants

In 2012, the Group recognised government grants of EUR 1 million as reduction of non-current assets, relating to environmental investments in Germany. In 2011 the Group recognised government grants of EUR 1 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 (9 million) in 2012. 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 2012 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 2012 and 2011 60% was paid in cash and 40% in the form of the company shares purchased on the members' behalf. In 2012, 7,216 (4,976) company shares were paid to the Chairman, 4,948 (3,412) shares to the Deputy Chairman of the Board of Directors and the Chairman of the Audit Committee respectively and 3,917 (2,701) 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. 2012 1)	Fees (EUR 1,000) 2012	2011
Board members			
Björn Wahlroos, Chairman	235,729	175	175
Berndt Brunow, Deputy Chairman	290,747	120	120
Matti Alahuhta	51,109	95	95
Karl Grotenfelt	48,001	120	120
Wendy E. Lane	22,767	95	95
Ursula Ranin	22,689	95	95
Veli-Matti Reinikkala	25,939	95	95
Kim Wahl	3,917	95	–
Jussi Pesonen, President and CEO	195,294	–	–
Former Board members			
Robert J. Routs		–	95
Total	896,192	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 2012	2011
President and CEO Jussi Pesonen		
Salaries and benefits		
Salaries	1,059	1,034
Incentives	508	1,140
Share rewards	–	899
Benefits	36	23
Total	1,603	3,096
Pension costs		
Finnish statutory pension scheme	276	396
Voluntary pension plan	672	663
Total	948	1,059
Group Executive Team (excluding the President and CEO) 1)		
Salaries and benefits		
Salaries	2,975	3,155
Incentives	496	2,076
Share rewards	–	2,805
Benefits	121	137
Total	3,592	8,173
Pension costs		
Finnish statutory pension scheme	522	847
Voluntary pension plan	456	405
Total	978	1,252

1) 8 members in 2012, 9 members in 2011.

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 2.2 million (4.3 million) including share options of EUR 1.8 million (4.0 million) and share rewards of EUR 0.4 million (0.3 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 2012 were EUR 0.3 million (0.3 million), and for other members of the Group Executive Team EUR 0.5 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 2012	2011
Audit	2.9	2.7
Audit-related	–	0.1
Tax consulting	1.0	0.9
Other services	0.5	1.0
Total	4.4	4.7

8 Change in fair value of biological assets and wood harvested

EURm	Year ended 31 December 2012	2011
Wood harvested	–98	–98
Change in fair value	143	162
Total	45	64

9 Share of results of associated companies and joint ventures

EURm	Year ended 31 December 2012	2011
Pohjolan Voima Oy 1)	–19	77
Others	5	5
Total	–14	82

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 2012	2011
Depreciation on property, plant and equipment		
Buildings	107	102
Machinery and equipment	560	555
Other tangible assets	24	26
	691	683
Depreciation on investment property		
Buildings	2	2
Amortisation of intangible assets		
Intangible rights	29	23
Other tangible assets	45	41
	74	64
Impairment charges on property, plant and equipment		
Land areas	34	4
Buildings	301	4
Machinery and equipment	603	56
Other tangible assets	16	–
	954	64
Impairment charges on intangible assets		
Goodwill	783	–
Intangible rights	49	–
Other intangible assets	26	7
Emission allowances	8	8
	866	15
Total	2,587	828

In the fourth quarter 2012, UPM conducted goodwill impairment test in the Paper segment. The continuing challenges in European economy have significantly impacted the consumption of paper, exacerbating the effect of structural changes in paper end-uses and resulting in further decline in the demand of graphic papers in Europe. High costs and significant overcapacity continue to challenge the industry operators. In these circumstances, UPM has not been able to improve the profitability of its European graphic paper business as much as targeted. UPM management did not expect significant enough improvement in the Paper segment's profitability in the foreseeable future. As a result of the test calculation, UPM recognised impairment charges of EUR 783 million related to goodwill and EUR 988 million related to property, plant and equipment, intangible rights and other intangible assets in European graphic paper operations. Fair value less costs to sell method was used in the calculation with an inflation rate of 2%, a negative sales growth rate of 2.9% in real terms, and a post-tax discount rate of 7.81%.

In addition, other impairment charges of EUR 8 million were recognised in the Paper segments property, plant and equipment.

In June 2012, UPM announced that it will restructure its sawn timber and further processing operations in Finland. Impairment charges of EUR 31 million were recognised on the Forest and Timber segment's property, plant and equipment and other intangible assets.

On 31 August 2011, UPM announced a plan to decrease its magazine paper capacity by 1.2 million tonnes in Finland, Germany and France, and 110,000 tonnes of newsprint capacity in Germany. UPM booked a EUR 68 million write-off in the Paper segment's property, plant and equipment and other intangible assets.

11 Gains on available-for-sale investments, net

EURm	Year ended 31 December 2012	2011
Fair value gains and losses	4	3
Net gains and losses on disposals 1)	34	68
Total	38	71

1) In 2012, includes a tax exempt capital gain of EUR 34 million on the sales of Metsä Fibre Oy shares. 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 2012	2011
Exchange rate and fair value gains and losses		
Derivatives held for trading	–14	60
Fair value gains on derivatives designated as fair value hedges	–12	76
Fair value adjustment of borrowings attributable to interest rate risk	8	–95
Foreign exchange gain/loss on financial liabilities measured at amortised cost	39	–59
Foreign exchange gain/loss on loans and receivables	–10	–15
	11	–33
Interest and other finance costs, net		
Interest expense on financial liabilities measured at amortised cost	–168	–190
Interest income on derivative financial instruments	85	107
Interest income on loans and receivables	7	7
Gains and losses on sale of associated companies and joint ventures shares	–	–4
Gains on other non-current financial assets, net	–9	–
Dividend income from available-for-sale investments	12	26
Other financial expenses	–32	–26
	–105	–80
Total	–94	–113

Net gains and losses on derivative financial instruments included in the operating profit

EURm	Year ended 31 December 2012	2011
Derivatives designated as cash flow hedges	–45	12
Derivatives held for trading	5	–23
Total	–40	–11

The aggregate foreign exchange gains and losses included in the consolidated income statement

EURm	Year ended 31 December 2012	2011
Sales	–75	3
Other operating income	–10	16
Net financial items	–	2
Total	–85	21

13 Income taxes

EURm	Year ended 31 December 2012	2011
Major components of tax expenses		
Current tax expense	125	102
Change in deferred taxes (Note 28)	–277	–142
Income taxes, total	–152	–40
Income tax reconciliation statement		
Profit (loss) before tax	–1,406	417
Computed tax at Finnish statutory rate of 24.5% (26%)	–344	108
Difference between Finnish and foreign rates	–58	–8
Non-deductible expenses and tax-exempt income	102	–75
Tax loss with no tax benefit	97	3
Results of associated companies	7	–21
Change in tax legislation	–6	–35
Change in recoverability of deferred tax assets	53	–11
Other	–3	–1
Income taxes, total	–152	–40
Effective tax rate	10.8%	–9.6%

Profit before taxes for 2012 and 2011 include income not subject to tax from subsidiaries operating in tax free zones.

Profit before tax for 2012 includes a tax-exempt capital gain of EUR 34 million from the sale of 6.7% of Metsä Fibre Oy shares and a tax-exempt dividend income of EUR 11 million from Metsä Fibre. In addition, profit before tax includes impairment charges of EUR 591 million from Paper segments goodwill with no related deferred tax. Change in tax legislation includes a tax income of EUR 6 million from tax rate changes in UK. Tax loss with no tax benefit and change in recoverability of deferred tax assets relate mainly to reassessment of deferred tax assets in connection with the Paper segments asset impairments.

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.

Tax effects of components of other comprehensive income

EURm	Year ended 31 December 2012 Before tax	Tax	After tax	2011 Before tax	Tax	After tax
Translation differences	–14	–	–14	112	–	112
Net investment hedge	5	–1	4	–6	–	–6
Cash flow hedges	58	–12	46	31	–9	22
Available-for-sale investments	–37	–	–37	2	–	2
Other comprehensive income	12	–13	–1	139	–9	130

14 Earnings per share

	Year ended 31 December 2012	2011
Profit (loss) attributable to owners of the parent company, EURm	–1,254	457
Weighted average number of shares (1,000)	525,434	521,965
Basic earnings per share, EUR	–2.39	0.88

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	–1,254	457
Profit (loss) used to determine diluted earnings per share, EURm	–1,254	457
Weighted average number of shares (1,000)	525,434	521,965
Effect of options [1]	1,042	1,935
Weighted average number of shares for diluted earnings per share (1,000)	526,476	523,900
Diluted earnings per share, EUR	–2.38	0.87

[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. 9.0 million (13.1 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 2012 were EUR 315 million (EUR 0.60 per share) and in 2011 EUR 286 million (EUR 0.55 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 316 million, EUR 0.60 per share, will be paid in respect of 2012.

16 Goodwill

EURm	As at 31 December 2012	2011
Acquisition cost at 1 Jan.	1,602	1,602
Translation differences	–1	–
Disposals	–16	–
Acquisition cost at 31 Dec.	1,585	1,602
Accumulated impairment at 1 Jan.	–580	–580
Impairment charges	–783	–
Accumulated impairment at 31 Dec.	–1,363	–580
Carrying value at 1 Jan.	1,022	1,022
Carrying value at 31 Dec.	222	1,022

Goodwill by reporting segment

EURm	As at 31 December 2012	2011
Pulp	201	202
Forest and Timber	1	1
Paper	–	799
Label	7	7
Plywood	13	13
Total	222	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, forecasts prepared by management for the next three years and estimates made for the following seven years are taken into consideration. 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.

In 2012, in Paper, the largest group of cash generating units, UPM recognised impairment charges of EUR 783 million related to goodwill and EUR 988 million related to property, plant and equipment, intangible rights and other intangible assets in European graphic paper operations. After the charge, there is no goodwill in Paper. The valuation method Fair value less costs to sell was based on discounted cash flows. Key assumptions used in the calculation were: inflation rate of 2%, negative sales growth rate of 2.9% over the forecast period in real terms, and post-tax discount rate of 7.81%.

The recoverable amount of groups of cash generating units is determined based on value in use calculations.

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 2012 for operating segment Pulp operations Finland was 10.83% (11.22%), and for operating segment Pulp operations Uruguay 8.63% (9.26%).

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 2012, for Pulp operations Finland, a decrease of more than 12.5% in pulp prices would result in recognition of impairment loss against goodwill. The Group believes that no reasonable change in wood cost would cause the aggregate carrying amount to exceed the recoverable amount. For Pulp operations Uruguay, a decrease of more than 1.4% in pulp prices or an increase of more than 4% in wood cost would result in recognition of impairment loss against goodwill. A decrease of more than 2.7% in pulp prices or an increase of more than 8% in wood cost would result in a write-down of the entire goodwill.

17 Other intangible assets

EURm	As at 31 December 2012	2011
Intangible rights		
Acquisition cost at 1 Jan.	522	464
Additions	3	2
Companies acquired	–	56
Disposals	–5	–
Companies sold	–1	–4
Reclassifications	10	–
Translation differences	–1	4
Acquisition cost at 31 Dec.	528	522
Accumulated amortisation and impairment at 1 Jan.	–213	–189
Amortisation	–29	–23
Companies acquired	–	–5
Impairment charges	–49	–
Disposals	5	1
Companies sold	–	4
Reclassifications	–8	–
Translation differences	1	–1
Accumulated amortisation and impairment at 31 Dec.	–293	–213
Carrying value at 1 Jan.	309	275
Carrying value at 31 Dec.	235	309
Other intangible assets [1]		
Acquisition cost at 1 Jan.	653	583
Additions	34	21
Companies acquired	1	59
Disposals	–30	–4
Companies sold	–5	–1
Reclassifications	8	–6
Translation differences	–	1
Acquisition cost at 31 Dec.	661	653
Accumulated amortisation and impairment at 1 Jan.	–540	–470
Amortisation	–45	–42
Companies acquired	–	–38
Impairment charges	–26	–7
Disposals	28	3
Companies sold	5	1
Reclassifications	3	15
Translation differences	–	–2
Accumulated amortisation and impairment at 31 Dec.	–575	–540
Carrying value at 1 Jan.	113	113
Carrying value at 31 Dec.	86	113

EURm	As at 31 December 2012	2011
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	15	9
Additions	10	14
Companies acquired	–	1
Reclassifications	–13	–9
Acquisition cost at 31 Dec.	12	15
Carrying value at 1 Jan.	15	9
Carrying value at 31 Dec.	12	15
Emission rights		
Acquisition cost 1 Jan.	29	27
Additions [2]	36	26
Companies acquired	–	6
Disposals and settlements	–23	–30
Companies sold	–3	–
Acquisition cost 31 Dec.	39	29
Accumulated amortisation and impairment at 1 Jan.	–8	–
Impairment charges	–8	–8
Companies sold	1	–
Accumulated amortisation and impairment at 31 Dec.	–15	–8
Carrying value at 1 Jan.	21	27
Carrying value at 31 Dec.	24	21
Other intangible assets, total	357	458

[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 2012	2011
Land and water areas		
Acquisition cost at 1 Jan.	739	617
Additions	19	65
Companies acquired	–	59
Disposals	–8	–16
Companies sold	–9	–
Reclassifications	–7	4
Translation differences	–6	10
Acquisition cost at 31 Dec.	728	739
Accumulated depreciation and impairment at 1 Jan.	–12	–
Companies acquired	–	–8
Impairment charges	–34	–4
Disposals	1	–
Companies sold	4	–
Reclassifications	7	–
Accumulated depreciation and impairment at 31 Dec.	–34	–12
Carrying value at 1 Jan.	727	617
Carrying value at 31 Dec.	694	727
Buildings		
Acquisition cost at 1 Jan.	3,648	3,207
Additions	15	16
Companies acquired	4	445
Disposals	–111	–6
Companies sold	–28	–3
Reclassifications	–24	–35
Translation differences	1	24
Acquisition cost at 31 Dec.	3,505	3,648
Accumulated depreciation and impairment at 1 Jan.	–2,070	–1,702
Depreciation	–107	–102
Companies acquired	–	–323
Impairment charges	–301	–4
Disposals	106	4
Companies sold	28	3
Reclassifications	48	63
Translation differences	–	–9
Accumulated depreciation and impairment at 31 Dec.	–2,296	–2,070
Carrying value at 1 Jan.	1,578	1,505
Carrying value at 31 Dec.	1,209	1,578
Machinery and equipment		
Acquisition cost at 1 Jan.	16,056	12,937
Additions	135	101
Companies acquired	1	2,791
Disposals	–630	–149
Companies sold	–505	–2
Reclassifications	–402	257
Translation differences	–2	121
Acquisition cost at 31 Dec.	14,653	16,056
Accumulated depreciation and impairment at 1 Jan.	–12,426	–9,483
Depreciation	–560	–555
Companies acquired	–	–2,333
Impairment charges	–603	–56
Disposals	607	138
Companies sold	492	2
Reclassifications	494	–66
Translation differences	–2	–73
Accumulated depreciation and impairment at 31 Dec.	–11,998	–12,426
Carrying value at 1 Jan.	3,630	3,454
Carrying value at 31 Dec.	2,655	3,630
Other tangible assets		
Acquisition cost at 1 Jan.	936	871
Additions	4	7
Companies acquired	–	60
Disposals	–62	–8
Companies sold	–3	–
Reclassifications	–	2
Translation differences	–	4
Acquisition cost at 31 Dec.	875	936
Accumulated depreciation and impairment at 1 Jan.	–770	–707
Depreciation	–24	–27
Companies acquired	–	–37
Impairment charges	–16	–
Disposals	63	8
Companies sold	2	–
Reclassifications	–1	–4
Translation differences	–	–3
Accumulated depreciation and impairment at 31 Dec.	–746	–770
Carrying value at 1 Jan.	166	164
Carrying value at 31 Dec.	129	166
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	141	120
Additions	134	113
Companies acquired	–	4
Disposals	–1	–1
Reclassifications	–115	–97
Translation differences	–	2
Acquisition cost at 31 Dec.	159	141
Carrying value at 1 Jan.	141	120
Carrying value at 31 Dec.	159	141
Property, plant and equipment, total	4,846	6,242

Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease contracts:

EURm	As at 31 December 2012	2011
Buildings		
Acquisition cost	28	28
Accumulated depreciation	–2	–
Carrying value at 31 Dec.	26	28
Machinery and equipment		
Acquisition cost	162	158
Accumulated depreciation	–48	–35
Carrying value at 31 Dec.	114	123
Other tangible assets		
Acquisition cost	–	1
Carrying value at 31 Dec.	–	1
Leased assets, total	140	152

Capitalised borrowing costs

In 2012, the borrowing costs capitalised as part of non-current assets amounted to EUR 1 million (0 million). In 2012, amortisation of capitalised borrowing costs was EUR 6 million (7 million). In 2012 and 2011 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 3.95% (1.76%), 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. on sale of RFID business to SMARTRAC for an indirect 10.6% ownership in SMARTRAC through the company OEP Technologie B.V. The sale was completed on 31 March 2012.

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 2012	2011
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 2012	2011
Acquisition cost at 1 Jan.	75	75
Additions	7	8
Disposals	–7	–
Reclassifications	–8	–8
Acquisition cost at 31 Dec.	67	75
Accumulated depreciation and impairment at 1 Jan.	–36	–53
Depreciation	–2	–2
Disposals	3	–
Reclassifications	7	19
Accumulated depreciation and impairment at 31 Dec.	–28	–36
Carrying value at 1 Jan.	39	22
Carrying value at 31 Dec.	39	39

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 2012 was EUR 29 million (33 million) and the fair value of investment property in other countries at 31 December 2012 was EUR 11 million (11 million).

The amounts recognised in the income statement

EURm	Year ended 31 December 2012	2011
Rental income	4	4
Direct operating expenses arising from investment properties that generate rental income	–2	3

There were no contractual obligations for future repair and maintenance or purchase of investment property.

All assets under investment property are leased to third parties under operating leasing contracts.

20 Biological assets

EURm	As at 31 December 2012	2011
At 1 Jan.	1,513	1,430
Additions	10	51
Disposals	–44	–38
Wood harvested	–98	–100
Change in fair value	101	164
Translation differences	–6	6
At 31 Dec.	1,476	1,513

The pre-tax discount rates used in to determine fair value in 2012 were 7.50% (7.50%) for Finnish forests and 10% (10%) for Uruguayan plantations. A decrease (increase) of 1 percentage point in discount rate would increase (decrease) the fair value of biological assets by approximately EUR 210 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 2012	2011
At 1 Jan.	717	573
Additions	1	1
Companies acquired	–	108
Disposals	–3	–3
Share of results after tax (Note 9)	–14	82
Dividends received	–114	–11
Reclassification	2	–37
Translation differences	–	4
At 31 Dec.	589	717

Investments in associated companies at 31 December 2012 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 2012	2011
Sale and leaseback contracts included in investments in associated companies		
Acquisition cost	11	12
Accumulated increases/decreases	–3	–1
Carrying value at 31 Dec.	8	11

Associated companies and joint ventures

	Group holding percentage % 2012	2011	Carrying value, EURm 2012	2011
Associated companies				
Oy Keskuslaboratorio-Centrallaboratorium Ab, FI	43.83	43.83	1	1
Paperinkeräys Oy, FI	33.09	33.09	5	5
Pohjolan Voima Oy, FI	43.89	44.03	523	643
Powest Oy, FI [1]	10.30	10.30	5	4
RETS Timber Oy Ltd, FI	–	50.00	–	6
Steveco Oy, FI	40.19	40.19	2	3
Others			5	14
At 31 Dec.			541	676
Joint ventures				
Kainuun Voima Oy, FI	50.00	50.00	6	6
Madison Paper Industries, US	50.00	50.00	35	35
Others			7	–
At 31 Dec.			48	41
Associated companies and joint ventures at 31 Dec.			589	717

[1] The Group's share of voting rights in Powest Oy is 0.63% (0.63%). The Group is entitled to 52.87% (52.87%) of the respective dividends of Powest Oy.

Pohjolan Voima Oy ("PVO") holds a 58.47% shareholding in Teollisuuden Voima Oyj ("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:

2012 EURm	Assets	Liabilities	Sales	Profit/ Loss
Associated companies and joint ventures				
Pohjolan Voima Oy, FI	1,362	839	368	–19
Others	152	86	252	5
Total	1,514	925	620	–14

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

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 2012	2011
The amount of assets and liabilities related to investments in joint ventures		
Non-current assets	56	56
Current assets	34	19
Non-current liabilities	–24	–15
Current liabilities	–19	–18
Net assets	47	42

EURm	Year ended 31 December 2012	2011
The income and expenses related to investments in joint ventures		
Sales	146	46
Expenses	–143	–45
Profit	3	1
The average number of employees in the joint ventures	317	254

Transactions and balances with associated companies and joint ventures

EURm	Year ended 31 December 2012	2011
Sales	127	153
Purchases	391	356
Non-current receivables	23	5
Trade and other receivables	25	24
Trade and other payables	42	36

EURm	Year ended 31 December 2012	2011
Loan receivables from associated companies and joint ventures [1]		
At 1 Jan.	10	14
Loans granted	24	–
Repayments	–3	–4
At 31 Dec.	31	10

[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 2012	2011
At 1 Jan.	260	333
Additions	33	–
Disposals	–147	–101
Changes in fair values	1	28
At 31 Dec.	147	260

At 31 December 2012, the available-for-sale investments include only investments in unlisted shares.

On 24 April 2012, UPM sold its Metsä Fibre Oy shares.

As part of the sale of RFID business on 31 March 2012, UPM became shareholder of OEP Technologie B.V. The fair value of the shares is based on the discounted value of a sales option related to the shares.

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.

Principal available-for-sale investments

	Number of shares	Group holding percentage	Carrying value, EURm 2012	2011
Metsä Fibre Oy	–	–	–	147
Kemijoki Oy	100,797	4.13	106	106
OEP Technologie B.V.	243,670	10.86	34	–
Other			7	7
Carrying value of available-for-sale investments at 31 Dec.			147	260

23 Non-current financial assets

EURm	As at 31 December 2012	2011
Loan receivables from associated companies	23	5
Other loan receivables	16	23
Derivative financial instruments	392	387
At 31 Dec.	431	415

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 2012	2011
Defined benefit plans (Note 29)	194	193
Other non-current assets	56	45
At 31 Dec.	250	238

25 Inventories

EURm	As at 31 December 2012	2011
Raw materials and consumables	559	603
Work in progress	43	40
Finished products and goods	736	745
Advance payments	39	41
At 31 Dec.	1,377	1,429

26 Trade and other receivables

EURm	As at 31 December 2012	2011
Trade receivables	1,432	1,463
Loan receivables	9	8
Other receivables	221	221
Derivative financial instruments	196	252
Prepayments and accrued income	126	59
At 31 Dec.	1,984	2,003

Ageing analysis of trade receivables

EURm	As at 31 December 2012	2011
Undue	1,206	1,258
Past due up to 30 days	164	124
Past due 31–90 days	35	44
Past due over 90 days	27	37
At 31 Dec.	1,432	1,463

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 2012. In 2012, impairment of trade receivables amounted to EUR 14 million (9 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 2012	2011
Personnel expenses	8	3
Indirect taxes	1	8
Other items	117	48
At 31 Dec.	126	59

27 Equity and reserves

Share capital

EURm	Number of shares (1,000)	Share capital
At 1 Jan. 2011	519,970	890
Share issue	5,000	–
Exercise of share options	3	–
At 31 Dec. 2011	524,973	890
Exercise of share options	1,151	–
At 31 Dec. 2012	526,124	890

Shares

At 31 December 2012, the number of the company's shares was 526,124,410. 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 30 March 2012 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 2012, the company held 230,737 (211,481) of its own shares, 0.04% (0.04%) of the total number of shares. 211,481 of the shares were returned upon their issue to UPM without consideration as part of the contractual arrangements relating to the Myllykoski transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts.

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, at 31 December 2012, the company has two option series that would entitle the holders to subscribe for a total of 10,000,000 shares. Share options 2007B and 2007C may both 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 2012, 1,151,572 (2,450) shares were subscribed for through exercising 2007B share options.

The share subscription period for share options 2007A ended on 31 October 2012. During the entire share subscription period 300 shares were subscribed in 2011, for through exercising 2007A share options.

If all remaining 8,845,978 share options issued in 2007 are fully exercised, the number of the company's shares will increase by a total of 8,845,978, i.e. by 1.68%.

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 5.48%, i.e. by 28,845,978 shares, to 554,970,388 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 2012	2011
Fair value reserve of available-for-sale investments	1	38
Hedging reserve	7	–39
Legal reserve	53	53
Share premium reserve	50	50
Share-based compensation	28	27
At 31 Dec.	139	129

Changes in hedging reserve

EURm	Year ended 31 December 2012	2011
Hedging reserve at 1 Jan.	–39	–61
Gains and losses on cash flow hedges	25	31
Transfers to sales	9	6
Transfers to costs and expenses	25	–4
Transfers to financial costs	2	–2
Transfers to initial cost of property, plant and equipment	–	–
Tax on gains and losses on cash flow hedges	–15	–9
Tax on transfers to income statement	–	–
Hedging reserve at 31 Dec.	7	–39

Components of other comprehensive income

EURm	Year ended 31 December 2012	2011
Translation differences	–14	112
Net investment hedge	4	–6
Cash flow hedges		
gains/losses arising during the year	10	22
reclassification adjustments	36	–
	46	22
Available-for-sale investments		
gains/losses arising during the year	1	28
reclassification adjustments	–38	–26
	–37	2
Other comprehensive income	–1	130

28 Deferred income taxes

Reconciliation of the movements of deferred tax asset and liability balances during the year 2012

EURm	As at 1 Jan. 2012	Charged to the income statement	Charged to OCI	Translation differences	Acquisitions and disposals	As at 31 Dec. 2012
Deferred tax assets						
Intangible assets and property, plant and equipment	77	146	–	–	–2	221
Inventories	23	17	–	–	–	40
Retirement benefit obligations and provisions	99	1	–	–	–4	96
Other temporary differences	42	27	–	–	–1	68
Tax losses and tax credits carried forward	407	–38	–	–1	–	368
Deferred tax assets, total	648	153	–	–1	–7	793
Deferred tax liabilities						
Intangible assets and property, plant and equipment	482	–105	–	–	–	377
Biological assets	232	–8	–	–	–	224
Retirement benefit obligations and provisions	47	–	–	–	–	47
Other temporary differences	54	–11	13	–	–	56
Deferred tax liabilities, total	815	–124	13	–	–	704
The amounts recognised in the balance sheet						
Deferred tax assets	508	186	–	–1	–7	686
Deferred tax liabilities	675	–91	13	–	–	597
Deferred tax liabilities, less deferred tax assets	167	–277	13	1	7	–89

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 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						
Deferred tax assets	359	115	–	2	32	508
Deferred tax liabilities	629	–27	9	2	62	675
Deferred tax liabilities, less deferred tax assets	270	–142	9	–	30	167

At 31 December 2012, net operating loss carry-forwards for which the Group has recognised a deferred tax asset amounted to EUR 1,250 million (1,381 million), of which EUR 569 million (638 million) was attributable to German subsidiaries and EUR 569 million (606 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 373 million (187 million) in 2012. These net operating loss carry-forwards are mainly attributable to German subsidiaries and 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 14 million (15 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 8% 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 quarter of employees, globally, belong to defined benefit arrangements.

Defined benefit plans

EURm	As at 31 December 2012	2011
Present value of obligations	1,310	1,132
Fair value of plan assets	–648	–584
	662	548
Unrecognised actuarial gains and losses	–429	–299
Net liability	233	249
Other long-term employee benefits	49	39
Other long-term employee benefits - companies acquired	–	9
Defined benefit asset reported in the assets (Note 24)	194	193
Total liability in balance sheet	476	490

Pension benefits

The amounts recognised in the balance sheet

EURm	As at 31 December 2012	2011
Present value of funded obligations	710	633
Present value of unfunded obligations	581	479
	1,291	1,112
Fair value of plan assets	–648	–584
Unrecognised actuarial gains and losses	–427	–297
Net liability	216	231

The amounts recognised in the income statement

EURm	Year ended 31 December 2012	2011
Current service cost	9	9
Interest cost	48	48
Expected return on plan assets	–36	–38
Actuarial gains and losses	21	11
Past service cost	–	–11
Curtailment	–3	–
Settlement	1	–
Total included in personnel expenses (Note 7)	40	19

The actual return on plan assets was EUR 74 million (4 million).

The movement in the present value of defined benefit obligations

EURm	As at 31 December 2012	2011
Defined benefit obligation at 1 Jan.	1,112	1,011
Current service cost	9	9
Interest cost	48	48
Actuarial gains and losses	186	34
Benefits paid	–47	–45
Past service cost	–	–11
Curtailment	–3	–
Settlement	–2	–
Companies acquired	–	57
Companies sold (Note 5)	–20	–
Translation differences	8	9
Defined benefit obligation at 31 Dec.	1,291	1,112

The movement in the fair value of plan assets

EURm	As at 31 December 2012	2011
Fair value of plan assets at 1 Jan.	584	596
Expected return on plan assets	36	38
Actuarial gains and losses	38	–43
Contributions by the employer	34	31
Benefits paid	–47	–45
Settlement	–2	–
Translation differences	5	7
Fair value of plan assets at 31 Dec.	648	584

Contributions to the Group's defined benefit pension plans are expected to be EUR 36 million in 2013.

