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ANNUAL REPORT 2007



Annual General Meeting

UPM-Kymmene Corporation will hold its Annual General Meeting on Wednesday 26 March 2008 at 2.30 pm at the Helsinki Fair Centre, Messuaukio 1, 00520 Helsinki. Instructions for participation will be given in the summons to the meeting and can also be found on the company's web pages at www.upm-kymmene.com.

Dividend

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of € 0.75 per share be paid in respect of the 2007 financial year. To receive the dividend, shareholders must be registered on the list of shareholders kept by Finnish Central Securities Ltd., on 31 March 2008, the record date for the dividend payment. The Board of Directors will propose to the Annual General Meeting that the dividend be paid on 10 April 2008.

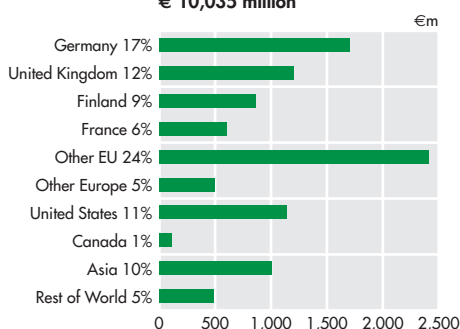
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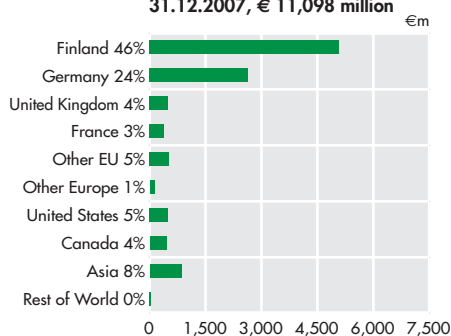
UPM

Group profile

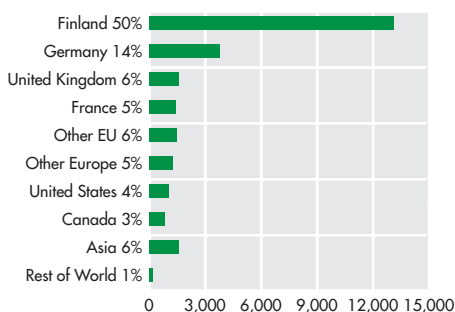
Sales by market, 2007
€ 10,035 million



Capital employed by area
31.12.2007, € 11,098 million



Personnel by area, 31.12.2007,
26,352



UPM IS ONE OF THE WORLD'S LEADING FOREST INDUSTRY GROUPS AND THE LEADING PRODUCER OF PRINTING PAPERS. ITS MAIN BUSINESSES ARE MAGAZINE PAPERS, NEWSPRINT, FINE AND SPECIALITY PAPERS, SELF-ADHESIVE LABEL MATERIALS AND WOOD PRODUCTS. DURING THE PAST FEW YEARS THE COMPANY HAS STRONGLY DEVELOPED NEW BUSINESS OPPORTUNITIES. THESE INCLUDE E.G. RFID-TAGS AND INLAYS WOODPLASTIC COMPOSITE AND BIOFUELS. SALES IN 2007 WERE € 10.0 BILLION. UPM OPERATES GLOBALLY, IT HAS PRODUCTION PLANTS IN 14 COUNTRIES AND EMPLOYS 26,000 PEOPLE WORLDWIDE. THE COMPANY IS LISTED IN OMX NORDIC EXCHANGE HELSINKI.

Products

UPM'S PAPER GRADES ARE MAGAZINE PAPERS, NEWSPRINT, FINE PAPERS, AND LABEL AND PACKAGING PAPERS. THE ANNUAL PRODUCTION CAPACITY IS 12.0 MILLION TONNES.

Magazine Papers	2007	Share of Group
Sales, €m	3,249	31%
Capital employed on 31 Dec., €m	3,052	25%
Personnel at 31 Dec.	6,438	25%

Newsprint	2007	Share of Group
Sales, €m	1,470	14%
Capital employed on 31 Dec., €m	1,786	15%
Personnel on 31 Dec.	3,109	12%

Fine and Speciality Papers	2007	Share of Group
Sales, €m	2,797	26%
Capital employed on 31 Dec., €m	2,841	24%
Personnel on 31 Dec.	6,177	23%

Label Materials	2007	Share of Group
Sales, €m	1,022	10%
Capital employed on 31 Dec., €m	466	4%
Personnel on 31 Dec.	2,724	10%

Wood Products	2007	Share of Group
Sales, €m	1,199	11%
Capital employed on 31 Dec., €m	600	5%
Personnel on 31 Dec.	5,459	21%

Other Operations	2007	Share of Group
Sales, €m	809	8%
Capital employed on 31 Dec., €m	3,276	27%
Personnel on 31 Dec.	2,445	9%

UPM's goal is to be the most attractive company in the forest industry and create value for its shareholders by offering competitive products and services to its customers. The company focuses resources on efficiency, new growth markets and new growth businesses.

The company's production facilities rank among the world's best in terms of production capacity and competitiveness. A high level of technical expertise forms the basis for cost leadership and reliability as a supplier.

UPM's activities are based on close integration of raw materials, energy and production. The company is self-sufficient in terms of chemical pulp and 70% self-sufficient in electrical power. The company's own forests are in part securing its raw material supplies.

Today's UPM is known as a modern and focused forest industry company. UPM's origins date back to late 19th century.

Professional and renewing

One of UPM's key competitive advantages is its skilled and motivated workforce laying the foundations for quality, continuous learning and renewal.

UPM has a forward-looking approach to develop its businesses. The company's growth strategy is strongly supported by its R&D activity. Especially during the last few years the emphasis has been in exploring and creating new business opportunities.

Responsible

UPM is strongly committed to continuous improvement in economic, social and environmental performance.

Its products are mostly made of recyclable, renewable materials and manufactured using energy that does not accelerate climate change.

UPM constantly seeks solutions to minimise the environmental impact of its operations when selecting raw materials, energy sources, production methods or developing new products and processes. As a global company UPM complies with high standards everywhere it operates. The same is required from UPM suppliers.

The UPM Code of Conduct is the baseline for all company operations. It sets out the standards of behaviour for each individual in UPM.

UPM

in brief

Magazine papers

UPM is the world's leading producer of magazine papers, with approximately one fifth of the global market. UPM manufactures coated and uncoated magazine paper at 11 mills, located in Finland, Germany, the United Kingdom, France, Austria and the United States. Their combined production capacity is 4.9 million tonnes a year.

Magazine paper is used to produce both general and special-interest magazines, newspaper supplements, printed advertising material and sales catalogues. UPM's most important magazine paper 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, the United Kingdom, France and Austria. The combined annual capacity of standard and speciality newsprint is 2.9 million tonnes.

Recycled fibre accounts for nearly 70% of the fibre raw material used. Due to the locations of its mills, UPM enjoys a strong position as a local supplier in Europe's biggest markets.

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

Fine and speciality papers

UPM is among Europe's leading fine paper manufacturers. In China, it is the largest producer of wood pulp based uncoated fine papers and one of the largest of coated fine papers. In 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 manufactured at four mills in Finland, Germany, France and China. Production capacity for fine papers is 3.4 million tonnes a year, and for label and packaging papers 0.8 million tonnes a year.

Uncoated fine paper is used for copier and non-impact printing paper, while coated fine paper is used for direct advertising products, magazines and high-quality printed products. Customers include merchants, printers, publishers and converters. Speciality papers are supplied to industrial converters.

Label materials

UPM is the world's second largest producer of self-adhesive label materials. The products are manufactured by UPM Raflatac in Finland, Spain, the United Kingdom, France, the United States, Australia, China, Malaysia and South Africa. In addition, a new factory is under construction in Poland. Self-adhesive label materials are used for product and information labelling e.g. in the food, hygiene and pharmaceuticals industries.

UPM Raflatac is also a world leader in the development and manufacture of tags and inlays based on radio frequency identification (RFID) technology. Tags are used in product identification, e.g. in logistics and retail.

Wood products

UPM is Europe's biggest plywood producer and the third largest producer of sawn timber. Production facilities are 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 range also includes products for numerous special applications.

UPM's Plywood business offers solutions from building to interior decoration and from transportation and construction to specific industry needs. The 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 unit, logistics, group staff functions and shares of associated companies.

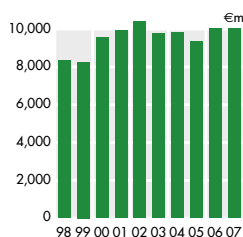
UPM's own and associated energy and chemical pulp supply, and partially wood raw material from its own forests, ensure that these key resources are available at competitive prices.

Key financial information

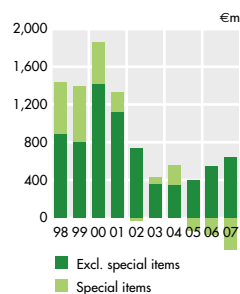
1998–2007

FIGURES FOR 2002–2007 ARE REPORTED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), WHILE FIGURES FOR PREVIOUS YEARS ARE BASED ON FINNISH ACCOUNTING STANDARDS (FAS).

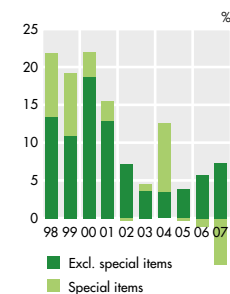
Sales



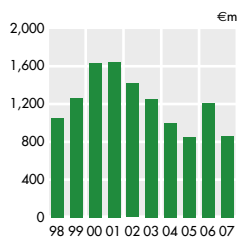
Profit before tax



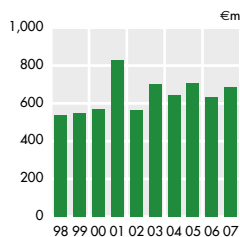
Return on equity



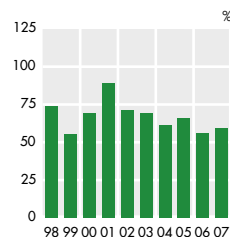
Cash flow from operating activities



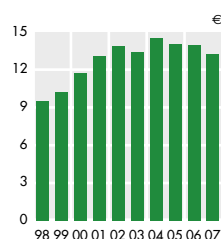
Capital expenditure excluding acquisitions



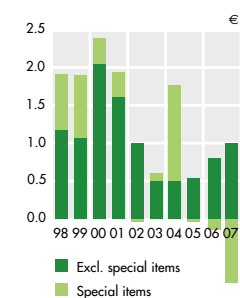
Gearing ratio



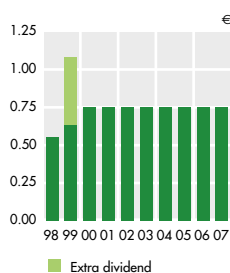
Equity per share



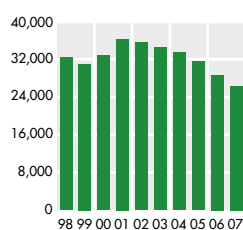
Earnings per share



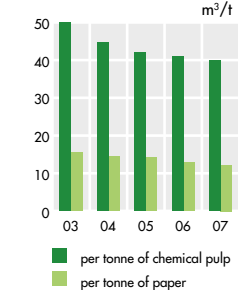
Dividend per share (2007: proposal)



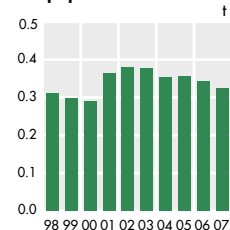
Personnel at end of the year



Process wastewater volumes



Fossil carbon dioxide emissions per tonne of paper

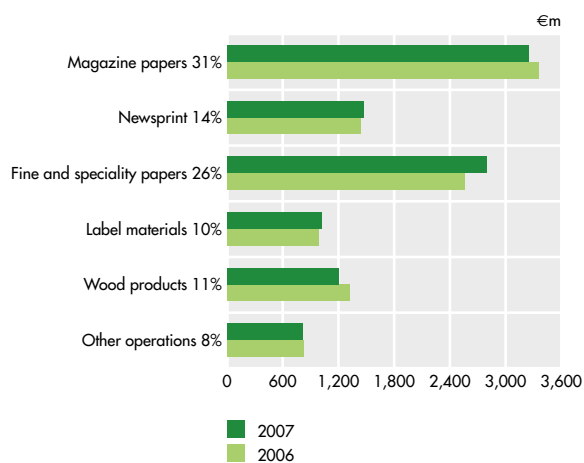


The year in brief

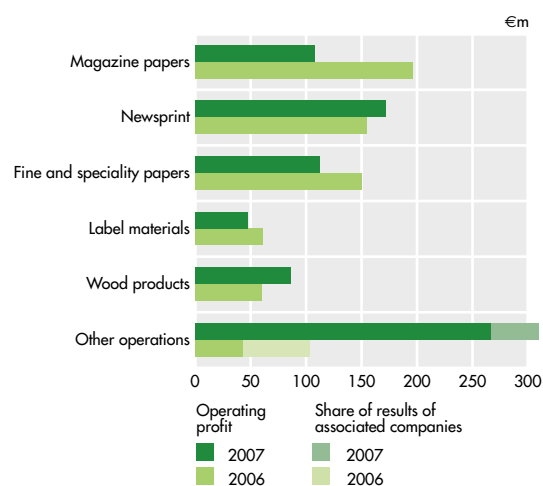
AS A RESULT OF THE PROFITABILITY PROGRAMME 2006 UPM HAS CLOSED MORE THAN 1.1 MILLION TONNES OF ITS PAPER CAPACITY, CORRESPONDING TO ALMOST 10% OF THE TOTAL CAPACITY. THE HEADCOUNT HAS DECREASED BY 3,200 PERSONS AND PRODUCTIVITY AND COST COMPETITIVENESS HAVE IMPROVED.

	2007	2006	2005
Sales, €m	10,035	10,022	9,348
Operating profit, €m	483	536	318
excl. special items, €m	835	725	558
Profit before tax, €m	292	367	257
Earnings per share, €	0.16	0.65	0.50
excl. special items, €	1.00	0.80	0.54
Cash flow from operating activities per share, €	1.66	2.32	1.63
Return on equity, %	1.2	4.6	3.5
Dividend per share (2007: Board's proposal)	0.75	0.75	0.75
Shareholders' equity per share at end of period, €	13.21	13.90	14.01
Gearing ratio at end of period, %	59	56	66
Capital expenditure and acquisitions, €m	708	699	749

Sales by division



Operating profit by division
(excluding special items)



Costs, excluding depreciation

%	2007	2006	2005
Personnel expenses	17	19	19
Logs and pulpwood	17	14	13
Delivery of own products	12	12	12
Fillers, coating pigments and other chemicals	14	14	13
Energy	10	11	10
Recovered paper	4	3	3
Other raw materials	11	12	11
Other costs	15	15	19
Total	100	100	100

Costs totalled € 8.7 billion in 2007 (2006: € 8.5 billion, 2005: € 8.1 billion).

Review by the President

IN 2007, UPM IMPROVED ITS OPERATIONAL EFFICIENCY AND INVESTED IN GROWTH AND NEW BUSINESSES TO IMPROVE ITS LONG-TERM COMPETITIVENESS. THE COMPANY GAINED FROM BEING AN EARLY STARTER IN THE INDUSTRY RESTRUCTURING.

Dear Reader,

In 2007, UPM's profitability for the whole year improved over last year. However, the EBITDA margin declined from 16.7% to 15.4%, mainly due to the increased wood and fibre costs during the latter part of the year. The return on equity excluding special items was 7.4% (2006: 5.7%). Earnings per share, excluding special items, for 2007 were € 1.00 compared to € 0.80 a year ago. In line with UPM's dividend policy, the Board of Directors proposes that the dividend be maintained on previous years' level of € 0.75 per share.

The year was clearly two-fold: the profitability improvement got off to a good start during the first half of the year but slowed down during the second half due to the higher than forecast wood and fibre costs as well as the strong euro. Fierce competition continued on the paper markets and price increases were achieved only in newsprint and uncoated fine papers. While we cannot be satisfied with all of our businesses, newsprint and wood products, particularly plywood, had a record year in 2007.

Cost increase was 3% year on year, which was substantially more than estimated in early 2007. However, apart from wood and fibre, the company was able to reduce other variable and fixed costs per unit over the year.

This can be considered a major achievement and something to which all UPMers have contributed.

To bring the profitability back on track, the company introduced an asset review towards the end of the year. This led to a permanent closure of the Miramichi magazine paper mill in Canada and a temporary shut-down of newsprint and label paper capacity

in Finland and Austria. In addition, label coating lines were closed in Finland and Australia.

As a result of the Profitability Programme 2006, UPM has reduced paper capacity by more than 1.1 million tonnes, which is almost 10% of our total capacity, and reduced the number of employees by 3,200 persons. Production efficiency has clearly improved in all divisions.

Increase in paper demand and capacity closures have together contributed to an improved market balance in Europe. This is especially true in coated grades. Prospects for magazine papers have improved significantly from the beginning of 2006. Today we have a good situation, we have implemented price increases and shortened contract validities in Europe. The strong euro, on the other hand, has attracted imports to Europe in other paper grades.

Despite the savings programme, UPM also invested in growth and the future of the units with the best potential. We focused our investments on improving efficiency and expansion of our self-adhesive label materials business. Increasing our self-sufficiency in energy further was another area for strategic investments. This we did increasingly based on biomass. Investments in total, however, were clearly below depreciation. In 2008, we continue to follow our stringent investment policy and prepare ourselves for investments in growth markets and new businesses.

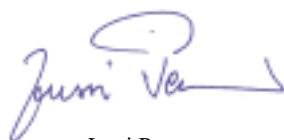
Our outlook for 2008 has a positive tone with good demand continuing. However, the availability and cost of wood fibre for wood processing industries are a concern. There are uncertainties how the proposed policies of the EU Energy package will impact the

industry, and how this will be reflected in the energy and wood markets in Europe. In Finland we face increases in Russian export duties. Unless we find a financially sound replacement for those wood imports, there is a risk that we will have to reduce production in the Finnish mills.

Now 2008 will be another challenging year. It is clear that the transformation of the forest industry is not over. UPM, however, is well positioned in the new business environment having started its own internal measures for improving company efficiency more than two years ago. Even after these changes we have a strong balance sheet which gives us a good foundation for succeeding in this industry.

I recognise that while 2007 has brought many changes to the ways our people work, UPM's employees have been solutions-oriented and continued to do their daily work extremely responsibly and professionally. We will continue to focus on improving our profitability at the same time as we seek new opportunities to grow and restructure. Our objective is to make UPM a profitable, renewing and global company for the future. Efficiency is crucial to future success. Cost management but also our efforts to advance on new growth markets and new business areas will be continued to secure our long-term competitiveness.

Instead of publishing a separate environmental and corporate social responsibility report for 2007, UPM has merged that content into this annual report. The environmental and social responsibility issues are essential to UPM's operation and they naturally complement financial reporting.



Jussi Pesonen
President & CEO



Strategy and financial goals

UPM FOCUSES ON IMPROVING PROFITABILITY
IN EUROPE, ADVANCING IN NEW GROWTH MARKETS
AND DEVELOPING NEW BUSINESS OPPORTUNITIES.

UPM's business portfolio consists of printing papers, selected speciality papers, self-adhesive label materials and wood products. The company aims to be one of the leading suppliers in its chosen segments. Long-term development of the company requires a solid financial position and profitability at all times. UPM creates value based on renewable and recyclable raw materials using socially and ecologically sustainable practices.

UPM secures access to critical production inputs by having its own chemical pulp, energy and forest resources. UPM is self-sufficient in chemical pulp and largely self-sufficient in electrical power.

UPM focuses on three strategic priorities: improving profitability in Europe, advancing in new growth markets and developing new business opportunities.

In Europe, UPM's target is to be a low-cost supplier leveraging its efficient production facilities and strong vertical integration to pulp, energy, wood and recycled fibre.

In new growth markets, UPM aims to grow through investments, as well as acquisitions and joint ventures. Regions that have market potential, access to competitive raw materials and a competitive cost base are of primary interest to UPM.

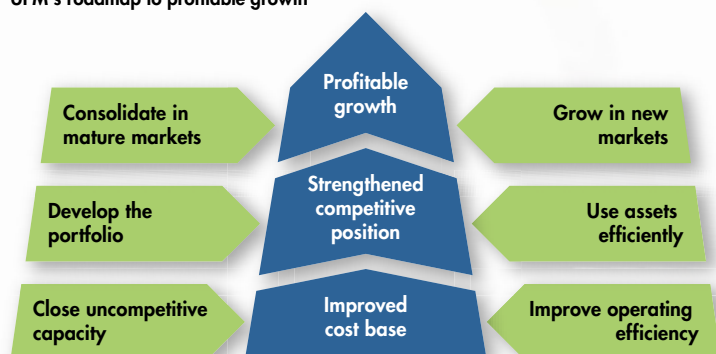
UPM's new business opportunities include for example RFID, wood plastic composite, bio-fuels and non-wood fibre for paper-making. In-house know-how forms the basis for further business development. The company is seeking to enter new businesses both organically and through acquisitions.

Financial goals and dividend policy

The aim is a return on equity of at least five percentage points above the yield of a risk-free investment such as the Finnish government's 10 year euro-denominated bonds. At the end of 2007, the minimum target for return on equity, as defined above, was 9.4%. To ensure sufficient financial flexibility, the aim is to keep the gearing ratio well below the maximum acceptable level of 100%.

It is UPM's policy to distribute a dividend averaging more than one-third of the profit for the financial period. The aim is to provide shareholders with a steady, growing annual dividend.

UPM's roadmap to profitable growth



Achievement of financial targets

		2007	2006	2005	2004	2003
Return on equity, %	Min. target	9.4	9.0	8.2	8.7	9.3
Return on equity, %	Achieved	1.2	4.6	3.5	12.6	4.4
excluding special items	Achieved	7.4	5.7	3.8	3.4	3.6

	Target		Achieved		
Gearing ratio, %	<100	59	56	66	61
Dividend per share, € ¹⁾	Steady, growing	0.75	0.75	0.75	0.75
Dividend to earnings ratio, %	>33	468.8	115.4	150.0	42.6
				125.0	

1) Board's proposal for 2007.

Strategic steps 2007



European profitability

UPM's three-year profitability programme 2006–2008 is proceeding as planned and delivers the savings that were laid out. Investments are targeted in quality and efficiency improvements.

UPM continued its measures to improve profitability by removing significant capacity in several paper grades. Based on the company's asset review, UPM permanently closed the Miramichi magazine paper mill in Canada and announced the temporary shutdown of two newsprint machines and two label paper machines in December 2007. The shutdowns will be implemented during 2008.

UPM sold its Walki Wisa industrial wrapping business and the Finnish port operators Rauma Stevedoring and Botnia Shipping in order to focus on the company's core businesses.

UPM continued to increase the company's self-sufficiency in energy by starting a new power plant utilising biofuels in Chapelle Darblay, France. The new boiler improves the energy efficiency and CO₂ balance of the mill.

UPM streamlined the manufacture of birch veneer by centralising operations at the Lohja veneer mill and ceasing operations at the Keuruu mill.



New growth markets

UPM's associated company Botnia started up a 1 million tonne pulp mill in Uruguay, which will secure competitive fibre supply to UPM mills in China and Central Europe. Half of the pulp mill's production is allocated to UPM.

UPM started the construction of a modern self-adhesive label materials factory in Wrocław, Poland. The factory is scheduled for start-up in 2008 and will support UPM's global growth strategy in label materials. UPM also opened a new labelstock slitting and distribution terminal in Mumbai, India.

UPM and the Russian Sveza Group signed a letter of intent to form a joint venture company and to build a state-of-the-art forest industry facility in the Vologda region of North-west Russia. The project will support UPM's growth in Russia.



New businesses

UPM Label Division doubled the RFID tag and inlay production capacity in Jyväskylä, Finland to meet the growing demand.

UPM started the production of UPM ProFi, a wood plastic composite made of fibre and plastics surplus originating from UPM's labelstock production. The product complements UPM's existing offering for outdoor construction.

UPM, international technology group Andritz and its associated company Carbona started a technology co-operation to extract the energy potential from forest biomass. The target is to produce raw material for biodiesel in the coming years.



Business drivers and operating environment

GLOBAL PAPER DEMAND CONTINUED TO GROW IN 2007, SUPPORTED BY THE GROWTH IN EMERGING MARKETS AND EASTERN EUROPE. IN MAIN WESTERN EUROPEAN COUNTRIES, COMBINED PAPER DEMAND DECLINED SLIGHTLY, WHILE IN NORTH AMERICA THE DECLINE WAS MORE PRONOUNCED AT 5%.

World economy

In 2007, the world economy sustained strong growth until the autumn when financial turbulence posed uncertainties about economic prospects. In Europe, the good economic growth continued throughout the year. In the US, the economic growth weakened in the last quarter because of the sub-prime loan crisis. China, India and Russia continued to grow strongly, accounting together for almost one half of the global growth.

The euro continued to strengthen throughout the year against most currencies. The profitability of European forest product exports was affected by the strength of the currency.

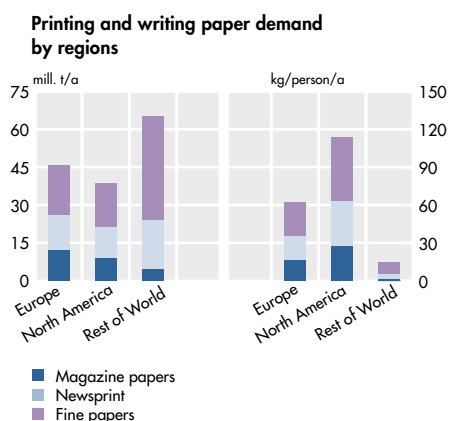
Energy and commodity prices increased during 2007, largely due to strong demand in new growth markets. Global oil prices reached a new record high towards the end of the year.

Resources and raw materials

The year 2007 was characterised by higher raw material prices and availability issues. The wood raw material markets in Finland were

affected by the mild winter that caused supply difficulties. In the first half of the year, this together with other factors, e.g. strong demand for sawn goods in Europe, pushed domestic round wood prices up. However, in the second half of the year, the situation changed and prices decreased somewhat. The decision by Russian authorities to increase export duties for round wood increased uncertainties in the wood raw material markets throughout the year, particularly in Northern Europe.

Market pulp prices continued their increase for a second consecutive year. In US dollar terms, prices for softwood and hardwood pulp rose by 15–20%. China has now become the largest importer of pulp in the world. Global hardwood pulp demand grew by about 6% p.a., whilst the demand for softwood pulp was unchanged. Large hardwood pulp mills started operations during the year in South America, based mainly on fast-growing eucalyptus plantations. Only minor capacity changes took place for softwood pulp.

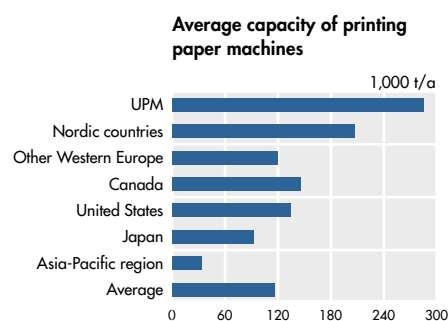


Markets for recovered paper were also tight during the year. In Europe the prices for recovered paper increased by around 20%, mainly due to increased exports from Europe to Asia. China became the largest importer of recovered paper in the world.

Efforts to combat climate change are among the major challenges concerning also energy policies. Negotiations within the UN framework for climate change in Bali in December resulted in an agreement to continue the process aiming to achieve a new international agreement after the Kyoto protocol expires in 2012. The European Union is currently working on the energy package, which will include policies and measures that will concretise already agreed targets. In this context the European Union is also reviewing the directive for greenhouse gas allowance trading i.e. the so called emission trading directive. The updated directive will set rules and regulations for the period 2013 onward.

Until the final decisions on the proposed EU Energy package have been made, there will be uncertainties on how the proposed policies and measures will impact the availability and cost of wood fibre for wood processing industries. The preparation of the EU Energy package has already affected the fibre market and caused uncertainty on the woodfibre market.

Well-managed forests act as carbon sinks and provider of biomass raw material for value adding pulp and paper production and

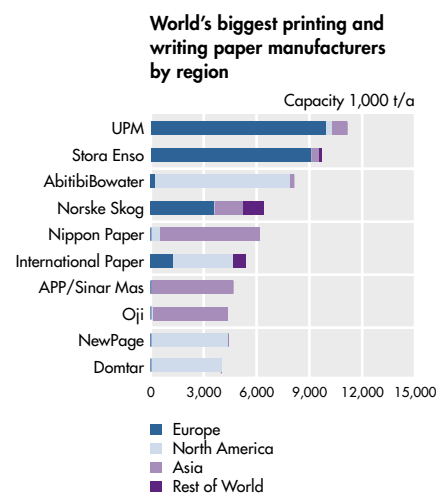


Source: Jaakko Pöyry

for renewable energy. Optimising the utilisation of valuable renewable material from the forest secures that the right fractions are used for the most valuable products: logs to wood products, fibre wood to pulp and paper processes and energy wood (branches, harvesting residues, stumps, branches, bark) to renewable energy generation.

Paper markets

Printing and writing paper markets are driven by innovative print products, consumer targeting and advertising in the changing media industry environment. In the mature market economies, traditional publishers have re-evaluated their business models and are undergoing a transition from a print-centric business model to a multimedia platform model. Publishers now talk about media brands instead of newspapers and magazines and deliver content using different platforms, of which the printed form is an important one. Through the internet, barriers to entry to media publishing business have diminished. This has resulted in media fragmentation affecting also allocation of advertising expenditure between major media. In the developing economies, print media continues to grow strongly, driven by economic growth, higher disposable incomes, better access to education and increased literacy levels. However, these same media developments are fast catching up in the developing areas too.



Source: Jaakko Pöyry, UPM



Global advertising showed moderate growth in 2007. Print advertising in newspapers and magazines is growing, albeit at a slower pace. Direct mail on the other hand has continued its steady growth and has not been threatened by digitalisation of media. In North America and in Europe, which together account for about two thirds of the global advertising volume, growth was clearly slower, but faster growth took place in Russia and other Eastern European countries at around 15–20%.

In Western Europe, North America and Japan, printing and writing paper demand growth has stagnated or even declined, whereas in Asia and Eastern Europe growth continued at a fast pace. Demand for magazine paper grades grew at 4–5% both in North America, and in Europe. Newsprint demand accelerated on its downward trend in North America but in Europe demand for newsprint was unchanged. Both coated and uncoated woodfree paper demand declined in North America, but growth in Eastern Europe and in China continued at a healthy pace. Demand for ecolabelled products took off during the year, particularly in the office paper segment.

The printing and writing paper industry still suffered from structural overcapacity in Europe and North America despite several large scale paper machine closures and paper machine downtime. However, in other parts of the world, the industry is rapidly building new capacity, particularly so in China, where a few paper machines started operations during the year.

The downward trend of the past few years for paper prices was reversed in North America, where prices for most grades were increased in the second half of the year. In Europe, uncoated woodfree paper and newsprint prices rose during the year, but magazine paper prices were somewhat lower. In Asia, fine paper prices were higher than the year before.

RFID tags and self-adhesive labelstock markets

Self-adhesive and RFID labelling markets are driven by product branding and identification needs, both for industrial products and consumer goods. Growth in total world trade in goods slowed down slightly from the previous year. Development of retail trade in the fast

growing countries in Asia and Eastern Europe is driving growth for labels, as customers increasingly move to shop for packaged goods in modern hypermarkets instead of shopping at traditional markets for unpackaged goods. Western retail chains are actively investing in these markets, as are the manufacturers of fast moving consumer goods.

In Europe, demand for self-adhesive labelstock grew by about 5% in 2007 with stronger demand growth in the beginning of the year, whilst in North America, demand was unchanged in the first half of the year, but improved slightly during the second half. Demand growth was fastest in China, India, Russia and Eastern Europe with annual growth around 15–25%.

Markets for self-adhesive labelstock remained highly competitive in all major markets and average prices declined slightly.

Demand for RFID tags and inlays developed positively during the year. There were several application areas where significant progress was made, including media management, mass transit, apparel authentication and retail sectors.

Wood products

Construction needs and habits drive the demand for sawn goods. In Europe, the construction industry remained active and sawn goods experienced a demand boom with increasing prices in the first half of the year. However, during the second half of the year, the demand slowed down, inventories increased and prices came down. Some producers of sawn timber have implemented production downtime to reduce oversupply.

Plywood demand developed favourably throughout the year. Spruce plywood demand is driven by construction activity, whereas for birch plywood the main drivers are in the various industrial uses, e.g. in the transportation vehicle manufacturing industry. The spruce plywood demand and supply was solid, whereas birch plywood demand was strong, but supply constrained by limited log availability. Price development for plywood was positive during the year.

The trend for consolidation of both industrial and distributor customers and the wood products industry itself continued in Europe.

MARKET POSITIONS OF UPM'S MAIN PRODUCTS

Papers	Machines no.	Capacity (1,000 t/a)	European position	Global position
Magazine papers				
LWC	10	2,960		
SC	8	1,900		
Magazine papers, total	18	4,860	1	1
Newsprint	12	2,910	2	4
Fine papers				
uncoated	9	1,730		
coated		1,625		
Fine papers, total	9	3,355	3	5
Printing papers, total		11,125		
Label papers	4	525	1	1
Packaging papers	2	305	3	–
Speciality papers, total	6	830	–	–
Total	45	11,955		

Label materials	European position	Global position
Pressure-sensitive labelstock	2	2

Wood products	Capacity (1,000 m ³ /a)	European position
Plywood	1,100	1
Sawn timber	2,500	3





Divisional reviews

UPM PROCEEDED WELL IN ITS COST SAVING PROGRAMMES. HOWEVER, THE UNFORESEEN INCREASE IN WOOD COSTS AND STRENGTHENING EURO MORE THAN OFFSET THE BENEFITS GAINED.





Magazine Papers

HEALTHY GROWTH IN DEMAND FOR MAGAZINE PAPERS CONTINUED IN ALL MARKETS, BUT PROFITABILITY WEAKENED IN AN ENVIRONMENT OF LOWER PRICES AND INCREASED WOOD COSTS.

Profitability

The operating profit, excluding special items, for Magazine Papers was € 108 million, € 89 million lower than in the previous year (€ 197 million). Sales decreased slightly to € 3,249 million (€ 3,354 million). Paper deliveries increased by 2% to 4,848,000 (4,761,000) tonnes.

Profitability decreased from the year 2006, due to lower paper prices, a stronger euro and Canadian dollar against the USD and higher raw material costs. When translated into euros, the average price for all magazine paper deliveries was approximately 5% lower than a year ago. The cost of fibre, i.e. wood, chemical pulp and recycled paper, increased clearly from previous year. On the other hand, the efficiency of operations improved as the division maintained delivery volumes despite significant capacity closures.

Market review

During 2007, good growth in magazine paper demand in Europe continued, partly driven by a strong increase in demand in Eastern Europe. Demand for coated and uncoated magazine paper increased by about 4% from that of 2006. Export of magazine paper from Europe declined from the previous year by about 11%. The average market price for magazine papers in Europe decreased and was 3% down from last year's figure. In North America, demand for magazine paper increased by approximately 5%. In North America, average USD prices for magazine papers were about 6% lower, although they started to recover after the summer.

Capital expenditure and restructuring

The capital expenditure included mainly maintenance and replacement investments.

The 120,000 t/a PM4 in Jämsänkoski, Finland, stopped the production of coated maga-

zine papers and was converted to label papers. The machine was reported in the Fine and Speciality Papers Division starting from April.

A new renewable energy power plant is under construction at the Caledonian mill in Irvine, Scotland. The investment cost is € 84 million and start-up is projected for the third quarter of 2009.

At the Jämsänkoski mill, a € 38 million investment in the quality of uncoated magazine paper will be completed early in 2008.

The Miramichi coated magazine paper mill in Canada, with a capacity of 450,000 t/a, was shut down permanently in December. The mill was idled in August on a temporary basis. Closure costs reported as special items were € 91 million. In June the remaining value of the mill, € 22 million, was written off as a special item. Additionally, the division recorded a € 350 million impairment charge of the division's goodwill as a special item.

Magazine papers

For end uses ranging from magazines, catalogues, magazine covers, advertising material, annual reports, brochures, direct mail advertising, inserts and supplements to manuals and books.

UPM Finesse	UPM Satin
UPM Star	UPM Matt
UPM Ultra	UPM Cat
UPM Cote	UPM Lux
	UPM Max
	UPM Eco

Magazine Papers, key figures

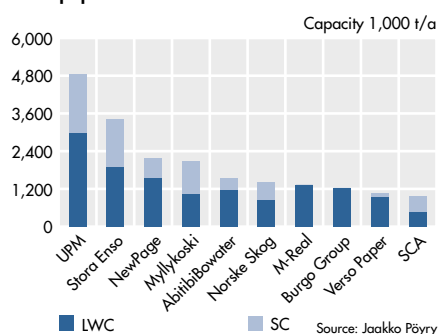
	2007	2006	2005
Sales, €m	3,249	3,354	3,094
EBITDA, €m ¹⁾	441	570	507
% of sales	13.6	17.0	16.4
Depreciation, amortisation and impairment charges, €m	-694	-604	-566
Operating profit, €m	-340	-56	-76
% of sales	-10.5	-1.7	-2.5
Special items, €m ²⁾	-448	-253	-173
Operating profit excl. special items, €m	108	197	97
% of sales	3.3	5.9	3.1
Capital employed (average), €m	3,403	4,010	4,397
ROCE (excl. special items), %	3.2	4.9	2.2
Deliveries, 1,000 t	4,848	4,761	4,486
Capital expenditure and acquisitions, €m	120	155	177
Personnel on 31 Dec.	6,438	6,869	8,087

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

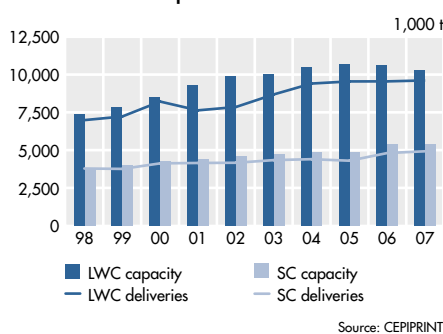
2) Special items include a goodwill impairment charge of € 350 million, an impairment charge of € 22 million, personnel costs of € 54 million and other costs of € 36 million related to the Miramichi paper mill, an income of € 11 million related to impairment reversals and an income of € 3 million related to other restructuring measures. Special items in 2006 include personnel charges of € 28 million related to the profitability programme, impairment charges of € 116 million related to the closure of the Voikkaa paper mill, impairment charges of € 115 million for Miramichi and other items related primarily to the capital gain on the sale of Rauma power plant. Special items in 2005: impairment charge of € 151 million for Miramichi, € 5 million in special depreciation at Augsburg and € 17 million provision for pension costs at Miramichi.

The division comprises the Group's magazine paper machines and Kaukas pulp mill (see Sourcing, p. 36).

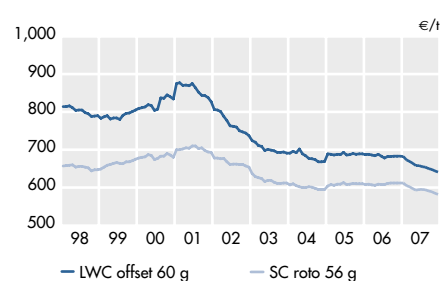
World's biggest magazine paper manufacturers



Magazine paper production capacities in Western Europe and total deliveries



Magazine paper prices in Europe



Sales by market

€m	2007	%
Europe	2,179	67
United States and Canada	772	24
Rest of World	298	9
	3,249	100

Newsprint

GOOD PROFITABILITY CONTINUED DESPITE HEADWINDS FROM RAW MATERIALS. DEMAND IN EUROPE REMAINED HEALTHY WITH STRONG INCREASES COMING FROM EASTERN EUROPE.



Profitability

The operating profit, excluding special items, for Newsprint was € 172 million, € 17 million higher than a year ago (€ 155 million). Sales were € 1,470 million (€ 1,436 million). Paper deliveries were about the same as previous year at 2,682,000 tonnes (2,677,000) tonnes.

The main contributor to the improved profitability was the higher price of newsprint. The average price for all newsprint deliveries when translated into euros was over 2% higher than a year ago. The contract prices in Europe increased by 4–5%, but overseas prices declined. Recycled paper and wood costs increased clearly, but were mainly offset by cost savings from energy investments.

Market review

The demand for standard and improved newsprint was flat in Europe when compared with previous year. Partly due to the strong euro, the prices in Europe compared to overseas deliveries were higher. Consequently imports to Europe increased and exports from Europe decreased. The average market price for standard newsprint was about 5% higher in Europe than a year ago.

As a response to the weaker market balance, capacity closures and production curtailments were announced.

Capital expenditure and restructuring

The biofuel-fired power plant investment for the Chapelle Darblay mill in France was completed in February 2007. The plant combusts energy wood and all the sludge produced in the mill's recovered paper recycling process, reducing the mill's CO₂ emissions by 95%. The cost of investment was € 85 million.

In April, UPM announced a € 11 million investment in the Kajaani mill in Finland. The new test application of ozone treatment will start in early 2008. The facility uses a new method that was developed in-house and uses pine for mechanical pulping.

In June, UPM decided on a € 15 million modernisation of the newsprint line at the Chapelle Darblay mill in France, scheduled to start in January 2008.

In December, UPM announced a plan for production curtailments of 250,000 tonnes by closing temporarily PM4 in Kajaani, Finland and PM4 in Steyrermühl, Austria during 2008.

Newsprint and Mechanical Speciality Papers

For a variety of end uses: newspapers, inserts, supplements, directories and advertising material.

UPM Matt
UPM Brite
UPM Opalite
UPM Color
UPM News

Newsprint, key figures

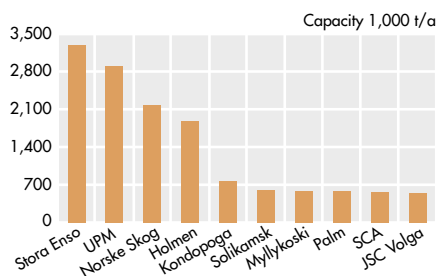
	2007	2006	2005
Sales, €m	1,470	1,436	1,308
EBITDA, €m ¹⁾	362	345	275
% of sales	24.6	24.0	21.0
Depreciation, amortisation and impairment charges, €m	-190	-190	-198
Operating profit, €m	177	148	77
% of sales	12.0	10.3	5.9
Special items, €m ²⁾	5	-7	-5
Operating profit excl. special items, €m	172	155	82
% of sales	11.7	10.8	6.3
Capital employed (average), €m	1,872	1,921	1,900
ROCE (excl. special items), %	9.2	8.1	4.3
Deliveries, 1,000 t	2,682	2,677	2,592
Capital expenditure and acquisitions, €m	65	145	135
Personnel on 31 Dec.	3,109	3,204	3,395

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

2) Special items include restructuring income of € 5 million. The special cost booked for 2006 relates mainly to the profitability programme, and for 2005 is due to one-time depreciation at Augsburg.

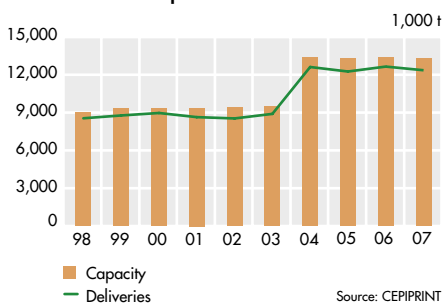
The division comprises the Group's newsprint machines.

Europe's biggest newsprint manufacturers



Source: Jaakko Pöyry

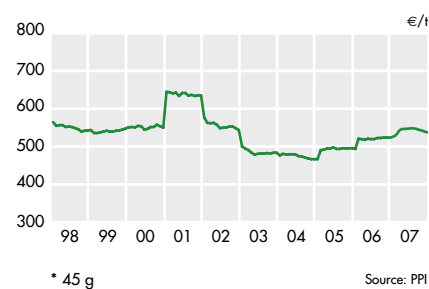
Newsprint production capacities in Western Europe and total deliveries



Source: CEPIPRINT

2004-2007 including also speciality grades

Newsprint* prices in Europe



* 45 g

Source: PPI

Sales by market

€m	2007	%
Europe	1,300	89
Asia	108	7
Rest of World	62	4
	1,470	100



THE EFFICIENCY OF THE DIVISION IMPROVED, BUT THE INCREASES IN WOOD AND PULP COSTS WERE OVERWHELMING.

Fine and Speciality Papers

Profitability

The operating profit, excluding special items, for Fine and Speciality Papers was € 112 million, € 37 million lower than previous year (€ 149 million). Sales increased from € 2,560 million to € 2,797 million. Paper deliveries increased to 3,859,000 tonnes, 9% higher than a year ago (3,550,000 tonnes).

Profitability decreased mainly as a result of higher fibre costs. The average price increase for all deliveries when translated into euros was about 1%. A stronger euro compared to the USD affected mainly label papers, where the dollar prices were unchanged. Deliveries increased as a result of efficiency improvements, even though substantial closures of capacity took place during 2006 and 2007.

Market review

When compared to the corresponding period last year, the demand in Europe for coated fine paper increased by about 2%, while that for uncoated fine paper remained the same. Imports of fine papers to Europe increased markedly. The average market price for coated fine paper in Europe was flat and started to decrease towards the end of the year. The average price for uncoated fine paper reels was about 7% higher than last year after the steady increase during 2007. In Asia, demand and prices for fine paper increased from last year.

