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Corporate Responsibility Report 2005



Corporate Responsibility Report 2005

This is the fourth corporate responsibility report published by UPM. Previous to 2002, the Company published an environmental report for seven years. The Group publishes a separate Annual Report.

This report has been compiled applying the guidelines of the Global Reporting Initiative (GRI). UPM supports the UN Global Compact initiative. For a comparison of the contents of this report and the GRI guidelines and the principles of the Global Compact, please see page 55.

The report includes data principally on those production units and other functions in which UPM held an interest of more than 50 per cent throughout the year.

The data on environmental emissions is based on the reporting practice in the country and locality concerned.

Number of copies and language versions

The Corporate Responsibility Report is published in Finnish, English, Swedish, German and French. A total of 50,000 copies were issued. The report is distributed to UPM's various stakeholders, and it can also be ordered from the Group's outlets in the various countries or through our web site.

It is available on our web site in Finnish and Swedish at www.upm-kymmene.fi, in English at www.upm-kymmene.com, in German at www.upm-kymmene.de and in French at www.upm-kymmene.fr

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Dear Reader,

Significant external recognition such as Dow Jones shows that UPM has been more successful than average in achieving the principles of responsible business practice. Achieving and keeping this position requires long-term effort and the will to continuously improve the Company's operations.

The market situation last year remained challenging and rapid changes in the business environment continued. UPM's primary objective was to improve profitability. Responsible business is based on a strong financial position and a good competitive edge. This enables companies to meet their long-term environmental and social responsibilities.

During the year we focused particularly on improving profitability and competitiveness. In corporate responsibility the main focus has been on occupational health and safety, the origins of wood, and energy.

Occupational health and safety is an area which not only plays an essential role in the well-being of employees but which is of importance in economic terms, too. Absence statistics and employee surveys clearly indicate that action and purposeful co-operation is needed to improve both physical and mental well-being. In 2005, a group-wide network was launched with the aim of finding ways to improve occupational health and safety throughout the company based on the exchange of best practices of the various units. The target is to achieve the lowest sickness absence and accident rate for the industry in all the countries where we operate.

Another focus area in 2005 was origin of wood. We are committed to sustainable forestry. We monitor the origin of the wood we use and we ensure that it is from legal sources. Our aim in the forest discussion is

a constructive collaborative effort and continuous improvement. Examples of this co-operation were the parallel field testing of forest certification standards conducted with the WWF and the co-operation with suppliers to develop the safety and environmental aspects of wood procurement in Russia.

A third area requiring special attention was energy. UPM has systematically improved the energy efficiency of its production plants and increased the use of carbon dioxide neutral fuels as an energy source. In 2005 a new, improved model for assessing energy efficiency was launched. The use of biofuels has been systematically increased and last year three new biofuel plant projects were started.

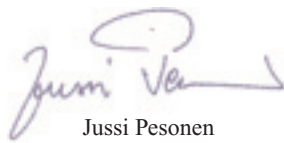
Emissions trading, which began in the EU last year, increased the market price of electricity in Europe. The rise in the price of fuels and the potential rise in the price

The Dow Jones Indexes publish the Dow Jones Global Sustainability Index (DJSI-World) each autumn. The index contains information on over 300 leading companies in 24 countries. In 2005, UPM was listed as the best forest industry company for the second consecutive year.

of the raw material through increased use of renewable energy sources are reflected in UPM's competitiveness. These indirect costs cannot be transferred to the price of the products on account of the fact that over half of the world's pulp and paper production is outside the EU's emissions trading scheme. Action to combat climate change is essential, but global commitment by all the main emitters is needed in order to solve the problem.

At UPM, responsibility and continuous improvement are an integral part of daily activities and the quality of operations. We have undertaken to support the UN Global Compact Initiative. Besides the Dow Jones Index our performance in responsibility is continuously assessed by a number of stakeholders, such as investors, customers, our employees and various organisations and associations.

UPM wants to be the most attractive company in the industry, as a business partner, as an employer and as an investment opportunity. Ensuring sound profitability, observing ethically acceptable practices and working to meeting our social and environmental obligations are essential factors in achieving these goals.



Jussi Pesonen
President & CEO

UPM in brief



Efficient and international

UPM is an internationally operating forest industry company, whose turnover in 2005 totalled EUR 9.3 billion. UPM has production plants in 15 countries, and its products – papers, converted products and wood products – are sold throughout the world. The main markets are Europe and North America. UPM’s products are sold mainly to industrial customers mostly through the Company’s own sales network.

UPM’s shares are quoted on the Helsinki and New York stock exchanges. At the end of 2005, the Company had 72,140 registered shareholders.

The Group employs approximately 31,500 people, approximately 55 per cent of whom

work in Finland. The common management principles comply with the Group’s corporate values of openness, trust and initiative.

UPM aims to operate within a framework which is economically, ethically, socially and environmentally sustainable. The ethical principles guiding the operations are expressed in the policies approved by the Board of Directors.

Renewable raw material

Virtually all UPM’s production is based on a renewable natural resource, wood fibre. Approximately one tenth of the wood consumed by the mills is acquired from

the Company’s own forests or from forests where it has felling rights. The Group owns more than a million hectares of forest land. Almost 90 per cent of the chemical pulp comes from Company-owned or associated mills. Over a quarter of the fibre used is recycled fibre. As a printing paper producer, UPM is Europe’s leading and the world’s second biggest user of recovered paper.

In addition to fibre, mineral fillers and coating pigments and binders are also used in significant quantities in papermaking.

Globally, the Group’s self-sufficiency rate in electricity is 70 per cent and in Finland, UPM is self-sufficient in energy. Most of the

Products and capacities	Applications	Products and capacities	Applications
Papers Magazine papers 5,720,000 t/a Newsprint 2,810,000 t/a	Magazines, newspaper supplements, advertising materials, sales catalogues. Newspapers, telephone directories, mail-order catalogues.	Fine papers 3,300,000 t/a Speciality papers 790,000 t/a	Special interest magazines, direct mail advertising, brochures, office papers. Face and release papers for self-adhesive labels, sack and kraft papers.



electricity is used for paper and mechanical pulp production. The use of biofuels has been systematically increased in electricity production.

Products

UPM is the world's leading manufacturer of magazine papers. Other paper grades produced include newsprint, fine papers and speciality papers.

The Converting Division units UPM Raflatac, its subsidiary Rafsec and Walki Wisa manufacture technically demanding, highly processed speciality products. UPM Raflatac is the world's second biggest manu-

facturer of self-adhesive labelstock.

UPM is Europe's leading plywood manufacturer and third biggest sawn goods producer.

Recyclable products

All UPM's products are safe when correctly used.

The papers manufactured by UPM are recyclable.

The Company produces a 'Paper Profile' for all of its printing papers. Paper Profile is an environmental product declaration listing relevant information on the raw materials, manufacturing emissions and energy con-

sumption for each product line.

Most of the converted products can best be recycled by burning them to produce energy. Silicone-containing papers can also be composted.

Wood is clearly more environmentally favourable than most other building materials. Wood is the only completely renewable building material, and relatively little energy is required in the manufacture of wood products. They can be recycled for a new use or disposed of by incineration or composting.

Converted materials

Products and applications

UPM Raflatac Paper-based and synthetic self-adhesive labelstock for price, product and EDP label manufacturers.
 Rafsec Radio Frequency Identification (RFID) tags.
 Walki Wisa Composite materials for the packaging industry and technical applications as well as wrappings for the paper, steel and mechanical wood processing industries.

Wood Products

Products and applications

Plywood and veneer Plywood and veneer for construction, interiors and transport vehicles.
 Sawn goods and further processed products Sawn goods ranging from standard qualities to speciality products, lamwood, planed and profiled products, and strength-graded goods.



UPM's key figures

	2005	2004	2003
FINANCIAL INFORMATION			
Turnover, EUR million	9,348	9,820	9,787
Profit before tax, EUR million	257	556	425
Return on equity, %	3.5	12.6	4.4
Dividend per share (2005: Board's proposal)	0.75	0.75	0.75
Capital expenditure and acquisitions, EUR million	749	686	720
PRODUCTION			
Paper, 1,000 t	10,223	10,886	10,232
Sawn timber, 1,000 m ³	2,147	2,409	2,408
Plywood, 1,000 m ³	916	969	936
Chemical pulp, 1,000 t	1,840	2,243	2,027
ENERGY AND RAW MATERIALS			
Electricity procurement, TWh	19.2	19.9	20.0
– electricity sales, TWh	1.9	1.8	1.9
Wood consumption, 1,000 m ³	22,900	26,700	26,310
Recovered paper consumption, 1,000 t	2,900	2,800	2,300
ENVIRONMENT			
Capital expenditure in environmental protection, EUR million	38	55	37
Operating expenditure relating to environmental protection, EUR million	114	112	109
Fossil fuel carbon dioxide emissions (CO ₂), t	3,600,000	3,900,000	3,900,000
Wastewater chemical oxygen demand (COD), t	74,000	97,000	95,000
Solid waste: – to landfills, t	180,000	180,000	250,000
– hazardous waste for special treatment, t	3,500	3,700	3,600
PERSONNEL, at year end			
– Paper Divisions	18,190	18,872	19,027
– Converting Division	3,435	4,676	4,620
– Wood Products Division	6,362	6,851	7,711
Salaries and fees, EUR million	1,192	1,325	1,302
Pension expenses, EUR million	173	211	207
Training costs, EUR million	19	22	24
Average no. of days spent in training	2.6	2.3	2.6
Accident frequency, shop-floor workers*	39.1	43.4	49.4
Absences due to illness, shop-floor workers, % of regular working hours	4.77	5.68	5.51
Personnel turnover, %	5.1	4.4	2.7
No. of man-days lost through strikes	161,000	14,700	6,300
No. of man-days lost through lockouts	214,000	–	–

* Accidents, resulting in one or more days lost, per million hours of work.

Events in 2005

UPM was rated in the Dow Jones Global Sustainability Index (DJSI-World) as the sector leader (Forest Products & Paper) in the annual evaluation. In 2006 UPM was listed in both the DJSI World and the European DJSI STOXX indexes, as it has every year since 2001.

The second paper machine started up successfully at the Changshu mill in China. UPM announced that it will participate in the Botnia pulp mill project in Uruguay.

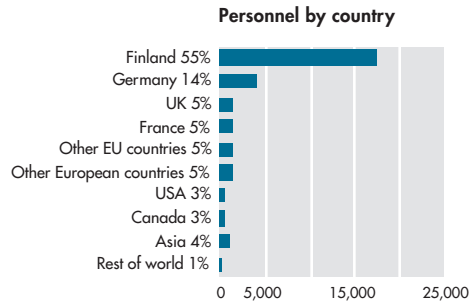
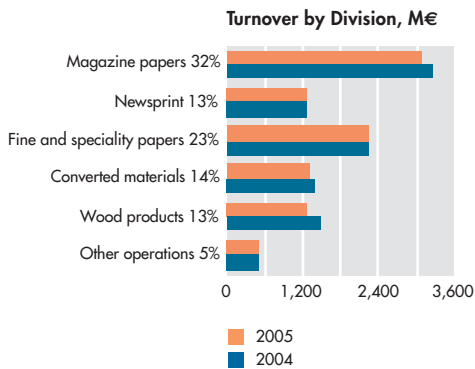
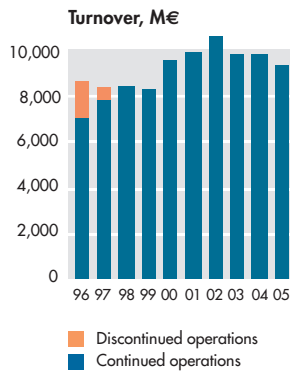
Construction of new bioenergy generating power plants at Chapelle Darblay, Shotton and Rauma began. UPM purchased a Russian wood procurement company.

The paper and pulp mills in Finland were at a standstill for seven weeks due to strikes and a lockout. In Canada, UPM's Miramichi mill was at a standstill for eight months because of a strike.

The Loparex Group was sold. Two paper machines at the Kymi mill were closed down.

The parallel field testing of forest certification schemes conducted with the WWF was completed. The development and implementation of a new Chain of Custody system was started.

UPM was the first forest industry company to have its logistics function certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards.



Certified management systems, based on international standards, are key tools in the daily management. Substantial progress has been made in the certification of the Group's mills and other operations, and on chains of custody for wood.



Good progress in the certification of management systems

Corporate responsibility at UPM means that the Group aims to operate profitably, generating long-term stakeholder value, within a framework which is economically, ethically, socially and environmentally sustainable.

Management is guided by the Group's corporate values: openness, trust and initiative.

The expansion of the Group's operations into emerging markets brings new challenges and opportunities for responsible business activity.

Corporate governance

Corporate governance is the system by which public companies, like UPM, are directed and controlled. Corporate governance specifies the distribution of rights and responsibilities among different decision makers in the

corporation, such as shareholders, the Board of Directors, the CEO and the executives, and spells out the rules and procedures concerning how decisions are made and disclosed.

For more information on UPM's corporate governance, please see the Group's Annual Report.

UPM policies

The ethical principles which guide the Group's operations are expressed in a number of policies approved by the Board of Directors: the Environmental Policy, Human Resources Policy, Occupational Health and Safety Policy, Corporate Social Responsibility Policy and the Fraud Policy and Disclosure Policy.

The scope of the policies was assessed in 2005 as part of the review of the Group's internal control processes. Increased attention was also given to the personnel's awareness of the policies and their contents.

These policies are supplemented by a series of rules and guidelines, such as the Equality Rules and the Basic Ethical Rules in Purchasing and Sales.

New policies, rules and guidelines are drawn up and the existing ones updated as required.

Global forestry and wood sourcing guidelines were drawn up and adopted by forest departments in all countries where UPM procures wood.

Monitoring of the implementation of UPM's policies is included in the scope of

the Group's internal audit function. This in turn reports to the Audit Committee, formed of members of the Board of Directors.

In 2005, an external audit group assessed the quality of the Group's internal audit function. According to internal audit standards, this assessment should be performed at least every five years.

Commitment to standards

UPM complies with the national legislation of all the countries in which it operates. The Company has also made a commitment to the principles of the United Nations Global Compact Initiative and the Business Charter for Sustainable Development of the International Chamber of Commerce.

Corporate responsibility

UPM's Corporate Responsibility Council is chaired by the CEO. The other four members of the Council are the executives responsible for the Group's economic and financial issues, business support functions and resources, human resources and corporate communications.

The business units and subsidiaries are individually responsible for ensuring that

both obligations set by external bodies and internal targets are met. They also have the task of developing and reporting on responsibility issues at a local level.

Corporate responsibility risks

UPM strives to manage economic and reputation-related risk associated with product liability and the environment. Changes in legislation and unexpected events have the potential to affect the Group's financial result.

Environmental and social responsibility issues are included in investment plans and decisions to avoid any added expenses in the future. For example, improving the efficient use of energy and raw material and the reduction of absences may have an effect on the future financial results.

Forerunner in certification of logistics

Most of UPM's mills and operations are certified in accordance with international management standards. During 2005 the Group obtained 17 new certifications, and was the first forest products company in the world to

be granted ISO 9001, ISO 14001 and OHSAS 18001 certification for its global logistics operations.

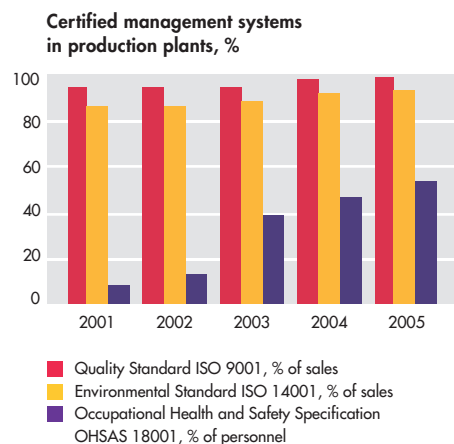
All UPM's pulp and paper mills have ISO-compliant environmental management and quality systems in place. The majority of the Group's European pulp and paper mills have already been registered, as planned, in the EMAS system of the European Union. The Converting Division's factories, whose products include packaging materials for the food industry, operate in accordance with certified self-monitoring and hygiene systems, such as BRC-IoP (British Retail Consortium) and the Danish DS 3027 standard.

Good progress has also been made in the certification of Chain of Custody systems for tracing the origins of wood. In 2005, the Chain of Custody systems of the Finnish and Central European forestry departments were certified by the FSC in addition to the existing PEFC certification.

Page 52: Certified management systems

Pages 44–49: UPM policies

Page 55: Comparison of report contents with the principles of the Global Compact Initiative
UPM's corporate governance: Annual report, www.upm-kymmene.com.



UPM's key stakeholders

Personnel (Covered in this report on pages 18–25)	Approximately 31,500 people in production units and sales offices throughout the world. Over half of UPM's employees are in Finland, followed by Germany, North America and France.
Customers	Includes publishers, printers, paper merchants, converters, construction industry; altogether about 14,500 customers.
Shareholders	There are over 70,000 registered shareholders.
Suppliers (Covered in this report on pages 28–33, 42)	Tens of thousands of suppliers of raw materials, machinery, equipment and services around the world. For example, forestry and wood sourcing engages over 3,200 contractors and their employees.
Local communities	UPM operates in some 70 mill locations around the world.
Non Governmental Organisations (NGOs) (Co-operation with the WWF is covered in this report on page 31)	For example WWF and Greenpeace, local environmental organisations and civic organisations. UPM is a founding member of the Finnish arm of Transparency International. UPM co-operates with a number of different associations and organisations at the local level.
Business organisations	UPM is an active participant in a number of organisations working to promote corporate responsibility, for example, the UN Global Compact Initiative and WBCSD. The Company is also involved in national and international industry-sector organisations, including CEPI, WAN, FIPP and INGEDE.*

* WBCSD=World Business Council for Sustainable Development, CEPI=Confederation of European Paper Industries, WAN=World Association of Newspapers, INGEDE=International Association of the Deinking Industry, FIPP=The International Federation of the Periodical Press.

Co-operation fosters responsible operations

UPM's stakeholders include all those sectors who have an influence on the Company's operations or on whom the Company has an influence. UPM's key stakeholders are given in the adjoining table. Dialogue and co-operation with stakeholders are among the most important ways of promoting mutual understanding.