The major categories of plan assets as a percentage of total plan assets

	As at 31 December 2012	2011
Equity instruments	56%	55%
Debt instruments	34%	32%
Property	8%	8%
Money market	2%	5%
Total	100%	100%

In Finland, pension plan assets include the company's ordinary shares with a fair value of EUR 0.5 million (0.5 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 2012	2011
Present value of unfunded obligations	19	20
Unrecognised actuarial gains and losses	–2	–2
Net liability	17	18

The amounts recognised in the income statement

EURm	Year ended 31 December 2012	2011
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 2012	2011
Defined benefit obligation at 1 Jan.	20	22
Interest cost	1	1
Actuarial gains and losses	2	–2
Contributions by plan participants	–	1
Benefits paid	–4	–3
Translation differences	–	1
Defined benefit obligation at 31 Dec.	19	20

The movement in the fair value of plan assets

EURm	As at 31 December 2012	2011
Fair value of plan assets at 1 Jan.	–	–
Contributions by plan participants	2	1
Contributions by the employer	2	2
Benefits paid	–4	–3
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 2013.

Pension benefits and post-employment medical benefits

The principal actuarial assumptions used as at 31 December

	Finland		Germany		UK		Austria		US		Other	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Discount rate %	2.50	4.25	2.50	4.25	4.65	4.90	2.50	4.25	3.35	4.25	2.96	4.23
Inflation rate %	2.00	2.00	2.00	2.00	2.35	2.20	2.00	2.00	N/A	N/A	2.00	2.00
Expected return on plan assets %	2.50	6.14	N/A	N/A	4.65	6.10	N/A	N/A	N/A	N/A	2.50	4.02
Future salary increases %	3.00	3.25	2.50	2.50	N/A	N/A	2.50	2.50	N/A	N/A	2.77	2.73
Future pension increases %	2.26	2.63	2.00	2.00	3.20	3.25	1.23	1.25	N/A	N/A	0.75	1.00
Expected average remaining working years of participants	11.2	12.1	12.5	12.9	13.0	13.0	8.2	8.2	8.0	8.8	7.9	8.1

The expected return at 31 December 2012 equals the discount rate in accordance with the amended IAS 19 standard that is adopted in 2013.

The assumption for the weighted average expected return on plan assets at 31 December 2011 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 8.2% in 2011, 8.0% in 2012 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 2012

EURm	Finland	Germany	UK	Austria	US	Other	Total
Present value of funded obligations	314	–	366	–	–	30	710
Present value of unfunded obligations	–	515	–	48	19	18	600
Fair value of plan assets	–342	–	–289	–	–	–17	–648
Unrecognised actuarial gains and losses	–108	–164	–136	–17	–2	–2	–429
Net liability	–136	351	–59	31	17	29	233

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

Funded status for pension and post-employment medical benefit plans

	As at 31 December				
EURm	2012	2011	2010	2009	2008
Present value of defined benefit obligations	1,310	1,132	1,033	994	918
Fair value of plan assets	648	584	596	540	573
Deficit	662	548	437	454	345
Experience adjustments on plan liabilities	–8	–2	–10	14	–13
Experience adjustments on plan assets	38	–43	35	58	–153

30 Provisions

EURm	Restructuring provisions	Termination provisions	Environmental provisions	Emission rights provision	Other provisions	Total
At 1 Jan. 2011	35	52	18	22	23	150
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
At 1 Jan. 2012	147	118	23	15	23	326
Additional provisions and increases to existing provisions	36	55	5	8	6	110
Companies sold	–31	–	–1	–	–	–32
Reclassification	–2	2	–	–	–	–
Utilised during year	–72	–88	–4	–12	–11	–187
Unused amounts reversed	–5	–3	–	–1	–3	–12
At 31 Dec. 2012	73	84	23	10	15	205

Provisions

Restructuring provisions include charges related primarily to mill closures. Termination provisions are concerned with operational restructuring primarily in Germany, Finland and France. 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 2012, additions in provisions relate mainly to the closure of the Stracel paper mill in France and restructuring of Paper business area, and to the restructuring of sawmill and further processing operations in Finland.

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.

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 2012, the Group has recognised provisions amounting to EUR 10 million (15 million) to cover the obligation to return emission rights. The company possesses emission rights worth EUR 24 million (21 million) as intangible assets.

Allocation between non-current and current provisions

EURm	As at 31 December 2012	2011
Non-current provisions	98	119
Current provisions	107	207
Total	205	326

31 Interest-bearing liabilities

EURm	As at 31 December 2012	2011
Non-current interest-bearing liabilities		
Bonds	1,492	1,525
Loans from financial institutions	1,107	1,125
Pension loans	414	554
Finance lease liabilities	179	185
Derivative financial instruments	106	114
Other loans	213	236
Other liabilities	10	11
	3,521	3,750
Current interest-bearing liabilities		
Current portion of long-term debt	252	852
Derivative financial instruments	33	6
Other liabilities [1]	111	25
	396	883
Total interest-bearing liabilities	3,917	4,633

[1] Includes issued commercial papers of EUR 75 million (0 million).

As of 31 December 2012 the contractual maturity of interest-bearing liabilities

EURm	2013	2014	2015	2016	2017	2018+	Total
Bonds							
Repayments	–	379	–	–	306	562	1,247
Interests	76	76	55	55	55	258	575
	76	455	55	55	361	820	1,822
Loans from financial institutions							
Repayments	100	18	313	215	292	301	1,239
Committed facilities	–	–	–	–	–	–	–
Interests	18	17	18	14	13	9	89
	118	35	331	229	305	310	1,328
Pension loans							
Repayments	141	74	74	74	74	74	511
Interests	22	17	13	10	6	3	71
	163	91	87	84	80	77	582
Finance lease liabilities							
Repayments	10	11	89	7	8	64	189
Interests	8	7	7	3	1	8	34
	18	18	96	10	9	72	223
Other loans							
Repayments	2	2	2	2	1	188	197
Interests	9	6	6	6	6	69	102
	11	8	8	8	7	257	299
Interest rate swaps (liabilities)							
Repayments	74	–	12	–	–	62	148
Interests	27	1	–	1	1	24	54
	101	1	12	1	1	86	202
Current loans							
Repayments	111	–	–	–	–	–	111
Interests	–	–	–	–	–	–	–
	111	–	–	–	–	–	111
Guarantees, repayments	3	–	–	–	–	–	3
Long term loans repayments excl. committed facilities	253	484	478	298	681	1,189	3,383

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

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. 2012 EURm	2011 EURm
Fixed rate					
1997–2027	7.450	USD	375	408	414
2000–2030	3.550	JPY	10,000	103	119
2002–2012	6.125	EUR	600	–	600
2002–2014	5.625	USD	500	404	420
2002–2017	6.625	GBP	250	354	346
2003–2018	5.500	USD	250	224	227
				1,493	2,126
Floating-rate					
2002–2012	2.123	EUR	25	–	25
2002–2012	2.702	EUR	11	–	11
				–	36
Total at 31 Dec.				1,493	2,162
Current portion				1	637
Non-current portion				1,492	1,525

Fair value hedge of non-current interest-bearing liabilities

Fair value hedge accounting results in a cumulative fair value adjustment totalling EUR 337 million (345 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 352 million (364 million) in assets, and negative fair value of EUR 0 million (0 million) in liabilities. The effect of the fair value hedge ineffectiveness on the income statement was loss EUR 4 million (loss EUR 19 million).

Net interest-bearing liabilities

EURm	As at 31 December 2012	2011
Total interest-bearing liabilities	3,917	4,633
Interest-bearing financial assets		
Non-current		
Loan receivables	9	14
Derivative financial instruments	347	357
Other receivables	31	29
	387	400
Current		
Loan receivables	8	6
Other receivables	11	8
Derivative financial instruments	33	132
Cash and cash equivalents	468	495
	520	641
Interest-bearing financial assets	907	1,041
Net interest-bearing liabilities	3,010	3,592

Finance lease liabilities

As at 31 December 2012 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 and buildings under long term arrangements.

Finance lease liabilities – minimum lease payments

EURm	As at 31 December 2012	2011
No later than 1 year	18	23
1–5 years	133	170
Later than 5 years	72	28
	223	221
Future finance charges	–34	–20
Finance lease liabilities – the present value of minimum lease payments	189	201

Finance lease liabilities – the present value of minimum lease payments

EURm	As at 31 December 2012	2011
No later than 1 year	10	16
1–5 years	115	160
Later than 5 years	64	25
Total	189	201

32 Other liabilities

EURm	As at 31 December 2012	2011
Derivative financial instruments	53	19
Other	91	60
Total	144	79

33 Trade and other payables

EURm	As at 31 December 2012	2011
Advances received	13	8
Trade payables	970	931
Accrued expenses and deferred income	428	466
Derivative financial instruments	48	150
Other current liabilities	105	112
Total	1,564	1,667

Trade and other payables mature within 12 months.

Main items included in accrued expenses and deferred income

EURm	As at 31 December 2012	2011
Personnel expenses	180	192
Interest expenses	39	74
Indirect taxes	8	16
Other items [1]	201	184
Total	428	466

[1] Consists mainly of customer rebates.

34 Financial instruments by category

2012 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	–	–	147	–	–	147	147	22
Non-current financial assets								
Loan receivables	–	39	–	–	–	39	39	23
Derivative financial instruments	4	–	–	388	–	392	392	23
						431	431	23
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,662	–	–	–	1,662	1,662	26
Prepayments and accrued income	–	126	–	–	–	126	126	26
Derivative financial instruments	89	–	–	107	–	196	196	26
						1,984	1,984	
Carrying amount by category	93	1,827	147	495	–	2,562	2,562	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	3,415	3,415	3,345	31
Derivative financial instruments	82	–	–	24	–	106	106	31
						3,521	3,451	31
Other liabilities								
Other liabilities	–	–	–	–	91	91	91	32
Derivative financial instruments	6	–	–	47	–	53	53	32
						144	144	32
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	363	363	363	31
Derivative financial instruments	33	–	–	–	–	33	33	31
						396	396	31
Trade and other payables								
Trade and other payables	–	–	–	–	1,088	1,088	1,088	33
Accrued expenses and deferred income	–	–	–	–	428	428	428	33
Derivative financial instruments	15	–	–	33	–	48	48	33
						1,564	1,564	
Carrying amount by category	136	–	–	104	5,385	5,625	5,555	

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	

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

EURm	2012 Positive fair values	2012 Negative fair values	2012 Net fair values	2011 Net fair values
	As at 31 December			
Interest rate swaps				
Fair value hedges	308	–	308	319
Held for trading	34	–	34	63
Forward foreign exchange contracts				
Cash flow hedges	42	−14	28	−56
Net equity hedges	23	–	23	−37
Held for trading	35	−42	−7	41
Currency options				
Held for trading, bought	–	–	–	–
Held for trading, written	–	–	–	–
Cross currency swaps				
Cash flow hedges	–	−24	−24	−20
Fair value hedges	44	–	44	45
Held for trading	23	−82	−59	−38
Commodity Contracts				
Cash flow hedges	78	−66	12	35
Held for trading	1	−12	−11	−2
Interest rate forward contracts				
Held for trading	–	–	–	–
Total	588	−240	348	350

Notional amounts of derivative financial instruments

EURm	As at 31 December 2012	2011
Interest rate swaps	1,629	2,315
Forward foreign exchange contracts	4,994	4,560
Currency options	23	28
Cross currency swaps	882	841
Commodity contracts	400	278
Interest rate forward contracts	3,755	3,456

36 Principal subsidiaries as at 31 December 2012

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
MD Papier GmbH, DE	100.00
Myllykoski North America, US	100.00
Nordland Papier GmbH, DE	100.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
OOO UPM-Kymmene, RU	100.00
OOO UPM-Kymmene Chudovo, RU	100.00
PT UPM Raflatac Indonesia, ID	100.00
Rhein Papier GmbH, DE	100.00
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	100.00
Tilhill Forestry Ltd, GB	100.00
UPM (China) Co., Ltd, CN	100.00
UPM AG, CH	100.00
UPM AS, EE	100.00
UPM Asia Pacific Pte. Ltd, SG	100.00
UPM France S.A.S., FR	100.00
UPM GmbH, DE	100.00
UPM Lignis GmbH & Co. KG, DE	74.90
UPM Manufatura e Comércio de Produtos Florestais Ltda, BR	100.00
UPM Raflatac (Changshu) Co., Ltd, CN	100.00
UPM Raflatac (S) Pte Ltd, SG	100.00
UPM Raflatac Co., Ltd, TH	100.00
UPM Raflatac Iberica S.A., ES	100.00
UPM Raflatac Inc., US	100.00
UPM Raflatac Mexico S.A. de C.V., MX	100.00
UPM Raflatac NZ Limited, NZ	100.00
UPM Raflatac Oy, FI	100.00
UPM Raflatac Pty Ltd, AU	100.00
UPM Raflatac s.r.l., AR	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 S.A., UY	91.00
UPM Sales GmbH, DE	100.00
UPM Sales Oy, FI	100.00
UPM Silvesta Oy, FI	100.00
UPM Sähkönsiirto Oy, FI	100.00
UPM-Kymmene (UK) Ltd, GB	100.00
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
UPM-Kymmene Inc., US	100.00
UPM-Kymmene India Private Limited, IN	100.00
UPM-Kymmene Japan K.K., JP	100.00
UPM-Kymmene Kagit Urunleri Sanayi ve Ticaret Ltd. Sti, TR	99.99
UPM-Kymmene Otepää AS, EE	100.00
UPM-Kymmene Pty. Limited, AU	100.00
UPM-Kymmene S.A., ES	100.00
UPM-Kymmene Seven Seas Oy, FI	100.00
UPM-Kymmene S.r.l., IT	100.00
UPM-Kymmene Wood Oy, FI	100.00
Werla Insurance Company Ltd, MT	100.00

The table includes subsidiaries with sales exceeding EUR 2 million.

37 Share-based payments

Share options

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 were 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 were 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.

The share subscription period for stock options 2007A ended on 31 October 2012. During the entire share subscription period 300 shares were subscribed with stock options 2007A.

Share-based rewards

The long-term incentives as of 2011 consist of the Performance Share Plan and the Deferred Bonus Plan. These two plans replace the earlier Share Ownership Plan for 2008–2010 and the stock option programme 2007.

The Performance Share Plan consists of annually commencing three-year plans. The 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 2011–2013 and 2012–2014 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 813,000 shares and for earning period 2012–2014 1,324,000.

The Deferred Bonus Plan is targeted to other key personnel of the company not participating in the Performance Share Plan. Each annual plan is based on the one year earning period and the two-year restriction period after which the shares will be delivered to the participants. 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. For the earning periods 2011 and 2012, the share incentives are based on the participants' short-term incentive targets. 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 2012 year-end share price of EUR 8.81 the estimated number of the shares under the plan for earning period 2012 is approximately 640,000 shares. The number of the shares to be delivered under the plan for earning period 2011 is approximately 347,000 shares, excluding eventual dividend adjustments.

