

WE LEAD.
WE LEARN.



ANNUAL REPORT 2008

The contents list will take you directly to the right page – just click on what you want to see.
In Acrobat Reader select settings: View/Page Display/Single Page

Contents

2	Key financial information 1999–2008	62	Accounts for 2008
4	Review by the President	64	Report of the Board of Directors
6	Strategy and financial targets	74	Board's proposal for the distribution of profits
8	Business drivers		Consolidated financial statement (IFRS)
10	Energy and Pulp Business Group	75	Income statement
12	Energy	76	Balance sheet
16	Pulp	77	Statement of changes in equity
20	Forest and timber	78	Cash flow statement
24	Paper Business Group	79	Notes
26	Paper		Parent company financial statements (FAS)
32	Engineered Materials Business Group	117	Profit and loss account
34	Label	117	Funds statement
36	Plywood	118	Balance sheet
38	New businesses	119	Notes
40	Success factors	123	Information on shares
42	Personnel	127	Key figures 1999–2008
46	Research and development	129	Quarterly figures 2007–2008
48	Environment	130	Calculation of key indicators
52	Corporate governance	131	Auditor's report
58	Board of Directors	132	Events in 2008
60	Group Executive Board and Group Executive Team	134	Production plants and sales network
		136	Glossary of terms
		138	Addresses

UPM

in brief

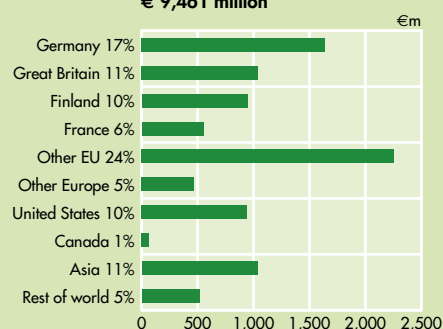
Annual General Meeting

UPM-Kymmene Corporation will hold its Annual General Meeting on Wednesday 25 March 2009 at 14:30 at the Helsinki Fair Centre, at 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/agm.

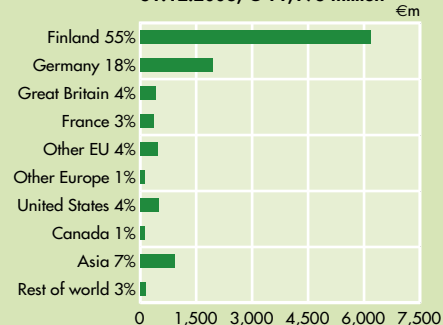
Dividend

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of € 0.40 per share be paid in respect of the 2008 financial year. To receive dividend, shareholders must be registered on the list of shareholders kept by Finnish Central Securities Ltd. on 30 March 2009, the record date for dividend payment. The Board of Directors will propose to the Annual General Meeting that the dividend be paid on 8 April 2009.

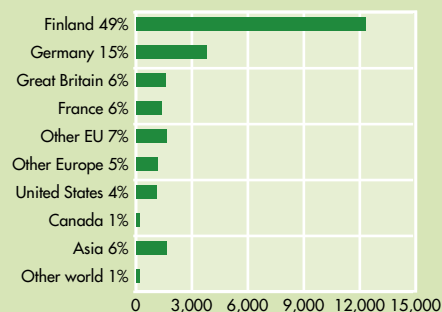
Sales by market, 2008
€ 9,461 million



Capital employed by area
31.12.2008, € 11,193 million



Personnel by area, 31.12.2008,
24,983



UPM IS ONE OF THE WORLD'S LEADING FOREST INDUSTRY GROUPS. OUR VISION IS TO BE THE FRONT-RUNNER IN THE NEW FOREST INDUSTRY AND TO CREATE VALUE FOR SHAREHOLDERS BY OFFERING COMPETITIVE PRODUCTS AND SERVICES TO CUSTOMERS WORLDWIDE. OUR COMPETITIVENESS IS BASED ON COST LEADERSHIP, CHANGE READINESS AND LEADING INNOVATION. UPM'S PRODUCTS ARE MANUFACTURED FROM RENEWABLE AND RECYCLABLE MATERIALS.

BUSINESS GROUPS

UPM ADOPTED A NEW BUSINESS STRUCTURE IN DECEMBER 2008. THE NEW STRUCTURE SETS THE BASIS FOR STRONG, MARKET DRIVEN OPERATIONS IN ALL BUSINESS AREAS.

ENERGY AND PULP

Energy		Share of Group ¹⁾
Sales, €m	478	1%
Capital employed on 31 Dec., €m	955	8%
Personnel on 31 Dec.	39	0%

Pulp

Sales, €m	944	1%
Capital employed on 31 Dec., €m	1,718	15%
Personnel on 31 Dec.	1,159	5%

Forest and timber

Sales, €m	1,920	9%
Capital employed on 31 Dec., €m	1,843	16%
Personnel on 31 Dec.	3,278	13%

PAPER

Sales, €m	7,011	72%
Capital employed on 31 Dec., €m	6,016	52%
Personnel on 31 Dec.	13,262	53%

ENGINEERED MATERIALS

Label		
Sales, €m	959	10%
Capital employed on 31 Dec., €m	529	5%
Personnel on 31 Dec.	2,851	11%

Plywood

Sales, €m	530	5%
Capital employed on 31 Dec., €m	295	3%
Personnel on 31 Dec.	3,799	15%

¹⁾ Sales % represents third-party sales

UPM is known as a modern and focused forest industry company. Today's globally operating company has origins dating back to late 19th century Finland. UPM has production facilities in 14 countries and it employs 25,000 people worldwide. UPM's shares are listed on the NASDAQ OMX Helsinki stock exchange.

UPM consists of three Business Groups: Energy and pulp, Paper, and Engineered materials. Sales in 2008 were €9.5 billion. Fibre-based businesses continue to be our strategy's foundation. Energy-related businesses, high value added materials and new markets will broaden our line of business.

UPM's production facilities rank among the world's best in terms of production efficiency and competitiveness. A high level of expertise and technology form the basis for quality and cost leadership.

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

UPM's strategy is supported by its R&D activity. During the past few years UPM has strongly developed new business opportunities. These include e.g. RFID tags and inlays, wood plastic composite and biofuels.

UPM's operations are based on close integration of raw materials, energy and production. The company is self-sufficient in pulp and 85% self-sufficient in electrical power. The company's own forests secure, in part, raw material supplies.

Responsibility is a core part of operations

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

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

We have adopted a lifecycle approach to our operations. This means that we recognise and manage all possible social and environmental impacts our products might have in each step of their lifecycle - from sourcing of raw materials, through production to the disposal of the product.

As a global company UPM complies with high standards everywhere it operates. The same is required from our suppliers.

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

In addition, UPM is committed to comply with the principles of the UN Global Compact Initiative. The 10 principles are related to human rights, labour standards, environment and anti-corruption.

UPM does not publish a separate environmental and corporate social responsibility report but has merged the contents into this annual report.

UPM in brief

ENERGY AND PULP

The Energy and Pulp Business Group consists of pulp mills in Finland, hydro power assets, and shares of associated pulp and energy companies. The Business Group is also responsible for forests and wood sourcing as well as the timber business. The biofuels business is also included in this Business Group.

UPM has invested heavily in long-term development of the energy and pulp businesses. UPM has closely integrated its forest resources with businesses.

In pulp, UPM has strongly focused on securing competitive fibre. UPM's associated company Botnia's investment in Uruguay is an example of this. In Russia, UPM has a joint venture company Borea which plans to build a modern forest industry facility in the Vologda region.

The Forest and Timber Business Area sources wood sustainably and secures availability of raw material for UPM's mills worldwide. In addition, the business area produces and sells high quality sawn goods.

UPM aims to become a major player in the production of second generation biodiesel and high quality renewable biofuels in the next few years. The company's biodiesel project is at the pilot phase.

PAPER

The Paper Business Group produces magazine papers, newsprint as well as fine and speciality papers. Customers are mainly publishers and printers as well as merchants and paper converters.

Magazine papers and newsprint are used in magazines, newspapers, newspaper supplements, printed advertising materials and catalogues. Fine paper is used in e.g. direct advertising products, magazines and copier and non-impact printing. UPM's range of speciality papers includes face and release papers for label materials and various packaging papers.

UPM is the world's leading producer of magazine papers, with approximately one fifth of the global market. The company is one of the leading suppliers in all chosen paper grades. UPM's combined annual paper production capacity is 11.5 million tonnes.

ENGINEERED MATERIALS

The Engineered Materials Business Group consists of self-adhesive label materials and the plywood business areas. In addition, wood plastic composite and RFID businesses are part of the Business Group operations.

UPM is the world's second largest producer of self-adhesive label materials and Europe's biggest plywood producer. In addition to the well-established businesses UPM has developed new products in the past few years.

UPM ProFi is a wood plastic composite material manufactured from surplus materials, primarily paper and plastic, left over from the production of self-adhesive labelstock. The material is ideal for outdoor use as decking.

UPM 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.



Key financial information 1999–2008

FIGURES FOR 2002–2008 ARE REPORTED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), WHILE FIGURES FOR PREVIOUS YEARS ARE BASED ON FINNISH ACCOUNTING STANDARDS (FAS).

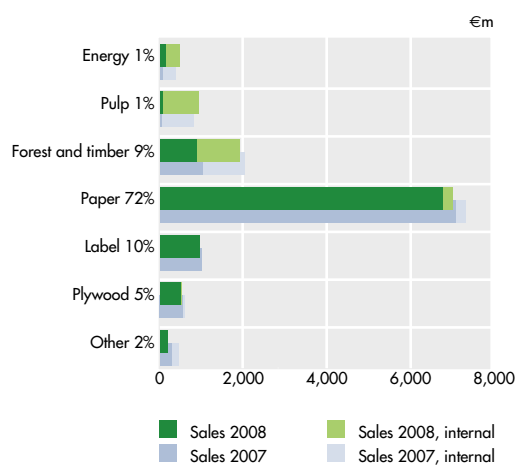


The year in brief

THE YEAR WAS CHARACTERISED BY THE RAPID SLOWDOWN IN THE ECONOMY AND HIGH WOOD COSTS. UPM CONTINUED EFFORTS TO ADAPT TO A BUSINESS ENVIRONMENT OF SLOW GROWTH AND RISING COSTS.

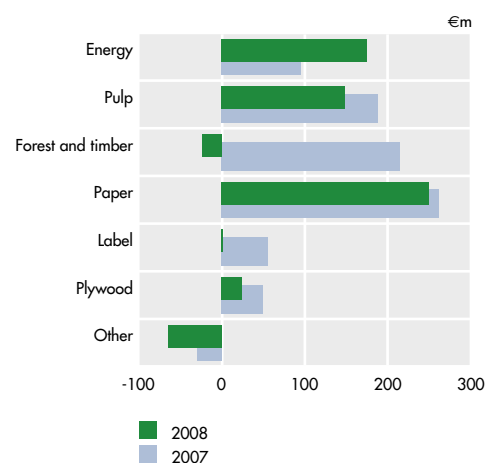
	2008	2007
Sales, €m	9,461	10,035
Operating profit, €m	24	483
excl. special items, €m	513	835
Profit (loss) before tax, €m	-201	292
Earnings per share, €	-0.35	0.16
excl. special items, €	0.42	1.00
Cash flow from operating activities per share, €	1.21	1.66
Return on equity, %	neg.	1.2
Dividend per share (2008: Board's proposal), €	0.40	0.75
Shareholders' equity per share at end of period, €	11.74	13.21
Gearing ratio at end of period, %	71	59
Capital expenditure and acquisitions, €m	551	708

Sales by business area¹⁾



¹⁾ % of external sales

Operating profit by business area (excluding special items)



Costs, excluding depreciation

%	2008	2007
Personnel expenses	17	17
Logs and pulpwood	17	17
Delivery of own products	10	12
Fillers, coating and chemicals	13	14
Energy	11	10
Recovered paper	4	4
Other raw materials	13	11
Other costs	15	15
Total	100	100

Costs totalled € 8.4 billion in 2008 (2007: € 8.7 billion).

Review by the president



Dear Reader,

The year 2008 was characterised by the rapid slowdown in the economy and high wood costs. Sales decreased across all of our businesses and profitability declined significantly from the level of 2007. The final quarter was weak, even though operating profit for the whole year was € 513 million, excluding special items.

Earnings per share, excluding special items, amounted to € 0.42 for 2008, compared with € 1.00 per share in the previous year. The Board proposes that according to UPM's new dividend policy based on cash flow, the dividend payment to be € 0.40 per share.

During the last four years, we have reduced costs significantly and are now better prepared to respond to the weakened economy and changing structures.

In the past year, UPM continued efforts to adapt to a business environment of slow growth and rising costs. Except for wood and energy prices, the company was able to reduce other variable and fixed costs significantly – an achievement for which all UPM employees deserve thanks.

In September 2008, we decided to reorganise our business structure and close our least competitive paper and pulp capacity in Finland as well as to streamline operations in all business groups, units and functions.

The Kajaani paper mill and the Tervasaari pulp mill were closed permanently by the end of 2008. We also published plans to close several self-adhesive labelstock production lines and reduce cutting capacity in Europe in 2009–2010. In the plywood and timber businesses, the decline in demand led to layoffs as well as the closures of the Luumäki further processing plant and the Leivonmäki sawmill.

Our proactive moves to close down paper capacity improved cost competitiveness and customer mix of our paper business. We were also able to raise paper prices slightly during the year.

Moreover, the company's long-term financial targets and dividend policy were renewed. We want to secure sufficient financial flexibility by emphasising the importance of good balance sheet and especially cash flow. The new dividend policy aims to provide, in addition to a stable dividend, cash for repayment and growth investments.

According to our new vision, we want to become the front-runner in the new forest industry. The new forest industry refers to a business environment in which companies must find completely new ways to exploit biomass opportunities even better than before, as well as create added value and cost benefits for their customers. It also means a new competitive environment in which cost leadership, readiness to change and innova-

tion are the preconditions for success.

The new business structure implemented in December is a clear sign of our readiness to change and our new direction. We now operate in three Business Groups instead of five divisions.

In the future, energy and pulp will not only serve our paper industry, but they will be developed into independent market-driven businesses.

Combining the three former paper divisions into one Business Group enables faster decision-making and more streamlined operations. In the paper business, UPM has a unique opportunity to strengthen its cost leadership by optimising resources, production and investments.

With the help of engineered materials, UPM plans to increase the importance of rapidly growing and high value-adding businesses to the company.

We believe that the new structure offers good opportunities to draw on the company's competitive advantages, and I am confident that these changes will have a far-reaching impact on UPM.

In 2009, the operating environment will be difficult. It is crucial to ensure the implementation of our streamlined, flexible way of working, so that we maintain a high level of customer service but at the same time save costs. In this way, we can step up our operations quickly when the business begins to take a turn for the better.



Jussi Pesonen
President & CEO



Strategy and financial targets

THE COMPANY VISION IS TO BE THE FRONT-RUNNER OF THE NEW FOREST INDUSTRY. UPM CREATES VALUE FROM RENEWABLE AND RECYCLABLE MATERIALS.

UPM's business portfolio consists of energy, chemical pulp, printing papers, selected speciality papers, self-adhesive label materials, plywood and sawn timber.

In the long term, UPM will increase the emphasis on new growth markets, engineered materials, energy and competitive pulp in the business portfolio. Fibre based businesses continue to form the cornerstone of the company's strategy.

In the new business environment cost efficiency, change readiness and innovation are key success factors for the company.

Development of the company requires a solid financial position and profitability at all times. The company aims to secure profitability and cash flow through undisputed cost leadership.

UPM secures competitive access to critical production inputs. Today the company is self-sufficient in chemical pulp and largely self-sufficient in electrical power.

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

In Europe, UPM's target is to be a competitive supplier leveraging its efficient production facilities and operational efficiencies through the value chain as well as access 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 cost base are of primary interest to UPM.

UPM's new business opportunities include for example energy related businesses like biofuels, RFID and wood plastic composites. 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 targets and dividend policy

Subsequent to the new business structure, UPM established new financial targets for each business area and the whole Group. The new financial targets emphasise the importance of cash flow and the financial flexibility of the company in steering the

businesses.

The company's long term target is an operating profit margin that exceeds 10%. The return of equity target is at least five percentage points above the yield of a 10 year risk-free investment such as the Finnish government's euro-denominated bonds. At the end of 2008, the minimum target for return on equity, as defined above, was 8.7%.

The gearing ratio is to be kept below 90%. The company has raised the priority of debt reduction and continues to emphasise the company's aim to meet the requirements of capital markets for an investment grade borrower.

UPM intends to pay as an annual dividend at least one third of net cash flow from operating activities less operational capital expenditure. To promote stability in dividends, net cash flow will be calculated as an average over a three year period. Remaining funds are to be allocated between growth capital expenditure and debt reduction. The net cash flow from operating activities for 2008 was € 628 million and operational capital expenditure € 235 million.

Achievement of financial targets

		2008	2007	2006	2005	2004
Return on equity, %	Min. target	8.7	9.4	9.0	8.2	8.7
Return on equity, %	Achieved	neg.	1.2	4.6	3.5	12.6
excluding non-recurring items, %	Achieved	3.4	7.4	5.7	3.8	3.4
Operating profit, excluding special items, % ¹⁾	> 10 % of sales	5.4	8.3	7.2	6.0	4.8
	Target					
Gearing ratio, %	< 90 ¹⁾	71	59	56	66	61
Dividend based on operating cash flow, € ²⁾	Min. target > 1/3	0.40	-	-	-	-
Dividend per share, € ³⁾		0.40	0.75	0.75	0.75	0.75
Dividend to earnings ratio, %	Prior years > 1/3	neg.	468.8	115.4	150.0	42.6

¹⁾ Targets as revised in January 2009, ²⁾ Targets as revised in January 2009: at least one third of net cash flow from operating activities less operational capital expenditure (an average over a three year period), ³⁾ Board's proposal for 2008

Strategic steps 2008

1

European profitability

UPM's three year profitability programme in 2006–2008 was completed as planned and delivered approximately € 190 million annual savings.

UPM continued actions to secure its profitability by closing its least competitive paper and pulp capacity in Finland. UPM permanently closed the Kajaani paper mill and the Tervasaari pulp mill in Valkeakoski, Finland.

In order to secure label business cost competitiveness UPM announced its plans to restructure the European operations of its Label Business.

UPM continued to restructure its sawmilling business and closed permanently the Leivonmäki sawmill and the Luumäki further processing mill in Finland. In addition, UPM continued to streamline operations in all business groups, units and functions.

UPM continued to build a new combined heat and power plant utilising biomass at the Caledonian mill in the United Kingdom. When completed, the new power plant will increase the share of renewable energy sources. Pohjolan Voima, Lappeenranta Energia and UPM continued the joint power plant project at the UPM's Kaukas mill site.

Investments were targeted to quality and efficiency improvements. No new major capacity investments were made.

2

New growth markets

UPM opened two labelstock factories. In January, UPM Raflatac's factory started operations in Dixon, Illinois in the US. In November, labelstock production started in Wrocław in Poland.

UPM signed an agreement to form a joint venture company, OOO Borea with the Russian Sveza Group. The target is to build a state-of-the-art forest industry facility in the Vologda region of Northwest Russia. The feasibility study on the project is ongoing.

UPM expanded the production of coated plywood and renewed the manufacturing process for base plywood at the Chudovo mill in Russia. UPM expanded the plywood mill and built a plywood coating line at the Otepää plywood mill in Estonia in order to improve production efficiency and to increase the processing value of plywood products.

