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## Environmental and Corporate Social Responsibility Report 2006



## **Highlights of environmental and corporate social responsibility in 2006**

### **Code of Conduct**

UPM's commitment to responsible business practices was strengthened and the Code of Conduct, approved by the Board of Directors, was implemented in 2006. The Code of Conduct defines the general principles that the entire personnel of UPM should follow. UPM's previous policies have been updated and developed into Rules approved by the Executive Team. Human Resources Rules, Occupational Health and Safety Rules, Antifraud Rules and Disclosure Rules complement the procedures specified in the Code of Conduct. The Group's Environmental Policy has been replaced by each division's environmental rules.

### **Profitability programme**

In March, UPM started an extensive programme to restore its profitability. It covers all the company's operations. The programme is estimated to decrease the number of employees in the entire Group by 3,600 between 2006 and 2008.

In Finland, workforce reductions will amount to 2,557 with 1,885 people taking different retirement schemes and 672 being laid off. The majority of the laid-off personnel are from the closed Voikkaa paper mill. The rest of the redundancies will mainly target operations in France, Germany and Austria.

The company started the extensive "From Job to Job" programme to support the employees who lost their jobs. Its objective is to facilitate re-employment, training for a new job and relocation, particularly for the employees of the closed Voikkaa mill. By the end of 2006, as many as 477 of the redundant Voikkaa employees had either found new employment, were training for a new job or had retired.

### **Investments to reduce greenhouse gas emissions in energy production**

UPM's investments in power plants using renewable fuels continued. In the latter half of 2006, UPM started up energy plants in Rauma, Finland, and Shotton, in the UK, that use renewable fuels. The Chapelle Darblay power plant in France is due to be completed in 2007.

A decision was made to build a power plant for the Caledonian paper mill in the UK that uses biomass and by-products generated during production as its fuel. The power plant will be complete in 2009, and it will cut UPM's carbon dioxide emissions by 75,000 tonnes per year.

In addition to the increase of production capacity, the EUR 325 million investment in the Kymi pulp mill recovery plant currently under construction will increase the Kymi paper and pulp mill site's self-sufficiency in energy and decrease the environmental load, such as fossil carbon dioxide emissions.

In 2006, UPM announced that in the next few years it will invest in launching liquid biofuel production using forest energy and by-products. The production of liquid biofuels would be based on biomass gasification. Related business concepts and technical solutions are being developed.

This is UPM's Environmental and Corporate Social Responsibility Report for 2006. The Group publishes a separate Annual Report that discusses the company's financial results and the economic impacts of the business.

The company has previously published four Corporate Responsibility Reports, and before the year 2002 UPM published seven annual Environmental Reports.

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 43.

The report principally includes data on those production units and other functions that were owned by UPM throughout the year and on companies in which UPM holds an interest of more than 50 per cent.

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

UPM's Environmental and Corporate Social Responsibility Report is published in English, Swedish and Finnish. A total of 40,000 copies were issued. The report is distributed to UPM's various stakeholders, and it can also be ordered through UPM's web site and from the company's outlets in various countries.

The report is available on our web site in Finnish and Swedish at [www.upm-kymmene.fi](http://www.upm-kymmene.fi) and in English at [www.upm-kymmene.com](http://www.upm-kymmene.com).

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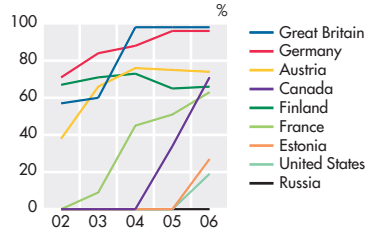
# Key data on the development of environmental performance

Despite increased production volumes, UPM managed to decrease the emissions into air and the discharges into water per tonne produced.

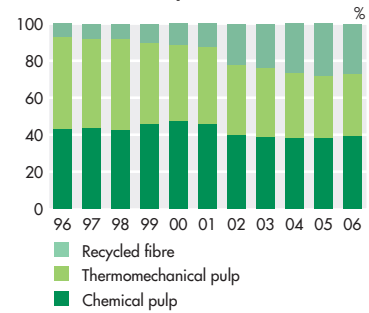
The carbon dioxide emissions per tonne produced of the pulp and paper mills decreased by about 4 per cent.

65 per cent of wood and fibre used for products in 2006 were certified.

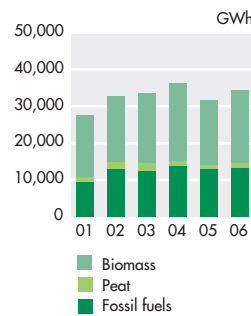
**Certified wood supplied to mills**



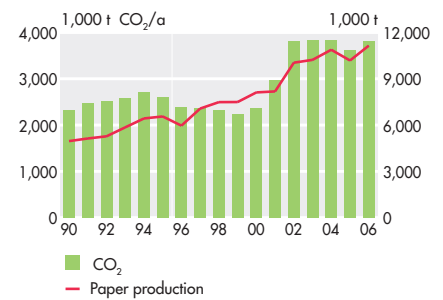
**Fibre raw materials used in paper manufactured by UPM 1996 – 2006**



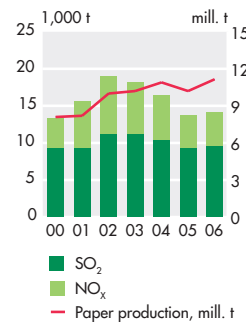
**Distribution of fuels**



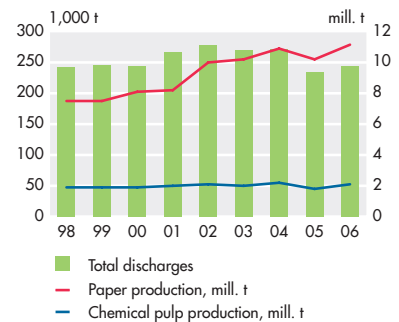
**Paper and pulp mills' fossil carbon dioxide emissions 1990 – 2006, group**



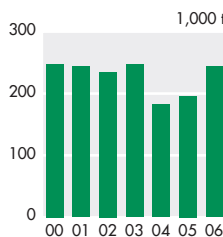
**Acidifying flue gases**



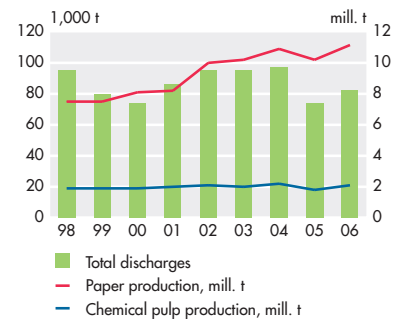
**Volume of process wastewater from paper and pulp mills 1996 – 2006**



**Total waste to landfills**



**COD load from paper and pulp mills**

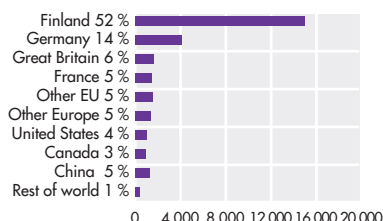


# Key data on the personnel

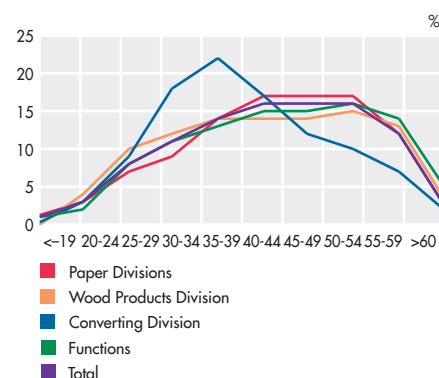
The number of employees was 31,522 at the beginning of 2006 and 28,704 at the end of the year. The decrease was 2,818 persons, of which 2,206 were due to closures of production lines and rationalisation and 165 to outsourcing. Divestments led to a reduction of 608 people. The number of personnel at UPM Raflatac increased by 161 persons.

Absences due to illness and accidents have remained at the same level as in the previous year for the entire staff. However, the absences of shop-floor workers have slightly increased. The frequency of work accidents has by and large remained at last year's level, following a long positive trend.

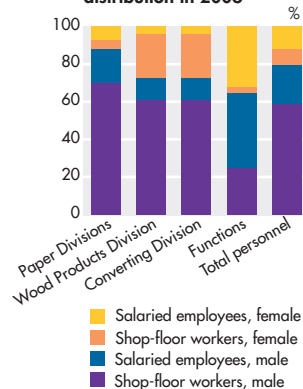
Personnel by area,  
31.12.2006, 28,704



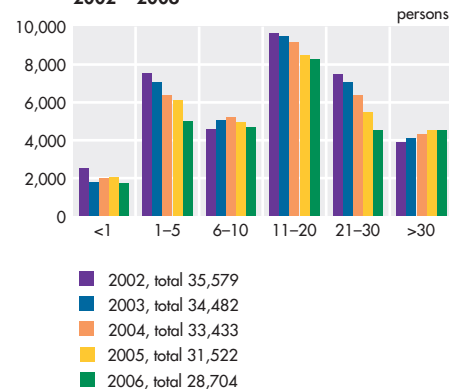
Age structure of Group personnel 2006<sup>\*)</sup>



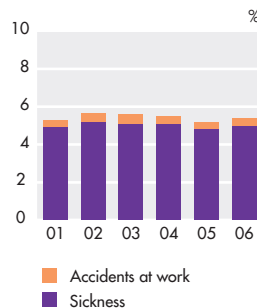
Personal gender  
distribution in 2006<sup>\*)</sup>



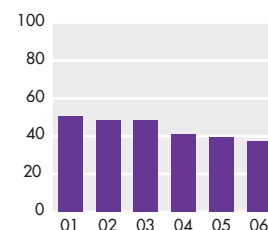
Employees' years of service with UPM  
2002 – 2006



Absences, shop-floor  
workers, % of regular  
contracted hours<sup>\*\*)</sup>



Accident rate, shop-floor  
workers, 2001-2006<sup>\*)</sup>



<sup>\*)</sup> The figures cover 97 per cent of the personnel, status at the end of the year.

<sup>\*\*)</sup> The absence rates for 2005 are not comparable due to the strikes and lock-out in Finland.

# Review by the President



Maintaining the company's competitiveness over the long term demands flexibility, new thinking and capacity to change. It also calls for new operating models and an open-minded attitude toward improving efficiency and securing sustainable development.

Dear Reader,

During the year UPM has focused on restoring the company's profitability and competitiveness. The profitability programme, launched in March 2006, has had a profound impact on many. Yet the targeted reduction of 3,600 jobs by the end of 2008 was necessary to secure the company's future development.

The decision to close down the Voikkaa mill paralysed the community for a brief moment, as it led to the loss of 678 jobs. The Voikkaa employees, however, were quick to seek new employment and took advantage of the support services available through the company's "From job to job" programme. Of the 575 redundant employees, as many as 477 had either found new employment or training or had retired by the end of year.

Maintaining the company's competitiveness over the long term demands flexibility, new thinking and the capacity to change. It also calls for new operating models and an open-minded attitude toward improving efficiency and securing sustainable development.

The concern about climate change is global. UPM is heavily involved in the development and adoption of new ways to combat climate change.

One way to replace fossil fuels with a carbon dioxide-neutral alternative is to increase the use of forest energy. UPM is also involved in the development of harvesting techniques for forest energy. This will make possible the increased use of biomass. Yet the growth basis

for using wood as an energy source is unsustainable if wood suitable for processing is directed into energy production or forests are cultivated to produce energy wood only.

UPM's operations are based on the responsible use of a renewable resource, wood. We optimise its efficient use in pulp, paper, timber and plywood production, and use the carbon dioxide-neutral by-products from manufacturing in energy production.

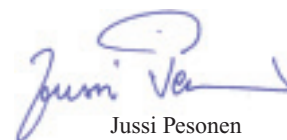
Over the last decade, we have systematically and methodically invested in expanding the use of biomass-based renewable, carbon dioxide-neutral fuels. We have also invested in upgrading our mill power plants' production technology and in improving the energy efficiency of manufacturing.

At present over half of UPM's own and co-owned electricity production causes no carbon dioxide emissions that accelerate climate change. Overall, more than 75 per cent of the fuels used by UPM's mills in Finland are carbon dioxide-neutral. At Group level, the proportion is more than 57 per cent. Investments in new bioenergy plants and energy efficiency in production are set to continue.

One evidence of UPM's willingness to use biomass raw material effectively and produce carbon dioxide-free fuels is our announcement that we will invest in the production of liquid biofuel within a few years. Production is based on the gasification of wood fuel and by-products resulting from the manufacture of our current products and therefore on the

efficient use of available production factors.

Responsibility and continuous improvement are an integral part of our daily efforts and the quality of our operations. We have undertaken to support the UN Global Compact Initiative. Responsible business is based on a strong financial position and a good competitive edge. This will help us to realise our environmental and social responsibility now and in the future.



Jussi Pesonen  
President & CEO



# UPM in brief

## Papers

### Magazine papers

UPM is the world's leading producer of magazine papers, with approximately 20% of the global market. UPM manufactures coated and uncoated magazine paper at 12 mills, located in Finland, Germany, Great Britain, France, Austria, the United States and Canada. Their combined production capacity is 5.2 million tonnes a year. Sales to markets outside Europe represent about a third of total sales.

Magazine paper is used to produce both general and special-interest magazines, newspaper supplements, printed advertising material and sales catalogues. UPM's most important markets are Europe and the United States. The customers are mainly publishers and printing houses.

### Newsprint

UPM is one of Europe's biggest newsprint manufacturers, with approximately 15% of the market. UPM has seven newsprint mills, located in Finland, Germany, Great Britain, France and Austria. Including both standard and speciality newsprint, their combined annual capacity is roughly 2.8 million tonnes. Recycled fibre accounts for over 70% of the fibre raw material used. Thanks to the locations of its mills, UPM enjoys a strong position as a local supplier in Europe's biggest markets. Exports to countries outside Europe represent roughly 10% of annual sales.

Aside from newspapers, newsprint is used to produce telephone directories, mail order catalogues, inserts and supplements. The main customers are publishers and printers.