Customer satisfaction

As in previous years, the results of the customer satisfaction survey carried out by the Paper Divisions were positive. Indexes measuring attitudes and customer loyalty were up slightly in spite of the strike and lockout affecting the Finnish mills for nearly seven weeks in the spring of 2005. Analysed by Paper Division, the results of the Magazine Paper and Fine Paper Divisions had clearly improved, but those of the Newsprint Division had fallen back. The Speciality Paper Division, which was included in the survey for the first time, obtained valuable information for the development of its operations.

The Wood Products Division conducted their first customer satisfaction survey covering all six customer segments. All of them received positive feedback. A significant number of the interviewees considered that the Division's offering, services, innovativeness and personal customer contact had improved over the last two years.

Local communities

UPM actively seeks to maintain and develop good relations with the local communities surrounding the Group's mills. Traditional activities include supporting recreational pursuits in the community and organising Open Days at the mills. Employees' families and local residents visit the mill and hear more about its operations and plans. In 2005, Open Days were organised at a number of mills, including the Pietarsaari and Kaukas mills.

Examples of other partnerships with local communities include the mountain bike centre developed by Tilhill, which is presented in more detail on the next page.

Sponsorship and support activities

UPM's sponsorship and support guidelines were revised in 2005. At both corporate and local levels sponsorship and support work is targeted at opportunities which address the challenges facing both UPM and its cus-

UPM ■ CASE

UPM's mountain bike centre in Wales

UPM Tilhill has developed Coed Llandegla Forest, which it owns, into a site for extensive recreational use within an operational commercial forest. A mountain bike centre has been developed in the area. It is the first centre of its kind in the UK to receive IMBA (International Mountain Bicycling Association) accreditation. Located in North East Wales, Coed Llandegla Forest is a stone's throw from major population centres, home to a third of the UK population.

Coed Llandegla Forest achieved high ratings from the IMBA in safety, service level and sustainability. A log cabin-style centre has been built for visitors, which is a model example of sustainable construction. The cabin includes

geothermal and solar energy heating systems as well as a rainwater collection system.

Approximately 5,000 people visit Coed Llandegla every month, and the number is expected to grow thanks to IMBA accreditation. There are several marked routes of varying levels of difficulty appropriate for mountain bikers, walkers and horse riders as well as families with young children. Additional walking trails have been planned for 2006 which will include the route to the Tilhill bird hide, where visitors can view black grouse (*Tetrao tetris*), hen harriers (*Circus cyaneus*) and other rare protected species in their natural habitat.



tomers, such as activities promoting the use of printed media and the use of wood, education and environmental issues. Locally sponsorship of organisations and associations that contribute to the vitality of the area are favoured. Music and fine arts are given priority in the sponsorship of arts and cultural events.

UPM does not support political parties or candidates through contributions.

In 2005, UPM spent a total of EUR 1.2 million on sponsorship and support activities. One of the main beneficiaries of the Group's sponsorship in 2005 continued to be the Lahti Symphony Orchestra in Finland. The orchestra plays at the Sibelius Hall in Lahti, the construction of which is based on innovative wood architecture and the use of UPM's plywood products.

In a number of countries where it operates, UPM supports projects to promote reading among young people. In Finland, UPM has for many years sponsored a schools theme day organised by the Finnish

Periodical Publications Association. In 2005, UPM donated a subscription for 2006 to a magazine chosen by children in the fifth grade in the participatory primary schools.

In China, UPM has continued to sponsor basic education in China's poorest areas through a Chinese-American organisation. There is an ongoing programme in three provinces aimed at providing funding for primary education and advice for local farmers on environmental protection and prevention of landslides, among other things.

Cultural heritage

UPM's cultural capital includes a major art collection, museums exhibiting the Company's heritage, extensive historical archives and several buildings of historical value. The most significant of the museums are those comprising the former Verla ground-wood plant and board mill in Finland. These sites are included on the UNESCO World Heritage List. Substantial investments to improve their fire safety were made in 2005.

Awards

In April, UPM Tilhill, a forest management company operating in the UK, received the Queen's Award for Enterprise: International Trade 2005. Tilhill's exports more than quadrupled in value over a three-year period.

In January 2006, UPM was awarded in a national environmental competition organised by the Finnish National Fund for Research and Development (Sitra). The UPM Global Chain of Custody management model won the Environmental Leadership Category. In addition, a commendation was received for the project 'Responsible Wood Sourcing in Russia'. The competition is part of the European Business Awards for the Environment 2006, which is organised by the European Commission.

The Forest Leadership organisation awarded UPM, the WWF and DNV a co-operation award for the field testing of the forest certification schemes at the beginning of 2006.

Finance

A company must provide its shareholders with added value. Changes in the forest industry's business environment place increasing demands on maintaining competitiveness. Responsible business includes a healthy financial base, which ensures that the Company can also take care of its environmental and social responsibilities.



Profitable, competitive and efficient operations enable companies to meet their environmental and social responsibilities. Responsible business practice supports the companies' financial success in the long term.

UPM must be able to provide its shareholders with added value through its activities. The forest industry is going through a period of transition in which the traditional key markets have matured. The markets are currently growing in new areas, and this will bring new opportunities and challenges for UPM operations.

Continuous sound financial management, timely cost saving measures and increased efficiency are part of responsible business

practice. Thanks to the continuous improvements, the Company's cost trend has been moderate.

Direct and indirect economic impacts

UPM's activities have numerous direct and indirect economic impacts on the well-being of society, for example, through employment, taxes and purchases. Many of UPM's mill communities have grown and developed around the mills and therefore at the local level the Company's indirect economic impact may be considerable.

The Company has tens of thousands of suppliers supplying, among other things, raw

materials, machinery, equipment and services accounting for approximately EUR 6.5 billion, or 70 per cent of the Group's turnover in 2005.

Wood and the fibre obtained from it are UPM's most important raw materials. Wood procurement generates income for forest owners. In Finland, for example, the Forest Division concludes approximately 30,000 wood transactions with private forest owners each year.

Employment effect

At the end of 2005, there were 31,522 people employed by UPM, which was 1,911 fewer compared with the previous year. The decrease in the number of employees was



due, among other things, to the sale of Loparex, the restructuring of the Wood Products Division and the closure of Miramichi's old kraft mill. For information on the restructuring of the Wood Products Division, please see page 24. The number of employees grew most in Russia, where UPM purchased the logging company Tikhvinsky Komplexny Lespromkhoz. The company employs between 500 and 700 people, depending on the season. During the year, restructuring in UPM's IT function began. The process was handled through co-determination and negotiations with the representatives of the personnel in several of the countries where the Company operates. In 2005, UPM's IT function employed a total of

690 people in different countries. A new global IT organisation was launched in February 2006.

Efficiency measures throughout UPM through investment, for example, means that the number of employees per output unit will continue to decrease in the future, too.

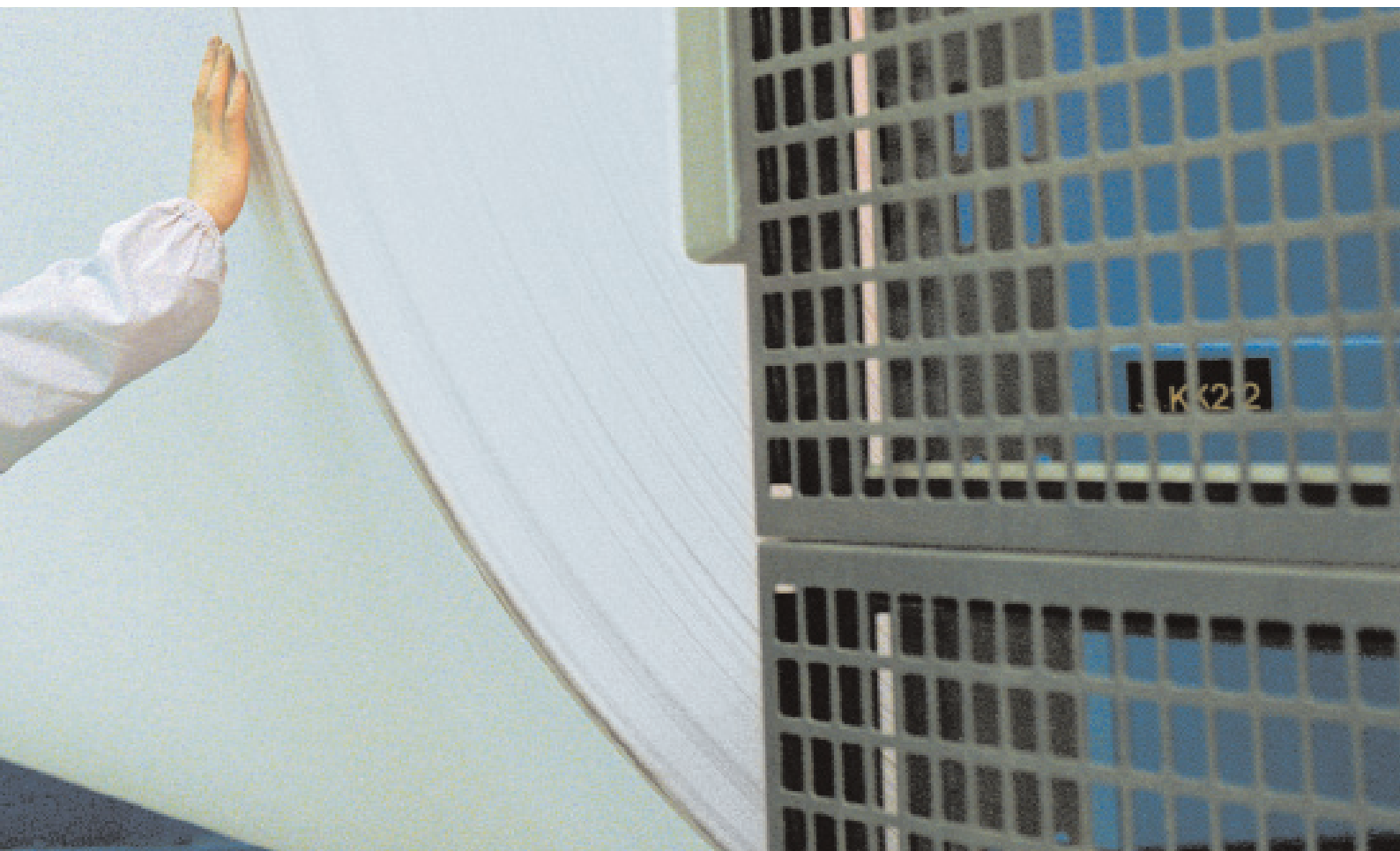
UPM indirectly employs numerous sub-contractors. For example, forestry and wood sourcing provide employment for more than 3,200 contractors and their employees in various countries. The work involves over 2,000 vehicles and machines.

Investments

Investments in means of production require a great deal of capital. The undertakings are

long-term projects. The Company's production facilities are top-notch in terms of production and competitive capacity. Modern, high-quality machinery improves efficiency as raw materials and energy are used more efficiently, and the environmental load decreases.

In 2005 capital expenditure, excluding acquisitions, was EUR 705 million, or 7.5 per cent of the Group's turnover. Among the projects completed during the year, the most important were the start-up of the new fine paper machine at the Changshu mill in May and the second lamination line brought on stream in September at UPM Raflatac's production facility in Fletcher, North Carolina. The modernisation of Tervasaari's paper

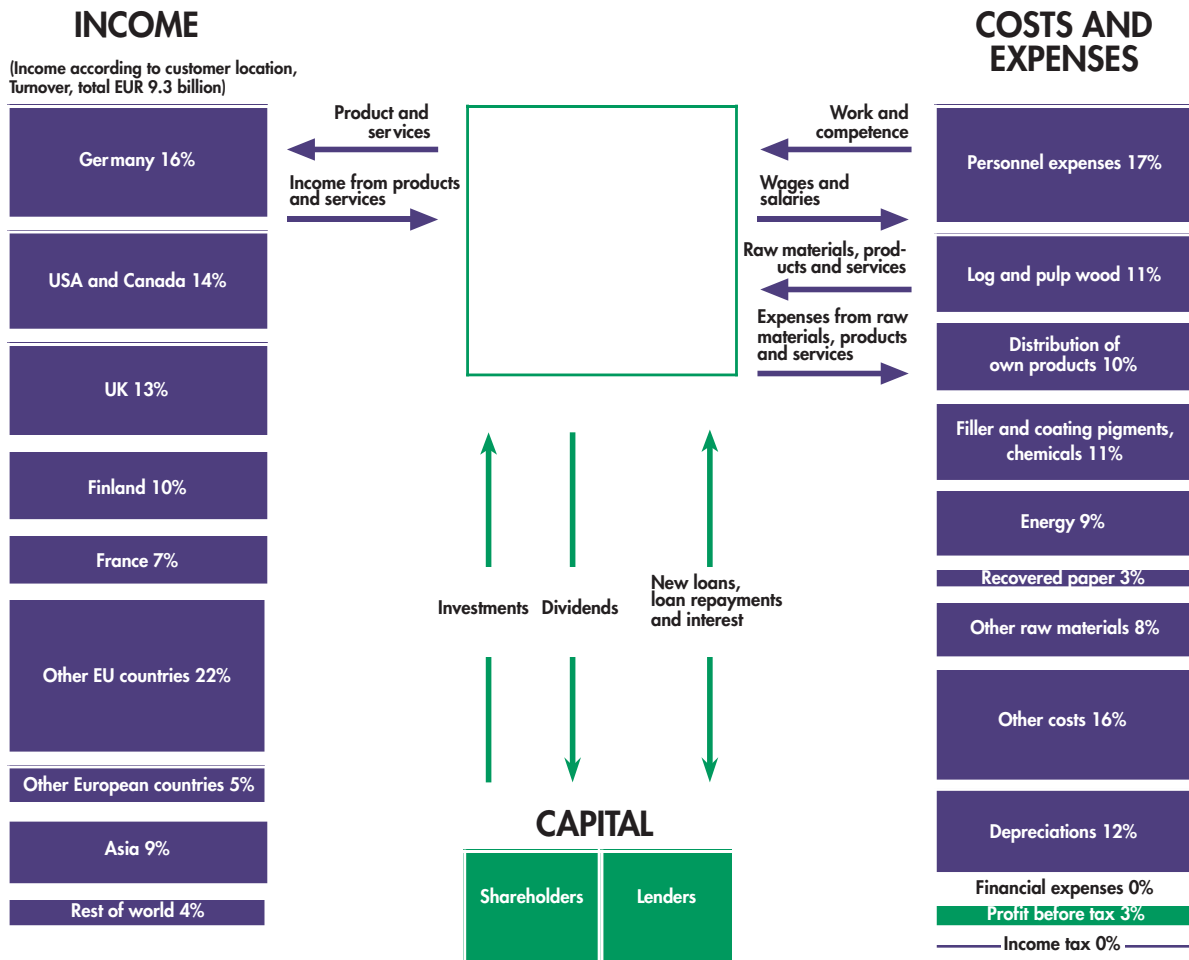


Structure and distribution of UPM's income and expenditure in 2005

UPM provides customers with the products and services they have requested and receives income in return. The Company needs professional, skilled employees to manufacture the products and carry out its other activities, as well as raw materials, energy and means of production. When these costs, wages and salaries,

depreciations on investments and financial expenses are deducted the Company is left with a profit on which it pays taxes and a dividend to shareholders. In 2005, costs totalled EUR 9.1 billion and profit before tax EUR 257 million. The Board of Directors will propose to the Annual General Meeting a distribution of divi-

dends in the amount of EUR 392 million. The employees in different countries pay tax on their wages and salaries in accordance with the practice of the country in question. Suppliers of goods and services as well as their employees also pay various taxes and tax-like contributions to the relevant local society.



machine 8 was completed at the beginning of 2006.

Construction of biofuel power plants at the Chapelle, Shotton and Rauma mills was started during the year. The company has invested approximately EUR 150 million in these projects.

Collective labour agreement conflicts result in strike and lockout

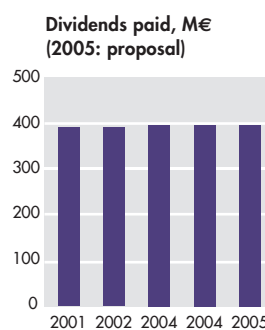
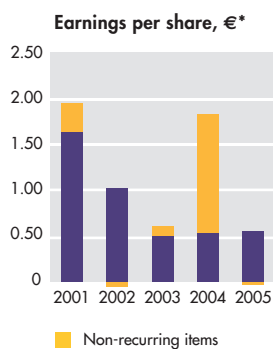
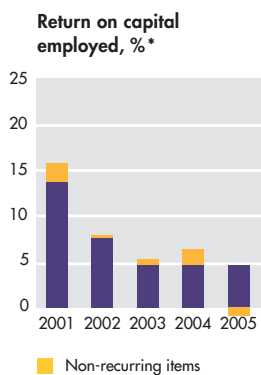
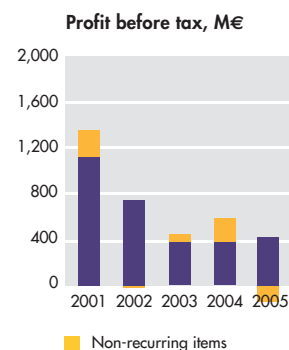
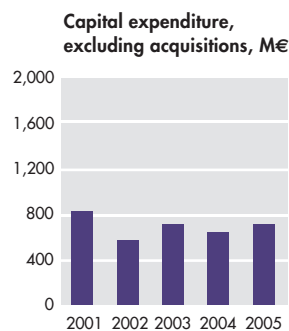
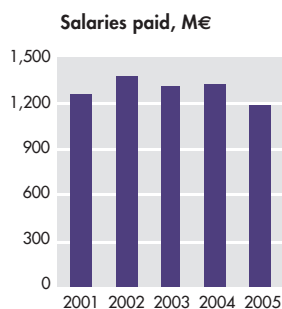
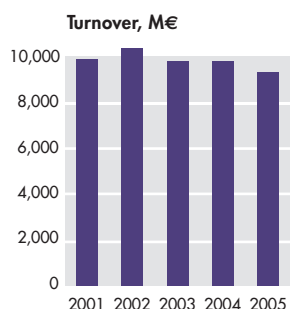
The collective labour agreement conflicts in Finland and North America resulted in production losses.