The good demand for packaging papers continued. Growth in demand for label papers slowed down from the previous year.

Capital expenditure and restructuring

The largest ongoing investment is the rebuild of the recovery plant at the Kymi pulp mill. The total investment cost is € 325 million and it is planned for completion during the second quarter of 2008.

A € 45 million investment to convert the 120,000 t/a PM4 at Jämsänkoski, Finland to produce label papers was completed in May.

The 115,000 t/a brown sack paper machine PM6 and SAP pulp line in Tervasaari Finland, were closed down in August as planned in the Profitability Programme. At the same time, investment to the mills' bleaching line to enable higher utilisation of UPM's own pulp in the integrate was completed.

To curtail production, UPM decided in December 2007 to close temporarily two label paper machines in Finland for three months, one in Tervasaari (PM5) and the other in Jämsänkoski (PM4).

Fine papers

Coated and uncoated printing and writing papers for advertising material, annual reports, direct mail, brochures, magazines and maps. Office papers for copying and printing, papers for digital and preprint applications, and a wide range of envelope papers.

UPM Finesse UPM Fine Future
UPM Office UPM Preprint
Yes UPM DIGI
UPM Mail

Speciality papers

Label papers for self-adhesive labelstock, both face papers and base papers.

Packaging papers for several end uses – e.g. flour and sugar bags, high-performance sacks, fashion and carrier bags, envelopes, industrial converting for various heavy duty and technical applications, flexible packaging.

Fine and Speciality Papers, key figures

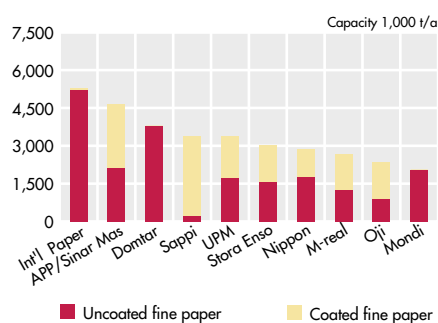
	2007	2006	2005
Sales, €m	2,797	2,560	2,234
EBITDA, €m ¹⁾	325	368	309
% of sales	11.6	14.4	13.8
Depreciation, amortisation and impairment charges, €m	-213	-237	-224
Operating profit, €m	112	108	85
% of sales	4.0	4.2	3.8
Special items, €m ²⁾	-	-41	-8
Operating profit excl. special items, €m	112	149	93
% of sales	4.0	5.8	4.2
Capital employed (average), €m	2,821	2,760	2,843
ROCE (excl. special items), %	4.0	5.4	3.3
Deliveries, 1,000 t	3,859	3,550	3,060
Capital expenditure and acquisitions, €m	322	189	265
Personnel on 31 Dec.	6,177	6,283	6,708

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

2) In 2006, special items include personnel and impairment charges related to the profitability programme. In 2005, one-time depreciation was booked for the rebuild of Nordland's paper machine.

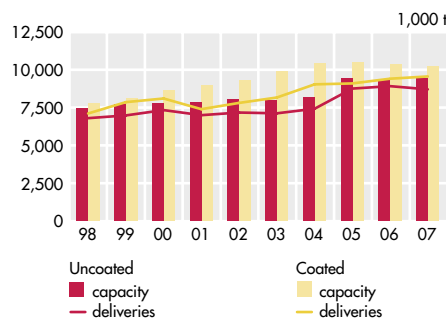
The division comprises the Group's paper machines producing fine and speciality papers and the Kymi, Wisaforest and Tervasaari pulp mill (see Sourcing, p. 36).

World's biggest fine paper manufacturers



Source: Jaakko Pöyry

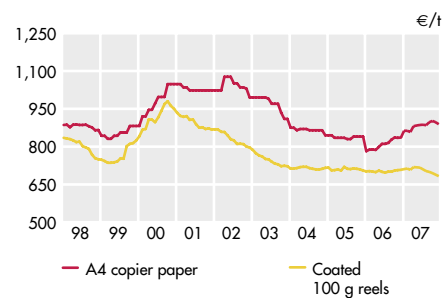
Fine paper production capacities in Europe* and total deliveries



* 1998-2004 Western Europe
2005-2007 Europe

Source: CEPI/PRINT

Fine paper prices in Europe



Source: PPI

Sales by market

€m	2007	%
Europe	1,843	66
Asia	594	21
Rest of World	360	13
	2,797	100

Label Materials

STRONG GLOBAL EXPANSION OF LABEL MATERIALS CONTINUED. RFID VOLUMES INCREASED RAPIDLY IN SEVERAL END-USE AREAS.

As of the beginning of 2007, the Converting Division consists only of UPM Raflatac and the division has been renamed as the Label Division. Walki Wisa, which was part of the Converting Division until the end of 2006, was reported in Other Operations until the date of sale. Comparative periods have been regrouped accordingly.

Profitability

Label Materials' operating profit, excluding special items, was € 47 million (€ 61 million). Sales increased to € 1,022 million (€ 987 million).

The profitability of the division decreased from the previous year. Sales growth was impacted by the strengthening of the euro, slightly lower prices and a change in the product and market mix. The cost of raw materials was stable, but operating costs increased as a result of rapid expansion. In the RFID business, strong growth in volumes continued.

Market review

In Europe, the good demand continued in the first half of the year, but the first signs of a slowdown were visible during the second

half. In North America, demand for self-adhesive label materials was unchanged in the first half of the year, but improved slightly during the second half. In the Asia-Pacific region, demand continued to grow at a healthy rate. For RFID, the retail, logistics and mass transit markets were the strongest in Europe, while media management, especially the library sector, showed the strongest growth in the USA.

Capital expenditure and restructuring

The largest ongoing investment is the new self-adhesive label materials factory being built in Dixon, Illinois in the United States. The value of the investment is approximately USD 100 million and the new factory is slated for completion in the first quarter of 2008.



Label Materials units and main products

UPM Raflatac

Self-adhesive labelstock for product and information labelling.

- Production plants in Finland, Spain, the United Kingdom, France, the United States, Australia, Malaysia, China and South Africa.

RFID tags and inlays.

- Production plants in Finland and the United States

Label Materials, key figures

	2007	2006	2005
Sales, €m	1,022	987	859
EBITDA, €m ¹⁾	80	93	71
% of sales	7.8	9.4	8.3
Depreciation, amortisation and impairment charges, €m	-33	-32	-30
Operating profit, €m	51	61	41
% of sales	5.0	6.2	4.8
Special items, €m ²⁾	4	-	-
Operating profit excl. special items, €m	47	61	41
% of sales	4.6	6.2	4.8
Capital employed (average), €m	439	388	368
ROCE (excl. special items), %	10.8	15.7	11.1
Capital expenditure and acquisitions, €m	107	63	39
Personnel on 31 Dec.	2,724	2,585	2,424

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

2) In 2007, special items include restructuring income of € 4 million.

In April, UPM announced that a new self-adhesive label materials factory will be built in Wrocław-Kobierzyce, Poland. In December, an announcement was made on the closure of three label lines in Tampere, Finland and one in Melbourne, Australia.

Sales by market

€m	2007	%
Europe	649	64
United States and Canada	242	24
Rest of World	131	12
	1,022	100



Wood Products



PLYWOOD BUSINESS REMAINED HEALTHY AND PROFITABLE THROUGHOUT THE YEAR. TIMBER HAD A RECORD YEAR, BUT PROFITABILITY WEAKENED IN THE LATTER PART AS DEMAND STALLED.

Profitability

The operating profit, excluding special items, for Wood Products was € 86 million, € 25 million higher than previous year (€ 61 million). Sales were € 1,199 million (€ 1,321 million). Excluding Puukeskus Oy, which was sold in August 2006, sales increased from previous year. Plywood deliveries were 945,000 (931,000) cubic metres and sawn timber deliveries 2,224,000 (2,317,000) cubic metres.

The profitability of both plywood and sawn timber improved as the prices were higher and efficiency improved. Wood costs started to increase rapidly in the spring, which together with the deteriorating market balance weakened the profitability of sawmilling in the second half of the year.

Market review

During 2007, birch plywood demand continued to be strong and prices increased. Demand for spruce plywood and veneers remained solid and prices increased slightly. In the first half of the year, redwood and white-wood sawn timber demand was strong and prices increased. After the summer, the markets slowed down first for whitewood – partly due to the new capacity – and then during

the last quarter also for redwood. Sawn timber inventories increased in the main markets. In the beginning of the year, the supply of logs was tight, but the situation normalised for all wood species except birch. The prices of logs were considerably higher than a year ago.

Capital expenditure and restructuring

In April, UPM decided to modernise and expand the birch plywood production at its Otepää plywood mill in Estonia. The investment is worth € 10 million and it will be completed in Autumn 2008.

Investments in production efficiency and product quality of plywood mills in Savonlinna and Jyväskylä were completed during the year. The total investment was € 8 million.

As a result of the weakening raw material supply situation, UPM decided on 17 October to close down the Keuruu Veneer mill in Finland. The operations will cease in Spring 2008. On 17 December, UPM announced that it will start negotiations with employees on the possible closure of the timber components and planing mill in Luumäki, Finland.

Wood products

Plywoods and veneers

WISA plywoods and veneers, mainly for building, interiors and transport equipment

- 12 production plants in Finland, 1 in Estonia and 2 in Russia

Sawn timber

WISA products ranging from standard products to complete components and mouldings, mainly for the building and joinery industries

- 7 sawmills and 6 processing facilities in Finland, 1 sawmill in Austria and 1 in Russia

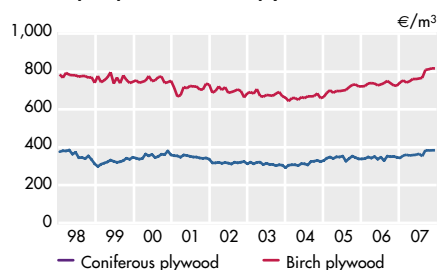
Wood Products, key figures

	2007	2006	2005
Sales, €m	1,199	1,321	1,290
EBITDA, €m ¹⁾	127	104	86
% of sales	10.6	7.9	6.7
Depreciation, amortisation and impairment charges, €m	-42	-43	-75
Operating profit, €m	92	144	6
% of sales	7.7	10.9	0.5
Special items, €m ²⁾	6	83	-32
Operating profit excl. special items, €m	86	61	38
% of sales	7.2	4.6	2.9
Deliveries, plywood 1,000 m ³	945	931	827
Deliveries, sawn timber 1,000 m ³	2,224	2,317	1,883
Capital employed (average), €m	577	616	660
ROCE (excl. special items), %	15.0	9.9	5.8
Capital expenditure and acquisitions, €m	31	39	51
Personnel on 31 Dec.	5,459	5,577	6,362

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.

2) Special items include a gain of € 6 million on sale of estate assets. Special items in 2006 include a loss of € 10 million from the sale of the Loulay plywood mill and a capital gain of € 93 million on the sale of Puukeskus. Special items in 2005 include impairment charges of € 25 million relating to the Group's Finnish sawmills and a provision of € 7 million relating mainly to restructuring of the sales network.

Export prices for Finnish plywood



Source: Finnish Forest Industries Federation

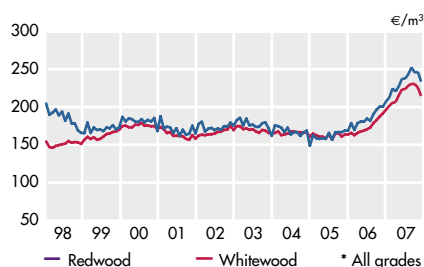
Sales by business area

€m	2007	2006	2005
Plywood	591	578	546
Sawmilling	613	529	452
Units sold	-	300	394
Other and internal sales	-5	-86	-102
	1,199	1,321	1,290

Sales by market

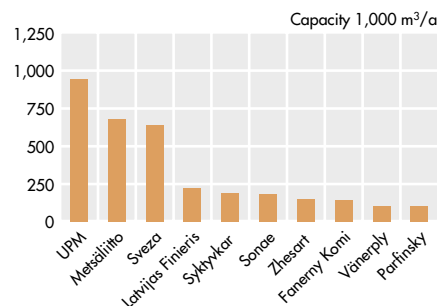
€m	2007	%
Finland	276	23
Other EU countries	688	57
Other European countries	55	5
Asia	110	9
Rest of World	70	6
	1,199	100

Export prices for Finnish sawn timber*



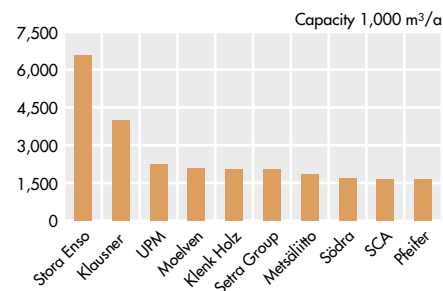
Source: Finnish Forest Industries Federation

Europe's biggest plywood producers



Source: Jaakko Pöyry

Europe's biggest sawn timber producers



Source: Jaakko Pöyry

Other Operations



OTHER OPERATIONS CONTINUED TO PERFORM WELL, REDUCING THE RISKS IN RAW MATERIAL AND ENERGY PROCUREMENT AND PRICES.



Profitability

The biggest units reported in Other Operations are the Forestry Department, the Energy Department in Finland and associated companies Metsä-Botnia Ltd and Pohjolan Voima Ltd.

Excluding special items, the operating profit of Other Operations was € 267 million (€ 41 million). Sales were € 809 million (€ 823 million).

The operating profit of forestry was € 166 million (€ -19 million). The cost of wood raw material harvested from the Group's forests was € 116 million (€ 107 million). The increase in the fair value of biological assets (growing trees) was € 195 million (decrease of € 19 million).

The price of wood increased markedly. The availability of wood was weak at the beginning of the year due to unusually warm and rainy weather in Finland and Russia, which

made it more difficult to reach the felling sites. The authorities in Russia increased the export duties for roundwood in July to €10/m³ from € 4/m³. Fellings from UPM's own forests remained on a high level.

The operating profit of the Energy Department in Finland was € 112 million (€ 94 million). The good availability of hydropower and the decrease in emission right prices reduced the costs of electricity generation. On the other hand, electricity prices in Nord Pool were significantly lower than in the previous year.

Capital expenditure and restructuring

The sale of the real estate company UPM-Asunnot was concluded in April. It employed 15 persons and owned around 2,000 rental apartments in Finland.

Other Operations, key figures

	2007	2006	2005
Sales, €m ¹⁾	809	823	970
EBITDA, €m	210	199	178
Depreciation, amortisation and impairment charges, €m	-52	-32	-37
Operating profit			
Forestry, €m	166	-19	64
Energy Department, Finland, €m	112	94	135
Other and eliminations, €m	70	-5	-55
Operating profit, total, €m	348	70	144
Special items, €m ²⁾	81	29	-31
Operating profit, excluding special items, €m	267	41	175
Capital employed at end of period (including associated companies), €m	3,220	3,395	3,484
Capital expenditure and acquisitions, €m	63	108	82
Personnel on 31 Dec.	2,445	4,186	4,546
Associated companies and joint ventures			
Share of results after tax, €m ³⁾			
Metsä-Botnia	58	69	36
Pohjolan Voima	-14	-14	-
Other	-1	6	5
Total	43	61	41

1) Includes sales outside the Group.

2) Special items include capital gains of € 42 million related to the sale of UPM-Asunnot, € 29 million related to the sale of Walki Wisa, and € 58 million on the sale of port operators Rauma Stevedoring and Botnia Shipping, compensation charges of € 12 million related to class-action lawsuits in US, impairment charges of € 31 million related mainly to Miramichi's forestry and sawmilling operations and other restructuring costs of € 5 million. Special items in 2006 include the capital gain of € 41 million of the Group head office real estate and the donation of € 5 million to a UPM-Kymmene Cultural Foundation and other restructuring charges of € 7 million. In 2005, they include a fine of € 57 million imposed by the European Commission and gain of € 26 million from the sale of Loparex.

3) In 2005 share of results of associated companies includes special income of € 9 million related to the valuation of the assets of Pohjolan Voima.

The sale of Walki Wisa was concluded in June. In 2006 the sales amounted to € 287 million. The company employed about 950 people.

In October, UPM sold port operators Rauma Stevedoring Ltd and Botnia Shipping Ltd to Babcock & Brown Infrastructure (BBI). The sales of the companies correspondingly in 2006 were € 55 million and € 7 million. The companies together employed about 650 persons.





Resources and Success Factors ■

UPM'S HIGH SELF-SUFFICIENCY IN CHEMICAL PULP AND ENERGY IS PART OF A STRATEGY THAT THE COMPANY BELIEVES WILL GIVE IT A RELATIVE LONG-TERM COMPETITIVE ADVANTAGE.





Energy

THE MARKET PRICE OF ELECTRICITY INCREASED GLOBALLY DURING THE YEAR, BUT THE COMPANY'S HIGH SELF-SUFFICIENCY, APPROXIMATELY 70%, MITIGATED THE EFFECTS OF THE PRICE RISE. UPM CONTINUED TO INVEST TO ACHIEVE HIGHER ENERGY SELF-SUFFICIENCY.

UPM's energy strategy is based on high self-sufficiency in both electricity and fuel supply. The electricity portfolio is versatile and competitive, consisting mainly of hydropower, nuclear power and biomass-fired mill site combined heat and power through UPM's own and associated companies' power generation. Effective large-scale utilisation of biomass-based fuels is an extremely important aspect of the group's energy strategy from both the economical and environmental efficiency point of view. The company is self-sufficient in terms of electricity in Finland. At group level, the self-sufficiency rate is today around 70%. This has enabled UPM to work systematically to reduce greenhouse gas emissions.

In 2007, UPM procured 20.0 TWh of electricity (20.0). The group's own industrial consumption was 18.2 TWh (18.4). 1.8 TWh was sold to third parties (1.6).

Heat generated from fuels procured by UPM, plus purchased heat and heat generated by thermomechanical pulping, totalled 36.6 TWh (37.5).

The electricity generating capacity of UPM was about 2,540 MW at the end of the year. The figure consists of UPM's own and leased power generating capacity and the capacity available through interests in associated companies. The figure includes the power generating capacity of the mills' combined heat and power plants.

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

The most important associated company is Pohjolan Voima Oy (PVO) in which UPM holds a 41.99% share. PVO generates and procures around 25,000 GWh of electricity and heat annually, mainly for its industrial shareholders on a cost basis. Electricity sup-

Electricity procurement and consumption

TWh	2007	2006	2005
Procurement			
Hydropower shares	3.2	2.7	3.1
Back-pressure power	4.7	4.7	4.4
Nuclear power shares	4.5	4.5	4.4
Thermal energy shares	1.9	2.2	0.9
Purchased electricity	5.7	5.9	6.4
Total	20.0	20.0	19.2
Consumption			
Mills in Finland	11.2	11.2	10.3
Mills outside Finland	7.0	7.2	7.0
Sales	1.8	1.6	1.9
Total	20.0	20.0	19.2

Sources of thermal energy

TWh	2007	2006	2005
Black liquor	11.3	11.7	10.0
Bark and other biofuels	8.0	8.0	7.7
Heat recovered from TMP production	2.6	2.3	2.1
Peat	1.7	1.4	1.1
Purchased heat	0.3	0.6	0.8
Natural gas	7.9	8.6	8.9
Oil	1.0	0.9	0.9
Coal	3.7	3.7	3.0
Total	36.6	37.5	34.5

plied by PVO covers roughly 35% of UPM's total electricity requirement. Most of this is hydropower and nuclear power.

Pohjolan Voima Oy is also a majority shareholder with 57.94% in Teollisuuden Voima Oy. Teollisuuden Voima Oy began construction of a 1,630 MW nuclear power plant at Olkiluoto, Finland, in 2004 and the new power unit should be in operation during 2011. Through PVO, UPM is entitled to a 468 MW share, representing approximately 29% of the new plant's output.

Power market

Oil and coal prices soared in the global energy markets, driven by strong economic growth especially in Asia and high energy demand. Nevertheless the average price on the Nordic electricity exchange in 2007 was € 27.9/MWh, 43% lower than a year ago. High water levels in reservoirs allowing strong hydropower capacity utilisation, and low CO₂ allowance price were behind the low level in electricity market prices.

The emissions trading market was highly volatile during the whole year. In 2007, the publicly quoted price of one carbon dioxide tonne varied from € 0.02 to € 5.60. The emis-

sions trading did not have any material impact on UPM's results.

Focus on climate change

Carbon dioxide neutral energy sources dominate UPM's energy portfolio. Presently in Finland more than 75% and globally about 60% of fuels used at UPM's mills are biomass-based and CO₂-neutral, thus not accelerating climate change. The EU target for renewable energy sources by 2020 is 20%. Through its holding in Pohjolan Voima, UPM is participating in Teollisuuden Voima Oy's nuclear power plant project, which will further increase the share of CO₂ free electricity.

Since the 1990s, UPM has invested in building new mill site power plants using biomass as fuel. This in addition to energy efficiency improvements has resulted in a significant global reduction by 25% in the company's fossil CO₂ emissions per tonne of paper produced during the past 10 years.

UPM is continuing its work to cut carbon dioxide emissions and improve self-sufficiency in electricity. The newest mill power and heat plant using renewable fuels started

up at the Chapelle Darblay mill in France at the beginning of 2007. The total investment amounted to € 85 million.

To further improve its position, UPM started in 2007 to build a combined heat and power plant for the Caledonian paper mill in the United Kingdom. The plant will use biomass and by-products generated during production as its primary fuel. The power plant will be completed in 2009 and it will cut UPM's carbon dioxide emissions by 75,000 tonnes per year. In 2007, UPM also made a decision to build a combined heat and power plant using biomass-based fuels at the Kaukas mill site in Finland. The project will be carried out by Kaukaan Voima, which is owned by Pohjolan Voima and Lappeenranta Energia. The plant will be completed in 2010. It will supply heat and power to the Kaukas mill site and district heating to the city of Lappeenranta.

Increasing utilisation of forest energy

Biomass-based fuels used by UPM include forest biomass, bark, sludge from biological effluent treatment plants and RCF plants as well as black liquor from pulp mills. In 2007,

UPM's initiatives to reduce 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
Wisapower, Finland, chemical recovery plant*	2004
Shotton, UK, sludge boiler	2006
Rauman Voima, Finland, power plant*	2006
Chapelle Darblay, France, power plant	2007
Kymi, Finland, chemical recovery plant	2008
Caledonian, UK, power plant	2009
Kaukaan Voima, Finland, power plant*	2010

* These power plants have been constructed by UPM's associated companies.



biomass accounted for 57% of total fuel procurement (57%).

UPM has been a forerunner in the use of forest biomass. Forest biomass means logging residues, small-diameter trees removed during clearing and thinning operations, and stumps. UPM's forestry and wood sourcing has developed different harvesting techniques, as well as global recommendations for sustainable harvesting of forest biomass. The recommendations complement the company's environmental guidelines to be followed during harvesting.

The company's energy generation from forest biomass totalled 1.65 TWh (1.68).

Continuous improvement of energy efficiency

Measures to improve energy efficiency have an important role in decreasing the CO₂ emissions. UPM continuously assesses and bench-

marks its mills and power plants, and operations are improved accordingly.

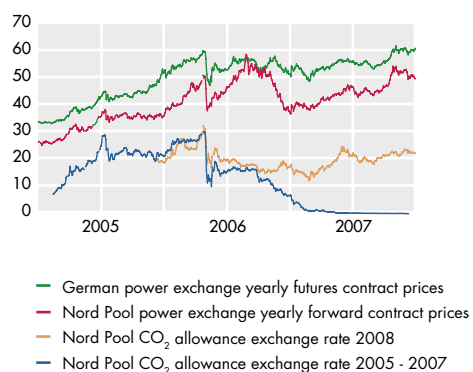
Plans for a biodiesel production plant

UPM has announced plans to invest in second-generation biodiesel within the next few years. Business concepts and technical solutions are currently being developed.

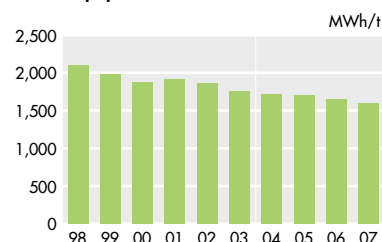
In 2007 UPM started – together with Andritz/Carbona – testing Carbona's gasification technology at the Gas Technology Institute's pilot plant located close to Chicago in the United States. Pilot testing is expected to be finished by the end of 2008. The co-operation also covers the design and supply of a commercial-scale biomass gasification plant.

The investment decision on the first commercial-scale production plant can be expected within a few years. The first production plant could be located alongside a UPM paper mill in the United Kingdom, France, Germany or Finland.

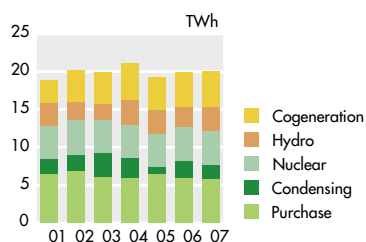
Market price of electricity and CO₂ emission allowances



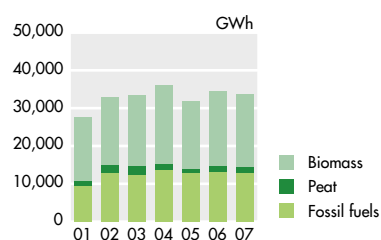
Electricity consumption per tonne of paper



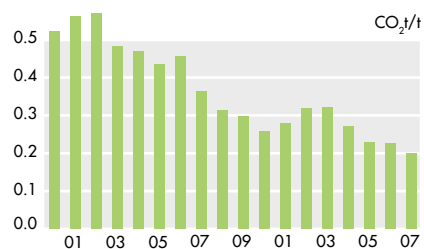
Group electricity supply



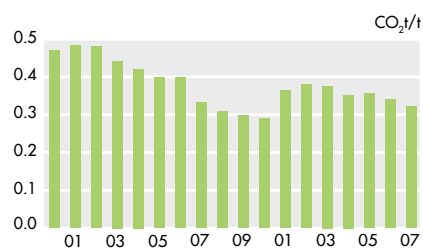
Distribution of fuels



Fossil carbon dioxide emissions per tonne of paper in Finland



Fossil carbon dioxide emissions per tonne of paper, Group



Wood procurement

UPM CONSUMED 26.9 MILLION M³ (26.1 MILLION) OF SUSTAINABLY SOURCED WOOD RAW MATERIAL IN 2007. THE PRICE OF WOOD INCREASED DRASTICALLY IN FINLAND WHERE MORE THAN 80% OF UPM'S WOOD IS CONSUMED.



Wood prices escalated to all-time high levels in Finland during the year, but the wood market calmed down at least temporarily towards the end of the year.

UPM established a subsidiary named Silvesta for the silvicultural operations in its forests during the year. In addition, Silvesta will provide forest management services for private forest owners in Finland. The new subsidiary is focusing on improving the productivity of silvicultural operations and securing wood procurement for UPM's own and managed forests.

In Russia, the authorities started to implement the increase of export duties for round wood during July by raising the import tariff to € 10 per m³ from € 4. The plan is to increase the tariff to € 15 in April 2008 and to € 50 per m³ at the beginning of 2009. The higher export duties together with poor felling and transporting weather negatively affected wood supply. In addition, the slow implementation of Russia's new forestry code complicated wood procurement for the two mills in Russia and export operations.

UPM is mitigating the impact of the more expensive Russian wood in Finland by increasing its domestic wood sourcing and by importing more wood from other countries.

In the Baltic countries, the wood market was in turmoil. The demand for wood was high and prices increased sharply. However, towards the end of the year the market calmed down and especially the prices for pulpwood began to decline.

In continental Europe, the supply of wood increased dramatically after the windstorm in January. The availability of chips was also good due to the high production of sawn goods at the sawmills.

Towards the end of the year, the supply of chips decreased with the deteriorating market for sawn goods. At the same time, the availability of fresh round wood became tighter and prices increased.

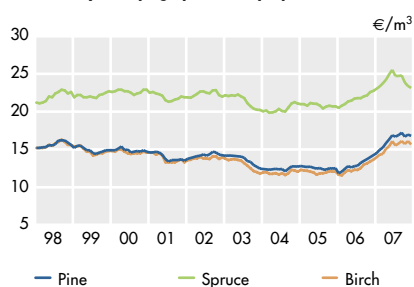
UPM's wood consumption

1,000 m ³	2007	2006	2005
Finland	22,330	21,700	18,860
Austria	1,020	1,010	890
Germany	640	650	630
France	490	490	450
Russia	860	640	660
United Kingdom	290	250	310
Estonia	90	40	60
Canada	650	830	560
United States	520	490	510
Total	26,890	26,100	22,930

Forests owned or managed by UPM

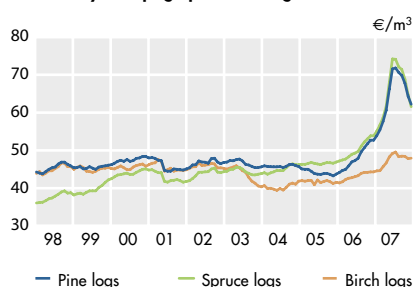
1,000 hectares	Own forests	Managed/ leased forests
Finland	918	275
United Kingdom	3	160
United States	79	–
Canada	17	953
Russia	–	184
Total	1,017	1,572

Monthly stumpage prices for pulpwood in Finland



Source: Finnish Forest Industries Federation

Monthly stumpage prices for logs in Finland



Source: Finnish Forest Industries Federation

In the United Kingdom, demand for wood was very strong for most of the year. In the second half, demand calmed down, but the wood prices have remained high. The demand for small round wood has continued to be strong, particularly as the supply of chips has decreased slightly with falling sawn goods demand.

In Canada, the paper mill at Miramichi was closed in the summer and the Blackville Sawmill closed indefinitely in April.

Despite the closures, UPM continued to deliver wood to its sawmill in Bathurst and to other forest industry companies. This allowed UPM to fulfil its obligations as part of its Forest Management Agreement with the New Brunswick government.

In Minnesota in the United States, the weakness of the housing market kept a significant portion of board mills (OSB)

closed. These and other closures decreased competition and prices for wood in the region.

Wood procurement for energy

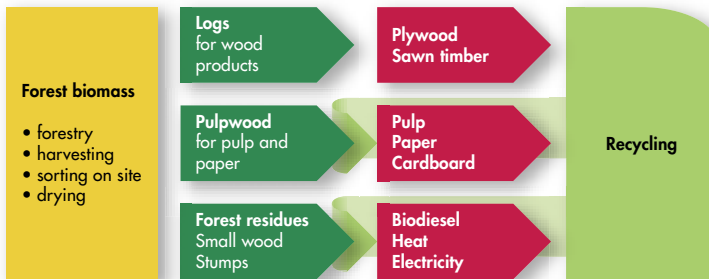
Forest biomass equivalent to 2,419 GWh (1,866) of energy production was supplied to the company's power plants and 373 GWh (358) to outside customers.

Sustainability of forests and wood procurement

UPM is committed to sustainable forestry and forest management methods that are based on internationally accepted principles.

UPM supports and utilises credible forest certification schemes, including the two major international certificates, namely FSC and PEFC. Forest certification is a good method for promoting the economic, social and envi-

Efficient use of wood raw material



ronmental aspects of forest management. All UPM's own and leased forests are certified. The majority of private forests managed by UPM are also certified.

UPM aims to increase the use of certified wood in its mills. About 71% (65%) of all wood used in UPM's mills comes from certified forests.

UPM is committed to responsible wood sourcing. The Chain of Custody system is a tool to ensure wood is coming from sustainable and legal sources. It also enables the monitoring and reporting of certified wood.

UPM's own Generic Chain of Custody model allows UPM to demonstrate the actual share of certified wood and wood fibre in its products. In February 2007, UPM's Forestry and Wood Sourcing organisation in Russia gained FSC-certified Chain of Custody. The CoC model has been implemented by all of UPM's Forestry & Wood Sourcing regions in those countries where UPM sources raw wood material. The system has been certified in each

country in accordance with local conditions. The system is also in use at several mills.

All UPM's Forestry & Wood Sourcing regions have integrated management systems such as: quality, environment, health and safety, chain-of-custody and forest management.

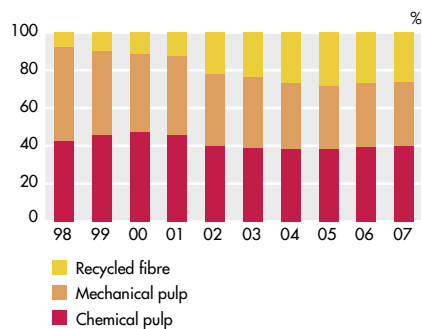
UPM considers the preservation of biodiversity as a key part of sustainable forest management. It has continuously invested in promoting biodiversity in its own forests and forests under its management. In the spring, UPM announced a global biodiversity programme for company forests in four countries: Finland, the United Kingdom, Canada and the United States.

The programme aims to maintain and increase biodiversity in forests, as well as promote best practice in sustainable forestry. The programme identifies six key elements important for forest biodiversity: native tree species, forest structure, deadwood, water resources, valuable habitats and native forest. UPM has set global targets for each key element that will be implemented through country level targets and local action plans.

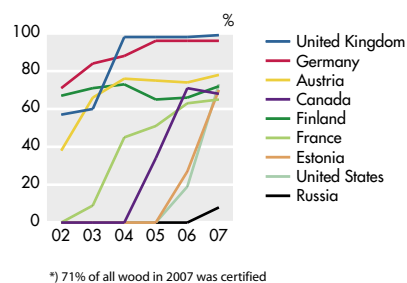
Co-operation with the authorities, researchers and other interested stakeholder groups are examples of tools for promoting the continuous sustainable development of our operations.

For more information, see
www.upm-kymmene.com/sustainableforestry
www.upmforestlife.com/
www.upm-kymmene.com/traceit

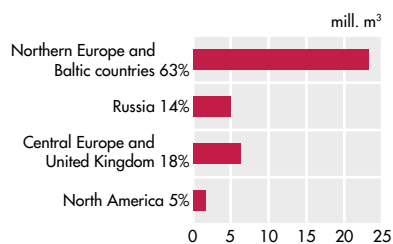
Fibre raw materials used in paper



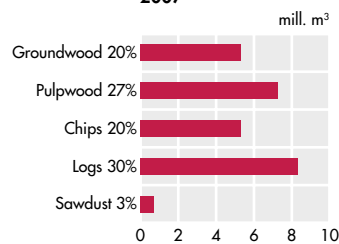
Certified wood supplied to mills



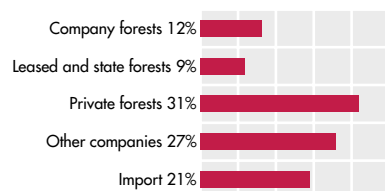
Wood procurement by region 2007



Wood consumption by timber assortment 2007



Sources of wood globally





Sourcing

PULP AND RECYCLED FIBRE ARE THE MOST CRITICAL STRATEGIC SUPPLIES BEING GLOBALLY SOURCED.

UPM sources some four billion euros worth of pulp, fibre, chemicals, fillers, pigments and other raw materials and supplies each year.

In chemical pulp, UPM is self-sufficient through its own pulp mills and those of the associated company Botnia (Oy Metsä-Botnia Ab). UPM's own pulp production capacity is 2.3 million tonnes and its 47% share in Botnia with a total pulp capacity of 3.7 million tonnes at six mills entitles UPM to 1.7 million tonnes of capacity. The largest investment in Botnia's history was the completion of the 1 million tonnes per annum state-of-the-art pulp mill in Uruguay in late 2007, which significantly enlarged the company's scale and efficiency.

Pulp production capacity

1,000 t/a	January 2008
Kaukas	740
Wisaforest	800
Kymi	540
Tervasaari	210
Own production capacity, total	2,290
Entitlement to associated company's capacity corresponding to UPM's shareholding	1,750
Total	4,040

The Kaukas pulp mill is part of the Magazine Papers division, and the Kymi, Wisaforest and Tervasaari pulp mills belong to the Fine and Speciality Papers division.

Pulp production and consumption

1,000 t/a	2007	2006	2005
Pulp production			
Chemical pulp			
own production	2,149	2,095	1,840
from associated company	448	403	466
Mechanical pulp	2,942	2,897	2,635
Recycled fibre pulp	2,305	2,343	2,259
Total	7,844	7,738	7,200
Pulp consumption			
Chemical pulp	3,561	3,429	3,089
Mechanical pulp	2,983	2,934	2,649
Recycled fibre pulp	2,305	2,344	2,261
Total	8,849	8,707	7,999

For commercial and logistics reasons, UPM also buys pulp on the open market. These purchases are from selected pulp producers under long-term contracts.

During the year, the global pulp market remained firm, led by good Asian demand and limited new supply entering the market. The average bleached long-fibre pulp price rose from USD 675/tonne to USD 800/tonne. Bleached short-fibre pulp, in turn, rose from USD 638/tonne to an average of USD 707/tonne.

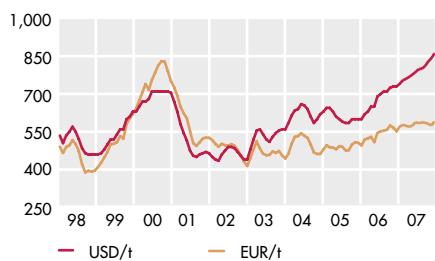
UPM's recycled fibre utilisation was 3.0 million tonnes (3.0) in newsprint and magazine paper production. The aim in RCP procurement is to be involved in the value chain

and secure cost competitive supplies in the long-term for the relevant newsprint and magazine paper mills in Europe. RCP availability during the year was rather good in Europe, but prices rose as Asian demand tightened supply and the competitive situation underwent some changes.

Wood procurement, which amounts to more than € 1.5 billion, is reported separately in detail in this Annual Report (see pages 32–35).

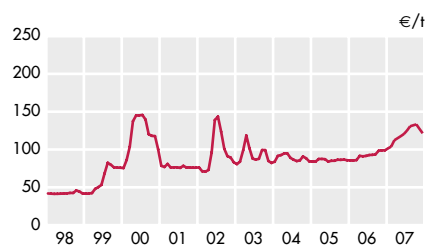
Chemicals, fillers and coating materials expenditure at UPM also amounts to more than € 1 billion annually. These supplies are sourced from accredited suppliers following sustainable practices. Purchasing has been

Market pulp prices – bleached pine pulp



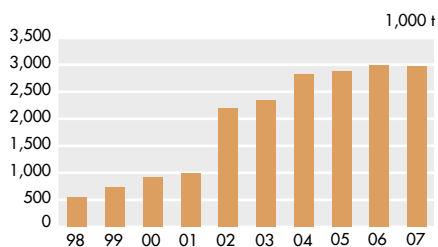
Source: Finnish Forest Industries Federation

Market price of recovered paper in Germany

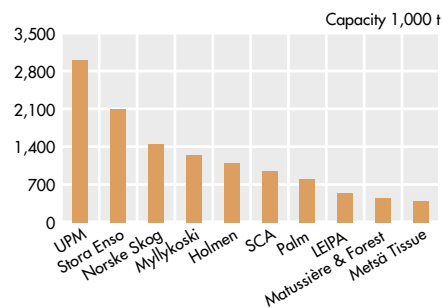


Source: VDP

Recovered paper consumption 1998 – 2007

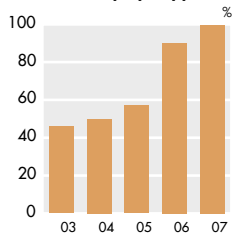
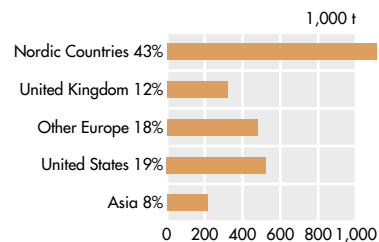


Europe's biggest producers of deinked pulp



Source: Jaakko Pöyry

Proportion of Chain of Custody certified external pulp suppliers


Mineral sources 2007
Total dry 2,704,880 t


centralised with the aim of ensuring UPM's competitive cost base for all sourced products and services, enforcing competition and optimising the supply base. Long-term contracts have recently been favoured with international chemical companies and, despite the rise in oil prices, the price development for UPM has been rather stable.

Responsible sourcing

The criteria for selecting a supplier are applied in an unbiased, fair and objective way. Key suppliers are analysed and assessed on a regular basis, including their operational, environmental and financial performance. UPM's general supplier requirements are a pivotal part of the evaluation and all suppliers are required to comply with these standards and they have to commit to follow the provisions of UPM's Code of Conduct.

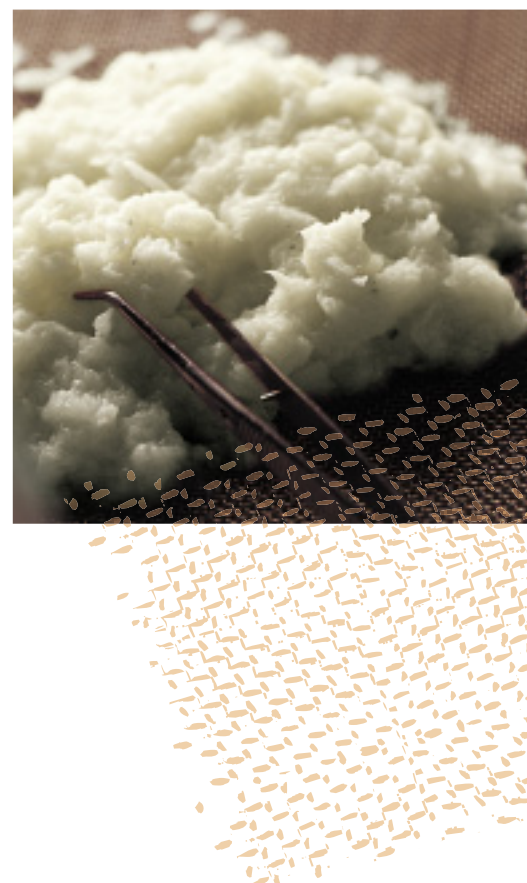
UPM's Code of Conduct defines ethical principles for all company operations, including the behaviour of individuals within the group as well as relations with external stake-

holders. The Code of Conduct has been used as a baseline for ethical sourcing, including legal compliance of deals, conflict of interest, confidential information, supplier performance, payment practices and termination of contracts.

Suppliers are encouraged to use the best available techniques and management systems, e.g. ISO 9001, ISO 14001 and OHSAS 18001, in order to minimise occupational accidents, health risks and environmental impacts.

All suppliers under contract with UPM are required to report their environmental and social performance and allow external audits carried out by UPM. All environmental and occupational health and safety risks have to be evaluated, especially when making a contract with a new supplier. Corrective measures have to be taken when considered necessary.

For more information, see www.upm-kymmene.com



Personnel

UPM CONTINUED ITS RESTRUCTURING EFFORTS, WHICH RESULTED IN AN OVERALL DECREASE OF PERSONNEL. AT THE SAME TIME, THERE HAS BEEN STRONG FOCUS ON STRATEGIC CAPABILITY DEVELOPMENT TO SUPPORT COMPANY GROWTH IN NEW MARKETS AND BUSINESSES.

UPM employed in total 26,352 people at the end of 2007, a reduction of 2,352 persons from the previous year. The sale of Walki Wisa accounted for 975 and the sale of Rauma Stevedoring and Botnia Shipping for 650 in the headcount reduction. In the Label division, the number of employees increased by 139, mainly due to growth investments in China, the US and Poland.

The average number of employees was 28,246 compared to 31,039 in 2006.

Profitability Programme continued

In March 2006, UPM announced an extensive programme to restore its profitability. The measures were estimated to decrease UPM's personnel by approximately 3,600 employees



Key indicators

	2007	2006	2005
Sales per person, €	355,000	323,000	284,000
Value added per person, €	144,000	132,000	123,000
Incentive bonuses, €m	33	24	3
Training costs, €m	21	20	19
Average no. of days spent in training	2.8	2.2	2.6
Personnel turnover, %	8.0	6.4	5.1
No. of man-days lost through strikes	–	9,000	161,000
No. of man-days lost through lock-outs	–	–	214,000

Calculation of key indicators:

Sales per person = Sales / average no. of employees

Value added per person = Sales – materials and services / average number of employees

Training costs = Training costs incl. salaries and indirect employee costs

Average no. of days spent in training = No. of days of training / average no. of employees

Personnel turnover, % = No. of persons leaving / average no. of employees x 100

in 2006–2008. In Finland the decrease was estimated to be 2,557 persons.

By the end of the year 2007, UPM's overall workforce had decreased by 3,210 persons through the Profitability Improvement Programme.

In order to minimise the impact of redundancy, UPM established a "From Job to Job" programme to support the retraining and relocation of its redundant personnel, particularly the 678 employees that worked at the closed Voikkaa Mill.

By the end of 2007, 517 former Voikkaa employees had found a new permanent job in UPM or elsewhere, were retired or in a re-training scheme. Until the end of 2008, 51 people will be working for the shutdown operations. In addition, there were 25 persons working temporarily for UPM.

In the From Job to Job programme UPM also encouraged its personnel to create new businesses by offering start-up support. By the end of 2007, UPM had funded 21 start-ups and supported training for 30 persons to find a new career. Moreover, UPM organised an overall outplacement service programme to carry out a survey of open positions in the regions affected. The initiative led to 34 people taking up new employment by the end of 2007.