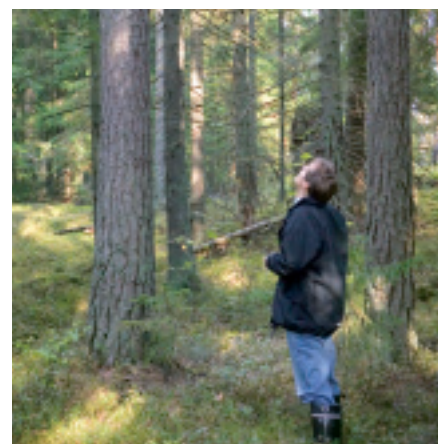
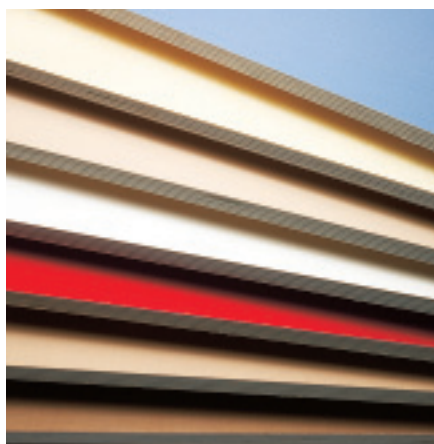
### Fine and speciality papers

UPM is among Europe's leading fine paper manufacturers. In China, it is one of the largest producers of uncoated and coated fine papers. Within speciality papers, UPM is the world's biggest manufacturer of label papers and among the leading producers of packaging papers in Europe. Fine paper is made at four mills in Finland, Germany, France and China. Production capacity for fine papers is 3.3 million tonnes a year, and that for label and packaging papers is 0.8 million tonnes a year.

Uncoated fine paper is used for products such as copier and non-impact printing paper, while coated fine paper is used for direct advertising products, magazines and high-quality printed products. UPM's fine paper customers include merchants, printers, publishers and converters. Speciality papers include label papers and packaging papers. They are supplied to industrial converters.

Magazine Papers	2006	Share of Group	Newsprint	2006	Share of Group	Fine and Speciality Papers	2006	Share of Group
Sales, €m	3,354	32%	Sales, €m	1,436	14%	Sales, €m	2,560	24%
Capital employed at 31 Dec., €m	3,743	30%	Capital employed at 31 Dec., €m	1,905	15%	Capital employed at 31 Dec., €m	2,666	21%
Personnel at 31 Dec.	6,869	24%	Personnel at 31 Dec.	3,204	11%	Personnel at 31 Dec.	6,283	22%





## Converted products

The converting units UPM Raflatac and Walki Wisa manufacture technically sophisticated special products. UPM Raflatac is the world's second largest producer of self-adhesive labelstock. It has production facilities in Finland, Spain, Great Britain, France, the United States, Australia, China, Malaysia and South Africa. Its customers are printers, converters and the packaging industry. UPM Raflatac is also a world leader in the development and manufacture of tags and inlays based on radio frequency identification (RFID) technology.

The industrial wrappings manufacturer Walki Wisa is the European market leader in its field. Walki Wisa produces wrappings for manufacturers of paper, wood and steel products as well as composite materials for the packaging industry and for technical applications.

## Wood products

UPM is Europe's biggest plywood producer and the fourth largest producer of sawn timber. Production is located in Finland, Russia, Estonia and Austria.

The plywood and veneer mills, sawmills and processing facilities manufacture products under the WISA brand, the main market being Europe. In addition to highly processed products especially for the building and vehicle industries, the WISA range also includes products for numerous special applications.

WISA plywoods offer solutions from building to interior decoration and from transportation and construction to specific industry needs. The veneer range includes birch face veneers, especially for the furniture industry but also spruce veneers for the parquet industry. The WISA timber range offers sawn and further processed timber products for different end uses from construction to joinery.

## Other operations

UPM's other operations comprise wood procurement and company forests, the energy department, logistics, group staff functions, shares of associated companies, and certain other ownerships and functions. UPM's own and associated energy and chemical pulp supply, as well as wood raw material from its own forests to a large degree, ensure that these key resources are available at competitive prices

Converting	2006	Share of Group	Wood Products	2006	Share of Group	Other Operations	2006	Share of Group
Sales, €m	1,274	12%	Sales, €m	1,321	13%	Sales, €m	571	5%
Capital employed at 31 Dec., €m	503	4%	Capital employed at 31 Dec., €m	554	4%	Capital employed at 31 Dec., €m	3,282	26%
Personnel at 31 Dec.	3,560	12%	Personnel at 31 Dec.	5,577	20%	Personnel at 31 Dec.	3,211	11%

# The Code of Conduct emphasises responsibility



UPM is committed to carrying out business in a responsible manner. The Code defines the general principles that everyone who works for UPM should follow.



The Code of Conduct, approved by UPM's Board of Directors, was implemented in 2006. The Code of Conduct defines the general principles to which the entire personnel of UPM should adhere.

UPM's objective is to build sustainable, profitable business over the long term through the ethical and responsible handling of matters relating to finance, people, society and the environment. The Code of Conduct emphasises the UPM's commitment to responsible business.

The Code of Conduct combines the core messages of the UPM's previous policies into one document. The new content in the Code consists of more thorough discussion of matters concerning conflicts of interest, such as gifts and bribery, for example. As UPM is expanding its business into new, developing markets, there is an increasing need to harmonise practices and to make the management of corporate social responsibility risks central to all operations.

It is easier to promote and introduce one global Code of Conduct instead of several separate documents. Communicating UPM's operating principles to external stakeholders is also more efficient with a single Code.

In accordance with the requirements of the Sarbanes-Oxley Act, the Code of Conduct was actively promoted during the year. For example, information meetings were arranged at all levels, from top management throughout the entire organisation. By the end of 2006, 75 per cent of the personnel had participated in Code of Conduct orientation sessions.

The Code of Conduct has been printed as a booklet in 10 languages, and this has been distributed to all UPM employees around the world. The Code is also included in personal performance reviews and training. On its audit visits, UPM's Internal Auditing team also surveys familiarity with the Code.

Personnel or non-personnel may report suspected violations of the Code of Conduct

anonymously and in confidence. Reports can be submitted directly to the Head of Internal Auditing electronically at [www.upm-kymmene.com/complaint](http://www.upm-kymmene.com/complaint).

UPM's previous policies have been updated and developed into Rules approved by the Executive Team. Human Resources Rules, Occupational Health and Safety Rules, Anti-fraud Rules and Disclosure Rules all complement the procedures specified in the Code of Conduct. The Group's Environmental Policy has been replaced by each division's environmental rules.

*Code of Conduct: [www.upm-kymmene.com](http://www.upm-kymmene.com)  
For more information on UPM's corporate governance, please see the Group's Annual Report: [www.upm-kymmene.com](http://www.upm-kymmene.com)*

# Environmental responsibility

The handling of environmental matters is an integral part of management and operation in UPM at the various levels of the organisation. UPM is committed to continuous improvement of operations in environmental matters and aims to be one of the leading players in its field of business.





UPM's sourcing function was integrated at the end of 2006 into a single global organisation. In the new organisation, integrated sourcing processes reinforce the management of risks relating to corporate responsibility and clarify the requirements set to suppliers.



## Responsibility emphasised in sourcing

The sourcing function is responsible for all procurement at UPM, with the exception of wood, recovered fibre, papers for converting and energy.

The centralisation of purchasing operations, implemented at the end of 2006, helps harmonise practices. UPM's capacity as a buyer can thus be better utilised. After this renewal, UPM will reassess its supplier requirements for sourcing. In spring 2007, integrated supplier requirements will be developed. These will also include environmental and social responsibility requirements.

### Pulp sourcing

UPM has four pulp mills in Finland, and the company has a 47 per cent share in the Finnish company Botnia. These mills guarantee UPM a 95 per cent self-sufficiency in pulp.

During the year, UPM cross-assessed its

pulp mills in Finland. This ensures the implementation of best practices and reduces environmental risks.

UPM has external pulp suppliers in North and South America and Indonesia. When external pulp suppliers are selected, they are required to accept the principles laid down in UPM's Code of Conduct and commit themselves to operate in compliance with them. Pulp suppliers and their wood procurement are assessed on a regular basis, and new suppliers are assessed on site before a contract is drawn up.

All external pulp suppliers report to UPM annually, for example, information on the origin of wood, the amount of certified fibre and the impact on the environment. If the supplier has a Chain of Custody system, the quantity of certified fibre is reported on a monthly basis. The suppliers also provide annual reports on matters relating to their personnel,

occupational health and safety and their co-operation with local stakeholders.

### Uruguay pulp mill project

UPM is participating in the pulp mill project of its associated company Botnia in Uruguay with a capital investment of 67 million dollars. The investment will guarantee the availability and sufficiency of short-fibre pulp and cost-efficiently supply to its fine paper mills in China and Europe.

The pulp mill, which is scheduled to start up in the autumn of 2007, will be one of the most modern facilities in the world, with an annual capacity of about 1 million tonnes. When the mill is complete, it will be one of the most modern pulp mills in the world. The mill will use the Best Available Techniques to ensure that the impact on the environment is minimised.



## PULP SOURCING

### Target review 2006

- Increased amount of pulp from suppliers that have a certified Chain of Custody system: Several suppliers achieved Chain of Custody certification and started reporting in 2006.
- Assessment of the wood procurement and environmental emissions of a number of suppliers on site: The majority of suppliers were assessed on site.

### Targets for 2007

- All pulp is from suppliers that have a certified Chain of Custody system.
- Increased amount of pulp from suppliers that meet the requirements of Best Available Techniques (BAT).

## WOOD SOURCING

### Target review 2006

- Promotion of forest certification and increase in the proportion of certified wood: The proportion of certified wood supplied to the mills increased in the Baltic countries, Canada, France, Finland and the USA.
- Implementation of UPM's Chain of Custody system at the remaining forestry departments: The system was introduced in the USA and Russia. Now the Global Chain of Custody system is used by all forestry departments and covers all wood delivered to the mills by the company.
- Creation of an environmental management system (EMS) for the new forestry departments in the Baltic countries and Russia: The systems were completed for implementation in the Baltic countries and Russia.
- Development of forestry practices that take biodiversity into account: The programme covering forests owned by UPM in Finland, the UK, Canada and the USA was completed.

### Targets for 2007

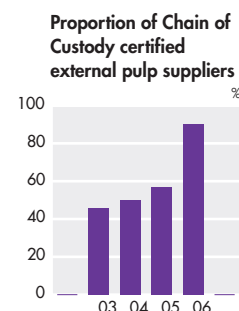
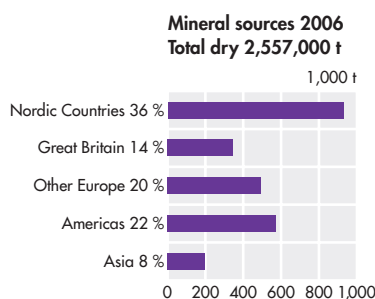
- Promotion of forest certification and increase in the proportion of certified wood
- Development of and training in forestry practices that take biodiversity into account
- Integration of environmental management systems

## Recovered fibre

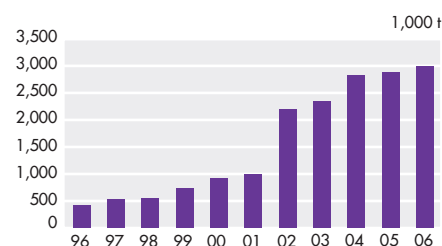
As a printing paper producer, UPM is Europe's leading and the world's second biggest user of recovered paper.

Recovered fibre is utilised at seven UPM paper mills in five countries: the United Kingdom, Austria, Germany, Finland and France. In addition to newsprint, UPM uses recovered fibre in the production of SC and LWC papers. In 2006 the use of recovered paper was about three million tons.

The rate of paper recovered is increasing globally. About 80 per cent of the recovered paper utilised by UPM comes from households and the rest from printers. In Europe, waste management is usually the responsibility of the local authority, and the recovery solutions in different countries vary. UPM procures its recovered paper from local authorities or waste management companies.



Recovered paper consumption 1996 – 2006





To make the use of recovered paper feasible, efficient collection and sorting systems are required. UPM aims to ensure the availability of suitable recovered paper. This can be achieved by operating effectively near the sources and influencing the planning of collection systems and the management of the flow of recovered paper.

## Wood sourcing

### Improved control of the origin of wood

In 2006, UPM's mills consumed a total of 26 million cubic metres of wood and 1.68 terawatt-hours of forest energy. The company's own forestry and wood sourcing units are responsible for supplying wood and forest energy to the mills and for the sustainable use and management of forests in its care. The wood is procured from state and own forests as well as from private forests.

UPM is committed to sustainable forestry and forest management methods that are

based on the internationally accepted principles (operating principles: [www.upm-kymmene.com/sustainableforestry](http://www.upm-kymmene.com/sustainableforestry)).

### Increased proportion of certified wood

UPM supports and uses reliable forest certification schemes. Forest certification is a good method for promoting the economic, social and environmental aspects of forest management.

UPM aims to increase the use of certified wood in all of its mills. About 65 per cent of all wood used by UPM's mills comes from certified forests. The share of certified wood has increased by three percentage points from year 2005.

### Generic Chain of Custody model for all forestry departments

The Chain of Custody system enables monitoring and reporting of certified wood. UPM began constructing its own Global Chain of Custody model early in 2005. The system al-

lows UPM to demonstrate the true share of certified wood and wood fibre in the products, both per certification scheme and overall.

UPM's system meets the requirements for both PEFC and FSC certification. The introduction of the Chain of Custody system proceeded according to plan, and the system has now been implemented by all of UPM's forestry departments. The system has been certified in each country in accordance with local conditions. The system is also in use at several mills (see page 40-42).