3

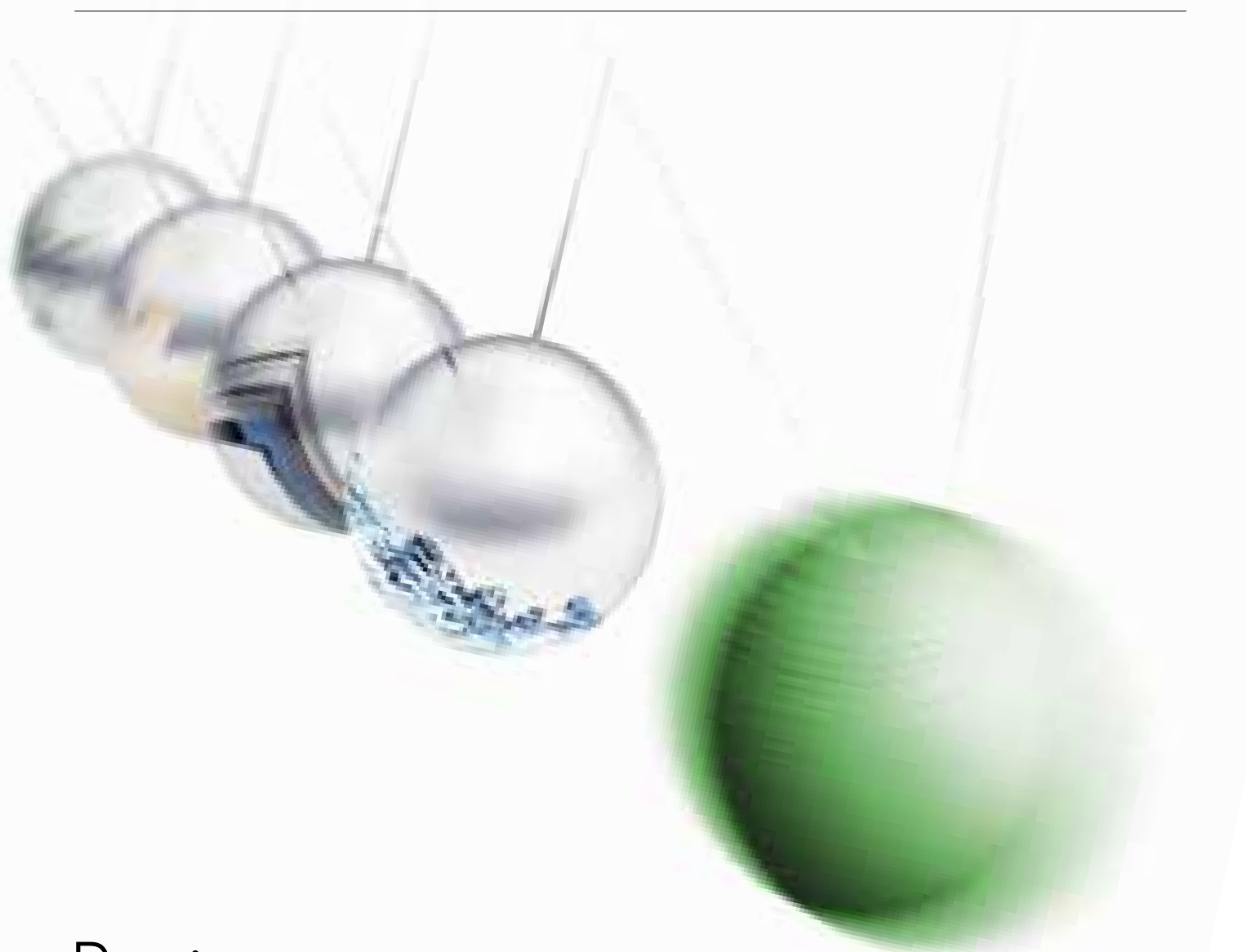
New businesses

UPM expanded the production of UPM ProFi, an innovative wood plastic composite made of paper and plastics surplus originating from UPM's labelstock production. A new factory started operations in Bruchsal, Germany.

UPM started RFID tags and inlays production in Guangzhou, China. The new manufacturing site serves the fast-growing Asian market in all RFID end-use areas.

UPM and the Finnish Lassila & Tikanoja (L&T) developed a new ethanol and energy production concept that, for the first time, utilises commercial and industrial waste, such as paper, cardboard, wood and plastic. Based on extensive test results, the concept will offer business prospects in the future.

UPM, together with Andritz/Carbona, started testing gasification technology at the pilot plant in the USA. The tests have proceeded as planned.



Business drivers

THE YEAR STARTED WITH GROWTH EXPECTATIONS, BUT WAS MAINLY CHARACTERISED BY RAPIDLY DETERIORATING GLOBAL ECONOMY TOWARDS THE END OF THE YEAR.

The year 2008 started with expectations of slower growth globally despite increasing commodity prices and rising inflation. Export-led economies in Asia were still growing strongly supported by good demand for consumer goods in Europe and North America.

The picture changed in early autumn with the financial crisis spreading rapidly from the United States first to other advanced economies and then globally. Since then economic forecasts have been revised downward several times and towards the end of the year uncertainty about the future continued to grow.

Consumer and business confidence was relatively positive at the beginning of the year despite a slight slowdown already during the latter part of 2007. In the autumn the sentiment changed rapidly and turned negative in the world's major economies. Around the globe, governments announced plans to restore confidence in the financial markets and launched big economic stimulus packages.

Economic growth decelerated also in China, India and Russia in response to declining export demand for consumer goods and commodities and declining investments.

Volatility characterised currency markets throughout the year. The dollar increased in value against the euro in the early part of the year, then took a plunge but rebounded again at the very end of the year. The UK pound and Swedish krona devalued against the euro particularly during the last couple of months of the year.

Commodities & raw materials

Prices for commodities and raw materials kept rising in the early part of the year. However, rapidly deteriorating demand depressed prices from late summer. In early

December, crude oil prices plunged to less than a third of the record high level reached in July.

Wood raw material prices in Finland increased in the early part of the year and demand was still at a high level, but from early summer prices decreased due to lower demand. The threat of higher export duties for wood raw material from Russia disturbed the wood markets in Finland during the year.

Demand and prices for pulp deteriorated sharply from April due to lower paper and board demand. Similarly, a sharp drop in demand in China for recycled fibre has impacted recovered paper prices both in Europe and North America. Despite declines in the latter part of the year, production costs for all forest industries increased considerably during the year.

Construction

Housing markets deteriorated around the world, turning sharply to the worse after the summer months. In Europe construction activity deteriorated at a very rapid pace towards the end of the year, the fastest declines being in the United Kingdom, Spain and Ireland. In the United States, housing starts dropped more than 70% from their peak levels in 2006 and prices declined significantly. The emerging markets were also impacted and they too suffered from oversupplied housing markets, high prices and rapid declines in construction activity. This decline in construction activity impacted the markets for building materials, including wood based materials.

However, urbanisation, increasing population, changes in household sizes and energy efficiency requirements are still driving developments in the construction industry implying changes in types of houses and ways to build them.

Retail sector

Consumer confidence in North America and Europe dropped drastically as the financial crisis unfolded amid increasing insecurity and fears of unemployment. Consumers were delaying or postponing purchases of durable consumer goods ranging from furniture to cars, but continued to buy essential goods, e.g. household goods.

The retail sector continued the trend to polarise with discount stores and high end stores holding on, but the operators in the middle losing ground.

The tight credit market combined with other developments forced retailers to seek efficiencies in the value chain and to focus on offering value for money to customers. These developments had an effect on packaging needs for consumer goods as well as advertising in the retail sector.

Advertising

Advertising expenditure declined on an annual basis globally from the previous year, however with large differences between various parts of the world. Print advertising declined in value, but held its place as the second largest major media. In value terms, newspapers and magazines suffered particularly in the mature markets, but fared better in the emerging markets. Advertising paginations for both newspapers and magazines also declined in the major western economies.

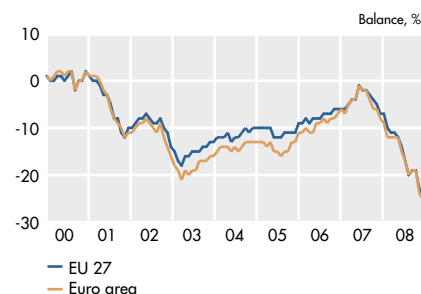
Global direct mail expenditure grew, driven by cost effectiveness and possibilities for better targeting. Online advertising continued to grow all over the world by double digit numbers during the year

EU climate policy

In January 2008, the EU Commission published its proposal for the Energy and Climate Package. The package set ambitious goals for 2020 – reducing greenhouse gas emissions 20% from 1990 levels, increasing the share of renewable energy to 20% and improving energy efficiency by 20% – the so called 20-20-20 plan. These goals were broadly agreed in early December by the European Parliament.

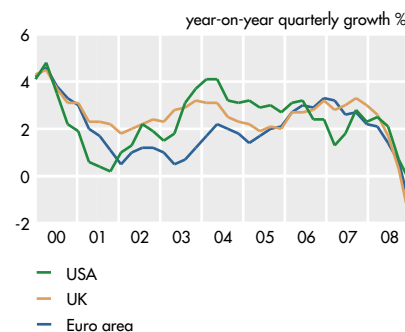
Concessions were however granted for energy intensive industries and to heavy coal users among the “new” EU member countries’ energy sector. The pulp and paper industry is included among the energy intensive industries and will get free emissions allowances for the next emissions trading period. These EU goals will, however, increase competition for biomass and thus will have an impact on the wood raw material markets.

EU – Consumer confidence index



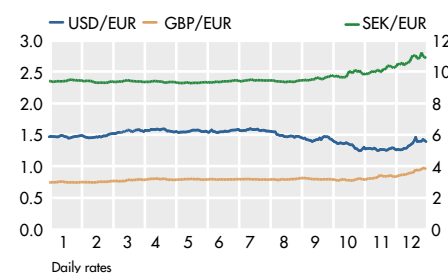
Source: EU Commission, Business and Consumer Survey

GDP development



Source: Global Insight, Eurostat

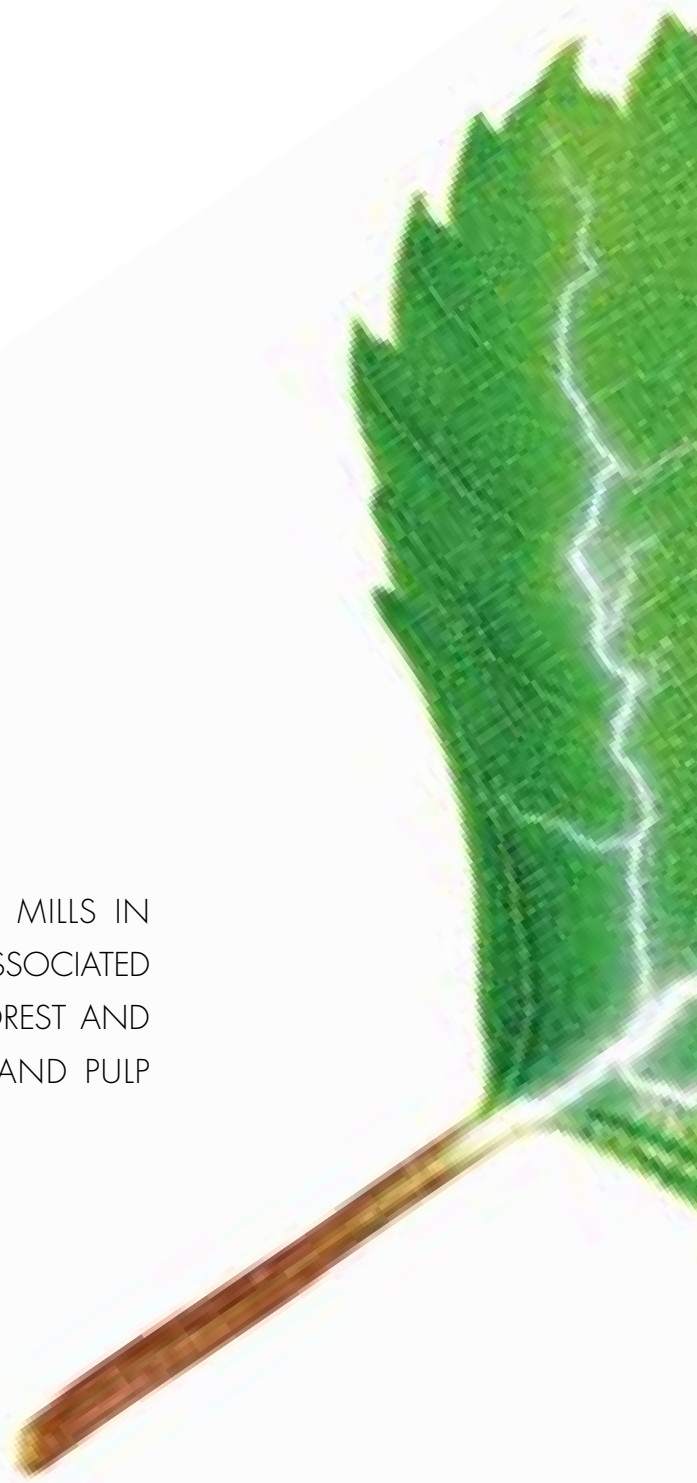
USD, GBP, SEK/EUR exchange rate



Source: Bank of Finland

Energy and pulp

UPM ENERGY AND PULP COMPRISES OF PULP MILLS IN FINLAND, HYDRO POWER ASSETS, SHARES OF ASSOCIATED PULP AND ENERGY COMPANIES AS WELL AS FOREST AND TIMBER. UPM AIMS TO DEVELOP ITS ENERGY AND PULP OPERATIONS AS MARKET-DRIVEN BUSINESSES.





Energy

- 9 hydro power plants in Finland
- Shares in the associated energy company Pohjolan Voima Oy (PVO), and in Kemijoki Oy
- Versatile and competitive energy portfolio
- Electricity generating capacity is approximately 1.6 GW

Energy

UPM AIMS TO BECOME A MAJOR PLAYER IN THE EMISSION FREE ENERGY MARKET AND EXPAND THIS BUSINESS, LEVERAGING COST COMPETITIVE ENERGY SOURCES.

Description of operations

The Energy business area manages and develops UPM's power generation assets that are not integrated into pulp and paper mills, generating and procuring electricity for the group and for market sales. It is also responsible for UPM's electricity distribution and natural gas procurement.

The Energy business area's total electricity generating capacity was about 1,626 MW at the end of 2008. This includes UPM's shares in energy companies, mainly in the associated company Pohjo-

lan Voima Oy (PVO), and in Kemijoki Oy, as well as UPM's own hydropower plants (174 MW).

UPM owns 41.84% of PVO, the second largest power generator in Finland. PVO generates and procures around 25,000 GWh of electricity and heat annually, for its shareholders on a cost basis. UPM's share of PVO's electricity generation covers roughly 35% of the group's total electricity requirement. Most of this is hydropower and nuclear power. UPM is free to use the electricity or sell it to the market.

PVO is a majority shareholder with

58.12% in Teollisuuden Voima Oy (TVO). TVO is a nuclear power producer operating on the same principle as PVO, generating electricity at cost to its shareholders. PVO also owns 25% of the Finnish electricity transmission system operator Fingrid, responsible for the national transmission grid.

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

UPM's Paper business group is the Energy business area's largest customer, but Energy also has significant external sales (29% in 2008).

UPM's combined heat and power (CHP)

plants operating on paper mill sites are included in the Paper business group. Including these and recovery plants of pulp mills, UPM's total electricity generation capacity was 2,539 MW, which supplies some 85% of the company's total electricity consumption.

Market review and business performance

The average price in the Nordic electricity exchange rose 60% in 2008 from 2007, to € 44.7/MWh (27.9/MWh). In the early part of the year oil and coal prices increased rapidly in the global energy markets. At the same time CO₂ emission allowance prices increased compared with 2007, as the second phase of the EU emission trading scheme started with lower allocation of emission allowances. The combination of higher fuel and CO₂ prices drove the increase in electricity market prices.

In the latter part of the year, however, electricity forward prices started to decline as fossil fuel prices and CO₂ emission allowance prices decreased.

UPM's energy business area's sales for 2008 were € 478 million (379 million). Operating profit excluding special items increased to € 175 million (95 million). Its average electricity sales price increased, while it also benefited from high availability of hydropower.

Business development and restructuring

In December UPM launched a new group structure, where the Energy business area is seen as a market-driven growing business rather than merely a resource for UPM's other businesses. This allows the company to develop energy based businesses on a stand-alone basis as well as in conjunction with the pulp and paper mills. Usage of renewable biomass is one of the key characteristics in this.

The largest ongoing development project in the Energy business area is TVO's new 1,630 MW nuclear power plant at Olkiluoto, Finland. The new power unit is planned to be in operation during 2012. Through PVO, UPM is entitled to a 468 MW share, representing approximately 29% of the new plant's output.

In April 2008, TVO submitted an application for the decision in principle concerning the construction of a fourth nuclear power plant at Olkiluoto. The application was submitted to the Council of State.

Energy, key figures	2008	2007
Sales, €m	478	379
Operating profit excl. special items, €m	175	95
Capital employed (average), €m	951	994
Personnel on 31 Dec.	39	26
Electricity deliveries, MWh	10,167	10,349

UPM's sales 2008,
€ 9,461 million

Energy 1% (external sales)



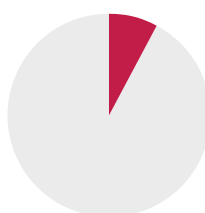
UPM's operating profit 2008,
€ 513 million
(excl. special items)

Energy 34%

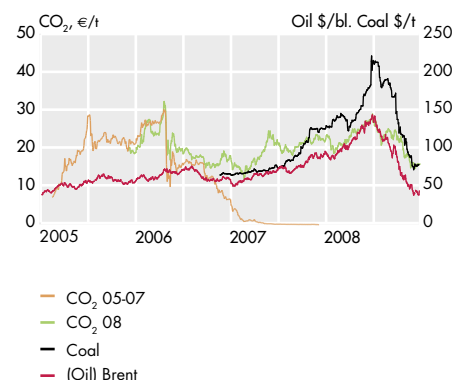


UPM's capital employed
31.12.2008, € 11,193 million

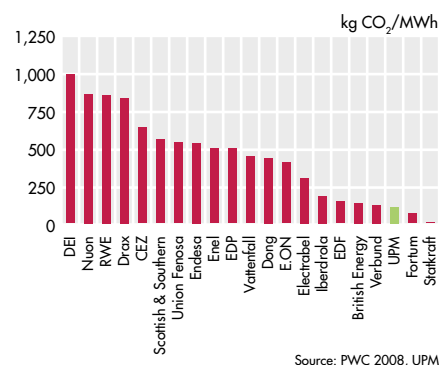
Energy 8%



Fuel and CO₂ emission allowance prices

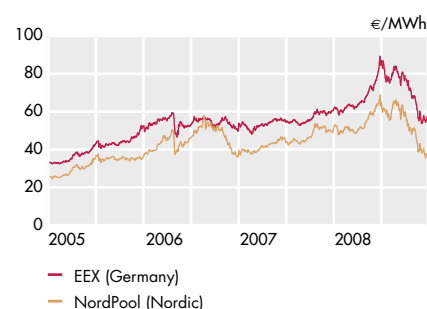


Specific CO₂ emissions in electricity generation



Source: PWC 2008, UPM

Electricity 1-year forward price



Power generation capacity of own power plants and through shareholdings

	Nominal MW
Own hydropower	174
Hydro (through shareholdings)	493
Nuclear (through shareholdings)	541
Thermal (through shareholdings)	418
Total in Energy business area	1,626
CHP in Paper business group	913
Total UPM	2,539

UPM's energy balance

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-based combined heat and power on paper mill sites. Effective large-scale utilisation of biomass based fuels is an important aspect of the group's energy strategy from both the economical and environmental point of view.

UPM's own electricity consumption totalled 16.7 TWh (18.2) in 2008. The company generated 14.2 TWh (14.3) in its own and share-owned power plants and hence its electricity self-sufficiency rose to 85% (79%).

The company is a net seller of electricity in Finland and buys electricity in other markets. Its net electricity purchases totalled 2.5 TWh (3.9) in 2008.

Heat generated from fuels procured by UPM, plus purchased heat and heat generated by thermo mechanical pulping, totalled 33.3 TWh (36.6). Carbon-neutral energy sources dominate UPM's energy portfolio.

UPM's total CO₂ emissions from electricity generation were 107 gCO₂/kWh. ■

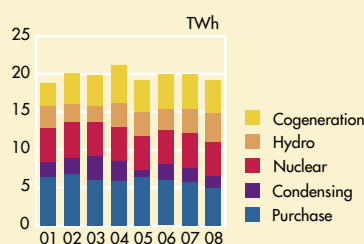
Electricity procurement and consumption

TWh	2008	2007
Procurement		
Hydropower shares	3.9	3.2
Back-pressure power	4.3	4.7
Nuclear power shares	4.5	4.5
Thermal energy shares	1.5	1.9
Purchased electricity	5.0	5.7
Total	19.2	20.0
Consumption		
Mills in Finland	10.3	11.2
Mills outside Finland	6.4	7.0
Sales	2.5	1.8
Total	19.2	20.0

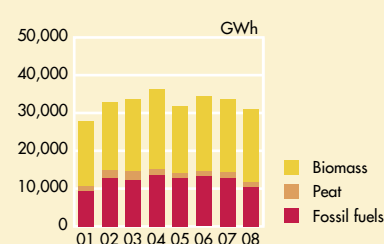
Sources of thermal energy

TWh	2008	2007
Black liquor	11.1	11.3
Bark and other biofuels	8.0	8.0
Heat recovered from TMP production	2.1	2.6
Peat	1.3	1.7
Purchased heat	0.3	0.3
Natural gas	7.1	7.9
Oil	0.3	1.0
Coal	3.1	3.7
Total	33.3	36.6

Group electricity supply



Distribution of fuels



Consistent investments in cleaner energy

Carbon dioxide neutral energy sources dominate UPM's energy portfolio. Particularly, UPM has been a forerunner in the use of forest biomass – presently in Finland more than 80% and globally 62% of fuels used at UPM's mills are biomass-based and CO₂-neutral, thus not accelerating climate change. As a comparison, the EU target for renewable energy sources by 2020 is 20%.

Since the early 1990s, UPM has invested in building new mill site power plants that use biomass as fuel. This, in addition to consistent energy efficiency improvements and increased share of recycled fibre, has resulted in a significant global reduction by 40% in the company's fossil CO₂ emissions per tonne of paper produced since 1990. The latest project to be completed was the rebuild of the chemical recovery plant at the Kymi pulp mill in Finland in July 2008.