UPM has also worked actively to find and locate new companies to operate at the former Voikkaa mill premises. Currently, these companies are offering new employment opportunities in the region.

In December, UPM announced the permanent closure of the Miramichi paper mill in, Canada. The 660 employees made redundant have been provided with severance pay, as well as several forms of outplacement services including career counselling. UPM has worked with the local government to provide training opportunities for all laid off employees, as well as to explore new companies that may operate at the mill premises.

Consolidating services

In 2006, UPM launched a project to consolidate financial services into global and regional service centres. The project is proceeding according to plan and will be completed during 2008. Due

to the consolidation, UPM's Finance & Control personnel will decrease by 150.

UPM's Global Sourcing started to execute its transformation plan in 2007. In addition to establishing centralised procurement centres in Tampere and Changshu, the programme unifies the global sourcing processes, including the implementation of the global materials management system. The transition programme will be conducted gradually by the year 2011. Once the measures are completed, the personnel of Global Sourcing will reduce by approximately 40 people worldwide. Currently, there are 200 persons working for Global Sourcing.

UPM established a new IT site in Krakow, Poland. Currently, there are 40 new employees working on global IT-related projects and supporting existing global applications. Most of them were hired during 2007.

Learning and leadership development

UPM people development focuses on supporting continuous business transformation.

The UPM people processes are the backbone of leadership and these processes have

been globally aligned and improved together with the HR information system. They provide new self-services as the first steps to introducing a new leadership portal.

The UPM leadership principles guide leaders in developing their own competences. Internal mentoring and external coaching are offered to support leaders in applying these principles to daily work. Middle management has also attended face-to-face modules on people and team leadership, change management and innovative thinking.

The global top management programme Booster, which aims to enhance change capabilities, has continued. In addition, there have been several team and management team development sessions at different levels of the organisation.

Sales, research and development and sourcing continued to be the key areas for UPM's professional development. About 150 sales people from the immediate customer interface participated in various learning modules during 2007.

UPM also piloted a global programme to introduce the new R&D processes. As previously, UPM's employees have been offered

UPM's Leadership Principles





Personnel by country

at 31 Dec.	2007	2006	2005
Finland	13,086	14,946	17,322
Germany	3,802	4,097	4,272
United Kingdom	1,567	1,622	1,685
France	1,437	1,463	1,707
Russia	1,230	1,361	1,407
Austria	657	679	672
Spain	273	269	272
Estonia	176	172	186
Poland	89	66	46
Italy	79	86	86
Hungary	52	52	52
Belgium	37	42	75
The Netherlands	35	34	39
Sweden	24	46	51
Denmark	20	23	36
Other Europe	87	76	76
China	1,312	1,302	1,167
United States	1,067	1,024	1,013
Canada	843	909	939
Malaysia	158	147	141
Australia	94	95	107
South Africa	94	92	86
Rest of world	133	101	85
Total	26,352	28,704	31,522

various learning solutions for the development of operational competences.

Occupational health and safety

In 2007, the Stracel paper mill located in France received the first UPM Occupational Health and Safety Award. The mill has set a good example by promoting the occupational health and safety of its employees.

In Finland, UPM is participating in a study together with the labour union to find good ways of decreasing absences from work. On the basis of the study, UPM will implement actions to reduce absenteeism and improve well-being. A joint programme for supporting well-being at work will be launched in 2008.

The frequency of work accidents continued to decrease in all regions and all divisions, with the exception of Central Europe. Likewise, absenteeism due to illnesses and accidents showed a slight decrease from previous years.

In 2007, there was one fatal accident at UPM's facilities, when a contractor was killed at the Changshu paper mill in China. Therefore, the focus in safety issues will be on improving contractor co-operation during 2008.

Nearly all mills have an occupational health and safety management system. Most of them are also certified (OHSAS 18001).

Short-term incentives

The short-term incentive system was renewed as of the beginning of 2007. All of UPM's personnel came under a unified system. The incentive combines profit targets as well as personal and/or team targets. The key indicator for profit targets is EBITDA.

The total for incentive bonuses and rewards recognised for 2007 was € 33 million.

Long-term incentives

Share- and share-option-based incentive programmes for key personnel were continued in accordance with decisions made in 2005. In 2007, share ownership rewards were paid out to approximately 70 persons. A total of approximately 2,900,000 2005G share options and 2,900,000 2005H share options were distributed to approximately 560 key persons.

The Board of Directors approved the new share ownership programme and the Annual General Meeting approved the share option programme for years 2008–2010.

Employee participation

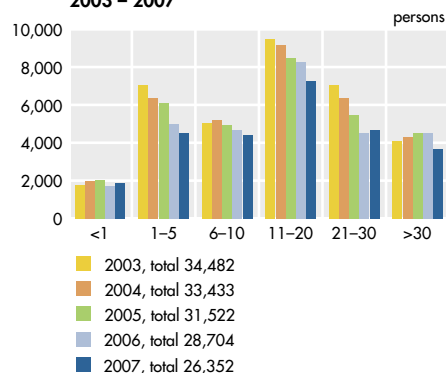
At UPM, employee participation and consultation are organised in accordance with international and national rules and regulations.

The UPM European Forum is the Group's international co-operation body. Representatives of all employee groups from UPM's mills in Europe participate in the meetings. The European Forum had two meetings in 2007. Meeting discussions covered topical issues related to the changing business environment.

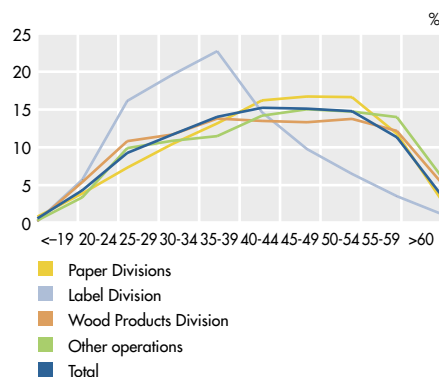
Employee Engagement Survey

During the year, UPM carried out an Employee Engagement Survey (EES), with an overall response rate of 73%. The survey revealed that the overall level of engagement at UPM is about average compared to manufacturing companies, as well as compared to all benchmark companies in Finland, Germany, United Kingdom, France, United States and China. Manager effectiveness was stronger than employee engagement. Based on the survey, sharing a motivating future vision with all UPM employees was selected as the common development action.

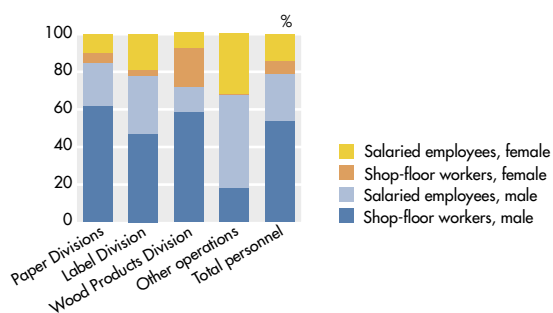
**Employees' years of service with UPM
2003 – 2007**



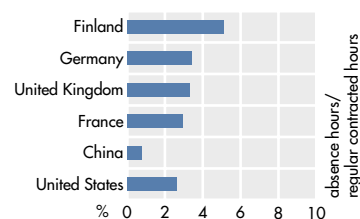
Age structure of Group personnel 2007



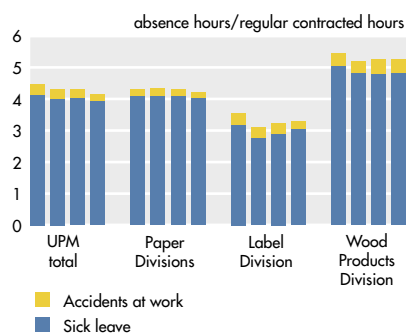
**Personnel gender
distribution in 2007**



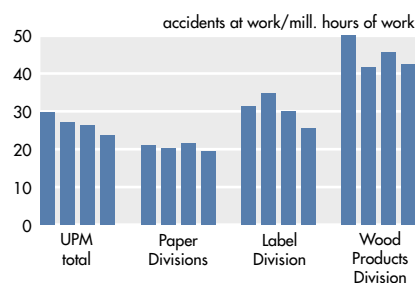
**Absenteeism due to sickness
and accidents at work,
all personnel**



Absenteeism %, all personnel 2004–2007



Accident frequency, all personnel, 2004–2007



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Research and development

UPM'S R&D PLAYS AN IMPORTANT
ROLE IN CREATING NEW BUSINESS
OPPORTUNITIES

Research and development work supports UPM's corporate strategy. The focus of research work has been enlarged to cover the whole value chain all the way to the clients. In recent years, the emphasis has been especially on exploring and creating new business opportunities.

As a consequence, research resources increased in 2007. UPM spent altogether approximately € 50 million (€ 44 million) on research and development projects, or 0.5% (0.4%) of the Group's sales.

UPM's R&D Centre in Lappeenranta in Finland focuses on fibres and fibre raw materials, papers, coating and printing, as well as customer support, technical services and the environment. UPM's recycled fibre research is centred in Augsburg, Germany, and support for North American operations in Grand Rapids, Minnesota.

UPM opened a new research centre in China in March 2007. The UPM Asia R&D Center is responsible for local fibre raw material research, as well as manufacturing and technical customer service support for UPM's production units in China and the Asia Pacific Region.

In China, UPM is investigating the possibility of building an industrial biorefinery utilising agro residues. The biorefinery would be the first industrial facility in the world using this technology. The UPM Asia R&D Center plays a key role in the research for agro residues as the base for pulp production.

Together with UPM's Kajaani mill, the Lappeenranta R&D Centre has developed a new innovative method for using pine for mechanical pulping. The harmful pitch will be dispersed by using ozone in the process. The method can be expanded to other UPM paper mills using mechanical pulp if testing proves successful.

UPM invested in printing simulators in Augsburg and Changshu in Autumn 2007. Simulators will be used both for internal and customer training and learning purposes in order to have value added customer service.

In the label business, labels for the beverage industry and bottled water market are potential applications offering strong growth opportunities. The main challenge of the R&D work is to find more cost-effective self-adhesive labels compared to the current products, and to develop competitive filmic wash-off labels for returnable bottles.

In RFID business, research has focused on developing new HF and UHF antennas for RFID inlays and tags. The organisation has strengthened its product development and modernised the measurement equipment in the research laboratory. New technical specifications have been developed for antenna providers to achieve improved product performance.

In Wood Products, the research done in the Plywood business area is directed mainly at overlaying and gluing techniques, the properties of different wood species and new materials. UPM Timber is focusing on increasing productivity and the value capture available in the raw materials.

New prospects

UPM is also exploring new business opportunities. Currently, there are several initiatives in this area.

In 2007, together with Andritz/Carbona, UPM started testing Carbona's gasification technology at the Gas Technology Institute's pilot plant located close to Chicago in the United States. Pilot testing is expected to be finished by the end of 2008.

In 2007, UPM launched a wood-plastic composite, a new material developed by UPM's Corporate Venturing made of recycled fibres and plastics originating from labelstock production. UPM is aiming to become a major manufacturer of new UPM ProFi products for outdoor use in the construction industry.

In smart labels, development was focused on intelligent packaging where the old package labels have new attaching components. In 2007, UPM introduced UPM Shelf Life Guard that helps consumers and the food industry to monitor and self-assess the product's shelf life.

In bio chemicals, the objective is to identify valuable chemicals either inherent in wood material or pulping processes.

In paper-like electronic laminates, UPM is aiming at exploiting technological development of polymer electronics and printable electronics as laminated multilayer flexible structures.

External partners

UPM has joined as a 20% partner in Forest-cluster Ltd, which was established to network top-level research and innovation in the Finnish forest cluster. It coordinates pre-competitive research and development. Its first research programme focusing on intelligent, resource-efficient production technologies started in the beginning of 2008.

UPM holds 38,65% of Oy Keskuslaboratorio Ab (KCL), which is the joint pulp and paper research centre for the forest industry in Finland.

Among others, UPM co-operates with VTT (Technical Research Centre of Finland), YKI (Ytkemiska Institutet, Sweden), PTS (Papiertechnische Stiftung, Germany) and CTP (Centre Technique du Papier, France). The new research partners in China are the Nanjing and Tsinghua Universities and China National Pulp and Paper Research Institute (CNPPRI).

UPM co-operates with universities through joint research programmes. In addition, UPM sponsors several graduate and postgraduate research projects related to its products and technologies every year.

For more information, see www.upm-kymmene.com





Environmental performance

UPM'S ENVIRONMENTAL PERFORMANCE
REMAINED AT A GOOD LEVEL.

Environmental labels

UPM expanded its use of third party approved eco labels, including the EU Eco label, FSC and PEFC certificates in 2007.

To be able to receive the EU Eco label, paper producers must fulfil a wide range of environmental and sustainability requirements. In 2007, most UPM mills fulfilled the criteria. All certificates are available at www.upm-kymmene.com.

FSC and PEFC labels indicate that labelled papers fulfil high criteria for sustainable forest management. The labels guarantee that the origin of the fibre used in pulp and paper products is known and sourced in a sustainable way.

UPM received the highest score in the preferred environmental supplier ranking of the media company Time Inc. in 2007.

UPM also continued using PaperProfile, an environmental datasheet, to communicate the environmental performance of its products to customers. In 2007, the North-American EPAT environmental datasheet was taken into use on UPM papers.

UPM was the first paper producer to assess two of its paper grades as an example according to WWF's paper scorecard. The scorecard takes different environmental aspects of papers into account like the use of recycled fibre, sustainable forestry and fossil carbon dioxide emissions plus other emissions, as well as waste to landfill.

Environmental management systems

The environmental management system will be developed by establishing a common environmental handbook as a framework for the

In 2007, UPM's environmental focus was on keeping its operations in compliance within the permit limits and simultaneously improving its economic and environmental performance. UPM is committed to continuous improvement and consistent environmental action. Most of the UPM mills meet the reference values of EU BAT (Best Available Technique).

Environmental protection costs for UPM consist mainly of effluent purification and waste management costs and they accounted for € 103 million (€ 108 million). Corresponding investments were € 59 million (€ 33 million). The most important investments included flue gas purification equipment and the closing of old landfill sites.

entire company. The handbook was started in 2007 and will be completed in early 2008.

The idea is to gather the key environmental information of all management systems in one place for access by all relevant parties. The handbook facilitates the sharing of environmental knowledge and best practices within production units.

In general, environmental issues are an integral part of management and operations across various levels of the organisation. A major part of UPM operations use certified quality, environmental and occupational health and safety management systems, which comply with the standards ISO 9001, ISO 14 001 and OHSAS 18 001. Most of UPM's European pulp and paper mills are also EMAS verified.

In 2007, UPM published a global environmental report for all pulp and paper mills for the first time. The report fulfils the EMAS requirements for the European mills. The report is available at www.upm-kymmene.com.

Environmental audits of pulp and paper mills

UPM started the Responsibility and Improvement Campaign in 2003. As a continuation to the campaign, all UPM's chemical pulp mills including those of the associated company Botnia were cross-assessed by a joint UPM-Botnia team of chemical pulping and environmental experts in 2007.

According to the results of these assessments, the awareness and training of the operating personnel should be increased and improved. Cross-assessing continues in UPM paper mills in 2008 and later in label and wood products units.

Compliance with environmental permit limits

In addition to external regulations, the operation of all production units is controlled by UPM's own internal environmental measures.

Within the EU, the locally adapted environmental permits derive from the EU IPPC (Integrated Pollution Prevention Control) Directive. The permit defines site specific limits for the mill for emissions into water, air and

soil. Outside Europe, the mills comply with the corresponding national and local rules and legislation.

Compliance with the permit limits is continuously controlled and reported monthly to the authorities and internally within the company. Possible permit limit deviations are immediately reported to the authorities and internally within the company.

No severe environmental incidents happened in UPM production units in 2007. However, some minor temporary permit limit deviations occurred and were reported accordingly.

Water use and emissions to watercourses

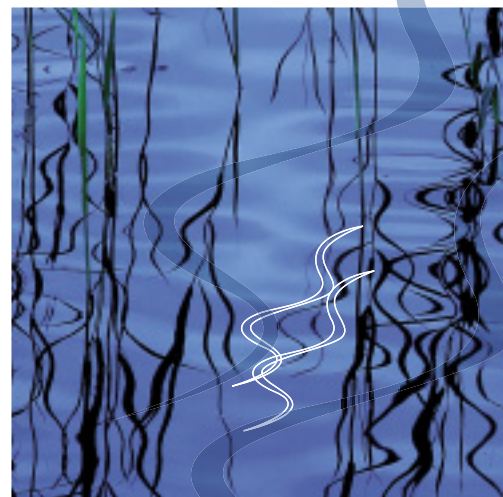
All effluent is purified before its release to watercourses. The volume of purified effluent roughly corresponds to the fresh water intake to the production processes and is therefore used as an indicator of fresh water consumption.

UPM has a continuous target to reduce the use of water. The average volume of purified effluent from UPM paper mills was 12 m³ per tonne of paper (13 m³) and 40 m³ per tonne of pulp (41 m³).

The purified effluent volume reduction targets were 5% for both paper and chemical pulp mills for 2007. These targets were achieved in 2007. Target level for the year 2010 is 10 m³ per tonne of paper and 30 m³ per tonne of chemical pulp. As an example, UPM Stracel mill has managed to reduce its water consumption from 28 m³ per tonne of paper to the current level of 10-12 m³ per tonne. The mill is planning further reductions in its water consumption.

As a result of lower water consumption, both the overall environmental load and energy consumption will be reduced. In addition, the recovery of pigments is also easier with the lower volume of circulated water.

The average chemical oxygen demand (COD) of paper mills, which indicates the oxygen consuming compounds in effluent, remained unchanged at 2.6 kg per tonne of paper. The corresponding figure for chemical pulp mills increased to 18.4 kg per tonne of pulp.





Emissions to air

Airborne emissions originate mainly from energy production at the pulp and paper mills. The amount of fossil carbon dioxide emissions, which affects climate change (so-called greenhouse gas emissions), has been reduced as a result of a systematic effort to increase the share of renewable fuels in the energy generation within UPM.

In 2007, fossil carbon dioxide emissions per tonne of paper decreased by 5% (4), sulphur dioxide emissions remained stable (5% decrease in 2006) and emissions of nitrogen oxides decreased by 6% (6).

The global carbon inventory of UPM is presently being calculated. The company is aiming at reducing the overall fossil carbon emissions further.

The VOC (Volatile Organic Compounds) emissions, which are the main emissions of UPM's Label division, decreased by 20%. The reduction is a result of the replacement of solvent-based substances with other alternatives and of the divestment of Walki.

Chemical pulp manufacturing generates bad-smelling sulphur compounds, TRS emissions. They are reduced by collecting and burning these odorous gases. The normal operation of mills barely causes any odour problems.

Waste management

The general principle is to use all organic waste from the mills, including bark, wood residues, sludges from deinking and effluent treatment, as well as the waste liquors of chemical pulping, in energy generation.

Solid waste is mainly ash left over from energy generation. Smaller volumes include, e.g., pigment sludges and green liquor dregs. The target is to reduce the total amount of landfill waste by finding new reuse options for it. Reuse of ash is being tested in road construction and a procedure has been established to use ash as forest fertiliser.

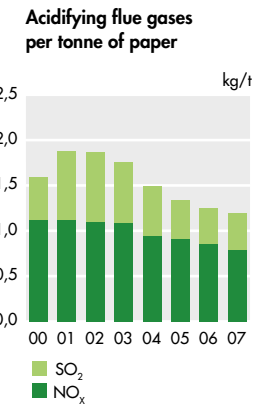
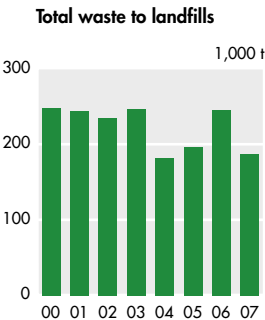
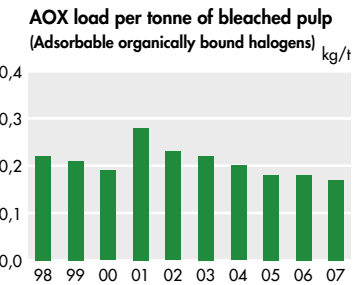
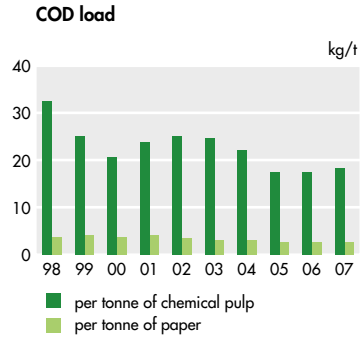
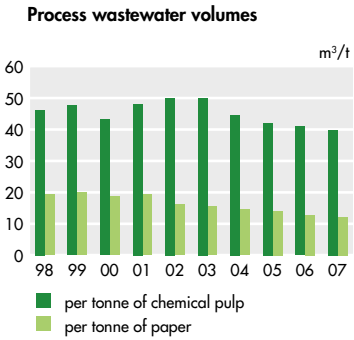
In 2007, 88% (79) of the total ash volume from UPM was reused in different applications. The total volume of landfilled waste of UPM decreased by 23% as compared to 2006. Further reduction of landfill waste is an ongoing target for UPM.

Soil remediation

Slightly contaminated soils can be used, e.g., in gapping old landfill sites. Hazardous waste is taken for special treatment in dedicated plants and proper measures are taken to avoid any hazardous substances leaking into the soil.

UPM assesses the condition of old mill areas that are no longer in use. In the first phase, a soil analysis is performed at each site. In the event that any hazardous substances are found, a remediation plan will be made together with the authorities. In most cases, old mill sites will be renovated to become suitable for industrial use.

For more information, see www.upm-kymmene.com.



Events

in 2007

January

- 26** UPM announces it will establish a new company, Silvesta, in Finland focusing on the planning, implementation and marketing of practical forestry work. The company's forestry workers are transferred to the payroll of the new UPM subsidiary as of May 2007.

February

- 26** UPM announces it is to sell industrial wrapping producer Walki Wisa to funds managed by the Finnish private equity investment company CapMan. The transaction was concluded in June.
- 28** UPM Raflatac announces it is to double RFID tag production capacity in Finland. The new production lines were completed in March.

March

- 13** Mr Matti J Lindahl is appointed President of UPM's Wood Products Division. The Division is divided into two separate business areas. Mr Arto Juvonen is appointed head of the Plywood business area and Mr Tuomo Visanko head of the Timber business area.
- 27** UPM announces its Converting Division was discontinued and a new Label Division was established. The new Label Division consists of UPM Raflatac self-adhesive labelstock and RFID (Radio Frequency Identification) tags and inlays.
- 27** In the Annual General Meeting, two new members, Mr Veli-Matti Reinikkala, Head of Process Automation Division of ABB, and Mr Jussi Pesonen, President and CEO of UPM, are elected to the Board of Directors.

April

- 4** UPM announces it is to sell the real estate company UPM-Asunnot Oy to the Danish-Finnish real estate investment company Waterhouse Real Estate Investment Oy. The transaction was concluded at the end of April 2007.
- 18** UPM and the Finnish design product company Artek have a joint pavilion at the Milano Salone Internazionale del Mobile exhibition. The pavilion is made of UPM's new product inno-

vation UPM ProFi wood-plastic composite and designed by the Japanese architect Shigeru Ban.

- 24** UPM announces investment in the building of a new self-adhesive label materials factory in Poland. The factory is located in Kobierzyce, near Wrocław, and production is scheduled for start-up in the second quarter of 2008.

In addition, UPM announces expansion of birch plywood production at its Otepää plywood mill in Estonia. The investment enables the manufacturing of further processed products, which will come on stream in Autumn 2008.

- 24** UPM announces it will start using pine for mechanical pulping at the Kajaani mill in Finland. UPM's new innovative method will disperse harmful pitch by ozone treatment.

May

- 8** UPM, Pohjolan Voima and Lappeenranta Energia, which is owned by the town of Lappeenranta, agree to build a joint power plant utilising biomass at UPM's Kaukas mill site in Lappeenranta, Finland. The plant will start up in Spring 2010.
- 23** UPM, international technology group Andritz and its associated company Carbona announce their co-operation on the development of the technology for biomass gasification and synthetic gas purification. The companies have tested Carbona's gasification technology at a pilot plant located close to Chicago in the United States.

Mr Hans Sohlström is appointed to the newly created post of Executive Vice President, Business Development Biofuels and Biochemicals.

June

- 5** UPM announces a temporary shutdown of its Canadian Miramichi mill operations in August for up to one year. In December, UPM announces the permanent closure of the mill.

August

- 10** UPM ceases manufacture of brown sack paper with the closure of paper machine 6 at its Tervasaari paper mill in Finland.

15 UPM initiates negotiations with employees at Keuruu mill on the possible closure of the plant, which produces birch face veneer and thin veneer plywood. Based on the negotiations, UPM decides to concentrate on the manufacture of birch veneer at the Lohja Veneer Mill and to discontinue the production of thin veneer plywood altogether. The Keuruu mill operations will cease in Spring 2008.

20 UPM announces plans to initiate the buyback of the Company's own shares. The company's own shares acquired by the company, i.e. a total of 16,400,000 shares, were invalidated in December.

31 UPM Raflatac opens a new label stock slitting and distribution terminal in Mumbai in India.

September

5 UPM announces the renewal of part of the port of Halla in Kotka, Finland. The main freight handled by Halla is wood pulp.

October

11 UPM sells its Finnish port operators Oy Rauma Stevedoring Ltd and Botnia Shipping Ltd to Babcock & Brown Infrastructure (BBI).

16 UPM launches a smart packaging solution that aids consumers and the food industry to monitor and self-assess the shelf life of their products. With UPM Shelf Life Guard, a unique label turns from transparent to blue, informing the consumer that air has replaced the modified atmosphere gases within the package.

30 UPM announces delisting from the New York Stock Exchange (NYSE). The last day of trading was 5 December. The company's shares are still traded under an ADR programme on the OTC market in the United States.

November

8 The Botnia pulp mill in Uruguay receives authorisation from the Uruguayan government to start operations. The first batches of eucalyptus pulp from the mill are shipped in December.

12 UPM agrees to settle class-action lawsuits raised by direct purchasers of magazine paper and labelstock in the United States. The total value of the charges is approximately € 12 million. Class-action suits filed by indirect purchasers of magazine paper and labelstock remain pending.

December

17 UPM announces it will continue measures to improve profitability by significant capacity reductions in magazine paper and newsprint. Based on the asset review, UPM permanently closes the Miramichi paper mill in Canada.

In addition, UPM announces the temporary shutdown of one newsprint machine in Kajaani, Finland, for 10 months, and one newsprint machine in Steyrermühl, Austria, for two months, as well as one label paper machine in Jämsänkoski and one in Tervasaari, both for up to three months.

In connection with the asset review, UPM announces the permanent closures of three old labelstock coating lines in Tampere, Finland, and one coating line in Melbourne, Australia. The company also initiates negotiations with employees on the possible closing of the timber components and planing mill in Luumäki, Finland.

19 UPM and the Russian Sveza Group sign a letter of intent to form a joint venture company and to build a state-of-the-art forest industry facility in the Vologda region of Northwest Russia. The planned industrial complex includes a modern pulp mill, a sawmill and a building panels mill.

UPM-KYMMENE CORPORATION COMPLIES WITH
THE RECOMMENDATIONS OF OMX NORDIC
EXCHANGE HELSINKI, FINLAND'S CENTRAL CHAMBER
OF COMMERCE AND THE CONFEDERATION OF
FINNISH INDUSTRIES CONCERNING THE
GOVERNANCE OF PUBLICLY LISTED COMPANIES.

Corporate Governance ■





Corporate Governance

The Board of Directors has adopted corporate governance guidelines for the company. They are available on UPM's website www.upm-kymmene.com and can also be obtained in print by any shareholder who requests them.

Upon the decision of 30 October 2007 to withdraw from the New York Stock Exchange (NYSE), the listing of UPM American Depositary Shares terminated on 5 December 2007. Simultaneously UPM's registration and reporting obligations under the US Securities Exchange Act of 1934 were suspended and are expected to be terminated on or about 5 March 2008.

Pursuant to the provisions of Finland's Companies Act and UPM's Articles of Association, the company's control and governance is divided among the shareholders represented at the annual general meeting of shareholders, the Board of Directors and the President and CEO. The President and CEO is assisted by the company's Executive Team.

General meeting of shareholders

The Annual General Meeting is held annually within six months of the closing of the Financial Period. The general meeting of shareholders is the company's supreme decision-making body. Under the Companies Act, the following issues, among others, are decided upon at a general meeting of shareholders:

- amendment of the Articles of Association
- adoption of the Financial Statements
- the use of the profit shown on the adopted balance sheet
- the granting of freedom from liability to the President and CEO and the Board of Directors

- the procurement and disposal of treasury shares
- share option programmes
- election of members of the Board of Directors and their fees
- election of the company's auditors and their fees.

A shareholder is entitled to have a matter that is specified in the Companies Act as a subject to be decided upon by the general meeting of shareholders be put before a general meeting, provided that he/she requests this in writing from the Board of Directors well in advance so that the matter can be included in the summons to the meeting. According to the Corporate Governance Guidelines, the Board will duly consider, with the assistance of the Nominating and Corporate Governance Committee, proposals by shareholders for matters to be dealt with by the Annual General Meeting provided, that (i) such proposed matter is within the competence of the Annual General Meeting and (ii) the shareholder's proposal has been submitted for the Board's attention in writing well in advance of the Annual General Meeting, in any event by 15 January each year at the latest.

The right to attend a general meeting of shareholders shall apply to any shareholder who is registered as a shareholder of the company 10 days prior to the meeting.

Board of Directors

Duties of the Board of Directors

The Board of Directors is responsible for the governance of the company and for the proper organisation of its activities in accordance with the legislation and the Articles of Association. The Board of Directors establishes the principles of the strategy, organisation, accounting and financial control of the company and appoints the

President and CEO, who acts in accordance with the orders and instructions of the Board of Directors. The Board of Directors' other duties include:

- defining the company's dividend policy and making a proposal to the general meeting of shareholders for the annual payment of dividends
- establishment and evaluation of the strategic direction of the company
- approving the company's plans of operation and budget annually
- establishment of annual ranges and/or individual limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval
- appointing the members of the Executive Team based on the proposal by the Human Resources Committee
- scrutinising the Annual Financial statements and preparing the Report of the Board of Directors
- setting up committees and adopting charters setting forth the purposes, goals and responsibilities of the committees
- assessing the performance of management

The Board of Directors makes an annual evaluation of its performance and working methods.

Composition of the Board of Directors

The Annual General Meeting elects at least five but not more than 12 members to sit on the Board of Directors. The Annual General Meeting held on 27 March 2007 elected 11 members to the Board of Directors. Members of the Board of Directors are elected for a term that begins at the end of the general meeting of shareholders at which they are elected and ends at the conclusion of the next Annual General Meeting.

Shares and options held by the members of the Executive Team, 31 December 2007

Name	Shares		Options			
	Shares total	of which share rewards ¹⁾	E	F	G	H
Jussi Pesonen	34,514	14,500	70,000	50,000	100,000	120,000
Pirkko Harrela	9,418	3,648	–	21,500	30,000	40,000
Pauli Hänninen	5,108	3,648	–	21,500	30,000	40,000
Matti Lievonen	9,892	5,472	17,000	21,500	50,000	60,000
Matti J. Lindahl	5,472	5,472	37,000	21,500	50,000	60,000
Heikki Malinen	5,472	5,472	22,000	21,500	50,000	60,000
Jyrki Ovaska	8,572	5,472	27,000	21,500	50,000	60,000
Heikki Pikkarainen	13,472	5,472	–	21,500	50,000	60,000
Jyrki Salo	11,572	5,472	–	21,500	50,000	60,000
Riitta Savonlahti	3,648	3,648	–	21,500	30,000	40,000
Hans Sohlström	7,140	3,648	–	21,500	30,000	60,000
Markku Tynkkynen	9,072	5,472	–	21,500	50,000	60,000
Hartmut Wurster	5,472	5,472	–	21,500	50,000	60,000
Total	128,824	72,868	173,000	308,000	620,000	780,000

Share ownership also includes shares held by under-age children and by organisations or foundations of which the person has control.

*) Shares received as incentive to be held at least for two years.

Members of the Board of Directors report to the Board of Directors all matters that may be significant with respect to the assessment of their competence and independent status. The Board has determined all of the Board members to be independent, with the exception of Georg Holzhey who held a position in the company until the end of April 2004 and Jussi Pesonen who is the President and CEO of the company. A member of the Board of Directors is not independent of the company if, amongst other reasons, he or she has had an employment relationship with or held a position in the company during the last three years prior to becoming a member of the Board.

The Board of Directors elects from among its members a Chairman and two Vice Chairmen. The Board of Directors has a quorum when more than half of its members are present and one of them is either the Chairman or a Vice Chairman.

The Board of Directors may consult external experts.

The Board of Directors met 12 times during 2007. On average, the members attended 95% of the meetings.

Committees of the Board of Directors

The Board of Directors has set up committees composed of its members and has elected chairmen for them. It has also adopted charters for the committees, which are available on the company's website www.upm-kymmene.com and can also be obtained in print by any shareholder who requests them.

The Audit Committee was chaired by Michael C. Bottenheim and its members were Wendy E. Lane and Veli-Matti Reinikkala. The members of the committee are required to have adequate knowledge of accounting. The committee assists the Board of Directors in scrutinising:

- the contents of the company's annual financial statements
- the company's internal control
- the company's internal auditing
- the company's risk management
- the competence of external auditors, their independent status and their work
- compliance with legislation and regulations within the company.

The Audit Committee works in line with pre-approval policy, according to which it must approve auditing fees and fees for other services rendered by public accountants. Those represented at the committee's meetings also include the company's external auditor, the head of internal auditing, the President and CEO, the Chief Financial Officer, the Senior Vice President, Group Accounting and Reporting, and other management representatives as and when necessary. The Audit Committee met five times during the year.

Matters pertaining to the appointment, assessment, salaries, fees and other remunerations or benefits of senior management are handled by the Human Resources Committee, which comprised Berndt Brunow (Chairman) and members Georg Holzhey, Ursula Ranin and Françoise Sampermans. The Human Resources Committee met seven times during the year.

Meetings of the aforementioned committees may be attended by all members of the Board of Directors. The decisions on proposals made by these committees are made by the Board of Directors.

Jussi Pesonen, President & CEO						
	Magazine Papers	Newsprint	Fine and Speciality Papers	Label	Wood Products	
Jyrki Salo EVP and CFO	Jyrki Ovaska President	Hartmut Wurster President	Matti Lievonen President	Heikki Pikkarainen President	Matti J. Lindahl President	
Heikki Malinen EVP Strategy *)						
Markku Tynkkynen EVP Resources						
Pirkko Harrela EVP Communications						
Pauli Hänninen EVP Technology						
Riitta Savonlahti EVP Human Resources						
Hans Sohlström EVP New Businesses and Biofuels						

*) until 31 March 2008

The Board of Directors has also appointed from among its members a Nominating and Corporate Governance Committee, which in 2007 comprised Jorma Ollila (Chairman) and members Karl Grotenfelt and Georg Holzhey. The tasks of the committee include preparing nominations for membership of the Board of Directors for consideration by the general meeting of shareholders and reviewing the corporate governance of the company. The Nominating and Corporate Governance Committee held four meetings during the year.

Fees of the Board of Directors

In accordance with the decision made by the 2007 Annual General Meeting, the Chairman of the Board of Directors received a fee of € 175,000 for the year, the Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee a fee of € 120,000, and the members of the Board of Directors who do not belong to the operative management a fee of € 95,000. The compensation and shareholding of each of the Board members is specified in the Notes to the Financial Statements on page 90.

President and CEO

The Board of Directors elects a President and CEO for the company in accordance with the Companies Act. The President and CEO is responsible for the day-to-day management of the company's affairs. The President and CEO ensures that the company's book-keeping conforms with the law and that the company's financial administration and management is reliably organised. Measures that are not within the ordinary course of the company's business may be taken by the President and CEO only if approved by the Board of Directors, unless the time required to obtain such approval would cause the company to suffer a substantial disadvantage. In the latter case, the Board of Directors must be informed as soon as possible of the measures taken.

A Service Contract has been drawn up for the company's President and CEO. The Board of Directors prepares a written assessment of the work of the President and CEO once a year.

Executive Team and other management groups

The Executive Team assists the President and CEO in running the company. It prepares matters that are to be put before the Board of Directors for decision-making. Examples of such matters include the Group's strategies, budgets and policies, as well as significant investments, acquisitions and divestitures. The Executive Team also handles matters relating to reporting, external and internal communication, human resources development, employee compensation and the management of investor relations. The members of the Executive Team are the President and CEO, the presidents of the business divisions and the executive vice presidents responsible for the corporate functions.

The divisions have their own management groups, the purpose of which is to assist the presidents of their respective divisions. In addition, there are also local management groups in which the company's employees are represented.

Reward schemes

Under the rules of the short-term incentive scheme for senior management, an amount equivalent to up to 18 months' salary may be paid to the CEO and an amount equivalent to up to 12 months' salary to the other members of the Executive Team. The amount is based on the earnings per share, return on capital employed and EBITDA.

The company's long-term incentive programmes concern shares (share ownership plan) and share options. The terms and conditions of the share ownership plan are approved by the Board of Directors, and the terms and conditions of share option programmes are decided upon at a general meeting of shareholders. See the Notes to the Financial Statements on page 108.

The salaries, fees and other benefits paid to the President and CEO and the members of the Executive Team are shown in the Notes to the Financial Statements on page 90.

Insider guidelines

The Board of Directors has adopted an insider policy for the Group, which sets up rules governing the insiders of the company. It is the policy of the company to comply with the securities laws and regulations applicable to the company including the Insider Guidelines of OMX Nordic Exchange Helsinki, the Central Chamber of Commerce and the Confederation of Finnish Industries published on 9 December 2005 (see www.omxgroup.com). UPM's permanent insiders from 1 January 2007 are the members of the Board of Directors, the President and CEO, the auditor with principal responsibility for auditing the company's accounts and other members of the company's senior management who regularly receive insider information and who have the authority to make decisions affecting the company's future development and the organisation of its business activities. The holdings of the primary insiders are public information and are available in the Finnish Central Securities Depository and on the company's website. The company sets closed windows, when trading is not allowed, applicable to permanent insiders. These are the four-week periods preceding and including the disclosure date of the

annual or quarterly results of the company. In 2007, the closed windows were 4 January–1 February (relating to the 2006 financial review) and 27 March–24 April, 28 June–26 July and 2 October–30 October (relating to the 2007 interim reports). In 2008, the corresponding periods are 8 January–5 February (relating to the 2007 financial review) and 27 March–24 April, 26 June–24 July and 30 September–28 October (relating to the 2008 interim reports). When necessary, insider registers will be drawn up for individual projects and trading restrictions will be imposed. Persons possessing inside information are not allowed to trade in the company's securities.

Auditors

The Annual General Meeting elects an auditor to scrutinise the company's governance and accounts. The elected auditor must be a firm of public accountants authorised by the Central Chamber of Commerce. The AGM elected PricewaterhouseCoopers Oy to act as the company's auditor, where Merja Lindh, APA, was responsible for the audit. The fees paid to the auditors were € 4.9 million (€ 7.8 million) – a breakdown of the fees is shown in the Notes to the Financial Statements on page 91. The auditor's term of office ends upon the conclusion of the first AGM after the election.

Internal control, risk management and internal audit

The company's Board of Directors is responsible for internal control.

The company's Executive Team has approved internal control policy. In accordance with these guidelines, the director of each unit or function must organise the internal control of his or her unit or organisation.

The Board of Directors has approved the risk management policy for the company. Business units are responsible for the identification of risks and their management in practice. The Executive Team monitors changes in risks and risk concentrations.

The Group's internal audit function assists the Board of Directors to discharge its supervisory responsibility by ensuring that

the Group's control is appropriately and effectively planned. The internal audit function is administratively subordinate to the President and CEO, but reports to the Audit Committee on the adequacy and effectiveness of the company's internal control systems.

Internal auditing standards require an assessment to be made at least once every five years. External assessors have examined the standard of the company's internal audit. The assessment found that the company's internal auditors meet the general professional standards and ethical rules.

Code of Conduct

The Board of Directors has adopted a code of conduct applicable to directors, officers and employees. The code of conduct addresses topics such as conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, rules and regulations and encouraging the reporting of any illegal or unethical behaviour. The code contains compliance standards and procedures to facilitate the effective operation of the code and to ensure prompt and consistent action against violations of the code. The code is available on the company's website www.upm-kymmene.com and it can also be obtained in print by any shareholder who requests it. UPM has an e-mail system and standard mailing address, both available on the company's intranet and website, through which concerns and issues can be confidentially addressed to the company.

Board of Directors 31.12.2007

Vesa Vainio

Chairman
Member since 1996, Vice Chairman in 1997, Chairman since 2001
Independent member of the Board
Born 1942
LL.M.
Member of the Board of Nokia Corporation.
Chairman 1998–1999 and 2000–2002 and Vice Chairman 1999–2000 of the Board of Directors of Nordea AB (publ), Chairman of the Executive Board and CEO of Merita Bank Ltd and CEO of Merita Ltd 1992–1997. President of Kymmene Corporation 1991–1992.

Jorma Ollila

Vice Chairman
Member since 1997,
Vice Chairman since 2004
Chairman of the Nominating and Corporate Governance Committee
Independent member of the Board
Born 1950
M.Sc. (Eng.), M.Sc. (Pol.Sci.), M.Sc. (Econ.), Ph.D. (Pol.Sci.) h.c. and D.Sc. (Tech.) h.c.
Chairman of Nokia Corporation, Chairman of Royal Dutch Shell Plc and member of the Board of Directors of Ford Motor Company. He is also Chairman of the European Round Table of Industrialists, Chairman of the boards of directors and the supervisory boards of Finnish Business and Policy Forum EVA and The Research Institute of the Finnish Economy ETLA. Mr Ollila is Vice Chairman of the Board of Otava Books and Magazines Group Ltd.

Berndt Brunow

Vice Chairman
Member since 2002,
Vice Chairman since 2005
Chairman of the Human Resources Committee
Independent member of the Board
Born 1950
B.Sc. (Econ.)
Board member of Oy Karl Fazer Ab.
Leading posts in Finnrap and UPM-Kymmene Corporation.
Chairman of the Finnish Food and Drink Industries' Federation.
Member of the boards of Lemminkäinen Oyj, Oy Nautor Ab and Cloetta Fazer AB (publ.).

Michael C. Bottenheim

Member since 2001
Chairman of the Audit Committee
Independent member of the Board
Born 1947
Master of Law, MBA
Non-executive director of Montrose Associates, London, since 2006.
In 1972 he joined Pierson, Heldring & Pierson, which he left in 1976 to join Citicorp's European Investment Bank in London. From 1985 until 2000, served as a Director of Lazard Brothers & Co. Limited. From 2003 until 2005, Advisory Board of Montrose Associates, London.

Karl Grotenfelt

Member since 2004
Member of the Nominating and Corporate Governance Committee
Independent member of the Board
Born 1944
Master's degree in Law
Chairman of the Board of Directors of Famigro Oy.
From 1970 until 1986 he served the A. Ahlstrom Corporation as lawyer, General Counsel, Administrative Director and member of the Executive Board with responsibility for the Paper Industry.
Member of the boards of Fiskars Corporation and Ahlström Capital Oy.

Georg Holzhey

Member since 2003
Member of the Human Resources Committee and the Nominating and Corporate Governance Committee
Non-independent member of the Board
Born 1939
Dr. oec. publ.
Executive Vice President and co-owner of G. Haindl'sche Papierfabriken KgaA 1970–2001.
Executive Vice President of UPM-Kymmene Corporation in 2002.

Wendy E. Lane

Member since 2005
Member of the Audit Committee
Independent member of the Board
Born 1951
Master's degree from Harvard Graduate School of Business Administration.
Since 1992, Chairman of the American investment firm Lane Holdings, Inc.
From 1977 until 1980, Investment Banker at Goldman, Sachs & Co. and, from 1981 until 1992, Investment Banker at Donaldson, Lufkin & Jenrette Securities Corp.
Board member of Laboratory Corporation of America and board member of Willis Group Holdings Limited.

Jussi Pesonen

Member since March 2007
President and Chief Executive Officer of UPM-Kymmene Corporation since January 2004
Non-independent member of the Board
Born 1960
M.Sc.(Eng.)
UPM's President and Chief Executive Officer since 29 January 2004.
Member of the Executive Team since September 2001. Joined the company in 1987 and occupied several posts at Jämsänkoski, Kajaani, Kaukas and Shotton mills, as well as Vice President of Newsprint Product Group. COO of the paper divisions and Senior Executive Vice President and deputy to the President and CEO 2001–2004.

Ursula Ranin

Member since 2006
Member of the Human Resources Committee
Independent member of the Board
Born 1953
LL.M., B.Sc. (Econ.)
Employed by Nokia Group within the legal function from 1984 until 2005; since 1994 Vice President and General Counsel and, since 1996, also secretary of the Board of Directors.
Member of the Board of Finnair Plc.