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 Share Ownership Plan for the years 2008–2010 included three earning periods for the years 2008, 2009 and 2010.

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. In addition, a cash payment equivalent to taxes was paid.

Changes in the numbers of share options granted

	Weighted average exercise price, EUR	Number of share options	Weighted average exercise price, EUR	Number of share options
Outstanding 1 Jan.	9.71	13,437,750	9.69	13,549,000
Share options granted	–	–	–	–
Share options forfeited	10.49	–299,000	8.00	–108,500
Share options exercised	6.24	–1,151,572	6.91	–2,750
Share options expired	12.40	–4,252,700	–	–
Outstanding 31 Dec.	8.71	7,734,478	9.71	13,437,750
Exercisable share options 31 Dec.		7,734,478		8,635,750

Weighted average remaining contractual life was 17 and 22 months as at 31 December 2012 and 2011, respectively.

Outstanding share option plans as at 31 December 2012

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	Vested
2007/2009	B	6.24	6.24	5,000,000	4,743,000	1.10.2011–31.10.2013	Vested
				10,000,000	9,593,000		

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 (key management personnel) 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 2012 and 2011. Shares and share options held by members of the Board of Directors and members of the Group Executive Team are disclosed in pages 56 and 59. 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 portion of the Group's electricity procurement comes from Pohjolan Voima Oy, a Finnish energy producer in which the Group holds a 43.89% 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 Oyj, one of Finland's two nuclear power companies. The combined total of these energy purchases in 2012 was EUR 272 million (266 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 has a direct ownership of 50% in Madison Paper Industries ("Madison"), a paper company in the Unites States. In UPM, the company is accounted for as a joint venture using equity method. The Group's paper purchases in 2012 from Madison totalled 26,000 tonnes (0 tonnes).

The Group's recovered paper purchases in 2012 from associated companies and joint ventures were close to 590,000 tonnes (620,000 tonnes). 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 75% (70%) 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 8% of the Group's Finnish employees are arranged through the foundation. In 2012 the contributions paid by UPM to the foundation amounted to EUR 11 million (10 million). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation's assets at 31 December 2012 was EUR 300 million (275 million), of which 51% was in the form of equity instruments, 35% in the form of debt instruments and 14% invested in property and money market.

During 2012, the Group merged its two UK Defined Benefit Pension Schemes and they now operate under a single Trust which is independent from the company. The Trust now consists of a single Pension Scheme with various defined benefit sections and one common defined contribution section. All defined benefit sections are closed to future accrual, with employees able to participate in the Groups sole UK defined contribution section of the scheme. The Group made contributions of EUR 5 million (5 million) to the Defined Benefit Schemes in 2012. The fair value of the UK Defined Benefit fund assets at 31 December 2012 was EUR 288 million (258 million), of which 61% was invested in equity instruments, 33% in debt instruments and 6% 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.

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. In addition to the state-owned forest administrator Metsähallitus, individuals and companies, as well as municipalities and parishes, have filed claims relating to the Market Court decision. The capital amounts of all of the claims amount to EUR 237 million in the aggregate jointly and severally against UPM and two other companies, or alternatively and individually against UPM in the aggregate EUR 55 million. In addition to the claims on capital amounts, the claimants are also claiming for compensation relating to value added tax and interests. UPM considers all the claims unfounded in their entirety. No provision has been made in UPM's accounts for any of these claims.

In Uruguay, there is one pending litigation case against the government of Uruguay regarding the Fray Bentos pulp mill.

In November 2012, UPM commenced arbitration proceedings against Metsäliitto Cooperative and Metsä Board Corporation due to their breaches of UPM's tag-along rights under the shareholders' agreement concerning Metsä Fibre Oy in connection with the sale of the shares in Metsä Fibre to Itochu Corporation. UPM claims jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million in damages. Metsäliitto and Metsä Board sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto exercised a call option to purchase UPM's remaining 11% ownership in Metsä Fibre for EUR 150 million. No receivables have been recorded by UPM on the basis of claims presented in the arbitration proceedings.

In Finland, UPM is participating in the project to construct a new nuclear power plant, Olkiluoto 3, through its shareholdings in 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.

Based on the information submitted by AREVA-Siemens Consortium, which is constructing the Olkiluoto 3 nuclear power plant unit under a fixed-price turnkey contract, TVO estimates that the nuclear power plant unit will not be ready for regular electricity production in 2014. The Supplier is responsible for the schedule.

The Supplier initiated arbitration proceedings before an International Chamber of Commerce (ICC) arbitration tribunal in relation to 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. In 2012 TVO has submitted its updated claim and defense in the arbitration proceedings. The updated quantification estimate of TVO's costs and losses is approximately EUR 1.8 billion. The arbitration proceedings may continue for several years, and the claimed and counterclaimed amounts may change. No receivables or provisions have been recorded by TVO on the basis of claims presented in the arbitration proceedings.

During the second quarter of 2012, the arbitration tribunal made a decision regarding an interpretation dispute in treating the plant delivery installments already paid. In accordance with the decision, parts of a few installments, totaling approximately EUR 100 million, previously transferred to a blocked account by TVO under the plant contract have been released to the Supplier, and TVO has paid interest the net amount of which is approximately EUR 23 million. The decision did not take position on the delay of the plant unit and the costs resulting from the delay.

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.

Commitments

EURm	As at 31 December 2012	2011
On own behalf		
Mortgages and pledges	570	709
On behalf of associated companies and joint ventures		
Guarantees	3	6
On behalf of others		
Guarantees	5	5
Other commitments, own		
Operating leases, due within 12 months	57	54
Operating leases, due after 12 months	365	343
Other commitments	123	87
Total	1,123	1,204
Mortgages and pledges	570	709
Guarantees	8	11
Operating leases	422	397
Other commitments	123	87
Total	1,123	1,204

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 2012	2011
Proportionate interest in joint ventures' commitments	23	23
Contingent liabilities relating to the Group's interest in the joint ventures	4	5
Share of associated companies contingent liabilities[1]	207	143

[1] Includes mortgages and pledges of EUR 22 million (23 million) and other commitments EUR 185 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 2012	2011
No later than 1 year	57	54
1–2 years	45	47
2–3 years	37	35
3–4 years	32	32
4–5 years	29	29
Later than 5 years	222	200
Total	422	397

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 2012	2011
Changshu PM3	390	388	–
Biorefinery/Kaukas	150	123	–
Power plant/Schongau	85	74	–
Waste water treatment plant/Pietarsaari	30	14	–
Heating plant/Korkeakoski	7	6	–

40 Events after the balance sheet date

On 17 January 2013, UPM announced that it has adopted the new IFRS standards IFRS 10 (Consolidated Financial Statements) and IFRS 11 (Joint Arrangements) from Q1 2013 onwards.

In the Energy business area, Pohjolan Voima Oy (PVO) hydropower (A) and nuclear power (B, B2) shares, as well as Kemijoki Oy and Länsi-Suomen Voima Oy (LSV) shares, will be recognised as financial assets (available-for-sale investments) at fair value from Q1 2013 onwards. In other business areas, PVO's combined heat and power plants (G shares) and some other investments will be consolidated under IFRS 10 and 11. Previously, all PVO shares have been accounted for as an associated company, using the equity method. Kemijoki has been accounted for as an available-for-sale investment at cost. LSV has been accounted for as a subsidiary.

The adoption of the new IFRS 10 and IFRS 11 standards is estimated to increase UPM's equity by approximately EUR 1,870 million. The reclassification increases the Energy business area's capital employed by approximately EUR 1,950 million to approximately EUR 2,850 million.

From Q1 2013 onwards, comparison financial figures for 2012 will be revised according to the new standards.

On 17 January 2013 UPM announced that it is planning to permanently reduce paper capacity in Europe by a further 580,000 tonnes. The business environment also makes evident the need for streamlining of the Paper Business Group and UPM's global functions to remain cost-competitive in the new business scale.

UPM plans a permanent closure of paper machine 3 at UPM Rauma mill in Finland, a permanent closure of paper machine 4 at UPM Ettringen in Germany, a sale or other exit of UPM Docelles mill in France, and subject to further analysis, streamlining in the Paper Business and UPM's global functions.

If all plans were implemented, UPM's personnel would be reduced by approximately 860 persons. The plans would affect several countries.

According to the plan, the Rauma and Ettringen machine lines would be permanently closed by the end of the first half of 2013. Both machines produce uncoated magazine paper, in total 420,000 tonnes annually.

The employee information and consultation processes will start in line with the local legislation. In the case of Ettringen and Rauma the process will start immediately.

The process for selling the UPM Docelles mill will start immediately. The process will be given a maximum of six months. Docelles produces uncoated woodfree papers, 160,000 tonnes annually.

As for the streamlining of the Paper Business Group and global functions, the process will start following further analysis as of the beginning of February 2013.

Including UPM Stracel, the plans are estimated to result in annual fixed cost savings of EUR 90 million, and one-off cash costs of EUR 100 million.

On 7 January 2013, UPM announced it had finalised the employee information and consultation process and had ceased coated magazine paper production at the UPM Stracel mill. On 24 January 2013, UPM announced that it has signed an agreement on the sale of assets and part of the land of the UPM Stracel paper mill site with Blue Paper SAS, the joint venture company of VPK Packaging Group NV and Klingele Papierwerke. The transaction is expected to be closed during March 2013 once all legal and administrative conditions will be fulfilled. The impact of the sale on 2013 result is estimated to be insignificant.

Parent company accounts (Finnish Accounting Standards, FAS)

Income statement

EURm	Note	Year ended 31 Dec. 2012	2011
Turnover	1	4,132	4,238
Change in inventories of finished goods and work in progress		–189	29
Production for own use		14	8
Other operating income	2	273	165
Materials and services			
Materials and consumables			
Purchases during the financial period		–2,411	–2,466
Change in inventories		–11	–6
External services		–154	–317
		–2,576	–2,789
Personnel expenses	3		
Wages and salaries		–382	–395
Social security expenses			
Pension expenses		–69	–73
Other social security expenses		–24	–23
		–475	–491
Depreciation and value adjustments	4		
Depreciation according to plan		–265	–284
Value adjustments to goods held as non-current assets		–4	–
		–269	–284
Other operating costs and expenses		–955	–387
Operating profit		–45	489
Financial income and expenses			
Income from investments held as non-current assets			
Dividends from Group companies		9	6
Dividends from participating interest companies		104	11
Dividends from other shares and holdings		11	26
Interest income from Group companies		23	12
Other interest and financial income			
Other interest income from Group companies		7	7
Other interest income from other companies		3	3
Other financial income from Group companies		1	1
Other financial income from other companies		9	1
Interest and other financial expenses			
Interest expenses to Group companies		–38	–38
Interest expenses to other companies		–56	–65
Other financial expenses to Group companies		–13	–11
Other financial expenses to other companies		–3	–64
Total financial income and expenses		57	–111
Profit before extraordinary items		12	378
Extraordinary items	5		
Extraordinary income		48	19
Extraordinary expenses		–117	–41
Total extraordinary items		–69	–22
Profit before appropriations and taxes		–57	356
Appropriations			
Increase or decrease in accumulated depreciation difference		18	73
Income taxes	6	–85	–70
Profit/loss for the financial period		–124	359

Cash flow statement

EURm	Note	Year ended 31 Dec. 2012	2011
Operating activities			
Profit before extraordinary items		12	378
Financial income and expenses		–57	111
Adjustments to operating profit	1	625	127
Change in working capital	2	223	15
Interest paid		–102	–98
Dividends received		124	43
Interest received		33	10
Other financial items		–26	–27
Income taxes paid	3	–48	–65
Net cash generated from operating activities		784	494
Investing activities			
Investments in tangible and intangible assets		–188	–135
Proceeds from sale of tangible and intangible assets		182	60
Investments in shares and holdings		–972	–26
Proceeds from sale of shares and holdings		156	162
Increase in other investments		–32	–911
Decrease in other investments		18	14
Net cash used in investing activities		–836	–836
Financing activities			
Increase in non-current liabilities		66	801
Decrease in non-current liabilities		–868	–213
Increase or decrease in current liabilities		1,120	295
Share issue		8	52
Dividends paid		–315	–286
Group contributions received and paid		–22	–80
Net cash used in financing activities		–11	569
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		414	187
Change in cash and cash equivalents		–63	227
Cash and cash equivalents at end of year		351	414

Notes to the cash flow statement

	2012	2011
1 Adjustments to operating profit		
Depreciation	265	284
Gains and losses on sale of non-current assets	362	–140
Value adjustments on non-current assets	3	–
Change in provisions	–5	–17
Total	625	127
2 Change in working capital		
Inventories	201	–22
Current receivables	41	19
Current non-interest-bearing liabilities	–19	18
Total	223	15

3 Taxes from extraordinary items and sales of non-current assets are reported here on a net basis.

Balance sheet

EURm	Note	As at 31 December 2012	2011
Assets			
Non-current assets			
Intangible assets	7		
Intangible rights		6	6
Other capitalised expenditure		239	230
Advance payments		6	14
Total intangible assets		251	250
Tangible assets	8		
Land and water areas		999	1,026
Buildings		471	492
Machinery and equipment		951	1,068
Other tangible assets		47	53
Advance payments and construction in progress		65	37
Total tangible assets		2,533	2,676
Investments	9		
Holdings in Group companies		5,094	4,762
Receivables from Group companies		950	942
Holdings in participating interest companies		435	435
Receivables from participating interest companies		21	3
Other shares and holdings		172	231
Other receivables		14	15
Total investments		6,686	6,388
Total non-current assets		9,470	9,314
Current assets			
Inventories			
Raw materials and consumables		219	229
Finished products and goods		114	303
Advance payments		33	35
Total inventories		366	567
Current receivables	10		
Trade receivables		151	110
Receivables from Group companies		1,177	1,180
Receivables from participating interest companies		12	16
Loan receivables		1	1
Other receivables		44	76
Prepayments and accrued income		122	38
Total current receivables		1,507	1,421
Cash and cash equivalents		351	414
Total current assets		2,224	2,402
Total assets		11,694	11,716

EURm	Note	As at 31 December 2012	2011
Equity and liabilities			
Shareholders' equity	11		
Share capital		890	890
Revaluation reserve		512	532
Reserve for invested non-restricted equity		1,207	1,199
Retained earnings		1,886	1,843
Profit/loss for the financial period		–124	359
Total equity		4,371	4,823
Appropriations			
Accumulated depreciation difference		778	797
Provisions	12		
Provisions for pensions		21	33
Other provisions		47	40
Total provisions		68	73
Non-current liabilities	13		
Bonds		1,247	1,269
Loans from financial institutions		1,057	1,082
Pension loans		338	472
Advances received		1	1
Payables to Group companies		–	21
Other liabilities		185	209
Total non-current liabilities		2,828	3,054
Current liabilities	14		
Bonds		–	636
Loans from financial institutions		37	35
Pension loans		134	134
Advances received		1	4
Trade payables		270	229
Payables to Group companies		2,780	1,664
Payables to participating interest companies		26	33
Other liabilities		136	60
Accruals and deferred income		265	174
Total current liabilities		3,649	2,969
Total liabilities		6,477	6,023
Total equity and liabilities		11,694	11,716

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. 2012	2011
Gains on sale of non-current assets	251	146
Rental income	15	15
Gains on sale of emission rights [1]	3	3
Other	4	1
Total	273	165

1) Emissions trading rights are accounted for on a net basis.