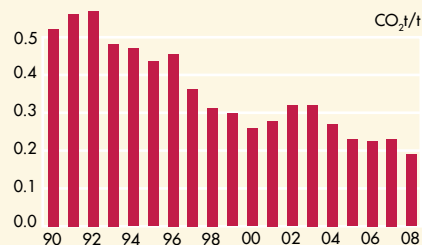
Other ongoing investments that will increase the share of renewable energy sources are the construction of combined heat and power plants using biomass at the Caledonian paper mill in the United Kingdom and at the Kaukas mill site in Finland.

Read more about UPM's work on biomass-based fuels and energy efficiency on www.upm-kymmene.com ■

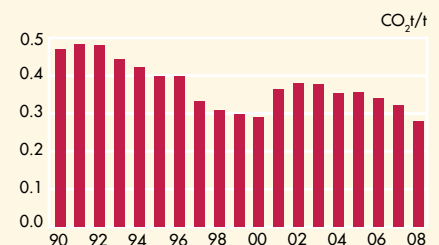
Minimising UPM's impact on climate change

- Increasing the use of forest energy by investing in new mill site power plants using biomass as fuel
- Continuous improvement of energy efficiency

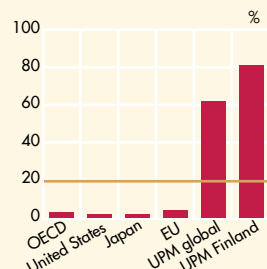
Fossil carbon dioxide emissions per tonne of paper in Finland



Fossil carbon dioxide emissions per tonne of paper, Group

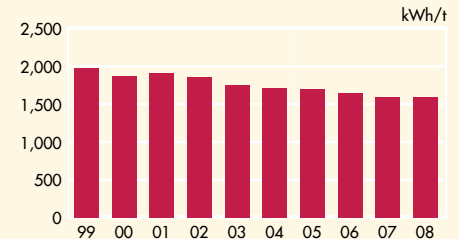


Share of renewable energy sources in energy production



In Finland more than 80%, and globally 62% of fuels used at UPM's mills are biomass-based and CO₂-neutral

Electricity consumption per tonne of paper



Read more about UPM's environmental performance on page 48.

For more information on UPM and the environment see www.upm-kymmene.com/responsibility.

Pulp

- 3 pulp mills in Finland (as of 1 Jan. 2009)
- Shares of associated pulp company Oy Metsä-Botnia Ab
- Annual pulp production capacity is 2.1 million tonnes, including Oy Metsä-Botnia Ab 3.6 million tonnes

Pulp

UPM AIMS TO GROW AS A PRODUCER OF COMPETITIVE PULP.

Description of operations

The Pulp business area is a chemical pulp producer operating in Finland and through its associated company Oy Metsä-Botnia Ab. The products range from northern softwood pulp and northern hardwood pulp to eucalyptus pulp made from fast growing plantation wood in the southern hemisphere.

UPM's own three modern pulp mills in Finland have a pulp production capacity of 2.1 million tonnes.

UPM owns 47% of its associated company Oy Metsä-Botnia AB. After the closure of the Kaskinen pulp mill in March 2009, Metsä-Botnia has four pulp mills in Finland and a

new one million tonne pulp mill in Uruguay. In 2008, UPM's ownership in Metsä-Botnia entitled it to 1.8 million tonnes of capacity. The Pulp business area's total annual pulp production capacity is thus 3.8 million tonnes.

On a group level, UPM is a net seller of softwood pulp and net buyer of hardwood pulp. Overall, UPM is largely self-sufficient in chemical pulp

Market review and business performance

During the first half of 2008, chemical market pulp demand and prices increased from the previous year. Global chemical

pulp market prices peaked during the second quarter in USD and in October in euro terms. Since then, market pulp prices fell very rapidly, as the weakening global economy led to decreasing pulp demand and growing pulp inventories.

The average softwood pulp (NBSK) market price in euro terms in 2008 was practically unchanged from 2007, at € 579/tonne. However, at the end of the year, the NBSK price had fallen to € 458/tonne, which is 21% below the average price during the year. The average hardwood pulp (BHKP) market price in euro terms, at € 536/tonne, increased some 4% from 2007 (€ 513/tonne). At the end of the year the

price stood at € 417/tonne, 22% below the average price level.

Industry peers announced several temporary and permanent pulp mill closures during the second half of the year. Furthermore, the Latin American hardwood pulp producers announced the delays of several new pulp mill projects.

UPM's pulp business area's sales for 2008 were € 944 million (808 million). Operating profit excluding special items declined to € 148 million (188 million). Wood costs in Finland increased from the previous year, burdening profitability of pulp production in Finland. The Pulp business area's profitability weakened in the Finnish operations, while Metsä-Botnia's new pulp mill in Uruguay had a positive effect on profitability. The mill in Uruguay started in November 2007.

Business development and restructuring

In December UPM launched a new group structure, where the Pulp business area is seen as a market-driven business rather than merely a resource for UPM's other businesses.

In December UPM closed Tervasaari mill in Finland, its least competitive pulp mill with an annual capacity of 210,000 tonnes of chemical pulp.

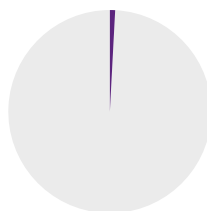
In June, UPM completed the chemical recovery plant rebuild at the Kymi pulp mill, which improves energy self-sufficiency, while reducing CO₂ emissions. The total investment amounted to € 360 million.

In April, UPM signed a shareholders' agreement to form a 50/50 joint venture company with the Russian Sveza Group to build a forest industry facility in the Vologda region of Northwest Russia. The letter of intent was signed in December 2007. The planned industrial complex would include a modern pulp mill, a sawmill and an OSB building panels mill. The final investment decision is subject to the satisfactory outcome of the feasibility study and the necessary approvals from authorities.

Pulp, key figures	2008	2007
Sales, €m	944	808
Operating profit excl. special items, €m	148	188
Capital employed (average), €m	1,674	1,423
Personnel on 31 Dec.	1,159	1,186
Pulp deliveries, 1,000t	1,982	1,927

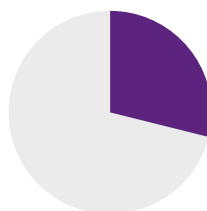
UPM's sales 2008,
€ 9,461 million

Pulp 1% (external sales)



UPM's operating profit 2008,
€ 513 million
(excl. special items)

Pulp 29%

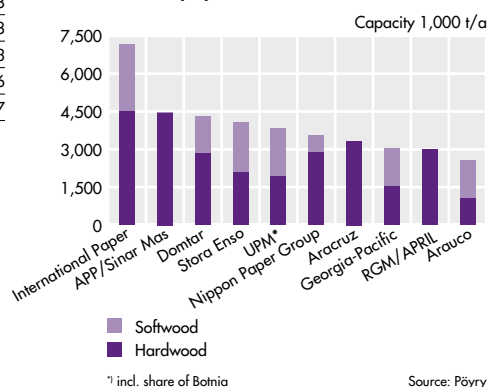


UPM's capital employed
31.12.2008, € 11,193 million

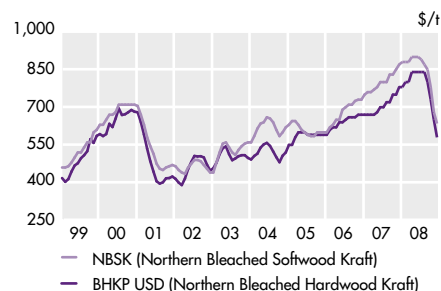
Pulp 15%



World's biggest producers of bleached chemical pulp



Market pulp prices – chemical pulp



Pulp production capacity

1,000 t/a	January 2009
Kaukas	740
Pietarsaari	800
Kymi	540
Own production capacity, total	2,080
Entitlement to associated company's capacity corresponding to UPM's shareholding ¹⁾	1,540
Total UPM	3,620

¹⁾ Excl. Kaskinen

UPM's fibre balance

UPM aims at high self-sufficiency in chemical pulp production with increasing focus on competitive production.

In chemical pulp, UPM is self-sufficient through its own pulp mills and those of the associated company Metsä-Botnia. For commercial and logistics reasons, UPM also buys pulp on the open market. These purchases are from selected pulp producers under long-term contracts.

UPM's recycled fibre consumption was 3.0 million tonnes (3.0) in newspaper and magazine paper production. The aim in recovered paper 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.

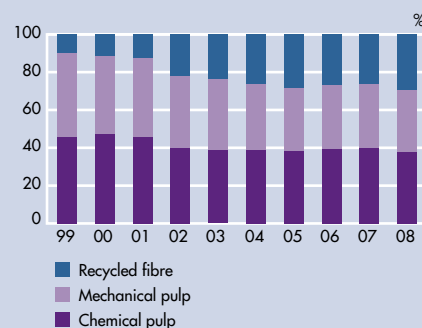
Mechanical pulp represents the third major source for wood fibres for UPM. Mechanical pulping is integrated into paper production and is used mainly in magazine papers. ■

Pulp production and consumption

1,000 t/a	2008	2007
-----------	------	------

Pulp production		
Chemical pulp		
own production	2,007	2,149
from associated company	561	448
Mechanical pulp	2,602	2,942
Recycled fibre pulp	2,400	2,305
Total	7,570	7,844
Pulp consumption		
Chemical pulp	3,117	3,561
Mechanical pulp	2,648	2,983
Recycled fibre pulp	2,400	2,305
Total	8,165	8,849

Fibre raw materials used in UPM's paper



Use of recovered fibre is a key element of UPM's lifecycle approach

In addition to chemical and mechanical pulp, nearly 30% of all fibre raw material used in UPM's paper production is recovered paper. Recovered paper is used mainly for the production of newsprint but also for uncoated and coated magazine paper grades. The UPM mills at Chapelle Darblay in France, Schwedt in Germany and Shotton in the United Kingdom produce paper from 100% recovered paper.

Recovered paper is an essential raw material for UPM, which is why UPM wants to safeguard its availability and quality by co-operating with communities and recovered paper companies. Using recovered paper in paper production makes sense both environmentally and economically – it is efficient use of a resource.

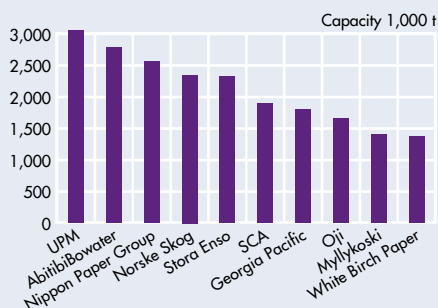
Efficient use of resources

- Renewable raw material is used responsibly in the most efficient way
- UPM is one of the largest users of recovered paper for printing papers in the world
- Recovered paper is used mainly in newsprint but also in magazine papers

Benefits of using recycled fibre in publication papers include saving energy, as less energy is needed for pulping of recovered paper than for mechanical pulping. Recycling paper is also economic as

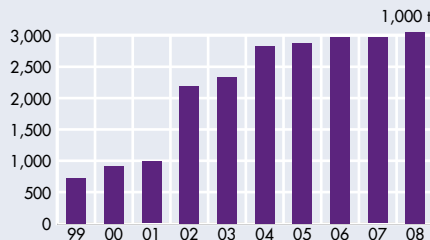
valuable wood fibre is used several times. The input of fresh fibre is however essential in order to keep the paper cycle working, because fibres cannot be recycled infinitely. ■

World's biggest producers of deinked pulp



Source: Pöyry

UPM's recovered paper consumption



Read more about UPM's environmental performance on page 48.

For more information on UPM and the environment see www.upm-kymmene.com/responsibility.



Forest and timber

THE FOREST AND TIMBER BUSINESS AREA SECURES COMPETITIVE FOREST BIOMASS FOR THE GROUP BOTH FROM UPM'S OWN AND PRIVATE FORESTS. THE SAWMILL BUSINESS HAS AN IMPORTANT ROLE IN UPM'S WOOD SOURCING.

Forest and timber

- Forest biomass sourcing for the company's mills and biomass-fired power plants
- WISA sawn timber products ranging from standard products to complete components, mainly for the building and other industries
- 6 sawmills and 5 further processing plants in Finland, 1 sawmill in Austria and 1 in Russia.
- Annual capacity for sawn timber is 2.4 million cubic metres

Description of operations

Forest and timber is responsible for UPM's forest biomass sourcing for the company's mills and biomass-fired power plants worldwide. The business area includes the company's own forests, wood procurement operations, the service offering for private forest owners and sawmills.

UPM owns approximately one million hectares of forests, supplying on average some 10% of its annual wood consumption. UPM manages some 1.7 million hectares of forest in Finland, the United Kingdom, Russia and the United States, including private forests under the company's management.

Sawmills play an important role in the company's wood sourcing. UPM's WISA

products range from standard sawn timber to value added components, mainly for the building and other industries. UPM's annual capacity for sawn timber is 2.4 million cubic metres. The company has six sawmills in Finland, one in Russia and one in Austria.

Market review and business performance

In Finland wood purchases were some 25% lower than in 2007. A mild winter and the expectations of higher Russian wood export duties contributed to the slow market activity and persistently high prices. Fibre wood prices remained at the high level that was reached in 2007, and only started declining during the fourth quarter, as wood

demand slowed down. Log prices declined from the previous year, but at a slower pace than sawn timber prices.

The price of imported wood to Finland remained at a high level and was more expensive than domestic wood. Imports from Russia and other countries were at the same volume as in 2007.

In Russia, the authorities continued to implement the increase of export duties for wood by raising the tariff from € 10 to € 15 per cubic metre in April. According to the original plan, the tariff was to be raised to € 50 per cubic metre from the beginning of 2009. However, in November 2008 it was announced that the tariff increase has been postponed until October-December 2009.

In Sweden, demand for fibre wood con-

tinued to be strong and prices continued rising for most of the year. Log prices declined from the previous year.

In the Baltic countries, demand for wood decreased from the previous year. Exports of chips and wood from the region slowed down, and prices declined towards the end of the year.

In continental Europe, the availability of wood decreased from the previous year as there were no similar storms like in early 2007. The supply of chips decreased with the deteriorating market for sawn goods. Prices remained stable.

In the United Kingdom, demand for wood continued to be strong for most of the year, particularly as the supply of chips decreased with falling sawn goods demand. Wood prices increased.

In Minnesota in the United States, wood prices increased from the previous year.

The market balance of **sawn timber** continued to weaken throughout the year. The high sawn timber supply and simultaneously weakening demand for both redwood and whitewood timber led to a significant reduction in market price. This development intensified towards the end of the year. The weakening situation in the construction industry affected the decline in sawn timber demand.

The forest and timber business area's sales for 2008 were € 1,920 million (2,039 million). Operating loss excluding special items was € 23 million (profit of € 214 million), mainly due to significantly lower prices of sawn timber and the higher cost of wood.

Business development and restructuring

In December UPM launched a new group structure, where UPM's forests, wood procurement and sawmilling operations are combined into one business area. This highlights the dual role that sawmilling plays in UPM – it is a leading timber business with external customers, while it is also an integral part of the company's biomass supply.

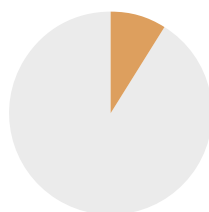
The Luumäki timber components and planing mill was closed down in June. The Leivonmäki sawmill, with an annual sawmilling capacity of 80,000 cubic metres was closed down in December.

Forest and timber, key figures

	2008	2007
Sales, €m	1,920	2,039
Operating profit excl. special items, €m	-23	214
Capital employed (average), €m	1,878	1,679
Personnel on 31 Dec.	3,278	3,510
Sawn timber deliveries, 1,000 m ³	2,132	2,325

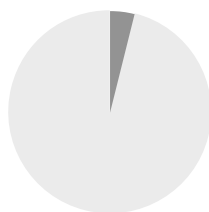
UPM's sales 2008, € 9,461 million

Forest and timber 9% (external sales)



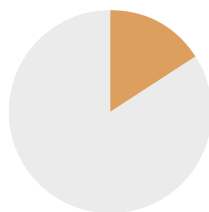
UPM's operating profit 2008, € 513 million (excl. special items)

Forest and timber -4%



UPM's capital employed 31.12.2008, € 11,193 million

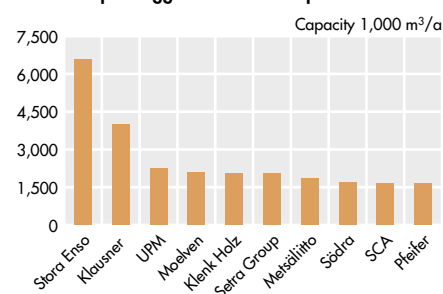
Forest and timber 16%



Forests owned by UPM

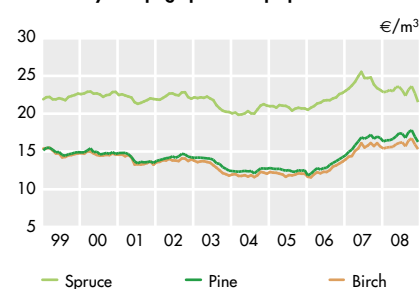
	1,000 hectares
Finland	915
United Kingdom	3
United States	77
Canada	17
Total	1,012

Europe's biggest sawn timber producers



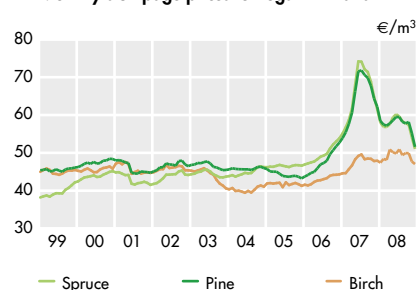
Source: Pöyry

Monthly stumpage prices for pulpwood in Finland



Source: Finnish Forest Industries Federation

Monthly stumpage prices for logs in Finland



Source: Finnish Forest Industries Federation

Export prices for Finnish sawn timber



Source: National Board of Customs

UPM's wood consumption and procurement

UPM consumed 24.8 million cubic metres (26.9 million) of wood raw material in 2008. More than 80% of UPM's wood is consumed in Finland, followed by Central Europe, Russia and the United States.

UPM harvested 2.2 million cubic metres (3.2) from its own forests in 2008. This represents 9% (12%) of the company's wood consumption during the year. Private forests under the company's management increased during 2008.

UPM continued to import wood from Russia, with imports totalling 5 million cubic metres in 2008 (4 million). UPM is reducing

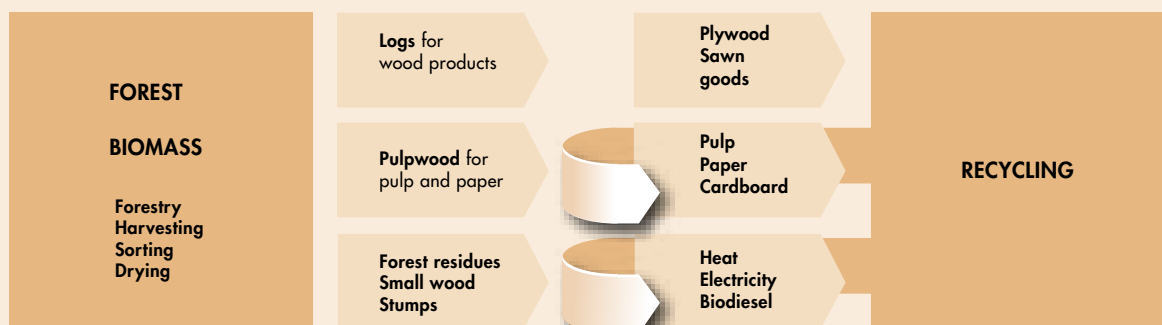
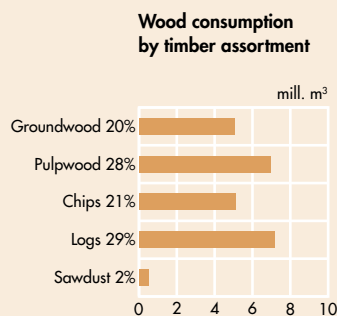
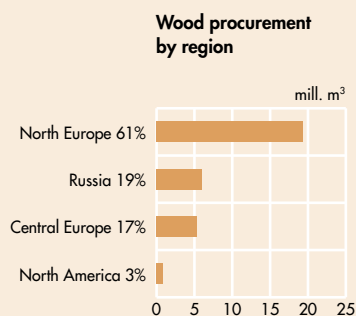
dependence on wood imports from Russia by increasing its domestic wood sourcing, decreasing its wood consumption in Finland and by importing wood from other countries.

Wood procurement for energy: UPM supplied forest biomass equivalent to 3.4 (2.8) GWh of energy production, mainly for its own and share-owned power plants.