Veli-Matti Reinikkala

Member since March 2007
Member of the Audit Committee
Independent member of the Board
Born 1957
eMBA
President of ABB Process Automation Division, member of the Group Executive Committee ABB Inc., Switzerland, since 2006.
Held various positions in Rauma-Repola Group's business control from 1979 until 1989. CFO of Tampella Packaging Division from 1989 until 1991. Managing Director of Stora Enso Group's Pac Asia Ltd. 1992–1993. From 1993 until 2005, held different business control and executive positions in ABB Ltd.

Françoise Sampermans

Member since 2004
Member of the Human Resources Committee
Independent member of the Board
Born 1947
B.A. Psych.
Publishing Consultant (TJ Presse, GoYellow, DATEM, AXE-MEDIA).
From 1984 until 2000, held executive positions at publishers (L'Express, le Point, Marianne, Le Nouvel Economiste), the printer Quebecor Europe and Alcatel-Alstom Group. From 2000 until 2003, in charge of the Magazine and Multimedia Distribution business unit at NMPP in France.

The shares in UPM-Kymmene Corporation held by the members of the Board of Directors are detailed on page 90.

Board of Directors, from left to right: Françoise Sampermans, Karl Grotenfelt, Vesa Vainio, Wendy E. Lane, Georg Holzhey, Berndt Brunow, Ursula Ranin, Jorma Ollila, Veli-Matti Reinikkala, Michael C. Bottenheim and Jussi Pesonen.



Executive Team 1.1.2008

Jussi Pesonen

President and Chief Executive Officer of UPM-Kymmene Corporation since January 2004
Member of the Executive Team since 2001
Born 1960
M.Sc.(Eng.)
Joined the company in 1987 and occupied several posts at Jämsänkoski, Kajaani, Kaukas and Shotton mills, as well as Vice President of Newsprint Product Group. COO of the paper divisions and Senior Executive Vice President and deputy to the President and CEO 2001–2004.

Pirkko Harrela

Executive Vice President, Corporate Communications and Member of the Executive Team since January 2004
Born 1960
M.A.
Several posts in Finnmap 1985–1996. Several management posts in Communications for Printing Papers Division 1996–2002. Vice President, Corporate Communications, 2003.

Pauli Hänninen

Executive Vice President, Technology since January 2007
Member of the Executive Team since 2004
Born 1948
M.Sc.(Eng.), Tech. Licentiate
In A. Ahlstrom in various production and line management positions 1974–1989, finally as Vice President and General Manager of Kauttua paper mill 1986–1989. Director of Kaipola LWC mill 1989–1993. Vice President and General Manager of Kajaani paper mill 1993–2000. Vice President, Product Group Uncoated Papers 2000–2001. Senior Vice President,

Fine Paper Operations 2001–2003. Executive Vice President, Business Development, 2004–2006.

Matti Lievonon

President, Fine and Speciality Papers Division since January 2004
Member of the Executive Team since 2002
Born 1958
B.Sc.(Eng.), MBA
Several posts in United Paper Mills Ltd since 1986, including Project Manager, Technical Manager and Director for TD production unit at Kaipola mill 1994–1996. Director of Chapelle Darblay S.A. production unit in France 1997–2001. Executive Vice President, Business and Technology Optimization 2002–2003.

Matti J. Lindahl

President, Wood Products Division, from March 2007
Member of the Executive Team since 1997
Born 1946
B.Sc.(Econ.)
Joined Finnboard in 1972 and held several management posts in sales and marketing. Managing Director of Finnboard (UK) Ltd 1982–1990. President of Finnboard 1990–1992 and of Wisaforest Oy Ab 1992–1993. CEO of Nordland Papier AG 1994–2002. President, Fine Paper Division, 1997–2001. Executive Vice President, Haindl integration, 2002. President, Converting Division, 2002–2004. President, Speciality Coatings Business, 2005–2007

Heikki Malinen *)

Executive Vice President, Strategy and Member of the Executive Team since January 2006
Born 1962
M.Sc.(Econ.), MBA (Harvard)

Several posts in Finnmap 1988–1994, including Director, Marketing & Sales. During 1995–1996 worked for United Paper Mills Ltd as Director of Business Development. Engagement Manager with McKinsey & Company 1997–1999. Managing Partner with Jaakko Pöyry Consulting 2000–2001. President of Sales with UPM-Kymmene, Inc 2002–2004. President, UPM-Kymmene North America 2004–2005.

Jyrki Ovaska

President, Magazine Papers Division since January 2004
Member of the Executive Team since 2002
Born 1958
M.Sc.(Eng.)
Held several posts with United Paper Mills Ltd, Jämsänkoski mill, in production, customer service and business management 1984–1995. Vice President, Business Development, Printing Papers 1996–1998. Vice President, LWC Product Group 1998–2000. Senior Vice President, Business Development and Support Functions, Publication Papers 2000–2001. President, Fine & Speciality Papers Division 2002–2003.

Heikki Pikkarainen

President, Label Division, Member of the Executive Team since January 2005
Born 1963
M.Sc.(For.), MBA
Corporate Analyst with Industrialization Fund of Finland, 1988–1989. Various tasks in M&A projects, business development and corporate analysis with Jaakko Pöyry Consulting, 1989–1998. Director, Business Development and Vice President of CHP business in Power and Heat Division, Fortum

Oyj, 1998–2000. Since 2000 with UPM in several posts of strategic development, most recently Vice President, Strategic Development during 2003–2004.

Jyrki Salo

Executive Vice President and CFO since February 2006
Born 1960
M.Sc.(Econ.)
Joined IBM Corporation in 1984, various tasks in sales and market development positions in Finland and the United Kingdom. Joined Nokia Corporation in 1990 holding several posts in senior executive positions with business and finance & control responsibilities in Finland, Belgium, Germany, the Netherlands and the United States. Senior Vice President, Finance & Control for Nokia's Networks Business Group 2002–2005.

Riitta Savonlahti

Executive Vice President, Human Resources and Member of the Executive Team since May 2004
Born 1964
M.Sc.(Econ.)
Held HR Specialist posts with ABB 1990–1994. Human Resources Manager with Nokia Mobile Phones, Salo Operations 1995–2000. Senior Vice President, Human Resources with Raisio Group 2000–2001. Senior Vice President, Human Resources with Elcoteq Network Corporation 2001–2004.

Hans Sohlström

Executive Vice President, New Businesses and Biofuels since May 2007
Member of the Executive Team since 2004
Born 1964
M.Sc.(Tech.), M.Sc.(Econ.)

Various tasks in business control and development, procurement, planning, production and maintenance at Oy Wilh. Schauman Ab, Nordland Papier GmbH and Kymmene Oy 1984–1989. Marketing Assistant, Finnpap, 1989–1990. Marketing Manager, Stracel S.A. 1990–1994. Mill Director, Jämsänkoski MFC and SC mills, 1994–1998. Management posts in sales and marketing, Publication Papers, 1998–2002. Senior Vice President Sales & Marketing, Magazine Papers Division, 2002–2004. Executive Vice President, Marketing, 2004–2007.

Markku Tynkkynen

Executive Vice President, Business Functions and Resources, since January 2004
Member of the Executive Team since 2002
Born 1952
M.Sc.(Paper Eng.)
Employed by A. Ahlstrom 1980–1982 as Production Engineer. Joined UPM in 1982 and took up several management posts in production, business development, sales and business management. Paper mill director of Stracel S.A. 1990–1993. General Manager and Vice President of Jämsänkoski profit unit 1994–1998. Vice President of SC Product Group 1998–

2000. Senior Vice President, Publication Papers Division, with responsibility for product groups, technology and mills 2000–2001. President, Magazine Papers Division 2002–2003.

Hartmut Wurster

President, Newsprint Division since January 2002
Born 1955
D.Tech.
Several posts with Hamburger AG and Brigl & Bergmeister in Austria 1982–1987, including Head of Technology Department and Production Manager. Joined Haindl Papier GmbH & Co. KG in 1987. Head of Technology Department

at Augsburg mill 1987–1989. Mill Director, Augsburg, 1989–1996, and member of the Executive Board responsible for the Magazine Paper Division, 1996–2001.

*) Until 31 March 2008

The shares and options in UPM-Kymmene Corporation held by the members of the Executive Team are detailed on page 55.

Executive Team, from left to right: Pauli Hänninen, Jussi Pesonen, Heikki Malinen, Jyrki Ovaska, Pirkko Harrela, Matti J. Lindahl, Riitta Savonlahti, Heikki Pikkariainen, Matti Lievonen, Hans Sohlström, Markku Tynkkynen, Hartmut Wurster and Jyrki Salo.



Accounts ■ for 2007

EARNINGS PER SHARE FOR 2007 WERE € 0.16 (€ 0.65 FOR 2006),
AND EXCLUDING SPECIAL ITEMS € 1.00 (€ 0.80). OPERATING PROFIT
FOR THE YEAR WAS € 483 MILLION (€ 536 MILLION IN 2006),
AND EXCLUDING SPECIAL ITEMS € 835 MILLION (€ 725 MILLION).





Report of the Board of Directors

The market in 2007

Demand for printing and writing papers in Europe remained good, showing an increase of over 1% from the previous year. Demand for both coated and uncoated magazine papers increased by 4%. The demand for newsprint remained good and showed no change from the previous year. The demand for coated fine papers increased by 2% but for uncoated fine papers decreased by 1%. In North America, demand for printing and writing papers decreased by 5% from the previous year. However, demand for both coated and uncoated magazine papers increased by almost 5%. In other markets – most notably in Asia – demand for printing and writing papers continued to grow rapidly.

Global advertising showed moderate growth in 2007. Print advertising in newspapers and magazines grew, albeit at a slower pace. Direct mail, on the other hand, continued its steady growth and was not threatened by the digitalisation of media. In North America and in Europe, which together account for about two thirds of the global advertising volume, growth was clearly slower. The fastest growth took place in Russia and Eastern European countries at around 15–20%.

Average market prices for magazine papers in Europe were about 3% down from the previous year. Newsprint market prices were up 4% and uncoated fine paper reels up 7% from last year. Prices for coated fine papers remained about the same as last year. In North America, average US dollar prices for magazine papers were down about 6%. In Asia, fine paper prices increased from last year.

Demand for self-adhesive labelstock diverged between the main markets: in Europe, good demand growth continued in the first half of the year but slowed towards the end of the year. In North America, demand growth stalled but showed signs of improvement towards the end of the year. In Asia, demand growth remained strong. RFID volumes continued to grow strongly.

In Wood Products, birch plywood demand continued to be strong in all markets. Spruce plywood markets maintained a good balance. Plywood prices increased in comparison to last year. Also, the markets for veneer and further processed goods were solid. Redwood and whitewood sawn timber markets improved and prices increased during the first half of the year. After summer, the markets slowed down first for whitewood and then also for redwood. The supply of logs tightened and prices increased markedly.

The euro continued to strengthen against other main trading currencies. This has lowered the profitability of exports and attracted new imports especially in printing papers.

Changes in reporting classifications

As of the beginning of 2007, the Converting Division consists only of UPM Raflatac and the division has been renamed as the Label Division. Walki Wisa, which was part of the Converting Division until the end of 2006, was sold in the second quarter of 2007. Until the disposal the unit was reported in Other Operations. Comparative periods have been regrouped accordingly.

Earnings

Sales for 2007 were € 10,035 million and about the same as last year (€ 10,022 million in 2006 and € 9,348 million in 2005).

Operating profit was € 483 million (€ 536 million in 2006 and € 318 million in 2005), 4.8% of sales (5.3% in 2006 and 3.4% in 2005). Operating profit excluding special items was € 835 million, 8.3% of sales (€ 725 million, 7.2% of sales in 2006 and € 558 million, 6.0% of sales in 2005). Operating profit for 2007 includes as special items capital gains of € 133 million and charges net of € 485 million, totalling net charges of € 352 million (net charges of € 189 million in 2006 and net charges of € 240 million in 2005).

In June 2007 UPM decided to close the Miramichi magazine paper mill in Canada temporarily for nine to twelve months. However, due to poor financial prospects, UPM decided in December 2007 to close the mill permanently. These decisions resulted in impairment charges of € 41 million and other costs in total of € 91 million. In June 2007 the goodwill of Magazine Papers was tested, resulting in a charge of € 350 million. The primary drivers for the impairment relate to lower-than-forecast realised magazine paper price and the adverse development of exchange rates, especially that of the US dollar.

The main capital gains reported as special items were a capital gain of € 42 million on the sale of the real estate company UPM-Asunnot Oy, a € 29 million non-taxable capital gain on the sale of Walki Wisa, a producer of wrappings and composite materials for industrial applications, and a non-taxable capital gain of € 58 million from the sale of the port operators Oy Rauma Stevedoring Ltd and Oy Botnia Shipping Ab.

The cost increase was approximately 3% from last year. Cost increases were significant in wood and recovered paper and higher than was estimated in the beginning of the year. In Finland, wood price increases were triggered by poor forest harvesting conditions during the winter and the increase in export duties on Russian wood. In Central Europe, alternate uses of wood competed with fibre usage for paper making. Other variable and fixed costs remained almost unchanged, as actions like the Profitability Programme brought savings and increased efficiency of operations.

The euro strengthened against other major trading currencies, considerably reducing the profitability of exports from Europe.

The profitability of Magazine Papers declined. The average paper price was clearly lower than last year, the cost of wood fibre increased significantly and both the euro and the Canadian dollar strengthened, reducing the profitability of exports. Magazine paper deliveries increased slightly from last year. The profitability of Newsprint improved. The average paper price increased and lower cost of energy mainly compensated increases in other costs such as cost of wood and recycled fibre. Newsprint deliveries were about the same as last year. Fine and Speciality Papers' profitability declined due to higher cost of wood and chemical pulp. The average paper price was slightly higher and paper deliveries increased.

The profitability of the Label business declined. The average price was slightly lower than last year partly due to a change in product and market mix and costs incurred from expansion of operations.

Wood Products' profitability improved. The strong increase in log costs was managed to be offset by higher prices and improved production efficiency. Plywood production was limited by a shortage of birch logs.

Operating profit of Other Operations was higher than a year ago. The good availability of hydropower improved the profitability of energy. The increase in the fair value of biological assets, net of wood harvested, was € 79 million (decrease of € 126 million, increase of € 34 million).

The share of the results of associated companies and joint ventures was € 43 million (€ 61 million, € 41 million).

Profit before tax was € 292 million (€ 367 million, € 257 million) and excluding special items € 644 million (€ 550 million, € 399 million). In 2006, a gain of € 6 million (€ 98 million in 2005) from the sale of shares was reported after operating profit as a special item. Interest and other finance costs were € 191 million (€ 185 million, € 147 million) net. The average interest rate on borrowings increased. Exchange rate and fair value gains and losses resulted in a loss of € 2 million (a gain of € 18 million, a loss of € 4 million).

Income taxes were € 211 million (€ 29 million, an income of € 4 million). Taxes include as special items a charge of € 123 million from a reduction in the deferred tax assets of Miramichi due to write-down of tax assets and a decrease in the income tax rate in Canada, and as a positive item an income of € 25 million from the decrease of deferred tax liabilities relating to the impairment of goodwill of Magazine Papers. Additionally, special items in taxes include an income of € 27 million mainly relating to reversal of tax provisions.

The effective tax rate was 72.3% (7.8%, positive 1.6%). Excluding the effect of special items and the decrease of tax rate in the UK and Germany, the effective tax rate was 22% (24.4%, 29.0%).

Profit for the year was € 81 million (€ 338 million in 2006 and € 261 million in 2005) and earnings per share were € 0.16 (€ 0.65, € 0.50). Earnings per share excluding special items were € 1.00 (€ 0.80, € 0.54). Operating cash flow per share was € 1.66 (€ 2.32, € 1.63).

Return on equity was 1.2% (4.6%, 3.5%) and return on capital employed 4.3% (4.7%, 3.4%). Excluding special items, the respective figures were 7.4% (5.7%, 3.8%) and 7.4% (6.2%, 4.5%).

Deliveries

Paper deliveries for the year were 11,389,000 tonnes (10,988,000 tonnes, 10,172,000 tonnes). Magazine paper deliveries were 4,848,000 tonnes (4,761,000 tonnes, 4,486,000 tonnes), newsprint 2,682,000 tonnes (2,677,000 tonnes, 2,592,000 tonnes) and fine and speciality papers 3,859,000 tonnes (3,550,000 tonnes, 3,060,000 tonnes).

Plywood deliveries were 945,000 cubic metres (931,000 cubic metres, 827,000 cubic metres) and sawn timber deliveries 2,325,000 cubic metres (2,457,000 cubic metres, 2,016,000 cubic metres).

Financing

Cash flow from operating activities, before capital expenditure and financing, was € 867 million (€ 1,215 million, € 853 million). The increase in net working capital amounted to € 204 million (decrease € 21 million in 2006 and increase € 234 million in 2005), partially due to increase of wood raw material inventories.

The gearing ratio at 31 December was 59% (56% at 31 December 2006 and 66 % at 31 December 2005), and the equity ratio was 48.8% (50.4%, 47.3%). Net interest-bearing liabilities at the end of the year came to € 3,973 million (€ 4,048 million, € 4,836 million). The average maturity of borrowings at year end was 6.1 years (7.1 years, 7.5 years).

At the end of the year, the ratings for UPM's rated bonds were BBB of S&P and Baa2 of Moody's. During the year, UPM's credit ratings were unchanged but both rating agencies added "negative outlook" to their rating.

Personnel

In 2007, UPM had an average of 28,246 employees (31,039 in 2006 and 32,949 in 2005). At the beginning of the year the number of employees was 28,704, and at the end of the year 26,352 resulting from a decrease of 2,352 persons. Of this, a decrease of 866 was due to the closures of production lines and rationalisations of operations, 975 due to the sale of Walki Wisa and 650 due to the sale of the Finnish port operations Oy Rauma Stevedoring Ltd and Oy Botnia Shipping Ab. In Label Division, the number of employees increased by 139.

The total amount of salaries and fees in 2007 was € 1,163 million (€ 1,281 million in 2006 and € 1,192 million in 2005).

More information on personnel is published in UPM's Annual Report 2007.

Research and development

In 2007, UPM spent approximately € 50 million (€ 44 million, € 50 million) on research and development projects, 0.5% (0.4%, 0.5%) of the Group's sales.

In the paper divisions, the research and development focuses on fibres and fibre raw materials including recycled fibres, papers, coating and printing, and the environment. In China the new research centre was inaugurated. The research is concentrated on agro residues and UPM investigates a possibility of building an industrial biorefinery utilising agro residues. The planned biorefinery would be the first industrial facility in the world using this technology. A new innovative method for using pine for mechanical pulping has been developed together with UPM's Kajaani mill. Testing of the method is scheduled to be finalised by the spring of 2008.

In the label business, the main focus of the R&D work is to find more cost-effective self-adhesive labels and to develop competitive filmic wash-off labels for returnable bottles. In RFID business, the research has focused on developing new HF and UHF antennas for RFID inlays and tags.

In Wood Products the research done in the Plywood business area is directed mainly at overlaying and gluing techniques, the properties of different wood species and new materials.

New prospects

In biofuels, UPM continues to develop business concepts and the respective technical solutions. In 2007 UPM started, together with Andritz/Carbona, testing Carbona's gasification technology to be used in production of second generation biodiesel. Pilot testing is expected to be finished by the end of 2008.

In 2007, UPM launched a wood plastic composite, a new material developed by UPM's Corporate Venturing made of recycled fibres and plastics originating from labelstock production.

UPM has joined as a 20% partner in Forestcluster Ltd, which was established to network top-level research and innovation in the Finnish forest cluster. UPM holds 38.65% of Oy Keskuslaboratorio Ab (KCL), which is the joint pulp and paper research centre for the forest industry in Finland.

Capital expenditure

In 2007, capital expenditure, excluding acquisitions and share purchases, was € 683 million, 6.8% of sales (€ 631 million, 6.3% of sales in 2006 and € 705 million, 7.5% of sales in 2005). Including acquisitions and share purchases, capital expenditure was € 708 million, 7.1% of sales (€ 699 million, 7.0% in 2006 and € 749 million, 8.0% in 2005).

In April 2007, UPM decided to build a self-adhesive label materials factory in Poland. The new production and logistics centre will serve the growing Eastern European markets and meet increasing Europe-wide demand for filmic label materials. The total investment cost is € 90 million and production is scheduled for start-up in the 4th quarter of 2008.

In April, UPM decided to modernise and expand the birch plywood production at its Otepää plywood mill in Estonia. The investment is worth € 10 million and it will be completed in autumn 2008.

In April, UPM announced a € 11 million investment in the Kajaani mill in Finland. The new application of ozone treatment will start in early 2008. The facility uses a new method that was developed in-house and uses pine for mechanical pulping.

In December, UPM signed a letter of intent with the Russian Sveza Group for a 50/50 joint venture company. The purpose of the joint venture is to build a state-of-the-art forest industry facility in the Vologda region of Northwest Russia. The facility would include a pulp mill, a sawmill and an OSB (Oriented Strand Board) building panels mill. The total investment is estimated to be in excess of one billion euros. The final investment decision is subject to a satisfactory outcome of the final feasibility study and the necessary approvals from authorities.

The biofuel-fired power plant investment for the Chapelle Darblay mill in France was completed in February 2007. The plant combusts energy wood and all the sludge produced in the mill's recovered paper recycling process, reducing the mill's CO₂ emissions by 95%. The amount of the investment was € 85 million. At Jämsänkoski mill, a € 45 million investment to convert coated magazine paper machine 4 to produce label papers was completed in May. A new bleaching line at the Tervasaari mill started up in September. The investment amount was € 34 million.

Investments in production efficiency and product quality of plywood mills in Savonlinna and Jyväskylä were completed during the year. The total investment amount was € 8 million.

In Uruguay in November, UPM's associated company Metsä-Botnia started up a hardwood pulp mill with an annual capacity of 1 million tonnes. The total cost of the pulp mill investment was USD 1.2 billion. UPM's direct investment in the pulp mill has been € 93 million.

The largest ongoing investment is the rebuild of the recovery plant at the Kymi pulp mill. The total investment cost is € 325 million, and it is planned for completion during the second quarter of 2008. A new renewable energy power plant is under construction at the Caledonian mill in Irvine, Scotland. The investment cost is € 84 million and start-up is projected for the third quarter of 2009. At the Jämsänkoski mill, a € 38 million investment in the quality of uncoated magazine paper will be completed early in 2008.

A new self-adhesive label materials factory is under construction in Dixon, Illinois in the United States. The value of this investment is approximately USD 100 million and the new factory is slated for completion in the first quarter of 2008.

Changes in the Group's structure

In June 2007, UPM sold Walki Wisa to funds managed by CapMan. The sale resulted in a capital gain of € 29 million. In 2006, Walki Wisa had sales of € 287 million and it employed 950 people. In April, UPM sold the real estate company UPM-Asunnot Oy to Waterhouse Real Estate Investment Oy. The sale resulted in a capital gain of € 42 million. UPM-Asunnot owned around 2,000 rental apartments in Finland. In October, UPM sold its Finnish port operators Oy Rauma Stevedoring Ltd and Oy Botnia Shipping Ab to Babcock & Brown Infrastructure. The sale resulted in a capital gain of € 58 million. The port operators' combined sales were € 62 million and they employed 650 employees.

Profitability improvement

In March 2006, UPM announced an extensive Profitability Programme for 2006–2008 to restore its profitability. The programme includes a reduction of approximately 3,600 employees over the three-year period and closures of uncompetitive paper production capacity. When finalised, the programme is estimated to result in annual cost savings of approximately € 200 million.

In the first quarter of 2007, UPM stopped the production of coated magazine paper in Jämsänkoski paper machine 4, which had an annual capacity of 120,000 tonnes and converted it to produce label papers. Tervasaari paper machine 6, with an annual capacity of 115,000 tonnes of brown sack paper, and the semi-alkaline pulp (SAP) line, with an annual capacity of 60,000 tonnes, were closed in August. These closures completed the plan to close 520,000 tonnes of magazine paper capacity, 150,000 of fine paper capacity and 115,000 tonnes of packaging paper capacity.

The annual cost savings from the programme in 2007 were approximately € 110 million, and the accumulated reduction in the number of employees by the end of 2007 was 3,200.

On 17 December 2007, UPM decided on further actions to improve its profitability. The decision was made to permanently close the Miramichi 450,000 tonnes magazine paper mill in Canada, reduce 250,000 tonnes of newsprint capacity through temporary shutdowns during 2008, reduce label paper capacity through temporary shutdowns and rationalise self-adhesive label materials operations by closing four old coating lines. In Wood Products, UPM started negotiations with employees on the possible closure of the timber components and planing mill in Luumäki, Finland. The annualised cost saving of these actions is estimated to be in the range of € 50 to € 70 million.

Shares

The company has one series of shares. There are no specific terms related to the shares except for the redemption clause which is presented in the Consolidated Financial Statements (Note 27). Information on the biggest shareholders and break-down by sector and size is disclosed in Information on shares.

The company is a party to certain agreements concerning its resource-related businesses which contain provisions as to the change of control in the company. The company has entered into service contracts with its President and CEO, and Executive Team members which include provisions regarding a change of control due to a public tender offer. The service contracts have been presented in the Consolidated Financial Statements (Note 7).

Information of the authority of the Board of Directors in regard to the issuance and buy back own shares, and regulations to amend

the Articles of Association is disclosed in the Consolidated Financial Statements (Note 27).

In 2007, UPM shares worth, in total € 16,472 million were traded on the Helsinki stock exchange (€ 16,021 million). The highest quotation was € 20.59 in February and the lowest € 13.01 in November.

On 30 October 2007, UPM decided to terminate the listing of its American Depositary Shares (ADS) on the New York Stock Exchange (NYSE) and seek deregistration and termination of its reporting obligations under the Securities Exchange Act of 1934. The last day of listing on the NYSE was 5 December 2007, and starting from 6 December 2007 the Company's ADSs have been traded on the US over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt program.

The Annual General Meeting held on 27 March 2007 approved a proposal by the Board of Directors to buy back not more than 52,000,000 own shares. The authorisation is valid for 18 months. The meeting authorised the Board to decide on the disposal of shares so acquired as well as on a free issue of shares to the company itself so that the total number of shares to be issued to the company combined with the number of own shares bought back under the buy-back authorisation may not exceed 1/10 of the total number of shares of the company.

On 20 August 2007, the UPM Board of Directors decided to buy back up to 16,400,000 own shares representing 3.1% of the total number of shares. The share buy-backs were initiated on 29 August and completed on 9 November. Shares worth € 266.2 million were bought at an average price of € 16.23. In December, the Board of Directors decided to invalidate the acquired 16,400,000 shares. The invalidating of the shares was registered in the Trade Register on 21 December.

Additionally, the Annual General Meeting authorised the Board of Directors to decide to issue shares and special rights entitling to shares of the company. The number of new shares to be issued, including shares to be obtained under special rights, shall be no more than 250,000,000. Of that amount, the maximum number that can be issued to the company's shareholders based on their pre-emptive rights is 250,000,000 shares, and the maximum amount that can be issued deviating from the shareholders' pre-emptive rights in a directed share issue is 100,000,000 shares. The maximum number of new shares to be issued as part of the company's incentive programmes is 5,000,000 shares. The authorisation is valid for no more than three years from the date of the decision. To date, this authorisation has not been used.

The meeting also decided on granting share options in connection with the company's share-based incentive plans. In option programmes 2007A, 2007B and 2007C, the total number of share options is no more than 15,000,000, and they will entitle to subscribe for, in total, no more than 15,000,000 new shares of the company. To date, this authorisation has not been used (Note 37).

The meeting decided to decrease the share premium reserve as shown in the balance sheet of the parent company as per 31 December 2006 by the amount of € 776,122,940.18, and the legal reserve as shown in the balance sheet as per 31 December 2006 by the amount of € 187,227,209.68. The changes were executed on 1 August. The reserves were transferred to the invested non-restricted equity fund.

Apart from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds, or share options.

In 2007, 5,709,890 shares were subscribed for through exercising of outstanding share options.

The number of shares entered in the Trade Register on 31 December 2007 was 512,569,320. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 794,158,420.

The company has received the following notifications from shareholders: on 13 September 2007, the Capital Group Companies, Inc. informed that the Finnish Financial Supervision Authority has granted exemption to the Capital Group Companies, Inc. to report its holdings and those of Capital Group International, Inc. separately from those of Capital Research and Management Company. Pursuant to this exemption, the aggregate holdings of Capital Group Companies, Inc., Capital Group International, Inc. and its subsidiaries have fallen below 5% of the shares and voting rights of UPM-Kymmene Corporation. The aggregate holdings on 12 September 2007 were 11,388,908 shares, representing 2.15% of the shares and voting rights. On 12 September 2007, the Capital Research and Management Company held a total of 16,035,800 UPM-Kymmene Corporation shares, representing 3.03% of the shares and voting rights. On 7 March 2005, the Franklin Templeton Group and its affiliated investment advisors of Franklin Resources held 10.11% of the voting rights of UPM-Kymmene Corporation.

The listing of UPM 2005G stock options on OMX Nordic Exchange Helsinki commenced on 1 October 2007.

Company directors

Under the Companies Act, a general meeting of shareholders elects members of the Board of Directors. The Annual General Meeting of 27 March 2007 confirmed that the number of members on the Board of Directors is 11.

Mr Veli-Matti Reinikkala, Head of Process Automation Division of ABB, and Mr. Jussi Pesonen, President and CEO of UPM, were elected to the Board of Directors as new members. In addition, Mr Michael C. Bottenheim, LL.M., MBA; Mr Berndt Brunow, member of the Board of Oy Karl Fazer Ab; Mr Karl Grotenfelt, LL.M., Chairman of the Board of Directors of Famigro Oy; Dr. Georg Holzhey, former Executive Vice President of UPM and Director of G. Haindl'sche Papierfabriken KGaA; Ms Wendy E. Lane, Chairman of American investment firm Lane Holdings, Inc; Mr Jorma Ollila, Chairman of Nokia Corporation and Royal Dutch Shell plc; Ms Ursula Ranin, LL.M., B.Sc. (Econ.); Ms Françoise Sampermans, B.A., Psych., Publishing Consultant and Mr Vesa Vainio, LL.M., were re-elected as members of the Board of Directors. The term of office of the members of the Board of Directors lasts until the end of the next Annual General Meeting.

At the assembly meeting of the Board of Directors, Mr Vesa Vainio was re-elected as Chairman, and Mr Jorma Ollila and Mr Berndt Brunow were re-elected as Vice Chairmen. In addition, the Board of Directors elected from among its members an Audit Committee with Mr Michael C. Bottenheim as Chairman, and Ms Wendy E. Lane and Veli-Matti Reinikkala as members. A Human Resources Committee was elected with Mr Berndt Brunow as Chairman, and Mr Georg Holzhey, Ms Ursula Ranin and Ms Françoise Sampermans as members. Furthermore, a Nominating and Corporate Governance Committee was elected with Mr Jorma Ollila as Chairman, and Mr Karl Grotenfelt and Mr Georg Holzhey as members.

Risks

Risk management

UPM regards risk management as a systematic and proactive means to analyse and manage opportunities and threats relating to the business operations. The Board of Directors has approved the overall objectives of risk management for the Group and confirmed its principles and implementation. Audit Committee has the responsibility to oversee that risk management activities are aligned with the Risk Management Policy and to oversee that risk assessments are used to focus on internal audit activities.

UPM transfers insurable risks through insurance arrangements if they exceed the risk tolerance. The insurance cover is subject to applicable insurance conditions and there can be no assurance that the insurance programme would be sufficient to cover potential damages arising from catastrophes, such as war, terrorism or natural catastrophes.

The main risk factors that can materially affect the company's business and financial results are set out below. They have been classified as strategic risks, operational risks, financial risks and hazard risks.

Strategic risks

Competition. The paper and forest products markets are highly competitive. UPM has, from time to time, experienced price pressures from competitors in its main business areas and geographic markets and has experienced particularly large fluctuations in operating margins due to this competitive environment. Although the company's financial position is currently sound in relation to many other industry players, there can be no assurance that UPM will have sufficient financial resources to respond to these competitive pressures.

Shifts in consumer preferences including the trend toward a greater use of electronic media. Over the last several decades, consumer expectations with respect to paper used for such items as books, catalogues, magazines, newspapers, advertising, direct mail, packaging and label materials and other similar uses have become both more demanding and more diverse. The trend towards a greater use of computers and electronic media is also having an effect on consumption patterns for paper now and will in the future. The ability to continue to meet the shifting demands of consumers depends upon a variety of factors, including the ability to foresee and/or identify changes in consumer preferences, requiring alteration of strategies, the technical capabilities of manufacturing facilities, the speed of, and the costs associated with, the shifting of production at such facilities and the success of various research and development programmes.

Mergers and acquisitions. The paper and forest products industry has in the past and could in future experience a further wave of consolidation, driven, in part, by a desire to achieve economies of scale and synergies. The mergers and acquisitions which UPM might enter into or make could involve risks, including those concerning the ability to successfully integrate and manage acquired operations and personnel, as well as to successfully achieve the economies of scale or synergies sought. To minimise such risks, the company has a merger and acquisitions process, in which there is expertise in all different steps of M&A activity, from valuation to integration.

Suitability of business portfolio. Although UPM believes that its product portfolio and geographic spread is currently quite suited for profitable business, demand and overall business conditions for its main products in major markets may change. Changes may take

place as a consequence of the changing consumer behaviours. We cannot therefore be certain that our current portfolio will ensure adequate returns in the future.

Significance of the largest customers. UPM sells a significant proportion of its products to several major customers, including certain significant printing houses and merchant distributors, which resell the products. Although not dependent on any specific customer or group of customers the loss of one or more of our significant customers, if not replaced on similar terms, could have an adverse effect on the company's results.

Environmental regulations. UPM is subject to various environmental laws and regulations. Its environmental processes and management are based on full compliance with such laws and regulations, and environmental investments, audits and measurements are carried out on a continuing basis. The company is currently not involved in any major legal proceedings concerning environmental matters. However, the risk of substantial environmental costs and liabilities is inherent in industrial operations.

Political risks. UPM has manufacturing operations in certain emerging markets, including, among others, China and Russia. The political, economic and legal systems in these countries may be less predictable than those in countries with more established and sustained institutional structures. Investments or procurement in these countries may also be subject to other risks and uncertainties such as unfavourable taxation treatment, trade restrictions, inflation, currency fluctuations and nationalisation. Emerging markets represented approximately 15% of the company's sales of € 10.0 billion in 2007.

Operational risks

Cyclicity of the markets and pricing fluctuations. The markets for paper and forest products are cyclical, being characterised by periods of imbalance between supply and demand during which prices of paper and forest products can fluctuate significantly. These demand-supply imbalances may be caused by such factors as economic growth and advertising, capacity investments, inventory build-up and changes in end-use patterns. There can be no assurance that current price levels for paper and forest products will be maintained, that any additional price increases will be achieved or that the industry will not add new capacity.

Availability and price of major inputs. In 2007, third-party suppliers accounted for approximately 88% UPM's wood requirements and approximately 30% of electric power needs. Other production inputs, such as chemicals, fillers and recovered paper, are obtained from third-party suppliers. Disruptions in the supply of key inputs would impact our manufacturing operations, examples being interruption or downscaling of production or change in the product mix, or increased costs resulting from price increases of critical inputs, or increases in the duties on imported wood that would make wood imports uneconomical, or uncertainties on how proposed policies of EU Energy package impacts the availability and cost of fibre and energy.

Ability to recruit and retain skilled employees. To meet the challenges of sustaining growth and improving the effectiveness of operations, a skilled workforce is necessary. UPM is continuously evaluating its recruitment, compensation and career development policies and taking measures to attract and retain skilled personnel. There is no assurance that shortages of sufficient numbers of appropriately skilled personnel in the future would not exist.

Financial control procedures. Effective internal control procedures are necessary for providing reliable and accurate financial

reporting. Inability to prevent fraud or provision of reliable financial reports could have material effect on financial results.

Financial risks

Changes in exchange and interest rates. Exchange risk exposure primarily affects export operations to the extent when sales are denominated in currencies other than those in which manufacturing costs are incurred. A part of UPM's sales and purchases are denominated in currencies (consisting primarily of the US dollar and the British pound sterling) other than the euro. To manage exposure to such exchange rate fluctuations, close monitoring of the exposure to currency risks is taking place simultaneously with hedging of such risks using certain financial instruments, including forward foreign exchange agreements and currency swaps, is done. Further, changes in interest rates may have a considerable impact on the values of the company's assets (biological assets for example), which are valued on a discounted cash flow model.

Payment defaults. There is a risk of non-payment or non-performance by the company's customers in connection with the sale of products. UPM has various programmes in place to monitor and mitigate customer credit risk and insurance policies cover most of our trade receivables.

Additional information of financial risks and of maturity of long term debt is disclosed in the Consolidated Financial Statements (Notes 3 and 31).

Hazard risks

UPM operates a significant number of manufacturing facilities all over the world, mostly owned, and is also the largest private owner of forestland in Finland. UPM is exposed to risks in areas such as occupational health and safety, environmental, fire, natural events and premises security. These risks are managed through established management procedures and loss prevention programmes. UPM's insurance programme provides also coverage, according to terms and conditions, for insurable hazard risks.

The environment

UPM's environmental management is based on internally defined goals, measuring the realisation of these, as well as on developing and implementing best practices in the whole value 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 of raw materials, production, distribution of products and product recovery and disposal. UPM assesses its suppliers systematically and regularly also from the perspective of environmental and social responsibility.

UPM has systematically invested capital resources in environmental compliance with laws and regulations and in monitoring and reducing the environmental loads. In 2007, the operating expenses (including depreciation) attributable to environmental protection were € 103 million (€ 108 million, € 114 million) and the respective capital expenditure on environmental protection was € 59 million (€ 33 million, € 38 million).

Currently, all of UPM's paper and pulp mills; the plywood mills and sawmills in Finland, Austria, Estonia; one plywood mill in Russia; the hydroelectric power plants in Finland and the forestry departments in Finland, France, the United Kingdom, Germany, Austria, the US and Canada have ISO 14001 certified environmental manage-

ment systems in place. In addition, four of the Label Division's plants also have certified systems. All of UPM's pulp and paper mills in Finland and most of those elsewhere in Europe have also received approval for their systems under the EU's Eco-Management and Audit Scheme ('EMAS'). UPM's paper mills have published a respective joint EMAS or other externally verified environmental statement.

UPM has adopted a policy of not purchasing wood from protected forestlands or from any other areas designated by local forest or environmental authorities as being of special ecological importance. All suppliers of imported wood are required to provide proof of the origins of their wood. Therefore, UPM has continued the work to gain chain of custody ('CoC') certification as verification of legal and sustainable raw wood material supply. In 2007, approximately 71% (65% in 2006 and 64% in 2005) of the wood used was from certified forests. Since June 2006, all of UPM's pulp and paper mills have had a third party audited chain of custody in place. To ensure sustainable commercial use of forests, UPM provides extensive environmental training to its forestry department's entire field personnel.

UPM has continued to improve the efficiency of the production processes and the use of energy for those processes. In 2007, paper production increased by 2% (increased by 9% in 2006, decreased 6% in 2005). The average effluent amount of paper mills per produced paper ton decreased approximately by 5% (9% in 2006, 3% in 2005), and the corresponding chemical oxygen demand (COD) of discharges remained unchanged (decreased by 4% in 2006 and 13% in 2005). The total fossil carbon dioxide emissions of mill power plants decreased by 3% (increased by 5% in 2006 and decreased 5% in 2005). The total solid waste, primarily ash from mill power plants, to landfills decreased approximately by 23% (increased by 25% in 2006 and 8% in 2005). Biofuels presently account for approximately 57% of all fuels used in heat and electricity generation at the mills. UPM has continued to invest in biomass-fired power plants. In 2007, a new biofuel-fired power plant was completed at the Chapelle Darblay mill in France.

EU-wide trading of carbon dioxide emissions allowances started on the 1 January 2005. Carbon dioxide emission permits were granted to all UPM units which are subject to the scheme. In 2007 and 2006, UPM did not use all granted allowances.

UPM has made consistent efforts to increase the share of recycled fibre in the raw material base. UPM is the largest user of recovered paper for printing papers in Europe and the second largest in the world, with a consumption of 3.0 million tonnes in 2007 (3.0 million tonnes in 2006 and 2.9 million tonnes in 2005). Currently, 26% of the total fibre usage for paper production is gained from recovered paper.

In 2007, UPM continued promoting the use of the following third-party certified environmental labels: European Eco-label (EU Flower), PEFC and FSC. The EU Flower label proves that the paper fulfils certain environmental criteria, for example, that production has a lower environmental impact, including selection of raw materials, use of chemicals, use of fibre and energy, emissions from operations and waste management. The PEFC and FSC labels prove that wood raw material originates from certified and well-managed forests and the wood is legally logged and does not come from protected areas. More environmental information is given in UPM's Annual Report 2007 and on www.upm-kymmene.com.

Litigation

Certain competition authorities are continuing investigations into alleged antitrust activities with respect to various products of the company.

The US Department of Justice, the EU authorities and the authorities in several EU Member States, Canada and certain other countries have granted UPM conditional full immunity with respect to certain conduct disclosed to them. The US and Canadian investigations are now closed, and the European Commission has tentatively closed its investigation of the European fine paper, newsprint, magazine paper, label paper and self-adhesive labelstock markets.

UPM has been named as a defendant in multiple class-action lawsuits against labelstock and magazine paper manufacturers in the United States. During 2007, UPM agreed to settle the class-action lawsuits raised by direct purchasers of labelstock and magazine paper for a total amount of approximately € 12 million. Certain class action lawsuits filed by indirect purchasers of labelstock and magazine paper continue to be pending.

The remaining litigation matters may last several years. No material provisions have been made in relation to these investigations.

Events after the balance sheet date

The Group's management is not aware of any significant events occurring after 31 December 2007 that would have an impact on the financial statements.

Outlook for 2008

Global demand for printing papers is forecast to grow somewhat from the last year. In Europe good demand is expected to continue

especially in Eastern Europe. In North America weakening demand trend is expected to continue. The highest growth in demand will be in China.

UPM's deliveries are expected to be about the same as 2007 despite the significant capacity closures. Group's average paper price in local currency is expected to be higher for the first quarter 2008 than it was at the end of last year.

UPM's current order books in printing papers are good. In magazine papers the company has agreed on price increases in all markets and shortened contract validities in Europe. In newsprint contract price negotiations for 2008 in Europe are not yet finalised.

Demand for self-adhesive labelstock is forecast to grow in Europe and Asia. Self-adhesive labelstock prices are expected to increase first in North America and in some Asian markets. Demand for RFID products is expected to grow at a healthy rate.

In wood products, strong demand for birch plywood and stable demand for spruce plywood is expected to continue. In sawn timber outlook is cautious due to existing high inventories and slowing of the building activity in some of the main markets.

Wood and recycled fibre costs for 2008 are forecast to be higher than full year 2007. An increase in the company's overall costs is expected to be about 2%. This includes cost savings from the ongoing profitability programme.

Capital expenditure is forecast to be about 500 million euro, clearly below the depreciation.

For the full year 2008, the Group expects its operative profitability to be about the same as in 2007. However, the first quarter is expected to be below the same period last year. The Group continues to seek new ways to improve its profitability.

Board of Directors' proposal for the distribution of profits

The distributable funds of the parent company are € 3,199,708,177.15. The Board of Directors proposes to the Annual General Meeting that a dividend of € 0.75 per share be paid on the shares outstanding at the record date.

On 5 February 2008, there are 512,569,320 outstanding shares and the corresponding amount to be paid in dividends is € 384.4 million.

The Board of Directors proposes that the dividend to be paid on 10 April 2008.

No material changes have taken place in respect of the company's financial position after the balance sheet date. The liquidity of the company is good and in the opinion of the Board of Directors proposed distribution of profit does not risk the liquidity of the company.

Signatures of the annual accounts and the report of Board of Directors for the year 2007

Helsinki, 5 February 2008

Vesa Vainio
Chairman

Jorma Ollila

Berndt Brunow

Michael C. Bottenheim

Karl Grotenfelt

Georg Holzhey

Wendy E. Lane

Ursula Ranin

Veli-Matti Reinikkala

Françoise Sampermans

Jussi Pesonen
President & CEO

Consolidated income statement

€m	Note	2007	1.1. – 31.12. 2006
Sales	4	10,035	10,022
Other operating income	6	200	231
Costs and expenses	7	-8,650	-8,514
Change in fair value of biological assets and wood harvested	8	79	-126
Share of results of associated companies and joint ventures	9	43	61
Depreciation, amortisation and impairment charges	10	-1,224	-1,138
Operating profit	4	483	536
Gains on available-for-sale investments, net	11	2	-2
Exchange rate and fair value gains and losses	12	-2	18
Interest and other finance costs, net	12	-191	-185
Profit before tax		292	367
Income taxes	13	-211	-29
Profit for the period		81	338
Attributable to:			
Equity holders of parent company		85	340
Minority interest		-4	-2
		81	338
Earnings per share for profit attributable to the equity holders of the parent company			
Basic earnings per share, €	14	0.16	0.65
Diluted earnings per share, €	14	0.16	0.65

The notes are an integral part of these financial statements.