3 Personnel expenses

EURm	Year ended 31 Dec. 2012	2011
Wages and salaries		
President and CEO, and members of the Board of Directors [2]	2	4
Other wages and salaries	380	391
Total	382	395

2) See Notes to the consolidated financial statements, Note 7.

	Year ended 31 Dec. 2012	2011
Average number of personnel	6,945	7,289

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. 2012	2011
Depreciation according to plan		
Intangible rights	3	4
Other capitalised expenditure	35	32
Buildings	34	36
Machinery and equipment	186	205
Other tangible assets	7	7
Total	265	284
Value adjustments		
Non-current assets	4	–
Total	269	284

5 Extraordinary items

EURm	Year ended 31 Dec. 2012	2011
Extraordinary income		
Group contributions received	48	19
Total	48	19
Extraordinary expenses		
Group contributions paid	–117	–41
Total	–117	–41
Total extraordinary items	–69	–22

6 Income taxes

EURm	Year ended 31 Dec. 2012	2011
Income taxes for the financial period	82	70
Income taxes from the previous period	3	–
Total	85	70

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 2012 was EUR 191 million (195 million). Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued assets is EUR 164 million (169 million).

7 Intangible assets

EURm	As at 31 Dec. 2012	2011
Intangible rights		
Acquisition cost at 1 Jan.	18	15
Increases	11	12
Decreases	–10	–9
Acquisition cost at 31 Dec.	19	18
Accumulated depreciation at 1 Jan.	–12	–10
Accumulated depreciation on decreases and transfers	2	2
Depreciation for the period	–3	–4
Accumulated depreciation at 31 Dec.	–13	–12
Book value at 31 Dec.	6	6
Other capitalised expenditure		
Acquisition cost at 1 Jan.	483	462
Increases	32	17
Decreases	–5	–4
Transfers between balance sheet items	12	8
Acquisition cost at 31 Dec.	522	483
Accumulated depreciation at 1 Jan.	–253	–224
Accumulated depreciation on decreases and transfers	5	3
Depreciation for the period	–35	–32
Accumulated depreciation at 31 Dec.	–283	–253
Book value at 31 Dec.	239	230
Advance payments		
Acquisition cost at 1 Jan.	14	13
Increases	5	13
Decreases	–1	–4
Transfers between balance sheet items	–12	–8
Book value at 31 Dec.	6	14

8 Tangible assets

EURm	As at 31 Dec. 2012	2011
Land and water areas		
Acquisition cost at 1 Jan.	499	502
Increases	4	5
Decreases	–11	–8
Acquisition cost at 31 Dec.	492	499
Revaluations at 1 Jan.	527	533
Reversal of revaluation	–20	–6
Revaluations at 31 Dec.	507	527
Book value at 31 Dec.	999	1,026
Buildings		
Acquisition cost at 1 Jan.	1,173	1,163
Increases	11	6
Decreases	–13	–2
Transfers between balance sheet items	6	6
Acquisition cost at 31 Dec.	1,177	1,173
Accumulated depreciation at 1 Jan.	–681	–647
Accumulated depreciation on decreases and transfers	10	2
Depreciation for the period	–34	–36
Value adjustments	–1	–
Accumulated depreciation at 31 Dec.	–706	–681
Book value at 31 Dec.	471	492

EURm	As at 31 Dec. 2012	2011
Machinery and equipment		
Acquisition cost at 1 Jan.	5,175	5,209
Increases	60	46
Decreases	–225	–98
Transfers between balance sheet items	30	18
Acquisition cost at 31 Dec.	5,040	5,175
Accumulated depreciation at 1 Jan.	–4,107	–4,000
Accumulated depreciation on decreases and transfers	207	98
Depreciation for the period	–186	–205
Value adjustments	–3	–
Accumulated depreciation at 31 Dec.	–4,089	–4,107
Book value at 31 Dec.	951	1,068
Other tangible assets		
Acquisition cost at 1 Jan.	199	195
Increases	1	3
Decreases	–1	–
Transfers between balance sheet items	–	1
Acquisition cost at 31 Dec.	199	199
Accumulated depreciation at 1 Jan.	–146	–140
Accumulated depreciation on decreases and transfers	1	1
Depreciation for the period	–7	–7
Accumulated depreciation at 31 Dec.	–152	–146
Book value at 31 Dec.	47	53
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	37	29
Increases	65	33
Transfers between balance sheet items	–37	–25
Book value at 31 Dec.	65	37

9 Investments

EURm	As at 31 Dec. 2012	2011
Holdings in Group companies		
Acquisition cost at 1 Jan.	5,236	5,250
Increases	973	25
Decreases	–46	–39
Acquisition cost at 31 Dec.	6,163	5,236
Accumulated depreciation at 1 Jan.	–474	–474
Value adjustments	–595	–
Accumulated depreciation at 31 Dec.	–1,069	–474
Book value at 31 Dec.	5,094	4,762

Value adjustments relate to holdings in Group companies in Finland and in foreign countries. Value adjustments are included in other operating costs and expenses. The principal subsidiaries are disclosed in the consolidated financial statements, Note 36.

EURm	As at 31 Dec. 2012	2011
Receivables from Group companies		
Acquisition cost at 1 Jan.	942	44
Increases	18	910
Decreases	–10	–12
Book value at 31 Dec.	950	942

EURm	As at 31 Dec. 2012	2011
Holdings in participating interest companies		
Acquisition cost at 1 Jan.	332	332
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	3
Increases	24	–
Decreases	–6	–
Book value at 31 Dec.	21	3
Other shares and holdings		
Acquisition cost at 1 Jan.	170	209
Decreases	–59	–39
Acquisition cost at 31 Dec.	111	170
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	172	231
Other receivables		
Acquisition cost at 1 Jan.	15	16
Increases	1	–
Decreases	–2	–1
Book value at 31 Dec.	14	15

There were no loans granted to the company's President and CEO, and members of the Board of Directors at 31 December 2012 or 2011.

10 Current receivables

EURm	As at 31 Dec. 2012	2011
Trade receivables	279	613
Loan receivables	1,055	678
Other receivables	44	77
Prepayments and accrued income	129	53
Total at 31 Dec.	1,507	1,421
Main items included in prepayments and accrued income		
Personnel expenses	4	1
Interest income	50	19
Derivative financial instruments	32	–
Income taxes	–	16
Other items	43	17
At 31 Dec.	129	53
Receivables from Group companies		
Trade receivables	116	487
Loan receivables	1,054	677
Other receivables	–	1
Prepayments and accrued income	7	15
At 31 Dec.	1,177	1,180
Receivables from participating interest companies		
Trade receivables	12	16
At 31 Dec.	12	16

11 Shareholders' equity

EURm	Share capital	Revaluation reserve	Reserve for invested non-restricted equity	Retained earnings	Total shareholders' equity
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
Balance at 1 January 2012	890	532	1,199	2,202	4,823
Share issue	–	–	8		8
Dividend paid	–	–	–	–315	–315
Revaluations	–	–20	–	–	–20
Other items	–	–	–	–1	–1
Loss for the financial period	–	–	–	–124	–124
Balance at 31 December 2012	890	512	1,207	1,762	4,371

EURm	As at 31 Dec. 2012	2011
Distributable funds at 31 Dec.		
Reserve for invested non-restricted equity	1,207	1,199
Retained earnings from previous years	1,886	1,843
Profit/loss for the financial period	–124	359
Distributable funds at 31 Dec.	2,969	3,401

12 Provisions

EURm	As at 31 Dec. 2012	2011
Provisions for pensions	21	33
Restructuring provisions	16	11
Environmental provisions	15	13
Other provisions	16	16
Total at 31 Dec.	68	73

13 Non-current liabilities

EURm	As at 31 Dec. 2012	2011
Bonds	1,247	1,269
Loans from financial institutions	1,057	1,082
Pension loans	338	472
Advances received	1	1
Other liabilities	185	230
Total at 31 Dec.	2,828	3,054
Payables to Group companies		
Other liabilities	–	21
At 31 Dec.	–	21
Maturity of non-current liabilities		
In 2–5 years		
Bonds	875	387
Loans from financial institutions	1,050	544
Pension loans	338	337
Advances received	1	1
Payables to Group companies	–	21
	2,264	1,290
Later than 5 years		
Bonds	372	882
Loans from financial institutions	7	538
Pensions loans	–	135
Other liabilities	185	209
	564	1,764
Total at 31 Dec.	2,828	3,054

Bonds

	Interest rate %		Nominal value issued m	As at 31 Dec. 2012 EURm	2011 EURm
Fixed-rate					
1997–2027	7.450	USD	375	284	290
2000–2030	3.550	JPY	10,000	88	100
2002–2012	6.125	EUR	600	–	600
2002–2014	5.625	USD	500	379	387
2002–2017	6.625	GBP	250	306	299
2003–2018	5.500	USD	250	190	193
				1,247	1,869
Floating-rate					
2002–2012	2.123	EUR	25	–	25
2002–2012	2.702	EUR	11	–	11
				–	36
Total at 31 Dec.				1,247	1,905
Current portion				–	636
Non-current portion				1,247	1,269

14 Current liabilities

EURm	As at 31 Dec. 2012	2011
Bonds	–	636
Loans from financial institutions	37	35
Pension loans	134	134
Advances received	1	4
Trade payables	341	322
Other liabilities	2,778	1,575
Accruals and deferred income	358	263
Total at 31 Dec.	3,649	2,969
Main items included in accruals and deferred income		
Personnel expenses	92	95
Interest expenses	42	15
Income taxes	21	–
Derivative financial instruments	197	139
Customer rebates	2	10
Other items	4	4
At 31 Dec.	358	263
Payables to Group companies		
Trade payables	46	68
Other liabilities	2,641	1,507
Accruals and deferred income	93	89
At 31 Dec.	2,780	1,664
Payables to participating interest companies		
Trade payables	25	25
Other liabilities	1	8
At 31 Dec.	26	33

15 Contingent liabilities

EURm	As at 31 Dec. 2012	2011
Mortgages [1]		
As security against own debts	570	708
Guarantees		
Guarantees for loans		
On behalf of Group companies	965	941
On behalf of participating interest companies	3	6
Other guarantees		
On behalf of Group companies	90	83
Other commitments [2]		
Leasing commitments for next year	21	25
Leasing commitments for subsequent years	160	129
Other commitments	28	1

[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.

Pension commitments of the President and CEO and the members of the Group Executive Team

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 2008 – 31 December 2012

		Number of shares
2007	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
2012	Options exercised	1,151,572
	Number of shares at 31 Dec. 2012	526,124,410

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 601.0 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2012 (791.0 million). This represented 114.4% (151.5%) of the total number of shares. The highest quotation was EUR 10.98 in February and the lowest EUR 7.82 in June. The total value of shares traded in 2012 was EUR 5,534 million (8,835 million).

During the year, 2.16 million 2007A share options were traded for EUR 0.42 million (4.71 million, EUR 8.98 million), 3.29 million 2007B options were traded for EUR 9.54 million (0.64 million and EUR 1.62 million) and 0.21 million 2007C share options were traded for EUR 0.11 million.

Treasury shares

As at 31 December 2012, the company held 230,737 (211,481) of its own shares, 0.04% (0.04%) of the total number of shares. Of these shares 211,481 were returned upon their issue to UPM without consideration as part of Myllykoski transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts.

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 896,192 (864,084) 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 0.17% (0.16%) of the shares and 0.17% (0.16%) of the voting rights . At the end of the year, President and CEO Jussi Pesonen owned 195,294 shares and 530,000 share options. Exercise of these options would increase the number of the company's shares by 530,000, which at 31 December 2012 would have represented 0.10% 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 313,134 shares and 1,347,205 share options. Exercise of these options would increase the number of the company's shares by 1,347,205 which at 31 December 2012 would have represented 0.26% of the company's shares and voting rights.

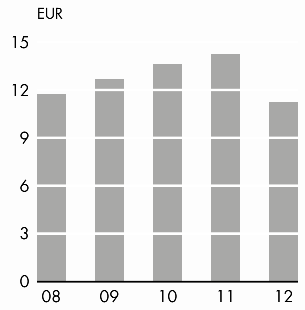
Biggest registered shareholders at 31 December 2012

	Shares at 31 December 2012	% of shares	% of votes
Ilmarinen Mutual Pension Insurance Company	10,961,980	2.08	2.08
Mandatum Life Insurance Company	9,531,219	1.81	1.81
Varma Mutual Pension Insurance Company	8,000,000	1.52	1.52
The State Pension Fund	5,950,000	1.13	1.13
The Local Government Pensions Institution	3,940,521	0.75	0.75
Svenska litteratursällskapet i Finland	3,858,600	0.73	0.73
Etera Mutual Pension Insurance Company	3,631,462	0.69	0.69
Swiss National Bank	3,077,806	0.58	0.58
Folketrygdfondet	2,476,054	0.47	0.47
Gösta Serlachius Fine Art Foundation	2,386,292	0.45	0.45
Nominees & registered foreign owners	296,001,687	56.26	56.26
Others	176,308,789	33.51	33.51
Total	526,124,410	100.00	100.00

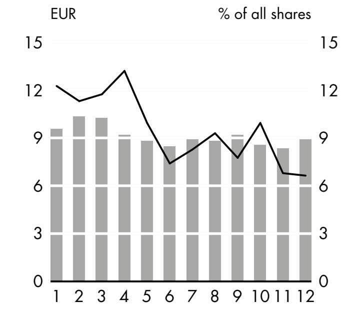
During 2012, the company received the following notifications of changes in holdings pursuant to Chapter 2, Section 9 of the Securities Market Act: UPM has received an announcement according to which Norges Bank's holding in UPM had fallen below 5% of UPM's shares and voting rights on 29 March 2012. UPM has received an announcement according to which Norges Bank's holding in UPM had exceeded 5% of UPM's shares and voting rights on 11 April 2012. UPM has received an announcement according to which BlackRock Inc. indirect holding in UPM had reached 5% of UPM's shares and voting rights on 19 October 2012. UPM has received an announcement according to which BlackRock Inc. indirect holding in UPM had exceeded 5% of UPM's shares and voting rights on 27 November 2012.