UPM makes sure that wood raw material is not wasted but used efficiently. This renewable and recyclable resource that comes from sustainably managed forests is used in an optimised way. ■

UPM's wood consumption

1,000 m ³	2008	2007
Finland	20,676	22,330
Austria	964	1,020
Germany	655	640
France	450	490
Russia	859	860
United Kingdom	303	290
Estonia	108	90
Canada	203	650
United States	539	520
Total	24,757	26,890



Sustainable forestry is the basis for UPM's operations

Focus on sustainable wood sourcing and biodiversity

- About 66% wood is supplied from certified forests
- Continuous development of generic chain of custody model
- Signatory of the UN biodiversity leadership declaration
- Biodiversity programme in UPM's own forests

Wood is UPM's most important raw material. It is important that the wood fibres used in its products come from sustainably managed forests.

UPM is committed to forest management and forest harvesting practices based on internationally accepted principles of sustainable forest management. UPM has developed several tools which ensure that the wood is responsibly sourced and comes only from legal and sustainable sources.

The main tools used are forest certification and chain of custody systems. All of UPM's forests are certified and all wood supplies are covered by a third party verified chain of custody. UPM promotes a global increase in the use of certified wood and supports different credible forest certification schemes, including FSC and PEFC.

Biodiversity is an integral part of UPM's sustainable forest practices. In 2008, UPM signed a Leadership Declaration as part of a "Business and Biodiversity Initiative" launched at the United Nation's Convention on Biological Diversity (UN CBD). UPM supports the

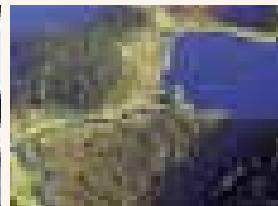
UN's aim of integrating the business sector to enhance biodiversity.

Tangible proof of UPM's commitment to safeguard biodiversity is the global UPM biodiversity programme developed for company

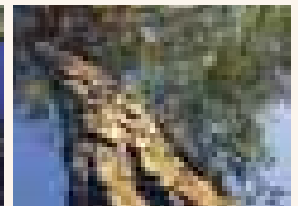
forests in Finland, the United Kingdom and the United States. The programme aims to maintain and increase biodiversity in forests as well as promote best practice in sustainable forestry. ■



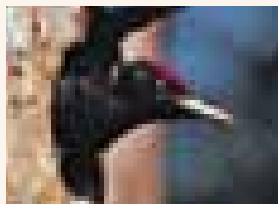
Forest structure



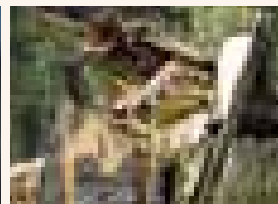
Water resources



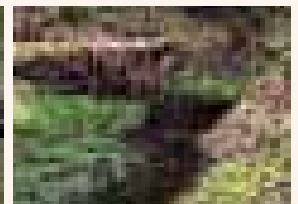
Natural forests



Native tree species



Deadwood



Valuable habitats

Read more about UPM's environmental performance on page 48.

For more information on UPM and the environment see www.upm-kymmene.com/responsibility.



FROM
RUNNING
IN PAPER

Paper

UPM'S PAPER BUSINESS GROUP PURSUES COST LEADERSHIP AND CUSTOMER FOCUS. UPM IS WELL POSITIONED TO BENEFIT FROM CONSOLIDATION AND AIMS TO GROW IN NEW MARKETS.



Paper

THE MAIN FOCUS OF THE PAPER BUSINESS IS TO IMPROVE PROFITABILITY AND TO ENHANCE SUPPLY CHAIN EFFICIENCY.



Paper

- Publication papers (magazine papers and newsprint), fine and speciality papers
- Customers are mainly publishers and printers as well as merchants and paper converters.
- 19 paper mills in Finland, Germany, the United Kingdom, France, Austria, China and the United States
- Combined annual paper production capacity is 11.5 million tonnes.

Description of operations

UPM's Paper business area offers a wide range of papers including magazine papers, newsprint as well as fine and speciality papers. In addition to the paper mills, the Paper business area includes the combined heat and power (CHP) plants operating on paper mill sites. The CHP plants represent one third of UPM's total power generation and are largely using biomass as fuel.

UPM's 19 paper mills are located in the main markets or close to raw material sources. Most of UPM's paper products are sold through the company's own sales network.

UPM's Paper business area aims for structural advantage with its cost efficient operations and high level of technical expertise. UPM's large and cost competitive paper mills are well invested and hence, there are no immediate investment needs in existing mills. Current investments are mainly targeted on cost reductions and efficiency improvements.

The Paper business area takes advantage of high Group level self-sufficiency in energy and pulp (in electricity 85% and pulp about 100%).

Market review and business performance

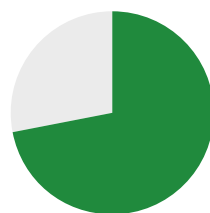
In 2008, paper demand was hit by the weakening economy. A sharp downturn in the advertising began in the second half of the year, and in Europe and North America advertising budgets were cut by deeper gradients than the declines in economic growth. However, the developing markets continued to grow but at a slower pace towards the end of the year.

Publishers in mature markets continued to face a challenging business environment with the rapid development of online advertising and new communications technology. The global retail sector faced a significant pull back in consumer spending, which slowed down the growth of the retail sector and started to affect paper demand.

Paper, key figures	2008	2007
Sales, €m	7,011	7,328
Operating profit excl. special items, €m	250	262
Capital employed (average), €m	6,503	7,317
Personnel on 31 Dec.	13,262	14,538
Deliveries, 1,000t		
Publication Papers	7,090	7,530
Fine & Speciality Papers	3,551	3,859
Total	10,641	11,389

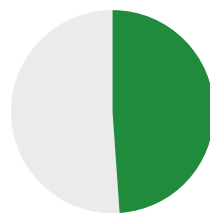
UPM's sales 2008,
€ 9,461 million

Paper 72%



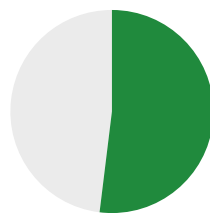
UPM's operating profit
2008, € 513 million
(excl. special items)

Paper 49%

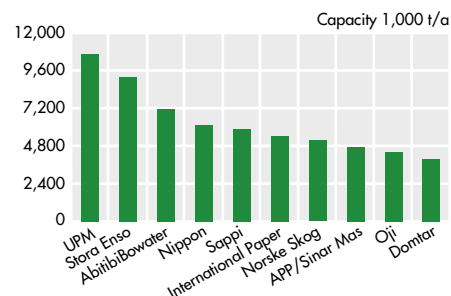


UPM's capital employed
31.12.2008, € 11,193 million

Paper 52%

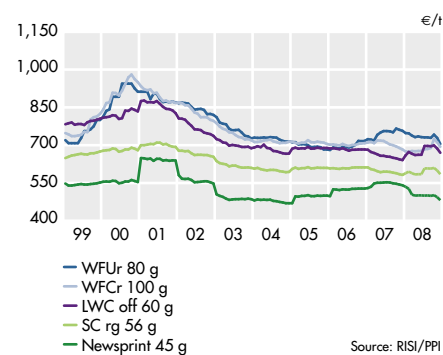


World's biggest graphic papers producers



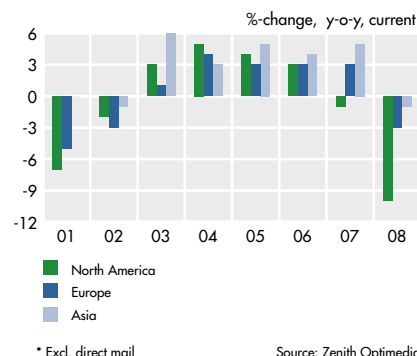
Source: Pöyry

Paper prices in Europe



Source: RISI/PPI

Advertising in printed media*



* Excl. direct mail

Source: Zenith Optimedia

Demand for publication papers (magazine papers and newsprint) in Europe weakened by 2% from the previous year. Demand for fine papers decreased by 3%. The average market prices for magazine papers in local currencies increased by about 5% from the previous year. The standard newsprint market prices were 8% lower than in 2007. The average market price for coated fine papers decreased by 3% and for uncoated fine papers by 2% from the previous year.

In response to the weak market balance, significant paper capacity closures and production curtailments were made in Europe during 2008. The total net capacity closures including all paper grades were 2.6 million tonnes representing 4.9% of total capacity.

In North America, the demand for publication papers continued to decline and demand was 10% down from last year. The average US dollar prices for magazine papers were 20% higher. The paper industry continued to manage overcapacity by closing down capacity and by taking paper machine downtime in all paper grades.

In Asia, the solid demand growth for fine papers continued but at a slower pace than last year. The average market prices for coated and uncoated fine papers increased. The growth of new paper capacity continued during the year.

Demand for packaging papers was

good, but started to slow down towards the end of the year. Demand for label papers increased from the previous year.

In 2008, raw material prices remained high. Wood fibre costs increased. Also recovered paper, electricity and fuel prices were higher than the previous year.

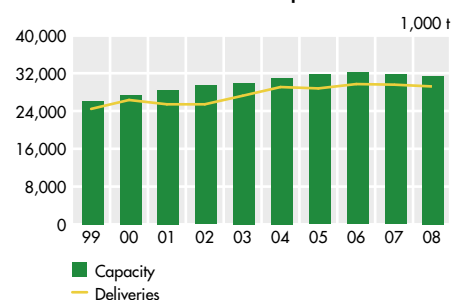
UPM's Paper business area's operating profit excluding special items was € 250 million (262 million). Sales decreased to € 7,011 million (7,328 million). Paper deliveries for the year were 10,641,000 tonnes (11,389,000 tonnes). Average market price for all paper deliveries when translated into euros was over 2% higher than a year ago.

Business development and restructuring

UPM adopted a new business structure as of 1 December, 2008. The new paper business consists of one Paper Business Group. This new business structure creates a basis for strong, market driven operations and further strengthen the cost efficiency in Paper.

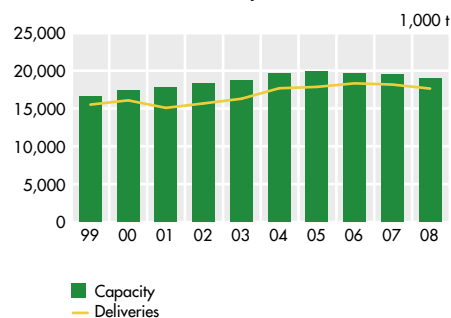
UPM's Paper business area continued restructuring to improve operating efficiency and profitability. Optimisation of production to the lowest cost mills and targeted investments on biomass based energy generation and energy efficiency have improved the Paper business area's cost base

Publication paper production capacities and total deliveries in Europe



Source: CEPI/PRINT, PPC

Fine paper production capacities and total deliveries in Europe



Source: CEPI/PRINT

and competitive position. Especially fixed costs were reduced significantly as a result of measures taken.

In 2008, restructuring activities focused on the Kajaani paper mill in Finland, with annual capacity of 640,000 tonnes of newsprint, special newsprint and uncoated magazine papers. The mill was shut down permanently in December.

At the Jämsänkoski mill in Finland, the investment project to improve the paper quality of PM5 was completed in June.

UPM is currently building a new renewable energy power plant at its Caledonian mill in Irvine, Scotland. The total investment cost is € 75 million. The project is scheduled for start-up in the second quarter of 2009.

Pohjolan Voima, Lappeenranta Energia, a city-owned power company, and UPM are building a joint power plant at UPM's Kaukas mill site in Lappeenranta, Finland. The construction work started in July 2007 and the new plant will start up in spring 2010.

UPM's production capacities and market positions

Paper businesses	Paper production capacities 1,000 t/a	UPM's market position	
		Europe	Global
Magazine papers	4,750	1	1
Newsprint	2,460	2	4
Fine papers	3,415	3	5
Specialty papers	850	1-4	
Total	11,475		

Sales by market

€m	2008	%
Europe	4,996	71
United States and Canada	776	11
Asia	860	12
Rest of world	379	6
Total	7,011	100

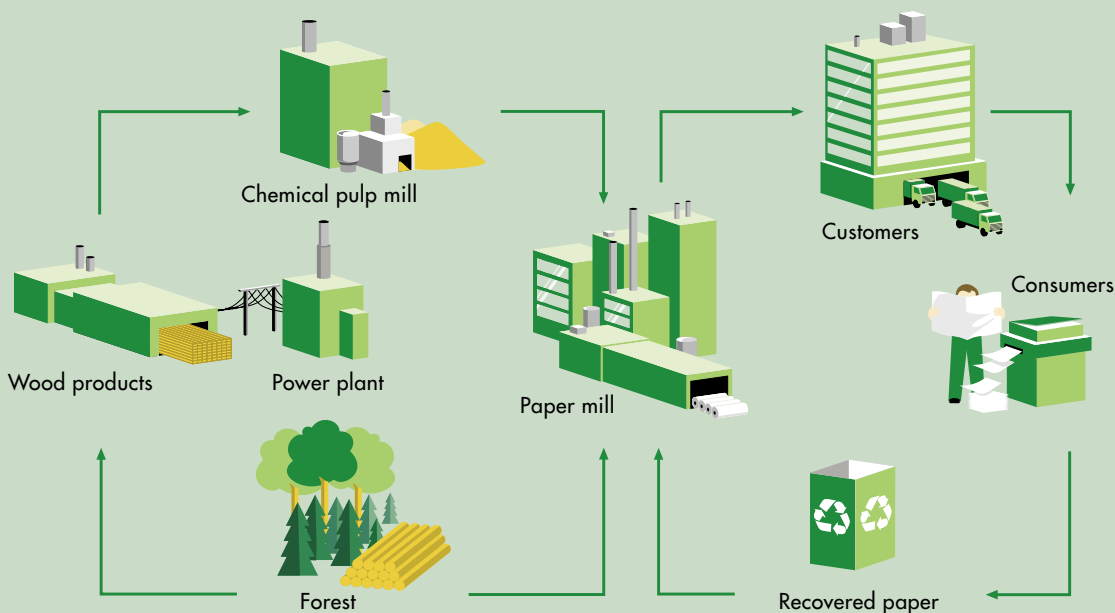
Environmentally sound paper lifecycle

UPM's view is that companies are responsible for the environmental impact caused during the entire lifecycle of their products, from raw material and energy sourcing to production, distribution, recovery and disposal of the used product.

For UPM this means reducing the environmental impact over the entire production process, including sustainable fibre sourcing, tracing fibre with chain of custody systems, efficient water and energy use, air and waste-water emissions that reflect best available technique and a high rate of recycling and reuse of solid waste. Also eco-efficient logistic solutions are part of this cycle.

Environmental management is an integral part of UPM's everyday operations. UPM implements a common model throughout the company to minimise the risks and to share best practice between units. Every mill has certified ISO 14001 management systems,

which are regularly audited by an external party. Almost all European units are also EMAS certified. By constantly developing its processes, UPM has succeeded in reducing the environmental impact of the paper lifecycle. ■



Read more about UPM's environmental performance on page 48.

For more information on UPM and the environment see www.upm-kymmene.com/responsibility.

UPM tools for supporting customers in the choice of sustainable products

For UPM's customers, knowing what impact the paper has on the environment is becoming more and more important. UPM offers customers several tools for ensuring that the paper products they purchase have been produced in a sustainable way.

One of the most important tools is chain of custody and forest certification – sustainable forestry practices are a key aspect of the sustainability of UPM's products. UPM knows the origin of all its wood raw material.

Most of UPM paper products have been awarded the EU Eco-label. The EU Eco-label proves overall environmental performance of the product, as it requires that the production process meets strict criteria relating to the use of natural resources, chemicals, energy consumption, emissions to air and water and waste management.

UPM manufactures products labelled with the EU Eco-label at 14 paper mills, and is the clear industry leader in EU Eco-labelled products.

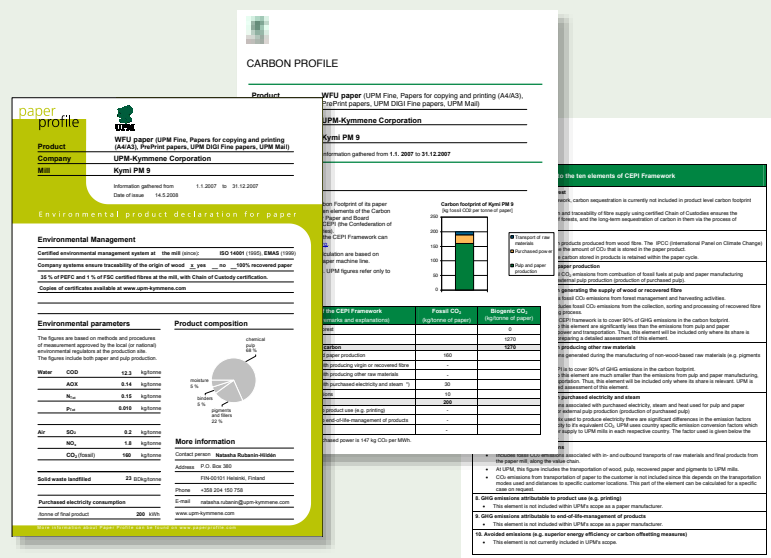


A number of environmental tools available

- Forest certification
- Eco labels
- Paper Profiles
- Carbon footprint information

UPM also provides its customers with environmental data for specific mills or paper machine lines through environmental product declarations such as the Paper Profile. The profile includes essential information on different environmental parameters as well as product composition.

In 2008, UPM launched Carbon Profiles as an addition to the Paper Profile, to provide customers with comparable data on the carbon footprint of UPM's products and help them estimate their own carbon footprint. The carbon footprint calculation widens the scope of UPM's product information further. ■



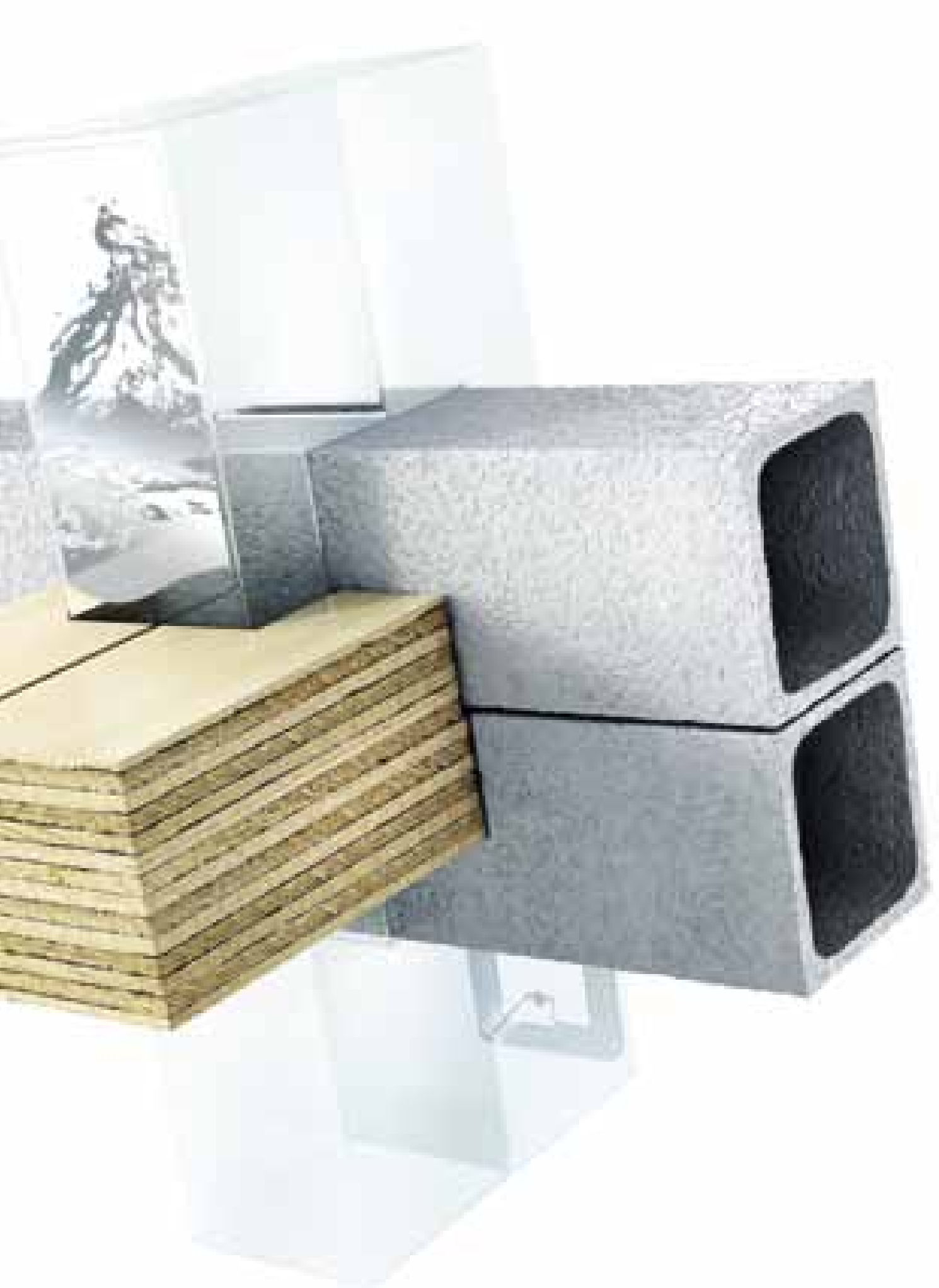
Read more about UPM's environmental performance on page 48.