Consolidated balance sheet

€m	Note	2007	31.12. 2006
ASSETS			
Non-current assets			
Goodwill	16	1,163	1,514
Other intangible assets	17	392	461
Property, plant and equipment	18	6,179	6,500
Investment property	19	14	30
Biological assets	20	1,095	1,037
Investments in associated companies and joint ventures	21	1,193	1,177
Available-for-sale investments	22	116	127
Non-current financial assets	23	82	74
Deferred tax assets	28	284	362
Other non-current assets	24	121	73
		10,639	11,355
Current assets			
Inventories	25	1,342	1,255
Trade and other receivables	26	1,717	1,657
Income tax receivables		18	3
Cash and cash equivalents		237	199
		3,314	3,114
Total assets		13,953	14,469

€m	Note	2007	31.12. 2006
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	27	890	890
Share premium reserve	27	–	826
Translation differences		–158	–89
Fair value and other reserves	27	193	278
Reserve for invested non-restricted equity		1,067	–
Retained earnings		4,778	5,366
		6,770	7,271
Minority interest		13	18
Total equity		6,783	7,289
Non-current liabilities			
Deferred tax liabilities	28	745	790
Retirement benefit obligations	29	441	427
Provisions	30	171	187
Interest-bearing liabilities	31	3,384	3,353
Other liabilities	32	12	13
		4,753	4,770
Current liabilities			
Current interest-bearing liabilities	31	931	992
Trade and other payables	33	1,443	1,399
Income tax payables		43	19
		2,417	2,410
Total liabilities		7,170	7,180
Total equity and liabilities		13,953	14,469

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity

Attributable to equity holders of the parent

€m	Share capital	Share premium reserve	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006	890	826	-3	-34	233	-	5,415	7,327	21	7,348
Translation differences	-	-	-	-63	-	-	-	-63	-	-63
Other items	-	-	-	-	-2	-	2	-	-	-
Net investment hedge, net of tax	-	-	-	8	-	-	-	8	-	8
Cash flow hedges										
fair value gains/losses, net of tax	-	-	-	-	45	-	-	45	-	45
transfers from equity, net of tax	-	-	-	-	-5	-	-	-5	-	-5
Available-for-sale investments										
transfers to income statement, net of tax	-	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	340	340	-2	338
Total recognised income and expense for the period	-	-	-	-55	38	-	342	325	-2	323
Reissuance of treasury shares	-	-	3	-	-	-	1	4	-	4
Share-based compensation	-	-	-	-	7	-	-	7	-	7
Dividend paid	-	-	-	-	-	-	-392	-392	-	-392
Business combinations	-	-	-	-	-	-	-	-	-1	-1
Total of other changes in equity	-	-	3	-	7	-	-391	-381	-1	-382
Balance at 31 December 2006	890	826	-	-89	278	-	5,366	7,271	18	7,289
Translation differences	-	-	-	-69	-	-	-	-69	-	-69
Net investment hedge, net of tax	-	-	-	-	-	-	-	-	-	-
Cash flow hedges										
fair value gains/losses, net of tax	-	-	-	-	68	-	-	68	-	68
transfers from equity, net of tax	-	-	-	-	-41	-	-	-41	-	-41
Available-for-sale investments										
transfers to income statement, net of tax	-	-	-	-	-1	-	-	-1	-	-1
Profit for the period	-	-	-	-	-	-	85	85	-4	81
Total recognised income and expense for the period	-	-	-	-69	26	-	85	42	-4	38
Share options exercised	-	-	-	-	-	104	-	104	-	104
Acquisition of treasury shares	-	-	-266	-	-	-	-	-266	-	-266
Cancellation of treasury shares	-	-	266	-	-	-	-266	-	-	-
Share-based compensation, net of tax	-	-	-	-	13	-	-	13	-	13
Dividend paid	-	-	-	-	-	-	-392	-392	-	-392
Business combinations	-	-	-	-	-	-	-	-	-1	-1
Transfers and others	-	-826	-	-	-124	963	-15	-2	-	-2
Total of other changes in equity	-	-826	-	-	-111	1,067	-673	-543	-1	-544
Balance at 31 December 2007	890	-	-	-158	193	1,067	4,778	6,770	13	6,783

The notes are an integral part of these financial statements.

Consolidated cash flow statement

€m	1.1. – 31.12.	
	2007	2006
Cash flow from operating activities		
Profit for the period	81	338
Adjustments to profit for the period (Note 5)	1,390	1,195
Interest received	4	9
Interest paid	-191	-187
Dividends received	23	16
Other financial items, net	-72	-18
Income taxes paid	-164	-159
Change in working capital (Note 5)	-204	21
Net cash provided by operating activities	867	1,215
Cash flow from investing activities		
Acquisition of shares in associated companies	-25	-68
Capital expenditure	-673	-635
Proceeds from disposal of subsidiary shares, net of cash (Note 5)	205	203
Proceeds from disposal of shares in associated companies	2	52
Proceeds from disposal of available-for-sale investments	3	3
Proceeds from sale of fixed assets	71	108
Proceeds from long-term receivables	1	23
Increase in long-term receivables	-9	-
Net cash used in investing activities	-425	-314
Cash flow from financing activities		
Proceeds from long-term liabilities	965	415
Payments of long-term liabilities	-879	-574
Proceeds from (payment of) short-term borrowings, net	66	-398
Share options exercised	104	-
Dividends paid	-392	-392
Purchase of own shares	-266	-
Other financing cash flow	-	-2
Net cash used in financing activities	-402	-951
Change in cash and cash equivalents	40	-50
Cash and cash equivalents at the beginning of the year	199	251
Foreign exchange effect on cash	-2	-2
Change in cash and cash equivalents	40	-50
Cash and cash equivalents at year-end	237	199

The notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(In the notes all amounts are shown in millions of euros unless otherwise stated.)

1 ACCOUNTING POLICIES

The principal accounting policies to be adopted in the preparation of the consolidated financial statements are set out below:

Principal activities

UPM-Kymmene Corporation together with its consolidated subsidiaries ("UPM" or "the Group") is a global paper and forest products group engaged in the production of paper, with an emphasis on the manufacture and sale of printing and writing papers. The Group is vertically integrated with operations that are organised through five divisions: Magazine Papers, Newsprint, Fine and Speciality Papers, Label Materials and Wood Products. The biggest units of UPM's Other Operations are forestry departments and energy department in Finland. The Group's activities are centred in the European Union countries and North America, and Asia with production facilities in 14 countries.

UPM-Kymmene Corporation is a Finnish limited liability company, domiciled in Helsinki in the Republic of Finland. The address of the company's registered office is Eteläesplanadi 2, 00101 Helsinki, where the copy of the consolidated financial statement can be obtained.

Basis of preparation

These consolidated financial statements of UPM are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). These Group consolidated financial statements were authorised for issue by the Board of Directors on 5 February 2008.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of biological assets, available-for-sale financial assets and certain other financial assets and financial liabilities. Share-based payments are recognised at fair value on the grant date.

The preparation of financial statements requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates are employed in the financial statements to determine reported amounts, including the realisability of certain assets, the useful lives of tangible and intangible assets, income taxes and others. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The preparation of financial statements also requires management to exercise its judgement in the process of applying the Group's accounting policies. The critical judgements are summarised in Note 2.

Consolidation principles

Subsidiaries

The consolidated financial statements of UPM include the financial statements of the parent company, UPM-Kymmene Corporation, and its subsidiaries. Subsidiaries are those entities in which UPM-Kymmene Corporation either owns, directly or indirectly, over

fifty percent of the voting rights, or otherwise has the power to govern their operating and financial policies.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see "Intangible Assets" for the accounting policy on goodwill). Subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group, and subsidiaries sold are included up to the date that control is relinquished. Where necessary, the accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Associated companies and joint ventures

Associated companies are entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another venturer or venturers.

Interests in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recorded at cost. Under this method the Group's share of the associated company's and joint venture's profit or loss for the year is recognised on the income statement and its share of movements in reserves is recognised in reserves. The Group's interest in an associated company and joint venture is carried on the balance sheet at an amount that reflects its share of the net assets of the associated company and joint venture together with goodwill on acquisition (net of any accumulated impairment loss), less any impairment in the value of individual investments. Gains and losses on transactions between the Group and its associated companies and joint ventures are eliminated to the extent of the Group's interest in the associated company and joint venture. Associated company and joint venture accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. Equity accounting is discontinued when the carrying amount of the investment in an associated company or interest in a joint venture reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company or joint venture.

Minority interests

The profit or loss attributable to the parent shareholders and minority interests is presented on the face of the income statement. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

Foreign currency transactions

Items included in the financial statements of each subsidiary in the Group are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange differences relating to ordinary business operations of the Group are included in the appropriate line items above operating profit, and those relating to financial items are included in a separate line item in the income statement and as a net amount in total finance costs.

Income and expenses for each income statement of subsidiaries that have a functional currency different from the Group's presentation currency are translated into euros at quarterly average exchange rates. Assets and liabilities of subsidiaries for each balance sheet presented are translated at the closing rate at the date of that balance sheet. All resulting translation differences are recognised as a separate component of equity. When a foreign entity is partially disposed of, sold or liquidated, such translation differences are recognised in the income statement as part of the gain or loss on sale.

Derivative financial instruments and hedging activities

Derivatives are initially recognised on the balance sheet at fair value and thereafter remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised asset or liability (fair value hedge), a hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or hedges of net investments in foreign operations (net investment hedge). The fair value of derivative financial instrument is classified as a non-current asset or liability when the remaining maturity is more than 12 months, and as a current asset or liability when the remaining maturity is less than 12 months.

The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded in the income statement under financial items, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The carrying amounts of the hedged items and the fair values of the hedging instruments are included in the interest-bearing assets or liabilities. Derivatives that are designated and qualify as fair value hedges mature at the same time as hedged items. If the hedge no longer meets the criteria for hedge

accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective both prospectively and retrospectively are recognised in equity (at the spot rate difference). The accumulated profit or loss of the hedging instruments is recognised in equity approximately during the period of 12 months. Amounts deferred in equity are transferred to the income statement and classified as income or an expense in the same period during which the hedged firm commitment or forecasted transaction affects the income statement (for example, when the forecasted external sale to the Group that is hedged takes place). The period when the hedging reserve is released to sales after each derivative has matured is approximately 1 month. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction is ultimately recognised in the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The fair value changes of the forward exchange contracts that reflect the change in spot exchange rates are deferred in equity and included in cumulative translation differences. Any gain or loss relating to the interest portion of the forward exchange contracts is recognised immediately in the income statement under financial items. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Certain derivative transactions, while providing effective hedges under the Group Financial Policy, do not qualify for hedge accounting under the specific rules in IAS 39. Such derivatives are classified held for trading, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement as other operating income or under financial items.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair values of derivative financial instruments have been estimated as follows: Interest forward rate agreements and futures contracts are fair valued based on quoted market rates on the balance sheet date; forward foreign exchange contracts are fair valued based on the contract forward rates in effect on the balance sheet

date; foreign currency options are fair valued based on quoted market rates on the balance sheet date; interest and currency swap agreements are fair valued based on discounted cash flow analyses; and commodity derivatives are fair valued based on quoted market rates on the balance sheet date.

In assessing the fair value of non-traded derivatives such as embedded derivatives the Group uses valuation methods and assumptions that are based on market quotations existing at each balance sheet date. Embedded derivatives that are identified and are monitored by the Group and the fair value changes are reported in other operating income in the income statement.

Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The accounting policies used in segment reporting are the same as those used in the consolidated accounts. The costs and revenues as well as assets and liabilities of the segments are allocated on a consistent basis. All inter-segment sales are based on market prices, and they are eliminated on consolidation.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. Non-current assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and represents a separate major line of business or geographical area of operations, is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The post-tax profit or loss from discontinued operations is shown separately in the consolidated income statement.

Revenue recognition

Sales are recognised when it is probable that future economic benefits will flow to the entity, the associated costs and the amount of revenue can be measured reliably and the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed or determinable, and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership and the Group has neither continuing managerial involvement with the goods, nor a continuing right to dispose of the goods, nor effective control of those goods. The timing of revenue recognition is largely dependent on delivery terms. Group terms of delivery are based on Incoterms 2000, the official rules for interpretation of trade terms issued by International Chamber of Commerce. Revenue is recorded when the product is delivered to the destination point for terms designated Delivered Duty Paid (“DDP”). For sales transactions designated Free on Board (“FOB”) or Cost, Insurance and Freight (“CIF”), revenue is recorded at the time of shipment.

Revenues from services are recorded when the service has been performed. Sales are recognised net of indirect sales taxes, discounts, rebates and exchange differences on sales in foreign currency. The costs of distributing products sold are included in costs and expenses.

Dividend income is recognised when the right to receive a payment is established.

Interest income is recognised by applying the effective interest rate method.

Income taxes

The Group’s income taxes include income taxes of Group companies based on taxable profit for the financial period, together with tax adjustments for previous periods and the change of deferred income taxes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Intangible assets

Intangible assets with finite lives are carried at historical cost less amortisation. Amortisation is based on the following estimated useful lives:

Computer software	3–5 years
Other intangible assets	5–10 years

Goodwill and other intangible assets that are deemed to have an indefinite life are not amortised, but are tested annually for impairment.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary, associated company or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint ventures is included in investments in associated companies and joint ventures and is tested for impairment as part of the overall balance. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount

of the cash-generating unit is less than the carrying amount of the unit, the difference is an impairment loss, which is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The gain or loss on disposal of an entity includes the carrying amount of goodwill related to the entity sold.

Research and development

Research and development costs are expensed as incurred, except for certain development costs, which are capitalised when it is probable that a development project will generate future economic benefits, and the cost can be measured reliably. Capitalised development costs are amortised on a systematic basis over their expected useful future lives, usually not exceeding five years. Development assets are tested for impairment annually.

Computer software

Costs associated with maintaining computer software programs and costs related to the preliminary project phase of internally developed software are recognised as an expense as incurred. Development costs relating to the application development phase of internally developed software are capitalised as intangible assets. Capitalised costs include external direct costs of material and services and appropriate portion of relevant overheads of the software development team. Computer software development costs recognised as assets are amortized using the straight-line method over their useful lives.

Other intangible assets

Acquired patents, trademarks and licences with a finite useful life are recognised at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives. Other intangible assets that are deemed to have an indefinite life are not amortised and are tested annually for impairment.

Emission allowances

The Group participates in government schemes aimed at reducing greenhouse gas emissions. Allowances received from the governments free of charge are initially recognised as intangible assets based on market value at the date of initial recognition. Allowances are not amortised but are recognised at amount not exceeding the market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as the allowances and recognised in other operating income in the income statement systematically over the compliance period to which the corresponding emission rights relate. The emissions made are expensed under other operating costs and expenses in the income statement. Emission rights and associated provisions are derecognised when delivered or sold. Any profit or loss on disposal is taken to the income statement.

Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost. Assets of acquired subsidiaries are stated at fair value at the date of acquisition. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. The carrying value of the property, plant and equipment on the balance sheet represents the cost less accumulated

depreciation and any impairment charges.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Land is not depreciated. Depreciation of other assets is based on the following estimated useful lives:

Buildings	25–40 years
Heavy machinery	15–20 years
Light machinery and equipment	5–15 years

Expected useful lives of assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed prospectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets accounted under IFRS 5 that are to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Government grants

Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and recognised as a reduction to the depreciation charge of the related asset when it is practicable to determine that the eligibility conditions attached to the grant will be met and the grant will be received. Other government grants are recognised in the income statement in the period necessary to match them with the costs they are intended to compensate when the reimbursement is received or when it is practicable to determine the amount and eligibility for the grant.

Investment property

Investment property includes real estate investments such as flats and other premises occupied by third parties.

Investment property is treated as a long-term investment and is stated at historical cost. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. Useful lives are the same as for property, plant and equipment. The balance sheet value of investment property reflects the cost less accumulated depreciation and any impairment charges.

Biological assets

Biological assets (i.e. living trees) are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets other than young seedling stands is based on discounted cash flows from continuous operations. The fair value of young seedling stands is the actual reforestation cost of those stands. Continuous operations, the maintenance of currently existing seedling stands and the felling of forests during one rotation, are based on the Company's forest management guidelines. The calculation takes into account

the growth potential and environmental restrictions and other reservations of the forests. Felling revenues and maintenance costs are calculated on the basis of actual costs and prices, taking into account the Company's projection of future price development.

Periodic changes resulting from growth, felling, prices, discount rate, costs and other premise changes are included in operating profit on the income statement.

Financial assets

Financial assets have been classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, trade receivables and available-for-sale investments. The classification depends on purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are categorised as held for trading, unless they are designated as hedges. These are measured at fair value and any gains or losses from subsequent measurement are recognised in the income statement. The Group has not used the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets unless they mature within 12 months of the balance sheet date. Loan receivables originated by the company that have a fixed maturity are measured at amortised cost using the effective interest method. Loan receivables are impaired if the carrying amount is greater than the estimated recoverable amount.

Trade receivables are non-derivatives that are recognised initially at fair value and subsequently measured at amortised cost less allowances for doubtful accounts. Allowances for doubtful accounts are made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or default of delinquency in payments more than 90 days overdue are considered indicators that the trade receivable may be irrecoverable. Subsequent recoveries of amounts previously written off are credited in the income statement.

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless they are intended to be disposed of within 12 months of the balance sheet date. Purchases and sales of financial investments are recognised on the settlement date, which is the date that the asset is delivered to or by the Group. Investments are initially recognised at cost, including transaction costs, and subsequently carried at fair value.

The fair values of listed investments are based on quoted prices. Unlisted equity securities, for which fair values cannot be measured reliably, are recognised at cost.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in equity are included in the income statement as gains and losses from available-for-sale investments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as avail-

able for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation (or amortisation) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Leases

Leases of property, plant and equipment where the Group, as a lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised as assets and liabilities in the balance sheet at the commencement of lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases as a lessee are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the method most appropriate to the particular nature of inventory, the first in, first out (FIFO) or weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes bor-

rowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Treasury shares

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, interest-bearing liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the interest-bearing liabilities. The Group has not used the option of designating financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Most long-term interest-bearing liabilities are designated as hedged items in a fair value hedge relationship. Fair value variations resulting from the hedged interest rate risk are recorded to adjust the carrying amount of the hedged item and reported on the income statement under finance income and expenses. If the hedge accounting is discontinued, the carrying amount of the hedged item is no longer adjusted for fair value changes attributable to the hedged risk and the cumulative fair value adjustment recorded during the hedge relationship is amortised based on a new effective interest recalculation through the income statement under finance income and expenses.

Interest-bearing liabilities are classified as non-current liabilities unless they are due to be settled within 12 months after the balance sheet date.

Employee benefits

Pension obligations

The Group operates a mixture of pension schemes in accordance with the local conditions and practices in the countries in which it operates. Such benefit plans vary according to the customary benefit plans prevailing in the country concerned. These programmes include defined benefit pension schemes with retirement, disability and termination benefits. The retirement benefits are generally a function of years of employment and final salary with the Company. Generally, the schemes are either funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. In addition, the Group also operates defined contribution pension arrangements. Most of Finnish pension arrangements are defined contribution plans.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of the employees. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the expected average remaining service lives of the employees concerned. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, contributions are paid to pension insurance companies. Once the contributions have been paid, there are no further payment obligations. Contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

Other post-retirement obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

Share-based compensation

The Group has granted share options to top management and key personnel. In addition, the Group has established a share ownership programme for its executive management. These compensation plans are recognised as equity-settled or cash-settled share-based payment transactions depending on the settlement. The fair value of the granted options and shares are recognised as indirect employee costs over the vesting period. The fair values of the options granted are determined using the Black-Scholes valuation model on the grant date. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The estimates of the number of the exercisable options are revised quarterly and the impact of the revision of original estimates, if any, is recognised in the income statement and equity.

Based on the share ownership programme, the executive management is compensated with shares depending on Group's financial performance. Shares are valued using the market rate on the grant date. The settlement is a combination of shares and cash. The Group can obtain the necessary shares by using its treasury shares or purchase shares from the market.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Restructuring provisions

Restructuring provisions are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement has been made with the appropriate employee representatives on the terms of redundancy and the numbers of employees affected, or after employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provisioned in advance.

Environmental remediation provisions

Expenditures that result from remediation of an existing condition caused by past operations and do not contribute to current or future revenues are expensed. The recognition of environmental remediation provisions is based on current interpretations of environmental laws and regulations. Such provisions are recognised when it is likely that the liability has been incurred and the amount of such liability can be reasonably estimated. Amounts provisioned do not include third-party recoveries.

Emission allowances

Emission obligations are recognised in provisions when the liability to deliver emission allowances is incurred based on emissions made. The liability to deliver allowances is recognised based on the carrying amount of allowances on hand, if the liability is expected to be settled by those allowances, or if excess emissions are incurred, at the market value of the allowances at the balance sheet date.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. In addition, comparative figures have been revised, where necessary, to reflect the impact of the adoption of a number of new and revised IFRS-standards.

Earnings per share

The basic earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of shares outstanding during the period plus the dilutive effect of convertible bonds and share options.

Adoption of new or revised

International Financial Reporting Standards

Standards, interpretations and amendments to published standards

In 2007, the Group has adopted all of the standards, interpretations and amendments to published standards issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for accounting periods beginning on 1 January 2007. The adoption has resulted in changes to the Group's accounting policies or the amounts reported for the current or prior years in the following areas:

IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

Standards, interpretations and amendments to published standards that are not yet effective

Certain standards, interpretations and amendments to existing standards have been published that are mandatory for accounting periods beginning on 1 January 2008 or later but which the Group has not early adopted:

Revised IAS 1 Presentation of Financial Statements is effective for annual periods beginning on or after 1 January 2009. The revised standard requires items of income and expense and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The revised standard will change the presentation of Group's financial statements. This revised standard is not yet endorsed by the EU.

Revised IAS 23 Borrowing Costs is effective for annual periods beginning on or after 1 January 2009. The revised standard requires that all borrowing costs relating to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. The Group's current accounting policy is already in accordance with revised IAS 23 so there will be no change for the future financial statements. This revised standard is not yet endorsed by the EU.

IFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14 Segment Reporting and requires the 'management approach' to reporting on the financial performance of operating segments. The information to be reported for each segment is to be the measure what chief operating decision maker uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group is currently evaluating the effects of implementing this standard.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses how to apply IFRS 2 Share-based Payment to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent in the standalone accounts of the parent and group companies). This interpreta-

tion does not have an impact on the Group's financial statements.

IFRIC 12 Service Concession Arrangements is effective for annual periods beginning on or after 1 January 2008. The Interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The Group does not expect the interpretation to be relevant for the Group. This interpretation is not yet endorsed by the EU.

IFRIC 13 Customer Loyalty Programmes is effective for annual periods beginning on or after 1 July 2008. The Interpretation addresses the accounting by entities that grant loyalty award credits to customers who buy other goods or services. The Group does not expect the interpretation to be relevant for the Group. This interpretation is not yet endorsed by the EU.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is effective for annual periods beginning on or after 1 January 2008. The Interpretation provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of a pension fund surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Group is currently evaluating the effects of implementing this Interpretation. This interpretation is not yet endorsed by the EU.

2 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of non-current assets

Goodwill, intangible assets not yet available for use and intangible assets with indefinite useful lives are tested at least annually for impairment. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. If the balance sheet carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. Actual cash flows could vary from estimated discounted future cash flows. The long useful lives of assets, changes in estimated future sales prices of products, changes in product costs and changes in the discount rates used could lead to significant impairment charges. Details of the impairment tests are provided in Note 16.

Biological assets

The Group owns about 1 million hectare of forest land. Biological assets (i.e. living trees) are measured at their fair value at each balance sheet date. The fair value of biological assets is determined based among other estimates on growth potential, harvesting, price development and discount rate. Changes in any estimates could lead to recognition of significant fair value changes in income statement.

Employee benefits

The Group operates a mixture of pension and other post-employment benefit schemes. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. These factors include, among others, assumptions about the discount rate, expected return on plan assets and changes in future compensation. Statistical information used may differ materially from actual results due to changing market and economic conditions, changes in service period of plan participants or changes in

other factors. Actual results that differ from assumptions and the effects of changes in assumptions are accumulated and charged or credited to income over the expected average remaining service lives of the employees to the extent that these exceed 10% of the higher of the pension plan assets and defined benefit obligation. Significant differences in actual experience or significant changes in assumptions may materially affect the future amounts of the defined benefit obligation and future expense.

Environmental provisions

Operations of the Group are based on heavy process industry which requires large production facilities. In addition to basic raw materials, considerable amount of chemicals, water and energy is used in processes. The Group's operations are subject to several environmental laws and regulations. The Group aims to operate in compliance with regulations related to the treatment of waste water, air emissions and landfill sites. The Group has provisions for normal environmental remediation costs. Unexpected events occurred during production processes and waste treatment could cause material losses and additional costs in the Group's operations.

Income taxes

Management judgement is required for the calculation of provision for income taxes and deferred tax assets and liabilities. The Group reviews at each balance sheet date the carrying amount of deferred tax assets. The Group considers whether it is probable that the subsidiaries will have sufficient taxable profits against which the unused tax losses or unused tax credits can be utilised. The factors used in estimates may differ from actual outcome which could lead to significant adjustment to deferred tax assets recognised in the income statement.

Legal contingencies

Management judgement is required in measurement and recognition of provisions related to pending litigation. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past event, an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to inherent uncertain nature of litigation, the actual losses may differ significantly from the originally estimated provision.

3 FINANCIAL RISK MANAGEMENT

Financial risks

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest risk and price risk), credit risk and liquidity risk.

The objective of financial risk management is to protect the Group from unfavourable changes in financial markets and thus help to secure profitability. The objectives and limits for financing activities are defined in the Group Treasury Policy approved by the company's Board of Directors.

In financial risk management various financial instruments are used within the limits specified in the Group Treasury Policy. Only such instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

Financial services are provided and financial risk management carried out by a central treasury department, Treasury and Risk

Management (TRM). The centralization of Treasury functions enables efficient financial risk management, cost-efficiency and efficient cash management.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and the GBP. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The objective of foreign exchange risk management is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings as well as in the Group's balance sheet by hedging foreign exchange risk in forecasted cash flows and balance sheet exposures.

Transaction exposure

The Group hedges transaction exposure related to highly probable future commercial foreign cash flows on a rolling basis over the next 12-month period based on the units' forecasts. According to the Group's Treasury Policy 50% hedging is considered risk neutral. Some confirmed and committed transactions have been hedged for longer than 12 months ahead while deviating from the risk neutral hedging level at the same time. Forward contracts and swaps are used in transaction exposure management. Most of the derivatives entered into to hedge foreign currency cash flows meet the hedge accounting requirements set by the IFRS. 53% of the forecasted 12-month currency flow was hedged on 31 December 2007 (31.12.2006: 52%). The table below shows the nominal values of the hedging instruments at 31 December 2007 and 2006.

Currency	Nominal values of hedging instruments €m	
	2007	2006
USD	342	543
GBP	315	384
JPY	36	61
AUD	168	164
SEK	51	52
CAD	-2	-77
NOK	30	32
DKK	44	40
Others	75	19
Total	1,059	1,218

For segment reporting purposes, the hedges made by TRM on behalf of UPM's subsidiaries and business units are allocated to appropriate segments. External forwards are designated at group level as hedges of foreign exchange risk of specific future foreign currency sales on gross basis.

The Group has several currency denominated assets and liabilities in its balance sheet such as foreign currency loans and deposits, accounts payable and receivable, and cash in other currencies than home currency. The aim is to hedge this balance sheet exposure fully using financial instruments. The Group might, however, have within the limits set in the Group Treasury Policy unhedged balance sheet exposures. At 31 December 2007 unhedged balance sheet exposures amounted to € 17 million (31.12.2006: € 11 million). The nominal values of the hedging instruments used in accounts payable and receivable hedging were € 327 million (31.12.2006: € 340 million).

Translation exposure

Translation exposure consists of net investments in foreign subsidiaries. At 31 December 2007, the Group did not hedge the exchange risk associated with the shareholders' equity of foreign subsidiaries.

Foreign exchange risk sensitivity

At 31 December 2007, if Euro had weakened/strengthened by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been € 2 million (2006: € 0 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been € 34 million (2006: € 53 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows. Equity was less sensitive to movement in EUR/USD rate in 2007 than in 2006 because of the decreased amount of USD denominated hedging forward contracts.

As of 31 December 2007, if Euro had weakened/strengthened by 10% against the GBP with all other variables held constant, pre-tax profit for the year would have been € 0 million (2006: € 3 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been € 31 million (2006: € 37 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows. Equity was less sensitive to movement in EUR/GBP rate in 2007 than in 2006 because of the decreased amount of GBP denominated hedging forward contracts.

As of 31 December 2007, if Euro had weakened/strengthened by 10% against the AUD with all other variables held constant, pre-tax profit for the year would have been € 16 million (2006: € 0 million) higher/lower. Profit is more sensitive to movement in EUR/AUD exchange rates in 2007 than in 2006 because the majority of the Group's AUD denominated hedging forward contracts do not anymore fulfil the IFRS effective cash flow hedging criteria. The effect in equity would have been € 0 million (2006: € 15 million) lower/higher. Equity was less sensitive to movement in EUR/AUD rate in 2007 than in 2006 because of the decreased amount of AUD denominated hedging forward contracts being part of the effective cash flow hedging.

The following assumptions were made when calculating the sensitivity to changes in the foreign exchange risk:

- The variation in exchange rates is 10%.
- Major part of non-derivative financial instruments (such as cash and cash equivalents, trade receivables, interest bearing-liabilities and trade payables) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives i.e. the balance sheet position is close to zero. Exchange rate fluctuations have therefore minor or no effects on profit or loss.
- The position includes foreign currency forward contracts that are part of the effective cash flow hedge having an effect on equity.
- The position includes also foreign currency forward contracts that are not part of the effective cash flow hedge having an effect on profit.
- The position excludes foreign currency denominated future cash flows.

Interest rate risk

The interest-bearing debt exposes the Group to interest rate risk, namely repricing and fair value interest rate risk caused by interest rate movements. The objective of interest rate risk management is to

reduce the fluctuation of the interest expenses caused by the interest rate movements.

The management of interest rate risk is based on the 6-month average duration of the net debt portfolio as defined in the Group Treasury Policy. This relatively short duration is based on the assumption that on average yield curves will be positive. Thus this approach reduces interest cost in the long term. The duration may deviate between 3 and 12 months. At 31 December 2007 the average duration was 6 months (31.12.2006: 6 months). The Group uses interest rate derivatives to change the duration of the net debt.

The Group's net debt per currency corresponds to the parent company's and subsidiaries' loan portfolios in their home currencies. The nominal values of the Group's interest-bearing net debts including derivatives by currency at 31 December 2007 and 2006 were as follows:

€bn Currency	2007	2006
EUR	3.8	3.4
CNY	0.4	0.5
USD	0.3	0.3
CAD	-0.3	0.1
GBP	-0.1	-0.1
Total	4.1	4.2

Most of the long-term loans and the interest rate derivatives related to them meet the IFRS hedge accounting requirements.

Interest rate risk sensitivity

At 31 December 2007, if the interest rate of net debt had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been € 7 million (2006: € 5 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. There would be no effect on equity.

The following assumptions were made when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be 1% parallel shift in applicable interest rate curves.
- In the case of fair value hedges designated for hedging interest rate risk, the changes in the fair values of the hedged items and the hedging instruments attributable to the interest rate movements balance out almost completely in the income statement in the same period. However, the possible ineffectiveness has an effect on the profit of the year.
- Fixed rate borrowings that are measured at amortised cost and which are not designated to fair value hedge relationship are not subject to interest rate risk sensitivity.
- Variable rate borrowings that are measured at amortised cost and which are not designated as hedged items are included in interest rate sensitivity analysis.
- Changes in the market interest rate of interest rate derivatives (interest rate futures, swaps and cross currency swaps) that are not designated as hedging instruments under IAS 39 affect the financial income or expenses (net gains or losses from remeasurement of the financial assets and liabilities to fair value) and are therefore included in the income-related sensitivity analysis.

Liquidity and refinancing risk

The Group seeks to maintain adequate liquidity under all circumstances by means of efficient cash management and restricting investments to those that can be readily converted into cash. The Group utilises commercial paper programmes for short term financing purposes. Committed credit facilities are used to secure financing under all circumstances and as a backup for commercial paper programmes.

Refinancing risks are minimised by ensuring balanced loan portfolio maturing schedule and sufficient long maturities. The average loan maturity at 31 December 2007 was 6.1 years (31.12.2006: 7.1 years).

Cash funds and committed credit facilities

€m	2007	2006
Cash funds	237	199
Committed facilities	2,500	2,700
of which used	-538	-
Used uncommitted credit lines	-416	-355
Long-term loan repayment	-391	-521
Available liquidity	1,392	2,023

The most important financial programmes in use are:

- Domestic commercial paper programme, € 1.0 billion
- Belgian commercial paper programme, € 400 million
- Medium Term Note programme, € 5.0 billion
- Revolving Credit Facility, € 1.5 billion (matures 2010)
- Revolving Credit Facility, € 1.0 billion (matures 2012)

Financial counterparty risk

The financial instruments the Group has agreed with banks and financial institutions contain an element of risk of the counterparties being unable to meet their obligations. According to the Group Treasury Policy derivative instruments and investments of cash funds may be made only with counterparties meeting certain creditworthiness criteria. The Group minimises counterparty risk also by using a number of major banks and financial institutions. Creditworthiness of counterparties is constantly monitored by TRM. Given the high credit quality of counterparties the possibility of them being unable to meet their obligations is considered minimal.

Credit risk

With regard to operating activities, the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Open trade receivables, days of sales outstanding (DSO) and overdue trade receivables are followed on monthly basis.

Potential concentrations of credit risk with respect to trade and other receivables are limited due to the large number and geographic dispersion of companies that comprise the Group's customer base. Customer credit limits are established and monitored, and ongoing evaluations of customers' financial condition are performed. Most of the receivables are covered by credit risk insurances. In certain market areas, measures to reduce credit risks include letters of credit, prepayments and bank guarantees. The ageing analysis of trade receivables is presented in Note 26. The Group considers that no significant concentration of customer credit risk exists. The ten largest customers accounted for approximately 11% of the Group's trade receivables as at 31 December 2007 - i.e., approximately € 150 million. The credit risk relating to the commitments is discussed in note 39.

Derivatives related to commodity price risk management

The Group's manufacturing process requires a significant amount of electricity. The procurement and sales of electricity are managed and optimised by the Group. The Group manages the price risk of its electricity exposure with electricity forward contracts.

If all electricity prices quoted on 31 December 2007 at Nord Pool electricity exchange would have been 15% higher/lower with all other variables constant, pre-tax profit for the year would have been € 0.3 million (2006: € 0.2 million) higher/lower. Profit was more sensitive to electricity price movements in 2007 than in 2006 because of the increased amount of the electricity derivatives.

- The sensitivity analysis assumes a 15% parallel move in electricity prices for all maturities.
- The sensitivity analysis includes only outstanding electricity derivatives.

Capital risk management

The Group's objective in managing its capital is to ensure maintenance of flexible capital structure to enable the Group to operate in capital markets.

To measure a satisfactory capital balance between equity investors and financial institutions the Group has set a target for the ratio of net interest-bearing liabilities and equity (gearing). To ensure sufficient flexibility, the aim is to keep the gearing ratio well below the maximum acceptable level of 100%.

The following capitalisation table sets out the Group's equity and interest-bearing liabilities and gearing ratios:

€m	As at 31 December	
	2007	2006
Shareholders' equity	6,770	7,271
Minority interest	13	18
Equity total	6,783	7,289
Long-term interest-bearing liabilities	3,384	3,353
Short-term interest-bearing liabilities	931	992
Interest-bearing liabilities, total	4,315	4,345
Total capitalisation	11,098	11,634
Interest-bearing liabilities, total	4,315	4,345
Less: Interest-bearing receivables, total	-342	-297
Net interest-bearing liabilities	3,973	4,048
Gearing ratio	59	56

4 SEGMENT INFORMATION

The Group is organised on a worldwide basis into the following primary business segments:

- Magazine Papers Division
- Newsprint Division
- Fine and Speciality Papers Division
- Label Division
- Wood Products Division

Activities outside the segments are reported under Other Operations.

As of beginning of 2007, the Converting Division consists only of UPM Raflatac and the division has been renamed as the Label Division. Walki Wisa business unit, disposed in June 2007, reported previously in Converting Division, has been regrouped in Other Operations. Comparative years have been revised accordingly.

Magazine Papers Division

Magazine papers have a high mechanical pulp content and are generally used in magazines, newspaper supplements, catalogues and direct mailings. The division manufactures both coated and uncoated papers. Coated magazine papers are mainly used in the manufacture of high-quality, multi-coated printed products, including magazines, catalogues, brochures, direct mail advertising and other advertising materials. Uncoated papers are mainly used for magazines, weekend newspaper supplements, catalogues, and flyers.

Newsprint Division

This division produces standard newsprint and machine-finished uncoated papers. The end-uses include daily newspapers, direct mail, telephone catalogues and books.

Fine and Speciality Papers Division

This division produces a complete range of coated and uncoated wood-free papers for graphic use and office communication. Fine papers are used for copying, non-impact printing, facsimile, direct mail advertising, brochures, and special interest magazines, while speciality papers include label papers and packaging papers.

Label Division

This division produces self-adhesive labelstock and RFID tags.

Wood Products Division

This division includes plywood manufacturing and sawmilling.

Other Operations

This includes forestry departments, and energy department in Finland, logistics operations, real estate units and Walki Wisa business unit as well as the new ventures business unit. It also includes the share of net earnings of associated companies (mainly Oy Metsä-Botnia Ab and Pohjolan Voima Oy) and the central administrative functions for the Group. The sales of Other Operations comprise only sales outside the Group.

Primary reporting format – Segment data for the year ended 31 December 2007

€m	Magazine Papers	Newsprint	Fine and Specialty Papers	Label Materials	Wood Products	Other Operations ¹⁾	Eliminations	Group
External sales	3,098	1,462	2,557	1,021	1,088	809	–	10,035
Internal sales	151	8	240	1	111	–	–511	–
Total sales	3,249	1,470	2,797	1,022	1,199	809	–511	10,035
Share of results of associates and joint ventures	–	–	–	–	–	43	–	43
Operating profit ²⁾	–340	177	112	51	92	391	–	483
Gains on available-for-sale investments, net								2
Finance costs, net								–193
Income taxes ³⁾								–211
Profit for the period								81
Assets ⁴⁾	3,276	1,901	3,073	617	665	2,320	–202	11,650
Associates and joint ventures ⁴⁾	–	–	–	–	–	1,193	–	1,193
Unallocated assets	–	–	–	–	–	–	–	1,110
Total assets								13,953
Liabilities ⁵⁾	224	115	232	151	65	237	–202	822
Unallocated liabilities	–	–	–	–	–	–	–	6,348
Total liabilities								7,170
Other items								
Depreciation and amortisation	333	190	213	33	42	20	–	831
Impairment charge	361	–	–	–	–	32	–	393
Capital expenditure ⁶⁾	120	65	322	107	31	63	–	708
Capital employed, 31 December ⁷⁾	3,052	1,786	2,841	466	600	3,276	–923	11,098
Capital employed, average	3,403	1,872	2,821	439	577	–	–	11,366
Return on capital employed, % ⁸⁾	–10.0	9.5	4.0	11.6	16.0	–	–	4.3

¹⁾ Sales include only sales outside the Group. Internal sales to segments amount to € 1,819 million, consisting mainly of raw wood sales and the Energy Department in Finland.

²⁾ The operating profit of the Magazine papers segment include a goodwill impairment charge of € 350 million, an impairment charge of € 22 million, personnel costs of € 54 million and other costs of € 36 million related to the Miramichi paper mill, an income of € 11 million related to impairment reversals, and an income of € 3 million related to other restructuring measures. The operating profit of the Newsprint segment and Label segment includes restructuring income of € 5 million and restructuring income of € 4 million, respectively. In Wood Products segment, the operating profit includes a gain of € 6 million on sale of estate assets. The operating profit in Other Operations includes capital gains of € 42 million related to the sale of UPM-Asunnot, € 29 million related to the sale of Walki Wisa, and € 58 million on the sale of port operators Rauma Stevedoring and Botnia Shipping, compensation charges of € 12 million related to class-action lawsuits in US, impairment charges of € 31 million related mainly to Miramichi's forestry and sawmilling operations, and other restructuring costs of € 5 million.

³⁾ Income taxes include a charge of € 123 million from a reduction in the deferred tax assets of Miramichi due to write-down of tax assets and a decrease in the income tax rate in Canada, an income of € 25 million from the decrease of deferred tax liabilities relating to the impairment of goodwill of Magazine Papers, and an income of € 27 million relating mainly to reversal of tax provisions.

⁴⁾ Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, investments in energy shares under available-for-sale investments, inventories and trade receivables.

⁵⁾ Segment liabilities include trade payables and advances received.

⁶⁾ Capital expenditure include goodwill arisen in business combinations, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint venture.

⁷⁾ Capital employed is segment assets less segment liabilities. Other Operations includes the Forestry Department: € 1,473 million and the Energy Department in Finland: € 970 million. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

⁸⁾ The formula for calculation of the return on capital employed; segments: Operating profit/Capital employed (average) x 100, the Group: (Profit before tax + interest expenses and other finance costs) / (Balance sheet total – non-interest-bearing liabilities (average)) x 100.

Primary reporting format – Segment data for the year ended 31 December 2006

€m	Magazine Papers	Newsprint	Fine and Specialty Papers	Label Materials	Wood Products	Other Operations ¹⁾	Eliminations	Group
External sales	3,237	1,433	2,315	987	1,226	824	–	10,022
Internal sales	117	3	245	–	95	–1	–459	–
Total sales	3,354	1,436	2,560	987	1,321	823	–459	10,022
Share of results of associates and joint ventures	–	–	–	–	–	61	–	61
Operating profit ²⁾	–56	148	108	61	144	131	–	536
Gains on available-for-sale investments, net								–2
Finance costs, net								–167
Income taxes ³⁾								–29
Profit for the period								338
Assets ⁴⁾	3,964	2,033	2,903	546	631	2,383	–209	12,251
Associates and joint ventures ⁴⁾	–	–	–	–	–	1,177	–	1,177
Unallocated assets	–	–	–	–	–	–	–	1,041
Total assets								14,469
Liabilities ⁵⁾	221	129	237	147	77	174	–209	776
Unallocated liabilities	–	–	–	–	–	–	–	6,404
Total liabilities								7,180
Other items								
Depreciation and amortisation	376	190	218	31	43	32	–	890
Impairment charge	228	–	19	1	–	–	–	248
Capital expenditure ⁶⁾	155	145	189	63	39	108	–	699
Capital employed, 31 December ⁷⁾	3,743	1,905	2,666	399	554	3,386	–1,019	11,634
Capital employed, average	4,010	1,921	2,760	388	616	–	–	12,142
Return on capital employed, % ⁸⁾	–1.4	7.7	3.9	15.6	23.4	–	–	4.7

¹⁾ Sales include only sales outside the Group. Internal sales to segments amount to € 1,566 million, consisting mainly of raw wood sales and the Energy Department in Finland.

²⁾ The operating profit of the Magazine paper segment includes personnel charges of € 28 million related to the profitability programme, impairment charges of € 116 million related to the closure of the Voikkaa paper mill, impairment charges of € 115 million for Miramichi, and other income net of € 6 million, primarily including a capital gain of € 10 million on the sale of Rauma power plant. Related to the profitability programme, the operating profit of the Newsprint segment and Fine and Specialty Papers segment includes restructuring charges of € 7 million, and personnel and impairment charges of € 41 million, respectively. In Wood Products segment, the operating profit includes a loss of € 10 million from the sale of the Loulay plywood mill and a capital gain of € 93 million on the sale of Puukeskus. The operating profit in Other Operations includes a capital gain of € 41 million of the Group head office real estate, a donation of € 5 million and restructuring charges of € 7 million.

³⁾ Income taxes comprise a charge of € 22 million related to the decrease of deferred tax assets due to the reduction of income tax rate in Canada, a € 20 million income due to an increase in deferred tax assets related to the change in the Group's structure in Canada, a € 28 million income due to the change in German tax legislation.

⁴⁾ Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, investments in energy shares under available-for-sale investments, inventories and trade receivables.

⁵⁾ Segment liabilities include trade payables and advances received.

⁶⁾ Capital expenditure include goodwill arisen in business combinations, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint venture.

⁷⁾ Capital employed is segment assets less segment liabilities. Other Operations includes the Forestry Department: € 1,369 million and the Energy Department in Finland: € 1,004 million. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

⁸⁾ The formula for calculation of the return on capital employed; segments: Operating profit/Capital employed (average) x 100, the Group: (Profit before tax + interest expenses and other finance costs) / (Balance sheet total – non-interest-bearing liabilities (average)) x 100.