### Global biodiversity programme for company forests

In the development of forest management methods, conservation of biodiversity in commercial forests has been one of UPM's most important objectives for a long time. The company has conducted several projects in co-operation with external researchers and various stakeholders to study the conservation of threatened animal and plant species or habitats in managed forests. Projects have



Forests managed by UPM, 1000 ha <sup>1)</sup>

	Austria	Canada	Estonia	Finland	France	Germany	Russia	UK	USA	Total
Company forests	0	17	0	920	0	0	0	3	79	1019
Leased forests 2)	0	953	0	0	0	0	185	0	0	1138
Managed forests 3)	0	0	0	260	0	0	0	180	0	440
Total	0	970	0	1180	0	0	185	183	79	2597

Wood consumption in 2006, million m<sup>3</sup>

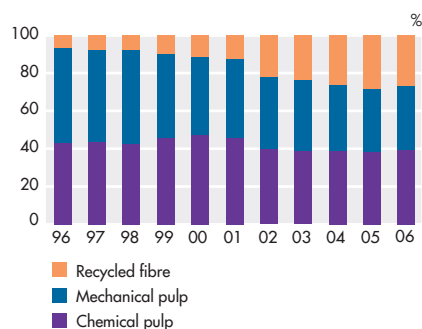
	Austria	Canada	Estonia	Finland	France	Germany	Russia	UK	USA	Total
	1,008	0,834	0,040	21,687	0,485	0,645	0,641	0,254	0,490	26,084

1) In Uruguay, Forestal Oriental SA, owned by UPM's associated company Botnia, owns about 161 000 hectares of land, out of which 83 000 hectares are eucalyptus plantations.

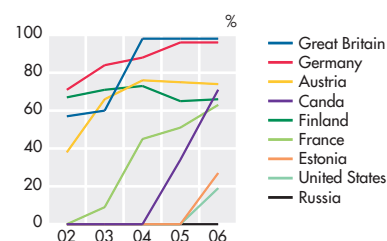
2) The felling rights in Canada are leased from the province of New Brunswick and in Russia from the Russian state.

3) Owned mainly by private non-industrial forest owners.

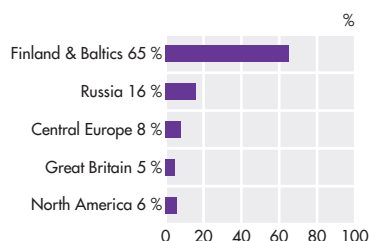
Fibre raw materials used in paper manufactured by UPM 1996 – 2006



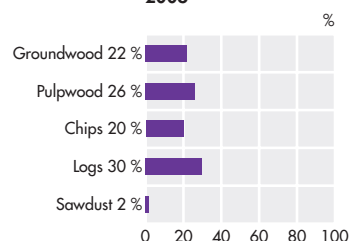
Certified wood supplied to mills



Wood procurement by region 2006



Wood consumption by timber assortment 2006



## UPM ■ CASE

### Tikhvinsky's forests – UPM's showcase in Russia

UPM owns 99 per cent of ZAO Tikhvinsky Kompleksny Lespromkhoz, acquired in autumn 2005. The company has felling rights for a forest area of 185,000 hectares. Log wood from the region is used at UPM's mills in Russia, and pulpwood is taken to Finland.

In 2006, a comprehensive programme to develop the operations of the company began. In addition to the development of the business concept, focus areas have been occupational health and safety as well as accident prevention, environmental issues, wood procurement, forest management, planning, administration and staff training. The efforts of Tikhvinsky Lespromkhoz staff have been supported by several key stakeholders including researchers, authorities and local stakeholders.

One of the goals of the development programme has been getting the forest management and wood sourcing practices of the company to fulfil the criteria of international forest certification standards. By the end of 2006, the external auditing company SGS Vostok Limited conducted an audit required for the FSC forest management certificate. The auditor recommended to FSC's decision-making bodies that the certificate should be granted.

UPM continues to develop the operations of Tikhvinsky. The objective is to define the economically and ecologically efficient best practices for the management of the company's forests in Russia.

been conducted in UPM's own forests, or forests managed by it, in Finland, the United Kingdom, Canada and the USA.

Cooperation projects in 2006 included, for example, protection of the white-backed woodpecker, securing the survival of grove and post fire and esker species, as well as restoration of the water economy in the Repovesi region of Finland. In the UK, nesting boxes for birds and bats were placed on road construction sites.

The various projects have helped to identify the key elements of biodiversity in forests that need development. As a response, a global action programme for their implementation was developed for the company's forests in 2006.

#### Wood sourcing in Russia

UPM procures some 5 million cubic metres of wood per year from Russia. The wood is delivered to its mills in Finland and Estonia, and to UPM's mills and Botnia's sawmill in Russia. UPM established the wood procure-

ment company OOO UPM-Kymmene Forest Russia in spring 2005 to manage its wood sourcing in Russia.

In 2006, a management system including both quality and environmental issues (ISO 9001, ISO 14001) was created for the company. The Global Chain of Custody system, which meets the requirements of the FSC standard, was audited in 2006. Once the certification is approved, it will also be possible to determine the share of certified wood in the wood procured from Russia.

The entire personnel of UPM-Kymmene Forest Russia have participated in Code of Conduct training, and a special training course on UPM's values, the integration of different cultures and environmental matters has been arranged.

At the end of 2005, UPM acquired a majority share in a Russian logging company in Tikhvin. See the UPM Case on this page for more information on the development of its business.

#### Origin and legality of Russian wood

Since 1996, UPM has been monitoring the origin of wood in Russia. In 2006 the new related TraceIt website was introduced. The website has been developed in co-operation with Axel Springer and Otto from Germany and the Guardian Media Group from the United Kingdom. See [www.upm-kymmene.com/traceit](http://www.upm-kymmene.com/traceit).

UPM requires its wood suppliers to operate within a framework that is responsible and financially, socially and environmentally sustainable. In 2006, UPM focused on how its wood suppliers implement these requirements.

UPM is committed to legal and sustainable forest management. The company is concerned about illegal logging, and in its own operation it aims to ensure that the origin of the wood procured is known. Wood suppliers are required to provide a statement of origin. In addition, UPM performs more than 200 field checks at logging sites in Russia each year. These include checking that the company complies with Russian legislation, the fell-



### Recognition to the development of forest issues

During the year, the development work conducted by UPM received awards from several external stakeholders. UPM, the WWF and DNV received the Forest Leadership award in Canada for their co-operation in the parallel field testing of forest certification schemes. The prize is awarded for co-operation between various organisations, such as environmental organisations and companies, to promote sustainable forest management. UPM's parallel field tests were carried out in Canada, the United Kingdom and Finland. The research results were published in 2005.

UPM's global Chain of Custody won the national environmental competition held by the Finnish National Fund for Research and Development (Sitra). The competition was part of the European Business Awards for the Environment 2006, organised by the European Commission. Another UPM project "Responsible Wood Sourcing in Russia" received a commendation in the same competition.

UPM's wood procurement company Tilhill in the United Kingdom received the prestigious RoSPA Occupational Health & Safety Award.

ing permits issued by the authorities and UPM's own requirements. If serious breaches of contract are detected, co-operation with the supplier concerned will be terminated.

In September 2006, Greenpeace published a report claiming that UPM was receiving illegal wood from Russian Karelia. In October, UPM performed wood supplier and field checks in the region in question to ensure that the wood was legally procured. DNV (Det Norske Veritas) attended the field check to verify the results. The investigation found that UPM's suppliers had performed in accordance with the felling permits and technical instructions, and they had complied with Russian law. DNV's verification report, UPM's supplier check report and all documents concerning the logging sites are available at:

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

[www.upm-kymmene.com/sustainableforestry](http://www.upm-kymmene.com/sustainableforestry)

[www.upm-kymmene.com/traceit](http://www.upm-kymmene.com/traceit)

### Supplier and logging site checks in Russia 2005–2006

	2005	2006
Total volume, million m <sup>3</sup>	5,7	5,2
Imports to Finland, million m <sup>3</sup>	4,4	4,3
Number of suppliers	200 <sup>1)</sup>	351
Statement of origin, % of delivered volume	97	99
Origin of wood documentation, %		
- good	-	86
- acceptable	-	4
- poor	-	9
- unacceptable	1	1 <sup>3)</sup>
Volume delivered from audited suppliers, %	80	85
Supplier and logging site checks		
- supplier checks	112	150
- logging site checks	235	252
Logging site assessment		
- good (no non-conformities)	80	66
- acceptable (minor non-conformities)	20	34
- poor or unacceptable (major non-conformities)	-	-
Quality of statement of origin at logging site, % of delivered volume <sup>2)</sup>	58	73

1) Since 2006 UPM Forest Russia has been responsible for wood deliveries inside Russia.

2) New method since 2005.

3) Two contracts were terminated.

The majority of questions from our customers concerned climate change, the origin of wood and the use of chemicals.



## The environmental load is reduced by the continuous improvement of operations

The handling of environmental matters is an integral part of management and operation in UPM at various levels of the organisation. Almost all of UPM's manufacturing operations are included in environmental management systems - certified in accordance with the ISO 14001 standard - which are part of the company's management system. UPM is committed to continuous improvement of environmental matters. In this regard, it wants to be one of the leading actors in its field of business.

The operation of the mills is steered by UPM's own, internally specified objectives and their monitoring, as well as the use of best practices. The starting point is that mills have to meet the permit conditions set by the authorities. Within EU the mills permits are according to IPPC directive (Integrated Pollution Prevention Control), which defines mill-specific limits for emissions into water, air and soil. Outside Europe, the mills comply

with the national and local rules. Compliance with the permit conditions is monitored by regular assessment, and the mills report any deviations immediately both to the authorities and internally within the Group. Continuous monitoring of emissions aims at avoiding failure to meet the permit conditions and being able to start corrective action without any delay.

Despite the precautions, UPM seemed to have briefly exceeded some of the limits set by the environmental permit conditions in 2006. The most noticeable environmental damage occurred at the Kymi pulp mill in July after a break in a pipeline, when alkaline cooking liquor was accidentally discharged in the River Kymijoki. The situation was quickly brought under control in co-operation with the authorities. According to the analyses conducted by the authorities, the impact on the water body was minimal and short-lived and the mill's permit conditions were not exceeded.

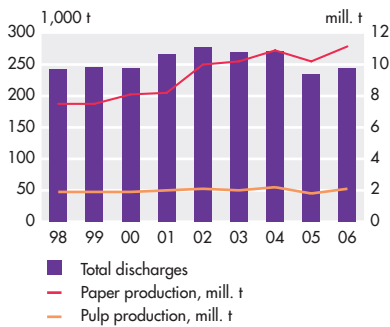
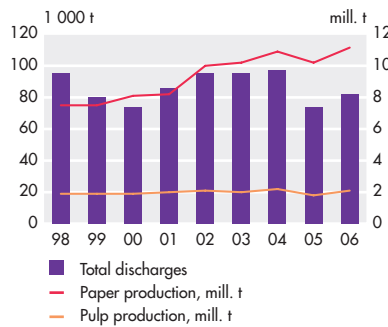
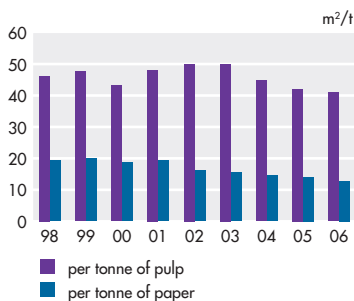
The principal means for reducing the environmental load include good planning, careful selection of raw materials and internal process management. Water circulates several times in the processes, and it is treated before being released into the watercourse. Furthermore the objective is to maximise the reuse of solid waste as material or energy. The amount of process waste water from the pulp mills per tonne produced fell by about 6 per cent in 2006.

During the year, the pulp mills were cross-assessed to ensure continuous reduction of environmental risks. Assessments will continue in 2007 at the paper mills.

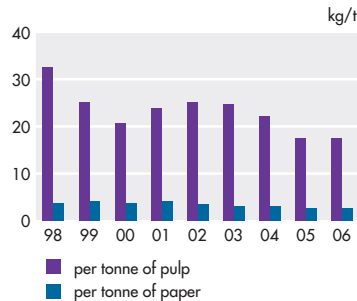
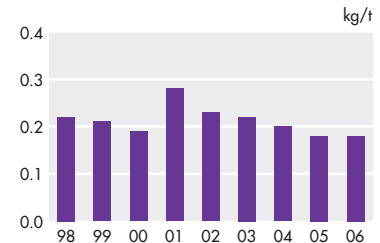
### Ecolabel for fine papers

The majority of questions from our customers concerned climate change, the origin of wood and the use of chemicals. UPM has continued to increase the use of renewable fuels.



**Volume of process wastewater from paper and pulp mills****COD load from paper and pulp mills****AOX load from 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 per tonne of paper or pulp produced****AOX load per tonne of bleached pulp**

Progress in monitoring and reporting the origin of wood has also taken place, and the deliveries of certified wood to UPM mills have increased.

Fine papers sold under UPM's own trademark were granted the European Ecolabel, the EU Flower, in autumn 2006. The first grades to have the right to use the EU Flower were the office papers manufactured at Pape-teries de Docelles in France, the Kymi Paper Mill in Finland and Nordland Papier in Germany. UPM Eco magazine paper produced at the Schongau mill in Germany started using the EU Flower in 2006, as well. Also PEFC and FSC labelled office paper grades were launched.

### Focus on environmental risk management

The environmental performance, risks, instructions and practices of all UPM's mills

have been examined during the period 2004–2006. The aim of the campaign was to promote environmental awareness, decrease emissions and improve risk management.

### Investments in environmental protection

UPM's investments in environmental protection in 2006 amounted to 33 million euros. The most important investments included enhancement of operational reliability at water treatment plants and sludge treatment. Operating costs relating to environmental protection, excluding depreciation, were 108 million euros.

### Decreasing water consumption

The amount of process waste water from the paper and pulp mills per tonne produced has decreased by about 6 per cent. For example, at the Stracel paper mill the amount of waste

water has decreased by almost 50 per cent since 2003 as the result of internal activities at the mill.

The paper and pulp mills use water in processes and for cooling. The water circulates in the process several times before it is discharged to the mill's wastewater treatment plant. Most of the solids and oxygen-consuming compounds contained in wastewater are removed before being released into the water-course. The average chemical oxygen demand (COD) at the mills decreased by about 4 per cent in 2006.

All the paper and pulp mills aim at continuous reduction of water consumption in their processes. This reduces the environmental load, improves energy management and maximises the recovery of pigment substances dissolved in water.