For more information on UPM and the environment see www.upm-kymmene.com/responsibility.

Engineered materials

UPM ENGINEERED MATERIALS COMPRISES OF HIGHER VALUE ADDED GROWTH BUSINESSES. UPM AIMS FOR GROWTH AND DEVELOPMENT OF NEW BUSINESS IN CHOSEN PRODUCT SEGMENTS.





Label

THE LABEL BUSINESS AREA PURSUES INDUSTRY LEADERSHIP IN SELF-ADHESIVE LABEL MATERIALS THROUGH INDUSTRY-LEADING COST COMPETITIVENESS AND CONTINUOUS PRODUCT DEVELOPMENT.

Label

- Self-adhesive label materials for product and information labelling
- 11 factories in Finland, Spain, the United Kingdom, France, Poland, the United States, Australia, China, Malaysia and South Africa

Description of operations

The Label business, comprised of UPM Raflatac, manufactures self-adhesive label materials for product and information labelling. Typical customers are small and medium-sized label printers doing roll-to-roll label printing using UV-flexo and letterpress printing methods. Major growth opportunities are in personal care and beverage businesses with global brand owners and other filmic materials.

The Label business area has factories covering all main markets. With the support of slitting and distribution terminals its products are sold worldwide. In Europe UPM Raflatac shares the number one mar-

ket position, and in North America it is the number two in market share.

In Europe, self-adhesive label materials are produced in five factories, and three slitting terminals support the logistics and customer service. The new factory in Poland started up in November. The Tampere factory in Finland is the centre for Research and Development.

In the United States, there are two factories, one in Fletcher (NC) and one in Dixon (IL). The Dixon factory started up in January 2008. With the support of five terminals UPM Raflatac covers all main consumer markets in the Americas.

In the Asia Pacific region, UPM Raflatac operates three factories; China, Malaysia and Australia. The newest factory in Changshu, China, started up in December 2006. The slitting terminal network consists of eight facilities throughout the region.

Market review and business performance

Labels are early cyclical products. Their demand growth over the economic cycle has historically exceeded GDP growth in all market areas. However, in 2008 demand for self-adhesive label materials decreased in Europe by about 3% during the year due to slower demand for consumer products. Market demand declined also in North America by about 3% signalling a severe slowdown of the economy. In the Asia Pacific region, demand continued to grow even if at a clearly slower pace towards the year end.

Raw material prices, especially those that were oil related, increased markedly. Prices for label materials in local currency increased in all markets from the beginning of the year.

The Label business area's sales were € 959 million (998 million). Profitability was weak due to raw material and fixed cost increases. Operating profit excluding special items was € 2 million (56 million). New capacity additions by the business area increased costs at a time when sales could not be increased to meet the new capacity.

Business development and restructuring

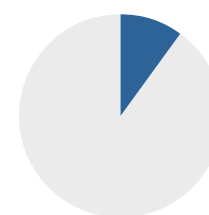
The start up of the Poland factory in November 2008 completed the major investment programme of three new factories and a series of rebuilds. The other new factories are located in Dixon, IL, United States and in Changshu, China. These investments were made to secure cost effective production with quality emphasis and to grow in new markets and new product segments such as certain filmic products.

In November, the Label business announced its plans to restructure its European operations. UPM Raflatac will permanently close a number of self-adhesive labelstock production lines and reduce slitting capacity in the United Kingdom, France, Germany, Hungary and Finland. The plan is a response to cope with a weaker economic environment and to secure profitability through streamlined operations. The restructuring is estimated to be completed by the end of 2009.

Label, key figures	2008	2007
Sales, €m	959	998
Operating profit excl. special items, €m	2	56
Capital employed (average), €m	510	420
Personnel on 31 Dec.	2,851	2,568

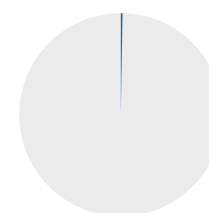
UPM's sales 2008,
€ 9,461 million

Label 10%



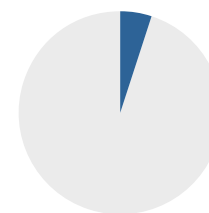
UPM's operating profit
2008, € 513 million
(excl. special items)

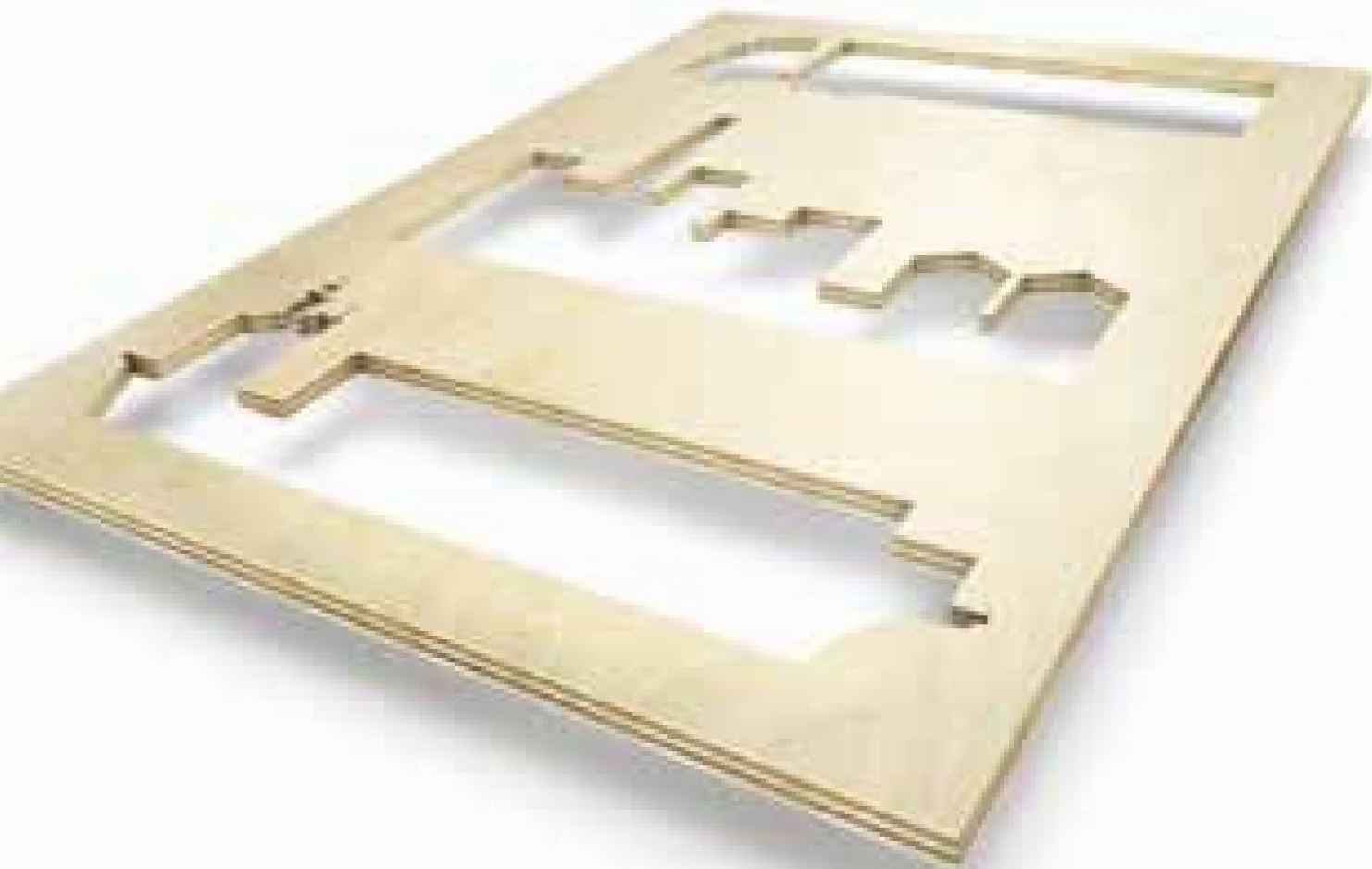
Label 0%



UPM's capital employed
31.12.2008, € 11,193 million

Label 5%





Plywood

THE PLYWOOD BUSINESS AREA COMBINES THE UNIQUE CHARACTERISTICS OF WOOD WITH DEMANDING CUSTOMER FOCUSED CONSTRUCTION AND INDUSTRIAL END USE APPLICATIONS.

Plywood

- WISA plywoods and veneers, mainly for building, interiors and transport equipment
- 9 plywood and veneer mills in Finland, 1 in Estonia and 2 in Russia
- Annual capacity for plywood and veneer is 1.1 million cubic metres

Descriptions of operations

Plywood is used in building and construction, the transportation industry and in a number of special applications. UPM offers a wide range of uncoated and coated plywood for various industry specific solutions which require both quality plywood and specially treated surfaces. UPM also manufactures veneer for e.g. furniture and parquet end uses. UPM sells its ply-

wood and veneer products under the registered WISA trade mark.

UPM has nine plywood mills, seven in Finland, one in Russia and one in Estonia. The business area also includes three veneer mills, two in Finland and one in Russia. With total capacity of 1 million cubic metres UPM is the largest plywood manufacturer in Europe. Veneer manufacturing capacity is 100,000 cubic metres.

Market review and business performance

In 2008, plywood demand in Europe was brisk until the summer after which demand started to decline. Building and construction activity in Europe deteriorated at a very rapid pace and same development took place also within other industries.

Plywood producers responded to weakening demand and number of capacity

closures and production curtailments were announced. Also UPM reduced production at its mills.

Good demand until summer kept market prices stable even if first signs of market softening were seen early on the year. Export market prices for Finnish plywood increased. In Finland shortage of suitable birch logs turned into oversupply due to lower than anticipated production volumes. Log prices stayed high.

UPM's Plywood business area's sales for 2008 were € 530 million (591 million). Profitability declined from last year. Operating profit excluding special items was € 25 million (50 million). Plywood deliveries of 806,000 m³ declined by 139,000 m³ (15%) from last year.

Business development and restructuring

In the Plywood business research and development is an integral part of sales and operations, where customer needs as well as new technology are combined creating new solutions. In 2008, the focus was on new materials and processes.

In 2008, UPM completed the plywood mill expansion in Otepää, Estonia. A new plywood component line and furniture veneer line were opened in Finland.

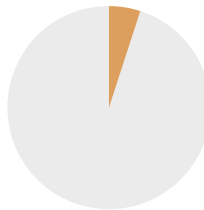
UPM is building a plywood coating line at the Otepää mill in order to increase the processing value of plywood products. The project will be completed in 2009. UPM started the modernisation of the Chudovo mill in Russia aiming at efficiency improvement and increased value added in production. The project will be completed in 2009.

Due to a rapidly weakening market situation, UPM temporarily reduced its plywood production in all mills starting autumn 2008.

Plywood, key figures	2008	2007
Sales, €m	530	591
Operating profit excl. special items, €m	25	50
Capital employed (average), €m	307	300
Personnel on 31 Dec.	3,799	3,945
Deliveries, 1,000m ³	806	945

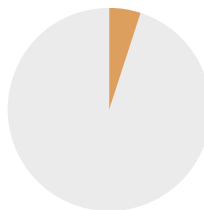
UPM's sales 2008,
€ 9,461 million

Plywood 5%



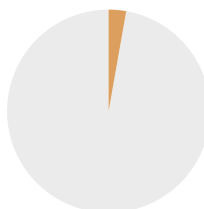
UPM's operating profit
2008, € 513 million
(excl. special items)

Plywood 5%

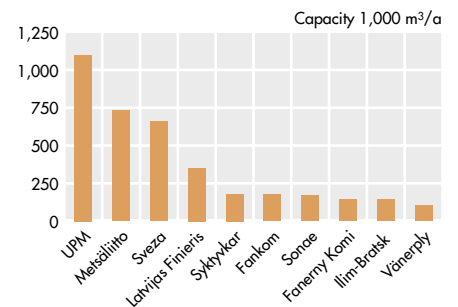


UPM's capital employed
31.12.2008, € 11,193 million

Plywood 3%

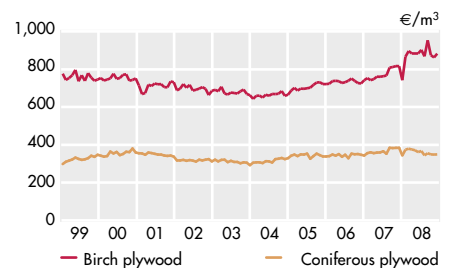


Europe's biggest plywood producers



Source: Pöyry and the companies

Export prices for Finnish plywood



Source: Finnish Forest Industries Federation



New businesses

UPM'S NEW BUSINESS OPPORTUNITIES INCLUDE BIOFUELS, RFID AND WOOD PLASTIC COMPOSITES. IN-HOUSE KNOW-HOW FORMS THE BASIS FOR FURTHER BUSINESS DEVELOPMENT.

RFID

UPM manufactures a wide variety of RFID tags and inlays designed for specific market segments. In 10 years, UPM has grown to become a leading manufacturer of passive HF and UHF tags and inlays designed for high volume applications like supply chain, pharmaceuticals, apparel, industrial and brand protection, transportation and ticketing.

UPM has RFID manufacturing plants in Finland, the USA and China.

RFID markets have grown strongly and new applications are introduced continuously. The economic downturn has, however, slowed introduction of new infrastruc-

ture installation which affects usage of tags.

UPM has continued to develop new tags for its target markets. The new RFID production plant started operations in Guangzhou, China in October. The new manufacturing site will serve the fast-growing Asian market in all RFID end-use areas, including ticketing and the apparel industry.

Wood plastic composite – UPM ProFi

UPM ProFi develops, manufactures, markets and sells high quality wood plastic composite products made mainly from the surplus paper and plastic left over from the

production of self-adhesive label materials. UPM ProFi is a start-up business. Its target is to become one of the main players in the wood plastic composite business in Europe.

UPM ProFi is manufactured in Finland and Germany. The first UPM ProFi products were sold to the Finnish market in 2007 and in 2008 sales were expanded to Central Europe.

In 2008 development of new plastic composite products continued at the R&D laboratory in Lahti, Finland. In December, UPM opened a new factory in Bruchsal, Germany to meet the growing demand in Central European markets.

RFID

- RFID tags and inlays for product identification
- Production plants in Finland, China and the United States

UPM ProFi

- Wood plastic composite materials for outdoor use
- Production plants in Finland and Germany

Biofuels

- Plans to become a major player in the production of second generation biodiesel and renewable biofuels
- Biodiesel project at pilot phase

Biofuels

UPM aims to become a major player in the production of second generation biodiesel and a significant producer of renewable and high quality biofuels in the next few years. Different pilot tests are currently being conducted to assess technologies and work to create the appropriate business model is ongoing.

The main raw material used in UPM's biodiesel production will be wood-based biomass. Locating biodiesel production plant adjacent to existing UPM pulp or paper mills would further enhance the ability to utilise wood raw material efficiently.

The main raw material for UPM's bioethanol production will be recovered paper. Bioethanol production plant would also be located alongside existing UPM paper mills to optimise the use of raw material.

The investment decision on the first commercial-scale production plant can be expected within a few years.

NOTE

In financial reporting, UPM's new businesses are reported in Other operations.

In the new business structure, RFID and UPM ProFi businesses are included in the Engineered Materials Business Group. Biofuels is included in the Energy and Pulp Business Group.

Taking UPM's lifecycle approach one step further

UPM a front-runner in innovation

- UPM ProFi the newest addition to UPM's lifecycle approach
- RafCycle™ label waste collection being tested in Europe

UPM actively promotes the efficient use of raw materials and recycling. For example, UPM is the biggest user of recycled fibre in the production of publication papers in the world. Using recycled material is a key element of UPM's lifecycle approach to its operations, and is therefore very well established in UPM's production processes, especially in papermaking.

One challenge has been how to adopt the lifecycle approach in UPM's labelstock production as well. Recycling or reuse of production residues in label manufacturing is rather challenging as labelstock can consist of different materials (e.g. different paper grades and plastic). UPM's research and development together with technical scale trials resulted in UPM ProFi, a totally new

wood plastic composite material which uses residues from UPM's labelstock production as the main raw material.

UPM ProFi is a unique material combining the best characteristics of wood fibres and plastic. It is a tough, humidity-resistant material ideal for e.g. decking. As the wood plastic composite does not contain any harmful chemicals, it can be disposed of by incineration or recycled back into the production process.

Currently in Europe, UPM Raflatac is test driving a new service called RafCycle™, which involves collecting waste from label printers to be utilised in the production of UPM ProFi. In 2008, UPM opened a second wood plastic composite factory in Germany to meet the growing demand for the new product. ■

Read more about UPM ProFi at www.upmprofi.com.

Success factors

UPM IS COMMITTED TO CONTINUOUS IMPROVEMENT IN ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE. R&D PLAYS AN IMPORTANT ROLE IN CREATING BUSINESS OPPORTUNITIES IN THE NEW FOREST INDUSTRY.







In 2008:

- The number of employees declined by 1,369
- HR services were centralised into six regional service centres
- Take Care campaign to support wellbeing at work was launched

Personnel

ACTIONS RELATED TO THE RESTRUCTURING OF UPM CONTINUED, AND AS A RESULT THE NUMBER OF EMPLOYEES DECREASED. UPM FOCUSED ON STRENGTHENING SUCH COMPETENCE THAT SUPPORTS THE COMPANY'S OPERATIONS IN THE CHANGING BUSINESS ENVIRONMENT.

At the end of 2008, UPM employed in total 24,983 people, a reduction of 1,369 from the previous year. The number of employees decreased due to the completion of the profitability programme started in 2006, as well as other measures taken to improve profitability.

In September UPM announced that it will continue actions to secure its profitability in a business environment of slow growth and rising costs. Efficiency improvement applies to all operations. The programme is estimated to decrease the number of employees in the Group by

2,300 in 2009–2010. In 2008, the agreed workforce reductions in Finland pertained to 1,300 people: about 380 of them were covered by different pension schemes and some 400 were laid off.

Due to profitability improvement programmes, the personnel of UPM have decreased by 4,300 in 2006–2008.

Restructuring and other efficiency improvement actions

In September UPM announced that it would close the Kajaani paper mill and the Tervasaari pulp mill in Valkeakoski by the end of 2008. The closures decrease the number of employees of the Group by about 700.

In November UPM announced the restructuring of its European label business operations. UPM will close down a number of self-adhesive labelstock production lines and reduce slitting capacity in the UK, France, Germany, Hungary and Finland. The number of employees affected by the restructuring is estimated to be around 340, which is approximately one fifth of the personnel of UPM Raflatac in Europe. The restructuring is scheduled to be complete by the end of 2009.

Following the new business structure that took effect at the beginning of December, UPM commenced efficiency improvement measures in all of its business groups, units and functions. In addition, the company is preparing for fluctuations in the market by pursuing flexible running and capacity management on its different production lines. Flexibility will be accomplished by working time arrangements and layoffs in various business operations.

In February UPM announced its plan to

temporarily reduce its sawn timber production capacity at all its Finnish sawmills, due to the rapidly declining market situation. Production reductions were implemented at each sawmill according to plans made for each mill, for example, with working time arrangements, training and temporary layoffs. The UPM sawmills in Finland employ approximately 800 people.

UPM closed down its further processing plant in Luumäki in June. The plant employed around 50 people. The Leivonmäki sawmill, which employed 63 people, was closed at the end of 2008.

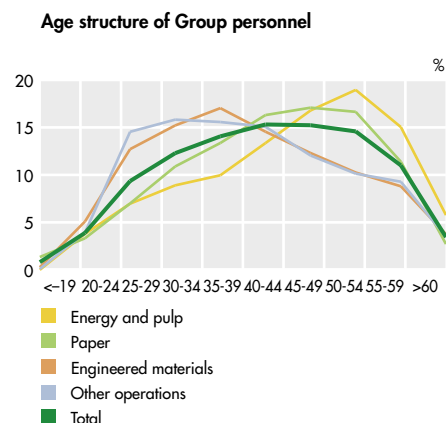
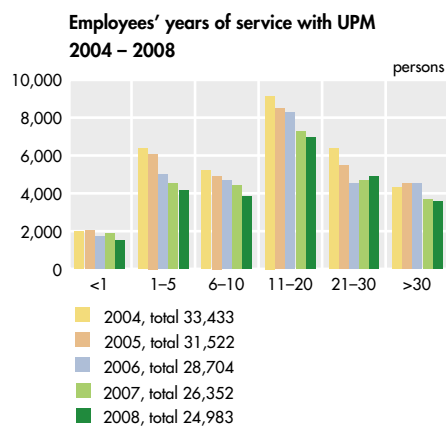
In October UPM announced temporary layoffs at the Heinola plywood mill in 2009, due to the rapidly declining birch plywood market situation. The employee negotiations concluded in December concerned the whole mill and all personnel groups. The plant employs about 230 people.

Due to the efficiency improvement measures, the number of employees at UPM will decrease by an estimated 2,300 people by the end of 2010. The temporary layoffs concern several thousands of people at the company's European mills.