Personnel (average) by segment

	Year ended 31 December	
	2007	2006
Magazine Papers	6,776	7,869
Newsprint	3,209	3,361
Fine and Speciality Papers	6,469	6,680
Label Materials	2,707	2,574
Wood Products	5,590	6,158
Other Operations	3,495	4,397
Total	28,246	31,039
Personnel at year end	26,352	28,704

Secondary reporting format**External sales by destination**

€m	Year ended 31 December	
	2007	2006
Germany	1,707	1,587
United Kingdom	1,203	1,223
Finland	865	920
France	607	661
Other EU countries	2,418	2,247
Other European countries	493	661
United States	1,140	1,124
Canada	115	126
China	382	364
Rest of world	1,105	1,109
Total	10,035	10,022

Total external assets by country

€m	As at 31 December	
	2007	2006
Germany	2,830	3,028
United Kingdom	642	702
Finland	7,197	6,779
France	568	612
Other EU countries	646	682
Other European countries	145	131
United States	620	660
Canada	233	735
China	801	909
Rest of world	271	231
Total	13,953	14,469

Capital expenditure by country

€m	Year ended 31 December	
	2007	2006
Germany	23	123
United Kingdom	28	52
Finland	439	255
France	31	74
Russia	11	4
Other European countries	43	11
North America	62	46
China	17	45
Rest of world	54	89
Total	708	699

5 NOTES TO THE CASH FLOW STATEMENT**Acquisitions and disposals**

In 2007 and 2006, no acquisitions were made.

In April 2007, UPM sold the real estate company UPM-Asunnot Oy for € 73 million, which generated a pre-tax capital gain of € 42 million. In June 2007, UPM sold Walki Wisa group, a producer of wrappings and composite materials for industrial applications, for € 79 million. A tax exempt capital gain of € 29 million was recognised on the sale. In October 2007, UPM sold its Finnish port operators Oy Rauma Stevedoring Ltd and Oy Botnia Shipping Ab. A tax exempt capital gain of € 58 million was recognised on the sale.

In June 2006, UPM sold the Group Head Office real estate for € 77 million, which generated a pre-tax capital gain of € 41 million. In August 2006, UPM sold its Finnish building merchant Puukeskus Oy, part of the Wood Products segment, to the private equity investor Triton and Puukeskus's management. A tax exempt capital gain of € 93 million was recognised on the sale.

None of these disposals are classified as discontinued operations.

Net assets and liabilities of disposals

€m	Year ended 31 December	
	2007	2006
Cash and cash equivalents	2	6
Other intangible assets	7	2
Property, plant and equipment	68	63
Investment property	17	–
Shares	–	1
Inventories	44	36
Receivables	52	55
Accounts payable and other liabilities	–47	–42
Interest-bearing liabilities	–65	–36
	78	85
Gain/loss on disposal	129	124
Total consideration	207	209
Settled in cash and cash equivalents	207	209
Cash and cash equivalents in subsidiary disposed	–2	–6
Net cash inflow arising from disposals	205	203

Adjustments to profit for the period

€m	Year ended 31 December	
	2007	2006
Taxes	211	29
Depreciation, amortisation and impairment charges	1,224	1,138
Share of results in associated companies and joint ventures	–43	–61
Profits and losses on sale of fixed assets and investments	–157	–157
Gains on available-for-sale investments, net	–2	2
Finance costs, net	193	167
Rosenlew cartel fine	–	–57
Other adjustments	–36	134
	1,390	1,195

Change in working capital

Inventories	–152	–60
Current receivables	–129	–69
Current non-interest bearing liabilities	77	150
	–204	21

6 OTHER OPERATING INCOME

€m	Year ended 31 December	
	2007	2006
Gains on sale of non-current assets ¹⁾	160	172
Rental income, investment property	6	12
Rental income, other	7	8
Emission allowances received (Note 7)	–	18
Derivatives held for trading	22	17
Other	5	4
	200	231

¹⁾ Year 2007 includes a capital gain of € 42 million on the sale of UPM-Asunnot Oy, a capital gain of € 29 million on the sale of Walki Wisa group and a capital gain of € 58 million on the sale of Oy Rauma Stevedoring Ltd and Oy Botnia Shipping Ab. Year 2006 includes a capital gain of € 41 million on the sale of Group Head Office real estate and a capital gain of € 93 million on the sale of Puukeskus Oy.

7 COSTS AND EXPENSES

€m	Year ended 31 December	
	2007	2006
Change in inventories of finished goods and work in progress	–41	–92
Production for own use	–34	–24
	–75	–116
Materials and services		
Raw materials, consumables and goods		
Purchased during the period	5,360	4,997
Change in inventories	–52	42
External services ¹⁾	744	745
	6,052	5,784
Personnel expenses		
Salaries and fees	1,163	1,218
Share-based payments (Note 37)	15	7
Indirect employee costs		
Pension costs-defined benefit plans (Note 29)	44	42
Pension costs-defined contribution plans	125	170
Other post-employment benefits (Note 29)	3	4
Other indirect employee costs ²⁾	159	175
	331	391
Other operating costs and expenses		
Rents and lease expenses	50	56
Emission expenses (Note 6)	–1	10
Losses on sale of non-current assets	4	15
Other operating expenses ³⁾	1,111	1,149
	1,164	1,230
Costs and expenses, total	8,650	8,514

¹⁾ External services comprise mainly distribution costs of products sold.

²⁾ Other indirect employee expenses include primarily other statutory social expenses, excluding pension expenses.

³⁾ Other operating expenses include, among others, energy and maintenance expenses as well as expenses relating to services and the company's administration.

The research and development costs included in costs and expenses were € 50 (2006: € 44) million.

Remuneration paid to the members of the Board of Directors and the Executive Team

Shareholdings (no. of shares) and fees of the Board of Directors

€ 1,000	Shareholding	Year ended 31 Dec.	
	31.12.2007	2007	2006
Board members			
Vesa Vainio, Chairman	18,458	175	160
Berndt Brunow, Vice Chairman	267,620	120	110
Jorma Ollila, Vice Chairman	37,200	120	110
Michael C. Bottenheim	11,408	120	110
Karl Grotenfelt	13,147	95	85
Georg Holzhey	433,546	95	85
Wendy E. Lane	4,458	95	85
Ursula Ranin	3,520	95	85
Veli-Matti Reinikkala	2,380	95	–
Françoise Sampermans	7,147	95	85
Jussi Pesonen, President and CEO	34,514	–	–

Former Board members

Martti Ahtisaari	–	–	85
Total	833,398	1,105	1,000
of which in company shares		442	–

In accordance with the decision made by the 2007 Annual General Meeting, the fees of the Board members who do not belong to the operative management were: the Chairman of the Board of Directors received a fee of € 175,000 for the year (2006: € 160,000), the Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee a fee of € 120,000 (2006: € 110,000), and the members of the Board of Directors a fee of € 95,000 (2006: € 85,000). Of this fee in 2007 60% was paid in cash and 40% in the form of company shares purchased on the members' behalf.

Executive team remuneration

€ 1,000	Year ended 31 December	
	2007	2006
<i>President and CEO Jussi Pesonen</i>		
Remuneration		
Salaries	984	883
Incentives	210	–
Share rewards	555	–
Benefits	20	16
Total	1,769	899
Pension costs		
Finnish TyEL scheme	206	161
Voluntary pension plan	123	154
Total	329	315

The former President and CEO, Juha Niemelä received termination benefits amounting to € 490 thousand, and contributions paid to the voluntary pension plan amounted to € 1,883 thousand in 2006.

The 13 (2006: 14) members of the Executive Team, including President and CEO, were paid salaries and fringe benefits totalling € 6.2 (2006: € 5.5) million, of which € 0.7 (2006: € 0.3) million were paid as bonuses. The remunerations paid are based on the performance of the Executive Team members in the previous year. In addition, under the Group's share ownership plan, the Executive Team members were given remuneration in form of shares. The share rewards paid amounted to € 2.8 million in 2007 (2006: 0).

According to the company's pay scheme, CEO can be paid an

18 months' maximum reward, and the other executives can be paid a performance-related reward amounting to not more than twelve months' salary. In addition, the members of the Executive Team are also entitled to participate in the company's stock option plans. The expenses recognised in income statement in respect of share-based payments were € 4.6 million (2006: € 0.8 million) including share options of € 2.6 million (2006: € 0.8 million) and share rewards of € 2.0 million (2006: € 0 million).

The retirement age of President and CEO Jussi Pesonen is 60 years. Depending on the service contracts, the retirement age of the other members of the Executive Team is 62-63 years. The target pension is 60% of the average indexed earnings from the last ten years. The costs of lowering the retirement age or supplementing statutory pension security are generally covered by voluntary pension insurance. The expenses of the Executive team members' defined benefit pension plans in 2007 were € 1.1 (2006: € 0.9) million, and the expenses of their defined contribution plans were € 0.9 (2006: € 0.8) million.

Members of the Executive Team have certain benefits in the event of their service contracts being terminated prior to the expiration date stated in them. If UPM-Kymmene Corporation gives notice of termination to Jussi Pesonen, the President and CEO, a severance compensation of 24 months' basic salary will be paid, in addition to the six months' salary for the notice period. For other members of the Executive team, the period for additional severance compensation is 12 months in addition to the six months' salary for the notice period.

The President and CEO is appointed by the Board of Directors.

If there is a change of control in UPM-Kymmene Corporation as defined in the service contracts, each member of the Executive Team may terminate such service contract within one month or, in the case of Jussi Pesonen within three months, from the date of the event that triggered the change of control, and shall receive compensation equivalent to 24 months' basic salary.

Audit fees

€m	Year ended 31 December	
	2007	2006
Audit fees	3.4	4.9
Audit related fees	0.5	1.6
Tax consulting fees	1.0	1.3
Total	4.9	7.8

8 CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS AND WOOD HARVESTED

€m	Year ended 31 December	
	2007	2006
Biological assets harvested during the period	-116	-107
Fair value change of biological assets	195	-19
Total	79	-126

9 SHARE OF RESULTS OF ASSOCIATED COMPANIES AND JOINT VENTURES

€m	Year ended 31 December	
	2007	2006
Oy Metsä-Botnia Ab	58	69
Pohjolan Voima Oy	-14	-14
Others	-1	6
Total	43	61

10 DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

€m	Year ended 31 December	
	2007	2006
Depreciation on property, plant and equipment		
Buildings	97	101
Machinery and equipment	628	671
Other tangible assets	33	32
	758	804
Depreciation on investment property		
Buildings	1	1
Amortisation of intangible assets		
Intangible rights	17	16
Other intangible assets	55	69
	72	85
Impairment charges on property, plant and equipment		
Land areas	1	-
Buildings	6	62
Machinery and equipment	21	177
Other tangible assets	15	4
	43	243
Impairment of intangible assets		
Goodwill	350	-
Intangible rights	8	-
Emission allowances	2	-
Other intangible assets	2	5
	362	5
Impairment reversal		
Machinery and equipment	-12	-
Depreciation, amortisation and impairment charges, total	1,224	1,138

In 2007, impairments include in Magazine Papers segment, an impairment of goodwill of € 350 million. For goodwill test, see Note 16.

In June 2007, UPM decided to close the Miramichi magazine paper mill temporarily for nine to twelve months. Due to continued poor financial prospects, primarily due to the strengthened Canadian dollar in relation to the US dollar, and the increased cost of essential raw materials such as wood and chemicals, UPM decided in December 2007 to close the mill permanently. These decisions resulted in impairment charges of € 22 million related to Miramichi's paper mill, and € 19 million related to Miramichi's sawmilling and forestry operations reported in Other Operations. In addition, other impairment charges of € 12 million were recorded in Other Operations.

In 2006, impairments of fixed assets include € 135 million impairment charges in respect of production capacity close-downs and restructuring measures in Finland, and a € 115 million impairment charge relating to the Miramichi paper mill.

Impairment reversals relate to machinery and equipment in Magazine Papers which have been written off in prior years, and which UPM is planning to reuse.

11 GAINS ON AVAILABLE-FOR-SALE INVESTMENTS, NET

€m	Year ended 31 December	
	2007	2006
Fair value gains and losses on disposals	2	2
Impairment	–	–4
Total	2	–2

In 2006, the impairment loss on available-for-sale investments relates to shares for which the fair value has declined permanently below its cost.

12 FINANCE COSTS

€m	Year ended 31 December	
	2007	2006
Exchange rate and fair value gains and losses		
Derivatives held for trading	–131	–71
Fair value gains on derivatives designated as fair value hedges	7	–130
Fair value adjustment of borrowings attributable to interest rate risk	–7	149
Foreign exchange gain on financial liabilities measured at amortised cost ¹	187	151
Foreign exchange loss on loans and receivables	–58	–81
	–2	18

Interest and other finance costs, net

Interest expense on financial liabilities measured at amortised cost	–221	–238
Interest income on derivative financial instruments	31	48
Interest income on loans and receivables	5	7
Gains and losses on sale of associated companies and joint ventures shares	2	10
Other financial expenses	–8	–12
	–191	–185
Total	–193	–167

Net gains and losses on derivative financial instruments included in the operating profit

€m	Year ended 31 December	
	2007	2006
Derivatives designated as cash flow hedges	44	–10
Derivatives held for trading	22	17
Total	66	7

The aggregate foreign exchange gains and losses included in the consolidated income statement

€m	Year ended 31 December	
	2007	2006
Sales	33	–25
Costs and expenses	6	20
Net financial items	–4	–8
Total	35	–13

13 INCOME TAXES

€m	Year ended 31 December	
	2007	2006
Major components of tax expenses		
Current tax expense	162	187
Change in deferred taxes (Note 28)	49	–158
Income taxes, total	211	29

€m	Year ended 31 December	
	2007	2006
Income tax reconciliation statement		
Profit before tax	292	367
Computed tax at Finnish statutory rate of 26 %	76	95
Difference between Finnish and foreign rates	–16	–2
Non-deductible expenses and tax exempt income	50	–20
Tax loss with no tax benefit	5	1
Results of associated companies	–12	–16
Change in tax legislation	4	–5
Other	104	–24
Income taxes, total	211	29
Effective tax rate	72.3 %	7.8 %

Income taxes for 2007 include an € 25 million income from a decrease of deferred tax liabilities relating to an impairment of goodwill of Magazine Papers. Change in tax legislation includes a tax expense of € 25 million due to a decrease of tax rate in Canada and a tax income from tax rate changes in Germany and the UK. Other items include a charge of € 123 million from a reduction of deferred tax assets in Canada (of which € 98 million from book over tax depreciation), relating to the closing decision of the Miramichi paper mill.

Income taxes for 2006 include tax expense of € 22 million due to a decrease in the income tax rate in Canada and a tax income of € 28 million from a tax receivable arising from the change in German tax legislation. Other items include a tax income of € 20 million due to an increase in deferred tax assets related to the change in the Group's structure in Canada. Profit before taxes for 2006 includes tax-exempt capital gains totalling € 93 million.

14 EARNINGS PER SHARE

	Year ended 31 December	
	2007	2006
Profit attributable to the parent company's shareholders, €m	85	340
Average weighted number of shares (1,000)	522,867	523,220
Basic earnings per share, €	0.16	0.65
For the diluted earnings per share the number of shares is adjusted by the effect of the share options		
Profit attributable to the parent company's shareholders, €m	85	340
Profit used to determine diluted earnings per share, €m	85	340
Average weighted number of shares (1,000)	522,867	523,220
Effect of options ¹⁾	2,862	2,821
Average weighted number of shares for diluted earnings per share (1,000)	525,729	526,041
Diluted earnings per share, €	0.16	0.65

¹⁾ The dilution effect is calculated to determine the number of shares that could have been acquired at fair value (the average price for shares traded) based on the monetary subscription rights of the outstanding options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the options. 3.0 million shares exercisable with options (2006: 7.3 million) were excluded from the calculation of diluted earnings per share as they were not dilutive.

15 DIVIDEND PER SHARE

The dividends paid in 2007 and 2006 were € 392 million (€ 0.75 per share) and € 392 million (€ 0.75 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of € 384 million (€ 0.75 per share) will be paid in respect of 2007.

16 GOODWILL

€m	As at 31 December	
	2007	2006
Acquisition cost at 1 Jan.	1,514	1,514
Disposals	-1	-
Acquisition cost at 31 Dec.	1,513	1,514
Impairment at 1 Jan.	-	-
Impairment charges	-350	-
Accumulated impairment at 31 Dec.	-350	-
Carrying value at 1 Jan.	1,514	1,514
Carrying value at 31 Dec.	1,163	1,514

The carrying value of goodwill is divided among the following groups of cash generating units

€m	As at 31 December	
	2007	2006
Magazine Papers	565	915
Newsprint	475	475
Fine Papers	102	102
Others	21	22
	1,163	1,514

Impairment tests

The company prepares impairment test calculations annually. The key assumptions for calculations are those regarding the business growth outlooks, product prices, cost development, and the discount rate.

Business growth outlooks are based on general forecasts for the businesses in question. Ten-year forecasts are used in the calculations as the nature of the company's business is long-term due to its capital intensity, and exposed to cyclical changes. In estimates of product prices and cost development, the budgets prepared by management for the next year and estimates made for the following nine years are taken into consideration. The company's recent profitability trend is taken into account in the forecasts. In addition, when preparing estimates, consideration is given to the investment decisions made by the company as well as the profitability programmes that the Group has implemented and the views of knowledgeable experts of the industry on the long-term development of demand and prices. Discount rate is estimated using the weighted average cost of capital on the calculation date adjusted for risks specific to businesses in question. The pre-tax discount rates used in 2007 for Magazine Papers, Newsprint and Fine Papers were 8.40%, 8.26% and 8.55% (2006: 8.72%, 9.60% and 9.14%), respectively.

The recoverable amount of groups of cash generating units is determined based on value in use calculations.

The estimated product prices are the most important assumptions in impairment tests. A hypothetical 2% decrease in product prices used in impairment tests would lead to a recognition of impairment loss against goodwill approximately by € 300 million in Magazine Papers, and a 4% decrease approximately by € 100 million in Newsprint. In Fine Papers, a hypothetical decrease of 3% in

product prices used in impairment test would lead to an impairment of the entire goodwill of € 102 million. Group believes that any reasonably possible change in the other key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of cash-generating units.

In June 2007, mostly because of the continuing low magazine paper prices and the unfavourable developments of exchange rates, especially that of the US dollar, there was an indication of impairments of goodwill in Magazine Papers segment. The impairment test for goodwill was performed on the level of cash generating unit, for Magazine Papers segment. To identify the recoverable amount which is the value in use, the impairment test was conducted using the discounted cash-flow method. Based on forecasts and projections of pre-tax cash-flows, the value in use was determined applying a pre-tax discount rate of 8.60%. Since the recoverable amount had fallen below the carrying amount of Magazine Papers segment, an impairment charge of € 350 million was recognised in the Group's income statement 2007.

In 2006, no impairments were recognised in goodwill tests.

17 OTHER INTANGIBLE ASSETS

€m	As at 31 December	
	2007	2006
Intangible rights		
Acquisition cost at 1 Jan.	411	394
Additions	5	2
Disposals	-2	-2
Reclassifications	-1	19
Translation differences	-1	-2
Acquisition cost at 31 Dec.	412	411
Accumulated amortisation and impairment at 1 Jan.	-124	-110
Amortisation	-17	-16
Disposals	1	2
Impairment charges	-8	-
Reclassifications	1	-
Accumulated amortisation and impairment at 31 Dec.	-147	-124
Carrying value at 1 Jan.	287	284
Carrying value at 31 Dec.	265	287
Other intangible assets ¹⁾		
Acquisition cost at 1 Jan.	511	508
Additions	16	6
Disposals	-20	-34
Reclassifications	22	33
Translation differences	-4	-2
Acquisition cost at 31 Dec.	525	511
Accumulated amortisation and impairment at 1 Jan.	-364	-326
Amortisation	-55	-69
Impairment charges	-2	-4
Disposals	15	30
Reclassifications	-3	4
Translation differences	2	1
Accumulated amortisation and impairment at 31 Dec.	-407	-364
Carrying value at 1 Jan.	147	182
Carrying value at 31 Dec.	118	147

€m	As at 31 December 2007	2006
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	11	33
Additions	18	16
Disposals	-3	-
Reclassifications	-17	-38
Acquisition cost at 31 Dec.	9	11
Carrying value at 1 Jan.	11	33
Carrying value at 31 Dec.	9	11
Emission allowances		
Acquisition cost 1 Jan.	16	36
Additions ²⁾	1	19
Disposals and settlements	-15	-39
Impairment charges	-2	-
Acquisition cost 31 Dec.	-	16
Carrying value at 1 Jan.	16	36
Carrying value at 31 Dec.	-	16
Other intangible assets, total	392	461

¹⁾ Other intangible assets consist primarily of capitalised software assets.

²⁾ Additions include allowances received free of charge.

Water rights

Intangible rights include € 189 million (2006: € 189 million) in respect of the water rights of hydropower plants belonging to the Other Operations segment. The water rights of power plants are deemed to have an indefinite useful life as the company has a contractual right to exploit water resources in the energy production of power plants. The values of water rights are tested annually for impairment.

18 PROPERTY, PLANT AND EQUIPMENT

€m	As at 31 December 2007	2006
Land and water areas		
Acquisition cost at 1 Jan.	361	357
Additions	7	14
Disposals	-16	-11
Reclassifications	-	2
Translation differences	-2	-1
Acquisition cost at 31 Dec.	350	361
Accumulated depreciation and impairment at 1 Jan.	-7	-4
Impairment charges	-1	-3
Accumulated depreciation and impairment at 31 Dec.	-8	-7
Carrying value at 1 Jan.	354	353
Carrying value at 31 Dec.	342	354
Buildings		
Acquisition cost at 1 Jan.	2,941	3,062
Additions	66	45
Disposals	-71	-182
Reclassifications	33	36
Translation differences	-27	-20
Acquisition cost at 31 Dec.	2,942	2,941

€m	As at 31 December 2007	2006
Accumulated depreciation and impairment at 1 Jan.	-1,447	-1,382
Depreciation	-96	-101
Impairment charges	-6	-59
Disposals	32	87
Reclassifications	11	2
Translation differences	7	6
Accumulated depreciation and impairment at 31 Dec.	-1,499	-1,447
Carrying value at 1 Jan.	1,494	1,680
Carrying value at 31 Dec.	1,443	1,494

Machinery and equipment

Acquisition cost at 1 Jan.	12,545	12,911
Additions	209	315
Disposals	-239	-732
Reclassifications	174	167
Translation differences	-139	-116
Acquisition cost at 31 Dec.	12,550	12,545
Accumulated depreciation and impairment at 1 Jan.	-8,377	-8,181
Depreciation	-623	-667
Impairment charges	-21	-174
Impairment reversal	12	-
Disposals	203	565
Reclassifications	1	26
Translation differences	84	54
Accumulated depreciation and impairment at 31 Dec.	-8,721	-8,377
Carrying value at 1 Jan.	4,168	4,730
Carrying value at 31 Dec.	3,829	4,168

Other tangible assets

Acquisition cost at 1 Jan.	879	874
Additions	29	21
Disposals	-17	-9
Reclassifications	9	-1
Translation differences	-1	-6
Acquisition cost at 31 Dec.	899	879
Accumulated depreciation and impairment at 1 Jan.	-666	-649
Depreciation	-33	-32
Disposals	16	16
Reclassifications	1	-1
Impairment charges	-14	-3
Translation differences	-	3
Accumulated depreciation and impairment at 31 Dec.	-696	-666

Carrying value at 1 Jan.	213	225
Carrying value at 31 Dec.	203	213

Advance payments and construction in progress

Acquisition cost at 1 Jan.	271	328
Additions	333	209
Disposals	-4	-25
Reclassifications	-235	-238
Translation differences	-3	-3
Acquisition cost at 31 Dec.	362	271

Carrying value at 1 Jan.	271	328
Carrying value at 31 Dec.	362	271

Property, plant and equipment, total	6,179	6,500
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Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease and sale and leaseback contracts:

€m	As at 31 December 2007	2006
Machinery and equipment		
Acquisition cost	53	77
Accumulated depreciation	-34	-45
Carrying value at 31 Dec.	19	32
Leased assets, total	19	32

There is no property, plant and equipment leased to third parties under operating lease contracts.

Capitalised borrowing costs

The borrowing costs capitalised as part of non-current assets amounted to € 10 million in 2007 and € 6 million in 2006. Amortisation of capitalised borrowing costs was € 8 million in 2007 (2006: € 10 million). In 2007 and 2006 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 4.63% (2006: 3.9%), which represents the costs of the loan used to finance the projects.

19 INVESTMENT PROPERTY

€m	As at 31 December 2007	2006
Acquisition cost at 1 Jan.	74	81
Additions	-	3
Disposals	-47	-5
Reclassifications	19	-5
Acquisition cost at 31 Dec.	46	74
Accumulated depreciation and impairment at 1 Jan.	-44	-46
Depreciation	-1	-1
Disposals	28	3
Reclassifications	-15	-
Accumulated depreciation and impairment at 31 Dec.	-32	-44
Carrying value at 1 Jan.	30	35
Carrying value at 31 Dec.	14	30

The fair value of investment property is determined annually on 31 December by the Group. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature of the specific asset.

The fair value of investment property in Finland at 31 December 2007 was € 9 million and the fair value of investment property in other countries at 31 December 2007 was € 11 million. In April 2007, UPM sold real estate company UPM-Asunnot Oy.

In 2006, investment property in Finland included investments in flats and other premises occupied by third parties. The fair value of these flats at 31 December 2006 was € 55 million and approximately 85% of the flats were state-subsidised buildings, for which certain restrictions apply. The fair value of other premises in Finland at 31 December 2006 was € 5 million. The fair value of investment property in other countries at 31 December 2006 was € 13 million.

The amounts recognised in the income statement

€m	Year ended 31 December 2007	2006
Rental income	6	12
Direct operating expenses arising from investment properties that generate rental income	3	6

There were no contractual obligations for future repair and maintenance or purchase of investment property.

All assets under investment property are leased to third parties under operating leasing contracts.

20 BIOLOGICAL ASSETS

€m	As at 31 December 2007	2006
At 1 Jan.	1,037	1,174
Purchases during the period	1	3
Sales during the period	-20	-12
Harvested during the period	-116	-107
Gains and losses arising from changes in fair values	195	-19
Translation differences	-2	-2
At 31 Dec.	1,095	1,037

The pre-tax discount rate used in determining the fair value in 2007 was 7.50% (2006: 7.50%). A 1% decrease (increase) in discount rate would increase (decrease) the fair value of biological assets by approximately € 130 million.

21 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

€m	As at 31 December 2007	2006
At 1 Jan.	1,177	1,034
Increases	27	126
Decreases	-2	-8
Share of results after tax	43	61
Dividends received	-23	-16
Translation differences	-29	-20
At 31 Dec.	1,193	1,177

Investments in associated companies at 31 December 2007 include goodwill of € 51 million which relates to Pohjolan Voima Oy's shares (2006: € 51 million).

€m	As at 31 December 2007	2006
Sale and leaseback contracts included in investments in associated companies		
Acquisition cost	13	13
Accumulated increases	4	5
Carrying value at 31 Dec.	17	18

Associated companies and joint ventures

	Group holding percentage %		Carrying value	
	2007	2006	2007	2006
Associated companies				
Austria Papier Recycling Ges.m.b.H., AT	33.30	33.30	–	–
Oy Keskuslaboratorio-Centrallaboratorium Ab, FI	38.65	38.65	1	1
Oy Metsä-Botnia South America S.A., UY ²⁾	12.40	12.40	76	70
Oy Metsä-Botnia Ab, FI	47.00	47.00	576	558
Paperinkeräys Oy, FI	22.98	22.98	3	3
Pohjolan Voima Oy, FI	41.99	42.19	502	509
Powest Oy, FI ¹⁾	9.98	9.98	15	18
RETS Timber Oy Ltd, FI	50.00	50.00	1	1
Steveco Oy, FI	34.32	34.32	9	8
Others			4	3
At 31 Dec.			1,187	1,171
Joint ventures				
Kainuun Voima Oy, FI	50.00	50.00	6	6
			6	6
Associated companies and joint ventures at 31 Dec.				
			1,193	1,177

¹⁾ The Group's share of the voting right in Powest Oy is 0.61% (2006: 0.61%). The Group is entitled to 51.22% (2006: 51.22%) of the respective dividends of Powest Oy.

²⁾ Oy Metsä-Botnia South America S.A. is a subsidiary of UPM's associated company Oy Metsä-Botnia Ab

Pohjolan Voima Oy ("PVO") holds a 57.94% shareholding in Teollisuuden Voima Oy ("TVO"), which owns and operates nuclear power plants in Olkiluoto, Finland. The operation of a nuclear power plant involves potential costs and liabilities related to decommissioning and dismantling of the nuclear power plant and storage and disposal of spent fuel, and is governed by international, European Union and local nuclear regulatory regimes. Pursuant to the Finnish Nuclear Liability Act, the operator of a nuclear facility is strictly liable for damage resulting from a nuclear incident at the operator's installation or occurring in the course of transporting nuclear fuels. Shareholders of power companies that own and operate nuclear power plants are not subject to liability under the Nuclear Liability Act. In Finland, the future costs of conditioning, storage and final disposal of spent fuel, management of low and intermediate-level radioactive waste and nuclear power plant decommissioning are the responsibility of the operator. Reimbursements of the operators' costs related to decommissioning and dismantling of the power plant and storage and disposal of spent fuel are provided for by state-established funds funded by annual contributions from nuclear power plant operators. Pursuant to PVO and TVO shareholders' agreements, the Group bears its proportionate share of the costs related to decommissioning and dismantling of the nuclear power plant and storage and disposal of spent fuel through the price of electricity acquired from PVO. The contributions to such funds are intended to be sufficient to cover estimated future costs. If the actual costs deviate from fund provisions, the Group would be affected accordingly. Fund assets are measured at the lower of the decommissioning obligation and provision for spent fuel recognised and UPM's share of the net assets of the fund attributable to the contributors.

The Group's share of the results of its principal associates and joint ventures, all of which are unlisted, are accounted for using the equity method. The Group's share of the assets, liabilities, sales and results are as follows:

2007				Profit/Loss
€m	Assets	Liabilities	Sales	Loss
Associated companies and joint ventures				
Oy Metsä-Botnia Ab, FI	1,178	526	655	58
Pohjolan Voima Oy, FI	1,189	688	273	-14
Others	183	143	280	-1
Total	2,550	1,357	1,208	43
2006				
€m	Assets	Liabilities	Sales	Profit/Loss
Associated companies and joint ventures				
Oy Metsä-Botnia Ab, FI	1,038	410	627	69
Pohjolan Voima Oy, FI	1,125	618	327	-14
Others	248	206	270	6
Total	2,411	1,234	1,224	61

The amounts representing the Group's share of the assets and liabilities and sales and results of the joint ventures that have been accounted for using the equity method are presented in the table below.

	Year ended 31 December	
€m	2007	2006
The amount of assets and liabilities related to investments in joint ventures		
Non-current assets	30	32
Current assets	3	2
Non-current liabilities	-22	-23
Current liabilities	-4	-4
Net assets	7	7
The income and expenses related to investments in joint ventures		
Sales	15	14
Expenses	-15	-14
Profit	–	–
The average number of employees in the joint ventures		
	45	44

**Transactions and balances
with associates and joint ventures**

€m	Year ended 31 December	
	2007	2006
Sales to associates and joint ventures	130	136
Purchases from associates and joint ventures	500	448
Receivables from associates and joint ventures	29	20
Payables to associates and joint ventures	42	23

**Loan receivables from associates and
joint ventures ¹⁾**

At 1 Jan.	6	11
Loans granted	2	–
Repayments	–2	–5
At 31 Dec.	6	6

¹⁾ Loans to associated companies and joint ventures include current and non-current loan receivables.

22 AVAILABLE-FOR-SALE INVESTMENTS

€m	Year ended 31 December	
	2007	2006
At 1 Jan.	127	153
Additions	–	5
Disposals	–9	–8
Changes in fair values	–2	1
Transferred to associated companies	–	–20
Other changes (impairment)	–	–4
At 31 Dec.	116	127

At 31 December 2007, the available-for-sale investments include only investments in unlisted equity shares. Unlisted shares, where the fair value cannot be measured reliably are carried at cost. The range of reasonable fair value estimates of these shares is significant and the probabilities of the various estimates cannot be reasonably assessed. The fair value of the shares in Kemijoki Oy cannot be reliably measured as the redemption clause in the articles of association of the company limits fair market transactions to third parties. Currently the Group does not have an intention to dispose of this investment.

The fair value of equity investments traded in active markets was € 2 million in 2006. The fair value of equity investments traded in active markets is determined by using quoted prices.

Principal available-for-sale investments

	Number of shares	Group holding percentage	Carrying value 2007	2006
Kemijoki Oy	100,797	4.13	106	106
Listed companies			–	2
Other			10	19
Carrying value of available-for-sale investments at 31 Dec.			116	127

23 NON-CURRENT FINANCIAL ASSETS

€m	As at 31 December	
	2007	2006
Other loan receivables	15	8
Derivative financial instruments	67	66
At 31 Dec.	82	74

There were no loans granted to the Executive Team or managing directors at 31 December 2007 or 2006.

The maximum exposure to credit risk in regard to other loan receivables is their carrying amount.

24 OTHER NON-CURRENT ASSETS

€m	As at 31 December	
	2007	2006
Defined benefit plans (Note 29)	93	45
Other non-current assets	28	28
At 31 Dec.	121	73

25 INVENTORIES

€m	As at 31 December	
	2007	2006
Raw materials and consumables	522	485
Work in progress	58	63
Finished products and goods	687	667
Advance payments	75	40
At 31 Dec.	1,342	1,255

26 TRADE AND OTHER RECEIVABLES

€m	As at 31 December	
	2007	2006
Trade receivables	1,359	1,349
Loan receivables	8	13
Other receivables	137	142
Derivative financial instruments	137	73
Prepayments and accrued income	76	80
At 31 Dec.	1,717	1,657

Aging analysis of trade receivables

€m	As at 31 December	
	2007	2006
Undue	1,181	1,190
Past due up to 30 days	126	116
Past due 31-90 days	31	26
Past due over 90 days	21	17
At 31 Dec.	1,359	1,349

In determining the recoverability of trade receivables the Group considers any change in the credit quality of the trade receivables. There are no indication that the debtors will not meet their payment obligations in regard to trade receivables that are neither past due nor impaired at 31 December 2007. Impairment of trade receivables amounted to € 13 million in 2007 (2006: € 9 million) and is recorded under other costs and expenses. Impairment is recognised when there is objective evidence that the Group is not able to collect the amounts due.

Income from recoveries of trade receivables written off amounted to € 1 million in 2007 (2006: € 4 million).

The maximum exposure to credit risk without taking into account of any credit enhancements is the carrying amounts of trade and other receivables. Prepayments which are not financial instruments are not subject to credit risk as defined in IFRS 7.

Main items included in prepayments and accrued income

€m	As at 31 December	
	2007	2006
Personnel expenses	3	3
Indirect taxes	20	31
Other items	53	46
At 31 Dec.	76	80

27 EQUITY AND RESERVES

Share capital and share premium reserve

€m	Number of shares (1,000)	Share capital	Share premium reserve	Total
At 1 Jan. 2006	523,255	890	826	1,716
Exercise of share options	4	–	–	–
At 31 Dec. 2006	523,259	890	826	1,716
Exercise of share options	5,710	–	–	–
Cancellation of shares purchased	–16,400	–	–	–
Transfer to reserve for invested non-restricted equity	–	–	–776	–776
Transfer to other reserves	–	–	–50	–50
At 31 Dec. 2007	512,569	890	–	890

Shares

At 31 December 2007, the number of the company's shares was 512,569,320. Each share carries one vote. The shares do not have any nominal counter value. The shares are included within the book-entry system for securities.

Due to the change in the Companies' Act the company's Articles of Associations was changed. The Annual General Meeting held on 27 March 2007 decided to delete the mentions concerning the minimum and maximum share capital and the number of shares. In addition, the meeting decided to transfer the company's share premium reserve € 776 million to reserve for invested non-restricted equity. Share premium reserve of other Group companies has been transferred to other reserves.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes, under the Companies' Act, the exercise value of shareholders' investments in the company unless otherwise decided by the Company.

Treasury shares

The Annual General Meeting approved a proposal by the Board of Directors to buy back not more than 52,000,000 own shares. The authorisation is valid for 18 months. The meeting authorised the board to decide on the disposal of shares so acquired as well as on a free issue of shares to the company itself so that the total number of shares to be issued to the company combined with the number of own shares bought back under the buyback authorisation may not exceed 1/10 of the total number of shares of the company. After the decision of the Board of Directors on 20 August 2007, during the period from 29 August to 9 November 2007, the company bought back 16,400,000 of its own shares for € 266.2 million, at an average price of € 16.23. The cancellation of these shares was entered in the trade register on 21 December 2007.

Authorisations to increase the number of shares

The Annual General Meeting authorised the Board of Directors to decide to issue shares and special rights entitling to shares of the company. The number of new shares to be issued, including shares to be obtained under special rights, shall be no more than 250,000,000. Of that amount, the maximum number that can be issued to the company's shareholders based on their pre-emptive rights is 250,000,000 shares and the maximum amount that can be issued deviating from the shareholders' pre-emptive rights in a directed share issue is 100,000,000 shares. The maximum number of new shares to be issued as part of the company's incentive programmes is 5,000,000 shares. The authorisation is valid for no more than three years from the date of the decision. In 2007, this authorisation has not been used.

The meeting also decided on granting share options in connection with the company's share-based incentive plans. In share option programmes 2007A, 2007B, and 2007C, the total number of share options is no more than 15,000,000, and they will entitle to subscribe for, in total, no more than 15,000,000 new shares of the company. In 2007, this authorisation has not been used.

If all the remaining 3,794,550 2002E share options authorised in 2002, are exercised to subscribe all 7,589,100 shares, all 3,000,000 2005F share options, 3,000,000 2005G share options and 3,000,000 2005H share options authorised in 2005 are exercised to subscribe all 9,000,000 shares, and all 15,000,000 share options issued in 2007 are fully exercised, the number of the company's shares will increase by a total of 31,589,100, i.e. by 6.16%.

The shares available for subscription under the Board's share issue authorisation and through the exercise of share options may increase the total number of the company's shares by 54.94%, i.e. by 281,589,100 shares, to 794,158,420 shares.

Redemption clause

Under § 12 of UPM-Kymmene Corporation's Articles of Association, a shareholder who alone or jointly with another shareholder owns 33 1/3 percent or 50 percent or more of all the company's shares or their associated voting rights shall, at the request of other shareholders, be liable to redeem in the manner prescribed in § 12 their shares and any securities that, under the Companies Act, carry the right to such shares.

A resolution of general meeting of shareholders to amend or delete this redemption clause must be carried by shareholders representing not less than three-quarters of the votes cast and shares represented at the meeting.

Fair value and other reserves

€m	As at 31 December 2007	2006
Fair value reserve of available-for-sale investments	–	1
Hedging reserve	46	19
Legal reserve	53	225
Share premium reserve ¹⁾	50	–
Share-based compensation	44	33
At 31 Dec.	193	278

¹⁾ Included in the share premium reserve in balance sheet as at 31 December, 2006.

Changes in hedging reserve

€m	
Hedging reserve at 1 Jan. 2006	–21
Gains and losses on cash flow hedges	61
Transfers to sales	–6
Transfers to depreciation	–
Tax on gains and losses on cash flow hedges	–16
Tax on transfers to income statement	1
Hedging reserve at 31 Dec. 2006	19
Hedging reserve at 1 Jan. 2007	19
Gains and losses on cash flow hedges	91
Transfers to sales	–57
Transfers to initial cost of property, plant and equipment	1
Tax on gains and losses on cash flow hedges	–23
Tax on transfers to income statement	15
Hedging reserve at 31 Dec. 2007	46

28 DEFERRED INCOME TAXES**Reconciliation of the movements of deferred tax asset and liability balances during the period**

€m	As at 1 Jan. 2007	Charged to the income statement	Charged to equity	Translation differences	Acquisitions and disposals	As at 31 Dec. 2007
Deferred tax assets						
Retirement benefit and other provisions	111	–14	–	1	–	98
Intercompany profit in inventory	11	–2	–	–	–	9
Book over tax depreciation	221	–104	–	10	–	127
Tax losses and tax credits carried forward	227	–38	–	6	–	195
Other temporary differences	3	2	–	–	–1	4
Deferred tax assets, total	573	–156	–	17	–1	433
Deferred tax liabilities						
Tax over book depreciation	698	–95	–	–2	–6	595
Fair value adjustments of net assets acquired and biological assets	266	–3	–	–	–	263
Other temporary differences	37	–9	8	–	–	36
Deferred tax liabilities, total	1,001	–107	8	–2	–6	894
The amounts recognised in the balance sheet						
Assets	362	–94	–	17	–1	284
Liabilities	790	–45	8	–2	–6	745
Deferred tax liabilities, less deferred tax assets	428	49	8	–19	–5	461

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Reconciliation of the movements of deferred tax asset and liability balances during the period

€m	As at 1 Jan. 2006	Charged to the income statement	Charged to equity	Translation differences	Acquisitions and disposals	As at 31 Dec. 2006
Deferred tax assets						
Retirement benefit and other provisions	108	6	–	–3	–	111
Intercompany profit in inventory	14	–3	–	–	–	11
Book over tax depreciation	215	28	–	–22	–	221
Tax losses and tax credits carried forward	210	23	–	–6	–	227
Other temporary differences	31	–27	–	–	–1	3
Deferred tax assets, total	578	27	–	–31	–1	573
Deferred tax liabilities						
Tax over book depreciation	772	–75	–	2	–1	698
Fair value adjustments of net assets acquired and biological assets	317	–51	–	–	–	266
Other temporary differences	24	–5	18	–	–	37
Deferred tax liabilities, total	1,113	–131	18	2	–1	1,001
The amounts recognised in the balance sheet						
Assets	352	42	–	–31	–1	362
Liabilities	887	–116	18	2	–1	790
Deferred tax liabilities, less deferred tax assets	535	–158	18	33	–	428

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The deferred income tax charged to equity during the year:

€m	2007	2006
Cash flow hedges	8	15
Net investment hedge	–	3
Total	8	18

At 31 December 2007, the net operating loss carry-forwards for which the Group has recorded a deferred tax asset amounted to € 645 million (2006: € 639 million), of which € 274 million (2006: € 274 million) was attributable to German subsidiaries, € 239 million (2006: € 212 million) to a Canadian subsidiary and € 86 million (2006: € 76 million) to US subsidiaries. In Germany net operating loss carry-forwards do not expire. In other countries net operating loss carry-forwards expire at various dates and in varying amounts. The net operating loss carry-forwards for which no deferred tax asset is recognised due to uncertainty of their utilisation amounted to € 155 million in 2007 (2006: € 38 million). These net operating loss carry-forwards are mainly attributable to Canadian and Chinese subsidiaries. In 2007, there were no capital loss carry-forwards for which no deferred tax asset is recognised due to uncertainty of their utilisation (€ 63 million in 2006).

Upon the decision to close the Miramichi paper mill in December 2007 a write-down of € 123 million deferred tax assets have been recorded due to inability to utilise them before they expire. On 31 December 2007 the Group had deferred tax assets of € 105 million (2006: € 203 million) relating to book over tax depreciation in Canada which do not expire. The Group has implemented a prudent and feasible tax planning strategy to utilise deferred tax assets in Canada.

In 2006, the Group recorded additional deferred tax assets of € 20 million relating to the change in Group's structure in Canada.

No deferred tax liability has been recognised for the undistributed profits of Finnish subsidiaries and associated companies as, in most cases, such earnings are transferred to the Group without any tax consequences.

In addition the Group does not recognise a deferred tax liability in respect of undistributed earnings of non-Finnish subsidiaries to the extent that such earnings are intended to be permanently reinvested in those operations.

29 RETIREMENT BENEFIT OBLIGATIONS

The Group operates a number of defined benefit and contribution plans all over the world.

The most significant pension plan in Finland is the statutory Finnish employee pension scheme (TyEL), according to which benefits are directly linked to the beneficiary's earnings. The TyEL pension scheme is mainly arranged with pension insurance companies.

As a consequence of changes made in the Finnish TyEL scheme, the disability pensions arranged with insurance companies changed from being a defined benefit to a defined contribution plan on 1 January 2006.

In Finland, the pensions of less than 10% of employees are arranged through Group's own pension funds. All schemes managed by the pension funds are classified as defined benefit plans.

The foreign plans include both defined contribution and defined benefit plans.

Defined benefit plans

€m	As at 31 December	
	2007	2006
Defined benefit pension plans	291	327
Other post-employment benefits (medical)	21	23
Net liability	312	350
Other long-term employee benefits	36	32
Overfunded plan shown as asset (Note 24)	93	45
Total liability in balance sheet	441	427

DEFINED BENEFIT PENSION PLANS**The amounts recognised in the balance sheet**

€m	As at 31 December	
	2007	2006
Present value of funded obligations	803	806
Present value of unfunded obligations	373	388
	1,176	1,194
Fair value of plan assets	-753	-681
Unrecognised actuarial gains and losses	-132	-185
Unrecognised past service cost	-	-1
Net liability	291	327

The amounts recognised in the income statement

€m	Year ended 31 December	
	2007	2006
Current service cost	23	23
Interest cost	55	51
Expected return on plan assets	-46	-41
Net actuarial gains and losses recognised during the year	8	7
Past service cost	1	2
Settlements	41	-
Curtailments	-38	-
Total included in personnel expenses (Note 7)	44	42

The actual return on plan assets was € 39 million in 2007 (2006: € 61 million).