## PRODUCTION

### Target review 2006

#### Water

- Focus on reduction of fresh water usage and effluent amount: Process wastewater volumes per tonne of paper or pulp produced was reduced by 6 per cent. The greatest reduction in wastewater emission took place at the Stracel mill in France.
- Reduction of process water volume by 5 per cent as compared to 2005 at Kaukas mills in Finland: Achieved
- Reduction of water consumption, suspended solids and COD load at Changshu mill in China: Achieved
- Feasibility study for closed water cycle at Nordland Papier in Germany: Achieved

#### Air

- Focus on locally important emissions: Nitrogen oxide emissions per tonne of paper produced were reduced by over 6 per cent and sulphur dioxide emissions by almost 5 per cent compared with 2005.
- Replacement of water cooling towers by heat exchangers to avoid the risk of legionella and odour emissions at Stracel mill in France: Achieved
- Further VOC reduction at Walki Wisa in Pietarsaari in Finland: Work continues

#### Soil

- Focus on reduction of landfill waste: Solid waste per tonne of paper produced was increased by 25 per cent. In Finland the amount of solid waste at pulp and paper mills increased by 58 per cent due to the fact that the reuse plans did not materialise.
- Improved waste reuse at Caledonian mill in the UK: Work continues.
- Increased utilisation of power plant ash at Jämsänkoski and Kaipola mills in Finland: New reuse areas, for example, the construction of forest roads, have been studied.

### Targets for 2007

- A 5 per cent reduction in the amount of process waste water from paper mills compared to 2006
- A 5 per cent reduction in the amount of process waste water from pulp mills compared to 2006
- A 10 per cent reduction in solid emissions from magazine paper mills
- A unified environmental management system active in mills and operations

### Emissions into air

Airborne emissions arising from UPM's activities are generated mainly by energy production at the pulp and paper mills. The amount of fossil carbon dioxide emissions contributing to climate change (so-called greenhouse gas emissions) has been reduced as a result of a systematic effort to increase the proportion of renewable fuels in UPM's energy production (see page 22). Other emissions released into the air include sulphur dioxide and nitrogen oxides. In 2006, carbon dioxide emissions per unit produced decreased by 4 per cent, sulphur dioxide emissions by less than 5 per cent and emissions of nitrogen oxides by over 6 per cent.

The converting facilities generate VOCs (Volatile Organic Compounds). These emissions will decrease, as the converting facilities can now replace solvent-based substances with other alternatives.

Chemical pulp manufacturing generates bad-smelling sulphur compounds, TRS emis-

sions. These have been reduced by collecting and burning odorous gases. The normal operation of mills barely causes odour problems.

### Reuse of waste a challenge in Finland

UPM aims to reduce the total amount of waste and increase reuse of waste. However, the amount of solid waste taken to landfill sites has increased by 25 per cent compared with 2005.

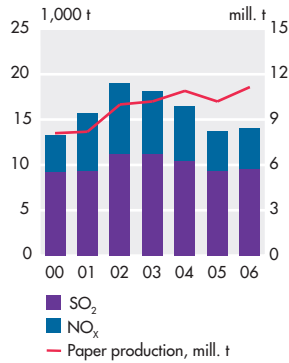
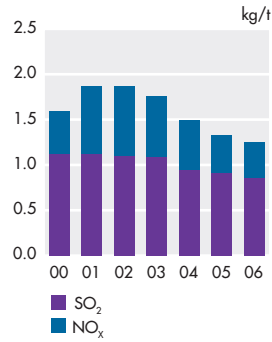
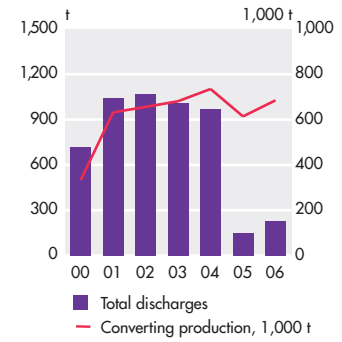
Ash from mill power plants is the most significant individual solid waste fraction. About 79 per cent (80% in 2005) of the ash is already being utilised in earthwork operations, the cement and brick industry or as fertiliser, etc. Earlier, ash was used in Finland particularly when closing down of the company's old landfill sites. As the number of landfill sites to be closed down has fallen, the reuse of ash has also decreased in Finland. Increased reuse is still the objective, and this involves co-operation with new partners in the development work.

### Soil

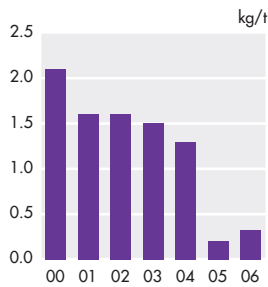
Over the years, UPM has renovated its old mill areas where industrial operations may have ceased decades ago. A soil analysis is performed at each site, and if any hazardous substances are found, the proper action is planned in co-operation with the authorities. Old mill sites are renovated to become suitable for industrial use. Slightly contaminated soil has been utilised to reshape paper mill landfill sites when they are being closed down. Nowadays it is very rare that hazardous substances leak into the soil.



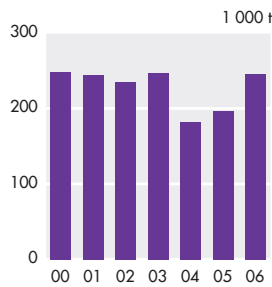
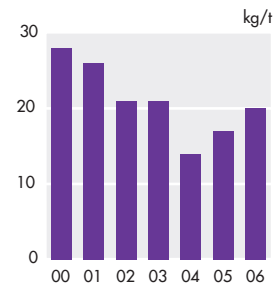
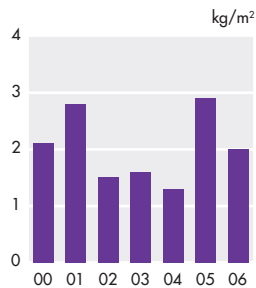
European Ecolabel, EU flower  
See: [www.eco-label.com](http://www.eco-label.com)

**Acidifying flue gases**

**Acidifying flue gases per tonne of paper**

**VOC emissions from converting <sup>\*)</sup>**


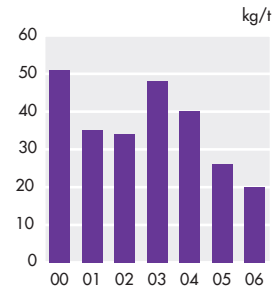
<sup>\*)</sup> Including UPM Raflatac since 2001. Since 2005 without Loparex. From 2006 adhesive residual monomer VOC emissions included.

**VOC emissions per tonne of converted goods <sup>\*)</sup>**


<sup>\*)</sup> Including UPM Raflatac since 2001. Since 2005 without Loparex. From 2006 adhesive residual monomer VOC emissions included.

**Total waste to landfills**

**Landfill waste per tonne of paper**

**Landfill waste per m<sup>3</sup> of wood products <sup>\*)</sup>**


<sup>\*)</sup> Only Finnish Wood Products mills included until 2004.

**Landfill waste per tonne of converted goods <sup>\*)</sup>**


<sup>\*)</sup> Since 2004 without Loparex.

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



## ENERGY

### Target review 2006

- Continuation of energy efficiency assessments:  
Achieved
- Continuation of project analyses for mill power plants:  
Achieved

### Targets for 2007

- Continuation of energy efficiency assessments.
- Continuation of project analyses for mill power plants.
- Continued concept development linked to the launching of liquid biofuels production.

# Reduction of greenhouse gas emissions continues

As a major energy user, UPM has to ensure that its mills are supplied with energy that is as competitively priced as possible and causes minimum emissions. The company is self-sufficient in terms of electricity in Finland. At Group level, its self-sufficiency rate is around 70 per cent. The high self-sufficiency has enabled UPM to work systematically to reduce greenhouse gas emissions, which cause global warming.

Emissions contributing to global warming are generated mainly by fossil fuels. UPM has replaced them with renewable fuels, nuclear power and hydropower. Over 50 per cent of UPM's own and co-owned electricity production cause no carbon dioxide emissions that accelerate climate change. Through its holding in Pohjolan Voima, UPM is participating in Teollisuuden Voima Oy's nuclear power plant project, which is due to be completed by 2010.

Overall, more than 75 per cent of the fuels used by UPM's mills in Finland are CO<sub>2</sub>-neutral. At Group level, the proportion is more than 57 per cent.

UPM started to take action to reduce carbon dioxide emissions in the early 1990s. In the past 10 years, the company has been able to cut carbon dioxide emissions from manufacturing by 34 per cent at its mills in Finland. In 1996, carbon dioxide emissions from UPM's mills in Finland fell below the level they were at in 1990. Now they are 36 per cent below that level, even though paper production at UPM's mills in Finland has increased by 47 per cent during the same period.

In the latter half of 2006, UPM started up energy plants in Rauma, Finland, and Shotton, in the UK, that use renewable fuels. The Chapelle Darblay power plant in France is due to be completed in 2007.

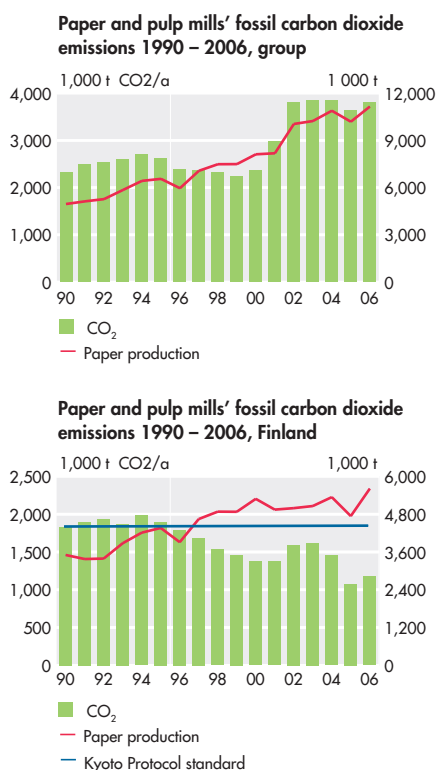
UPM is continuing its work to cut carbon

dioxide emissions and improve self-sufficiency in terms of electricity. A decision was made to build a power plant for the Caledonian paper mill in the UK that uses as its fuel biomass and by-products generated during production. The power plant will be complete in 2009, and it will cut UPM's carbon dioxide emissions by 75,000 tonnes per year. In addition, UPM is studying the construction of a power plant using biomass-based renewable fuels at the Kaukas mill site in Finland. This would be a joint energy operation with the city of Lappeenranta.

### Increasing utilisation of forest energy

Renewable fuels include forest energy, bark, wood residues, sludge from biological effluent treatment plants and RCF plants as well as black liquor from pulp mills. In particular, the use of forest energy has increased. Forest en-





## UPM's investments impacting on the reduction of fossil carbon dioxide emissions

	Start-up
Kainuun Voima, Finland, power plant	1989
Kaipola, Finland, power plant	1991
Kaukas, Finland, chemical recovery plant	1991
Tervasaari, Finland, power plant	1996
Alholmens Kraft, Finland, power plant	2001
Jämsänkoski, Finland, power plant	2002
Kymin Voima, Finland, power plant	2002
Järvi-Suomen Voima, Ristiina, Finland, power plant	2002
Järvi-Suomen Voima, Savonlinna, Finland, power plant	2003
Wisapulp, Finland, chemical recovery plant	2004
Shotton, Great Britain, sludge boiler	2006
Rauman Voima, Finland, power plant	2006
Chapelle Darblay, France, power plant	2007
Kymi, Finland, chemical recovery plant	2008
Caledonian Paper, Great Britain, power plant	2009

ergy includes logging residues, small-diameter trees removed during clearing and thinning operations, and stumps. The use of forest energy increased by about 5 per cent from the previous year.

UPM has been a forerunner in the use of forest energy, and the forestry and wood sourcing function has done a great deal of innovative work to develop its harvesting techniques. In Finland, the forestry department has guidelines for the sustainable harvesting of forest energy.

## Continuous improvement of energy efficiency

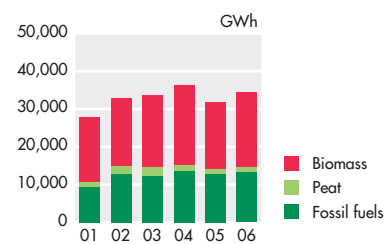
Energy efficiency is an essential part of the reduction of emissions. The energy efficiency of all UPM's mills is assessed continuously, and operations have been improved with excellent results.

## Plans for biodiesel production

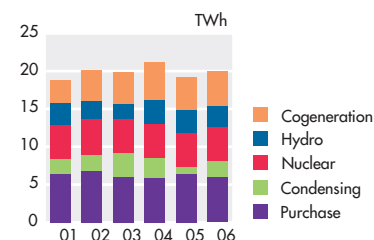
UPM plans to start the production of liquid transportation fuels such as biodiesel from lignocellulosic feedstock. The production of liquid biofuels is based on biomass gasification. Technical solutions are being developed. The investment decision on the first commercially significant production plant is expected in the next few years. The first production plant will be located alongside a UPM paper mill in the United Kingdom, France, Germany or Finland.

For more information see:  
[www.upm-kymmene.com](http://www.upm-kymmene.com)

## Distribution of fuels



## Group electricity supply



UPM's Logistics has launched a new system to calculate transports. The system was first implemented in Great Britain and Ireland. The system allows the improvement of emissions calculations.



## Transport rationalisation reduces emissions

As a major purchaser of transport services, UPM knows its responsibility and is committed to reducing the environmental impact of transport. UPM's logistics management system has been certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards.

The implementation of the Cargo Handling Manual, composed by UPM's logistics function, continued in 2006. The manual contains the requirements for cargo handling, transport and warehousing. For example, the requirements for lashing and securing of cargo are stricter than required by local law in many countries. Compliance with the manual is monitored by inspections. About half of the subcontractors in Europe and North America and one out of four in Asia are already working in compliance with the manual. The target is to achieve 100 per cent coverage by the end of 2007.

The international regulations that came into force in May 2006 limit the sulphur con-

tent in ship fuel to 4.5 per cent globally. In the Baltic Sea and North Sea traffic the maximum level is lower, 1.5 per cent. All UPM's partners comply with these regulations.

### Co-operation with customers to reduce emissions and improve safety

Carbon dioxide emissions caused by transports can be reduced by decreasing total haulage and by using more energy-efficient modes of transport and non-fossil fuels, such as biodiesel.

In the United Kingdom, UPM co-operated with a customer in a project where the customer expanded its automated station of discharge to be able to receive more paper reels at a time. This reduced the number of UPM trucks on the crowded London streets by 15 per cent, thus reducing the total haulage and emissions.