Service development

Following the organisation changes from December, UPM offers all its business areas and functions shared HR services through six regional Operative Service Centres. Due to the concentration of services to regional organisations, the number of HR professionals in the units has been reduced, and the array of tasks of those remaining in the units will focus on the strategic support of the business operations.

The goal of the service centres is to offer cost-effective, high-quality HR services in



the areas of incentives, occupational health care, payroll administration, monitoring working hours, developing expertise and implementing the personnel process.

Learning and leadership development

UPM people development focuses on supporting continuous business and organisational transformation.

The global alignment of the UPM people processes has continued and improved together with the HR information system. The new portal of the information system provides a self-service tool for supervisors.

The UPM leadership principles guide leaders in developing their own competencies. In change management and organisational development, supervisors utilise new shared methods. Applying the leadership principles and change management methods to daily work is supported by concrete case examples, UPM's internal mentoring and external coaching which are provided for management.

Occupational health and safety

The occupational health and safety activities are governed by UPM's Occupational Health and Safety Rule. Their objective is that personnel will not suffer from work-related illnesses or injuries. At all of the UPM production plants, activities follow the Occupational Health and Safety Management System, which has also been certified at nearly all the paper mills (OHSAS 18001). The objectives for developing the occupational health and safety activities of each unit are set annually.

A "Take Care" campaign to support well-being at work was launched in June. The three themes of the group-wide campaign encouraged employees to take care of themselves, each other and the environment. Each theme consisted of background information, tools and events carried out locally.

In safety improvement the priority was developing the safety of shared work places. The development work included, for example, defining the occupational safety requirements pertaining to UPM's sourcing

process, the safety assessment of subcontractors in Finland, and the pilot project for corporate responsibility assessment for sourcing in China.

The Changshu paper mill in China received the UPM Occupational Health and Safety Award. The entire personnel of Changshu have actively focused on improving occupational safety, and the accident frequency of the mill is approaching zero.

The accident frequency (the amount of work accidents per one million hours of work) developed according to the company goals, improving by 10% from the previous year. The accident frequency developed positively in all business groups.

Absences due to illnesses decreased in all business areas excluding the sawmill and plywood business areas. Regionally, absences declined particularly in Finland. Special emphasis has been placed on preventive work and supporting those with an impaired functional capacity.

In 2008, there were two fatal work accidents. In Finland, an employee of UPM Forest was killed at work in a traffic accident. In Russia, a driver at UPM Tikhvin died while servicing a vehicle. The causes of both accidents have been investigated, and operations have been developed to prevent similar accidents.

Short-term incentives

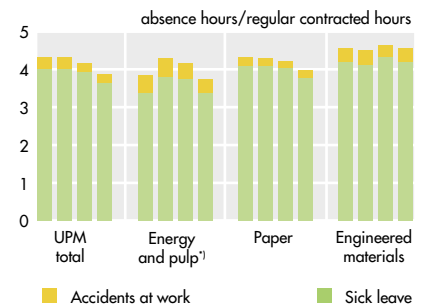
All of UPM's personnel belong to a unified incentive scheme. The incentive system combines profit targets and personal and/or team performance targets. The key indicator for profit targets is EBITDA.

The total amount of incentive bonuses and rewards paid in 2008 was € 33 million.

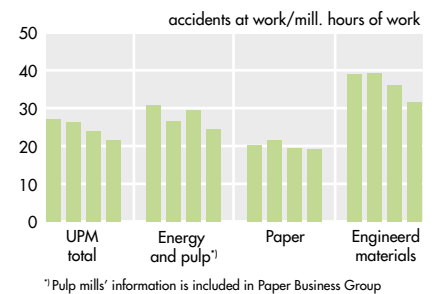
Long-term incentives

Incentive programmes based on shares and options for key personnel continued in accordance with the decisions made in 2005 and 2007. In 2008 no bonuses were paid according to the share ownership reward scheme. In January 2009 the 2007A share options were distributed to about 530 key individuals.

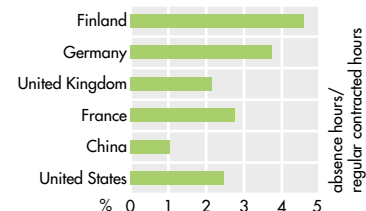
Absenteeism %, all personnel 2005–2008



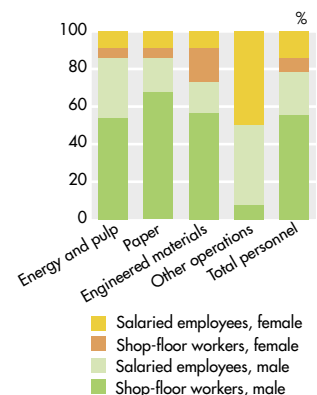
Accident frequency, all personnel, 2005–2008



Absenteeism due to sickness and accidents at work, all personnel



Personnel gender distribution



UPM's "From Job to Job" programme supports active measures for employment and retraining

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 met twice in 2008. Meeting discussions covered topical issues related to changes in the business environment.

Employee Engagement Survey

In September-October, UPM carried out an Employee Engagement Survey (EES). Almost 14,000 people responded, which amounts to 69% of personnel (in 2007: 73%). The survey revealed uncertainty about the future, caused by the announcement in September of UPM's new business structure and the continuation of restructuring measures. The results were probably also affected by the global economic situation.

The results concerning employee engagement have weakened. On the other hand, leadership development was seen in improved results in the survey. Team performance has been developed, and managers have made a personal investment in employees' growth and development.

Due to the closures in Finland, 535 people from the Kajaani paper mill and 166 people from the Tervasaari pulp mill were rendered redundant. In order to alleviate the impact of the redundancies, UPM launched a "From Job to Job" programme in Kajaani and Valkeakoski. The programme is based on the model implemented at Voikkaa, and produced good results two years ago.

Through the "From Job to Job" programme UPM provides financial support for retraining and re-employment, launching new businesses, and relocation. The programme includes, in co-operation with authorities and partner companies, active measures that promote employment and retraining.

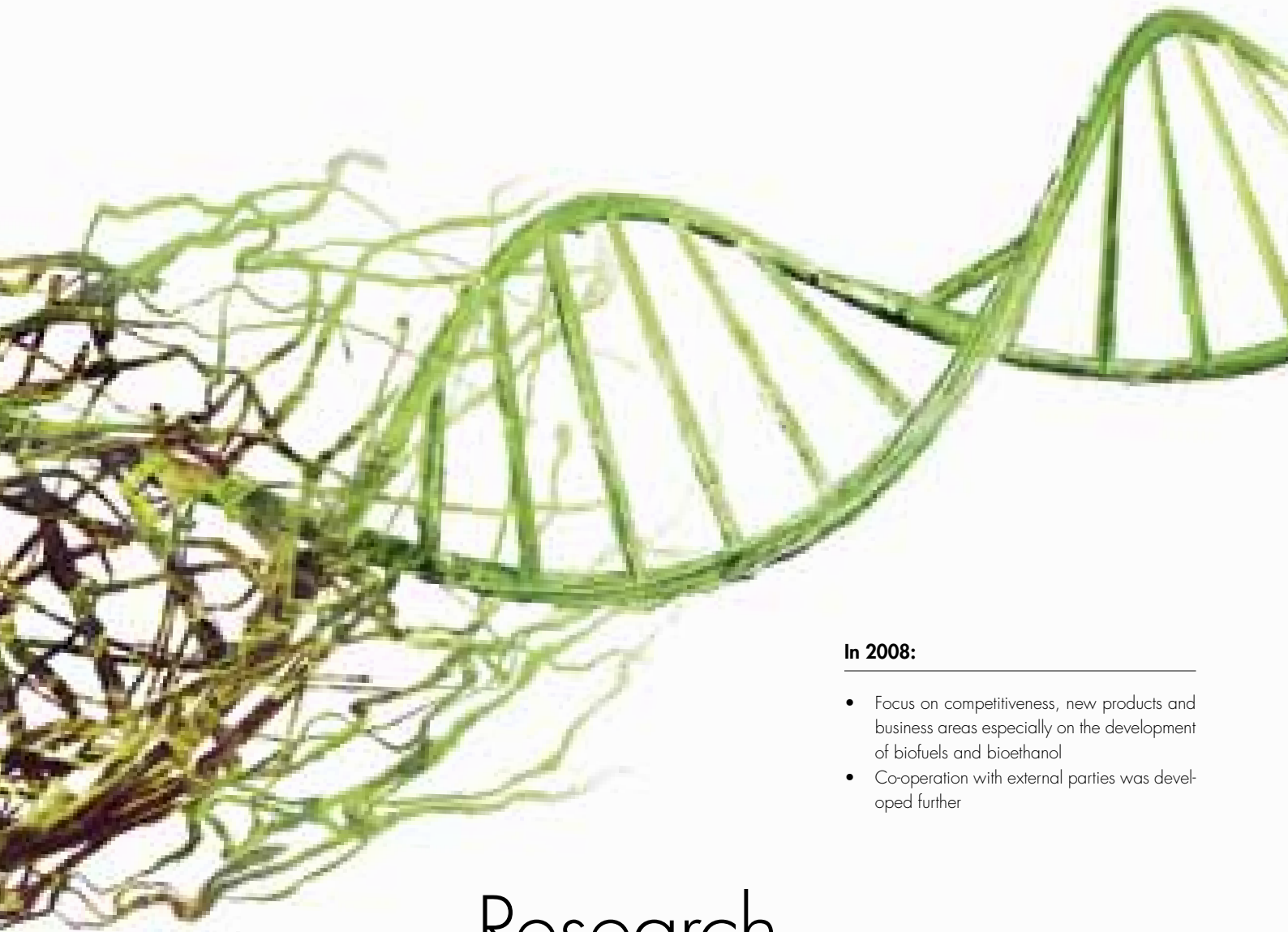
In Kajaani the programme has proceeded as follows: by the end of the year, about 145 people had found a new job or training opportunity outside the company, and 31 people had been re-employed within the company. Approximately 150 people were on retirement schemes. A few applications for start-up support to create a new business have also been submitted.

In addition, UPM has created Renforsin Ranta business park at the Kajaani mill premises. By the end of the year the company had signed rental agreements with 17 companies for the premises. If all

the agreements are realised according to plan, their employment effect will amount to some 300–400 people.

At Tervasaari the "From Job to Job" programme is being started. In Valkeakoski UPM signed a letter of intent with the construction firm NEAPO Oy concerning renting the paper machine building for production purposes.

The From Job to Job programme was first launched in 2006 at the closure of the Voikkaa paper mill, which left 678 people without a job. By the end of 2008, as many as 551 of the redundant Voikkaa employees had found a new permanent job at UPM or elsewhere, had retired or were on various retirement schemes. In addition, 32 former Voikkaa workers were employed for fixed terms by UPM. ■



In 2008:

- Focus on competitiveness, new products and business areas especially on the development of biofuels and bioethanol
- Co-operation with external parties was developed further

Research and development

THE AIM OF UPM'S RESEARCH AND DEVELOPMENT WORK IS TO ENSURE THE COMPETITIVENESS OF CURRENT PRODUCTS AND TO FIND NEW BUSINESS OPPORTUNITIES FOR THE FUTURE.

In recent years, UPM has augmented its R&D resources constantly. In 2008, UPM spent altogether approximately € 49 million (€ 50 million) on research and development projects, or 0.5% (0.5%) of the Group's sales. The emphasis has been on developing new products and business areas especially in biofuels.

In 2008, 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 USA. Pilot testing is expected to be finished by the end of 2009. The tests have proceeded as planned.

In addition, UPM established a new UPM Biorefinery Development Centre for the research of biofuels and biochemicals at UPM Kaukas paper mill site in Lappeenranta, Finland. The first machinery

started operations in December 2008, while the main operations started at the beginning of 2009.

The new centre is a part of the UPM Research Centre, which also focuses on fibres and fibre raw materials, papers, coating and printing research, as well as customer support, technical services and the environment. The research work has been enlarged to cover the whole value chain all the way to the customer including the development of new paper grades and the runnability of printing machines.

UPM's recycled fibre research is centred in Augsburg, Germany. The UPM Asia R&D Center located in China 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. The North American R&D operations in Grand Rapids, Minnesota were closed down.

Focus on product development

In Labelstock R&D, UPM has strengthened its organisation to put more emphasis on developing new technology platforms and new product solutions. During 2008 it completed the development of a new hot-melt adhesive and the mixing process for that adhesive. Implementation of this is starting during the first half of 2009.

In addition, capabilities to produce high quality filmic liners with a cost-efficient process have been further developed.

In the RFID business, R&D has focused on improving RFID application testing methods for RFID tags. Capacity and capability to design and develop new products have also been significantly improved. The organisation has been strengthened in both tag materials and antenna design expertise areas. R&D co-operates with leading RFID material and technology suppliers to find optimal tag solutions for all end-customers.

In 2008, Plywood R&D was reorganised into three core processes: Product Management and Development, Technology Development and Laboratory. Therefore, the function will be able to exploit its core competences more efficiently when providing solutions for customers in material technology, coatings and adhesion fields.

The improvements allow the Plywood R&D organisation to better support the growth strategy of the business.

UPM ProFi wood plastic composite, developed by UPM's Corporate Venturing, is manufactured from surplus materials, primarily paper and plastic, left over from the production of self-adhesive labelstock. The innovative new material makes a positive impact on the environment with the new recycling technology at its core. UPM ProFi manufacturing is located in Finland and in Germany, where the new factory started operations in December.

New opportunities

UPM established a Finnish Centre for Nanocellulosic Technologies together with the VTT Technical Research Centre of Finland and Helsinki University of Technology (TKK) in March. The Centre is creating new applications for cellulose as a raw material, substance and end product.

Cellulose-based nanofibres can be used to alter the structure of a material and create new products. Applications include special papers, paper coating, packaging and building materials. In addition to the paper and packaging industry, also other industries such as construction, vehicle, furniture, electronics, foodstuffs and cosmetics would be able to create added value for their products by using tailored fibre materials.

UPM and the Finnish Lassila & Tikanoja (L&T) developed a new ethanol and energy production concept that, for the first time, utilises commercial and industrial waste, such as paper, cardboard, wood and plastic. UPM and L&T have studied the concept under laboratory conditions in co-operation with the Technical Research Centre of Finland (VTT). Extensive testing was carried out at VTT's Rajamäki unit in Finland. Based on test results, the concept will offer business prospects in the future.

UPM launched, in partnership with Metso and the University of Oulu, a technology programme in Kajaani to develop measuring and control solutions for the renewing chemical wood processing industry. The programme will focus particularly on developing applications for process waters, energy production and biorefineries.

The UPM Research Centre developed a new innovative method for using pine for

mechanical pulping where the harmful pitch will be dispersed by using ozone in the process. This method was successfully implemented in 2008.

In January, UPM and a Finnish technology company Chempolis Oy signed a licence agreement on the use of a novel biorefining technology for the production of papermaking fibre and biochemicals. Agro residues and other non-wood feedstocks, such as straw and reed, can be used as raw materials for pulp and biochemicals. The UPM Asia R&D Center plays a key role in research for agro residues as the base for pulp production. UPM is investigating the possibility of building an industrial biorefinery utilising agro residues in China.

External partners

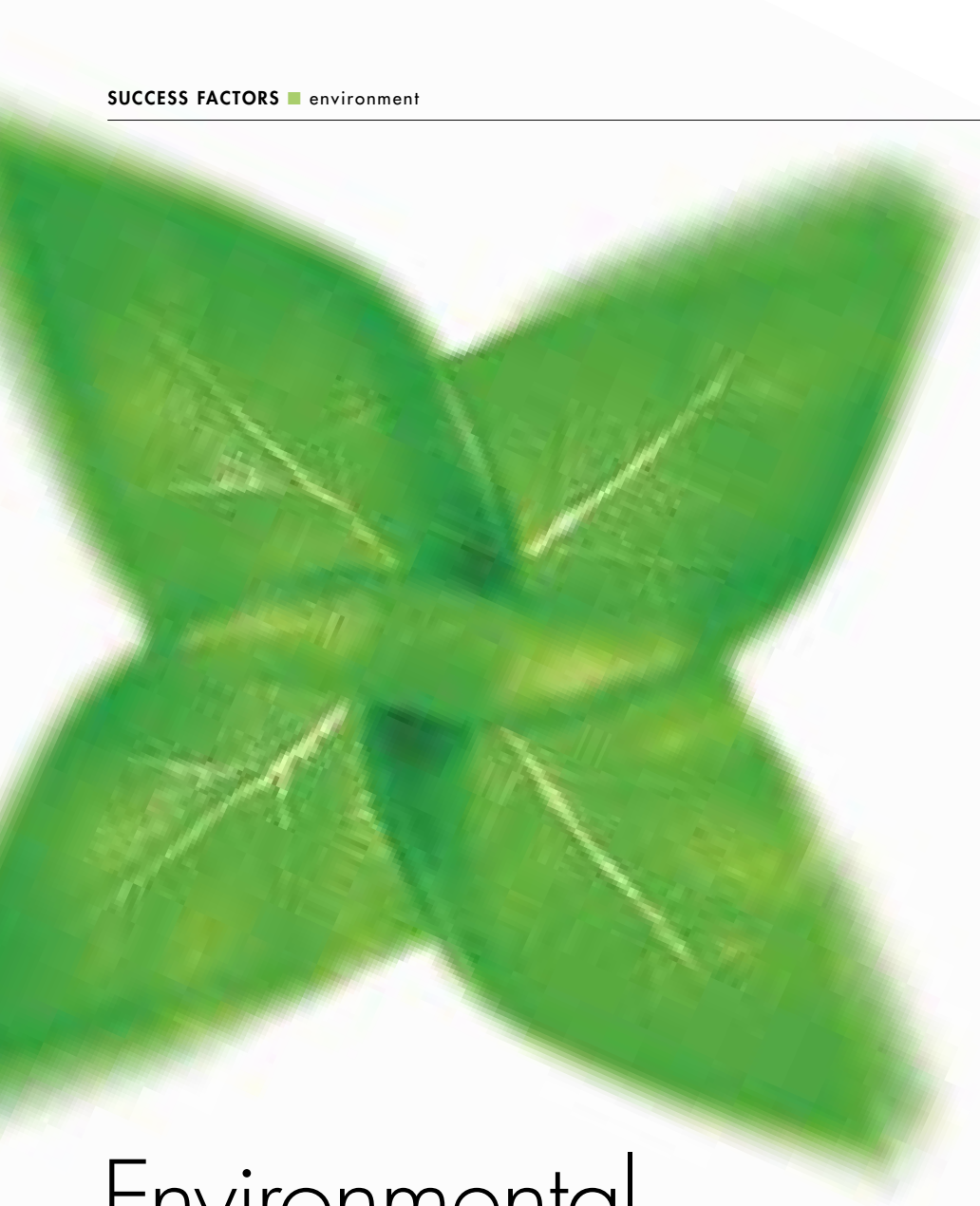
UPM is a partner with a 15% share in Forestcluster Ltd, established to network top-level research and innovation in the Finnish forest cluster. The company co-ordinates pre-competitive research and development. Its first research programme focusing on intelligent, resource-efficient production technologies started at the beginning of 2008. The second programme on biorefineries started at the beginning of 2009.

On 4 February 2009, the Finnish Pulp and Paper Research Institute (FPPRI) and Technical Research Centre of Finland (VTT) signed a letter of intent to integrate the research and laboratory operations of FPPRI to VTT. UPM owned 38.65% of FPPRI.

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). 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



In 2008:

- Environmental focus was on improving fossil carbon dioxide management.
- Environmental management systems according to ISO 14001 were developed specifically for Russia and the Baltics.
- The use of third party approved eco labels was further expanded.

Environmental performance

ENVIRONMENTAL AIM IS CONTINUOUS ECO-EFFICIENCY IMPROVEMENT.

UPM applies a lifecycle approach in its environmental management. The company takes into account environmental impacts of all stages of the product lifecycle – from raw material sourcing, through production, delivery and product use to recycling, reuse or disposal of the product.

In 2008, UPM's environmental focus was on reducing the overall fossil carbon dioxide emissions, finding further reuse options for ash and implementing the company's biodiversity programme in forest practices.

Environmental protection costs for UPM consist mainly of effluent treatment

purification and waste management costs. In 2008, they accounted for € 102 million (103 million). Corresponding investments were € 42 million (59 million). The most important environmental investments included the rebuild of the chemical recovery plant at the Kymi mill and the closing of old landfill sites.

Environmental labels

In 2008, UPM further expanded its use of third party approved eco labels, including the EU Eco-label, FSC and PEFC certificates. For example, three further UPM Raflatac labelstock factories received FSC

and PEFC Chain of Custody certificates.

To be able to receive the EU Eco-label, paper producers must fulfil a wide range of environmental requirements. In autumn 2008, UPM's Chapelle Darblay paper mill in Northern France joined the 14 UPM paper mills awarded the EU Eco-label for copying and graphic papers.