Changes in the present value of defined benefit obligations

€m	As at 31 December	
	2007	2006
Defined benefit obligation as of beginning of the year	1,194	1,145
Current service cost	23	23
Interest cost	55	51
Contributions by plan participants	3	4
Actuarial gains and losses	-15	32
Past service cost	-	1
Curtailments and settlements	-15	-
Other adjustments	-	10
Benefits paid	-52	-49
Translation differences	-17	-23
Defined benefit obligation as of end of the year	1,176	1,194

Changes in the fair value of plan assets

€m	As at 31 December	
	2007	2006
Fair value of plan assets as of beginning of the year	681	625
Expected return on plan assets	46	41
Actuarial gains and losses	8	20
Contributions by plan participants	3	4
Contributions by the employer	81	54
Other adjustments	-	2
Benefits paid	-52	-49
Translation differences	-14	-16
Fair value of plan assets as of end of the year	753	681

The Group expects to contribute € 124 million to its defined benefit pension plans in 2008.

The major categories of plan assets as a percentage of total plan assets

	As at 31 December	
	2007	2006
Equity securities	43%	45%
Debt securities	32%	35%
Real estate	6%	6%
Money market	3%	3%
Bonds	16%	11%
Total	100%	100%

In Finland, the pension plan assets include ordinary shares issued by the company with a fair value of € 1 million (2006: € 3 million) and a loan receivable of € 72 million issued to the company (2006: € 168 million) by the company's own fund. The interest paid on the loan in 2007 was € 8 million (2006: € 7 million).

OTHER POST-EMPLOYMENT BENEFITS (MEDICAL)

The Group also funds certain other post-employment benefits in North America relating to retirement medical and life insurance programmes.

The amounts recognised in the balance sheet

€m	As at 31 December	
	2007	2006
Present value of unfunded obligations	27	33
Unrecognised actuarial gains and losses	-6	-10
Net liability	21	23

The amounts recognised in the income statement

€m	Year ended 31 December	
	2007	2006
Current service cost	-	1
Interest cost	2	2
Settlements	1	-
Curtailments	-1	-
Net actuarial gains and losses recognised during the year	1	1
Total included in personnel expenses (Note 7)	3	4

Changes in the present value of defined benefit obligations

€m	As at 31 December	
	2007	2006
Defined benefit obligation as of beginning of the year	33	37
Current service cost	–	1
Interest cost	2	2
Contributions by plan participants	2	2
Actuarial gains and losses	–3	–
Benefits paid	–4	–5
Translation differences	–3	–4
Defined benefit obligation as of end of the year	27	33

Changes in the fair value of plan assets

€m	As at 31 December	
	2007	2006
Fair value of plan assets as of beginning of the year	–	–
Contributions by plan participants	2	2
Contributions by the employer	2	3
Benefits paid	–4	–5
Fair value of plan assets as of end of the year	–	–

The Group expects to contribute € 2 million to its other post-employment benefit plans in 2008.

POST-EMPLOYMENT BENEFITS (PENSION AND MEDICAL)
Post-employment benefits: the principal actuarial assumptions used as at 31 December

€m	Finland		Canada		Germany		US		UK		Other	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Discount rate %	5.00	4.25	4.62	5.20	5.00	4.25	5.40	5.19	5.80	5.13	5.00	4.30
Expected return on plan assets %	6.32	6.15	7.13	7.50	N/A	N/A	4.50	4.50	6.70	7.07	4.41	3.87
Future salary increases %	3.75	3.75	2.04	2.05	2.50	2.50	N/A	N/A	4.04	4.14	2.63	2.55
Future pension increases %	N/A	N/A	–	1.22	2.00	1.50	N/A	N/A	3.07	3.06	0.87	0.86
Expected average remaining working years of participants	12.1	12.3	0.1	11.3	14.2	14.5	11.4	10.2	17.3	17.0	13.1	13.0

For foreign plans, the assumption for the weighted average expected return on plan assets is based on target asset allocation of each plan, historical market performance, relevant forward-looking economic analyses, expected returns, variances, and correlations for different asset categories held. For domestic plans, the overall expected return on plan assets is based on the weighted average of the expected returns on the different asset categories held.

The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation for US plans was 11% in 2007, 10% in 2006, declining to 5% by the year 2013 and remaining at that level thereafter. A one-percentage-point increase and decrease in assumed health care cost trend rates in the US would effect post-employment benefit obligation by € 1 million and € –1 million, correspondingly.

The amounts of pension and other post-employment benefit plans recognised in the balance sheet as at 31 December 2007

€m	Finland	Canada	Germany	US	UK	Other	Total
Present value of funded obligations	249	219	–	28	293	14	803
Present value of unfunded obligations	–	21	310	22	–	47	400
Fair value of plan assets	–296	–187	–	–26	–234	–10	–753
Unrecognised actuarial gains and losses	–36	–3	–24	–4	–67	–4	–138
Net liability	–83	50	286	20	–8	47	312

The amounts of pension and other post-employment benefit plans recognised in the balance sheet as at 31 December 2006

€m	Finland	Canada	Germany	US	UK	Other	Total
Present value of funded obligations	233	208	–	31	322	12	806
Present value of unfunded obligations	–	21	322	29	–	49	421
Fair value of plan assets	–235	–172	–	–30	–234	–10	–681
Unrecognised actuarial gains and losses	–42	–14	–40	–9	–85	–5	–195
Unrecognised past service cost	–	–1	–	–	–	–	–1
Net liability	–44	42	282	21	3	46	350

Amounts for the current and previous periods

€m	As at 31 December		
	2007	2006	2005
Present value of defined benefit obligations	-1,203	-1,227	-1,182
Fair value of plan assets	753	681	625
Funded status	-450	-546	-557
Experience adjustments on plan liabilities	-21	-20	13
Experience adjustments on plan assets	8	20	21

30 PROVISIONS

€m	Closure and restructuring provisions	Termination provisions	Environmental provisions	Reforestation provisions	Tax provisions	Actual emissions, provision	Other provisions	Total
At 1 Jan. 2006	25	54	28	3	18	31	31	190
Translation difference	-1	-	-1	-	-	-	-	-2
Additional provisions and increases to existing provisions	7	56	1	8	1	8	3	84
Utilised during year	-17	-21	-3	-2	-	-25	-12	-80
Unused amounts reversed	-	-5	-	-	-	-	-	-5
At 31 Dec. 2006	14	84	25	9	19	14	22	187
At 1 Jan. 2007	14	84	25	9	19	14	22	187
Translation difference	-	-	-	-	-	-	-2	-2
Additional provisions and increases to existing provisions	14	38	3	-	-	-	9	64
Utilised during year	-7	-20	-5	-	-2	-6	-4	-44
Unused amounts reversed	-3	-4	-2	-	-17	-8	-	-34
At 31 Dec. 2007	18	98	21	9	-	-	25	171

Provisions

Closure and restructuring provisions include charges related primarily to dismantling of closed mills. Termination provisions are concerned with operational restructuring as well as unemployment arrangements and disability pensions primarily in Finland. The unemployment pension provisions have been recognised 2-3 years before the grant and settlement of the pension. Environmental provisions include expenses relating to old mill sites and the remediation of industrial landfills.

In 2007, increases in provisions relate to the closure of the Miramichi paper mill. Closure and restructuring provisions mainly relate to the demolition of the paper mill, and termination provisions include severance and pension charges.

In 2006, UPM started programme to restore its profitability. The programme covers all of the company's operations and includes both streamlining of operations and closures of uncompetitive production capacity. The programme seeks to achieve a reduction of approximately 3,600 employees. A provision amounting to € 35 million relating to unemployment, early retirement and termination arrangements was recognised in 2006.

The company takes part in government programmes aimed at reducing greenhouse gas emissions. In 2007, the Group has recognised a provision amounting to € 0 million (2006: € 14 million) to cover the obligation to return emission allowances. The company possesses emission allowances worth of € 0 million (2006: € 16 million) as intangible assets.

€m	As at 31 December	
	2007	2006
Non-current provisions	76	125
Current provisions	95	62
Total	171	187

31 INTEREST-BEARING LIABILITIES

€m	As at 31 December	
	2007	2006
Non-current Interest-bearing liabilities		
Bonds	2,040	2,244
Loans from financial institutions	951	550
Pension loans	65	213
Trade payables	10	10
Finance lease liabilities	103	115
Derivative financial instruments	119	98
Other liabilities	96	123
	3,384	3,353
Current Interest-bearing liabilities		
Current portion of long-term debt	391	521
Short-term loans	71	105
Derivative financial instruments	123	117
Other liabilities ¹⁾	346	249
	931	992
Total interest-bearing liabilities	4,315	4,345

¹⁾ Includes issued commercial papers of € 318 million in 2007 (2006: € 203 million).

As of 31 December 2007 the contractual maturity of interest-bearing liabilities

€m	2008	2009	2010	2011	2012	2013+	Total
Bonds							
repayments	89	250	59	–	636	1,166	2,200
interests	135	130	114	109	108	487	1,083
	224	380	173	109	744	1,653	3,283
Loans from financial institutions							
repayments	149	56	78	40	517	259	1,099
interests	24	19	17	16	15	40	131
	173	75	95	56	532	299	1,230
Pension loans							
repayments	145	40	15	8	–	–	208
interests	7	2	1	–	–	–	10
	152	42	16	8	–	–	218
Financial leases							
repayments	4	4	4	84	3	8	107
interests	4	4	3	4	1	2	18
	8	8	7	88	4	10	125
Other loans							
repayments	2	1	2	2	1	127	135
interests	8	5	5	5	5	88	116
	10	6	7	7	6	215	251
Interest rate swaps (liabilities)							
repayments	–	–	–	–	–	75	75
interests	3	8	8	8	9	157	193
	3	8	8	8	9	232	268
Current loans							
repayments	417	–	–	–	–	–	417
interests	3	–	–	–	–	–	3
	420	–	–	–	–	–	420
Forwards and swaps (assets and liabilities)							
pay	4,104	72	–	–	–	–	4,176
receive	–4,128	–67	–	–	–	–	–4,195
Net	–24	5	–	–	–	–	–19

Figures based on the exchange rates and interests on the reporting date.

As of 31 December 2006 the contractual maturity of interest-bearing liabilities

€m	2007	2008	2009	2010	2011	2012+	Total
Bonds							
repayments	286	89	250	123	–	1,863	2,611
interests	160	142	137	121	116	657	1,333
	446	231	387	244	116	2,520	3,944
Loans from financial institutions							
repayments	59	144	42	28	42	294	609
interests	27	23	18	16	15	50	149
	86	167	60	44	57	344	758
Pension loans							
repayments	169	145	40	15	8	–	377
interests	15	7	2	1	–	–	25
	184	152	42	16	8	–	402
Financial leases							
repayments	5	5	11	4	84	11	120
interests	7	7	6	6	5	–	31
	12	12	17	10	89	11	151
Other loans							
repayments	3	7	3	4	2	134	153
interests	3	9	6	6	6	104	134
	6	16	9	10	8	238	287
Interest rate swaps (liabilities)							
repayments	31	–	–	–	–	44	75
interests	11	5	7	7	8	120	158
	42	5	7	7	8	164	233
Current loans							
repayments	355	–	–	–	–	–	355
interests	3	–	–	–	–	–	3
	358	–	–	–	–	–	358
Forwards and swaps (assets and liabilities)							
pay	3,029	112	–	–	–	–	3,141
receive	–3,034	–109	–	–	–	–	–3,143
Net	–5	3	–	–	–	–	–2

Figures based on the exchange rates and interests on the reporting date.

Bonds in interest-bearing liabilities

	Interest rate %	Currency of bond	Nominal value issued m	As at 31 Dec.	
				2007 €m	2006 €m
Fixed rate					
1997–2007	6.875	USD	215	–	159
1997–2007	6.625	EUR	102	–	105
1997–2027	7.450	USD	375	279	300
1999–2009	6.350	EUR	250	246	250
2000–2030	3.550	JPY	10,000	7	14
2001–2007	6.875	USD	10	–	7
2002–2007	0.869	JPY	2,000	–	12
2002–2012	6.125	EUR	600	589	603
2002–2014	5.625	USD	500	326	350
2002–2017	6.625	GBP	250	330	361
2003–2018	5.500	USD	250	166	179
				1,943	2,340
Floating-rate					
2002–2008	5.631	EUR	39	39	39
2002–2008	5.387	EUR	50	50	50
2002–2010	5.634	EUR	59	59	59
2002–2012	5.237	EUR	25	25	25
2002–2012	5.787	EUR	11	11	11
				184	184
Bonds, total				2,127	2,524
- current portion				–87	–280
Bonds, long-term portion				2,040	2,244

The interest rate ranges of interest-bearing liabilities

%	As at 31 December	
	2007	2006
Loans from financial institutions	3.55–5.70	3.55–5.77
Pension loans	3.65–7.50	3.65–7.50
Finance lease liabilities	4.10–4.30	2.70–6.90

Fair value hedge of the long-term interest-bearing liabilities

Fair value hedge accounting in accordance with IAS 39 results in a cumulative fair value adjustment totalling € 83 million (2006: € 90 million), which has decreased the carrying amounts of the liabilities.

Interest rate swaps

The Group uses interest rate swap agreements to hedge the interest rate risk relating to long-term loans.

At 31 December, 2007 the fixed interest rates varied from 3.55% to 7.45% (0.87% to 7.45% in 2006) and the floating rates varied from 3.51% to 7.65% (2.48% to 7.09% in 2006).

NET INTEREST-BEARING LIABILITIES

€m	As at 31 December	
	2007	2006
Interest-bearing liabilities, total	4,315	4,345
Interest-bearing financial assets		
Non-current		
Loan receivables	9	5
Available-for-sale investments (listed shares)	–	2
Derivative financial instruments	66	66
Other receivables	6	7
	81	80

€m	As at 31 December	
	2007	2006
Current		
Loan receivables	6	6
Other receivables	9	6
Derivative financial instruments	9	6
Cash and cash equivalents	237	199
	261	217
Interest-bearing financial assets	342	297
Net interest-bearing liabilities	3,973	4,048

Finance lease liabilities

In December 2007, the Group exercised its option and redeemed Kaipola power plant, which decreased lease liability by € 8 million.

In December 2006, the Group exercised its option and redeemed Kymi River power plants which resulted in a decrease of lease liability by € 126 million. As at 31 December 2007 the Group has one power plant acquired under sale and leaseback agreement. The Group uses the electrical power generated by this plant in its own production. Payments of this power plant are due by the end of 2011.

In April 2006, the control over Wisapower Oy was transferred from UPM to Pohjolan Voima Oy, decreasing the lease liability by € 85 million.

In addition the Group leases certain tangible assets under long-term arrangements.

Finance lease liabilities – minimum lease payments

€m	As at 31 December	
	2007	2006
Not later than 1 year	8	12
1–2 years	8	12
2–3 years	7	17
3–4 years	88	10
4–5 years	4	89
Later than 5 years	10	11
	125	151
Future finance charges	–18	–31
Finance lease liabilities – the present value of minimum lease payments	107	120

Finance lease liabilities – the present value of minimum lease payments

€m	As at 31 December	
	2007	2006
Not later than 1 year	8	11
1–2 years	7	11
2–3 years	6	14
3–4 years	75	8
4–5 years	3	68
Later than 5 years	8	8
	107	120

32 OTHER LIABILITIES

€m	As at 31 December 2007	2006
Derivative financial instruments	–	2
Other	12	11
	12	13

Main items included in accrued expenses and deferred income

€m	As at 31 December 2007	2006
Personnel expenses	195	193
Interest expenses	78	28
Indirect taxes	16	21
Other items ¹⁾	209	209
	498	451

¹⁾ Consists mainly of customer rebates.

33 TRADE AND OTHER PAYABLES

€m	As at 31 December 2007	2006
Advances received	47	15
Trade payables	725	727
Amounts due to associates and joint ventures	39	23
Accrued expenses and deferred income	498	451
Derivative financial instruments	33	53
Other current liabilities	101	130
	1,443	1,399

Trade and other payables mature within 12 months.

34 CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES, AS DEFINED IN IAS 39, AND FAIR VALUES

2007 Balance sheet item	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives used for hedging	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Available for sale investments	–	–	116	–	–	116	116	22
Non-current financial assets								
Loan receivables	–	15	–	–	–	15	15	23
Derivative financial instruments	1	–	–	66	–	67	67	23
						82	82	
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,504	–	–	–	1,504	1,504	26
Prepayments and accrued income	–	76	–	–	–	76	76	26
Derivative financial instruments	72	–	–	65	–	137	137	26
						1,717	1,717	
Carrying amount by category	73	1,595	116	131	–	1,915	1,915	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	3,265	3,265	3,388	31
Derivative financial instruments	30	–	–	89	–	119	119	31
						3,384	3,507	
Other liabilities								
Other liabilities	–	–	–	–	12	12	12	32
Derivative financial instruments	–	–	–	–	–	–	–	32
						12	12	
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	808	808	808	31
Derivative financial instruments	123	–	–	–	–	123	123	31
						931	931	
Trade and other payables								
Trade and other payables	–	–	–	–	912	912	912	33
Accrued expenses and deferred income	–	–	–	–	498	498	498	33
Derivative financial instruments	17	–	–	16	–	33	33	33
						1,443	1,443	
Carrying amount by category	170	–	–	105	5,495	5,770	5,893	

2006 Balance sheet item	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Derivatives used for hedging	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Available for sale investments	–	–	127	–	–	127	127	22
Non-current financial assets								
Loan receivables	–	8	–	–	–	8	8	23
Derivative financial instruments	–	–	–	66	–	66	66	23
						74	74	
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,504	–	–	–	1,504	1,504	26
Prepayments and accrued income	–	80	–	–	–	80	80	26
Derivative financial instruments	43	–	–	30	–	73	73	26
						1,657	1,657	
Carrying amount by category	43	1,592	127	96	–	1,858	1,858	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	3,255	3,255	3,572	31
Derivative financial instruments	–	–	–	98	–	98	98	31
						3,353	3,670	
Other liabilities								
Other liabilities	–	–	–	–	11	11	11	32
Derivative financial instruments	2	–	–	–	–	2	2	32
						13	13	
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	875	875	875	31
Derivative financial instruments	117	–	–	–	–	117	117	31
						992	992	
Trade and other payables								
Trade and other payables	–	–	–	–	895	895	895	33
Accrued expenses and deferred income ^{*)}	–52	–	–	–	503	451	451	33
Derivative financial instruments	39	–	–	14	–	53	53	
						1,399	1,399	
Carrying amount by category	106	–	–	112	5,539	5,757	6,074	

^{*)} In 2006 Accrued expenses and deferred income included accrued interest of derivative financial instruments € 52 million.

Fair values of long-term loans, have been estimated as follows:

The fair value of the quoted bonds is based on the quoted market value as of 31 December. The fair value of fixed rate and market-based floating rate loans is estimated using the expected future payments discounted at market interest rates.

The carrying amounts of current financial assets and liabilities approximate their fair value.

35 DERIVATIVE FINANCIAL INSTRUMENTS

Net fair values of derivative financial instruments

€m	2007	As at 31 December 2007	2007	2006
	Positive fair values	Negative fair values	Net fair values	Net fair values
Interest rate swaps				
Fair value hedges	66	–	66	102
Held for trading	48	–	48	–
Forward foreign exchange contracts				
Cash flow hedges	65	–16	49	13
Held for trading	17	–56	–39	–13
Currency options				
Held for trading	3	–1	2	–
Cross currency swaps				
Fair value hedges	–	–89	–89	–157
Held for trading	4	–113	–109	–27
Commodity Contracts				
Held for trading	1	–	1	3
Interest rate forward contracts				
Held for trading	–	–	–	–
	204	–275	–71	–79

Notional amounts of derivative financial instruments

€m	As at 31 December 2007	2006
Interest rate swaps	2,383	2,566
Forward foreign exchange contracts	4,369	4,293
Currency options	110	30
Cross currency swaps	529	570
Commodity contracts	15	29
Interest rate forward contracts	3,642	2,500

36 PRINCIPAL SUBSIDIARIES AS AT 31 DECEMBER 2007

Name of the subsidiary, country of incorporation	Group holding %
Blandin Paper Company, US	100.00
Intune Circuits Oy, FI	62.39
Lignis GmbH & Co. KG, DE	74.90
Nordland Papier GmbH, DE	100.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
PT. Raflatac Indonesia, ID	100.00
Raflatac (Changshu) Co. Ltd, CN	100.00
Silvesta Oy, FI	100.00
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	100.00
ZAO Tikhvinsky Kompleksny Lespromkhoz, RU	99.82
Tilhill Forestry Ltd, GB	100.00
UPM Sähkösiirto Oy, FI	100.00
OOO UPM-Kymmene, RU	100.00
UPM-Kymmene AB, SE	100.00
UPM-Kymmene AG, CH	99.80
UPM-Kymmene AS, NO	100.00
UPM-Kymmene Asia Pacific Pte Ltd, SG	100.00
UPM-Kymmene Austria GmbH, AT	100.00
UPM-Kymmene A/S, DK	100.00
UPM-Kymmene B.V., NL	100.00
OOO UPM-Kymmene Chudovo, RU	100.00
UPM-Kymmene Forest AS, EE	100.00
OOO UPM-Kymmene Forest Russia, RU	100.00

Name of the subsidiary, country of incorporation	Group holding %
UPM-Kymmene France S.A.S., FR	100.00
UPM-Kymmene Inc., US	100.00
UPM-Kymmene India PVT Ltd, IN	100.00
UPM-Kymmene Japan K.K., JP	100.00
UPM-Kymmene Miramichi Inc., CA	100.00
UPM-Kymmene NV/SA, BE	99.60
UPM-Kymmene Otepää AS, EE	100.00
OOO UPM-Kymmene Pestovo, RU	100.00
UPM-Kymmene Papier GmbH & Co. KG, DE	100.00
UPM-Kymmene Plywood S.A.S., FR	100.00
UPM-Kymmene Pty Ltd, AU	100.00
UPM-Kymmene Sales GmbH, DE	100.00
UPM-Kymmene Seven Seas Oy, FI	100.00
UPM-Kymmene Sp.z o.o., PL	100.00
UPM-Kymmene S.A., ES	100.00
UPM-Kymmene S.r.l., IT	100.00
UPM-Kymmene Wood AB, SE	100.00
UPM-Kymmene Wood A/S, DK	99.93
UPM-Kymmene Wood B.V., NL	100.00
UPM-Kymmene Wood GmbH, DE	100.00
UPM-Kymmene Wood Ltd, GB	100.00
UPM-Kymmene Wood Oy, FI	100.00
UPM-Kymmene Wood S.A., ES	100.00
UPM-Kymmene Wood S.A., FR	99.99
UPM-Kymmene (Changshu) Paper Industry Co. Ltd, CN	100.00
UPM-Kymmene (UK) Ltd, GB	100.00
UPM Raflatac Canada Inc., CA	100.00
UPM Raflatac CZ s.r.o., CZ	100.00
UPM Raflatac GmbH, DE	100.00
UPM Raflatac Iberica S.A., ES	100.00
UPM Raflatac Inc., US	100.00
UPM Raflatac Kft., HU	100.00
UPM Raflatac Ltd, GB	100.00
UPM Raflatac Mexico S.A. de C.V., ME	100.00
UPM Raflatac NZ Limited, NZ	100.00
UPM Raflatac Oy, FI	100.00
UPM Raflatac Polska Sp.z o.o., PL	100.00
UPM Raflatac South Africa (Pty) Ltd, ZA	100.00
UPM Raflatac S.A.S., FR	100.00
UPM Raflatac Sdn. Bhd., MY	100.00
UPM Raflatac Pty Ltd, AU	100.00
UPM Raflatac Co., Ltd, TH	100.00
UPM Raflatac (S) Pte Ltd, SG	100.00
Werla Insurance Company Ltd, GB	100.00

The table includes subsidiaries with sales exceeding € 2 million.

37 SHARE-BASED PAYMENTS

Share options granted to key personnel

As authorised by the Annual General Meeting of 19 March 2002, D and E options have been issued to key personnel. Of these, 3,800,000 are designated 2002D and 3,800,000 are designated 2002E. Each option entitles the holder to subscribe two UPM-Kymmene Corporation shares. The subscription period for 2002D options is 1 April 2004 to 30 April 2007 and that for 2002E options 1 April 2005 to 30 April 2008.

The share subscription price is € 43.90 per two shares for 2002D options and € 14.27 per share for 2002E options. The share subscription prices will be reduced by the amount of dividend confirmed after the end of the subscription price determination period

and before the date of share subscription, in each case on the record date for dividend distribution. Share subscriptions based on these options may increase the number of shares by a maximum of 15,200,000.

The Annual General Meeting held on 31 March 2005 approved the Board of Directors' proposal to issue share options to the Group's key personnel. The number of share options is 9,000,000 and these can be exercised to subscribe a maximum total of 9,000,000 UPM-Kymmene Corporation shares. A total of 3,000,000 of the share options are designated 2005F, 3,000,000 2005G and 3,000,000 2005H. The subscription periods are 1 October 2006 to 31 October 2008 for 2005F options, 1 October 2007 to 31 October 2009 for 2005G options, and 1 October 2008 to 31 October 2010 for 2005H options.

The subscription price for 2005F share options is the average trade-weighted price for the company's share on the Helsinki stock exchange between 1 January and 28 February 2005 plus 10 %, i.e. € 18.23 per share. The subscription price for 2005G options is the average trade-weighted share price between 1 January and 28 February 2006 plus 10 %, i.e. € 18.65 per share, and that for 2005H options the average trade-weighted share price between 1 January and 28 February 2007 plus 10 %, i.e. € 21.65 per share. The share subscription prices will be reduced by the amount of dividend confirmed after the end of the subscription price determination period and before the date of share subscription, in each case on the record date for dividend distribution. Share subscriptions based on 2005F, 2005G and 2005H options may increase the number of shares by a total maximum of 9,000,000.

The Annual General Meeting held on 27 March 2007 approved

the Board of Directors' proposal to issue share options to the Group's key personnel. The number of options may not be more than 15,000,000 and they will entitle to subscribe in total no more than 15,000,000 new shares of the company. Of the share options, 5,000,000 shall be marked with the symbol 2007A, 5,000,000 shall be marked with the symbol 2007B and 5,000,000 shall be marked with the symbol 2007C. The subscription periods shall be 1 October 2010 to 31 October 2012 for share options 2007A, 1 October 2011 to 31 October 2013 for share options 2007B, and 1 October 2012 to 31 October 2014 for share options 2007C.

The share subscription price shall be the trade volume weighted average quotation of the share on the OMX Nordic Exchange Helsinki, during 1 April to 31 May 2008 for share option 2007A, during 1 April to 31 May 2009 for share option 2007B, and during 1 April to 31 May 2010 for share option 2007C.

Equity-based rewards scheme

Key personnel of the Group who fall within the scope of the share ownership rewards scheme may be rewarded with UPM-Kymmene shares annually in the calendar years 2005, 2006 and 2007. The reward will be paid in the next year as a combination of shares and cash. Altogether not more than 1,046,400 shares will be given to key personnel on the basis of the scheme. The amount to be paid in cash may be not more than 1.5 times the value of the shares given. The amount of the reward is tied to the achievement of set performance targets.

In 2007, a total of 103,652 shares were given to 65 key employees under the share ownership rewards scheme. Of this amount, 14,500 shares were given to the President and CEO, and a total of 58,368 shares to the other Executive Team members.

Changes in the numbers of share options granted

	2007		2006	
	Weighted average exercise price, €	Number of share options	Weighted average exercise price, €	Number of share options
1 Jan.	15.80	10,305,550	16.55	10,348,700
Share options granted	18.98	5,622,000	16.73	6,500
Share options forfeited	17.93	-12,000	16.73	-47,500
Share options exercised	37.15	-2,853,945	12.02	-2,150
Share options expired	37.15	-775,855	-	-
31 Dec.	15.91	12,285,750	15.80	10,305,550
Exercisable share options		9,544,250		10,305,550

Weighted average remaining contractual life was 17 and 13 months as at 31 December 2007 and 2006, respectively.

Outstanding share option plans as at 31 December 2007

Plan/Distribution of share options	Class	at 1 Jan.	Exercise price at 31 Dec.	Total number of share options	Number of share options granted	Exercise period	Vesting ¹⁾ schedule
2005/2007	H	21.65	20.90	3,000,000	2,741,500	1.10.2008-31.10.2010	1.10.2008
2005/2007	G	17.90	17.15	3,000,000	2,866,000	1.10.2007-31.10.2009	Vested
2005/2007	F	16.73	15.98	3,000,000	2,924,500	1.10.2006-31.10.2008	Vested
2002/2003	E	12.02	11.27	3,800,000	3,753,750	1.4.2005-30.4.2008	Vested
				12,800,000	12,285,750		

¹⁾ Vesting periods range from 6 to 24 months.

The Black-Scholes valuation model and the following weighted average assumptions are used in measuring the fair value of share options issued in 2007 and 2006.

	2007	2006
Share price, €	16.79	16.81
Exercise price, €	19.74	16.73
Volatility ¹⁾	24%	28%
Risk-free interest rate	3.95%	3.03%
Assumed annual dividend yield	–	–
Expected option life, year	3	3

¹⁾ Volatility is a measure of price changes expressed in terms of the standard deviation of the price of the security in question over the period of analysis. In the calculations the volatility is based on three- and four-year periods. Volatility is reported as an annual percentage figure.

Assumed forfeiture used in 2007 was 5%, 2006 0%.

38 RELATED PARTY TRANSACTIONS

The Group holds a 47% interest in Oy Metsä-Botnia Ab (“Metsä-Botnia”), a joint venture between M-real Oyj (“M-real”) and Metsäliitto Group. M-real is a Finnish paper producer, and Metsäliitto Group is a co-operative organisation of Finnish forest owners. Metsäliitto Group is also the controlling shareholder of M-real. Chemical pulp produced by Metsä-Botnia is sold to the Group and to M-real at the market price less certain transportation and other costs. In 2007 and 2006, the Group’s chemical pulp entitlement with respect to the production of Metsä-Botnia was 1.1 million tonnes per year, and after November 2007, following the completion of the pulp mill in Uruguay, the entitlement will be 1.7 million tonnes per year. Total purchases of chemical pulp from Metsä-Botnia amounted to € 231 million in 2007 and € 197 million in 2006. In 2007, Metsä-Botnia completed the construction of a new pulp mill in Uruguay. The total cost of the project was about USD 1.2 billion. The annual capacity of the mill will be approximately one million tonnes of bleached eucalyptus pulp. UPM has invested € 93 million in the pulp mill project. In 2006, related to the pulp mill project, UPM sold its shares in the Uruguayan forestry company, Compañía Forestal Oriental S.A. to Metsä-Botnia for € 36 million.

The Group obtains most of the energy for its production units in Finland from the Group’s owned and leased power plants, as well as through ownership in power companies which entitles it to receive electricity and heat from those companies. A significant proportion of the Group’s electricity procurement comes from Pohjolan Voima Oy, a Finnish energy producer in which the Group holds a 41.99% equity interest, and from Kemijoki Oy, a Finnish hydropower producer in which the Group holds a 4.13% equity interest. Pohjolan Voima Oy is also a majority shareholder in Teollisuuden Voima Oy, one of Finland’s two nuclear power companies. The combined total of these energy purchases was € 207 million in 2007 and € 194 million in 2006. In accordance with the articles of association of the power companies and with related shareholder agreements, the prices paid by the Group to the power companies are based on production costs, which are generally lower than market prices. Internal sales to the Group’s segments are based on the prevailing market price.

Approximately 10 to 15% of the Group’s research and development work is conducted by Oy Keskuslaboratorio-Centrallaboratorium Ab (the Finnish Pulp and Paper Research Institute or “FPPRI”), in which the Group is one of four corporate owners with a 38.65% interest. Ownership of FPPRI provides the Group with

fundamental research information regarding the Group’s main raw materials, major manufacturing processes and key product attributes. In addition to joint research at FPPRI, the Group also utilises the institute for contract research in connection with product and process development. These services are provided on an arm’s length basis and upon terms that the Group believes to be customary within the industry and generally no less favourable than would be available from independent third parties.

The Group purchases raw materials from certain associated companies, the most significant of which is Paperinkeräys Oy, a Finnish company engaged in the procurement, processing and transport of recovered paper in which the Group has a 22.98% interest. The total value of raw material purchases from Paperinkeräys Oy was € 13 million in 2007 and € 15 million in 2006. Recovered paper is sold to the Group and other shareholders of Paperinkeräys Oy at a contract-based price that takes into account paper recycling expenses and the world market prices for recovered paper. In Austria, the Group has a similar arrangement concerning recovered paper which is purchased from Austria Papier Recycling G.m.b.H., a company in which the Group owns a 33.3% equity interest. The total value of recovered paper purchases was € 16 million in 2007 and € 12 million in 2006.

In Finland, UPM has a pension foundation (Kymin Eläkesäätiö) which is a separate legal entity. The pensions of about 9% of the Group’s Finnish employees are arranged through the foundation. The contributions paid by UPM to the foundation amounted to € 50 million in 2007 (€ 17 million in 2006). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation’s assets at 31 December 2007 was € 251 million, of which 61% was in the form of debt securities and 39% was invested in equities, property and money market investments.

The pensions of about 66% of the Group’s employees in the United Kingdom are arranged through the Pension Funds, which are separate legal entities. The contributions paid by the Group to this fund amounted to GBP 6 million in 2007 (GBP 6 million in 2006). The fair value of the fund’s assets at 31 December 2007 was GBP 172 million, of which 62% was invested in equities and 38% in debt instruments and property.

39 COMMITMENTS AND CONTINGENCIES

Contingent liabilities

The Group is a defendant or plaintiff in a number of legal proceedings incidental to its operations. These lawsuits primarily involve claims arising out of commercial law issues.

Certain competition authorities are continuing investigations into alleged antitrust activities with respect to various products of the company.

The US Department of Justice, the EU authorities and the authorities in several EU Member States, Canada and certain other countries have granted UPM conditional full immunity with respect to certain conduct disclosed to them. The US and Canadian investigations are now closed, and the European Commission has tentatively closed its investigation of the European fine paper, newsprint, magazine paper, label paper and self-adhesive labelstock markets.

UPM has been named as a defendant in multiple class-action lawsuits against labelstock and magazine paper manufacturers in the United States. During 2007, UPM agreed to settle the class-action lawsuits raised by direct purchasers of labelstock and magazine paper for a total amount of approximately € 12 million. Certain

class action lawsuits filed by indirect purchasers of labelstock and magazine paper continue to be pending.

The remaining litigation matters may last several years. No material provision have been made in relation to these investigations.

Commitments

In the normal course of business, UPM-Kymmene Corporation and some of its subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of those subsidiaries. These agreements are entered into primarily to support or enhance the creditworthiness of subsidiaries so that they can accomplish their intended business purposes. The maximum amount of future payments for which UPM-Kymmene Corporation is liable on behalf of its subsidiaries are disclosed in the table below under "Other commitments".

The Group has also entered into various agreements to provide financial or performance assurance to third parties on behalf of certain companies in which the Group has a minority interest. These agreements are entered into primarily to support or enhance the creditworthiness of these companies. The Group has no collateral or other recourse provisions related to these guarantees. The maximum amounts of future payments by UPM-Kymmene Corporation on behalf of its associated companies under these guarantees are disclosed in the table below under "Guarantees on behalf of associated companies". It is the Group's policy not to give guarantees on behalf of third parties, and the commitments included under the caption "Guarantees on behalf of others" in the table relate mainly to companies that have been sold.

In the normal course of business, certain subsidiaries of UPM Kymmene Corporation, especially in Germany, grant commercial guarantees to their customers to help them purchase goods from the subsidiary. The Group has no liability with respect to these commercial guarantees, but they are covered by its credit risk insurance. These guarantees mature within one year. The maximum potential amount of future payments under these guarantees amounted to € 13 million at 31 December 2007 and € 10 million at 31 December 2006. They are included in the amounts disclosed in the table under "Other commitments".

Commitments

€m	As at 31 December	
	2007	2006
On own behalf		
Mortgages	90	92
On behalf of associated companies and joint ventures		
Guarantees	10	12
On behalf of others		
Guarantees	3	6
Other commitments, own		
Operating leases, due within 12 months	21	23
Operating leases, due after 12 months	99	94
Other commitments	70	69
Total	293	296
Mortgages	90	92
Guarantees	13	18
Operating leases	120	117
Other commitments	70	69
Total	293	296

Property under mortgages given as collateral for own commitments include industrial estates and forest land.

Commitments related to associated companies and joint ventures

€m	As at 31 December	
	2007	2006
Proportionate interest in joint ventures' commitments	22	22
Contingent liabilities relating to the Group's interest in the joint ventures	9	10
Share of associated companies contingent liabilities	218	141

Operating lease commitments

– where a Group company is the lessee

The Group leases office, manufacturing warehouse space and vessels under time charter agreements under various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

The future costs for contracts exceeding one year and for non-cancellable operating lease contracts

€m	As at 31 December	
	2007	2006
less than 1 year	21	23
1–2 years	28	25
2–3 years	21	17
3–4 years	18	15
4–5 years	14	14
over 5 years	18	23
	120	117

**Capital commitments at the balance sheet date
but not recognised in the financial statements;
major commitments under construction listed below**

€m	Total cost	Commitment as at 31 December	
		2007	2006
Pulp mill rebuild, Kymi	325	99	300
New mill in Poland, Raflatac	90	67	–
New mill in USA, Raflatac	75	16	80
New bioboiler, Caledonian	84	73	72
PM5 quality upgrade, Jämsänkoski	38	24	38

40 EVENTS AFTER THE BALANCE SHEET DATE

The Group's management is not aware of any significant events occurring after 31 December 2007 which would have had an impact on the financial statements.

Parent company accounts (Finnish Accounting Standards, FAS)

PROFIT AND LOSS ACCOUNT

1.1.–31.12., €m	Note	2007	2006
Turnover	(1)	4,775	4,499
Change in inventories of finished goods and work in progress		98	36
Production for own use		33	18
Other operating income	(2)	164	226
Raw materials and services			
Raw materials and consumables			
Purchases during the financial period		-2,747	-2,204
Change in inventories		52	-49
External services		-364	-333
		-3,059	-2,586
Personnel expenses			
Wages and salaries	(3)	-459	-475
Social security expenses			
Pension expenses		-112	-117
Other social security expenses		-46	-50
		-617	-642
Depreciation and value adjustments	(4)		
Depreciation according to plan		-335	-353
Value adjustments to goods held as non-current assets		9	-133
		-326	-486
Other operating costs and expenses		-1,526	-801
Operating profit/loss		-458	264
Financial income and expenses			
Income from investments held as non-current assets			
Income from Group companies		17	100
Income from participating interest companies		23	15
Interest income from Group companies		42	39
Interest income from other companies		-	1
Other interest and financial income			
Other interest income from Group companies		61	51
Other interest income from other companies		2	4
Other financial income from Group companies		-	-
Other financial income from other companies		55	85
Interest and other financial expenses			
Interest expenses paid to Group companies		-43	-38
Interest expenses paid to other companies		-169	-152
Other financial expenses paid to Group companies		-53	-79
Other financial expenses paid to other companies		-5	-6
		-70	20
Profit/loss before extraordinary items		-528	284
Extraordinary items	(5)		
Extraordinary income		78	52
Extraordinary expenses		-13	-14
		65	38
Profit/loss before appropriations and taxes		-463	322
Appropriations			
Increase or decrease in accumulated depreciation difference		45	217
Income taxes	(6)	-116	-151
Profit/loss for the financial period		-534	388

CASH FLOW STATEMENT

€m	2007	2006
Operating activities		
Profit/loss before extraordinary items	-528	284
Financial income and expenses	70	-20
Adjustments to operating profit ^{a)}	1,174	540
Change in working capital ^{b)}	-219	40
Interest paid	-212	-187
Dividends received	24	115
Interest received	103	95
Other financial items	-216	-172
Income taxes paid ^{c)}	-107	-96
Net cash from operating activities	89	599
Investing activities		
Investments in tangible and intangible assets	-429	-314
Proceeds from sale of tangible and intangible assets	33	68
Investments in shares and holdings	-15	-24
Proceeds from sale of shares and holdings	190	352
Increase in other investments	-5	-15
Decrease in other investments	154	39
Net cash used in investing activities	-72	106
Financing activities		
Increase in non-current liabilities	932	350
Decrease in non-current liabilities	-738	-366
Increase or decrease in current liabilities	343	-354
Share options exercised	104	-
Dividends paid	-392	-392
Purchases of own shares	-266	-
Group contributions, received and paid	37	13
Net cash used in financing activities	20	-749
Cash and cash equivalents		
Change in cash and cash equivalents	37	-44
Cash flow from merged companies	-	2
Cash and cash equivalents at the beginning of the year	116	158
Cash and cash equivalents at year-end	153	116
Notes to the cash flow statement		
^{a)} Adjustments to operating profit		
Depreciation	335	353
Gains and losses on sale of non-current assets	862	18
Value adjustments on non-current assets	-9	133
Change in provisions	-14	36
Total	1,174	540
^{b)} Change in working capital		
Inventories	-130	8
Current receivables	-198	51
Current non-interest-bearing liabilities	109	-19
Total	-219	40
^{c)} Taxes stemming from extraordinary items and sales of non-current assets are reported here on a net basis.		

BALANCE SHEET

€m	Note	31.12.2007	31.12.2006
ASSETS			
Non-current assets			
Intangible assets	(7)		
Intangible rights		7	6
Other capitalised expenditure		219	220
Advance payments		7	8
		233	234
Tangible assets	(8)		
Land and water areas		1,037	1,042
Buildings		591	523
Machinery and equipment		1,592	1,600
Other tangible assets		60	47
Advance payments and construction in progress		238	98
		3,518	3,310
Investments	(9)		
Holdings in Group companies		3,422	4,078
Receivables from Group companies		635	985
Holdings in participating interest companies		636	630
Other shares and holdings		173	177
Other receivables		10	7
		4,876	5,877
		8,627	9,421
Current assets			
Inventories			
Raw materials and consumables		246	194
Finished products and goods		363	266
Advance payments		71	40
		680	500
Current receivables	(10)		
Trade receivables		95	54
Receivables from Group companies		1,843	1,827
Receivables from participating interest companies		25	9
Other receivables		65	44
Prepayments and accrued income		38	21
		2,066	1,955
Cash and cash equivalents		153	116
		2,899	2,571
Total assets		11,526	11,992

€m	Note	31.12.2007	31.12.2006
EQUITY AND LIABILITIES			
Shareholders' equity			
	(11)		
Share capital		890	890
Share premium reserve		–	776
Revaluation reserve		551	552
Legal reserve		–	187
Reserve for invested non-restricted equity		1,067	–
Retained earnings		2,667	2,937
Profit/loss for the financial period		–534	388
		4,641	5,730
Appropriations			
Accumulated depreciation difference		1,165	1,211
Provisions			
	(12)		
Provisions for pensions		52	60
Other provisions		22	28
		74	88
Non-current liabilities			
	(13)		
Bonds		2,111	2,324
Loans from financial institutions		821	338
Pension loans		62	205
Advances received		1	–
Payables to Group companies		–	31
Other liabilities		127	134
		3,122	3,032
Current liabilities			
	(14)		
Bonds		89	184
Loans from financial institutions		55	2
Pension loans		143	167
Advances received		8	4
Trade payables		292	218
Payables to Group companies		1,210	804
Payables to participating interest companies		40	22
Other liabilities		394	287
Accruals and deferred income		293	243
		2,524	1,931
		5,646	4,963
Total equity and liabilities		11,526	11,992

Notes to the parent company financial statements

(All amounts in millions of euros unless otherwise stated.)

ACCOUNTING POLICIES

The financial statements of the parent company are prepared in accordance with Finnish Accounting Standards. Main differences in accounting policies between the Group and the parent company relate to measurement of derivative financial instruments and biological assets and recognition of defined benefit obligations, revaluations and deferred income taxes. See notes to the consolidated accounts, note 1.

1 TURNOVER

Owing to the corporate structure of the Group, the turnover of the parent company has not been broken down by division and market.

2 OTHER OPERATING INCOME

€m	2007	2006
Gains on sale of non-current assets	153	207
Rental income	10	10
Gains on sale of emission allowances ¹⁾	–	8
Other	1	1
	164	226

¹⁾ Emissions trading rights are accounted for on a net basis.

3 PERSONNEL EXPENSES

€m	2007	2006
Wages and salaries		
Managing director and members of the Board of Directors ²⁾	3	2
Other wages and salaries	456	473
	459	475

²⁾ See notes to the consolidated accounts, note 7.

	2007	2006
Average number of personnel	9,552	10,939

Owing to the corporate structure of the Group, average number of personnel has not been broken down by segments.

4 DEPRECIATION ACCORDING TO PLAN AND VALUE ADJUSTMENTS

€m	2007	2006
Depreciation according to plan		
Intangible rights	1	1
Other capitalised expenditure	30	31
Buildings	39	38
Machinery and equipment	258	276
Other tangible assets	7	7
	335	353
Value adjustments		
Non-current assets	–9	133
	326	486

5 EXTRAORDINARY ITEMS

€m	2007	2006
Extraordinary income		
Group contributions	63	51
Gains on mergers	15	1
	78	52

€m	2007	2006
Extraordinary expenses		
Group contributions	–12	–
Losses on mergers	–1	–14
	–13	–14
Total	65	38

During the financial period, Kiinteistö Oy Karhunkierros 5, Kiinteistö Oy Kotkan Runeberginkatu 25, Draco Oy, FY-Industries Oy, Lappeenrannan Yhteisterminaali Oy, Manttilä Oy, UPM-Kymmene Consulting Oy and UPM Tehdasmittaus Oy have been merged to the parent company.