UPM has launched an innovative paper unloading system for its two-tonne triple width newsprint reels used by a major UK publish-

er. The new system aims to provide safe and secure transport from the production site to the fully automated print room. A series of research tests were commissioned and the results demonstrated that the conventional method of 'on end' loading was unsuitable for larger width reels. An alternative method of ensuring stability in transportation was necessary. Furthermore, the customer requested the unloading method be fully automated. The system is specially designed for the newsprint industry and includes a high-speed unloading dock and trailer system.

## LOGISTICS

### Target review, 2006

- Completion of fleet inventory: Achieved

### Targets for 2007

- Development of a method to check the sulphur content in ship fuel.
- Inspection of energy efficiency in the transport chain.
- Verification of computational carbon dioxide emission figures by on-line measuring.
- Incorporating new areas into the calculation of logistics' emissions.



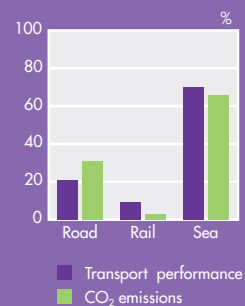
## UPM ■ CASE

### A new system for calculating transports

UPM is in the process of implementing a new logistics system that can calculate all transport distances and amounts (total haulage). This will facilitate the calculation and monitoring of emissions. Great Britain and Ireland were the first to implement the system.

In 2006, the total haulage for UPM's paper transits to Great Britain and Ireland amounted to about 1.9 billion tonne kilometres. The majority of this was sea transportation. These transits caused about 57,000 tonnes of carbon dioxide emissions. The production of the transported paper resulted in 431,000 tonnes of carbon dioxide.

Transport performance (tkm) and CO<sub>2</sub> emissions for deliveries to Great Britain and Ireland



# Corporate Social Responsibility (CSR)

The implementation of the profitability programme started in spring 2006 had a widespread impact on all the company's personnel. The "From Job to Job" programme helped those faced with unemployment find new jobs or training opportunities. Widespread cooperation with various stakeholders helped ensure the success of the programme.





HR Administration focused on the planning and responsible implementation of the profitability programme.



## The changes affected the entire personnel.

In March, UPM started an extensive programme to restore its profitability. It covers all the company's operations. It includes closing the least competitive paper capacity and improving the efficiency of all divisions, units and functions.

It is estimated that the programme will reduce UPM's total headcount by 3,600 over the period 2006–2008. In Finland, the workforce will be reduced by 2,557 with 1,885 taking different retirement schemes and 672 being laid off. The majority of the laid-off or to be laid-off personnel are from the closed Voikkaa paper mill. The rest of the redundancies will mainly target operations in France, Germany and Austria.

The company started the "From Job to Job" programme to support those left unemployed following the closure of the Voikkaa mill (see page 31).

UPM's profitability programme also includes centralising the company's financial

operations to Global Service Centres in Tampere, Finland, Changshu, China, and also partly in Singapore. Furthermore, UPM will establish four Regional Service Centres worldwide for financial services. Until now, the company's financial services have been provided from some 100 locations. If completed as planned, these measures will reduce the Finance and Control headcount by about 150 people from the current 730.

UPM has continued to outsource its non-core business activities. In September, negotiations were initiated to discuss the restructuring and development of forestry work. In Finland, UPM employs about 300 forestry workers. Their work consists mainly of cultivating forests and tending seedling stands. In January 2007 UPM decided to establish its own company, Silvesta Oy, which specialises in forestry. UPM's forestry workers will be transferred to the new subsidiary. Silvesta focuses on the planning, execution and

marketing of practical forestry work.

The restructuring of the company's IT function began in 2005. During 2006, some IT services were outsourced to Siemens and IBM, and 77 employees from UPM's IT organisation transferred to these companies.

The number of employees was 31,522 in the beginning of 2006 and 28,704 in the end of the year. The decrease was 2,818 persons, of which 2,371 were due to closing of business, rationalisation and outsourcing. Divestments led to a reduction of 608 people. The number of personnel at UPM Raflatac increased by 161 persons.

### Leadership development

UPM has defined new management principles and, based on them, new competence requirements for supervisors. The "Learning to Lead" model for management development was completed to reinforce the supervisory skills required to manage change. It contains solutions for the development of various tar-

## HR ADMINISTRATION

### Target review 2006

- The definition of UPM's competence strategy and the implementation of the new performance management process: UPM's competence strategy has been defined and the implementation of the performance management process has begun.
- Implementation for a development programme for top management: Implementation of the development programme has begun.
- Implementation of the sales personnel development programme: Implementation of the programme has begun.

### Targets for 2007

- Continuous development of leadership culture and the implementation of the leadership principles in the entire organisation with the help of superiors and HR processes.
- Support of the change process.
- Implementation of the competence strategy.

## OCCUPATIONAL HEALTH AND SAFETY

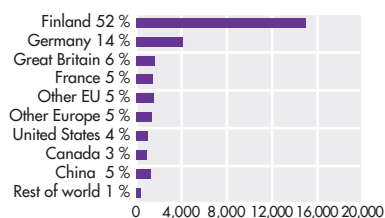
### Target review 2006

- Utilisation of the best practices and knowledge of the OHS networks: The work was initiated; the network is not complete yet.
- Analysis of the reasons for absences due to illness: Analyses are in progress at several mills.
- Improvement of safety awareness by means of e-learning tools: Pilot in Finland: The pilot was completed at the Kymi mill. The tool will be utilised in the OHS work.

### Targets for 2007

- Implementation of measures to reduce absences due to illness.
- Ensuring safe operations during change.
- Initiation of Health and Safety Leadership Visits.

Personnel by area,  
31.12.2006, 28,704



## Personnel by country

at 31 Dec.	2006	2005	2004
Finland	14,946	17,322	18,720
Germany	4,097	4,272	4,311
Great Britain	1,622	1,685	1,852
France	1,463	1,707	1,712
Russia	1,361	1,407	750
Austria	679	672	678
Spain	269	272	277
Estonia	172	186	179
Italy	86	86	83
Poland	66	46	45
Hungary	52	52	46
Sweden	46	51	58
Belgium	42	75	74
The Netherlands	34	39	166
Denmark	23	36	41
Other Europe	76	76	66
China	1,302	1,167	1,109
United States	1,024	1,013	1,571
Canada	909	939	1,296
Malaysia	147	141	151
Australia	95	107	104
South Africa	92	86	81
Rest of world	101	85	63
<b>Total</b>	<b>28,704</b>	<b>31,522</b>	<b>33,433</b>





get groups in the spirit of the new leadership principles. Nearly half of management participated in the Booster programme for senior management. Training for middle management was initiated in 2006.

Supervisor training utilises various models of learning at work to support successful implementation of changes in the business environment and the company's management culture.

In professional development, UPM focused on personnel employed in global operations. New development programmes were launched for them, for example, in sales, IT, sourcing and finance and control.

### Short-term incentives

The same short-term incentives were in place in 2006 as in the previous year: an incentive system for salaried employees combining business targets and personal performance targets, and a profit bonus scheme based on the return on capital employed for other employees. The total amount of incentive bonuses and rewards paid in 2006 was 20 million euros. Additionally some UPM's mills have also had their own incentive schemes based on productivity and efficiency.

The short-term incentive system was modernised in autumn 2006. As of the beginning of 2007, all of UPM's personnel will be included in one system that combines business targets and personal or team performance targets. The key indicator is the EBITDA. Paper sales personnel who work directly with customers and are responsible for concluding sales contracts will have their own incentive system.

### Reformed Personal Performance Reviews

Management at UPM is largely based on Personal Performance Reviews (PPRs) conducted between the supervisor and the employee. Their purpose is to implement the Group's strategy by dividing it into goals for the functions and individuals. From the beginning of 2007, PPR practices and content will be improved to comply better with the company's strategic goals and their implementation.

The target is a more precise timing of the PPRs with the Group's strategy work. Individual development based on achievement of goals is also emphasised. Well-being at work is extremely important during change, and it is also included in the PPRs.

For salaried employees, PPR coverage is nearly 100 per cent. The target is that all employees are covered by the same process by the end of 2009.

### Employee participation

Employees at UPM participate in the Company's decision making in accordance with international and national legislation.

The UPM European Forum is the Group's European co-operation body. Representatives of all employee groups from UPM's mills in Europe participated in the Forum. The European Forum met twice in 2006. Meeting discussions covered topical issues related to the Group's profitability programme.

### Some increase in absence rates

Absences due to illness and accidents have remained at the same level as in the previous year for the entire staff. However, the absences of shop-floor workers have slightly increased. The trend has been negative within most divisions. In Finland, absence rates remain high. Effort is being made to reduce absences and to examine their causes at both the national and at the unit level.



## UPM ■ CASE

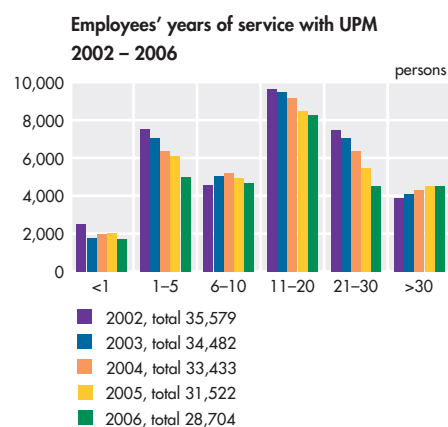
### “From Job to Job” programme to support re-employment

UPM launched an extensive programme in spring 2006 to support the employees who lost their jobs as the result of the profitability programme. The objective of the “From Job to Job” programme is to facilitate re-employment, training for a new job and relocation. The support was particularly targeted at the Voikkaa mill, where 678 people lost their jobs due to its closure.

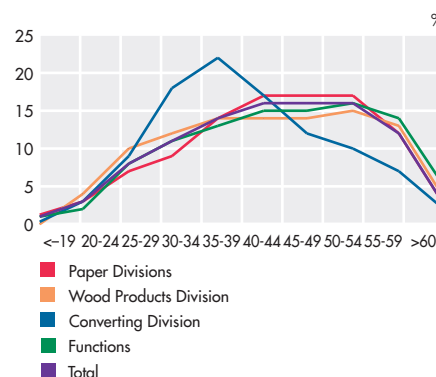
By the end of 2006, as many as 477 of the redundant Voikkaa employees had found new employment, were training for a new job or had retired. More than 90 employees have been re-employed within UPM, mainly in Finland but also in Canada, the United Kingdom, China and Germany. Nearly 170 people have found a job outside the company. UPM granted start-up aid for launching a business to 20 applicants in 2006. Sixty employees are involved in vocational training as part of the change security procedure.

In accordance with the “From Job to Job” programme, redundant UPM employees are prioritised when vacancies within the company are filled. UPM will cover the costs of internal retraining. If the new job requires relocation, UPM will compensate the costs of moving and pay a settling-in allowance. For Voikkaa employees, the re-employment obligation period has been extended to 24 months. The nine months obliged by law still apply to other employees. In addition, the Voikkaa employees may use UPM’s occupational health services for 24 months after the termination of employment.

UPM continues to support training that aims at re-employment by paying attendance and material fees. In addition, UPM offers start-up aid to launch a new business. Applications for grants can be made until the end of 2008. Two companies started business on Voikkaa mill premises in 2006 and they hired 68 former Voikkaa employees. UPM has undertaken to use the services of one of these companies, Empower Oy, for a minimum of three years. Empower Oy provides forest industry maintenance services. UPM is currently involved in negotiations with companies representing various industries concerning the future use of the mill premises. The supportive measures to relieve the impact of the mill shutdown will continue in 2007. UPM is collaborating with the employment authorities and a company specialising in recruitment services to find job opportunities for those Voikkaa employees who are still unemployed.



**Age structure of Group personnel 2006 <sup>\*)</sup>**



<sup>\*)</sup> The figures cover 97 per cent of the personnel, status at the end of the year.



The frequency of work accidents has by and large remained at last year's level, following a long positive trend. The frequency of accidents has increased in Finland in particular. Although the overall positive development seems to have stopped, many units have achieved positive results in occupational safety work. The Stracel paper mill succeeded best in decreasing the number of accidents. As of spring, 12 months had passed at the mill without any accidents that led to absence. The Stracel mill has worked systematically to improve safety, which would not have been possible without the management's strong commitment.

In 2006, an employee was killed at the Blandin plant in the USA in a worksite accident. In December, an accident at the Changshun paper mill in China led to the death of a subcontractor's employee. In UPM's area at Kymi, outside the mill gates, a company employee was killed on the way from work in a crash involving a lorry and motorcycle.

In 2006, Health and Safety Leadership Visits were piloted at two locations within the Group. Their purpose is to detect and distribute good practices, as well as give feedback to the object of the visit. The intention is to make Health and Safety Leadership Visits a standard practice.

### Legionella study

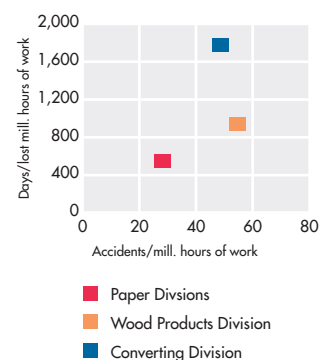
UPM is involved in a research project conducted by the Finnish Forest Industries Federation, concerning the presence of Legionella bacteria in the effluent treatment plants of Finnish pulp and paper mills. In 2006, one case of disease caused by Legionella bacteria was reported in UPM. The source of infection could not be verified with certainty.

The need to examine the possible presence of Legionella bacteria was recognised in 2005. At the same time, personnel were instructed to use respirator masks while working in the effluent treatment area, and unauthorised entry to the area was prohibited.

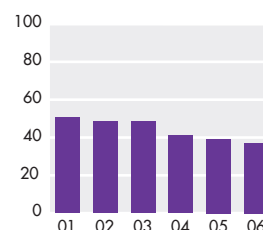
### OHS co-operation network develops operating models

The Group has a global OHS cooperation network with the objective of developing good operating models and agreeing on common practices. Nearly all mills have their occupational health and safety systems, most of which are also certified (OHSAS 18001).