The labour market situation in Finland during spring 2005 led to shutdowns and lockouts at UPM's mills, too. These lasted for a total of 47 days. The new labour settlement allows the paper mills in Finland to run during Christmas and Midsummer and enables local agreements on the use of sub-suppliers and outsourcing.

About 700 paper and kraft mill employees at Miramichi had been on strike since mid-December 2004 until 19 August 2005 when the local union voted in favour of a new five-year labour agreement. In December

2005, UPM announced a three-month lay-off at the Miramichi paper mill and groundwood mill, effective as of 1 February 2006. The lay-offs are due to the poor profitability of the mill.

The main source of economic information is UPM's Annual Report 2005 at www.upm-kymmene.com.



* Calculation formulae are given on page 58.

Personnel

Occupational health and safety is one of the main areas of development in human resources at UPM. The Group aims to rank among the world's best companies in terms of employee safety and well-being.





Focus on safety and well-being

UPM's Executive Team approved Group-wide targets for occupational health and safety in spring 2005. The aim is to reduce absence rates to below four per cent by 2008, equivalent to a decrease of an average of 10 per cent in each unit. The Group aims to decrease accidents at work by ten per cent and to ensure that absences from work due to sickness and accidents, in all UPM's units, are lower than the national average for the industry. The targets have been integrated into management plans and are monitored quarterly.

The recently established corporate worldwide Occupational Health and Safety Network will provide support in achieving these goals. For example, uniform reporting and learning from best practices will also facilitate achievement of the targets.

In order to reduce absences, special attention is paid to the employees' general well-being in the workplace. Well-being at work can be measured by the absence rate and key

safety indicators. Information in this area is obtained, for example, through personal performance reviews and employee opinion surveys.

Absences due to accidents and sickness have increased slightly compared with 2004. The accident rate has decreased.

There were no fatal accidents among UPM's employees, or subcontractors working at UPM's sites during 2005. A member of the public was fatally injured in an accident outside the Korkeakoski sawmill, in Finland, involving a forklift truck which was transporting goods across a public road to the mill's warehouse. The authorities investigated the incident but decided not to press charges. As a consequence of the accident, the lighting on the sawmill side has been improved, and proposals have been made to light the public road when it is dark.

UPM is involved in a research project conducted by the Finnish Forest Industries Federation which aims to ensure that the

effluent treatment plants of Finnish pulp and paper mills do not contain harmful amounts of Legionella bacteria. The study is a joint project with the Finnish National Public Health Institute. The background to the study are the cases of legionnaires' disease reported in Norway and Sweden, which were linked to the forest and chemical industries. As a precaution, the staff at the effluent treatment plants in Finland have, since summer 2005, been using respirator masks while working in the area. Guidelines on how to clarify the Legionella content of comparable effluent treatment plants and determine the need for protection have been issued throughout the Group. Legionella are widespread bacteria that are naturally present in water, but are not specific to the pulp and paper industry.

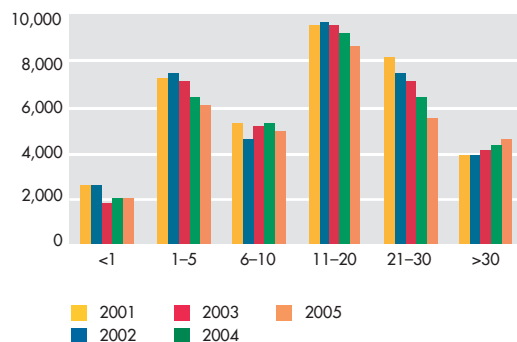
Leadership development

Among UPM's most important goals is to strengthen supervisory practices and to build

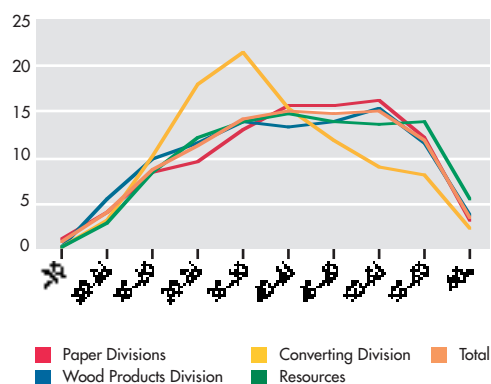
Personnel by country at end of year

	2005	2004	2003
Finland	17,322	18,720	19,401
Germany	4,272	4,311	4,333
France	1,707	1,712	1,771
UK	1,685	1,852	1,960
Russia	1,407	750	660
Austria	672	678	712
Spain	272	277	272
Estonia	186	179	173
Italy	86	83	81
Belgium	75	74	66
Hungary	52	46	16
Sweden	51	58	62
Poland	46	45	50
Netherlands	39	166	169
Denmark	36	41	234
Ireland	-	-	345
Other European countries	76	66	64
China	1,167	1,109	834
USA	1,013	1,571	1,526
Canada	939	1,296	1,414
Malaysia	141	151	126
Australia	107	104	96
South Africa	86	81	78
Rest of the world	85	63	39
Total	31,522	33,433	34,482

Employees' years of service with UPM, persons

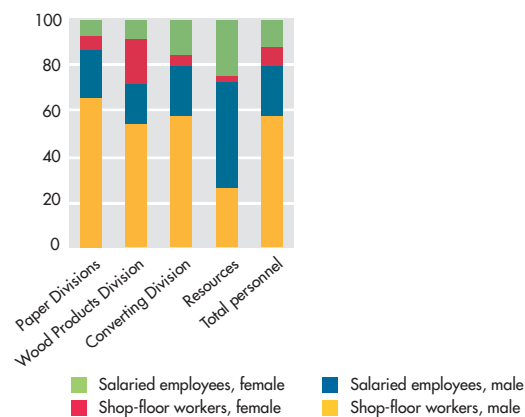


Age structure of Group personnel, %*



* The figures cover 98 per cent of the personnel, status at the end of the year.

Personnel gender distribution in 2005, %*



* The figures cover 98 per cent of the personnel, status at the end of the year.

UPM ■ CASE

Nordland's Health Panels promote well-being at work

The so-called 'Health Panels' at the Nordland mill have helped to ensure that absence rates due to sickness are extremely low, only 2.5 per cent. Guided discussions on health-related issues have been held at the mill since mid-2004. The aim initially was to make the personnel more aware of their responsibility in personal health matters. Another reason was the relatively high average age of the employees.

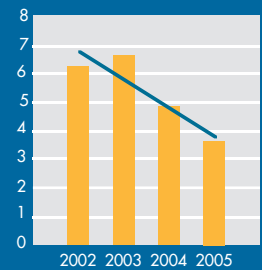
The mill has trained members of the personnel in each department to head the discussions. These employees are also specialists in the various tasks for which their department is responsible. There are a total of 13 health panels at each of Nordland's departments. Almost 500 employees,

including the leaders, participate in the panels, which meet, on average, four times a year.

Everyone is free to bring up any issue or problem. Primarily, the panels aim to solve any problems themselves. The mill has created a Health Panel database to which all panel members have access. All the issues discussed as well as proposals for solutions are put in the database. Topics discussed by the panels have ranged from internal air quality to tidiness and from safety footwear to dietary advice.

Employees at the mill are pleased with the panels and the outcomes of the discussions. The absence rate of the participants in the pilot health panel is shown in the adjacent figure.

Absence rate of pilot Health Panel, %



a strong leadership culture through-out the organisation. In order to put this goal and the necessary changes in the business into practice, clear benchmarks have been set for leadership skills. Work to renew leadership, and create methods to develop it, started by defining the Company's leadership culture and its principles.

The leadership culture will be promoted through various development methods. A number of development paths are being created for supervisors at different levels across UPM's organisation. Along with work-related, self-improvement activities development opportunities include internal and external training sessions, management group coaching and mentoring. For senior management a development programme aimed at increasing personal change management skills is being created.

Vocational training

UPM has traditionally provided vocational training of a high standard. Basic training in various tasks in the papermaking industry

is provided at UPM's two industrial institutes in Finland, and e-learning methods have been widely used with successful results. For example, a multimedia system developed by UPM, has been used in the training of employees at the Changshu paper mill in China.

Employees have the opportunity to obtain vocational qualifications by studying while working. This has been particularly successful in the Wood Products Division, where 740 employees have acquired basic or specialist qualifications in wood technology over the past 15 years.

Opinion survey reveals improvement needs

Based on the results of the 2004 employee opinion survey the following areas were identified as key areas for development in the Group; supervisory work, co-operation and teamwork. In 2005, action plans to develop these areas were drawn up by the units. The Group's management monitors their progress.

One example of the action implemented on the basis of the survey results is the programme "Vision for 2008" created at the Shotton mill, which clearly highlights the targets set for each year. The programme provides support for supervisors in their efforts to develop their own teams. The training programme organised at the mills in Central Europe is described on page 23.

A new supervisor training programme, specifically designed for foremen and their supervisors, was launched in 2005.

Employee incentive systems

At the beginning of 2005, UPM introduced a new, short-term incentive system for salaried employees. The system combines profit and personal performance target elements, and rewards continuous development.

Those employees outside the new incentive system are included in the profit-sharing scheme based on the return of capital employed (ROCE).

Incentives and bonuses are only paid if the ROCE exceeds a pre-set minimum tar-

UPM ■ CASE

Perfecting managerial skills in Central Europe

Based on the employee opinion survey results, leadership and management skills were selected as key development areas throughout the Group. The Central European HR team supplemented its ongoing executive and middle management training programme by using employee opinion survey findings to determine specific training needs.

Middle management, or the "enlarged management group" at the Central European mills involves almost 200 managers, of whom 45 per cent have already participated in the training programme launched in 2005. Training methods include group coaching, where human behaviour is explored through lectures and practice. The method has been developed and tested at the Nordland mill with excellent results. The aim is to have all managers participate in one training module each year, according to individual needs. To help everyone choose the training they want to attend, a training

catalogue was compiled covering all programmes tailored to meet perceived individual training needs.

Down the ladder, a development programme for supervisors was designed and launched in 2005. "We have excellent professionals and experts in their field, but they may lack skills in some aspects of people management. We prepared the programme on the basis of the actual needs of supervisors, after interviewing them and their superiors," says project leader Petra Nix. It is a four-stage, one year development programme which focuses on improving interactive skills and people management.

get. The target for 2005 was not reached and therefore no incentives or bonuses were paid under this system.

In addition to the systems mentioned above, UPM runs mill-specific incentive schemes that are based on the productivity and efficiency growth of the individual unit.

Employee participation

Employees at UPM participate in the Company's decision making in accordance with international and national legislation. An important form of co-operation is the Management Team work at a number of the mills.

The UPM European Forum, the Group's European co-operation body, met twice in 2005 under the chairmanship of CEO Jussi Pesonen. Representatives of all employee groups from UPM's mills in Europe participated in the Forum.

Equal opportunity at UPM

In February, UPM's Executive Team approved the Equality Rules. These specify in more detail the guidelines concerning

equal treatment and non-discrimination as defined by the Group's Human Resources Policy. They state, among other things, that the management's commitment to promoting equality must shine through UPM's management culture at all times.

Approximately a quarter of the Group's employees are women. They account for about 40 per cent of salaried employees and 20 per cent of shop floor workers. Among the some 400 employees belonging to the Group's management, the proportion of women has increased from seven per cent in 2003 to 12 per cent in 2005.

Developing innovativeness

Innovativeness is encouraged, for example, by a competition held every other year. The results of the 2005 competition will be announced in spring 2006. A total of 700 proposals were submitted.

UPM works on developing innovativeness externally as well, for example, through co-operation with universities. During 2006 the Company will gradually introduce an indicator to measure the level of innovativeness.

The aim is that innovative thinking is intuitively included as a matter routine for all employees, which in turn will help the Company to achieve its objectives.

Employees in 2005

At the end of 2005, the number of personnel stood at 31,522, a decrease of 1,911 from the previous year. The sale of Loparex Oy, the restructuring of the Wood Products Division and the closure of the Miramichi kraft mill all contributed to the reduction in the workforce. The number of employees increased in Russia, where UPM acquired a logging company.

A total of 375,000 working days were lost due to strikes and lockouts.

Restructuring of operations

In situations where workforce reductions are necessary, and in compliance with its operating principles, UPM strives to relocate employees within the Company or to arrange support measures for those made redundant.

In 2005, restructuring in UPM's IT func-

tion began. The process was handled through co-determination and negotiations with the representatives of the personnel in several of the countries where the Company operates. In 2005, UPM's IT function employed a total of 690 people in different countries. A new global IT organisation was launched in February 2006.

At the end of the year, two paper machines at the Kymi mill were shut down due to unprofitable operations. The reductions, which affect a total of 59 employees, will be managed by means of retirement plans and relocation of personnel to other positions within the Group.

In December, UPM announced a three-month lay-off affecting employees at the Miramichi paper mill and groundwood mill. The lay-offs, which are effective from 1 Feb-

ruary 2006, are due the need to improve profitability and will be implemented during the slowest season of the year.

Relocation programme in Wood Products Division

A total of 672 employees were made redundant in the restructuring of the Wood Products Division. A number of support measures were employed to help those affected find new jobs or training opportunities.

A new job or training placement was found for some 130 people, 180 found jobs with other employers and approximately 30 people began training programmes arranged by the employment authorities. Pension arrangements were made for almost 200 people.

Just over 100 of the employees who were still without work at the end of 2005 will continue to receive information on vacancies at the Wood Products Division until the end of 2006. For most of the people concerned, finding a new job means moving to another location. This explains why there were fewer applicants than vacancies. UPM has supported relocating employees by granting them an allowance to help them settle in a new location and by compensating direct moving expenses.

OCCUPATIONAL HEALTH AND SAFETY

TARGET REVIEW, 2005

- Further development of reporting.
Quarterly reporting started, content developed further.
- Drafting and implementation of an OHS strategy.
Targets set, action plans drawn up by the units and internal OHS networks.
- Launch of the co-operation network.
OHS co-operation covering the whole Group started.
- Reduction of accidents and a halt in the increase of absences due to sickness.
Further decrease in the number of accidents and an apparent halt in the increase in sickness-related absences among shop floor workers.

TARGETS FOR 2006

- Utilisation of the best practices and knowledge of the OHS networks.
- Analysis of the reasons for absences due to sickness.
- Improvement of safety awareness by means of e-learning tools. Pilot in Finland.

HR ADMINISTRATION

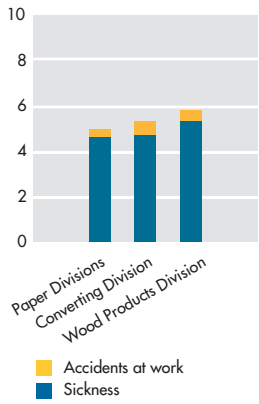
TARGET REVIEW, 2005

- Further strengthening of supervisory work, co-operation and teamwork, based on the results of the opinion survey.
Regional training programmes designed specifically for foremen and supervisors.
- Continuous development of a value-based leadership culture.
The principles of the Company's leadership culture defined.
- Implementation of a new incentive reward scheme.
Started in 2005.
- Creation of a sales personnel development programme.
Project to determine and implement sales processes, sales models and related competences launched.

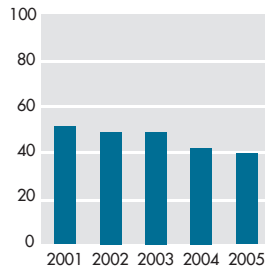
TARGETS FOR 2006

- Leadership development
 - Creation of development paths for supervisors at different levels.
 - Implementation of a development programme for top management.
 - Implementation of the sales personnel development programme.

Absences per Division, 2005, shop-floor workers (in % of regular contracted hours)**

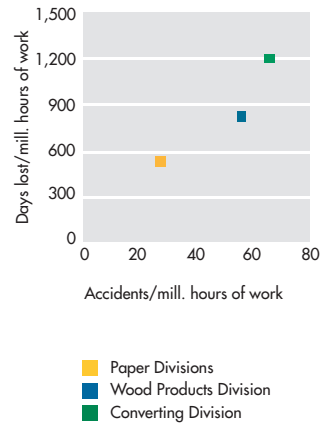


Accident rate, shop-floor workers 2001-2005*/**



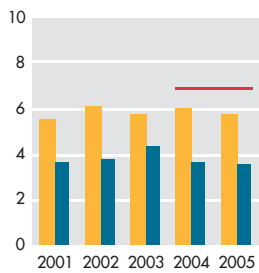
* accidents, resulting in one or more days lost, per million hours of work

Days lost rate vs. accident rate in 2005**



** The figures cover 95 per cent of the personnel, status at the end of the year.

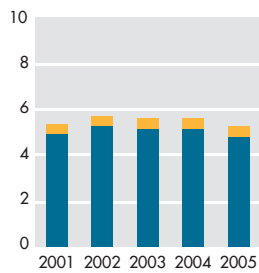
Absences, shop-floor workers in paper and converting mills (in % of regular contracted hours)*



Legend:
 - UPM, mills in Finland (orange)
 - UPM, mills in other countries (blue)
 - Average for Finnish paper industry (red line)

* In Finland, the absence rate in the industry is higher than in other countries. The red line indicates the average absence rate in the Finnish paper industry.

Absences, shop-floor workers (in % of regular contracted hours)**



Legend:
 - Accidents at work (orange)
 - Sickness (blue)

** The absence rates for 2005 are not comparable due to the lock-out in Finland.



Environment

In 2005, the focus was on knowing the origin of wood and forest certification. Emissions into air, water and soil have decreased, despite growing production volumes.





Focus on knowing the origin of wood and forest certification

In 2005, UPM's mills consumed a total of 23 million cubic metres of wood. The Group's wood sourcing units are responsible for supplying wood to the mills and the sustainable use and management of forests in its care. (More information about volumes, consumption and the share of certified wood is given in the tables on pages 30 and 54.)