Environmental management systems

Almost all of UPM's production sites as well as wood sourcing, forestry and logistics operations have environmental, quality as well as health and safety management systems in use which are certified in accord-

ance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. In Europe, most paper and pulp mills are also certified in accordance with the EU Eco-Management and Audit Scheme (EMAS).

All UPM's forestry & wood sourcing regions have integrated management systems. In 2008, environmental management systems according to ISO 14001 were developed specifically for Russia and the Baltics.

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.

The permits define site specific limits for emissions into water and air. The compliance is continuously controlled and reported regularly to the authorities, and internally within the company. Possible permit limit deviations are immediately reported to the relevant authorities.

In 2008, no severe environmental incidents happened in UPM production units. However, some minor temporary deviations of permit limit values occurred at some mills. They were reported immediately to the relevant authorities and, if needed, corrective measures have been taken.

Water consumption on a low level

In pulp and paper making the process wastewater volume roughly corresponds to the fresh water intake to the processes and is therefore used as an indicator of water consumption. Cooling water which is also used at the mills is either used as process water afterwards or is directly fed back to the watercourses it was taken from.

All wastewater is purified before it is released to watercourses. Emission levels are regularly monitored. In some regions comprehensive studies on receiving watercourses have been carried out proving that the effluent does not have any harmful effects on aquatic organisms.

UPM's target is to continuously reduce the use of water. The amount of process

wastewater per tonne of paper produced has decreased by 40% in the last 10 years. Compared to 2007, the average process wastewater volume of UPM's paper mills remained at the same level at 12 m³ per tonne of paper.

In UPM's pulp mills the amount of process wastewater has decreased by 10% in the past 10 years. The amount remained stable at 41 m³ per tonne of pulp compared to last year.

UPM's long-term target for effluent volumes of paper mills is 10 m³ per tonne of paper and for pulp mills 30 m³ per tonne of pulp by the year 2015.

Chemical oxygen demand (COD) is used as an indicator of UPM's wastewater quality. In 10 years, the COD load has decreased by 30% per tonne of paper and by 50% per tonne of pulp. However, the COD load per tonne of paper increased slightly from 2.6 to 2.7 kg compared to the previous year. In pulp mills, the COD per tonne of pulp decreased from 18.4 to 17.3 kg compared to 2007.

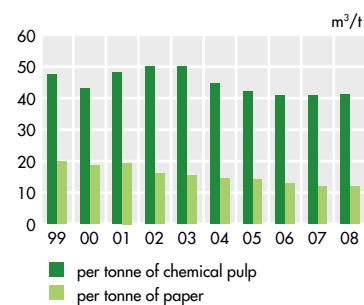
In addition to COD, the Adsorbable Organic Halogens (AOX) value is an important water indicator for pulp mills. Due to the improvements at the Kaukas mill, the average AOX per tonne of pulp decreased further by 6% compared to 2007, resulting in a total decrease of almost 30% in the last 10 years.

Emissions to air on the right track

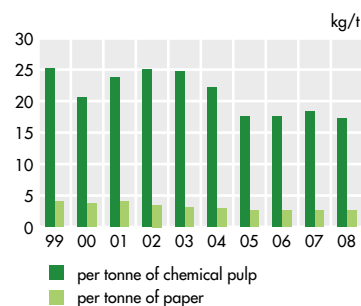
UPM's airborne emissions originate mainly from energy production at the pulp and paper mills. UPM has made significant investments in the usage of renewable fuels thus reducing the usage of fossil fuels and consequently reducing CO₂ emissions.

Compared to 2007, fossil carbon dioxide emissions per tonne of paper decreased by 12% (5%), sulphur dioxide emissions decreased by 30% (0%) per tonne of paper and emissions of nitrogen oxides remained stable (decrease of 6%). The decrease in carbon and sulphur dioxide emissions is mainly due to further reduction of peat and coal usage.

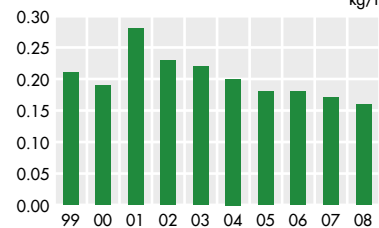
Process wastewater volumes



COD load



AOX load per tonne of bleached pulp
(Adsorbable organically bound halogens) kg/t



For labelstock factories, a relevant air emission is volatile organic compounds (VOC). Replacing solvent-based substances with alternative products has led to a significant VOC reduction in recent years. Compared to the previous year, the VOC emission per tonne of converted product remained stable on the reached low level of 0.2 kg/t.

Chemical pulp manufacturing generates sulphur compounds. These odorous gases are reduced by collecting and burning. The normal operation of mills barely causes any odour problems.

Waste management aims to increase reuse

Nearly all organic production residues including bark and wood residues as well as fibre-containing sludges from deinking and effluent treatment are used in energy generation at the mill sites. Thus, ash left over from the energy generation at the power plants is the most significant solid waste fraction at UPM.

In 2008, about 91% (88%) of the total ash volume from UPM was reused in different applications, for example in road construction, as fertiliser or in the cement and brick industry. Compared to 2007, the total volume of landfilled waste decreased by 7% (decrease of 23%). Further reduction of landfill waste is an ongoing target for UPM.

Old mill areas under remediation

UPM assesses the condition of old mill areas that are no longer in use. In the first phase, a soil analysis and risk assessment is performed at each site. In the event that hazardous substances have been found and remediation is needed, a remediation plan has been made together with authorities. The authorities give their approval after the remediation and the area can be taken into use, in most cases industrial use.

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.

Raw material sourcing

Forest biomass is used for wood products,

pulp and paper, and for energy purposes. Chain of custody and forest certification are the modern tools used for promoting legal and wood sustainable sourcing.

In 2008, about 66% of all wood used by UPM originated from certified forests (71%). Since June 2006, all UPM's pulp and paper mills have had a third party audited chain of custody in place.

UPM continued the work to promote sustainable forestry practices by promoting forest certification and other tools to trace the origin of wood. In 2008, the development focus for forestry practices was in implementing the company's biodiversity programme. UPM signed a Leadership Declaration as part of a "Business and Biodiversity Initiative" launched at the United Nation's Convention on Biological Diversity (UN CBD).

Recovered paper is the other main raw material component in UPM's products. In 2008, the company recycled 3 million tonnes of recovered paper into printing papers (3 million tonnes). This makes UPM the world's largest paper recycler for printing papers.

Responsible sourcing

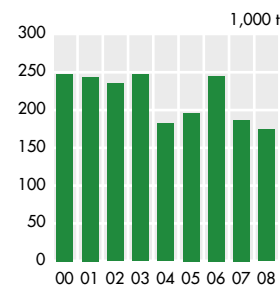
When selecting a supplier, UPM follows defined selection and follow-up processes. Suppliers must commit to the principles of the UPM Code of Conduct. In addition, UPM has developed a set of supplier criteria, which include requirements on social and environmental responsibility.

Suppliers are encouraged to use management systems, e.g. ISO 9001, ISO 14001 and OHSAS 18001, and best available techniques and practices in order to minimise environmental load as well as occupational accidents and health risks. In 2008, implementation of UPM's new generic supplier requirements continued.

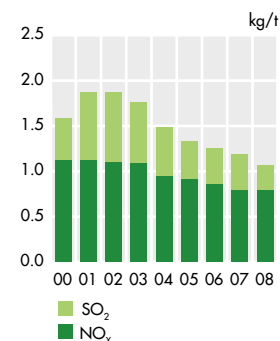
UPM meets all requirements of REACH

The new European Union chemical legislation concerning Registration, Evaluation and Authorisation of Chemicals (REACH) came into force in June 2007. UPM meets all the set requirements of REACH. In 2008, UPM took all the necessary steps to make sure that its chemical suppliers follow the REACH requirements.

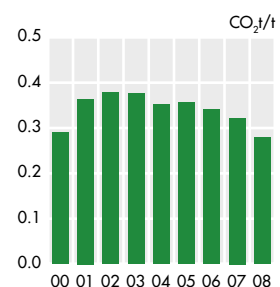
Total waste to landfills



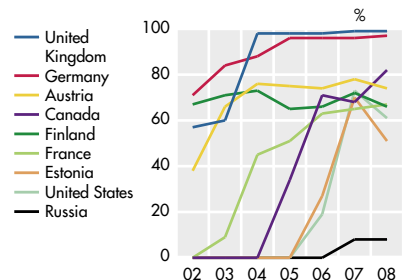
Acidifying flue gases per tonne of paper



Fossil carbon dioxide emissions per tonne of paper



Certified wood supplied to mills¹⁾



¹⁾ 66% of all wood in 2008 was certified

Focus on Carbon Footprint

UPM aims to reduce its overall fossil carbon dioxide emissions from both direct and indirect sources. To achieve this, UPM has invested in CO₂-neutral biomass-based fuels, improved its energy efficiency and increased the use of recycled fibre in its processes. So far, this has resulted in a reduction of 40% of mill site CO₂ emissions per tonne of paper since 1990.

On a company level, UPM is using the Greenhouse Gas Protocol for its carbon inventory assessment. It is the most widely used accounting tool to quantify and manage greenhouse gas emissions, initiated by the World Resource Institute and the World Business Council for Sustainable Development.

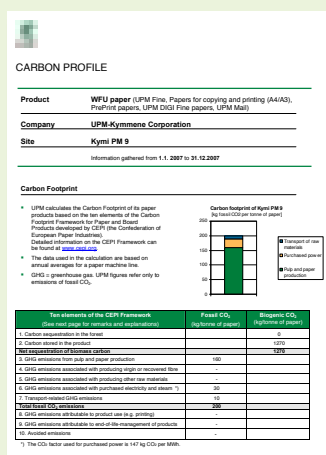
UPM's carbon inventory was started in 2007 with the assessment of pulp and paper production. It currently includes emissions related to energy generation for pulp and paper production, transportation of the main raw materials and final products, landfill areas and business travel. It shows that energy generation has the biggest share in UPM's total greenhouse gas emissions.

On a product level, the Carbon Footprint is a useful indicator for evaluating greenhouse gas emissions during production and use of individual products. In 2008, UPM launched Carbon Footprint information for its paper products.

These Carbon Profiles provide basic information to customers about the main

Focus on Carbon Footprint

- UPM has reduced its overall fossil carbon dioxide emissions
- Several tools used for assessing UPM's carbon footprint



elements of the Carbon Footprint of paper. They cover the main fossil carbon dioxide emissions throughout the product lifecycle, i.e. from fossil fuels directly used in production (like coal, mineral oil or natural gas), emissions allocated to the use of power from external grid supply and emissions related to transport of the main raw materials. ■

Read more about UPM's environmental performance on page 48.

For more information on UPM and the environment see www.upm-kymmene.com/responsibility.



Corporate governance

UPM COMPLIES WITH THE APPLICABLE RECOMMENDATIONS OF THE FINNISH CORPORATE GOVERNANCE CODE OF 2008 PUBLISHED BY THE SECURITIES MARKET ASSOCIATION WHICH ENTERED INTO FORCE ON 1 JANUARY 2009 AND WHICH IS PUBLICLY AVAILABLE ON THE COMPANY WEBSITE WWW.UPM-KYMMENE.COM.



Corporate governance

The Board of Directors has adopted the Board Charter which is available on UPM's website www.upm-kymmene.com and can also be obtained in print by any shareholder who requests them.

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

General meeting of shareholders

The 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 matters, 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 discharge from liability of the President and CEO and the Board of Directors
- election of members of the Board of Directors and their remuneration
- election of the company's auditors and audit fees
- the acquisition and disposal of own shares
- share option programmes.

A shareholder is entitled to have a matter falling within the competence of the general meeting pursuant to the Compa-

nies Act to be included on the agenda of the 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 notice of the general meeting. According to the company's Board Charter, the Board will duly consider, with the assistance of the Board's Nomination and Corporate Governance Committee, proposals by shareholders for matters to be dealt with by the General Meeting provided, that (i) such proposed matter is within the competence of the General Meeting and (ii) the shareholder's proposal has been submitted for the Board's attention in writing well in advance of the General Meeting, in any event by 15 January each year or four weeks prior to the publication of the summons to the General Meeting which ever date is later.

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 administration and proper organisation of the operations of the company and the appropriate arrangement of the control of the company's accounts and finances.

In addition, the Board of Directors shall determine the company's dividend policy and make a proposal to the general meeting of shareholders for the annual payment of dividends. The Board of Directors is responsible for, among others:

- establishing and evaluating the strategic direction of the company
- approving and evaluating the company's business and strategic plans
- establishing limits for capital expenditures, investments and divestitures and

financial commitments not to be exceeded without Board approval

- overseeing the strategic and operational risks
- ensuring that the company has defined the operating principles of internal control and monitors the function of such control
- appointing the President and CEO and the members of the Group Executive Team and the Group Executive Board. The Board of Directors and each of its committee conducts an annual evaluation of its performance and working methods.

Composition of the Board of Directors

The company's Board of Directors is composed of at least five but not more than 12 directors elected by the Annual General Meeting. The Annual General Meeting held on 26 March 2008 elected 10 directors. Directors are elected for a term that begins at the end of the Annual General Meeting of shareholders at which they are elected and ends at the conclusion of the next Annual General Meeting. The directors shall have the qualifications required to discharge director's duties and the possibility to devote a sufficient amount of time to the work.

The Board appoints 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 directors shall comply with the independence requirements of the Finnish Corporate Governance Code. A director is independent of the company and of significant shareholders when he/she fulfils the conditions set out in the Finnish Corporate Governance Code. The directors shall provide the Board with sufficient information

Shares held by the members of the Executive Team 31 December 2008

Name	Shares		Options ²⁾	
	Shares total	of which incentive rewards ¹⁾	G	H
Jussi Pesonen	62,814	30,300	100,000	120,000
Anu Ahola	1,000		7,000	8,000
Pirkko Harrela	12,368	6,598	30,000	40,000
Tapio Korpeinen	480	480	12,000	30,000
Juha Mäkelä	6,648	6,448	30,000	40,000
Jyrki Ovaska	13,772	10,472	50,000	60,000
Jyrki Salo	16,572	10,472	50,000	60,000
Riitta Savonlahti	6,598	6,598	30,000	40,000
Hans Sohlström	15,072	6,648	30,000	40,000
Jussi Vanhanen	480	480	11,000	9,000
Hartmut Wurster	10,572	10,572	50,000	60,000
TOTAL	146 376	89 068	400 000	507 000

Share ownership also includes shares held by persons closely associated with him or her and by organisations of which the person has control.

¹⁾ Shares received as incentives to be held for two years.

²⁾ In January 2009, 300,000 2007A options were granted to the President and CEO Jussi Pesonen and a total of 1,060,000 to other members of the Group Executive Team.

for the assessment of their qualifications and independence. Based on the information provided by the Directors the Board has determined all of the directors to be independent, with the exception of Jussi Pesonen who is the President and CEO of the company.

The Board may consult external experts.

The Board met nine times in 2008. On average, the directors attended 99% of the meetings.

Committees of the Board of Directors

The Board has established three specific committees to assist the Board by preparing matters within the Board's competence. The Board has appointed the members of the committees and their chairmen from among the directors. It has also adopted charters for the committees, which are available on the company's website www.upm-kymmene.com. The committee members shall comply with the independence requirements of the Finnish Corporate Governance Code. The President and CEO may not be appointed a member of these committees.

The Audit Committee was chaired by

Michael C. Bottenheim and its members were Wendy E. Lane and Veli-Matti Reinikkala. According to the Finnish Corporate Governance Code the committee shall have sufficient expertise in accounting, bookkeeping or auditing which has been taken into account in the composition of the Board. The primary purpose of the committee is to monitor the financial reporting processes and the statutory audits of the financial statements as well as the efficiency of the company's internal control, internal audit and risk management systems.

The other duties of the Audit Committee include, among others, evaluating the qualifications and independence of the company's statutory auditor and matters pertaining to the preparation of the proposal for the election of the statutory auditor as well as evaluating the performance of the company's internal audit.

The Audit Committee met four times during the year and the members attended all committee meetings.

The tasks of the Human Resources Committee include matters pertaining to the appointment, assessment, and the re-

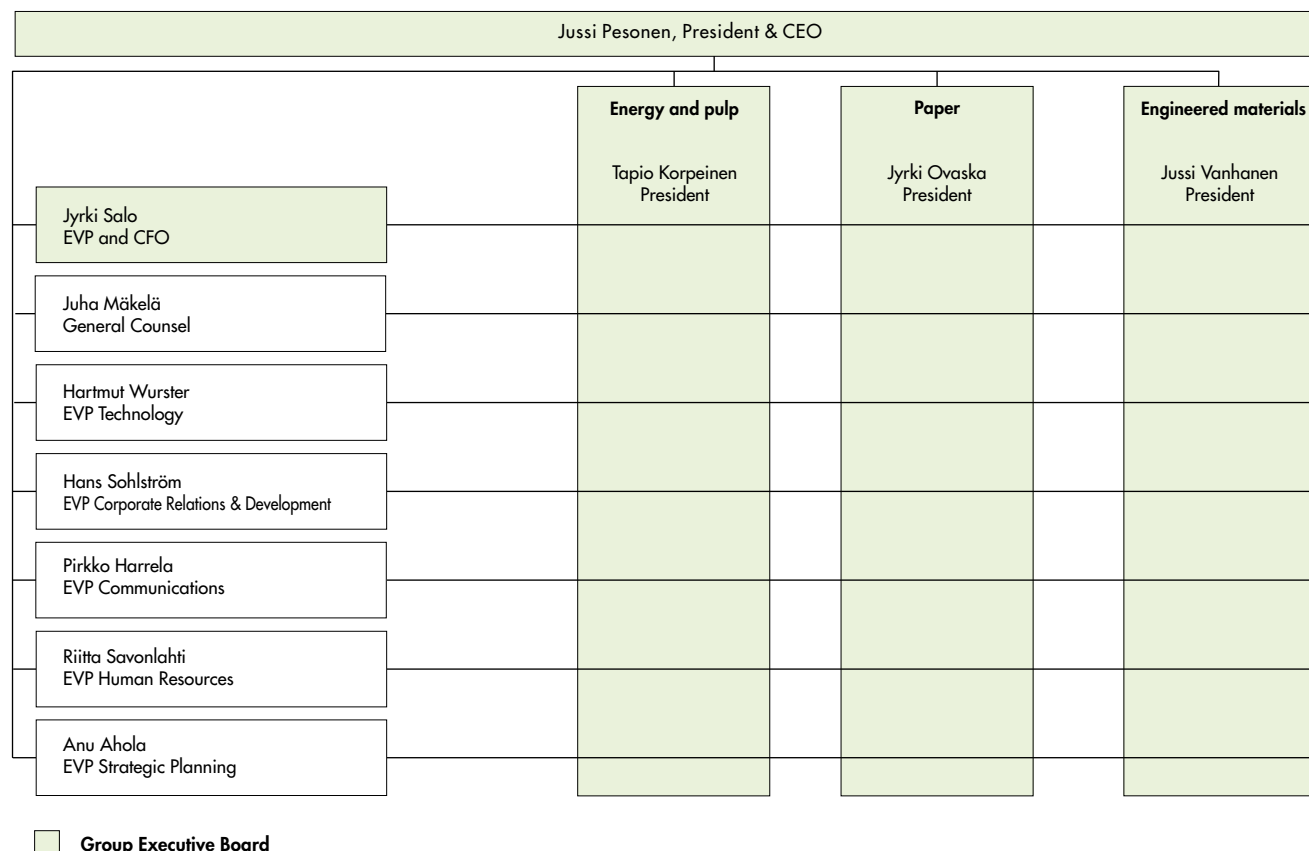
muneration of the President and CEO, the Group Executive Team and other employees reporting to the President and CEO. The committee comprised Berndt Brunow (Chairman) and members Georg Holzhey and Ursula Ranin. The Human Resources Committee met six times during the year. On average, the members attended 95% of the meetings.

The Board of Directors has also appointed from among its members a Nomination and Corporate Governance Committee, which in 2008 comprised Björn Wahlroos (Chairman) and members Matti Alahuhta and Karl Grotenfelt. The tasks of the committee include matters pertaining to preparing nominations for and remuneration of the directors for consideration by the general meeting and reviewing the overall corporate governance of the company. The Nomination and Corporate Governance Committee held four meetings during the year and the members attended all committee meetings.

Remuneration of the Board of Directors

In accordance with the resolution of the 2008 Annual General Meeting, the Chair-

Composition of Group Executive Board and Group Executive Team



man of the Board 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, including shares and share-related rights, and shareholding of each of the directors is specified in the Notes to the Financial Statements on page 94.

President and CEO

The Board of Directors appoints the President and CEO of the company in accordance with the Companies Act. The President and CEO is responsible for the day-to-day management of the company. The President and CEO ensures that the company's accounting practices conform

with the law and that the company's financial administration and management is reliably organised.

Measures that are unusual or extensive in view of the scope and nature of the company's business may be taken by the President and CEO only if approved by the Board, 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.

The Board has approved the service contract of the company's President and CEO including financial benefits and other terms of service. The performance of the President and CEO is evaluated annually by the Board's Human Resources Committee.