Days lost rate vs. accident rate in 2006

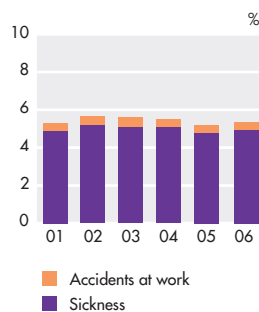


Accident rate, shop-floor workers \*)



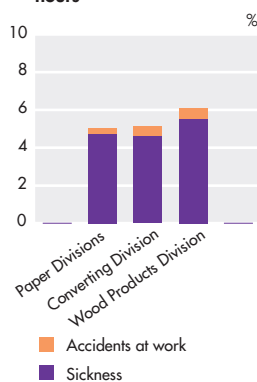
\*) accidents, resulting in one or more days lost, per million hours of work

**Absences, shop-floor workers, in % of regular contracted hours <sup>\*)</sup>**

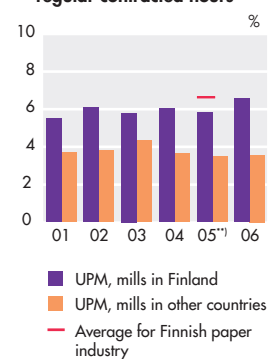


<sup>\*)</sup> The absense rates for 2005 are not comparable due to the strikes and lock-out in Finland.

**Absences per Division, 2006, shop-floor workers, in % of regular contracted hours**



**Absences, shop-floor workers in paper and converting mills, in % of regular contracted hours <sup>\*)</sup>**



<sup>\*)</sup> 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.

<sup>\*)</sup> The absense rates for 2005 are not comparable due to the strikes and lock-out in Finland.



The co-operation between UPM and its stakeholders is versatile, including co-operation projects, expert level co-operation and support for maintaining the vitality of local communities.



## Extensive co-operation with stakeholders

UPM was selected as an index component for the European Dow Jones STOXX Sustainability Index (DJSI STOXX) for 2007. The index includes 162 companies representing various industries. Two of the four companies in the Forestry & Paper industry group were included in the index, UPM being one of them.

UPM was also a component in the global Dow Jones Index, DJSI World, in 2003–2006, and it was the industry group leader in 2005–2006. For this period, 13 companies within the forest industry sector were compared, and only one of them was included in the DJSI World Index.

### Improved customer satisfaction

In 2006, a customer satisfaction survey was carried out by all the Paper Divisions. The interviews involved 175 customers in 19 countries. The results improved clearly from the previous year in all of the Paper Divisions. In particular, the customers appreciated UPM's product quality and extensive product range,

good service and technical support. UPM's environmental services received positive customer feedback. Demand for such services has increased over the years and most customers find that UPM has been able to meet their needs. In general, UPM was considered a good partner. Innovativeness and development work were seen as the main areas for improvement.

The Wood Products Division also conducted a customer satisfaction survey. The analysis of its results will be complete during the first half of 2007.

### Sponsorship and support activities

In 2006, UPM spent a total of 2.4 million euros on sponsorship and support activities. Most support activities were implemented in local communities surrounding UPM's mills. The partner's contribution to the sponsor partnership has become increasingly important.

At both corporate and local levels, UPM targets its sponsorship and support work at

opportunities which address the challenges facing both UPM and its customers, such as activities promoting the use of printed media and the use of wood, education and environmental issues. Locally, sponsorship activity focuses on organisations and associations that promote recreational activities in the area.

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.

### Supporting the vitality of local communities

In 2006, UPM focused particularly on supporting the vitality of the Kuusankoski region, when the Voikkaa mill was closed down.

In the world's new, developing markets the local community's vitality can be supported by taking part in the building of infrastructure and sponsoring the education of the underprivileged. For example, in connection with



## UPM ■ CASE

### The changing business environment and co-operation with stakeholders

In 2006, UPM aimed to inform its stakeholders openly about the permanent change taking place in the paper industry's operating environment and its impact on the company's business. The objective was to provide information as extensively as possible on the company's profitability programme and its background, and to inform stakeholders about the progress of the "From Job to Job" programme (page 31). Particular attention was paid to UPM's own personnel. It was considered important that everyone throughout the organisation understands the permanent nature of the change as well as the grounds for decisions made. The company was active in communicating the progress of the profitability programme.

An exceptional number of meetings with external stakeholders were held during the year, especially in Finland, where the profitability programme had the greatest impact. The participants included, for example, political decision-makers and representatives of interested organisations and the media. Meetings were also held at the Ministry of Trade and Industry with the representatives of labour authorities, to promote employment at regional level. UPM initiated co-operation with the town of Kuusankoski and the Employment and Economic Development Centre. The target is to attract new businesses to the area. Several contacts have already been made, and the work continues.

At Voikkaa, UPM was involved in active co-operation with the labour authorities, and a service point was established on the mill premises to support the re-employment of redundant employees after the shutdown. A number of presentations and recruitment meetings were organised for the Voikkaa personnel in co-operation with external companies, providing an opportunity to apply for jobs. Visits were arranged for the personnel to companies, located outside Voikkaa, that need new employees. UPM has been in contact with dozens of companies and has investigated opportunities for retraining in industries with good employment prospects.

the investments at the Chudovo plywood mill in Russia, UPM participated in repairing the city's main wastewater line and the municipal treatment plant. In China, UPM continues to support the basic education of children in the country's poorest areas.

#### Co-operation with towns

For many years now, UPM has co-operated with Finnish towns in the field of energy supply. In Kajaani, Kuusankoski and Pietarsaari in Finland, mill power plants produce energy for the mills and district heating for the towns. A new power plant of this type started up in Rauma, Finland in 2006. All the power plants mentioned use mainly biomass-based renewable fuels. Such co-operation also reduces local emissions.

Wastewater treatment is another field of co-operation between UPM and the town of Rauma. Since 2002, the forest industry treatment plant has also treated the town's wastewater.

#### Expert level co-operation with research institutes and organisations

UPM is an active participant in a number of organisations working to promote corporate responsibility, such as the UN Global Compact Initiative and WBCSD (World Business Council for Sustainable Development). The company is also involved in national and international industry sector organisations, like CEPI. UPM collaborates with authorities, universities, research institutes, organisations and local communities in various projects.

#### Cultural heritage

UPM owns the former Verla groundwood plant and board mill in Finland. This site is included on the UNESCO World Heritage List. The company is responsible for the maintenance and development of the museum area, which had over 20,000 visitors from 60 different countries in 2006. During the year, the museum expanded its exhibition activity, and the cataloguing and inventorying of the

items in its collections got under way. The investments to improve the museum's fire safety were completed.

In 2006, UPM established UPM-Kymmene's Cultural Foundation to own and manage 689 valuable works of art owned by the corporation. These works are situated at 14 UPM premises in Finland as well as in Augsburg, Germany, and Changshu, China.

The purpose of the Cultural Foundation is to preserve and manage UPM's cultural heritage and particularly its valuable collection of Finnish art, as well as to promote awareness of its collection. This will be achieved by arranging exhibitions and providing information and publications.

UPM's art collection still comprises some 1,800 items.

# UPM Code of Conduct

This Code of Conduct has been approved by the UPM Board of Directors on May 31, 2006.

UPM's objective is to pursue long-term profitable business in an ethical and responsible manner taking into account economic, human and social, as well as environmental matters.

Striving towards sustainable development and continuous improvement are part of the everyday way of operating at UPM. Openness, trust and initiative are UPM's basic values.

The Code of Conduct defines the way of operating for all UPM employees including directors and officers without exception. It is complemented as needed by more detailed rules and guidelines approved by the Executive Team, divisions and functions. All company rules and guidelines have to be in full compliance with the UPM Code of Conduct.

## Legal Compliance and Disclosure

It is the policy of UPM to comply in all of its operations with applicable laws and regulations wherever it conducts its business. These include, among others, laws and regulations related to securities markets, corporate governance, competition, product safety and product liability, occupational health and safety, labour, environment, protection of intellectual property, protection of individual privacy and equality at work.

As a listed company UPM is committed to compliance with its obligations under the listing rules of HEX and NYSE and other applicable rules. Accordingly it is UPM's policy that all reports and documents it files with relevant governmental and regulatory agencies as well as communications to its investors and other stakeholders contain information which is accurate, complete and based on verified facts giving a materially correct picture of the company's operations. Such information will be fairly and promptly disclosed to the public.

Irrespective of position, no one at UPM has the right to expect or allow illegal activities.

## Conflicts of Interest, Gifts and Bribes

UPM employees are expected to promote the interests of UPM and in doing so act responsibly.

UPM prohibits any corruption or bribery in its operations. UPM and its employees will not pay or offer to pay bribes or illegal payments.

Employees are prohibited from taking personal benefits from opportunities discovered through the use of corporate position or information. UPM employees must avoid activity which leads to a conflict of interest. This includes giving and accepting personal gifts or benefits beyond reasonable hospitality given in the ordinary course of business. Conflicts of interest would arise if an employee or his or her family member receives improper personal benefit as a result of the employee's position in UPM. Apart from receipt of cash, items of nominal value (a maximum of 100 euros) are excluded. UPM employees must also not compete with UPM. The Company does not support political candidates, parties or groups.

All employees are expected to take proper care of UPM's assets, use them efficiently and not to use them for any unauthorized purposes.

Disclosing of confidential customer and other information to any outside party or the use of such information in conflict with UPM's interests is prohibited without exception.

## Respecting and Promoting Human Rights

UPM respects the universal human rights as defined by the United Nations' Universal Declaration of Human Rights in its own operations and promotes their implementation in its sphere of influence.

Among those rights which the Company views as fundamental and universal are: freedom of thought, opinion, expression, religion and to peaceful assembly as well as freedom from any discrimination based on race, age, nationality, gender or sexual orientation.

The Company does not tolerate the use of forced or child labour.

## Human Resources Practices

All employees with managerial duties are required to actively and purposefully promote a leadership culture that is in accordance with UPM's values and the spirit of this Code of Conduct.

UPM strives to provide a safe and inspiring working environment to all employees. All employees are required to conduct their duties without endangering work safety. The company encourages its employees to engage in their own personal and professional development and growth. UPM is committed to treating all employees fairly, impartially and equally.

UPM is committed to equality of opportunity in all its employment practices, policies and rules.

## Environmental Practices

UPM's environmental management is based on internally defined goals, measuring the realization of these as well as on developing and implementing best practices in the whole supply chain.

UPM measures and assesses continuously both the direct and the indirect environmental loads and impacts of its operations and strives to manage these systematically in accordance with the principle of continuous improvement. The environmental loads and impacts related to product life cycle result from sourcing raw materials, production, distribution of products, and their recovery and disposal.

UPM assesses its suppliers systematically and regularly also from the perspective of social and environmental responsibility.

## Implementation of the Code of Conduct

All UPM employees must comply with this Code of Conduct. Employees are encouraged to contact supervisors, managers or other appropriate personnel when in doubt about the best course of action in a particular situation.

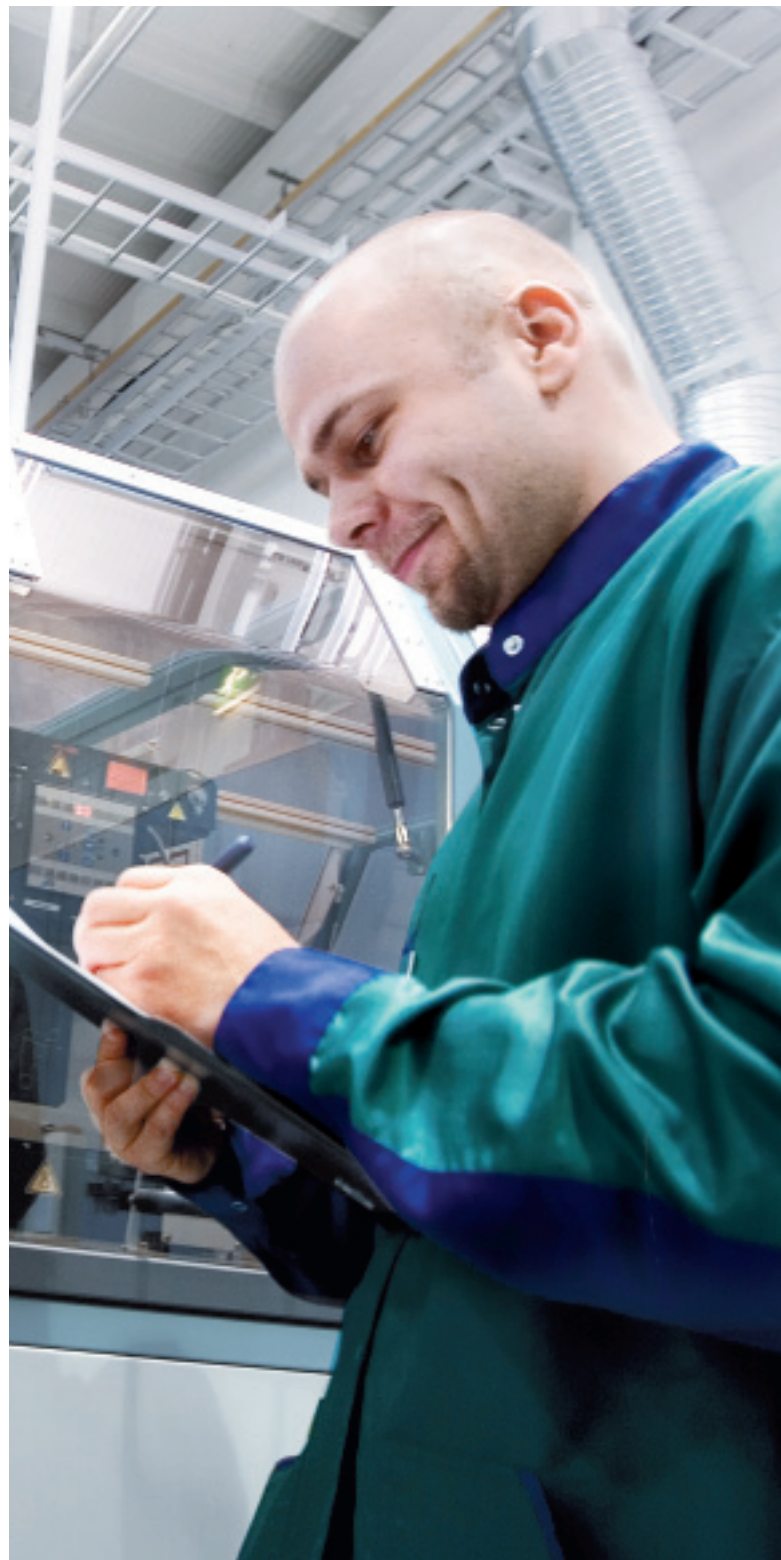
UPM strives to ensure compliance with this Code of Conduct by developing the Company's auditing, monitoring, and reporting processes.