SHARE PRICE IN 2012

SHAREHOLDERS' EQUITY PER SHARE

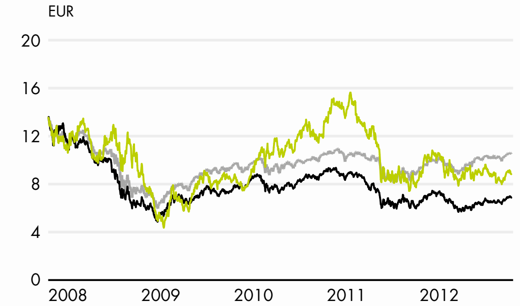


MONTHLY AVERAGE SHARE PRICE AND SHARES TRADED 1–12/2012



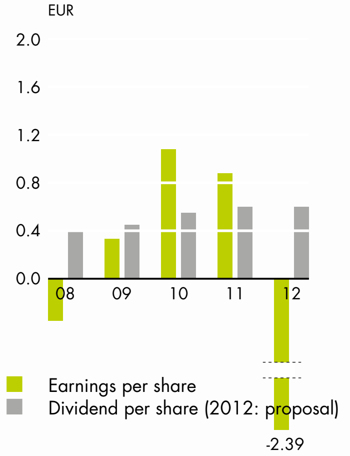
Monthly average share price, EUR
Shares traded, %

UPM SHARE PRICE 2008–2012 COMPARED WITH INDICES



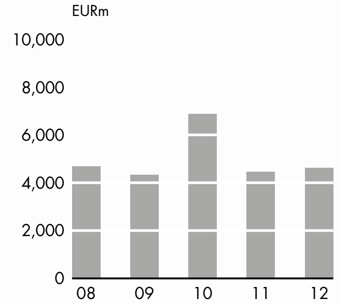
UPM share price
DJ STOXX 600 (rebased)
NASDAQ OMX Helsinki (rebased)

EARNINGS AND DIVIDEND PER SHARE

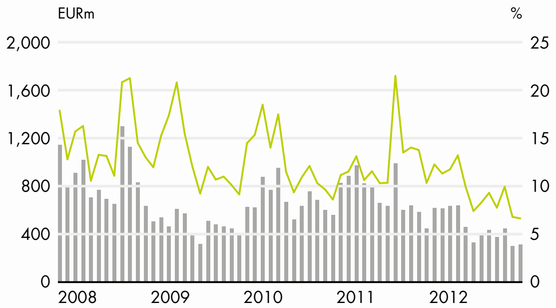


Earnings per share
Dividend per share (2012: proposal)

MARKET CAPITALISATION

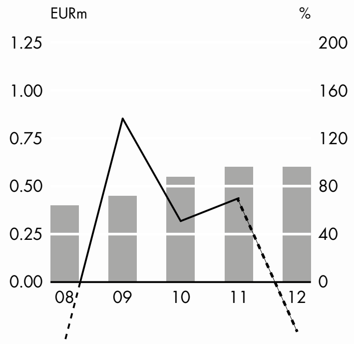


SHARES TRADED ON HELSINKI STOCK EXCHANGE 2008–2012



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 (2012: proposal)
Dividend to earnings ratio, %
(2008 and 2012: neg.)

Charts in this page are unaudited.

Distribution of shareholders at 31 December 2012

Size of shareholding	Number of shareholders	% of share-holders	Number of shares, million	% of shares
1 – 100	20,787	21.37	1.3	0.2
101 – 1,000	54,814	56.36	23.4	4.5
1,001 – 10,000	19,769	20.33	54.8	10.4
10,001 – 100,000	1,687	1.73	41.4	7.9
100,001 –	198	0.20	124.1	23.6
Total	97,255	100.00	245.0	46.6
Nominee-registered			280.9	53.4
Not registered as book entry units			0.2	0.0
Total			526.1	100.0

Shareholder breakdown by sector at 31 December, %

	2012	2011	2010	2009	2008
Companies	4.3	4.2	4.1	3.8	2.8
Financial institutions and insurance companies	5.4	6.5	5.1	4.6	3.2
Public bodies	7.9	11.3	9.8	8.5	8.1
Non-profit organisations	6.2	6.3	6.4	6.3	6.0
Households	19.9	19.9	18.4	17.5	14.9
Non-Finnish nationals	56.3	51.8	56.2	59.3	65.0
Total	100.0	100.0	100.0	100.0	100.0

UPM's share option programmes

Options	Number of options	Number of shares	Exercise price per share at date of issue EUR	Exercise price per share at 31 Dec. 2012 EUR	Subscription period	Options exercised 2012
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	1,151,572

Key figures 2003–2012

Adjusted share-related indicators 2003–2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Earnings per share, EUR (diluted 2012: –2.38)	–2.39	0.88	1.08	0.33	–0.35	0.16	0.65	0.50	1.76	0.60
Shareholders' equity per share, EUR	11.23	14.22	13.64	12.67	11.74	13.21	13.90	14.01	14.46	13.36
Dividend per share, EUR	1) 0.60	0.60	0.55	0.45	0.40	0.75	0.75	0.75	0.75	0.75
Dividend to earnings ratio, %	neg.	68.2	50.9	136.4	neg.	468.8	115.4	150.0	42.6	125.0
Effective dividend yield, %	6.8	7.1	4.2	5.4	4.4	5.4	3.9	4.5	4.6	5.0
P/E ratio	neg.	9.7	12.2	25.2	neg.	86.4	29.4	33.1	8.9	24.8
Operating cash flow per share, EUR	1.93	1.99	1.89	2.42	1.21	1.66	2.32	1.63	1.90	2.40
Dividend distribution, EURm	1) 316	315	286	234	208	384	392	392	393	393
Share price at 31 Dec., EUR	8.81	8.51	13.22	8.32	9.00	13.82	19.12	16.56	16.36	15.12
Market capitalisation, EURm	4,633	4,466	6,874	4,326	4,680	7,084	10,005	8,665	8,578	7,917
Shares traded, EURm 2)	5,534	8,835	8,243	5,691	10,549	16,472	16,021	11,358	9,731	9,117
Shares traded (1,000s)	600,968	790,967	790,490	805,904	932,136	952,300	876,023	697,227	625,950	645,988
Shares traded, % of all shares	114.4	151.5	152.0	155.0	180.1	182.1	167.4	133.6	119.5	123.4
Lowest quotation, EUR	7.82	7.34	7.37	4.33	8.15	13.01	15.36	15.05	14.44	11.05
Highest quotation, EUR	10.98	15.73	13.57	9.78	13.87	20.59	20.91	18.15	17.13	17.10
Average quotation for the period, EUR	9.21	11.17	10.43	7.06	11.32	17.30	18.29	16.29	15.55	14.11
Number of shares, average (1,000s)	525,434	521,965	519,970	519,955	517,545	522,867	523,220	522,029	523,641	523,130
Number of shares at end of period (1,000s)	526,124	524,973	519,970	519,970	519,970	512,569	523,259	523,093	524,450	523,579

Formulae for calculating indicators are given on page 139.

1) Proposal.

2) Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

Financial indicators 2003–2012

EURm	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Sales	10,438	10,068	8,924	7,719	9,461	10,035	10,022	9,348	9,820	9,787
EBITDA	1,269	1,383	1,343	1,062	1,206	1,546	1,678	1,428	1,435	1,442
% of sales	12.2	13.7	15.0	13.8	12.7	15.4	16.7	15.3	14.6	14.7
Operating profit, excluding special items	530	682	731	270	513	835	725	558	470	429
% of sales	5.1	6.8	8.2	3.5	5.4	8.3	7.2	6.0	4.8	4.4
Operating profit	–1,350	459	755	135	24	483	536	318	685	368
% of sales	–12.9	4.6	8.5	1.7	0.3	4.8	5.3	3.4	7.0	3.8
Profit (loss) before tax	–1,406	417	635	187	–201	292	367	257	556	425
% of sales	–13.5	4.1	7.1	2.4	–2.1	2.9	3.7	2.7	5.7	4.3
Profit (loss) for the period	–1,254	457	561	169	–180	81	338	261	920	312
% of sales	–12.0	4.5	6.3	2.2	–1.9	0.8	3.4	2.8	9.4	3.2
Exports from Finland and foreign operations	9,509	9,252	8,139	7,054	8,515	9,170	9,102	8,397	8,791	8,697
Exports from Finland	4,248	4,313	3,882	3,442	4,371	4,546	4,644	4,006	4,301	4,539
Non-current assets	9,043	11,412	10,557	10,581	10,375	10,639	11,355	12,321	12,802	13,509
Inventories	1,377	1,429	1,299	1,112	1,354	1,342	1,255	1,256	1,138	1,144
Other current assets	2,473	2,548	1,956	1,912	2,052	1,972	1,859	1,964	1,887	1,938
Assets, total	12,893	15,389	13,812	13,605	13,781	13,953	14,469	15,541	15,827	16,591
Total equity	5,921	7,477	7,109	6,602	6,120	6,783	7,289	7,348	7,612	7,029
Non-current liabilities	4,943	5,320	4,922	5,432	5,816	4,753	4,770	5,845	5,966	7,322
Current liabilities	2,029	2,588	1,781	1,571	1,828	2,417	2,410	2,348	2,249	2,240
Total equity and liabilities	12,893	15,389	13,812	13,605	13,781	13,953	14,469	15,541	15,827	16,591
Capital employed at year end	9,838	12,110	11,087	11,066	11,193	11,098	11,634	12,650	12,953	12,811
Return on equity, %	neg.	6.3	8.2	2.8	neg.	1.2	4.6	3.5	12.6	4.4
Return on capital employed, %	neg.	4.4	6.6	3.2	0.2	4.3	4.7	3.4	6.0	5.1
Cash flow from operating activities	1,014	1,041	982	1,259	628	867	1,215	853	997	1,258
Equity to assets ratio, %	46.0	48.6	51.5	48.6	44.5	48.8	50.4	47.3	48.2	42.5
Gearing ratio, %	51	48	46	56	71	59	56	66	61	69
Net interest-bearing liabilities	3,010	3,592	3,286	3,730	4,321	3,973	4,048	4,836	4,617	4,874
Capital expenditure	352	1,179	257	913	551	708	699	749	686	720
% of sales	3.4	11.7	2.9	11.8	5.8	7.1	7.0	8.0	7.0	7.4
Capital expenditure excluding acquisitions	342	340	252	229	532	683	631	705	645	703
% of sales	3.3	3.4	2.8	3.0	5.6	6.8	6.3	7.5	6.6	7.2
Personnel at year end	22,068	23,909	21,869	23,213	24,983	26,352	28,704	31,522	33,433	34,482

Formulae for calculating indicators are given on page 139.

Deliveries and production

					Deliveries				Production (2003–2004)	
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Electricity (GWh)	9,486	8,911	9,426	8,865	10,167	10,349				
Pulp (1,000 t)	3,128	2,992	2,919	1,759	1,982	1,927				
Papers, total (1,000 t)	10,711	10,615	9,914	9,021	10,641	11,389	10,988	10,172	10,886	10,232
Sawn timber (1,000 m^3)	1,696	1,683	1,729	1,497	2,132	2,325	2,457	2,016	2,409	2,408
Plywood (1,000 m^3)	679	656	638	567	806	945	931	827	969	936

Quarterly figures 2011–2012

EURm	Q4/12	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q1–Q4/12	Q1–Q4/11
Sales	2,650	2,578	2,619	2,591	2,686	2,603	2,423	2,356	10,438	10,068
Other operating income	37	13	40	18	24	27	15	20	108	86
Costs and expenses	–2,410	–2,340	–2,332	–2,258	–2,425	–2,527	–2,064	–1,997	–9,340	–9,013
Change in fair value of biological assets and wood harvested	32	13	1	–1	49	1	11	3	45	64
Share of results of associated companies and joint ventures	1	–1	–13	–1	–2	1	84	–1	–14	82
Depreciation, amortisation and impairment charges	–1,976	–194	–223	–194	–201	–264	–180	–183	–2,587	–828
Operating profit (loss)	–1,666	69	92	155	131	–159	289	198	–1,350	459
Gains on available-for-sale investments, net	2	–2	34	4	5	–2	68	–	38	71
Exchange rate and fair value gains and losses	–2	8	–3	8	–13	–4	–14	–2	11	–33
Interest and other finance costs, net	–31	–26	–22	–26	–29	–23	–27	–1	–105	–80
Profit (loss) before tax	–1,697	49	101	141	94	–188	316	195	–1,406	417
Income taxes	206	–16	–14	–24	8	79	–21	–26	152	40
Profit (loss) for the period	–1,491	33	87	117	102	–109	295	169	–1,254	457
Attributable to:										
Owners of the parent company	–1,491	33	87	117	102	–109	295	169	–1,254	457
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
	–1,491	33	87	117	102	–109	295	169	–1,254	457
Basic earnings per share, EUR	–2.84	0.06	0.17	0.22	0.20	–0.21	0.56	0.33	–2.39	0.88
Diluted earnings per share, EUR	–2.83	0.06	0.17	0.22	0.19	–0.21	0.57	0.32	–2.38	0.87
Earnings per share, excluding special items, EUR	0.19	0.15	0.14	0.22	0.16	0.19	0.26	0.32	0.70	0.93
Average number of shares basic (1,000)	525,649	525,592	525,592	524,903	524,790	523,128	519,970	519,970	525,434	521,965
Average number of shares diluted (1,000)	526,264	526,703	526,408	526,528	526,154	523,184	523,080	523,182	526,476	523,900
Special items in operating profit (loss)	–1,805	–53	–26	4	–16	–295	88	–	–1,880	–223
Operating profit (loss), excl. special items	139	122	118	151	147	136	201	198	530	682
% of sales	5.2	4.7	4.5	5.8	5.5	5.2	8.3	8.4	5.1	6.8
Special items in financial items	–8	–	35	–	–	–	68	–	27	68
Special items before tax	–1,813	–53	9	4	–16	–295	156	–	–1,853	–155
Profit (loss) before tax, excl. special items	116	102	92	137	110	107	160	195	447	572
% of sales	4.4	4.0	3.5	5.3	4.1	4.1	6.6	8.3	4.3	5.7
Impact on taxes from special items	222	5	3	–	33	84	5	3	230	125
Return on equity, excl. special items, %	5.4	4.4	4.1	6.1	4.6	5.6	7.4	9.3	5.0	6.7
Return on capital employed, excl. special items, %	4.8	4.3	4.1	5.9	4.6	4.6	6.6	7.8	4.7	5.8
EBITDA	301	305	316	347	301	331	372	379	1,269	1,383
% of sales	11.4	11.8	12.1	13.4	11.2	12.7	15.4	16.1	12.2	13.7
Sales by segment										
Energy	122	119	99	140	112	104	108	128	480	452
Pulp	381	403	410	430	349	396	446	457	1,624	1,648
Forest and Timber	428	364	473	426	414	403	440	394	1,691	1,651
Paper	1,815	1,776	1,797	1,762	1,976	1,895	1,666	1,647	7,150	7,184
Label	301	305	298	298	287	292	293	278	1,202	1,150
Plywood	97	93	101	96	88	87	107	94	387	376
Other operations	61	63	77	54	52	58	43	35	255	188
Internal sales	–555	–545	–636	–615	–592	–632	–680	–677	–2,351	–2,581
Sales, total	2,650	2,578	2,619	2,591	2,686	2,603	2,423	2,356	10,438	10,068
Operating profit (loss) excl.special items by segment										
Energy	61	51	36	62	61	39	32	60	210	192
Pulp	58	70	94	74	36	84	143	160	296	423
Forest and Timber	16	7	2	2	29	1	18	2	27	50
Paper	–10	–7	2	17	4	3	0	–23	2	–16
Label	14	22	22	23	15	15	19	19	81	68
Plywood	2	–3	5	–1	1	–4	4	–1	3	0
Other operations	–2	–18	–43	–26	1	–2	–15	–19	–89	–35
Operating profit (loss) excl. special items, total	139	122	118	151	147	136	201	198	530	682
% of sales	5.2	4.7	4.5	5.8	5.5	5.2	8.3	8.4	5.1	6.8