The Group's forestry and wood sourcing guidelines were revised during 2005 and are applied in all countries where UPM procures wood. UPM is committed to sustainable forestry and forest management methods that are based on the internationally accepted principles of sustainable forest management. More about UPM's operating principles on UPM's Sustainable Forestry minisite at: upm-kymmene.com/sustainableforestry

In spring 2005 UPM established its own wood procurement company in Russia, UPM-Kymmene Forest Russia. At the end of the year the Group acquired 99 per cent of the shares of the Russian logging company ZAO Tikhvinsky Kolmplexny Lespromkhoz. This will help to ensure the availability of high-quality timber for UPM's own production plants in Russia and for the company's mills in Finland.

Promoting forest certification and knowing the origin of wood continue to play an important role in UPM's wood procurement. Progress has been made in both these areas with visible results.

The analysis of the results of the parallel field testing of forest certification schemes started in 2004 was completed in the spring of 2005. (page 31).

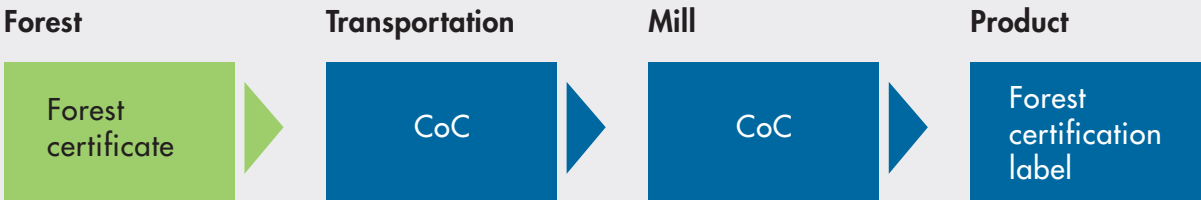
New Chain of Custody system

There are only two internationally recognised Chain of Custody systems: PEFC and FSC. Almost all of UPM's mills have one or the other in place. However, the lack of mutual recognition has caused problems in reporting the actual proportion of certified wood.

UPM started building a new Chain of Custody system covering the main forest certification schemes in February 2005. It will allow UPM to show the true proportion of certified fibre in its products both by certification scheme and overall. UPM's new system meets the requirements for both PEFC and FSC certification.

The new model is in use at UPM's Baltics, UK, Canada, Central Europe and Finnish Forestry departments; the Caledon-

Chain of Custody (CoC)



ian, Docelles, Rauma and Nordland paper mills and the Pietarsaari pulp and paper mill. In the future, the aim is to apply the model in all of the Group’s wood sourcing and mill activities worldwide. The certification scheme will be decided upon in accordance with local conditions.

UPM aims to increase the use of certified wood in all its mills. Even if the mill in question does not have a certified Chain of Custody, UPM always ensures that the wood it receives is legally and sustainably sourced. This model is one of the UPM initiatives which aim to contribute to sustainable forest practices and the harmonious development of the different forest certification schemes.

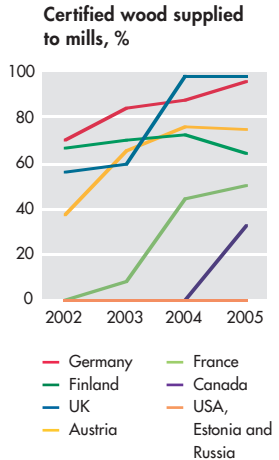
The project won the national environmental competition held by the Finnish National Fund for Research and Development (Sitra).

The competition is part of the European Business Awards for the Environment 2006, which is organised by the European Commission. The project ‘Responsible Wood Sourcing in Russia’ received a commendation in the same competition.

Tracing the origin of Russian wood

The Company has monitored the origin of wood imported to Finland from Russia since 1996. The Chudovo plywood and veneer mills and the Pestovo sawmill in Russia also use the same system in wood sourcing. The system was updated and audited in 2005.

In 2005, UPM carried out 112 wood supplier audits and field checks were conducted at 235 logging sites. These suppliers



	Austria	Canada	Estonia	Finland	France	Germany	Russia	UK	USA	Total
Forests managed by UPM, 1,000 ha¹⁾										
Company forests	–	17	0	920	–	0	0	3	79	1,019
Leased forests ²⁾	0	953	0	0	0	0	185	0	0	1,138
Managed forests ³⁾	0	0	0	280	0	0	0	154	0	434
Total	–	970	0	1,200	–	0	185	157	79	2,591

¹⁾ In Uruguay, UPM is a minority shareholder in Forestal Oriental SA, a company owning about 119,000 hectares of land, out of which 57,000 hectares are eucalyptus plantations.

²⁾ The felling rights in Canada are leased from the province of New Brunswick and in Russia from the Russian state. ³⁾ Owned mainly by private non-industrial forest owners.

Wood consumption in 2005, million m³										
	0.894	0.556	0.062	18.861	0.446	0.633	0.663	0.310	0.507	22.932

accounted for 80 per cent of the wood procured in Russia. The field audits check that the suppliers work in accordance with UPM’s requirements. The quality of operations was rated as good at 80 per cent of the sites. Minor non-conformities were found in the management of health and safety, logging site management and logging practices on 20 per cent of the sites. Corrective actions have been agreed with the suppliers. There were two serious breaches of contract and co-operation with the suppliers concerned has been terminated.

Joint project to develop responsible logging in Russia

Responsible operations are something that concern everyone involved in the wood procurement chain and joint effort is needed if this is to be achieved. Consequently, UPM launched a project entitled ‘Taking Responsibility Together’, which focuses on developing economic, ecological and social responsibility in wood procurement in Russia. The aim of the project has been to reduce logging accidents, to improve the quality of timber delivered to UPM’s mills and to reduce the

harmful impacts of harvesting on soil, water, biodiversity and the landscape.

The project culminated in a guide for wood suppliers. A training programme for the loggers has been started as well. The guide was compiled in collaboration with a number of UPM’s suppliers, Russian environmental organisations such as the WWF, and the Biodiversity Conservation Center. The training for loggers will be expanded in 2006.

Tracing Russian Wood: www.upm-kymmene.com/traceit

TARGET REVIEW, 2005

- Promotion of forest certification and increase the proportion of certified wood. **The proportion of certified wood supplied to the mills increased in the UK, Canada, France and Germany.**
- Progress in knowing the origin of wood. **UPM’s new Chain of Custody system introduced at five forestry departments and six mills.**

- Promotion of forest management methods that secure biodiversity. **Partially achieved.**

TARGETS FOR 2006

- Promotion of forest certification and increase the proportion of certified wood.
- Implementation of UPM’s Chain of Custody system at the remaining forestry departments.

- Creation of an environmental management system for the new forestry departments in the Baltic countries and Russia.
- Development of forestry practices that take biodiversity into account.

UPM ■ CASE

Five of the schemes tested promote good forest management

In the summer of 2004, UPM started the field testing seven forest certification schemes in three countries. The WWF participated in the project as an observer and independent expert. The project was unique in that this was the first time that an international environmental organisation and a global forest company had worked together on both international standards; FSC and PEFC. The field testing was carried out by the auditor Det Norske Veritas.

The field tests were carried out in Finland, the UK and Canada. The results were published in the spring of 2005.

They show that five standards (FFCS, the Finnish draft FSC, Swedish FSC, SFI and UKWAS) achieved a balanced approach, but with differences in emphasis to promoting the economic, social and environmental management of forests. The differences reflect the local conditions and the values of the stakeholders

involved in the standard setting processes. UKWAS meets the requirements of both FSC and PEFC, which shows that harmonisation of the standards at a national level is possible.

The results of the parallel testing also provided valuable information on the level of UPM's forest management. UPM was in compliance with 84 per cent of the tested requirements of the five standards which achieved a balanced approach. Only minor non-conformities were found, and corrective actions have already been taken.

The Forest Leadership organisation awarded UPM, the WWF and DNV a partnership award for the parallel field testing of forest certification schemes at the beginning of 2006.



Pulp supplier audits continued

UPM has four pulp mills in Finland and owns a 47 per cent share in the Finnish pulp manufacturer Botnia. The Company aims to achieve a high level of self-sufficiency in pulp. It currently stands at nearly 90 per cent.

When external pulp suppliers are selected, they are required to accept the principles laid down in UPM's corporate responsibility policies and to operate in compliance with them. The performance of pulp suppliers is evaluated continuously. Once a year a detailed survey is carried out to obtain information on, for example, the origin of wood, environmental performance and social responsibility.

Pulp Steering continued supplier evaluations according to plan. The South American suppliers of fibre for the new paper machine at the Changshu mill were evaluated and the annual assessment of APRIL's pulp supply chain in Indonesia was carried out.

In connection with UPM's new Chain of Custody system, the performance of Pulp Steering was audited by a third party.

According to the audit, the criteria and practices used to evaluate the pulp suppliers meet the requirements of FSC.

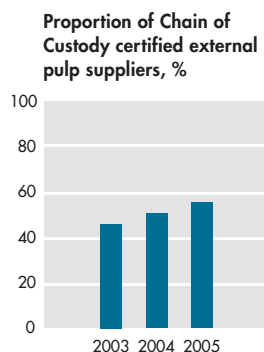
Uruguay pulp mill project

UPM is participating in the pulp mill project of its associated company Botnia in Uruguay with a capital investment of USD 67 million. The investment will ensure the availability and sufficiency of UPM's short-fibre pulp supply in a cost-efficient way. The Group utilises significant amounts of short-fibre pulp at its fine paper mills in Europe and China. The project will be executed by Botnia.

Botnia's pulp mill is an important project for Uruguay, and will have a bearing on the country's gross national product. The mill will be operated by a local workforce after it goes on stream. Approximately 300 people will work at the mill when it is completed. According to a socioeconomic survey carried out, the mill will create 8,000 permanent new jobs in Uruguay. Botnia has set up a social responsibility programme for the mill project.

Most of the raw material for the pulp mill being constructed near the town of Fray Bentos will be obtained from the mill's own eucalyptus plantations. Planting was started in 1991 by Compañía Forestal Oriental S.A. The company is currently a subsidiary of Botnia. All of its eucalyptus plantations are FSC certified. The remainder will be purchased from contract cultivators. Logging methods based on the use of harvesters and a trained labour force have been developed.

The pulp mill in Uruguay will use the Best Available Technology to ensure that the impact on the environment is minimised. The local environmental legislation is highly evolved and the environmental permit conditions are strict. The mill, which is scheduled to start up in the autumn of 2007, will be one of the most modern facilities in the world and have an annual capacity of a million tonnes.



TARGET REVIEW, 2005

- The reporting system concerning the raw materials of chemical pulp will be developed further and more suppliers will be included in the database.

Work completed. More suppliers in the database in 2006.

TARGETS FOR 2006

- Increased amount of chemical pulp from Chain of Custody certified suppliers.
- Assessment of the wood procurement and environmental emissions of a number of suppliers on site.



Further increase in use of recycled fibre

UPM is Europe's largest and the world's second largest user of recycled fibre in printing papers. In 2005, consumption of recycled fibre increased to approximately 2.9 million tonnes a year.

Recycled fibre is produced from recovered paper. It is used most at UPM's mills in Central Europe, where large amounts of recovered paper are available near the mills.

Seven of the mills use recycled paper – three in Germany and one respectively in the UK, Austria, France and Finland.

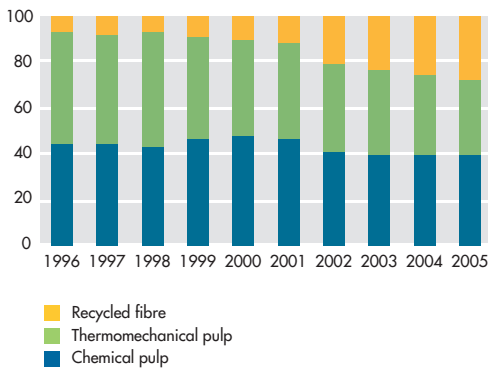
The use of recovered paper reduces the amount of landfill waste and saves energy.

To make the use of recovered paper feasible, efficient collection and sorting systems are required. UPM mills mainly use graphic waste paper collected from households. This

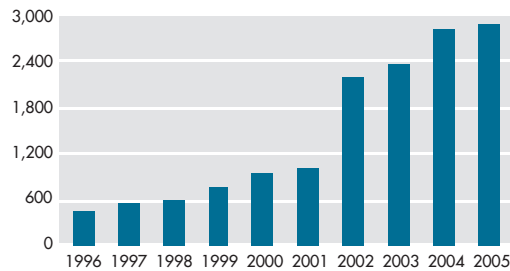
consists of paper products such as newspapers and magazines, sales catalogues and leaflets.

Those UPM mills that use recovered paper are actively involved in promoting recovery by organising various campaigns, particularly in the UK and France, and by collaborating with schools.

Fibre raw materials used in paper manufactured by UPM, %



Recovered paper consumption, 1,000 t



UPM ■ CASE

Shotton campaign boosts paper recovery

The conversion of the Shotton mill to using 100 per cent recovered fibre in 2003 led to major campaigns to increase the efficiency of paper recovery. The campaigns, which are run in co-operation with the local authorities, have been highly successful. For example, the 'Race to Recycle' campaign has increased the amount of waste paper collected from households by 50 per cent in the Greater Manchester Area. The campaign to boost the enthusiasm of consumers to participate in recycling will continue as, in spite of the substantial increase, the rate of paper recovered is still rather low. Greater Manchester is a natural area from which to obtain raw material for the Company.

Race to Recycle is an annual event that started in 2002. Shotton pledges one pound for every tonne of paper collected in the Greater Manchester Area during

the previous year. The proceeds are placed in a fund which is distributed between the three local authorities with the highest recovery rates. The money is spent on local environmental projects or schemes to promote recycling.

One of the cornerstones in the effort to promote recycling is the education pack designed to teach primary school children about the importance of protecting the environment with a particular focus on paper recycling. Over 1,000 of the 'Paper Cycle' packs have been distributed to districts where UPM has a paper recycling contact.

Continued increase in share of biofuel-based energy

Most of the electrical and thermal energy consumed by UPM is used in paper and pulp production. As a major energy user, UPM ensures that its mills are supplied with competitively priced energy causing minimum emissions.

UPM is self-sufficient in terms of electricity in Finland and its global self-sufficiency rate is around 70 per cent. This has enabled UPM to work sustainably to reduce greenhouse gas emissions which contribute to climate change. UPM started to take action to reduce carbon dioxide emissions in the early 1990s. The Company has consistently invested in energy efficiency improvements, CO₂ neutral forms of electricity production and mill power plants running on biofuels.



Emissions trading

The EU began emissions trading in 2005. The Company's long-term efforts to reduce emissions were not taken into account when allocating emissions allowances, although this would have been possible under the Emissions Trading Directive.

UPM already meets the Kyoto targets in Finland

The European signatories to the Kyoto Climate Treaty have undertaken to reduce greenhouse gases by eight per cent compared to 1990 levels by 2008–2012. In the Burden-sharing Agreement of the EU under the Kyoto Climate Protocol Finland undertook to reduce its emissions to the level of 1990. UPM's carbon dioxide emissions in Finland were already below the target level in 1996. Within a period of approximately 10 years, carbon dioxide emissions have decreased by over 25 per cent, even though the production of paper has simultaneously increased.

In 2005, over 75 per cent of the fuels used by UPM's mills in Finland were CO₂ neutral. The corresponding proportion throughout the Group was over 50 per cent.

Fossil carbon dioxide emissions are not generated by for example biofuels, nuclear power or hydropower. Biofuels include all forest fuels, bark, sludge from biological effluent treatment plants and black liquor from pulp mills. Through its holding in Pohjolan Voima, UPM is participating in Teollisuuden Voima Oy's new nuclear power plant project, which is due to be completed by the end of this decade. UPM has also invested in hydropower by overhauling its hydropower plants and improving their energy efficiency. The Kaltimo hydropower plant was refurbished in 2005.

Forest fuels, which include logging residues, small-diameter trees removed dur-

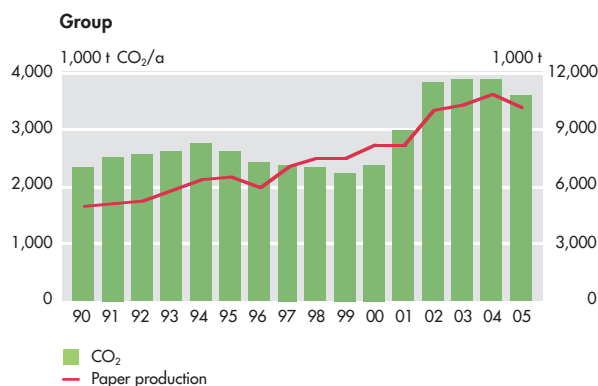
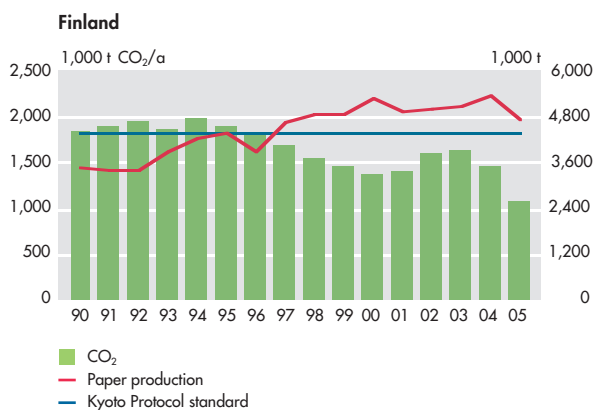
ing clearing and thinning operations, and stumps, have contributed to the increase in biofuel usage. UPM has been a forerunner in the use of forest fuels, and the forest department has done a great deal of innovative work to develop the harvesting techniques of both logging residue and stumps. Utilisation of forest fuels has increased at UPM's Finnish mills even faster than expected. Consumption increased in 2005 by approximately a quarter to an amount equivalent to 1,580 gigawatt hours.

Work to reduce carbon dioxide emissions continues. Three renewable fuel power plants are currently under construction (page 36).

Continuous improvement of energy efficiency

A new, improved model for evaluating energy efficiency was developed in 2005. It highlights measures that can reduce power consumption. All of UPM's mills have gone through energy efficiency assessments in recent years and operations have been improved with excellent results. Work towards better energy efficiency continues. The second round of energy audits was launched in the spring of 2005 and will continue throughout 2006.