Employees who violate this Code are subject to disciplinary action up to and including termination of employment. Employees are required to report any possible violations against this Code to their own superior or to the Internal Audit function. UPM has also an electronic channel and a physical mailing address, both available on UPM's intranet and website, through which concerns and issues can be confidentially and anonymously addressed to the head of UPM's Internal Audit function.

Any person(s) reporting such violations are not to be retaliated against in any way for making such a report. In all instances the rights and privacy of both the reporting person(s) and the one(s) accused of violations are to be adequately protected and assured.

Any waiver of the Code of Conduct for executive officers and directors may be made only by the Board of Directors or a Board Committee and must be promptly disclosed to shareholders.

*UPM's Human Resources Rules, Occupational Health and Safety Rules, Antifraud Rules and Disclosure Rules as well as divisional Environmental Rules are available in [www.upm-kymmene.com](http://www.upm-kymmene.com)*



## UPM's material balance 2006

Raw materials and energy		Sales	
Wood, m <sup>3</sup>	26 100 000	Paper, t <sup>1)</sup>	10 900 000
Market pulp, t	1 400 000	Pulp, t	50 000
Recovered paper, t	3 000 000	Fluff pulp, t	80 000
Purchased paper and board for converting, t	360 000	Converted products, t	680 000
Minerals, t	2 600 000	Plywood and veneers, m <sup>3</sup>	960 000
Plastic films and granulates, t	60 000	Sawn timber, m <sup>3</sup>	2 400 000
Purchased electricity and own hydropower, GWh	14 000	Heat, GWh	580
Purchased fuels and heat, GWh	17 000	<b>Emissions into water, t</b>	
<b>Production</b>		COD <sup>2)</sup>	82 000
Paper manufacturing		BOD <sup>2)</sup>	10 000
Mechanical and chemical pulp manufacturing		AOX	340
Recovered paper processing		<b>Emissions into air, t</b>	
Converting		SO <sub>2</sub>	4 800
Sawn timber and processed timber products		NO <sub>x</sub>	9 600
Plywood and veneer manufacturing		CO <sub>2</sub> (F)	3 800 000
On-site power plants		Solid waste, t	
		To landfills	240 000
		Hazardous waste for special treatment	3 600

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

2) Information on waste water discharges also includes the waste water load from the AUG and CAL mills to municipal treatment plants

## Paper Divisions: production, most important raw materials, energy consumption, emissions and solid waste

	2006	2005	2004	2003
<b>Production, t</b>				
Paper	11 151 000	10 189 000	10 890 000	10 230 000
Pulp	2 095 000	1 840 000	2 240 000	2 030 000
<b>Raw materials and energy</b>				
Wood, m <sup>3</sup>	18 847 000	16 860 000	19 844 000	19 123 000
Purchased pulp, t	1 400 000	1 300 000	1 300 000	1 300 000
Recovered paper, t	3 000 000	2 900 000	2 800 000	2 300 000
Minerals, t	2 600 000	2 400 000	2 600 000	2 400 000
Purchased power, GWh	14 000	13 000	14 000	15 000
Purchased fuels and heat, GWh	16 000	16 000	18 000	17 000
<b>Emissions into water, t</b>				
COD	82 000	74 000	97 000	95 000
BOD	10 500	10 100	11 400	10 300
AOX	340	290	410	390
<b>Emissions into air, t</b>				
SO <sub>2</sub>	4 800	4 700	6 500	7 500
NO <sub>x</sub>	9 500	9 200	10 300	11 100
CO <sub>2</sub> (F)	3 800 000	3 600 000	3 800 000	3 900 000
<b>Solid waste, t</b>				
To landfills	224 000	171 000	150 000	211 000
Hazardous waste for special treatment	2 400	2 200	1 800	1 800



**Converting Division: production, most important raw materials, energy consumption, emissions and solid waste <sup>1)</sup>**

	2006	2005	2004	2003
<b>Production, t</b>				
Converted products	685 500	614 000	735 200	681 200
<b>Raw materials, t</b>				
Papers, kraftliners and board	618 600	488 100	641 700	595 100
Plastics	60 300	54 200	81 500	74 100
Adhesives	90 400	55 900	64 400	65 300
Printing inks, lacquers	1 440	1 310	1 760	1 700
Aluminium foil	3 480	3 090	3 690	3 360
<b>Emissions into air, t</b>				
VOC	230 <sup>3)</sup>	150	970	1010
<b>Solid waste, t</b>				
To landfills	14 300	16 500	31 100	34 200
Hazardous waste for special treatment <sup>2)</sup>	720	540	1 570	1 440

1) Since 2005 without Loparex.

2) Washing water from Walki Wisa Changshu is included.

3) From 2006 adhesive residual monomer VOC emissions are included.

**Wood Products Division: production, most important raw materials, energy consumption, emissions and solid waste <sup>1)</sup>**

	2006	2005	2004	2003
<b>Production, m<sup>3</sup></b>				
Plywood and veneer	947 000	968 000	832 000	813 000
Sawn timber	2 199 000	2 017 000	1 894 000	1 962 000
Processed timber and plywood <sup>2)</sup>	495 000	443 000	552 000	536 000
<b>Raw materials and energy</b>				
Wood, m <sup>3</sup>	7 126 000	6 555 000	6 306 000	6 643 000
Resin, t	28 000	28 000	24 000	24 000
Films, t	5 800	5 300	5 400	5 400
Purchased power, GWh	410	390	390	na
Purchased fuels and heat, GWh	1 210	1 140	1 160	na
<b>By-products, m<sup>3</sup></b>				
Bark, chips and sawdust	4 222 000	3 415 000	2 730 000	na
<b>Emissions into air, t <sup>3)</sup></b>				
SO <sub>2</sub>	30	40	35	30
NO <sub>x</sub>	110	140	100	120
CO <sub>2</sub> (F)	10 500	14 900	13 300	12 400
Particulates	110	190	110	150
<b>Solid waste, t</b>				
To landfills	6 420	8 750	3 480	4 350
Hazardous waste for special treatment	550	830 <sup>4)</sup>	420	550

1) Data 2003/2004 from Finnish Wood Products sites only; since 2005 data of whole Wood Product Division is presented.

2) Mainly made of UPM:s own base plywood and sawn timber; therefore included in the respective production data.

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

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

na: data not available

# Certification of Management Systems and Chain of Custody at UPM

## Paper Divisions

	Environmental management system		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	<sup>2)</sup>	x	x	x	x
Caledonian, GB	x	x	x	x	x	x
Changshu, CN	x	<sup>2)</sup>	x	x	x	x
Chapelle Darblay, FR	x	x	x	x	<sup>3)</sup>	<sup>3)</sup>
Docelles, FR	x		x	x	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	<sup>4)</sup>	x	
Kymi, FI	x	x	x	x	x	
Miramichi, CA	x	<sup>2)</sup>	x	x	x	
Nordland, DE	x	x	x	<sup>4)</sup>	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	<sup>3)</sup>	<sup>3)</sup>
Shotton, GB	x		x	<sup>4)</sup>	<sup>3)</sup>	<sup>3)</sup>
Steyrermühl, AT	x	x	x	x	x	
Stracel, FR	x	x	x	x	x	
Tervasaari, FI	x	x	x	<sup>4)</sup>	x	
Vaikkaa, FI	x	x	x	x	x	

<sup>2)</sup> EMAS not relevant outside EU.

<sup>3)</sup> No fresh wood used, 100% recovered paper.

<sup>4)</sup> OHSAS system in place, but not certified.

## Converting Division

	Environmental management system		Quality management system	Health & safety system	Hygiene standard
	ISO 14001	EMAS	ISO 9001	OHSAS 18001	
<b>UPM Raflatac</b>					
Barcelona, ES			x		
Nancy, FR			x		
Scarborough, GB	x		x	x	
Shanghai, CN			x		
Tampere, FI			x		
Oceania, AU			x		
<b>UPM Raflatac RFID</b>					
Tampere, FI	<sup>1)</sup>		x		
<b>Walki Wisa</b>					
Converflex Ab, Örnsköldsvik, SE	x		x		
Garstang, GB			x		
Jülich, DE	x		x	x	
Pietarsaari, FI	x	x	x	x	
Steinfurt, DE	x		x	x	BRC-IoP
Valkeakoski, FI	<sup>1)</sup>		x		DS 3027

<sup>1)</sup> Under development.

## Wood Products Division

	Environmental management system		Quality management system	Health & safety system	Chain of Custody for wood supply	
	ISO 14001	EMAS	ISO 9001	OHSAS 18001	PEFC	FSC
Wood Products, FI	x		x	<sup>1)</sup>	x	
Steyrermühl, AT	x	x		x	x	
Otepää, EE			x			x
Chudovo, RU	x		x			

<sup>1)</sup> OHSAS system in place, but not certified.

## Forestry and Wood Sourcing

	Environmental management system		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						
- Frischholz, AT	x	x		x	<sup>1)</sup>	PEFC
- France	x	x	x	x	<sup>1)</sup>	PEFC
- Germany	x	x	x	x	<sup>1)</sup>	PEFC, FSC
UPM Forest, Baltics					<sup>1)</sup>	FSC
UPM Forest, Russia					FSC	FSC
Tilhill Forestry, GB	x		x	x	UKWAS	FSC
Miramichi, CA	x				SFI	PEFC
Blandin, US	x				SFI	PEFC, FSC

<sup>1)</sup> UPM does not manage forests in these regions.

## Energy and Logistics

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

For more information see:  
[www.upm-kymmene.com](http://www.upm-kymmene.com)  
[http://ec.europa.eu/environment/emas/index\\_en.htm](http://ec.europa.eu/environment/emas/index_en.htm)  
[www.iso.org](http://www.iso.org)  
[www.fsc.org](http://www.fsc.org)  
[www.pefc.org](http://www.pefc.org)

## Percentage of certified wood delivered to the UPM mills according to a verified Chain of Custody in 2006, %

	Austria	Canada	Estonia	Finland	France	Germany	Russia	UK	USA	Total
	74	71	27	66	63	96	0 <sup>1)</sup>	98	19 <sup>2)</sup>	65

1) The Chain of Custody was verified in December 2006.

2) The Chain of Custody was verified in July 2006.

Wood procurement by UPM by countries in 2006, 1000 m<sup>3</sup>

	Austria	Baltics	Canada	Finland	France	Germany	Russia	UK	USA	Total
Austria	707	0	0	0	0	0	0	0	0	707
Belgium	0	0	0	0	24	0	0	0	0	24
Canada	0	0	1 337	0	0	0	0	0	13	1 350
Czech Republic	117	0	0	0	0	0	0	0	0	117
Denmark	0	0	0	0	0	0	0	0	0	0
Estonia	0	243	0	0	0	0	0	0	0	243
Finland	0	0	0	20 099	0	0	0	0	0	20 099
France	2	0	0	0	579	0	0	0	0	581
Germany	188	0	0	0	170	955	0	0	0	1 313
Latvia	0	578	0	0	0	0	0	0	0	578
Lithuania	0	92	0	0	0	0	0	0	0	92
Russia	0	0	0	0	0	0	5 202	0	0	5 202
Slovakia	4	0	0	0	0	0	0	0	0	4
Sweden	6	0	0	167	0	0	0	0	0	173
Switzerland	0	0	0	0	0	5	0	0	0	5
UK	0	0	0	0	0	0	0	1 638	0	1 638
Uruguay	0	0	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	0	0	586	586
Total	1 024	913	1 337	20 266	773	960	5 202	1 638	599	32 712

## Sources of wood in 2006, % of wood consumption

	Austria	Canada	Estonia	Finland	France	Germany	Russia	UK	USA	Average
Company forests	0	0	0	13	0	0	0	9	21	11
Leased forests	0	71	0	0	0	0	2	0	0	2
State forests	1	0	7	2	16	20	98	14	49	6
Private forests	43	28	0	30	16	32	0	12	27	29
Other companies	28	0	48	29	28	48	0	64	0	28
Import	29	0	46	26	40	0	0	0	3	23
Total	100	100	100	100	100	100	100	100	100	100



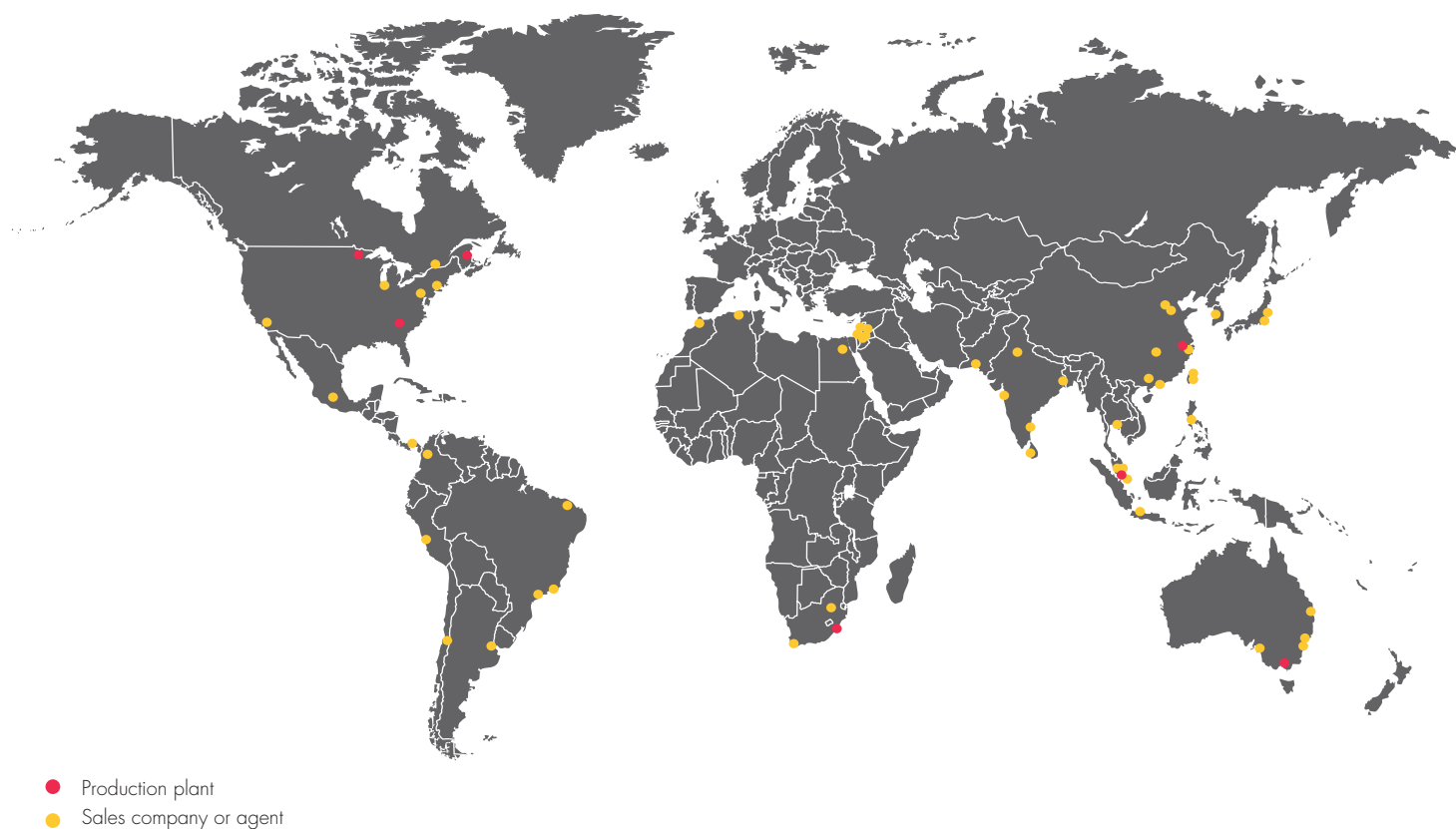
## Comparison of the report content with the principles of the Global Compact and the corresponding indicators of the Global Reporting Initiative