Calculation of key indicators

Formulae for calculation of financial indicators

Return on equity, %:

$$\frac{\text{Profit before tax – income taxes}}{\text{Total equity (average)}} \times 100$$

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, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

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), %:

$$\frac{\text{Operating profit – special items}}{\text{Non-current assets + stocks + trade receivables – trade payables (average)}} \times 100$$

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

	31.12.2012	30.9.2012	30.6.2012	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
USD	1.3194	1.2930	1.2590	1.3356	1.2939	1.3503	1.4453	1.4207
CAD	1.3137	1.2684	1.2871	1.3311	1.3215	1.4105	1.3951	1.3785
JPY	113.61	100.37	100.13	109.56	100.20	103.79	116.25	117.61
GBP	0.8161	0.7981	0.8068	0.8339	0.8353	0.8667	0.9026	0.8837
SEK	8.5820	8.4498	8.7728	8.8455	8.9120	9.2580	9.1739	8.9329

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, 2012. 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 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

This is UPM-Kymmene Corporation's Corporate Governance Statement for the financial year 2012. The statement has been reviewed by UPM's Audit Committee and PricewaterhouseCoopers Oy, UPM's auditor, has checked that the statement has been issued and that the description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with the Financial Statements.

Corporate Governance Statement 2012

UPM complies with the 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's website www.cgfinland.fi. UPM complies with all recommendations of the code.

UPM-Kymmene Corporation's Corporate Governance Statement for the financial year 2012 has been prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code. UPM presents the statement as a separate report, distinct from the Report of the Board of Directors. The statement is available on the corporate website www.upm.com in the Investors section under Governance. The Report of the Board of Directors is presented on pages 66–78 of UPM's Annual Report 2012, which is also available on the corporate website.

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. On 31 December 2012, the company's Board of Directors comprised the following nine members, elected by the Annual General Meeting held on 30 March 2012:

Director	Director since	Born	Education	Nationality	Independence	Main occupation
Björn Wahlroos, Chairman	2008, Chairman since the same year	1952	Ph.D. (Econ.)	Finnish	Independent of the company and significant shareholders	Chairman of the Board of Directors of Sampo Plc
Berndt Brunow, Deputy Chairman	2002, Deputy Chairman since 2005	1950	B.Sc. (Econ.)	Finnish	Independent of the company and significant shareholders	Chairman of the Board of Directors of Oy Karl Fazer Ab
Matti Alahuhta	2008	1952	D.Sc. (Eng.)	Finnish	Independent of the company and significant shareholders	President and CEO of KONE Corporation
Karl Grotenfelt	2004	1944	LL.M.	Finnish	Independent of the company and significant shareholders	Chairman of the Board of Directors of Famigro Oy
Wendy E. Lane	2005	1951	MBA (Harvard Graduate School School of Business Administration)	US	Independent of the company and significant shareholders	Chairman of the Board of Directors of Lane Holdings, Inc.
Jussi Pesonen	2007	1960	M.Sc. (Eng.)	Finnish	Non-independent of the company, independent of significant shareholders	President and CEO of UPM-Kymmene Corporation
Ursula Ranin	2006	1953	LL.M., B.Sc. (Econ.)	Finnish	Independent of the company and significant shareholders	Counsel
Veli-Matti Reinikkala	2007	1957	eMBA	Finnish	Independent of the company and significant shareholders	President of ABB Process Automation Division
Kim Wahl	2012	1960	MBA, B.A., (Business Economics)	Norwegian	Independent of the company and significant shareholders	Owner and Chairman of the Board of Directors of Stromstangen AS

Board responsibilities

The Board of Directors' and its committees' duties and responsibilities are defined in Board and Committee Charters, which are available on the corporate website www.upm.com in the Investors section under Governance.

Pursuant to its charter, the Board of Directors deal with all matters pertaining to its area of responsibility under Finnish law. Under the Finnish Companies Act, the Board of Directors is responsible for the appropriate arrangement of control of the company's accounts and finances. Further responsibilities of the Board of Directors include:

- Establishing and evaluating the company's 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, the members of the Group Executive Board and Group Executive Team, and approving their compensation
- Determining the dividend policy and presenting a proposal for payment of the dividend to the Annual General Meeting.

The Board held 11 meetings in 2012. On average, the Directors attended 97.9% of the meetings.

BOARD OF DIRECTORS' COMMITTEES 2012

Committees	Audit Committee	Human Resources Committee	Nomination and Corporate Governance Committee
Members	Karl Grotenfelt (Ch.) Wendy E. Lane Kim Wahl (as of 30 March) Veli-Matti Reinikkala (until 30 March)	Berndt Brunow (Ch.) Ursula Ranin Veli-Matti Reinikkala (as of 30 March) Robert J. Routs (until 30 March)	Björn Wahlroos (Ch.) Matti Alahuhta Karl Grotenfelt
Number of meetings	4	3	4
Attendance-%	91.8	100	100

Composition and responsibilities of the Committees of the Board of Directors

The Board of Directors has established three committees composed of its members: the Audit Committee, the Human Resources Committee and the Nomination and Corporate Governance Committee.

The enclosed table contains information on the committees' composition, number of meetings and attendance in 2012.

Audit Committee

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

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 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 election of the statutory auditor
- Evaluating the performance of the internal audit.

Human Resources Committee

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 executives 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

Pursuant to its charter, the main responsibilities of the Nomination and Corporate Governance Committee are to review annually the composition of the Board of Directors, identify individuals qualified to serve as directors, prepare a proposal for the election of the members of the Board of Directors and their remuneration for consideration at the Annual General Meeting, develop and recommend a set of corporate governance principles (i.e. Board Charter) to the Board of Directors, and review the general corporate governance of the company. The Committee also reviews annually the independence of members of the Board of Directors and the independence and qualifications of Committee members.

President and CEO

UPM's Board of Directors appoints the President and CEO and decides on the terms and conditions of his/her executive contract. Jussi Pesonen, M.Sc. (Eng.), born in 1960, has served as UPM-Kymmene Corporation's President and CEO since January 2004. He has also been a member of UPM's Board of Directors since March 2007.

The President and CEO is responsible for developing the overall strategic and business plans for submission to the Board and for 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 company's accounts complying with the law and the company's financial administration and management being organised in a reliable manner. The President and CEO supplies the Board of Directors with the information required to perform its duties.

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

Internal control and risk management pertaining to financial reporting

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

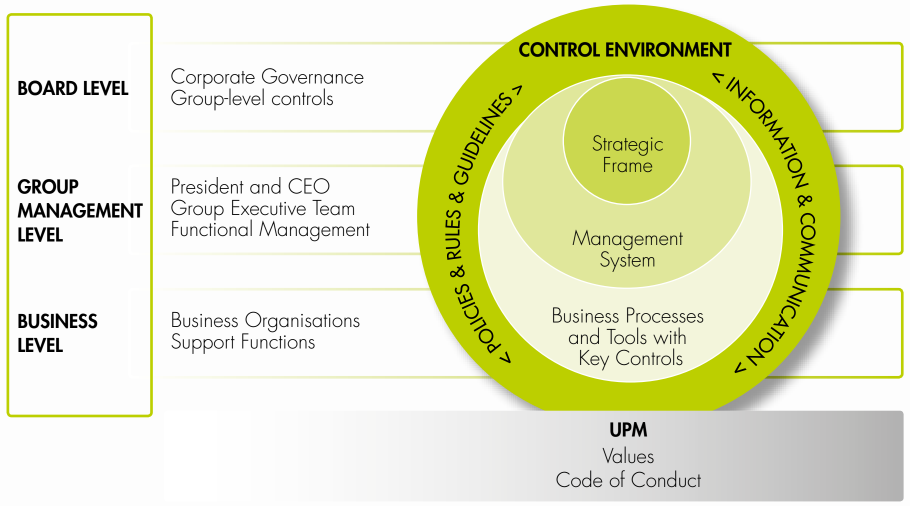
UPM's internal control framework is based on the internal control framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

The process-level internal control structure has been created using a top-down, risk-based approach.

Controls pertaining to financial reporting are part of the Internal Control framework.

The maturity level of internal controls at UPM is assessed annually and the results of the assessment are reported to the Audit Committee.

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



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

Control environment

The company's values and Code of Conduct set the foundation and 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 is aimed at identifying and evaluating 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 provide 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. Development of the risk assessment and the planned and executed actions are reported to the Audit Committee on a regular basis.

Control activities

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 the Finance and Control function with an annual schedule and defined roles and responsibilities in the control process. The head of each unit or function will organise the internal control of his or her unit or organisation. The Finance and Control function is responsible for monitoring business, function and unit-level control processes. The aim of establishing control measures and setting up uniform testing and monitoring processes is to ensure that potential errors or deviations are prevented or 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 preparation of the consolidated financial statements. The Finance and Control function specifies 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 reconciliations and analytical reviews required to ensure that the reported 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

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

The Board of Directors, the Audit Committee, the President and CEO, Group Management, the Finance and Control function, and the business areas and Group companies are responsible for monitoring, thus ensuring the effectiveness of internal controls relating to financial reporting. The effectiveness of the process for assessing risks and of the execution of control activities is reviewed on an ongoing basis at various levels. Monitoring and reviewing includes following up monthly and quarterly financial reports compared with 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 business management and the control owners.

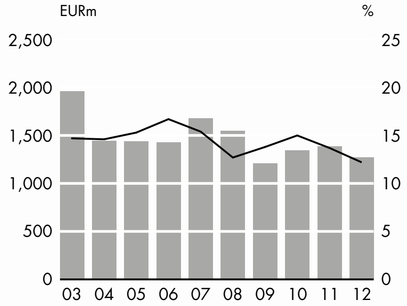
The internal controls are also assessed in the performance review. The corporate and business-level controller teams are accountable for assessing the effectiveness of the internal controls for which they are responsible. Self-assessment is common practice at UPM. Key controls are also tested regularly by independent parties. The internal audit compares its audit work against control test results. External auditors evaluate and test UPM's internal controls as part of their audit work, and recommendations and observations that they make are taken into consideration when maintaining and developing the internal control.

Key financial information 2003–2012

SALES AND PERSONNEL

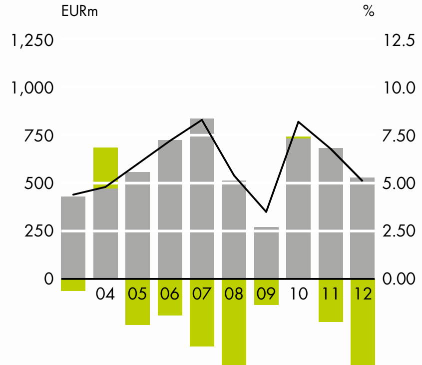
Sales
Personnel

EBITDA



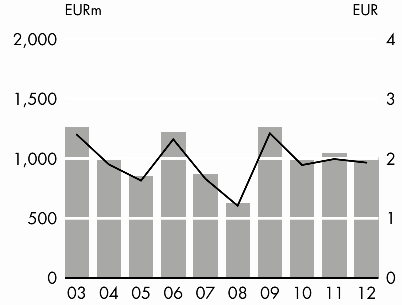
EBITDA
% sales

OPERATING PROFIT



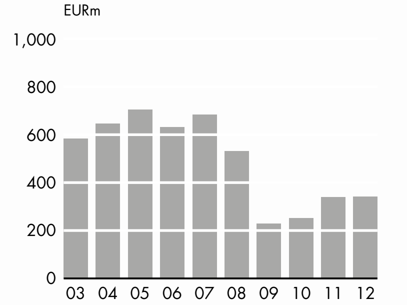
Operating profit excl. special items
% sales excl. special items
Special items

CASH FLOW FROM OPERATIONS

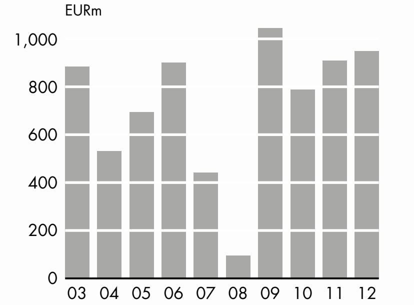


Cash flow from operations
Per share, EUR

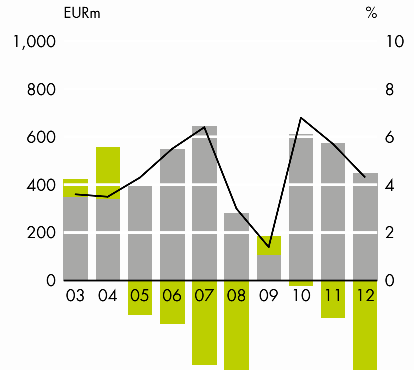
CAPITAL EXPENDITURE EXCLUDING ACQUISITIONS



CASH FLOW AFTER INVESTING ACTIVITIES

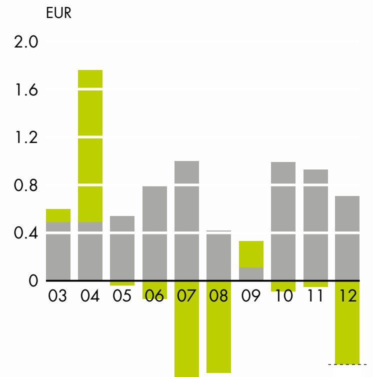


PROFIT BEFORE TAXES



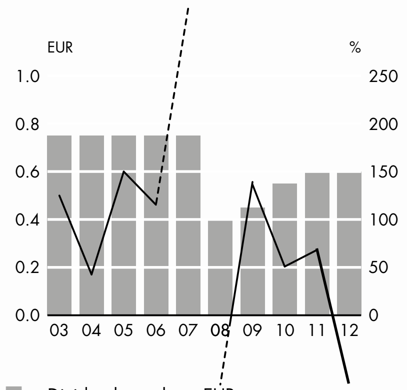
Profit before taxes excl. special items
% sales
Special items