PAPER AND PULP MILLS' FOSSIL CARBON DIOXIDE EMISSIONS



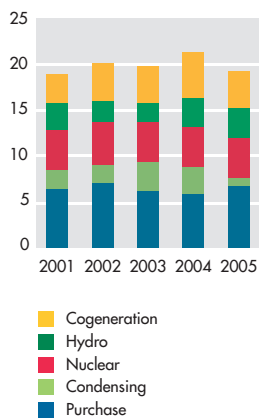
TARGET REVIEW, 2005

- Practical implementation of emissions trading.
Emissions trading continues in 2006.
- Biofuel drying system at the Rauma mill's power plant.
Completed in December 2005.
- New, improved model for evaluating energy efficiency.
Implemented in spring 2005.
- Continued project analyses for mill power plants.
Analyses continue.

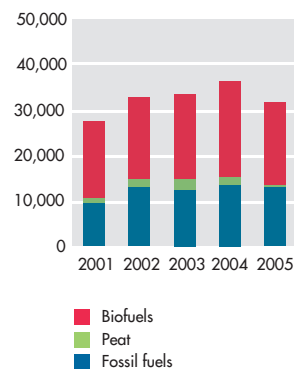
TARGETS FOR 2006

- Continuation of energy efficiency audits.
- Continuation of project analyses for mill power plants.

Group electricity supply, TWh



Distribution of fuels, GWh



UPM CASE

UPM invests heavily in bioenergy

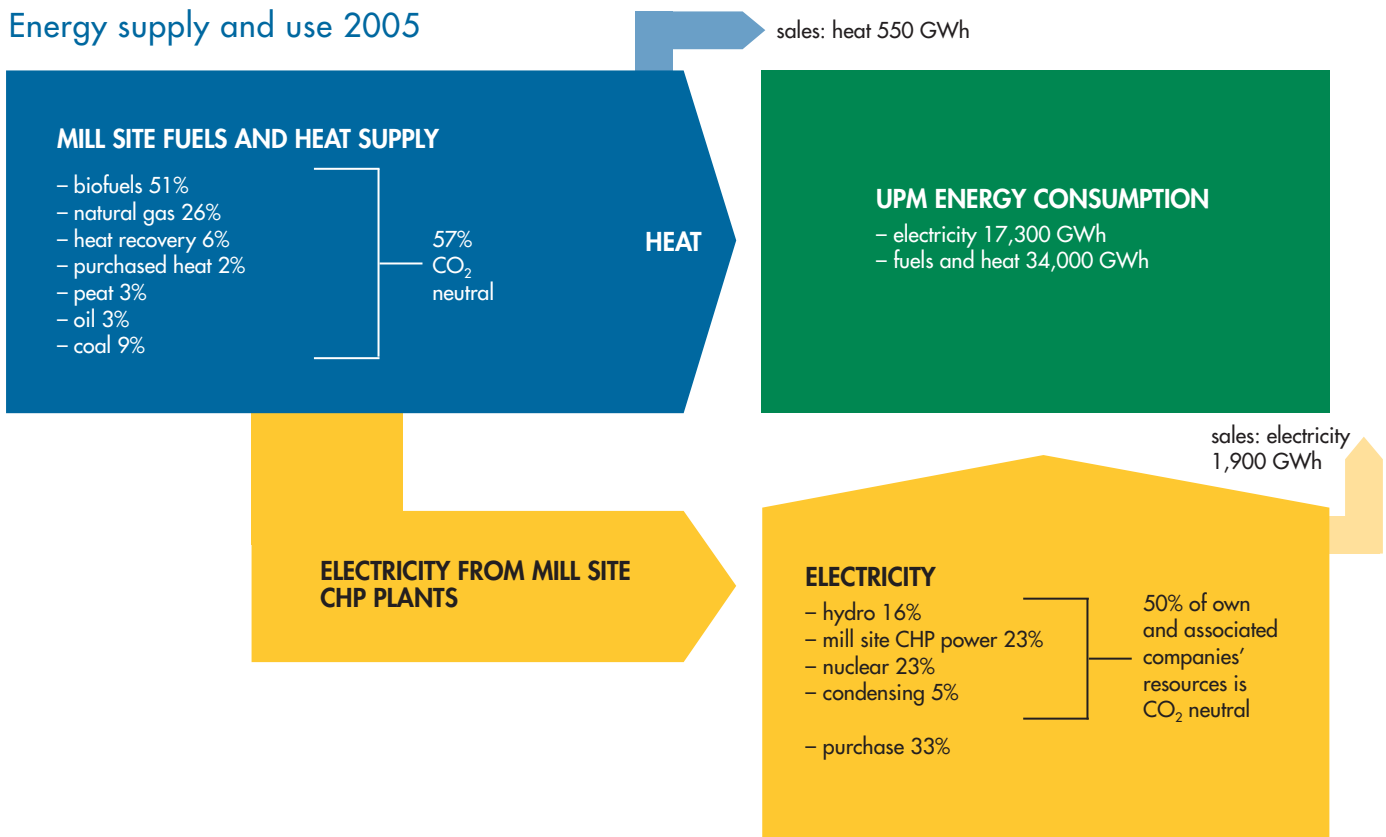
UPM is currently building energy plants that use renewable fuels at the Rauma, Shotton and Chapelle Darblay paper mills. The Rauma power plant is an associated company of Pohjolan Voima. Once completed, these plants will reduce UPM's fossil carbon dioxide emissions by 300,000 tonnes a year.

The Rauma power plant will produce process steam and power for the paper mill as well as power and district heating for Rauman Energia Oy, an energy company owned by the town of Rauma. The plant will use forest fuels, bark, peat and, as an auxiliary fuel, biosludge to produce energy. The project involves a system for drying biofuels whereby bark and sludge from the pulp and paper mill are dried until they reach a 60 per cent dry matter content, using surplus heat from the mill's wastewater. Thanks to the system, peat consumption can be halved. The Rauma power plant will start up at the end of 2006.

The boiler plant under construction at Shotton will co-combust deinking sludge as the main fuel and biomass as an auxiliary fuel. The investment will bring the mill's electricity self-sufficiency up to 25 per cent and heat self-sufficiency up to 90-95 per cent. The renewable energy plant will start up in November 2006.

The Chapelle Darblay power plant, due to start up in 2007, will combust local energy wood and all the deinking sludge produced at the mill. The production process will no longer cause carbon dioxide emissions once the plant is completed.

Energy supply and use 2005





Continued good progress in environmental protection

Specific emissions continued to decrease in 2005. A key area in developing environmental protection is action to increase utilisation of waste to reduce the amount taken to landfill sites. The amount of landfill waste from the pulp mills has decreased by almost 30 per cent compared with the year 2000.

The European Union's chemicals legislation is being completely revised. UPM has prepared carefully for the regulation establishing REACH (Registration, Evaluation and Authorization of Chemicals), which is due to come into force in 2007. UPM has, among other things, represented the paper industry in a number of the European Commission's REACH working groups which are involved in preparing guidelines for the interpretation of the new legislation. UPM also participated in a joint project involving

the European Commission, European industry and KPMG which evaluated the impact of REACH. The implementation of the REACH scheme has already started at UPM's mills, and an internal, global chemicals database is being compiled.

Environmental protection investments and operating costs at previous year's level

The biggest individual environmental investments were the completed extension of the Kaipola deinking plant and the decision to rebuild the Kajaani mill's biological effluent treatment plant. Environmental investments amounted to 38 million euros. Operating costs relating to environmental protection, depreciations included, amounted to 114 million euros.

Water consumption continued to decrease

Since 1998 UPM's paper production has increased by approximately 35 per cent, but the volume of wastewater has decreased by about 5 per cent. The positive development is reflected in the wastewater volume per tonne produced.

The pulp and paper mills use water in their processes and in cooling. The water required in production circulates several times before it is conveyed to the mills' wastewater treatment plants. The wastewater contains suspended solids from wood fibre and oxygen-consuming compounds, most of which are removed or made innocuous before being released into the watercourse.

Reducing water consumption reduces the environmental load and improves energy management. The continuous aim at all the

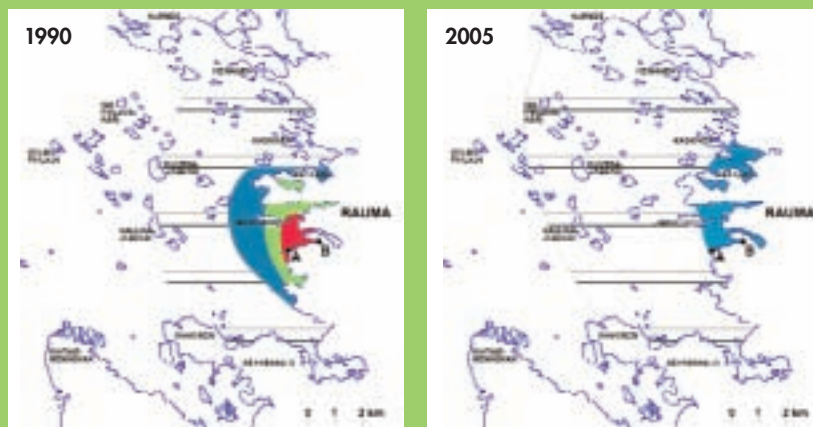
UPM ■ CASE

The measures carried out to treat effluent from Rauma's forest industry were highly successful and have reduced the load on the sea off Rauma. This achievement is evident in the publication on the state of the Bothnian Sea, which was published at the end of 2005. The Rauma paper mill has participated in preparing the publication, which was produced as a joint project carried out between 2004 and 2005 involving, besides the town of Rauma and the Southwest Finland Regional Environment Centre, local industry and a number of experts on the Bothnian Sea representing various fields of marine research.

According to the publication, the standard of the industry's effluent treatment plants makes it unlikely that any further improvement in the state of the recipient water body would be achieved by increasing the efficiency of wastewater treatment. The state of the Bothnian Sea is, for the most part, good but the southern part is being threatened by eutrophication. Impacts on the water body can be reduced more effectively by decreasing the non-point source load from agriculture.

The adjacent figure shows how the state of the sea area off the Rauma mill has improved over the past 15 years.

During the same period, paper production at UPM's Rauma paper mill has doubled and the production of chemical pulp at Rauma has nearly tripled.



Water protection association of Southwestern Finland

- A. Effluent treatment plant of the town of Rauma
- B. Forest industry treatment plant, which treats the wastewater from UPM's paper mill, Botnia's chemical pulp mill and, since 2002, the effluent from the town of Rauma.

TARGET REVIEW, 2005

Water

- Caledonian investment to reduce water consumption and COD load in effluent. **Effects visible in 2006.**
- Further reduction of water consumption, wastewater and load at a number of pulp and paper mills. **Achieved in most cases.**

Air

- Reduction of emissions by improving energy efficiency. **Achieved.**
- Noise abatement at several mills. **Planned measures were carried out.**
- Reduction of odour problems at the Kaukas mill. **Achieved.**
- Reduction of VOC emissions at Walki Wisa's Pietarsaari. **Achieved.**

Soil

- Changshu: Reduction in the volume of pigment waste taken to landfill. **Internal recycling established.**
- Kaukas and Rauma: Reduction of solid waste taken to landfill. **Achieved.**
- Converting Division: Reduction of waste taken to landfill, increase in recycling and use for energy production. **Achieved.**

TARGETS FOR 2006

Water

- Focus on reduction of fresh water usage and effluent amount.
 - Kaukas: Reduction of process water volume by five per cent compared to 2005.
 - Changshu: Reduction of water consumption, suspended solids and COD load.

- Nordland Papier: Feasibility study for closed water cycle.

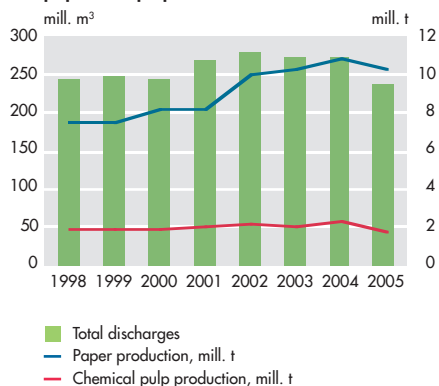
Air

- Focus on locally important emissions.
 - Stracel: Replacement of water cooling towers by heat exchangers to avoid the risk of legionella and odour emissions.
 - Walki Wisa Pietarsaari: Further VOC reduction.

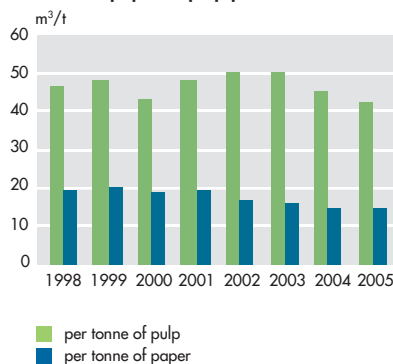
Soil

- Focus on reduction of landfill waste.
 - Caledonian: Improved waste reuse.
 - Jämsänkoski and Kaipola: Increased utilisation of power plant ash.

Volume of process wastewater from paper and pulp mills

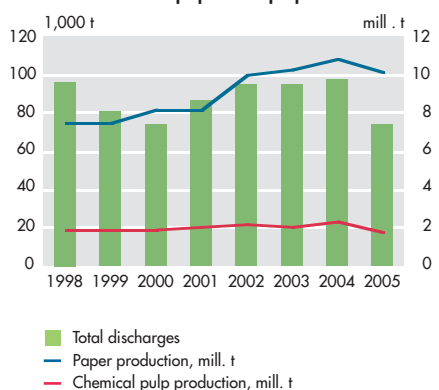


Process wastewater volumes per tonne of paper or pulp produced

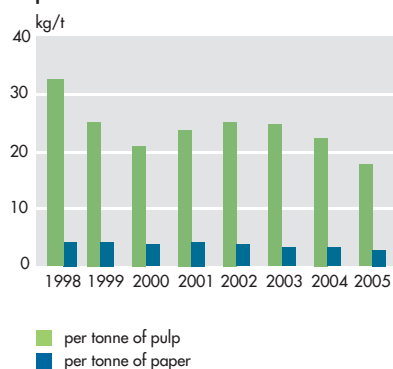


The wastewater volume generated in producing 1 kg of paper (14.5 litres) roughly equals the volume of water used in daily dishwashing in an average household.

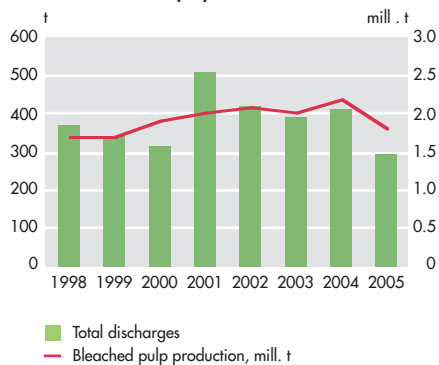
COD load from paper and pulp mills



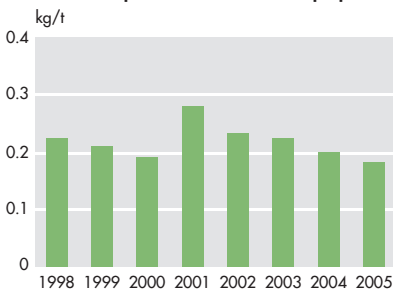
COD load per tonne of paper or pulp produced



AOX load from pulp mills



AOX load per tonne of bleached pulp



pulp and paper mills is to reduce water consumption in all the processes. In 2005, Stracel achieved the most substantial specific wastewater reductions, almost 20 per cent.

Emissions into air

Airborne emissions arising from UPM’s activities are generated mainly by energy production at the pulp and paper mills. Years of systematic work have enabled UPM to significantly reduce fossil carbon dioxide emissions. This topic is addressed further on page 34. Other emissions released into the air are sulphur dioxide and nitrogen oxides. The converting mills generate VOCs (Volatile Organic Compounds).

Emissions are being reduced through fuel choices and flue gas scrubbers. VOC emissions have decreased since alternatives have been found for solvent-based substances.

Noise has been reduced after measurements and surveys at the Blandin, Jämsänkoski, Kaipola and Schongau mills, among others.

Increased reuse of waste

Increasing solid waste reuse to reduce landfill waste remains one of the key environ-

mental development areas. The volume of solid waste taken to landfill has decreased by nearly a third over the past few years as a result of higher efficiency in production processes and increased opportunities for reuse.

Of the waste taken to landfill sites, 85 per cent is generated at the pulp and paper mills and in energy production. Some 10 per cent comes from the converting factories and five per cent from the wood processing mills. The total volume of waste taken to landfill in 2005 was 180,000 tonnes.

Ash from mill power plants is the most significant solid waste fraction. Approximately 80 per cent is utilised in the cement and brick industry, in earthwork operations or as a fertiliser. The rest is taken to one of the 11 Group-owned landfills. Fibrous waste from the paper and pulp mills is mainly utilised as biofuel.

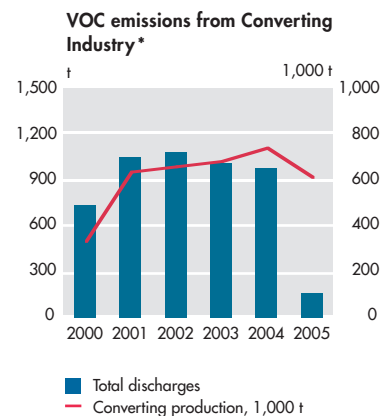
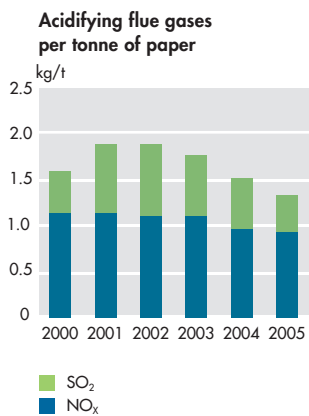
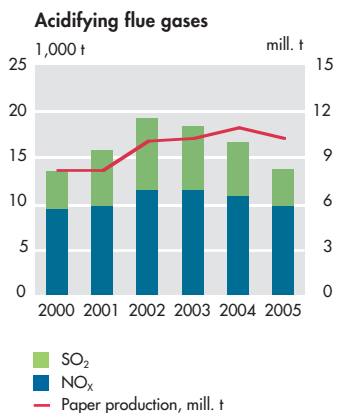
Most of the waste from the converting facilities is production reject. For the time being, the best way to reuse residues containing plastic and silicone is to combust them to generate energy. Ongoing projects reduce waste volumes for instance through process changes, improved sorting and increased recycling.