6 INCOME TAXES

€m	2007	2006
Taxes on business income for the financial period	117	151
Income taxes from previous periods	–1	–
	116	151

Deferred tax assets and liabilities

Deferred income tax assets and liabilities of the parent company are not recorded on the balance sheet.

Deferred tax liability comprises mainly depreciation differences, for which the deferred tax liability at 31 December 2007 was € 303 million (€ 315 million).

Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued assets is € 184 million (€ 185 million).

7 INTANGIBLE ASSETS

€m	2007	2006
Intangible rights		
Acquisition cost at 1 Jan.	14	11
Increases	5	9
Decreases	–1	–6
Transfers between balance sheet items	–2	–
Acquisition cost at 31 Dec.	16	14
Accumulated depreciation at 1 Jan.	–8	–7
Depreciation for the period	–1	–1
Accumulated depreciation at 31 Dec.	–9	–8
Book value at 31 Dec.	7	6

Other capitalised expenditure

Acquisition cost at 1 Jan.	368	275
Increases	15	112
Decreases	–3	–24
Transfers between balance sheet items	15	5
Acquisition cost at 31 Dec.	395	368
Accumulated depreciation at 1 Jan.	–148	–136
Accumulated depreciation on decreases and transfers	2	23
Depreciation for the period	–30	–31
Value adjustments and their cancellations	–	–4
Accumulated depreciation at 31 Dec.	–176	–148
Book value at 31 Dec.	219	220

€m	2007	2006
Advance payments		
Acquisition cost at 1 Jan.	8	32
Increases	14	–
Decreases	–	–20
Transfers between balance sheet items	–15	–4
Book value at 31 Dec.	7	8

8 TANGIBLE ASSETS

€m	2007	2006
Land and water areas		
Acquisition cost at 1 Jan.	495	492
Increases	7	5
Decreases	–11	–2
Acquisition cost at 31 Dec.	491	495
Revaluations at 1 Jan.	547	547
Reversal of revaluation	–1	–
Revaluations at 31 Dec.	546	547
Book value at 31 Dec.	1,037	1,042

Buildings

Acquisition cost at 1 Jan.	1,068	1,104
Increases	114	27
Decreases	–12	–75
Transfers between balance sheet items	18	12
Acquisition cost at 31 Dec.	1,188	1,068
Accumulated depreciation at 1 Jan.	–545	–538
Accumulated depreciation on decreases and transfers	–10	63
Depreciation for the period	–39	–38
Value adjustments and their cancellations	–3	–32
Accumulated depreciation at 31 Dec.	–597	–545
Book value at 31 Dec.	591	523

Machinery and equipment

Acquisition cost at 1 Jan.	5,459	5,660
Increases	179	175
Decreases	–55	–448
Transfers between balance sheet items	58	72
Acquisition cost at 31 Dec.	5,641	5,459
Accumulated depreciation at 1 Jan.	–3,859	–3,903
Accumulated depreciation on decreases and transfers	56	414
Depreciation for the period	–258	–276
Value adjustments and their cancellations	12	–94
Accumulated depreciation at 31 Dec.	–4,049	–3,859
Book value at 31 Dec.	1,592	1,600

Other tangible assets

Acquisition cost at 1 Jan.	167	172
Increases	14	2
Decreases	–1	–10
Transfers between balance sheet items	6	3
Acquisition cost at 31 Dec.	186	167
Accumulated depreciation at 1 Jan.	–120	–120
Accumulated depreciation on decreases and transfers	1	10
Depreciation for the period	–7	–7
Value adjustments and their cancellations	–	–3
Accumulated depreciation at 31 Dec.	–126	–120
Book value at 31 Dec.	60	47

Advance payments and construction in progress

Acquisition cost at 1 Jan.	98	102
Increases	220	84
Transfers between balance sheet items	–80	–88
Book value at 31 Dec.	238	98

9 INVESTMENTS

€m	2007	2006
Holdings in Group companies		
Acquisition cost at 1 Jan.	4,585	4,744
Increases	446	27
Decreases	–1,328	–186
Acquisition cost at 31 Dec.	3,703	4,585
Accumulated depreciation at 1 Jan.	–507	–281
Accumulated depreciation on decreases and transfers	1,242	–
Value adjustments and their cancellations	–1,016	–226
Accumulated depreciation at 31 Dec.	–281	–507
Revaluations at 1 Jan.	–	2
Reversal of revaluation	–	–2
Revaluations at 31 Dec.	–	–
Book value at 31 Dec.	3,422	4,078

The value adjustment of shares in UPM-Kymmene Miramichi Inc. was € -1,015 million. In December 2007 UPM decided to close down Miramichi paper mill.

The principal subsidiaries are listed in the Consolidated Financial Statements (Note 36).

Receivables from Group companies

Acquisition cost at 1 Jan.	985	1,054
Increases	2	16
Decreases	–352	–85
Book value at 31 Dec.	635	985

Holdings in participating interest companies

Acquisition cost at 1 Jan.	527	551
Increases	7	12
Decreases	–1	–36
Acquisition cost at 31 Dec.	533	527
Revaluations at 1 Jan.	103	103
Revaluations at 31 Dec.	103	103
Book value at 31 Dec.	636	630

Other shares and holdings

Acquisition cost at 1 Jan.	116	120
Decreases	–4	–4
Acquisition cost at 31 Dec.	112	116
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	173	177

Other receivables

Acquisition cost at 1 Jan.	7	24
Increases	3	–
Decreases	–	–21
Transfers between balance sheet items	–	4
Book value at 31 Dec.	10	7

There were no loans granted to the company's Managing Director and members of the Board of Directors at 31 December 2007 or 2006.

10 CURRENT RECEIVABLES

€m	2007	2006
Trade receivables	685	539
Loan receivables	1,245	1,278
Other receivables	65	44
Prepayments and accrued income	71	94
	2,066	1,955

Main items included in current prepayments and accrued income

Personnel expenses	1	2
Interest income	14	17
Currency derivatives	32	66
Income taxes	16	–
Others	8	9
	71	94

€m	2007	2006
Receivables from Group companies		
Trade receivables	566	478
Loan receivables	1,245	1,276
Prepayments and accrued income	32	73
	1,843	1,827

Receivables from participating interest companies

Trade receivables	24	7
Loans receivables	–	2
Prepayments and accrued income	1	–
	25	9

11 SHAREHOLDERS' EQUITY

€m	Share capital	Share issue	Share premium reserve	Revaluation reserve	Legal reserve	Reserve for invested non-restricted equity	Retained earnings	Shareholders' equity, total
Balance sheet value, 1 Jan. 2006	890	–	776	554	187	–	3,329	5,736
Revaluations	–	–	–	–2	–	–	–	–2
Dividends paid	–	–	–	–	–	–	–392	–392
Profit for the financial period	–	–	–	–	–	–	388	388
Balance sheet value, 31 Dec. 2006	890	–	776	552	187	–	3,325	5,730
Share options	–	–	–	–	–	104	–	104
Treasury shares ¹⁾	–	–	–	–	–	–	–266	–266
Revaluations	–	–	–	–1	–	–	–	–1
Dividends paid	–	–	–	–	–	–	–392	–392
Transfers	–	–	–776	–	–187	963	–	–
Loss for the financial period	–	–	–	–	–	–	–534	–534
Balance sheet value, 31 Dec. 2007	890	–	–	551	–	1,067	2,133	4,641

¹⁾ See notes to the consolidated accounts, note 27.

€m	2007	2006
Distributable funds at 31 Dec.		
Reserve for invested non-restricted equity	1,067	–
Retained earnings	2,667	2,937
Profit/loss for the financial period	–534	388
Distributable funds at 31 Dec.	3,200	3,325

12 PROVISIONS

€m	2007	2006
Provisions for pensions	52	60
Closure and restructuring provisions	1	12
Environmental provisions	17	12
Other provisions	4	4
	74	88

13 NON-CURRENT LIABILITIES

€m	2007	2006
Bonds	2,111	2,324
Loans from financial institutions	821	338
Pension loans	62	205
Advances received	1	–
Other liabilities	127	165
	3,122	3,032

Payables to Group companies

Other liabilities	–	31
	–	31

Long-term loans and their repayment schedule

Repayment in 2-5 years		
Bonds	945	398
Loans from financial institutions	580	80
Pension loans	62	205
Advances received	1	–
Payables to Group companies	–	31
	1,588	714
Repayment later than 5 years		
Bonds	1,166	1,926
Loans from financial institutions	241	258
Other liabilities	127	134
	1,534	2,318
Total at 31 Dec.	3,122	3,032

Bonds

	Interest, %	Initial amount million	2007	2006
Fixed-rate				
1997–2007	6.875	USD 215	–	163
1997–2027	7.450	USD 375	255	285
1999–2009	6.350	EUR 250	250	250
2000–2030	3.550	JPY 10,000	60	64
2001–2007	6.875	USD 10	–	7
2002–2007	0.869	JPY 2,000	–	13
2002–2012	6.125	EUR 600	600	600
2002–2014	5.625	USD 500	340	380
2002–2017	6.625	GBP 250	341	372
2003–2018	5.500	USD 250	170	190
			2,016	2,324
Floating-rate				
2002–2008	5.631	EUR 39	39	39
2002–2008	5.387	EUR 50	50	50
2002–2010	5.634	EUR 59	59	59
2002–2012	5.237	EUR 25	25	25
2002–2012	5.787	EUR 11	11	11
			184	184
Bonds, total			2,200	2,508
– current portion			–89	–184
Bonds, long-term portion			2,111	2,324

14 CURRENT LIABILITIES

€m	2007	2006
Bonds	89	184
Loans from financial institutions	55	2
Pension loans	143	167
Advances received	8	7
Trade payables	380	292
Other liabilities	1,482	917
Accruals and deferred income	367	362
	2,524	1,931

Main items included in current accruals and deferred income

Personnel expenses	104	86
Interest expenses	16	17
Income tax	–	5
Currency derivatives	228	244
Others	19	10
	367	362

Payables to Group companies

Advances received	–	3
Trade payables	51	52
Other liabilities	1,085	630
Accruals and deferred income	74	119
	1,210	804

Payables to participating interest companies

Trade payables	37	22
Other liabilities	3	–
	40	22

15 CONTINGENT LIABILITIES

€m	2007	2006
Mortgages ¹⁾		
As security against own debts	60	60
Guarantees		
Guarantees for loans		
On behalf of Group companies	974	1,049
On behalf of participating interest companies	10	12
Other guarantees		
On behalf of Group companies	95	87
On behalf of others	–	2
Leasing commitments		
Commitments for next year	1	2
Commitments for subsequent years	1	9

¹⁾ The mortgages given relate mainly to reborrowing of statutory employment pension contributions.

Directors' pension commitments

See notes to the consolidated accounts, note 7.

Derivate contracts

Fair values and notional values are disclosed in the Consolidated Financial Statements (Notes 34 and 35).

Information on shares

Changes in number of shares 1 January 2003 – 31 December 2007

		Number of shares
2002	Number of shares at 31 Dec. 2002	260,115,975
2003	Exchanged under convertible bond issue (1994)	1,673,490
	Bonus share issue (1:1)	261,789,465
	Number of shares at 31 Dec. 2003	523,578,930
2004	Options exercised	741,322
	Number of shares at 31 Dec. 2004	524,320,252
2005	Options exercised	6,934,878
	Own shares declared void	-8,000,000
	Number of shares at 31 Dec. 2005	523,255,130
2006	Options exercised	4,300
	Number of shares at 31 Dec. 2006	523,259,430
2007	Options exercised	5,709,890
	Own shares declared void	-16,400,000
	Number of shares at 31 Dec. 2007	512,569,320

Stock exchange trading

UPM's shares are listed on OMX Nordic Exchange Helsinki. The Company's ADSs are traded on the U.S. over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt program.

A total of 952.3 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2007 (876.0 million in 2006). This represented 182.1% (167.4%) of the total number of shares. The highest quotation was € 20.59 in February and the lowest € 13.01 in November. The total value of shares traded was € 16,472 million in 2007 (€ 16,021 million in 2006). During the year, 3.2 million 2002E share options were traded for € 34.3 million (3.8 million and € 51.9 million) and 1.2 million share options 2005F were traded for € 3.8 million (0.2 million for € 0.9 million). A total of 0.2 million share options 2005G were traded for € 0.4 million as of the beginning of 1 October 2007.

Upon UPM's decision of 30 October 2007 and application to withdraw from the New York Stock Exchange, UPM-Kymmene Cor-

poration's listing of its ADSs on the New York Stock Exchange (NYSE) ceased on 5 December 2007. Starting from December 6, 2007, the Company's ADSs will be traded on the US over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt program.

Directors' interest at 31 December 2007

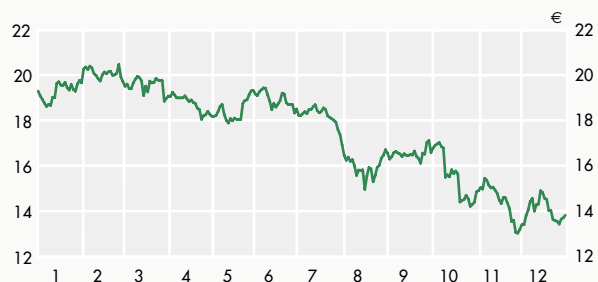
At the end of the year, the members of the Board of Directors including President and CEO owned a total of 833,398 UPM-Kymmene Corporation shares (801,382 in 2006), including those held by underage children or by organisations or foundations of which the holder has control. These represent 0.16% of the shares (0.15%) and 0.16% of the voting rights (0.15%). At the end of the year, President and CEO Jussi Pesonen owned 340,000 share options. Exercise of these options would increase the number of the company's shares by 410,000, which at 31 December 2007 would have represented 0.08% of the company's voting rights.

Biggest registered shareholders at 31 December 2007

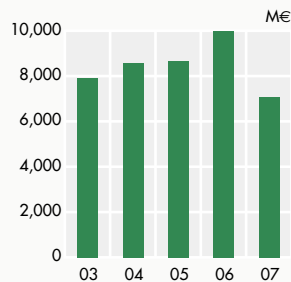
	Shares at 31 Dec. 2007	% of shares	% of votes
Varma Mutual Pension Insurance Company	10,861,033	2.12	2.12
Gustaf Serlachius (representing 5 shareholders)	6,309,811	1.23	1.23
Ilmarinen Mutual Pension Insurance Company	5,980,993	1.17	1.17
Svenska litteratursällskapet i Finland	3,701,380	0.72	0.72
The State Pension Fund	3,650,000	0.71	0.71
OP-Delta Investment Fund	3,551,100	0.69	0.69
Etera Mutual Pension Insurance Company	2,736,600	0.53	0.53
Mutual Insurance Company Pension Fennia	2,322,316	0.45	0.45
Kymin Osakeyhtiön 100-vuotissäätiö	1,695,788	0.33	0.33
The Social Insurance Institution of Finland	1,603,690	0.31	0.31
Nominees & registered foreign owners	350,674,184	68.42	68.42
Others	119,482,425	23.32	23.32
Total	512,569,320	100.00	100.00

On 7 March 2005, the Franklin Templeton Group and its affiliated investment advisers of Franklin Resources held 10.11% of the voting rights of UPM-Kymmene Corporation.

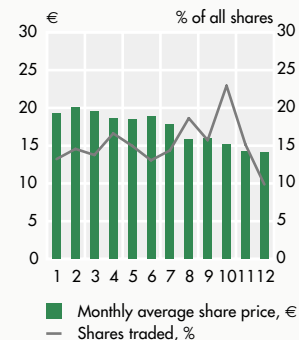
Share price in 2007



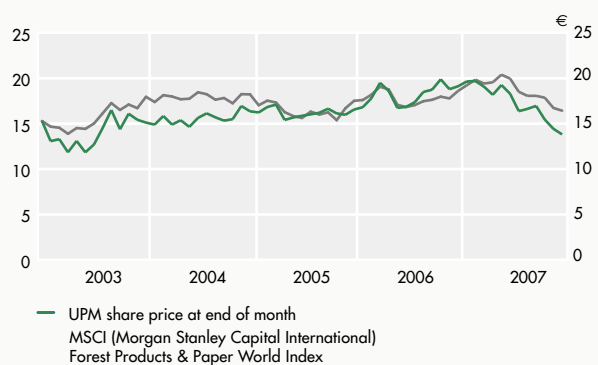
Market capitalisation



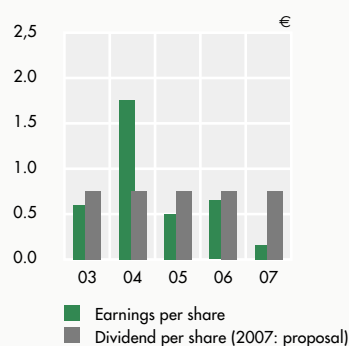
Monthly average share price and shares traded 1–12/2007



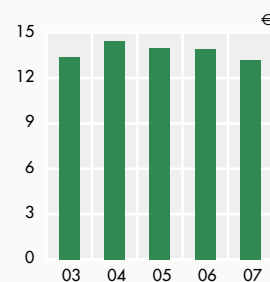
Share price 2003–2007



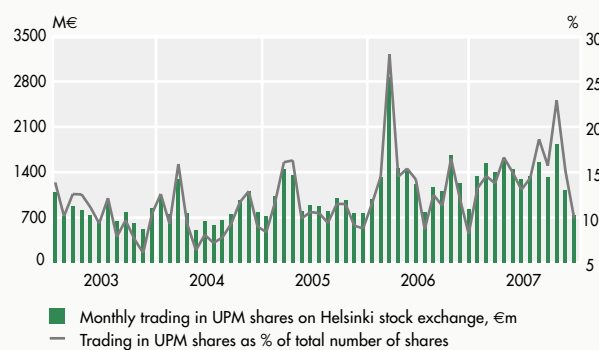
Earnings and dividend per share



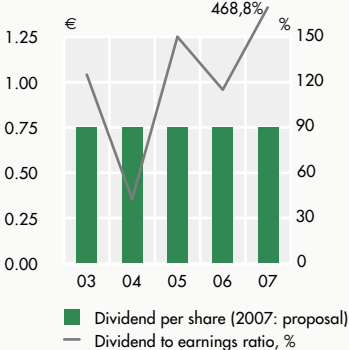
Shareholders' equity per share



Shares traded on Helsinki stock exchange 2003–2007



Dividend per share (€) and dividend to earnings ratio (%)



Distribution of shareholders at 31 December 2007

Size of shareholding	Number of shareholders	% of shareholders	Number of shares, million	% of shares
1 – 100	13,936	21.34	0.8	0.2
101 – 1,000	36,565	55.99	15.3	3.0
1,001 – 10,000	13,452	20.60	37.5	7.3
10,001 – 100,000	1,207	1.85	29.2	5.7
100,001 –	143	0.22	82.6	16.1
Total	65,303	100.00	165.4	32.3
Nominee-registered			346.9	67.7
Not registered as book entry units			0.2	0.0
Total			512.5	100.0

Shareholder breakdown by sector at 31 December, %

	2007	2006	2005	2004	2003
Companies	2.2	1.8	2.8	3.1	4.4
Financial institutions and insurance companies	2.5	2.1	3.5	2.8	3.2
Public bodies	6.4	5.2	5.8	6.4	6.9
Non-profitmaking organisations	6.0	6.1	6.7	7.0	6.8
Households	14.1	13.5	15.4	15.6	15.3
Non-Finnish nationals	68.8	71.3	65.8	65.1	63.4
Total	100.0	100.0	100.0	100.0	100.0

UPM's share option programmes

Options	Number of options	Number of shares	Exercise price per share		Subscription period	Options exercised 2007
			at date of issue €	at 31.12.2007 €		
2002 E	3,800,000	7,600,000	14.27 ¹⁾	11.27 ¹⁾	1.4.2005–30.4.2008	1,300
2005 F	3,000,000	3,000,000	18.23	15.98	1.10.2006–31.10.2008	–
2005 G	3,000,000	3,000,000	18.65	17.15	1.10.2007–31.10.2009	–
2005 H	3,000,000	3,000,000	21.65	20.90	1.10.2008–31.10.2010	–

* corrected for 2003 bonus issue

Key figures 1998–2007

Adjusted share-related indicators 1998–2007 ^{1) 5)}

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Earnings per share, € (diluted 2007: 0.16)	0.16	0.65	0.50	1.76	0.60	0.96	1.93	2.38	1.88	1.91
Shareholders' equity per share, €	13.21	13.90	14.01	14.46	13.36	13.85	13.09	11.72	10.23	9.48
Dividend per share, € ³⁾	²⁾ 0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.08	0.55
Dividend to earnings ratio, % ³⁾	468.8	115.4	150.0	42.6	125.0	78.1	39.0	31.4	57.0	28.6
Effective dividend yield, % ³⁾	5.4	3.9	4.5	4.6	5.0	4.9	4.0	4.1	5.4	4.6
P/E ratio	86.4	29.4	33.1	8.9	24.8	15.9	9.7	7.7	10.6	6.3
Cash flow from operations per share, €	1.66	2.32	1.63	1.90	2.40	2.73	3.32	3.19	2.39	–
Dividend distribution, €m ³⁾	²⁾ 384	392	392	393	393	390	388	371	557	290
Share price at 31 Dec., €	13.82	19.12	16.56	16.36	15.12	15.30	18.63	18.28	20.00	11.94
Market capitalisation, €m	7,084	10,005	8,665	8,578	7,917	7,960	9,681	9,502	10,663	6,630
Shares traded, €m ⁴⁾	16,472	16,021	11,358	9,731	9,117	10,827	7,645	6,157	4,834	3,374
Shares traded (1,000s)	952,300	876,023	697,227	625,950	645,988	597,078	443,240	400,822	316,874	294,070
Shares traded, % of all shares	182.1	167.4	133.6	119.5	123.4	115.1	88.1	77.2	59.0	53.4
Lowest quotation, €	13.01	15.36	15.05	14.44	11.05	12.61	14.00	12.46	11.00	8.41
Highest quotation, €	20.59	20.91	18.15	17.13	17.10	22.25	19.93	22.45	21.25	14.63
Average quotation for the period, €	17.30	18.29	16.29	15.55	14.11	18.13	17.24	15.36	15.25	11.47
Number of shares, average (1,000s)	522,867	523,220	522,029	523,641	523,130	518,935	495,784	513,634	528,035	539,445
Number of shares at end of period (1,000s)	512,569	523,259	523,093	524,450	523,579	520,232	517,436	501,295	518,062	529,688

Share prices and shares traded are based on trading on the Helsinki stock exchange.

Notes to the tables on pages 123–124

¹⁾ Figures for 2002–2007 are reported in accordance with International Financial Reporting Standards (IFRS) and for 1998–2001 in accordance with Finnish Accounting Standards (FAS). More information on the effects of the transition on the balance sheet and income statement is given in the bulletin released on 24.3.2004. The bulletin is available on UPM's Internet pages at www.upm-kymmene.com.

²⁾ Proposal.

³⁾ The 1999 figure includes an extra dividend payment of € 0.45.

⁴⁾ Trading on the Helsinki stock exchange. Own shares bought by the company are included in shares traded.

⁵⁾ Figures reported in Finnish markka for the year 1998 have been converted into euros using the official conversion rate, 1 euro = 5.94573 markka.

Financial indicators 1998–2007 ^{1) 5)}

€m	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Sales	10,035	10,022	9,348	9,820	9,787	10,417	9,918	9,583	8,261	8,365
EBITDA	1,546	1,678	1,428	1,435	1,442	1,957	2,055	2,081	1,576	1,629
% of sales	15.4	16.7	15.3	14.6	14.7	18.8	20.7	21.7	19.1	19.5
Operating profit, excluding special items items	835	725	558	470	429	963	1,394	1,560	976	1,067
% of sales	8.3	7.2	6.0	4.8	4.4	9.2	14.1	16.3	11.8	12.8
Operating profit	483	536	318	685	368	861	1,614	1,860	1,573	1,620
% of sales	4.8	5.3	3.4	7.0	3.8	8.3	16.3	19.4	19.0	19.4
Profit before tax	292	367	257	556	425	710	1,333	1,859	1,398	1,437
% of sales	2.9	3.7	2.7	5.7	4.3	6.8	13.4	19.4	16.9	17.2
Profit for the period	81	338	261	920	312	500	955	1,366	994	1,029
% of sales	0.8	3.4	2.8	9.4	3.2	4.8	9.6	14.3	12.0	12.3
Exports from Finland and foreign operations	9,170	9,102	8,397	8,791	8,697	9,475	8,948	8,563	7,165	7,219
Exports from Finland	4,546	4,644	4,006	4,301	4,539	4,759	4,635	5,216	4,873	4,571
Non-current assets	10,639	11,355	12,321	12,802	13,509	14,336	12,874	10,163	8,741	8,802
Inventories	1,342	1,255	1,256	1,138	1,144	1,224	1,289	1,184	1,008	1,054
Other current assets	1,972	1,859	1,964	1,887	1,938	2,064	2,368	1,766	1,831	1,593
Assets, total	13,953	14,469	15,541	15,827	16,591	17,624	16,431	13,113	11,580	11,449
Shareholders' equity and minority	6,783	7,289	7,348	7,612	7,029	7,237	6,838	6,175	5,558	5,335
Non-current liabilities	4,753	4,770	5,845	5,966	7,322	8,104	5,992	4,564	3,830	3,731
Current liabilities	2,417	2,410	2,348	2,249	2,240	2,283	3,601	2,374	2,192	2,383
Equity and liabilities, total	13,953	14,469	15,541	15,827	16,591	17,624	16,431	13,113	11,580	11,449
Capital employed at year end	11,098	11,634	12,650	12,953	12,811	13,689	13,519	10,448	9,004	9,319
Return on equity, %	1.2	4.6	3.5	12.6	4.4	6.8	15.5	21.9	19.2	21.8
Return on capital employed, %	4.3	4.7	3.4	6.0	5.1	7.4	15.6	20.2	17.6	18.0
Equity to assets ratio, %, %	48.8	50.4	47.3	48.2	42.5	41.1	41.5	46.0	47.0	45.3
Gearing ratio, %	59	56	66	61	69	71	89	69	55	74
Net interest-bearing liabilities	3,973	4,048	4,836	4,617	4,874	5,135	6,041	4,071	2,940	3,739
Gross capital expenditure	708	699	749	686	720	620	3,850	2,175	609	696
% of sales	7.1	7.0	8.0	7.0	7.4	6.0	38.8	22.7	7.4	8.3
Gross capital expenditure excluding acquisitions	683	631	705	645	703	568	827	571	548	539
% of sales	6.8	6.3	7.5	6.6	7.2	5.5	8.3	6.0	6.6	6.4
Personnel at year end	26,352	28,704	31,522	33,433	34,482	35,579	36,298	32,755	30,963	32,351

Deliveries and production

	Deliveries	Production (1998-2004)								
Papers, total (1,000 t)	11,389	10,988	10,172	10,886	10,232	10,046	8,298	8,285	7,494	7,499
Plywood (1,000 m ³)	945	931	827	969	936	905	786	793	729	698
Sawn timber (1,000 m ³)	2,325	2,457	2,016	2,409	2,408	2,201	2,035	2,117	1,911	2,104

Formulaes for calculating indicators are given on page 126.

Quarterly figures 2006–2007

€m	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales by segment ¹⁾											
Magazine Papers	811	847	798	793	905	861	817	771	3,249	3,354	3,094
Newsprint	378	365	379	348	380	360	351	345	1,470	1,436	1,308
Fine and Speciality Papers	718	694	686	699	667	626	627	640	2,797	2,560	2,234
Label Materials	249	252	260	261	251	240	245	251	1,022	987	859
Wood Products	297	262	326	314	287	310	378	346	1,199	1,321	1,290
Other Operations	188	173	214	234	224	206	189	204	809	823	970
Internal sales	-129	-126	-126	-130	-131	-108	-123	-97	-511	-459	-407
Sales, total	2,512	2,467	2,537	2,519	2,583	2,495	2,484	2,460	10,035	10,022	9,348
Operating profit by segment											
Magazine Papers	-62	34	-339	27	75	-62	-85	16	-340	-56	-76
Newsprint	36	44	53	44	39	50	34	25	177	148	77
Fine and Speciality Papers	12	29	39	32	44	50	-13	27	112	108	85
Label Materials	10	10	13	18	17	11	16	17	51	61	41
Wood Products	21	-2	41	32	14	104	22	4	92	144	6
Other Operations	123	66	112	47	49	2	-36	55	348	70	144
Share of results of associated companies and joint ventures	2	14	6	21	9	18	8	26	43	61	41
Operating profit (loss), total	142	195	-75	221	247	173	-54	170	483	536	318
% of sales	5.7	7.9	-3.0	8.8	9.6	6.9	-2.2	6.9	4.8	5.3	3.4
Gains on available-for-sale investments, net	-	-	-	2	-2	-	-	-	2	-2	90
Exchange rate and fair value gains and losses	-4	-9	8	3	4	-3	5	12	-2	18	-4
Interest and other finance costs, net	-46	-42	-54	-49	-46	-41	-52	-46	-191	-185	-147
Profit (loss) before tax	92	144	-121	177	203	129	-101	136	292	367	257
Income taxes	-63	-25	-77	-46	-8	18	-2	-37	-211	-29	4
Profit (loss) for the period	29	119	-198	131	195	147	-103	99	81	338	261
Basic earnings per share, €	0.06	0.23	-0.38	0.25	0.37	0.29	-0.20	0.19	0.16	0.65	0.50
Diluted earnings per share, €	0.06	0.23	-0.38	0.25	0.38	0.28	-0.20	0.19	0.16	0.65	0.50
Average number of shares basic (1,000)	514,085	527,012	527,111	523,261	523,258	523,256	523,256	523,108	522,867	523,220	522,029
Average number of shares diluted (1,000)	515,322	529,530	530,980	527,086	526,416	525,938	525,874	525,936	525,729	526,041	523,652
Special items in operating profit											
Magazine Papers	-77	-	-371	-	6	-126	-133	-	-448	-253	-173
Newsprint	5	-	-	-	-2	-	-5	-	5	-7	-5
Fine and Speciality papers	-	-	-	-	-3	-2	-36	-	-	-41	-8
Label Materials	4	-	-	-	-	-	-	-	4	-	-
Wood Products	6	-	-	-	-	93	-	-10	6	83	-32
Other Operations	10	-	71	-	-6	-1	41	-5	81	29	-31
Share of results of associated companies and joint ventures	-	-	-	-	-	-	-	-	-	-	9
Special items in operating profit, total	-52	-	-300	-	-5	-36	-133	-15	-352	-189	-240
Special items reported after operating profit	-	-	-	-	6	-	-	-	-	6	98
Special items reported in taxes	-39	-	-32	-	35	20	-29	-	-71	26	42
Special items, total	-91	-	-332	-	36	-16	-162	-15	-423	-157	-100
Operating profit, excl. special items	194	195	225	221	252	209	79	185	835	725	558
% of sales	7.7	7.9	8.9	8.8	9.8	8.4	3.2	7.5	8.3	7.2	6.0
Profit before tax, excl. special items	144	144	179	177	202	165	32	151	644	550	399
% of sales	5.7	5.8	7.1	7.0	7.8	6.6	1.3	6.1	6.4	5.5	4.3
Earnings per share, excl. special items, €	0.24	0.23	0.28	0.25	0.30	0.25	0.04	0.21	1.00	0.80	0.54
Return on equity, excl. special items, %	7.1	6.9	8.5	7.3	8.7	7.2	1.1	6.1	7.4	5.7	3.8
Return on capital employed, excl. special items, %	6.9	6.8	8.3	7.9	8.7	7.1	2.7	6.4	7.4	6.2	4.5

¹⁾ Segment classification has been changed, see page 86.

Calculation of key indicators

Formulae for calculation of financial indicators

Return on equity, %:

$$\frac{\text{Profit before tax}^{2)} - \text{income taxes}}{\text{Shareholders' equity (average)}} \times 100$$

Return on capital employed, %:

$$\frac{\text{Profit before tax}^{2)} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (average)}} \times 100$$

Equity to assets ratio, %:

$$\frac{\text{Shareholders' equity} - \text{own shares}^{1)}}{\text{Balance sheet total} - \text{advances received} - \text{own shares}^{1)}} \times 100$$

Net interest-bearing liabilities:

$$\text{Interest-bearing liabilities} - \text{interest-bearing assets} - \text{listed shares}$$

Gearing ratio, %:

$$\frac{\text{Net interest-bearing liabilities}}{\text{Shareholders' equity} - \text{own shares}^{1)}} \times 100$$

EBITDA:

Operating profit + depreciation + amortisation of goodwill + impairment +/- change in value of biological assets +/- share of results of associated companies +/- special items items

Return on capital employed (ROCE) for the divisions (operating capital), %:

$$\frac{\text{Operating profit}}{\text{Non-current assets} + \text{stocks} + \text{trade receivables} - \text{trade payables (average)}} \times 100$$

¹⁾ Own shares were shown in the balance sheet in 1998–2001.

²⁾ 1998–2001: Profit/loss before extraordinary items and tax.

³⁾ 1998–2001: Profit/loss before extraordinary items and tax – income tax +/- minority interest.

Formulae for calculation of adjusted share-related indicators

Earnings per share:

Profit for the period attributable to equity holders of parent company³⁾

Adjusted average number of shares during the period excluding own shares

Shareholders' equity per share:

Shareholders' equity attributable to equity holders of parent company

Adjusted number of shares at end of period

Dividend per share:

Dividend distribution

Adjusted number of shares at end of period

Dividend to earnings ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12}} \times 100$$

P/E ratio:

$$\frac{\text{Adjusted share price at 31.12}}{\text{Earnings per share}}$$

Market capitalization:

Total number of shares x striking price at end of period

Adjusted share price at end of period:

$$\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$$

Adjusted average share price:

$$\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$$

Cash from operating activities per share:

Cash from operating activities

Adjusted average number of shares during the period excluding own shares

Key exchange rates for the euro at end of period

	31.12.2007	30.9.2007	30.6.2007	31.3.2007	31.12.2006	30.9.2006	30.6.2006	31.3.2006
USD	1.4721	1.4179	1.3505	1.3318	1.3170	1.2660	1.2713	1.2104
CAD	1.4449	1.4122	1.4245	1.5366	1.5281	1.4136	1.4132	1.4084
JPY	164.93	163.55	166.63	157.32	156.93	149.34	145.75	142.42
GBP	0.7334	0.6968	0.6740	0.6798	0.6715	0.6777	0.6921	0.6964
SEK	9.4415	9.2147	9.2525	9.3462	9.0404	9.2797	9.2385	9.4315

Auditor's report

To the shareholders of UPM-Kymmene Corporation

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of UPM-Kymmene Corporation for the period 1 January – 31 December 2007. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Helsinki 22 February 2008

PricewaterhouseCoopers Oy
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant

Production plants and sales network 2008



PRODUCTION PLANTS

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

Australia

Labelstock factory
UPM Raflatac, Braeside
(Melbourne)

Austria

UPM, Steyrermühl paper mill
Steyrermühl sawmill

Canada

Sawmills
- Bathurst

China

UPM, Changshu paper mill
Labelstock factory
UPM Raflatac, Changshu

Estonia

Otepää plywood mill

Finland

Paper mills
UPM, Jämsänkoski
UPM, Kaipola
UPM, Kajaani
UPM, Kaukas (Lappeenranta)
UPM, Kymi (Kuusankoski)
UPM, Rauma
UPM, Tervasaari (Valkeakoski)
UPM, Wisapaper
(Pietarsaari)

Pulp mills
UPM, Kaukas (Lappeenranta)
UPM, Kymi (Kuusankoski)
UPM, Tervasaari (Valkeakoski)
UPM, Wisapulp (Pietarsaari)

Labelstock factory
UPM Raflatac, Tampere

RFID factory
UPM Raflatac, Jyväskylä

Plywood mills

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

Veneer mills

UPM
- Kalso (Vuohijärvi)
- Lohja

Sawmilling

UPM
- Alholma (Pietarsaari)
- Heinola
- Kajaani
- Kaukas (Lappeenranta)
- Korkeakoski (Juupajoki)
- Leivonmäki
- Seikk (Pori)

Further processing

UPM
- Aureskoski
- Heinola
- Kaukas (Lappeenranta)
- Parkano

Wood-plastic composite
UPM ProFi, Lahti

France

Paper mills
UPM, Docelles
UPM, Chapelle Darblay
Stracel, Strasbourg

Labelstock factory
UPM Raflatac, Pompey
(Nancy)

Planing mills
UPM
- Aigrefeuille
- Boulogne sur Mer

Germany

Paper mills
UPM, Augsburg
UPM, Schongau
UPM, Schwedt
Nordland Papier, Dörpen

United Kingdom

Paper mills
Caledonian Paper, Irvine
Shotton Paper, Shotton

Labelstock factory
UPM Raflatac, Scarborough

Malaysia

Labelstock factory
UPM Raflatac, Johor

Poland

Labelstock factory
UPM Raflatac, Kobierzyce
(Wrocław) (under construction)

**SALES NETWORK**

(countries listed below)

Russia

UPM, Chudovo plywood and veneer mill
UPM, Pestovo sawmill and planing mill

Spain

Labelstock factory
UPM Raflatac, Polinyà (Barcelona)

South Africa

Labelstock factory
UPM Raflatac, Durban

United States

Blandin paper mill, Grand Rapids, MN

Labelstock factories

UPM Raflatac, Fletcher, NC
UPM Raflatac, Dixon, IL

RFID factory

UPM Raflatac, Fletcher, NC

North America

Canada
Mexico
Panama
United States

South America

Argentina
Brazil
Chile
Colombia
Peru

Europe

Austria
Belgium
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland

France
Germany
United Kingdom
Greece
Hungary
Iceland
Ireland
Italy
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine

Asia

China
Hong Kong
India
Indonesia
Israel
Japan
Jordan
Kuwait
Lebanon
Malaysia
Pakistan
Republic of Korea
Saudi Arabia
Singapore
Sri Lanka
Syria
Taiwan
Thailand
United Arab Emirates

Africa

Algeria
Egypt
Morocco
South Africa

Oceania

Australia
New Zealand

Glossary of terms

The following explanations are not intended as technical definitions, but to assist the general reader to understand terms used in this annual report.

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.

Biofuel

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)

See second-generation biodiesel.

Carbon dioxide, CO₂

Product of carbon combustion. Carbon emissions arise from fossil fuels, for instance.

Chain of Custody (CoC)

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

Coated fine paper (WFC)

Also known as woodfree coated paper. Coated fine paper is used for demanding printing. The level of coating and gloss is determined by the paper's end-use. Top quality coated fine papers are called art printing papers and due to excellent printability are used for art books, brochures, annual reports and other similar purposes. Other papers, with a lighter coating, are used for brochures, books, magazines, catalogues and other similar purposes.

Coated paper

Paper that has been coated on one or both sides with a mix of clay or carbonates and latex to create a high quality printing surface.

Graphic Papers

Newsprint, magazine and fine papers

LWC

Lightweight coated paper. The main characteristics of LWC paper are its higher gloss, brightness and smoothness relative to uncoated supercalendered paper. These properties are necessary for quality printing and good colour reproduction. The main uses of LWC paper are in the printing of mass circulation magazines, catalogues and direct mail advertising.

MFC

Machine-finished coated paper. MFC paper has high brightness, opacity, bulk and stiffness and is used in specialised magazines, catalogues, inserts, advertising materials and books. The soft nip calender gives a matt finish to the paper.

MWC

Medium-weight coated paper. MWC paper has higher basis weight and consequently better smoothness, brightness and gloss than LWC paper, qualities which are required for demanding colour reproduction during the printing process. The main uses of MWC paper are similar to those of LWC paper.

COD

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

Deinking

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

Ecoefficiency

Ecoefficiency means improving the productivity of natural resources. More services and increased well-being are generated using 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.

Face papers

Paper on which a label is printed in self-adhesive labelstock.

Fibre

The basic structural unit of paper. Fibres used in papermaking originate mainly from the stem of softwood and hardwood trees.

Fine paper

Also known as writing paper, free sheet or woodfree paper. Fine paper generally contains chemical pulp, with no more than 10% of mechanical pulp, and its filler content varies between 5% and 25%. Fine paper is generally highly regarded for its strength, brightness and good archiving characteristics. Fine paper may be coated or uncoated.

Forest energy wood

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

Gravure printing

A printing process using a thin, quick-drying ink applied from a cylindrical surface that has an engraved design. Roto-gravure printing is the opposite of letterpress printing, since the design areas are recessed into the cylinder instead of being raised in relief.

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 used extensively in industry.

Kraft paper

High strength packaging paper made of softwood pulp, which has the longest fibres. Kraft paper is used primarily in carrier bags, pouches and wrappings.

Label paper

Face and base papers suitable for self-adhesive labels. Face papers have distinct printing properties and base papers have siliconizing and tear-off properties.

Machine-Finished Speciality (MFS)

Uncoated, machine-finished speciality paper, containing mechanical pulp and recycled fibre as raw material. MFS is suitable for newspaper inserts, newspapers, magazines, books and directories.

Magazine paper

Paper used in magazines, catalogues, brochures, direct mail advertising and similar printed material.

MG paper

Machine-glazed paper. Paper made smooth and glossy on one side by drying on a heated, polished metal cylinder, which forms part of the drying section of the machine.

Newsprint

Uncoated paper manufactured mainly from mechanical pulp or recycled paper and used for newspapers and directories. Newsprint has a low basis weight and is mainly used for printing newspapers, but it is also used for printing magazines and advertising publications that do not require high quality printing and good colour reproduction.

Nitrogen oxides, NO_x, several different compounds

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

Non-impact printing

A method of printing involving electro-photographic and ink jet printing. In this method, the printing element does not make contact with the paper.

NO_x

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.

OSB

Oriented Strand Board is an engineered, building panel product made of strands, flakes or wafers sliced from small diameter, round wood logs and bonded with a binder under heat and pressure

PM

PM, or paper machine, is a term used when referring to individual paper manufacturing units within a paper mill.

Printing paper

Papers used in the graphic industry and for photocopying. Printing papers may be coated or uncoated.

Pulp

Generic name for wood or plant-based fibre masses used as raw material in papermaking.

Chemical pulp

Generic name for wood-based fibres separated from each other by "cooking" wood chips or plants in hot alkaline or acidic solutions of various chemicals.

Hardwood pulp

Pulp obtained from deciduous trees which has the advantage of shorter fibres, which enhance the printability of the paper.

Mechanical pulp

Generic name for wood-based fibres separated from each other mechanically.

Softwood pulp

Pulp obtained from coniferous trees which have the advantage of long fibres which enhance the strength of the paper.

REACH (Registration, Evaluation and Authorisation of Chemicals)

EU legislation on Registration, Evaluation and Authorisation of Chemicals.

Recovered paper (RCP)

Paper and board recovered for secondary use.

Recovery rate (RCF)

The ratio of recovered paper to all paper consumed.

Recycled fibre

Fibre extracted from recovered paper.

Release paper

In self-adhesive labelstock, the back of a label that is removed and discarded.

RFID

RFID, or Radio Frequency Identification, is a technology that incorporates the use of radio waves to uniquely identify an object. A typical RFID system consists of a tag, a reader and a host system. The advantage of RFID is that it does not require direct contact or line-of-sight. Several objects can be identified at the same time and information can be uploaded on each one.

SC

Supercalendered paper. Supercalendered paper is manufactured from mechanical and chemical pulp with mineral pigments as filler. This paper is used for printing magazines, especially multi-colour magazines with large circulations. Traditional SC paper is made for gravure printing,

but other SC paper grades have also been developed to suit offset printing.

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

Liquid transportation fuel produced from lignocellulosic feedstock. The process producing BTL diesel converts solid biomass into liquid fuel via gasification and Fischer Tropsch synthesis. Refined BTL diesel can be used in existing diesel engines.

Self-adhesive labelstock

Face and base materials laminated together for manufacturers of product and information labels. Self-adhesive labelstock is also known as pressure-sensitive labelstock.

Siliconized paper

Papers siliconized on one side to form the tear-off part of speciality tapes for hygiene products, labels and industrial applications.

Sulphur dioxide, SO₂

Compound formed in combustion of sulphurous material. It is also formed 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).

Uncoated fine paper (WFU)

Also known as wood-free uncoated paper, this paper is principally used for printing and writing. It includes A4 paper used for photocopying and business form paper used as continuous stationery for computer printouts. Uncoated fine paper, when pigmented or surface sized, is used for conversion into envelopes and labels. Machine-glazed wood-free paper is used for wrapping and for paper bags.

VOC

Volatile organic compounds.

Wood-free, free sheet or fine paper

Papers used by the graphic industry for writing, including office papers such as photocopying and laser printing paper. These papers may be coated or uncoated.

Wood-plastic composite, WPC

Wood-plastic composite is a composite material made of plastic and wood fibre. The technology uses recycled plastic and wood fibre to produce a composite result.

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