UPM has undertaken to comply with principles of the UN Global Compact Initiative. This Environmental and 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 ([www.upm-kymmene.com](http://www.upm-kymmene.com))

Principles of the Global Compact*)	Global Reporting Initiative (GRI) Indicators		Pages in the report
<b>Human Rights</b>			
1. Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and	HR1	Human rights related code and rules	8-9, 12, 36-37
	HR2	Considering human rights in investment/ procurement	
2. make sure that they are not complicit in human rights abuses.	HR3	Human rights in the supply chain	
	HR4	Code and rules preventing discrimination	
<hr/>			
<b>Labour Standards</b>			
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	HR5	Freedom of association	8-9, 22-23, 30, 36-37
	LA4	Consultation, negotiation & restructuring	
	HR7	Code and rules preventing forced labour	
4. the elimination of all forms of forced and compulsory labour;	HR6	Code excluding child labour	
	HR4	Code and rules preventing discrimination	
	LA10	Equality code, rules and programmes	
5. the effective abolition of child labour; and			
6. eliminate discrimination in respect of employment and occupation.			
<hr/>			
<b>Environment</b>			
7. Businesses should support a precautionary approach to environmental challenges;	3.13	Code, rules and management systems	8-9, 12-24, 36-37, 38-39, 42
	EN1	Total material used	
	EN2	Waste usage	
8. undertake initiatives to promote greater environmental responsibility; and	EN3	Direct energy use	
	EN4	Indirect energy use	
9. encourage the development and diffusion of environmentally friendly technologies.	EN5	Total water use	
	EN6	Land ownership in biodiversity-rich habitats	
	EN8	Greenhouse gas emissions	
	EN9	Use and emissions of ozone-depleting substances	
	EN10	NO <sub>x</sub> , SO <sub>2</sub> - and other air emissions	
	EN11	Amount and type of waste	
	EN12	Discharges to water	
	EN15	Recycling/reuse of products	
	EN16	Non-compliance in environmental matters	
	EN17	Renewable energy and energy efficiency	
	EN22	Recycling and reuse of water	
	EN27	Programmes for protecting ecosystems	
	EN31	Hazardous waste management	
	EN33	Supplier environmental performance	
	EN34	Environmental impacts of logistics	
	EN35	Environmental expenditures	
<hr/>			
<b>Anti-corruption</b>			
10. Businesses should work against corruption in all its forms, including extortion and bribery.	SO2	Code addressing bribery and corruption	8-9, 36-37

# Production plants and sales network



## PRODUCTION PLANTS

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

### Australia

UPM Raflatac,  
Braeside (Melbourne)

### Austria

UPM, Steyrmühl

Steyrmühl Sägewerks  
gesellschaft

### Canada

UPM, Miramichi,  
New Brunswick

### China

UPM, Changshu

UPM Raflatac, Changshu  
Walki Wisa, Changshu

### Estonia

UPM, Otepää

### Finland

Paper mills  
UPM

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

Pulp mills  
UPM

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

Converting plants

- UPM Raflatac,
- Tampere
- Jyväskylä

Walki Wisa

- Pietarsaari
- Valkeakoski

Sawmilling  
UPM

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

Further processing  
UPM

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

Plywood mills

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

Veneer mills

- UPM
- Kalso, Vuohijärvi
- Keuruu
- Lohja

### France

- UPM
- Grand-Couronne
- Docelles
- Stracel, Strasbourg

- UPM Raflatac, Pompey  
(Nancy)
- UPM
- Aigrefeuille
- Boulogne sur Mer

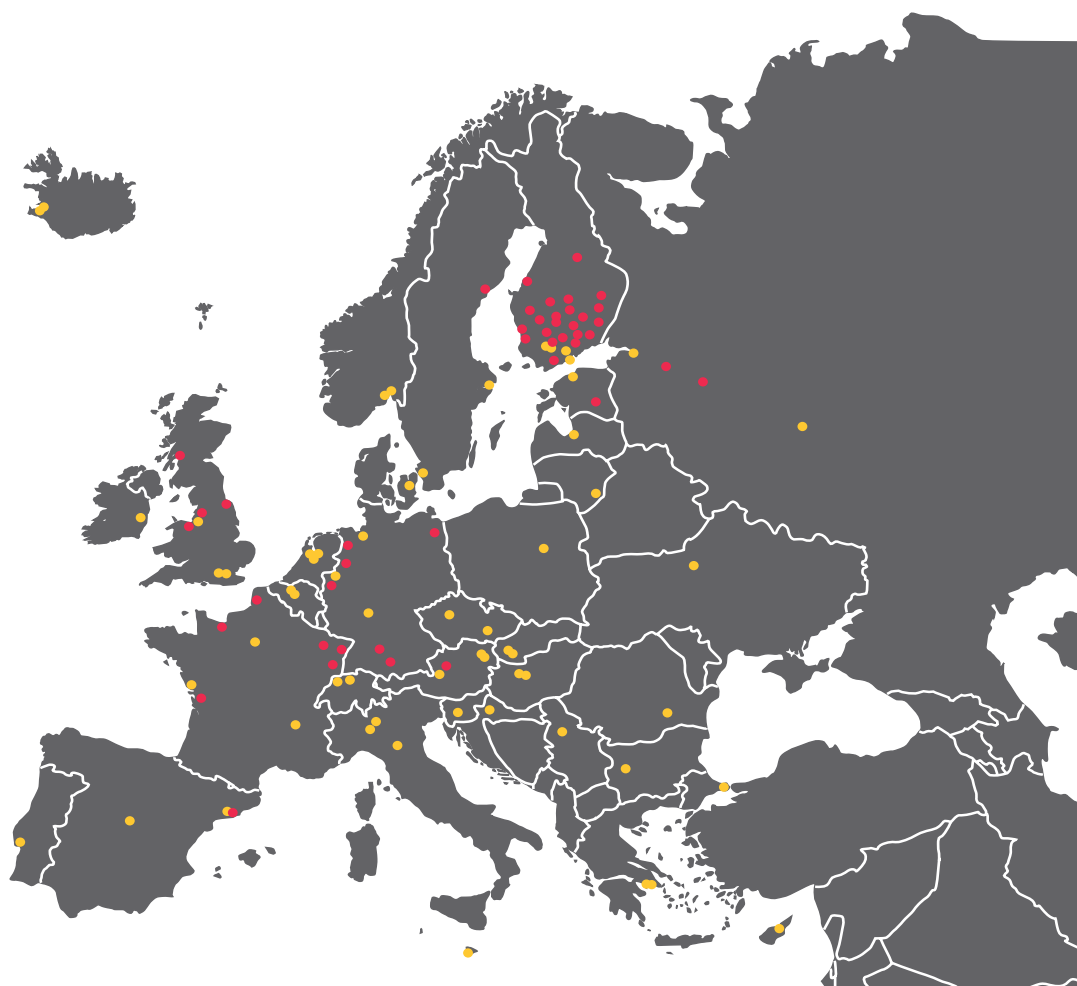
### Germany

- UPM
- Augsburg
- Schongau
- Schwedt
- Nordland Papier, Dörpen

- Walki Wisa GmbH
- Jülich
- Steinfurt

### Great Britain

- UPM
- Caledonian Paper, Irvine
- Shotton Paper, Shotton



### SALES NETWORK

(countries listed below)

UPM Raflatac, Scarborough  
Walki Wisa, Garstang

#### Malaysia

UPM Raflatac, Johor

#### Russia

UPM Chudovo  
UPM Pestovo

#### South Africa

UPM Raflatac, Durban

#### Spain

UPM Raflatac, Polinyá  
(Barcelona)

#### Sweden

Walki Wisa, Arnäsavall

#### United States

Blandin, Grand Rapids, MN  
UPM Raflatac, Fletcher, NC

#### North America

Canada  
Mexico  
Panama  
United States

#### South America

Argentina  
Brazil  
Chile  
Colombia  
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  
Slovakia  
Slovenia  
Spain  
Sweden  
Switzerland

Turkey  
Ukraine

#### Asia

China  
Hong Kong  
India  
Indonesia  
Israel  
Japan  
Jordan  
Lebanon  
Malaysia  
Pakistan  
Philippines  
Republic of Korea  
Singapore  
Sri Lanka  
Syria  
Taiwan  
Thailand

#### Africa

Algeria  
Egypt  
Morocco  
South Africa

#### Oceania

Australia

# Glossary

## To audit, audit

Inspection, or audit – performed by an independent external auditor – for example, the audit of a management system.

## BAT (Best Available Techniques)

The best available technique that allows for solutions that are technically and economically the most efficient and advanced.

## Biodiesel

Diesel fuel produced from biomass.

## Biodiversity

The biological diversity of nature; all kinds of variations within nature: the number of different habitats (biotopes), the number of species, and genetic variability within species.

## Bioenergy

Energy generated from renewable biomass, i.e., living plants and plant components.

## Biomass

Organic material generated by the growth of micro-organisms, plants and animals.

## BOD

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

## BTL (Biomass-to-liquid)

Liquid synthetic fuel produced from biomass (see: Next generation biodiesel).

## Carbon dioxide, CO<sub>2</sub>

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

## Chain of Custody (CoC)

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.

## Ecoefficient

Ecoefficiency means improving the productivity of natural resources. More services and well-being are produced with less raw materials and energy.

## EMAS (Eco-Management and Audit Scheme)

A voluntary environmental management scheme for companies and organisations in the private and public sectors.

## To evaluate, evaluation

Evaluation, or inspection – performed by UPM's own personnel – of, for example, the operations of a subcontractor.

## Forest energy wood

Logging residues, small-diameter trees removed during clearing and thinning operations, and stumps.

## GRI (Global Reporting Initiative)

International institution for developing sustainability reporting guidelines.

## ISO (International Organisation for Standardisation)

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

## Nitrogen oxides, NO<sub>x</sub>, several different compounds

Formed in the combustion of nitrogenous material. Cause acidification of soil and waters.

## NO<sub>x</sub>

The chemical symbol for nitrogen oxides formed during combustion, as well as for some of the nitrogen oxides formed as a reaction product of nitrogen and oxygen in the atmosphere. Nitrogen oxides are found in combustion and exhaust gases, and form acidifying and eutrophying compounds.

## OHSAS

Occupational Health and Safety Management System

## REACH (Registration, Evaluation and Authorisation of Chemicals)

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 to all paper consumed.

## Recycled fibre

Fibre extracted from recovered paper.

## RFID sensor

Radio Frequency Identification-based remote sensor.

## Second generation biodiesel / BTL diesel (biomass-to-liquid)

Liquid fuel for vehicles produced from ligno-cellulose. Biomass is converted into liquid fuel through gasification and Fischer Tropsch synthesis during the production process of BTL biodiesel. Refined BTL biodiesel can be used in current diesel engines.

## Sulphur dioxide, SO<sub>2</sub>

Compound formed in combustion of sulphurous material. It is formed also during production processes.

## TRS (Total Reduced Sulphur)

Reduced sulphur compounds (e.g., sulphuric acid, methyl mercaptan), emission reported as sulphur (S; can be converted to sulphur dioxide by multiplying by 2).

## VOC

Volatile organic compounds.



**UPM-Kymmene Corporation****Marja Tuderman**

Vice President, Environmental and  
CSR Affairs  
P.O.Box 380  
FI 00101 Helsinki  
marja.tuderman@upm-kymmene.com  
environment@upm-kymmene.com  
Tel. 02041 50395  
Fax 02041 50334

**Päivi Salpakivi-Salomaa**

Director, Environmental Forestry Affairs  
P.O.Box 32  
FI 37601 Valkeakoski  
paivi.salpakivi@upm-kymmene.com  
Tel. 02041 62162  
Fax 02041 6120

**Anja Silvennoinen**

Vice President, Energy  
P.O.Box 380  
FI 00101 Helsinki  
anja.silvennoinen@upm-kymmene.com  
Tel. 02041 50733  
Fax 02041 50334

**Riitta Savonlahti**

Executive Vice President, Human Resources  
P.O.Box 380  
FI 00101 Helsinki  
riitta.savonlahti@upm-kymmene.com  
Tel. 02041 50048  
Fax 02041 50309

**Corporate Communications**

P.O.Box 380  
FI 00101 Helsinki  
communications@upm-kymmene.com  
Tel. 02041 50020  
Fax 02041 50308

**Investor Relations**

P.O.Box 380  
FI 00101 Helsinki  
ir@upm-kymmene.com  
Tel. 02041 5111  
Fax 02041 50303

*It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in*



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