The reutilisation rate of all solid waste from the pulp and paper mills was 85 per cent and approximately 70 per cent at the converting plants, sawmills and plywood mills.

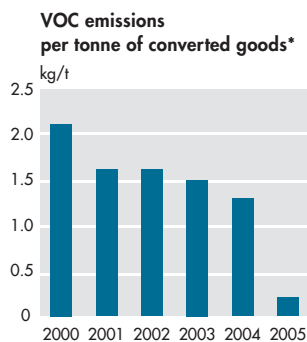
Waste reuse is constantly on the rise. Ash from the Jämsänkoski and Kaipola mills, for example, was used in the construction of a road and a sports arena and as a fertiliser. The UPM Research Centre has several ongoing projects investigating the utilisation of ash.

UPM has developed a product innovation which utilises recyclable raw materials generated in the production of wood products and in paper converting. A new material, a wood plastic composite which is suitable for machine-tooling with the same methods as those used for wood, is currently under development.

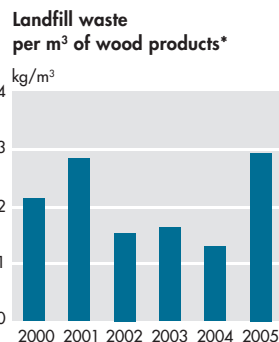
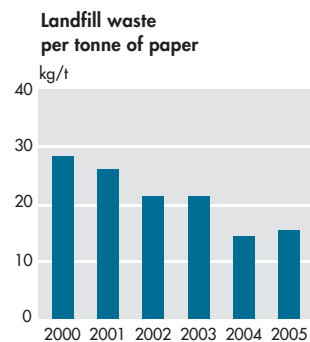
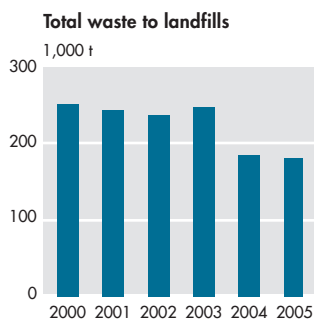




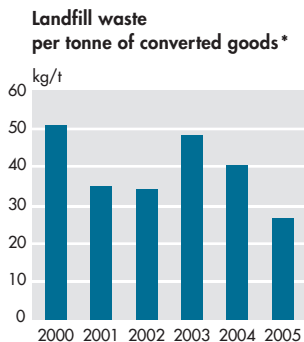
* Including UPM Raflatac since 2001. Loparex excluded from 2005 figures.



* Including UPM Raflatac since 2001. Loparex excluded from 2005 figures.



* Only Finnish Wood Products mills included until 2004.



* Loparex excluded from 2005 figures.

1 kg of paper produced generates an average of 15 g of landfill waste.

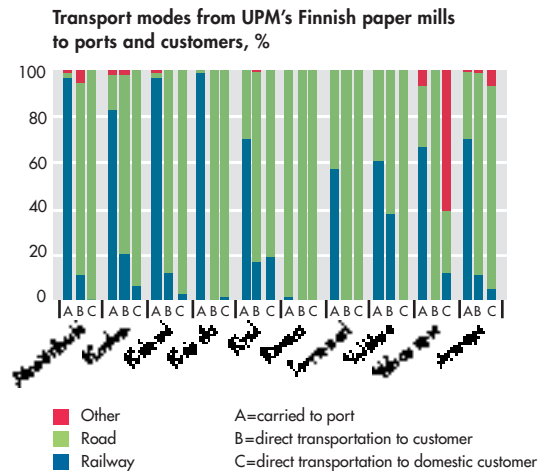
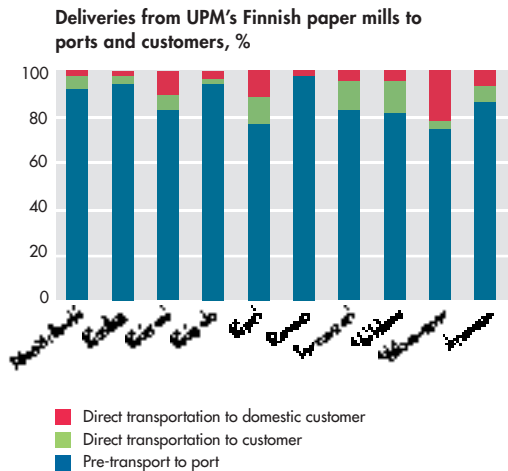
Logistics management systems certificated worldwide

UPM is the first forest industry company in the world to have its logistics management systems certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards. Management of global logistics operations both at Group level and regionally is covered. Integrated systems create a sound base from which to improve efficiency, technical solutions and operating practices through joint targets.

Guidance in the use of the Cargo Handling Manual for Logistics' sub-contractors was continued in 2005. The manual was published in several languages, including Chinese. Service providers must comply with the instructions on cargo handling,

storage, transportation and occupational safety which are provided in the manual. It also provides help in determining and achieving the safety targets relating to the OHSAS system. The complete Cargo Handling Manual can be viewed at: www.upm-kymmene.com/chm

Most of UPM's haulage is handled by long-term contract partners. Emissions arising from transportation can be influenced through the choice of fuel and by switching to rail and sea transport as much as possible. Total emissions can also be reduced by ensuring that capacity is fully utilised and by balancing outbound and inbound deliveries.



TARGET REVIEW, 2005

- Inventory of fleets of transport companies operating outside Europe in terms of environmental issues.

Inventory continues.

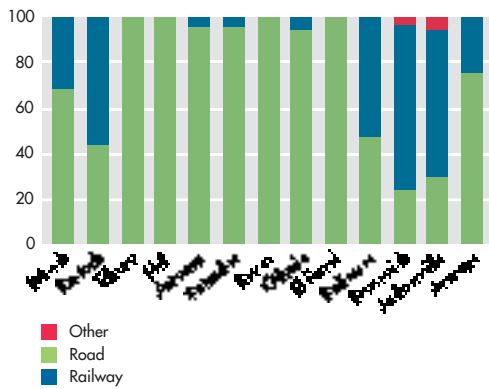
- Participation in development projects together with stakeholders.

Assessment of impacts of return-freight transports.

TARGETS FOR 2006

- Completion of fleet inventory.

Transportation mode from port of destination onwards, %



Environmental policy

UPM-Kymmene recognises the sustainable use of natural resources and environmental protection and management as a true prerequisite for sustainable economic growth, as well as for the well-being of people and society.

In all parts of our activity, we aim to minimize the burden on nature and the environment, whether through direct or indirect effects, as far as raw material, production or other parts of products' life cycle are concerned.

Environmental protection and organisation

Corporate governance and leadership are based on the company values of openness, trust and initiative. To take responsibility for all business decisions and actions is a prerequisite for a competitive and profitable business.

Environmental care is an integral part of this responsibility. This policy is implemented throughout the company at all levels and activities.

All business units on divisional and operational levels are responsible for ensuring that both targets set within the Group and statutory regulations and other obligations laid down by relevant organisations are met. Management systems in accordance with relevant international standards are used whenever applicable.

Our people – a key resource

Environmental affairs are an inherent part of the work of our employees.

They are given both professional and general training in environmental matters. The aim is to develop everyone's ability to understand the general debate on environmental matters and readiness to take part in it, both in and out of work.

Production and supporting operations

Competitiveness in quality and costs are important factors when developing our products and their production processes. In addition, important objec-

tives are the efficient use of raw materials and energy, the recycleability of our products as raw material, and the possibility to utilise our products and by-products for their energy content or other end-use.

The majority of UPM-Kymmene's production is based on a renewable resource, wood. The Group is committed to forest management and forest harvesting practices based on the principles of sustainable development.

Our aim is to minimise the environmental load of the whole production chain. Best available techniques (BAT) and measures are used when changing and renewing production processes.

Communication

UPM-Kymmene communicates environment related matters with its stakeholders in a reliable, open and timely manner. Communications are carried out using different media according to the needs of the target group.

Development

Environmental legislation, stakeholders' expectations, and know-how on best available techniques will continue to develop. UPM-Kymmene will take account of these developments in its own operations.

The Group will actively encourage its partners to carry out their businesses in an environmentally responsible manner.

The Board of Directors of UPM-Kymmene Corporation has approved the Environmental policy on 18 September 2002.

Corporate Social Responsibility policy

The well-being of people and society is recognised to be the goal of sustainable economic growth.

Corporate governance and management in UPM-Kymmene is based on the company's values – openness, trust and initiative – and on the general principles of sustainable development, which emphasise the integration of economic, social and ecological goals in business activities. Responsible business practices are essential for ensuring competitive performance and profitability.

UPM-Kymmene is a worldwide, Europe-based company that operates in different cultures and values cultural diversity. The company complies with international, national and local rules and regulations and international agreements. In the event that these prove to be insufficient or open to various interpretations, the company acts in accordance with its operating principles and best practices.

Stakeholders

The company engages its various stakeholder groups through communication and dialogue. Stakeholder relationships are conducted with integrity, fairness and confidentiality.

Employee well-being and motivation are essential for UPM-Kymmene. The company provides opportunities for development and encourages a leadership culture that supports its values.

UPM-Kymmene supports the right to freedom of association and collective bargaining and does not tolerate the use of forced or child labour.

UPM-Kymmene aims at providing a healthy and safe working environment.

UPM-Kymmene products are safe throughout their whole life-cycle when used correctly.

UPM-Kymmene fulfils all its national and local legal and financial responsibilities and it supports the development of the local community where it has business operations. The company does not tolerate corruption or bribery in its operations. The company or an employee of the company should not be involved in business relationships which may lead to a conflict of interest.

Implementation

This policy is implemented throughout the organisation at all levels and activities. The company is committed to the continuous improvement of its performance regarding the Corporate Social Responsibility policy by developing the necessary monitoring, controlling and reporting processes and procedures.

The company encourages its business partners to implement responsible practices which are consistent with UPM-Kymmene's Corporate Social Responsibility policy.

The Board of Directors of UPM-Kymmene Corporation has approved the Corporate Social Responsibility policy on 19 March 2002.

Corporate Social Responsibility policy, glossary

The aim of this glossary is to explain the meaning of some of the terms used in the Corporate Social Responsibility Policy document. It should be noted that the meaning of the terms may vary depending on e.g. the reader's cultural background.

Corporate Social Responsibility (CSR)

Corporate Responsibility consists of three pillars: economic, environmental and social responsibility. Corporate Social Responsibility, or CSR, deals with the company's responsibility towards its employees, society and the other stakeholder groups of the company.

Company values

Openness in the workplace creates trust between people, which in turn leads to greater initiative.

Legislation and competition set limits for transparency for a listed company. The aim is to maintain an atmosphere of openness when interacting with stakeholders without compromising requirements for confidentiality.

Sustainable development

UPM-Kymmene's objective is to be profitable without compromising the well-being of people and the environment. This means balancing the economic, environmental and social impacts of its activities.

Respect for cultural diversity

In its actions, UPM-Kymmene takes into account cultural differences in the local community where it operates. This includes respect for cultural or religious customs and practices, appreciation for cultural heritage sites etc.

Respect for cultural diversity is not, however, an excuse for not living up to the standards set inside or outside the company relating to e.g. environmental protection, health and safety issues or good employee practices.

Rules and regulations and international agreements

The minimum requirement of responsibility for UPM-Kymmene is to comply with national and local rules and regulations, but it is understood that this is the minimum to fulfil the company's social responsibility.

By international agreements are meant those that the Finnish government (or the governments of countries where UPM-Kymmene operates) has ratified. These include or will include e.g. the United Nations Universal Declaration of Human Rights, the International Labour Organization Conventions and the Kyoto Protocol.

Operating principles

These include all approved principles and policies inside UPM-Kymmene.

Best practices

Best practices means the best level of operation inside the industry, the geographical area or the issue at hand.

Stakeholder communication and dialogue

Stakeholders are all those groups that may have influence on UPM-Kymmene or on whom UPM-Kymmene may have influence.

Stakeholder engagement is based on UPM-Kymmene values. Openness with stakeholders creates the base for a relationship that is built on trust. This in turn leads to an active and supportive relationship between UPM-Kymmene and its stakeholders.

The aim is to be as transparent as possible. Sometimes, however, it is necessary to protect confidentiality for the benefit of the stakeholder relationship.

Opportunities for development

UPM-Kymmene offers its employees possibilities for personal development. Effort is also put into developing teams and the working atmosphere across the whole organization.

Freedom of association and collective bargaining

Freedom of association respects the right for all personnel to form and join trade unions of their choice and to bargain collectively. Where these rights are restricted by law, the company should provide an alternative channel to hear employee concerns. (Ref: ILO Convention 98)

Forced or compulsory labour

All work or service that is extracted by any person under the menace of any penalty for which he/she has not offered him/herself voluntarily. (Ref: ILO Convention 105)

Child labour

The minimum age for employment is 15 years for regular, non-hazardous work and 18 for hazardous work. (Ref: ILO Convention 138)

Safe products

Looking after health, safety and the environment related matters is recognised as a company duty towards its stakeholders. The safety and harmlessness of production processes and raw materials used by the company are constantly measured and evaluated by proper up-to-date methods.

Supporting local community development

UPM-Kymmene contributes to and encourages its employees to participate in local community development in the communities where it operates. The aim is to provide employees and their families with decent living conditions and opportunities to express and develop themselves.

As a starting point these activities are the responsibility of the government. Where this is not the case, UPM-Kymmene is willing to take an active role in the local community.

Corruption or bribery

UPM-Kymmene's employees are not allowed to offer, promise, give or receive monetary or other advantages directly or indirectly to/from public officials or other parties with the intent of gaining improper business or personal gain. (Ref: OECD Anti-bribery Convention).

Gifts and normal hospitality are accepted, if the frequency and the value of the gifts are reasonable. More guidance in the "Basic Ethical Rules In Purchasing And Sales".

Monitoring, controlling and reporting processes and procedures

UPM-Kymmene sets up processes and procedures to monitor and control the implementation of this policy and reports publicly on its results. Monitoring and controlling can be linked to existing systems e.g. internal and external audits, risk management etc. The principle medium for reporting is the annual corporate responsibility report.

Human Resources policy

The management of Human Resources in UPM-Kymmene is based on the company's values – openness, trust and initiative – and on social responsibility.

The company complies with international, national and local rules and regulations and international agreements. In the event that these prove to be insufficient or open to various interpretations, the company acts in accordance with its operating principles and best practices.

UPM-Kymmene fosters a leadership culture that supports its values.

It actively promotes employee well-being and motivation and provides opportunities for development.

UPM-Kymmene respects the freedom of association and abides by legally binding collective agreements. Employee participation and consultation are organised in accordance with international and national rules and regulations.

The remuneration and benefits UPM-Kymmene provides meet with national legal standards, governing collective agreements and good local practice.

UPM-Kymmene promotes equal opportunities and objectivity in employment and career development and respects employee privacy. Discrimination or harassment is not tolerated.

UPM-Kymmene does not tolerate the use of forced or child labour.

If layoffs are imminent due to changes in the business environment, effort is made to relocate employees within the company, if necessary by means of reasonable retraining. In case redundancies are unavoidable social plans and financial compensations are agreed on locally in accordance with national rules and with regard for national social security.

UPM-Kymmene Human Resources policy is implemented throughout the company at all levels and activities.

The Board of Directors of UPM-Kymmene Corporation has approved the Human Resources policy on 18 September 2002.

Human Resources policy, glossary

The aim of this glossary is to explain the meaning of some of the terms used in the Human Resources Policy document. It should be noted that the meaning of the terms may vary depending on e.g. the reader's cultural background.

Company values

Openness in the workplace creates trust between people, which in turn leads to greater initiative.

Legislation and competition set limits for transparency for a listed company. The aim is to maintain an atmosphere of openness when interacting with stakeholders without compromising requirements for confidentiality.

Corporate Social Responsibility (CSR)

Corporate Responsibility consists of three pillars: economic, environmental and social responsibility. Corporate Social Responsibility deals with the company's responsibility towards its employees, society and the other stakeholder groups of the company.

Rules and regulations and international agreements

The minimum requirement of responsibility for UPM-Kymmene is to comply with national and local rules and regulations, but it is understood that is the minimum to fulfil the company's social responsibility.

By international agreements are meant those the Finnish government (or the governments of countries where UPM-Kymmene operates) has ratified. These include or will include e.g. the United Nations Universal Declaration of Human Rights, and the International Labour Organization Conventions.

Operating principles

These include all approved principles and policies inside UPM-Kymmene.

Best practices

Best practices means the best level of operation inside the industry, the geographical area or the issue at hand.

Opportunities for development

UPM-Kymmene offers its employees possibilities for personal development. Effort is also put into developing teams and the working atmosphere across the whole organization.

Freedom of association

Freedom of association respects the right for all personnel to form and join trade unions of their choice and to bargain collectively. Where these rights are restricted by law, the company should provide an alternative channel to hear employee concerns. (Ref: ILO Convention 98)

Employee participation

Examples of employee participation are co-operation within company, code-termination and employee representation in companies' decision making bodies.

Consultation

Consultation means the exchange of views and establishment of dialogue between the employees' representatives and the management. (Ref: Council Directive on European Works Council; UPM-Kymmene European Forum)

Collective agreements

Collective agreement is an agreement concluded between a number of employees (normally a union) and one or more employers (normally an employers' association) governing pay and working conditions. Depending on contractual structures, local agreements and custom can form part of a collective agreement.

Employee privacy

UPM-Kymmene respects the employees' private life and other basic rights safeguarding privacy. Personal data are processed in accordance with good processing practice.

Discrimination

Any discrimination against employees on the basis of age, sex, health, national or ethnic origin, sexual preference, language, religion, opinion, family ties, trade union activity, political activity or any other comparable circumstance is prohibited.