EARNINGS PER SHARE



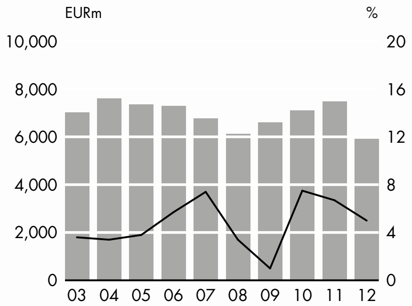
Earnings per share excl. special items
Special items

DIVIDEND PER SHARE



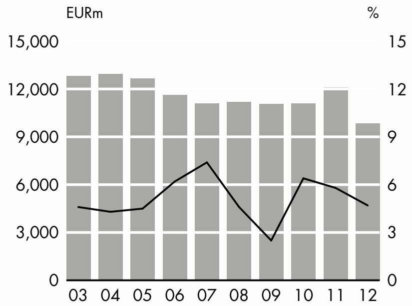
Dividend per share EUR
Dividend/earnings, %

EQUITY AND ROE



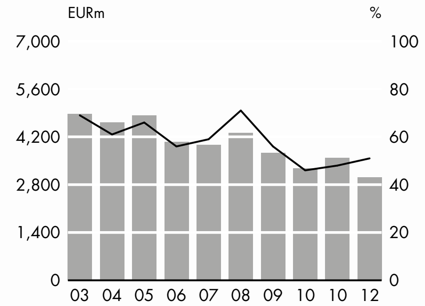
Equity
ROE excl. special items, %

CAPITAL EMPLOYED AND ROCE



Capital employed
ROCE excl. special items, %

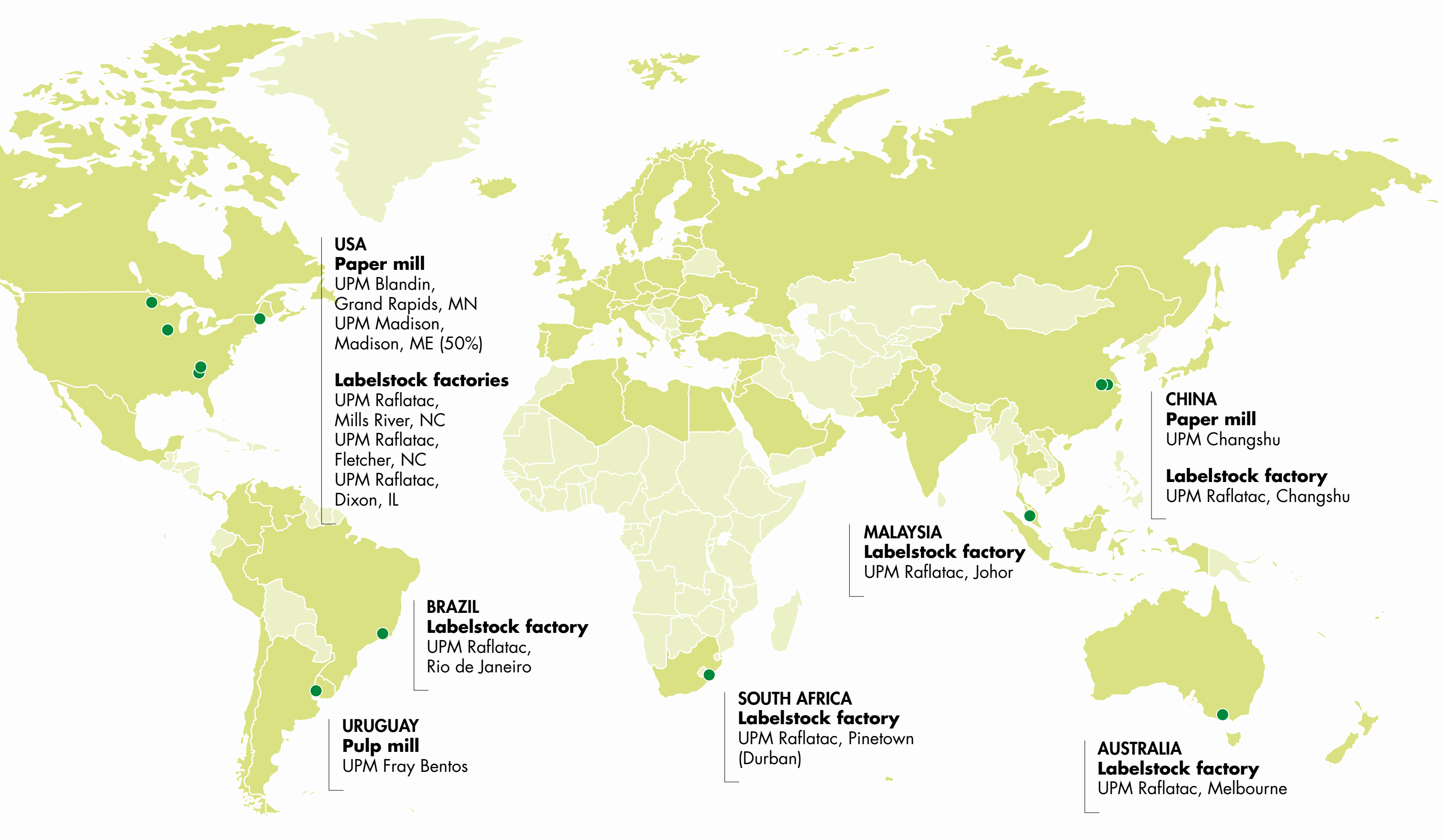
NET INTEREST-BEARING LIABILITIES AND GEARING



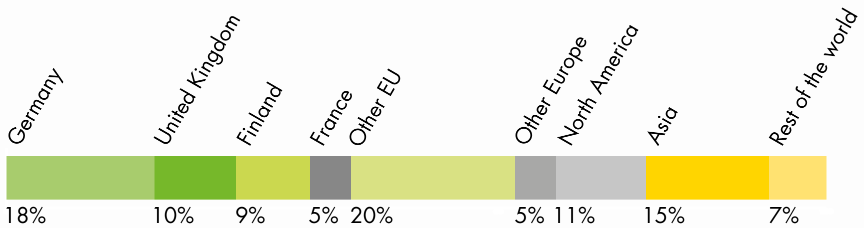
Net interest-bearing liabilities
Gearing %

Production plants and sales network

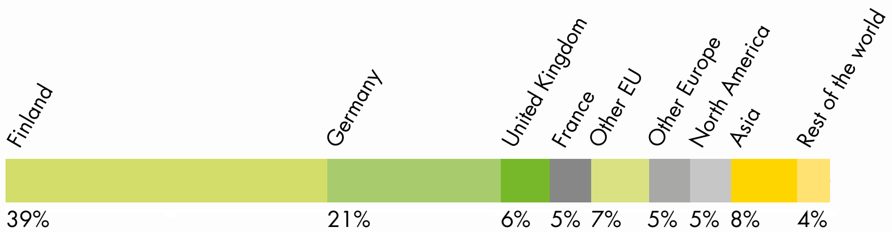
UPM has production plants in 17 countries and a global sales network. Logistics form the foundation for the company's on-time deliveries of products and raw materials.



UPM'S SALES BY MARKET 2012 EUR 10,438 MILLION



UPM'S PERSONNEL BY AREA 31.12.2012 22,068



Network of sales companies and agents (countries listed below)

NORTH AMERICA
Canada
Mexico
Panama
United States

SOUTH AMERICA
Argentina
Brazil
Chile
Colombia
Peru
Uruguay
Venezuela

EUROPE
Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Latvia
Lithuania
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
United Kingdom

ASIA
China
Hong Kong
India
Indonesia
Israel
Japan
Jordan
Kuwait
Lebanon
Pakistan
Republic of Korea
Saudi Arabia
Singapore
Syria
Thailand
United Arab Emirates
Vietnam

AFRICA
Algeria
Egypt
Libya
South Africa
Tunisia

OCEANIA
Australia
New Zealand

FINLAND

Paper mills
UPM Jämsänkoski (Jämsä)
UPM Kaipola (Jämsä)
UPM Kaukas (Lappeenranta)
UPM Kymi (Kouvola)
UPM Rauma
UPM Tervasaari (Valkeakoski)

Pulp mills
UPM Kaukas (Lappeenranta)
UPM Kymi (Kouvola)
UPM Pietarsaari

Labelstock factory
UPM Raflatac, Tampere

Plywood mills
UPM Joensuu
UPM Jyväskylä
UPM Pellos (Ristiina)
UPM Savonlinna

Veneer mills
UPM Kalso (Vuohijärvi)

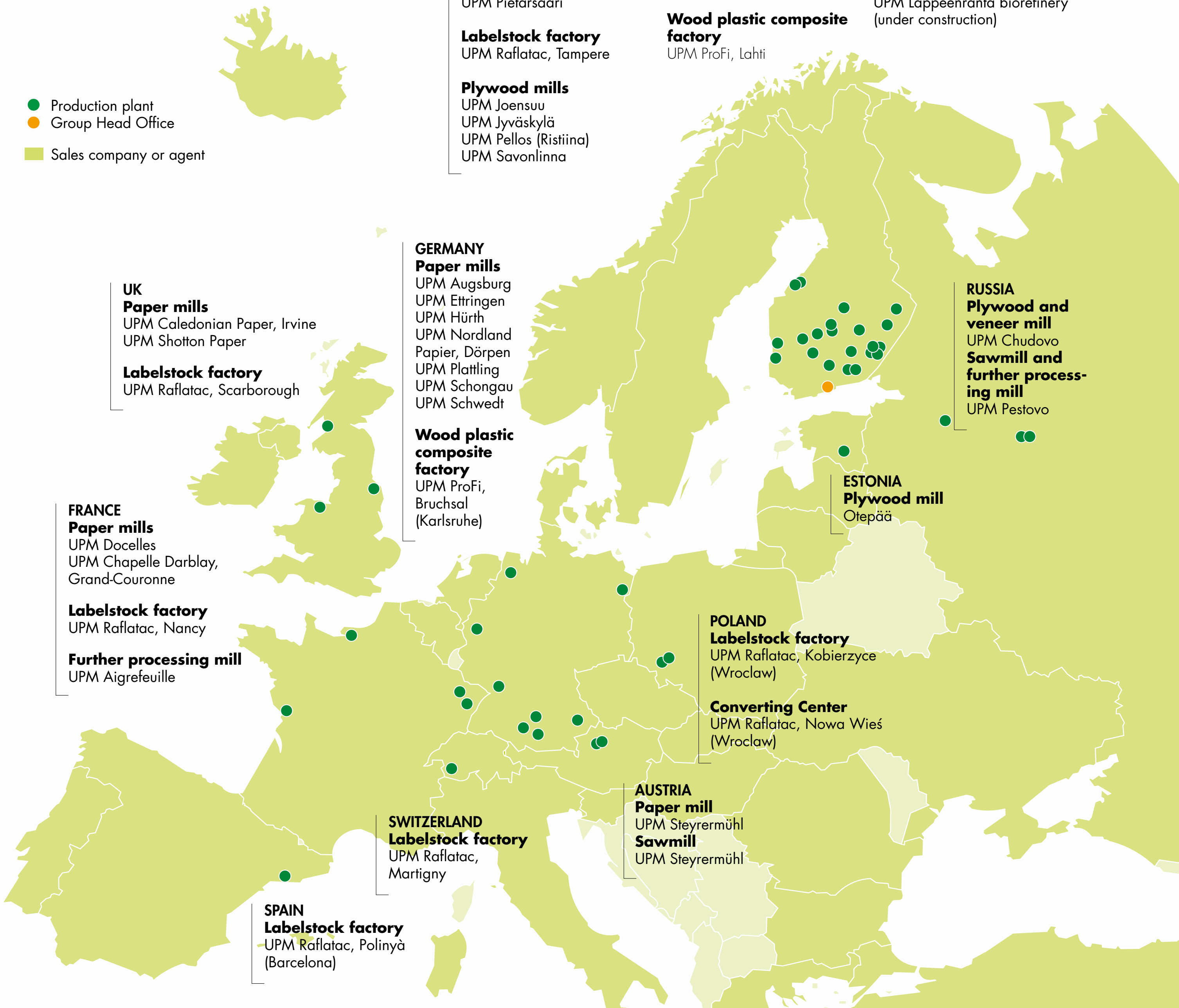
Sawmills
UPM Alholma (Pietarsaari)
UPM Kaukas (Lappeenranta)
UPM Korkeakoski (Juupajoki)
UPM Seikku (Pori)

Further processing mill
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

Biorefinery
UPM Lappeenranta biorefinery (under construction)



Addresses

Group Head Office

UPM
Eteläesplanadi 2
PO Box 380
FI-00101 Helsinki, Finland
Tel. +358 2041 5111
Fax +358 2041 5110
info@upm.com

The Head Office is moving to new premises as of November 2013. Our new address is Alvar Aallon katu 1, FI-00100 Helsinki, Finland.

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Corporate Communications
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info@upm.com

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Fax +358 2041 50303
ir@upm.com

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environment@upm.com

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FI-00101 Helsinki, Finland
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Fax +358 2041 50707
cr@upm.com

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Fax +358 2041 50309
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PO Box 32
FI-37601 Valkeakoski, Finland
Tel. +358 2041 6121
Fax +358 2041 6120
metsaviestinta@upm.com

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PO Box 203
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Fax +358 2041 50509
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ENGINEERED MATERIALS BUSINESS GROUP
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FI-00101 Helsinki, Finland
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Fax +358 2041 50510
info@upm.com

Label
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info@upmraflatac.com

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UPM ProFi
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plywood@upm.com
profi@upm.com

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Annual General Meeting

UPM-Kymmene Corporation will hold its Annual General Meeting on Thursday 4 April 2013 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 2012 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 9 April 2013, which is the record date for the dividend payment. The Board of Directors proposes that the dividend payment be made on 19 April 2013.

Financial information in 2013

UPM will publish the interim reports in 2013 as follows:

The Interim Report for January–March 2013 on 25 April 2013
The Interim Report for January–June 2013 on 6 August 2013
The Interim Report for January–September 2013 on 24 October 2013

UPM Annual Report 2012 is one of the first publications awarded the EU Ecolabel for printed products.

The printing process has to meet strict criteria in relation to chemicals, energy consumption, emissions to air and water and waste management. Also the paper used shall be EU Ecolabeled. UPM promotes sustainability of print media.

EU Ecolabel
www.ecolabel.eu
FI/28/002
Please collect used paper for recycling.

UPM

Cover: UPM Finesse premium silk, 250 g/m². Accounts: UPM Fine, 90 g/m². Other pages: UPM Finesse premium silk, 135 g/m². Printed on papers granted the EU Ecolabel , FI/11/1. Printer: Lönnberg Print&Promo.