Forced or compulsory labour

All work or service that is extracted by any person under the menace of any penalty for which he/she has not offered him/herself voluntarily. (Ref: ILO Convention 105)

Child labour

The minimum age for employment is 15 years for regular, non hazardous work and 18 for hazardous work. (Ref: ILO Convention 138)

Reasonable retraining

This term means an orientation-type of training which can be considered reasonable from the employee's as well as the employer's point of view having regard to time needed, costs, availability of training etc.

Social plans and financial compensation

The measures of support in redundancies vary from one country to another depending on the social security structure and on the funding of unemployment benefits. In some countries a special social plan is compulsory in cases of collective dismissal.

Occupational health and safety policy

Guiding values and principles

The health, safety and security of employees, visitors and all other people impacted by its operations are essential to UPM-Kymmene.

Occupational health and safety practices at UPM-Kymmene are based on the company's values – openness, trust and initiative – and on social responsibility.

The company complies with international, national and local rules, regulations and agreements. In the event that these prove to be insufficient or open to various interpretations, the company acts in accordance with its operating principles and best practices.

The company's occupational health and safety activities are directed by the principles of continuous improvement and emphasise quality and know-how.

Objectives and implementation

UPM-Kymmene strives to provide a healthy and safe working environment. The company assumes its share of responsibility for the physical, mental and social well-being of its employees. The company's overall objective is to avoid employee suffering from occupational accidents or work related disabilities, while employed at UPM-Kymmene or during retirement.

In order to develop understanding of occupational health and safety matters and to encourage employee participation in its positive development, the company provides training in occupational health and safety.

UPM-Kymmene promotes a proactive approach to employee health care as part of its health and safety effort.

The company strives for the elimination of occupational accidents through the principle of zero tolerance for accidents. To reach this objective, each employee is required to assume responsibility for his or her working capacity and work premises.

The company encourages its business partners to implement practices which promote occupational health and safety.

UPM-Kymmene Occupational Health and Safety policy is implemented throughout the organisation at all levels and activities.

Communication

UPM-Kymmene communicates occupational health and safety related matters to its stakeholders in a reliable, open and timely manner in accordance with company values.

Further development

UPM-Kymmene develops its organisation and activities in occupational health and safety in accordance with best practices and available technology as well as by taking into account stakeholder interests.

The Board of Directors of UPM-Kymmene Corporation has approved the Occupational Health and Safety policy on 18 September 2002.

Occupational health and safety policy, glossary

The aim of this glossary is to explain the meaning of some of the terms used in the Occupational Health and Safety (OHS) policy document. It should be noted that the meaning of the terms may vary depending on e.g. the reader's cultural background.

Employees, visitors and other people impacted by the company's operations

Industrial operations may affect people on site, in its immediate surround-

ings and throughout the whole supply chain. Hence OHS matters need attention both on site and, where applicable, outside of it.

Company values

Openness in the workplace creates trust between people, which in turn leads to greater initiative.

Legislation and competition set limits for transparency for a listed company. The aim is to maintain an atmosphere of openness when interacting with stakeholders without compromising requirements for confidentiality.

Corporate Social Responsibility (CSR)

Corporate Responsibility consists of three pillars: economic, environmental and social responsibility. Corporate Social Responsibility deals with the company's responsibility towards its employees, society and other stakeholder groups of the company.

Rules, regulations and agreements

The minimum requirement of responsibility for UPM-Kymmene is to comply with national and local rules, regulations and agreements, but it is understood that is the minimum to fulfil the company's social responsibility.

By international agreements are meant those the Finnish government (or the governments of countries where UPM-Kymmene operates) supports or has ratified. These include or will include e.g. the United Nations Universal Declaration of Human Rights, and the International Labour Organization Conventions.

Continuous improvement

Continuous improvement is a process of enhancing the OHS management system, to achieve improvements in overall OHS performances, in line with the Group OHS policy.

Healthy and safe working environment

A healthy and safe working environment is free from unacceptable risk of harm. No employee is to suffer from negative mental or physical work-related effects.

Zero tolerance

The principle for zero tolerance for accidents is built on the following:

- 1) no accident is in principle acceptable;
- 2) all dangerous situations should result in learning to avoid similar situations in the future;
- 3) all dangerous situations should be reacted to without delay and should be followed up on; and
- 4) health and safety matters concern each and every one.

Encouraging business partners

UPM-Kymmene gives preference to business partners who maintain a systematic approach to OHS matters, and who honour OHS principles which are in compliance with UPM-Kymmene's OHS policy.

Operating principles

These include all approved principles and policies inside UPM-Kymmene.

Best practices

Best practices means the best level of operation inside the industry, the geographical area or the issue at hand.

Fraud policy

Scope of the Policy

UPM-Kymmene's Board of Directors wishes to make it clear that UPM-Kymmene Group has zero tolerance for the commission or concealment of fraudulent or illegal acts or other irregularities including violations against Group policies such as the Corporate Social Responsibility policy, Human Resources policy, Occupational Health and Safety policy and the Environmental policy. Allegations of such acts will be investigated and pursued to their logical conclusion, including legal action where needed.

Management has primary responsibility for the implementation of internal controls to deter and detect fraud.

Internal Auditing is responsible for monitoring and evaluating internal controls to detect possible weaknesses.

General definition of fraud

Any illegal acts characterized by deceit, concealment, or violation of trust constitute a fraud. These acts are not dependent upon the application of threat of violence or of physical force. Fraudulent acts are perpetrated by individuals and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Reporting procedures

All employees are responsible for reporting suspected instances of fraud or violations of Group policies to their manager or to the Vice President of Internal Auditing.

Management is responsible for referring allegations of fraud to the Vice President of Internal Auditing.

If an investigation determines that fraudulent activities have occurred, the Vice President of Internal Auditing is required to inform the head of the Legal department. The Legal department informs the appropriate law enforcement agencies.

The Vice President of Internal Auditing also reports to the Audit Committee all instances of fraud including questionable accounting or auditing matters that have come to his/her knowledge and the measures taken in consequence of them.

Investigation

The Vice President of Internal Auditing has primary responsibility for the investigation of allegations of improprieties committed by, or against, the company. Internal auditors, lawyers, security personnel, and other specialists from inside or outside the organisation are the parties that usually conduct or participate in fraud investigations.

During the initial phase of an investigation, the auditors will protect the reputations of all concerned by restricting access to all information related to the allegations and investigation to those with a legitimate need to know. Where an investigation concludes that a fraudulent act is 'probable', the Vice President of Internal Auditing will inform senior management of the nature and possible extent of the activities. The Vice President of Internal Auditing, with the advice of senior management, will determine whether to inform the Legal department and law enforcement agencies.

Consequences of committing fraud

In case of fraud the company will make all evidence collected during the course of an investigation available to legal and law enforcement agencies and will pursue the prosecution of all parties involved in criminal activities.

The Board of UPM-Kymmene Corporation has approved the Fraud policy on 2nd June 2004.

Disclosure policy

The purpose of UPM-Kymmene's disclosure policy is to guarantee fair disclosure of information to the public and to make sure that disclosure is prompt and consistent at all levels.

Legal obligations

As a listed company, UPM-Kymmene complies with the requirements of Finland's Securities Markets Act, with the rules of HEX Helsinki Stock Exchange and with the New York Stock Exchange listing requirements for foreign companies.

Disclosure principles and compliance

Any information disclosed must be accurate, complete and based on verified facts. It must give a materially correct picture of the company's operations, and must be released promptly and simultaneously to the public.

Compliance with the above principles is monitored by the Disclosure Committee, which:

- 1) ensures that all information disclosed is based on verified data;
- 2) ensures that the information disclosed is accurate and complete in content by allocating clear responsibility within the organisation for drafting, reviewing and authorising disclosures;

- 3) ensures timely and prompt disclosure as soon as the matter has come to the company's notice;
- 4) monitors the implementation and development of the controls and procedures necessary to provide complete, accurate and timely disclosures;
- 5) recommends to the CEO and CFO whether they can sign a certification attached to the annual report (20 F) as required by Securities and Exchange Commission (SEC).

The Committee reports directly to the CEO and the Audit Committee.

Price-sensitive and confidential information

UPM-Kymmene has a legal obligation to publish simultaneously to the stakeholders information that might affect the company's share price. This kind of information is issued as a stock exchange release. After the Disclosure Committee has been consulted, Corporate Communications is responsible for promptly filing a press release with the stock exchanges and distributing it to the major news services.

The following are classified as price-sensitive information:

- financial statements
- changes in the company's management
- statements on future outlook

- profit warnings (changes in profitability or financial position)
- significant merger, demerger, reorganization, liquidation, bankruptcy or joint venture agreements
- significant business acquisitions
- significant capital expenditures
- reorientation of business
- subsidiaries, associated companies and joint ventures: significant matters which may materially affect the company
- forecasts relating to the market, prices, results, capital expenditure, cash flow and gearing
- strategic plans
- decisions and measures taken by the authorities, when significant

The following is regarded by UPM-Kymmene as confidential business information:

- mill specific changes in capacity utilization and standstills
- profit/loss data pertaining to individual countries or business units
- sales prices or specified production costs
- market share data for individual products or countries

Dissemination of information

Price-sensitive information will be released and filed as a stock exchange release at group level.

The company uses a variety of means and mechanisms for dissemination of public information, including press releases, the corporate web site, magazines and publications, interviews, public presentations, public conference calls and web casts.

UPM-Kymmene's closed period begins the third weekend prior to the publication of a financial review or a quarterly report. During the closed period UPM-Kymmene executives will neither discuss nor comment any market information or price sensitive issues with capital market representatives or the media.

In the event that incorrect or misleading information that may materially affect the share price circulates in the media, the company will publish a correction. In the event that confidential information leaks out, the company will without delay publish a release to the public.

Spokespersons

The authority to make public statements on behalf of UPM-Kymmene as a group entity rests with the CEO, the Executive Vice Presidents, other members of the Executive Team, the Head of Investor Relations and the Head of Corporate Communications, and with corporate staff members designated by the CEO.

For individual divisions or units, the spokesperson is the President/Managing Director/General Manager of the division/unit, or a designated senior executive.

The Board of UPM-Kymmene Corporation has approved the Disclosure policy on 2 June 2004.

Paper and pulp mills: production, releases into air and water and solid waste in 2005

MILL	PRODUCTION		EMISSIONS INTO WATER			EMISSIONS INTO AIR			SOLID WASTE
	paper t	pulp t	BOD ¹⁾ t	COD t	AOX t	SO ₂ ²⁾ t	NO _x t	CO ₂ (F) t	to landfill t
Augsburg	457,000		5,080 ³⁾	9,220 ³⁾		0	50	151,000	0
Blandin Paper	326,000		15	- ⁴⁾		65	390	103,000	3,900
Caledonian Paper	263,000		2,030 ³⁾	5,230 ³⁾		270	170	78,000	6,800
Changshu	522,000		40	160		860	590	855,000	2,100
Chapelle Darblay	340,000		100	1,280		15	800	162,000	9,600
Papeteries de Docelles	117,000		5	55		0	9	44,000	50
Jämsänkoski	692,000		60	1,490		260	340	110,000	9,900
Kaipola	551,000		95	1,840		340	360	94,000	12,500
Kajaani	499,000		80	2,090		180	130	129,000	4,500
Kaukas	465,000	579,000	290	10,280	100	540	1,730	184,000	14,700
Kymi	711,000	442,000	140 ⁶⁾	8,070 ⁶⁾	80	190	1,180	110,000	16,100
Miramichi	64,000		190	1,150		1,020	330	115,000	200
Nordland Papier	1,140,000		35	190		0	170	291,000	20
Pietarsaari	153,000	625,000	900	16,600	110	420	730	86,000	15,200
Rauma	972,000		500 ⁷⁾	6,930 ⁷⁾		130	380	66,000	670
Schongau	713,000		35	1,760		0	350	193,000	8,200
Schwedt	286,000		20	740		1	100	70,000	430
Shotton Paper	497,000		25	810		25 ⁵⁾	190 ⁵⁾	192,000 ⁵⁾	18,000
Steyrermühl	468,000		60	1,300		4	570	249,000	6,900
Stracel	255,000		80	1,970		25	90	7,000	80
Tervasaari	363,000	195,000	240	2,900	0 ⁸⁾	380	400	231,000	23,600
Voikkaa	336,000		0 ⁶⁾	0 ⁶⁾		4	200	69,000	750
Total	10,189,000	1,840,000	10,030	74,150	290	4,730	9,250	3,590,000	154,000

¹⁾ Emission defined as BOD₅ converted to BOD₂₀ by the co-efficient 1.16.

²⁾ Includes also odorous sulphur emissions.

³⁾ Effluent load before municipal treatment plant.

⁴⁾ COD is not monitored at Blandin.

⁵⁾ Includes also emissions of purchased heat.

⁶⁾ Effluent discharges of Voikkaa included in figures for Kymi.

⁷⁾ Includes effluent discharges from the Botnia Rauma chemical pulp mill and Rauma town.

⁸⁾ No chlorine chemicals used in chemical pulp bleaching.

 Wood Products Division: raw material and energy consumption, production, waste and emissions into air¹⁾

	2002	2003	2004	2005
Wood consumption, m ³	6,045,000	6,643,000	6,306,000	6,555,000
Resin (dry), t	24,000	24,000	24,000	28,000
Films, t	5,400	5,400	5,400	5,300
Production				
Plywood and veneer, m ³	791,000	813,000	832,000	968,000
Sawn timber, m ³	1,792,000	1,962,000	1,894,000	2,017,000
By-products				
Chips and sawdust, m ³	2,451,000	2,549,000	2,533,000	3,222,000
Bark, m ³	280,000	345,000	366,000	379,000
Heat, GWh	1,270	1,270	1,310	1,590
Electricity, GWh	370	370	390	420
Solid waste to landfills, t	3,820	4,350	3,480	8,750
Hazardous waste for special treatment, t	380	550	420	830 ³⁾
Releases into air ²⁾				
CO ₂ (F), t	26,700	12,400	13,300	14,900
NO _x , t	220	120	100	140
SO ₂ , t	100	30	35	40
Particulates, t	170	150	110	190

¹⁾ Data 2002 to 2004 from Finnish Wood Products sites only; since 2005 data of whole Wood Product Division is presented.

²⁾ Emissions for purchased heat and electricity not included; emissions are partly estimated.

³⁾ Includes hazardous waste from demolition work at two closed plywood mills (190 t).

Converting Division: raw material consumption, production, emissions into air and solid waste in 2002–2005, tonnes¹⁾

	2002	2003	2004	2005
Papers, kraftliners and board	547,800	595,100	641,700	488,100
Plastics	68,000	74,100	81,500	54,200
Adhesives	59,000	65,300	64,400	55,900
Printing inks, lacquers	1,590	1,700	1,760	1,310
Aluminium foil	3,820	3,360	3,690	3,090
Production	655,800	681,200	735,200	614,000
VOC emissions from solvents	1,070	1,010	970	150
Solid waste to landfills	23,300	34,200	31,100	16,500
Hazardous waste for special treatment ²⁾	1,360	1,440	1,570	540

¹⁾ Data on mills sold in 2005 are not included. Rafsec included since 2004.

²⁾ Washing waters from Walki Wisa printing press in China included since 2003.

Converting Division: production broke in 2005

	Recycled as material	Energy recovery	To landfill sites	Total
Walki Wisa,				
%	74	25	1	
tonnes	15,300	5,300	200	20,800
UPM Raflatac*,				
%	17	31	52	
tonnes	5,000	9,200	15,700	30,000

* Rafsec included in UPM Raflatac data.

Converting Division: specific VOC emissions in 2005

Walki Wisa	0.25 kg/t
UPM Raflatac*	0.24 kg/t

* Rafsec included in UPM Raflatac data.

UPM's material balance in 2005

RAW MATERIALS AND ENERGY

Wood	22,900,000 m ³
Market pulp	1,300,000 t
Recovered paper	2,900,000 t
Purchased paper and board (for converted products)	310,000 t
Minerals	2,400,000 t
Plastic films and granulates	50,000 t
Purchased electricity and own hydropower	13,000 GWh
Purchased fuels and heat	17,000 GWh

EMISSIONS INTO AIR

SO ₂ , sulphur dioxide	4,800 t
NO _x , nitrogen oxides	9,400 t
CO ₂ (F), fossil carbon dioxide	3,600,000 t

EMISSIONS INTO WATER

COD ¹⁾	74,000 t
BOD ¹⁾	10,000 t
AOX	290 t

¹⁾ Information on wastewater discharges also includes the wastewater load from the Augsburg and Caledonian mills to municipal treatment plants.

SOLID WASTE

To landfills	180,000 t
Hazardous waste for special treatment	3,500 t

PRODUCTS SOLD

Paper ²⁾	10,000,000 t
Pulp	60,000 t
Fluff pulp	50,000 t
Converted products	610,000 t
Plywood and veneer	970,000 m ³
Sawn timber	2,200,000 m ³
Heat	550 GWh

²⁾ Production volumes differ from the overall output of the paper mills because the paper purchased by the converting factories from the Group's paper mills has been deducted from the products sold.

Certification of Management Systems and Chain of Custody at UPM

Paper and pulp mills

	Environmental management systems		Quality management system	Health & safety system	Chain of Custody for wood supply	
	ISO 14001	EMAS	ISO 9001	OHSAS 18001	PEFC	FSC
Augsburg, DE	x	x	x	x	x	
Blandin, US	x	²⁾	x	x	¹⁾	
Caledonian, GB	x	x	x	x	x	x
Changshu, CN	x	²⁾	x	x	¹⁾	¹⁾
Chapelle Darblay, FR	x	x	x	x	³⁾	³⁾
Docelles, FR	x		x	¹⁾	x	x
Jämsänkoski, FI	x	x	x	x	x	
Kaipola, FI	x	x	x	x	x	
Kajaani, FI	x	x	x	x	x	
Kaukas, FI	x	x	x	⁴⁾	x	
Kymi, FI	x	x	x	x	x	
Miramichi, CA	x	²⁾	x	x	¹⁾	
Nordland, DE	x	x	x		x	x
Pietarsaari, FI	x	x	x	x	x	x
Rauma, FI	x	x	x	x	x	x
Schongau, DE	x	x	x	x	x	
Schwedt, DE	x	x	x	x	³⁾	³⁾
Shotton, GB	x		x	¹⁾	³⁾	³⁾
Steyrermühl, AT	x	x	x	x	x	
Stracel, FR	x	x	x	x	x	
Tervasaari, FI	x	x	x	¹⁾	¹⁾	
Voikkaa, FI	x	x	x	x	x	

¹⁾ Under development.

²⁾ EMAS not relevant outside EU.

³⁾ No fresh wood used, 100% recovered paper.

⁴⁾ OHSAS system in place, but not certified.

Converting Division

	Environmental management systems		Quality management system	Health & safety system	Hygiene standard
	ISO 14001	EMAS	ISO 9001	OHSAS 18001	
UPM RAFLATAC					
Barcelona, ES			x		
Nancy, FR			x		
Scarborough, GB	x		x	x	
Shanghai, CN			x		
Tampere, FI			x	¹⁾	
Oceana, AU			x		
RAFSEC					
Tampere, FI	¹⁾		x		
WALKI WISA					
Converflex Ab, Örnsköldsvik, SE	x		x		
Garstang, GB			x		
Jülich, DE	x		x		
Pietarsaari, FI	x	x	x	x	
Steinfurt, DE	x		x		BRC-IoP
Valkeakoski, FI			x		DS 3027

¹⁾ Under development.

Wood Products Division

	Environmental management systems		Quality management system	Health & safety system	Chain of Custody for wood supply
	ISO 14001	EMAS	ISO 9001	OHSAS 18001	PEFC
Plywood and veneer production, FI	x		x	¹⁾	x
Timber production, FI	x		x	¹⁾	x
Steyrermühl, AT	x	x		x	x
Otepää, EE			x		
Chudovo, RU	x		x		

¹⁾ OHSAS system in place, but not certified.

Forestry and Wood Sourcing

	Environmental management systems		Quality management system	Health & safety system	Forest management	Chain of Custody
	ISO 14001	EMAS	ISO 9001	OHSAS 18001		
UPM Forest, FI	x	x	x		FFCS	PEFC, FSC
UPM Forest, Central Europe					¹⁾	FSC
Frischholz, AT	x	x		x		PEFC
France	x	x	x	x		PEFC
Germany	x	x	x	x		PEFC
Tilhill Forestry, GB	x		x	x	UKWAS	FSC
Miramichi, CA	x				SFI	
Blandin, US	x				SFI	

¹⁾ UPM does not manage forests in Central Europe.

UPM's energy, corporate and regional logistics operations

	Environmental management system	Quality management system	Health & safety system
	ISO 14001	ISO 9001	OHSAS 18001
ENERGY			
Hydro power plants, FI	x		
LOGISTICS			
UPM Corporate and Regional Logistics	x	x	x
nortrans Speditionsgesellschaft mbH	x	x	
UPM-Kymmene Sales GmbH, Logistics Department		x	
Oy Rauma Stevedoring Ltd	x	x	x
UPM-Kymmene Oyj, Seaways	x	x	
UPM-Kymmene n.v./s.a.		x	
UPM-Kymmene Sp. z.o.o.		x	

	Austria	Canada	Estonia	Finland	France	Germany	Russia	UK	USA	Total
Sources of wood in 2005, % of wood consumption, %										
Company forests	0	0	0	6	0	0	0	0	22	5
Leased forests	0	84	0	0	0	0	0	0	0	2
State forests	3	0	14	2	28	60	100	59	54	9
Private forests	41	16	39	68	27	40	0	41	22	61
Import	56	0	47	24	45	0	0	0	2	23
Total	100	100	100	100	100	100	100	100	100	100

Country of origin 2005, %¹⁾										
Belgium	-	-	-	-	15	-	-	-	-	-
Canada	-	-	-	-	-	-	-	-	-	-
Czech	21	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	0	-	-	-	-	-	-
Estonia	-	-	-	3	-	-	-	-	-	-
Germany	73	-	-	1	-	-	-	-	-	-
Latvia	-	-	-	6	83	-	-	-	-	-
Lithuania	-	-	-	1	-	-	-	-	-	-
Russia	-	-	90	78	-	-	-	-	-	-
Slovakia	6	-	-	-	-	-	-	-	-	-
Sweden	-	-	-	3	-	-	-	-	-	-
UK	-	-	-	6	-	-	-	-	-	-
Uruguay	-	-	-	2	-	-	-	-	-	-
Others	-	-	10	-	2	-	-	-	100	-
Total	100	-	100	100	100	-	-	-	100	-

¹⁾ Only countries from which at least 10,000 m³ of wood has been imported have been specified.

Percentage of certified wood delivered to the UPM mills, %										
	75	34 ¹⁾	2)	65	51	96	0	98	3)	

¹⁾ The Chain of Custody was verified in September 2005.

²⁾ 14 percent of the wood consumed in 2005 was bought direct from the certified state forests in Estonia.

³⁾ 68 percent of the wood consumed in 2005 was from either certified forests or forests audited by a third party. Chain of Custody is in progress.

Wood procurement by UPM by countries in 2005, 1,000 m³										
Austria	997	-	-	-	-	-	-	-	-	997
Belgium	-	-	-	-	30	-	-	-	-	30
Canada	-	1,474	-	-	-	-	-	-	5	1,479
Czech	78	-	-	-	-	-	-	-	-	78
Denmark	-	-	-	24	-	-	-	-	-	24
Estonia	-	-	193	-	-	-	-	-	-	193
Finland	-	-	-	18,097	-	-	-	-	-	18,097
France	-	-	-	-	527	-	-	-	-	527
Germany	274	-	-	-	170	807	-	-	-	1,251
Latvia	-	-	358	-	-	-	-	-	-	358
Lithuania	-	-	52	-	-	-	-	-	-	52
Russia	-	-	74	4,120	-	-	863	-	-	5,057
Slovakia	24	-	-	-	-	-	-	-	-	24
Sweden	-	-	-	174	-	-	-	-	-	174
UK	-	-	-	-	-	-	-	1,601	-	1,601
Uruguay	-	-	-	119	-	-	-	-	-	119
USA	-	-	-	-	-	-	-	-	645	645
Others	-	-	-	-	5	-	-	-	-	5
Total	1,373	1,474	677	22,534	732	807	863	1,601	650	30,711

Comparison of the report content with the principles of the Global Compact and the corresponding indicators of the Global Reporting Initiative

UPM has undertaken to comply with the principles of the UN Global Compact Initiative. This Corporate Responsibility Report has been compiled applying the guidelines of the Global Reporting Initiative.

In the table below are listed the pages where the Company's actions to implement the principles of the Global Compact and the results of said action and the corresponding GRI indicators are discussed. Economic indicators are addressed in the UPM Annual Report and on pages 6, 14–17 of this report.

Principles of the Global Compact	Global Reporting Initiative (GRI) indicators		Pages in the report
Human Rights			
1. Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and 2. make sure that they are not complicit in human rights abuses.	HR1	Human rights related policies	23, 31–32, 44–46
	HR2	Considering human rights in investment/procurement	
	HR3	Human rights in the supply chain	
	HR4	Policies preventing discrimination	
Labour Standards			
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. the elimination of all forms of forced and compulsory labour; 5. the effective abolition of child labour; and 6. eliminate discrimination in respect of employment and occupation.	HR5	Freedom of association	22–23, 44–46
	LA3	Employee representation, collective bargaining	
	LA4	Consultation, negotiation & restructuring	
	HR7	Policy preventing forced labour	
	HR6	Policy excluding child labour	
	HR4	Policies preventing discrimination	
7. Businesses should support a precautionary approach to environmental challenges; 8. undertake initiatives to promote greater environmental responsibility; and 9. encourage the development and diffusion of environmentally friendly technologies.	LA10	Equality policies and programmes	5–6, 8–9, 28–31, 33–43, 44, 50–51
	LA11	Equality in senior management	
	3.13	Policies and management systems	
	EN1	Total materials used	
	EN2	Waste usage	
	EN3	Direct energy use	
	EN4	Indirect energy use	
	EN5	Total water use	
	EN6	Land ownership in biodiversity-rich habitats	
	EN7	Major impact on biodiversity	
	EN8	Greenhouse gas emissions	
	EN9	Use and emissions of ozone-depleting substances	
	EN10	NO _x -, SO _x - and other air emissions	
	EN11	Amount and type of waste	
	EN12	Discharges to water	
	EN13	Chemicals, oil and fuels spills	
	EN14	Environmental impacts of products	
EN15	Recycling/reuse of products		
EN16	Non-compliance in environmental matters		
EN 17	Renewable energy and energy efficiency		
EN22	Recycling and reuse of water		
EN23	Land owned for production activities or extractive purposes		
EN25–26	Impacts on protected and sensitive areas and resulting changes		
EN31	Hazardous waste management		
EN32	Discharge impact on ecosystems		
EN33	Supplier environmental performance		
EN34	Environmental impacts of logistics		
EN35	Environmental expenditures		
Anti-corruption			
10. Businesses should work against corruption in all its forms, including extortion and bribery.	SO2	Policies addressing bribery and corruption	8–9, 48

www.unglobalcompact.org

www.globalreporting.org

Production plants and sales network



- Production plant
- Sales company or agent

PRODUCTION PLANTS

UPM refers to those companies whose official name includes UPM-Kymmene.

Australia

UPM Raflatac,
Braeside (Melbourne)

Austria

UPM, Steyrermühl

Steyrermühl Sägewerksge-
sellschaft

Canada

UPM, Miramichi,
New Brunswick

China

UPM, Changshu

UPM Raflatac, Shanghai
Walki Wisa, Changshu

Estonia

UPM, Otepää

Finland

Paper mills
UPM

- Jämsänkoski
- Kaipola
- Kajaani
- Kaukas, Lappeenranta
- Kymi, Kuusankoski
- Rauma
- Tervasaari, Valkeakoski
- Voikkaa
- Wisapaper, Pietarsaari

Pulp mills
UPM

- Kaukas, Lappeenranta
- Kymi, Kuusankoski
- Tervasaari, Valkeakoski
- Wisapulp, Pietarsaari

Converting plants

UPM Raflatac, Tampere
Walki Wisa
- Pietarsaari
- Valkeakoski
Rafsec, Jyväskylä

Sawmilling

UPM
- Alholma, Pietarsaari
- Heinola
- Kajaani
- Kaukas, Lappeenranta
- Korkeakoski, Juupajoki
- Leivonmäki
- Seikku, Pori

Further Processing

UPM
- Alholma, Pietarsaari
- Aureskoski
- Heinola
- Kaukas, Lappeenranta
- Luumäki
- Parkano

Plywood mills

UPM
- Heinola
- Joensuu
- Jyväskylä, Säynätsalo
- Kaukas, Lappeenranta
- Lahti
- Pellos, Ristiina
- Savonlinna

Veneer mills

UPM
- Kalso, Vuohijärvi
- Keuruu
- Lohja

France

UPM
- Grand-Couronne
- Docelles
Stracel, Strasbourg

UPM Raflatac,
Pompey (Nancy)

UPM

- Aigrefeuille
- Boulogne sur Mer
- Loulay

Germany

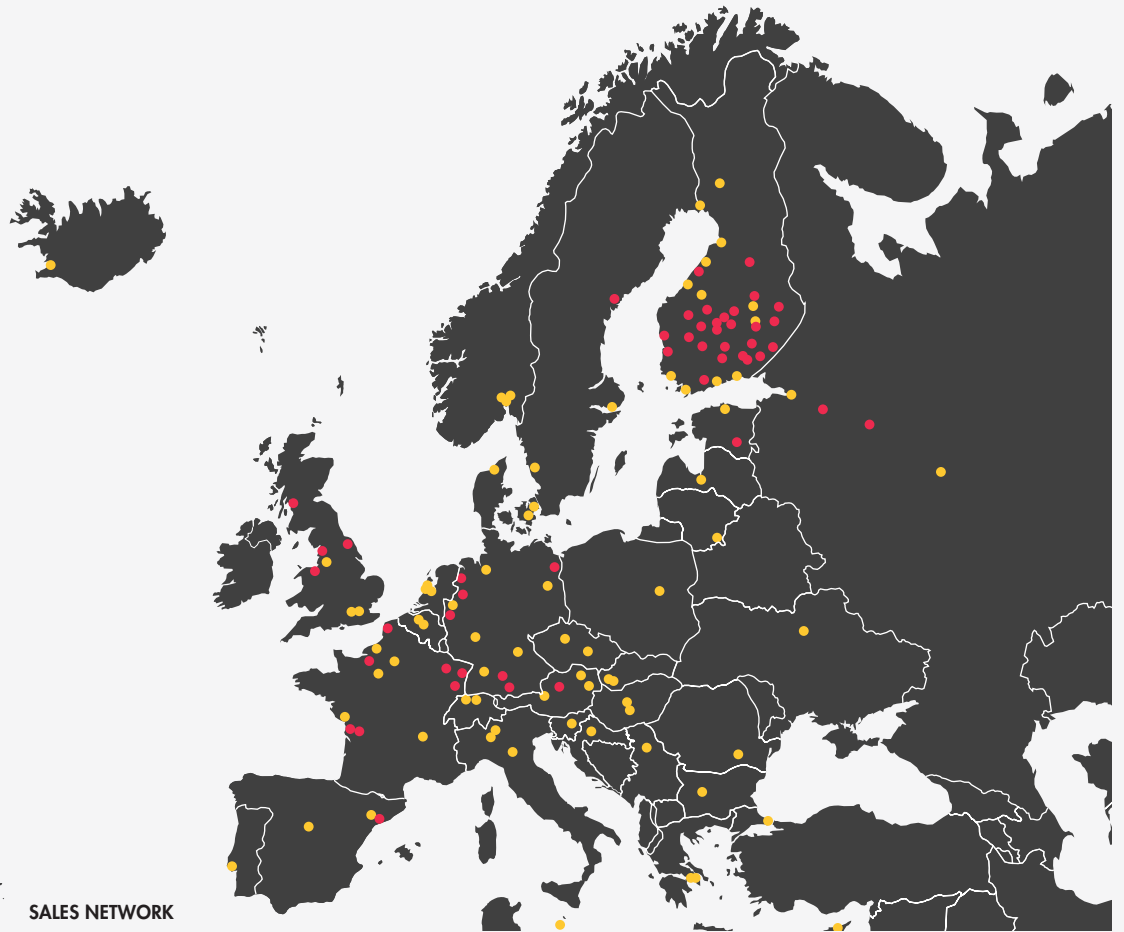
UPM
- Augsburg
- Schongau
- Schwedt
Nordland Papier, Dörpen

Walki Wisa
- Jülich
- Steinfurt

Great Britain

UPM
- Caledonian Paper, Irvine
- Shotton Paper, Shotton

UPM Raflatac, Scarborough
Walki Wisa, Garstang



SALES NETWORK
(countries listed below)

Malaysia

UPM Raflatac, Johor

Russia

ZAO Chudovo-RWS,
Chudovo
ZAO Pestovo Novo, Pestovo

South Africa

UPM Raflatac, Pinetown

Spain

UPM Raflatac,
Polinyá (Barcelona)

Sweden

Walki Wisa, Arnäsavall

United States

Blandin, Grand Rapids, MN

UPM Raflatac, Fletcher
Rafsec, Fletcher, NC

North America

Canada
Mexico
Panama
USA

South America

Argentina
Brazil
Chile
Columbia
Peru

Europe

Austria
Belgium
Bulgaria
Croatia
Czech Republic
Cyprus
Denmark

Estonia
Finland
France
Germany
Great Britain
Greece
Hungary
Iceland
Ireland
Italy
Latvia
Lithuania
Malta
Netherlands
Norway
Poland
Portugal
Rumania
Russia
Serbia and Montenegro
Slovakia

Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine

Asia

China
Hong Kong
India
Indonesia
Israel
Iran
Japan
Jordan
Lebanon
Malaysia
Pakistan
Philippines
Republic of Korea

Singapore
Sri Lanka
Syria
Taiwan
Thailand

Africa

Algeria
Egypt
Morocco
South Africa

Oceania

Australia

Glossary

Biofuel

Renewable fuel, such as bark, wood waste, black liquor from the pulp-cooking process and effluent treatment sludge.

BOD

Biological Oxygen Demand. The amount of oxygen required for the biological decomposition of organic compounds contained in wastewater.

Carbon dioxide, CO₂

Combustion product of carbon. Carbon emissions arise from fossil fuels, for instance.

Chain of Custody

A system for monitoring the origin and chain of custody of wood.

COD

Chemical Oxygen Demand. The amount of oxygen required for the decomposition of organic compounds in wastewater, determined by chemical methods.

Deinking

The process where the ink and impurities are removed from the recovered paper.

EMAS

Eco-Management and Audit Scheme. A voluntary environmental management scheme for companies and organisations in the private and public sectors.

GRI

Global Reporting Initiative. Institution for developing sustainability reporting guidelines.

ISO

International Organisation for Standardisation, whose ISO 9000 quality standards and 14000 environmental standards are extensively used in industry.

Nitrogen oxides, NO_x

A range of compounds formed in the combustion of nitrogen-containing material. Cause acidification of soil and waters.

OHSAS

Occupational Health & Safety Management System.

REACH

EU's proposal for legislation on Registration, Evaluation and Authorisation of Chemicals.

Recovered paper

Paper and board recovered for secondary use.

Recovery rate

The ratio of recovered paper of all paper consumed.

Recycled fibre

Fibre extracted from recovered paper.

RFID sensor

Remote sensor based on radio frequency identification.

Sulphur dioxide, SO₂

Compound formed in combustion of sulphur containing material. Causes acidification of soil and waters.

VOC

Volatile Organic Compounds. Involved in ozone formation in the troposphere.

For the glossaries related to respective UPM policies, please see pages 45–47.

Formulae for the financial indicators presented on page 17

Return on capital employed, %:

$$\frac{\text{Profit before tax}^{1)} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (average)}} \times 100$$

Earnings per share:

$$\frac{\text{Profit for the period attributable to equity holders of parent company}^{2)}}{\text{Adjusted average number of shares during the period excluding own shares}}$$

¹⁾ 2001: Profit/loss before extraordinary items and tax.

²⁾ 2001: Profit/loss before extraordinary items and tax – income tax +/- minority interest.

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