The biographical details and the holdings of the President and CEO are shown on page 60 and 55.

Management organization

The Group Executive Board and the Group Executive Team assist the President and CEO in the operative management of the company. The main duties of the Group Executive Board are matters relating to the preparation and implementation of the group strategy and business group strategies, financial forecasting and performance of the group and business groups, investments and divestitures while the primary responsibilities of the Group Executive Team are matters pertaining to functional strategies, corporate procedures and co-ordination between the business groups and functions.

The company's three business groups have their own management teams, the purpose of which is to assist the presidents of the respective business groups. In addition, business areas have their own management groups. The company's employees are represented in local management groups.

The members of the Group Executive Board and the Group Executive Team and their areas of responsibility, biographical details and holdings are shown on page 60 and 55.

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 Group 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, 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 112. All decisions related to salaries, incentives, share option grants as well as payments according to the share ownership plan to the President and CEO and the Group Executive Team members will be made by the Board of Directors.

The salaries, fees and other benefits paid to the President and CEO and the members of the Group Executive Team are shown in the Notes to the Financial Statements on page 94.

Insider guidelines

The Board has adopted an insider policy for the Group which sets up rules pertaining to the management of insider matters. The Company's policy is to comply with the securities laws and regulations applicable to the company including the insider guidelines of NASDAQ OMX Helsinki Oy, the Central Chamber of Commerce and the Confederation of Finnish Industries which entered into force on 2 June 2008 (see www.nasdaqomxnordic.com).

UPM's primary insiders from 1 January 2008 are the members of the Board of Directors, the President and CEO, the auditing firm's employee with principal responsibility for auditing the company's accounts as well as other members of the company's senior management who regularly receive insider information and who have the authority to make decisions on 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 Euroclear Finland Ltd and on the company's website.

The company sets closed windows, when trading is not allowed, applicable to the primary insiders and other employees of the company who regularly receive insider information. The closed windows are the four-week periods preceding and including the disclosure date of the annual or quarterly results of the company.

In 2008, the closed windows were 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). In 2009, the corresponding periods are 8 January–5 February (relating to the 2008 financial review) and 1 April–29 April, 7 July–4 August and 1 October–29 October (relating to the 2009 interim reports). When necessary, insider registers will be established 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 Annual General Meeting elected PricewaterhouseCoopers Oy to act as the company's auditor, where Juha Wahlroos, APA, was responsible for the audit.

The auditors' fees for 2008 were € 4.3 million (€ 4.9 million) – a breakdown of the fees is shown in the Notes to the Financial Statements on page 95. The auditor's term of office ends upon the conclusion of the first Annual General Meeting after the election.

Internal control, risk management and internal audit

The Board of Directors is responsible for monitoring the company's internal control system. The Group Executive Team has approved internal control rules. In accordance with these rules, the head of each unit or function must organise the internal control of his or her unit or organisation. During the last five years the company has developed and implemented a comprehensive internal control system that covers business and financial reporting processes. The system includes regular testing of controls by management and both internal and external auditors.

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

The Internal Audit function assists the Board of Directors with its supervisory responsibility by ensuring that the Group's control measures have been planned and set up appropriately and effectively. The Internal Audit function is subordinate to the President and CEO, but it reports regularly and has a direct access to the Audit Committee.

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 compliance with laws, rules and regulations, conflicts of interest, bribery, human rights, confidentiality, fair dealing, protection and proper use of company assets 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

31.12.2008



Björn Wahlroos

Chairman
Member since 2008
Chairman of the Nominating and Corporate Governance Committee
Independent of the Company and significant shareholders
Born 1952
Ph.D.(Econ.)
President and CEO of Sampo plc since 2001. Chairman of Mandatum Bank plc 1998–2000, CEO and Vice Chairman of Mandatum & Co Ltd 1992–1997 and Member of the Executive Committee and Executive Vice President in Union Bank of Finland in 1985–1992. Prior to 1985 Professor of Economics. Board member of Nordea Bank AB (publ).

Berndt Brunow

Vice Chairman
Member since 2002,
Vice Chairman since 2005
Chairman of the Human Resources Committee
Independent of the Company and significant shareholders
Born 1950
B.Sc.(Econ.)

President and CEO of Oy Karl Fazer Ab 2002–2007. President and CEO of Sanitec Corporation 2000–2002. Over 20 years' experience in executive positions in Finnmap and UPM-Kymmene Corporation. Chairman of Lemminkäinen Corporation. Board member of Oy Karl Fazer Ab and Oy Nautor Ab.

Georg Holzhey

Vice Chairman
Member since 2003,
Vice Chairman since 2008
Member of the Human Resources Committee
Independent of the Company and significant shareholders
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.

Matti Alahuhta

Member since 2008
Member of the Nominating

and Corporate Governance Committee
Independent of the Company and significant shareholders
Born 1952
D.Sc.(Eng.)
President & CEO of KONE Corporation since 2006 and member of the Board of KONE Corporation since 2003. President of KONE Corporation since 2005. Executive Vice President of Nokia Corporation 2004, President of Nokia Mobile Phones 1998–2003, and President of Nokia Telecommunications 1993–1998. Member of the Foundation Board at the International Institute for Management Development (IMD) and Board Member of BT Group. Chairman of Aalto University Foundation.

Michael C. Bottenheim

Member since 2001
Chairman of the Audit Committee
Independent of the Company and significant shareholders
Born 1947
LL.M., MBA

Director of Montrose Associates, London, since 2006 and Senior Adviser of Lincoln International. Pierson, Heldring & Pierson NV Amsterdam, Netherlands 1972–1976. Citicorp Group, London and Zurich 1976–1985. Director of Lazard Brothers & Co. Limited 1985–2000. Advisory Board of Montrose Associates, London 2003–2005. Adviser at Compass Advisers Limited 2005–2007.

Karl Grotenfelt

Member since 2004
Member of the Nominating and Corporate Governance Committee
Independent of the Company and significant shareholders
Born 1944
LL.M.
Chairman of the Board of Directors of Famigro Oy. Served A. Ahlström Oy as lawyer, General Counsel, Administrative Director of Paper Industry and Member of the Executive Board with responsibility for the Paper Industry, 1970–1986. Member



Group Executive Board and Group Executive Team 1.1.2009

THE NEW EXECUTIVE BOARD CONSISTS OF THE PRESIDENT AND CEO, THE THREE BUSINESS GROUP PRESIDENTS AND CFO.



Jussi Pesonen

President and Chief Executive Officer
M.Sc.(Eng.)
Born 1960
Member of the Executive Team since 2001. Member of the Group Executive Board. Joined the company in 1987 and occupied several management posts as well as Vice President of Newsprint Product Group. COO of the paper divisions and deputy to the President and CEO 2004.

Anu Ahola

Executive Vice President, Strategic Planning
M.Sc.(Technology), MBA
Born 1965
Member of the Executive Team since 2008.
Held several posts at Jaakko Pöyry Consulting in Finland and in the USA 1992–2004. Director, Marketing Strategy and Planning, Nokia Corporation 2004–2007. Vice President Strategic Planning, UPM since 2007.

Pirkko Harrela

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

Tapio Korpeinen

President, Energy and Pulp Business Group
M.Sc.(Industrial Engineering), MBA
Born 1963
Member of the Executive Team since 2008. Member of the Group Executive Board. Held several management posts at Jaakko Pöyry Consulting in Finland and North America 1991–1998 and 1999–2005. A.T. Kearney in Finland 1998–1999 and McKinsey & Company in Sweden 1988–1990. Vice President, Corporate Development,

UPM 2005–2008. Senior Vice President, Strategy 2008.

Juha Mäkelä

General Counsel
LL.M. University of Turku and the Northwestern Law School, Chicago, USA.
Born 1962
Member of the Executive Team since 2008.
Various posts in business law in law firms in Finland and Germany 1991–1996. Held several posts with Kone Corporation dealing with business transactions 1997–2004. General Counsel of UPM since 2005.

Jyrki Ovaska

President, Paper Business Group
M.Sc.(Eng.)
Born 1958
Member of the Executive Team since 2002. Member of the Group Executive Board. 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. President, Magazine Paper Division 2004–2008.

Jyrki Salo

Executive Vice President and CFO
M.Sc.(Econ.)
Born 1960
Member of the Executive Team since 2006. Member of the Group Executive Board. Various tasks in sales and market development positions with IBM Corporation in Finland and the UK 1984–1990. 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 USA. Senior Vice President, Finance & Control for Nokia's Networks Business Group 2002–2005.





Accounts for 2008



Report of the Board of Directors

The market in 2008

The two halves of 2008 were very different in nature. The year 2008 started with expectations of slower growth globally despite increasing commodity prices and rising inflation. The picture changed in late summer with the global financial crisis and downward revised economic forecasts. Consumer confidence in North America and Europe dropped dramatically.

Volatility characterised currency markets throughout the year. The dollar increased in value against the euro in the early part of the year, then decreased but rebounded again at the very end of the year. The UK pound and Swedish krona devalued against the euro, particularly in the last couple of months of the year.

Prices for commodities and raw materials kept rising in the early part of the year. However, rapidly deteriorating demand has depressed prices since late summer. In early December, crude oil prices plunged to less than a third from the record high level reached in July. Demand and prices for pulp have declined sharply since April due to lower paper and board demand. Wood raw material prices in Finland increased in the beginning of the year. Demand for wood raw material was still at a high level, but since early summer prices decreased due to lower demand. The threat of prohibitive export duties for wood raw material from Russia disturbed the wood markets in Finland during the year. Production costs for the forest industry increased considerably.

Global advertising expenditure declined on an annual basis from the previous year, but with large differences between different regions. Print advertising declined in value, but held its place as the second largest major medium. In value terms, newspapers and magazines suffered, but direct mail continued to grow. As a consequence of rapid downturn in the economy and a decline in print advertising the demand for graphic papers in Europe and North America declined. In response to the weak market balance, significant paper capacity closures and production curtailments were made both in Europe and in North America during 2008.

The global retail sector faced a significant pull back in consumer spending, slowing down the growth of the sector. This affected packaging needs for consumer goods as well as the demand for self-adhesive label materials and advertising in the retail sector.

Housing markets deteriorated globally, taking a sharp downturn after the summer months and leading to a very rapid decrease in construction toward the end of the year. This influenced the markets for building materials, including those for wood based materials.

New business structure

In December, UPM adopted a new business structure. The company now consists of three Business Groups: Energy and pulp, Paper, and Engineered materials.

The company now reports financial information for the following seven business areas: Energy, Pulp, Forest and timber, Paper, Label, Plywood and Other operations. The comparative figures have been revised to correspond with the new structure.

Results

2008 compared with 2007

Sales for 2008 were € 9,461 million, 6% lower than in 2007 (10,035 million). Sales decreased due to lower deliveries across all of UPM's businesses.

The operating profit was € 24 million (483 million), 0.3% of sales (4.8%). The operating profit excluding special items was € 513 million, 5.4% of sales (€ 835 million, 8.3% of sales). The operating profit includes charges net of € 489 million as special items (charges of € 352 million). In Pulp special items of € 59 million relate to the closure of the Tervasaari pulp mill in December. This includes impairment charges of € 51 million and other costs € 8 million. In Forest and timber special items of € 36 million include impairment charges of € 31 million related to the Finnish sawmilling operations recognised in September, and other restructuring costs of € 5 million. Special items in Paper amounted to € 379 million including a goodwill impairment charge of € 230 million recognised in September. In addition, impairment charges of € 101 million and other restructuring costs of € 42 million were booked related to the closure of the Kajaani paper mill in December. Other restructuring costs were, net of € 6 million. In Label special items of € 28 million recorded in December, relate to restructuring measures in Europe. The costs include impairment charges of € 7 million and other restructuring costs of € 21 million. Special items of € 3 million in Plywood relate to income on disposals. In Other operations special items include an adjustment of € 5 million to sales of disposals of 2007 and other restructuring income net of € 5 million. Restructuring costs have approximately € 70 million negative cash effect mainly for the year 2009.

Profitability declined clearly from last year. With the exception of Energy, all of UPM's business areas showed lower profitability. The main reason for the lower profitability was higher wood costs. Wood costs were approximately € 220 million higher than last year, including a write down of € 36 million in wood inventory made in the fourth quarter. Energy costs increased approximately € 100 million. Fixed costs declined markedly. The net increase in cost level was above 2%.

Towards the end of the year deliveries declined significantly from last year across all of UPM's businesses. In Paper, higher average paper prices offset the impact of lower paper deliveries. In the fourth quarter, UPM took extensive production downtime in paper, pulp and plywood mills and sawmills, which decreased cost efficiency of production during the quarter.

UPM's paper inventories at the end of the year were approximately 200,000 tonnes lower than a year ago.

The change in the fair value of biological assets net of wood harvested was € 50 million (79 million).

The share of the results of associated companies and joint ventures was € 62 million (43 million).

The loss before tax was € 201 million (profit of € 292 million) and excluding special items a profit of € 282 million (644 million). Interest and other finance costs were € 202 million (191 million) net.

Exchange rate and fair value gains and losses resulted in a loss of € 25 million (loss of € 2 million).

Income taxes were € 21 million positive (€ 211 million negative). The impact on taxes from special items was € 86 million positive (€ 87 million negative). The effective tax rate excluding the impact of special items was 23% (22%).

The loss for the year was € 180 million (profit of € 81 million) and earnings per share were € -0.35 (0.16). Earnings per share excluding special items were € 0.42 (1.00). Operating cash flow per share was € 1.21 (1.66).

Return on capital employed was 0.2% (4.3%) and excluding special items 4.6% (7.4%).

In 2006, sales were € 10,022 million, operating profit € 536 million and earnings per share were € 0.65.

Key figures for the years 1999-2008 are presented in pages 127 and 128.

Financing

Cash flow from operating activities, before capital expenditure and financing, was € 628 million (867 million). The increase in net working capital amounted to € 132 million (204 million), which is attributable primarily to wood procurement operations. The cash flow from operations was also negatively affected by a one-time cash contribution for changing the UK pension plans from defined benefit to defined contribution, and settlement of the restructuring provisions related to the closure of the Miramichi paper mill in 2007.

The gearing ratio as of 31 December was 71% (59% on 31 December 2007). Net interest-bearing liabilities at the end of the year came to € 4,321 million (3,973 million). The average maturity of interest-bearing liabilities at year end was 5.7 years (6.1 years).

At the end of the year the ratings for UPM's rated bonds were BBB- by S&P, and Baa3 by Moody's under review for a possible downgrade.

Personnel

In 2008 UPM had an average of 26,017 employees (28,246). At the beginning of the year the number of employees was 26,352, and at the end of the year it was 24,983. The reduction by 1,369 persons is mostly attributable to the Profitability Programme.

The total amount of salaries and fees in 2008 was 1,079 million (1,163 million).

More information (unaudited) on personnel is published in UPM's Annual Report 2008.

Capital expenditure

In 2008 capital expenditure, excluding acquisitions and share purchases, was € 532 million, 5.6% of sales (€ 683 million, 6.8% of sales). Including acquisitions and share purchases, capital expenditure was € 551 million, 5.8% of sales (€ 708 million, 7.1%). Operational capital expenditure was € 235 million (268 million).

In April UPM signed a shareholders' agreement to form a 50/50 joint venture company with the Russian Sveza Group to build a forest industry facility in the Vologda region of Northwest Russia. The letter of intent was signed in December 2007. The planned industrial complex would include a modern pulp mill, a sawmill and an OSB building panels mill. The final investment decision is subject to sat-

isfactory outcome of the final feasibility study and the necessary approvals from the relevant authorities.

The new self-adhesive label materials factory in Dixon, Illinois, started operations in February. The total investment cost was USD 100 million.

The rebuild of the recovery plant at the Kymi pulp mill was completed in June. The new plant improves the energy self-sufficiency and efficiency of the mill. In addition, CO₂ and other emissions are reduced. The total cost of the project was € 360 million.

The new self-adhesive label materials factory in Wroclaw, Poland, started operations in November. The total investment cost was € 94 million.

UPM is building a new renewable energy power plant at the Caldonian mill in Irvine, Scotland. The total investment cost is estimated to be € 75 million. The new power plant is scheduled to start in the second quarter of 2009.

In December, Teollisuuden Voima Oy informed UPM that the supplier of the nuclear power plant Olkiluoto 3 has filed a request for arbitration concerning the delay and related costs. UPM's associated company Pohjolan Voima Oy is with 58.12% a majority shareholder of Teollisuuden Voima Oy.

Restructuring

The Profitability Programme for 2006-2008 was completed. By the end of 2008, reduction of personnel was 4,300 and the achieved annual cost savings are approximately € 190 million compared with the cost level of 2006.

In addition to the above programme, UPM has continued with new initiatives and actions to improve its profitability. In December 2008 UPM closed uncompetitive paper and pulp capacity in Finland, including the Kajaani paper mill (annual capacity 640,000 tonnes of newsprint, special newsprint and uncoated magazine papers) and the Tervasaari pulp mill (annual capacity 210,000 tonnes of pulp). The closures will affect around 700 employees. The Kajaani and Tervasaari closures are expected to have a positive EBITDA impact.

In June UPM closed down the Luumäki timber components and planing mill.

In December UPM closed down the Leivonmäki sawmill (annual capacity of 80,000 cubic metres of sawn timber).

In September UPM announced a plan for measures to improve efficiency in all of the company's business groups and functions. A preliminary estimate of the number of employees affected by these measures is around 950. The streamlining of operations is expected to result in annual savings of about € 70 million in fixed costs. Negotiations with the employee representatives have begun and expected to be concluded during the first half of 2009.

In November UPM's Label business area announced plans to restructure its European operations. The plan includes reduction of coating capacity, closing down a number of self-adhesive labelstock production lines and reduction in slitting capacity in the UK, France, Germany, Hungary and Finland. The number of employees affected by this programme is estimated to be approximately 340. The final decisions will be taken after consultation and negotiation with the employees in the relevant countries.

The planned actions will improve the cost competitiveness and profitability of UPM's Label business area. The aim is to reduce

operating costs annually by about € 25 million, with no material impact on the sales.

Research and development

In 2008, UPM spent altogether approximately € 49 million (50 million) on research and development projects, or 0.5% (0.5%) of the Group's sales. The emphasis has been on developing new products especially in biofuels.

UPM R&D Centre focuses on fibres and fibre raw materials, papers, coating and printing research, as well as customer support, technical services and the environment. In addition, UPM has established a new UPM Biorefinery Development Centre for the research of biofuels and biochemicals at UPM Kaukas paper mill in Lappeenranta, Finland.

UPM's recycled fibre research is centred in Augsburg, Germany. The UPM Asia R&D located in China 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 2008, Plywood R&D focused on exploiting its core competences more efficiently in providing solutions for customers in material technology, coatings and adhesion fields.

Label R&D completed during 2008 the development of a new hotmelt adhesive and the mixing process for that adhesive. Implementation of this is planned to begin during the first half of 2009. In addition, capabilities to produce high quality filmic liners with a cost-efficient process have been further developed.

UPM ProFi continued to develop further its wood composite materials.

New opportunities

UPM established a Finnish Centre for Nanocellulosic Technologies together with VTT Technical Research Centre of Finland and Helsinki University of Technology (TKK) in 2008.

UPM is investigating together with a Finnish technology company Chempolis possibilities for the use of a novel biorefining technology for the production of papermaking fibre and biochemicals. A pilot facility for the further research and development has been built in Oulu.

In biofuels, UPM has focused its business development in second generation biodiesel, bioethanol and bio oil. The piloting test runs of gasification technology to be used in the production of second generation biodiesel has been started in 2008 and will be continued throughout 2009. In bioethanol, UPM has developed in partnership a concept of producing ethanol from waste fractions. In bio oil, a piloting program has been created together with a project consortium.

UPM is active in participating in the European Forest Technology and Biofuels Technology Platforms. UPM is also a partner with the share of 20% in Forestcluster Ltd, established to network top-level research and innovation in the Finnish forest cluster. Its first research program focusing on intelligent, resource-efficient production technologies started in the beginning of 2008.

The environment

Environmental management at UPM is based on internally defined goals, measuring their realisation and on development and imple-

mentation of best practices throughout 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 principles of continuous improvement and sustainable development. 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 both from the environmental and social responsibility standpoint.

UPM has systematically invested capital resources in compliance with environmental laws and regulations and in monitoring and reducing the environmental loads. In 2008, the operating expenses (including depreciation) attributable to environmental protection were € 102 million (103 million) and the corresponding capital expenditure on environmental protection was € 42 million (59 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, Russia, the Baltics, France, the United Kingdom, Germany, Austria, the US and Canada have ISO 14001 certified environmental management systems in place. In addition, eight of the Label business area'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 environmental statement.

In all its forestry operations, UPM takes into consideration economic, ecological and social sustainability. The company requires that its external wood raw material suppliers implement responsible practices which are consistent with UPM policies and rules. Forest biomass is used efficiently in the company's products and energy generation. UPM has continued the work to promote sustainable practices by promoting forest certification and other tools to trace the origin of wood. Special focus has been given to the development of forest practices considering biodiversity. In 2008, about 66% (71%) of wood fibres originated from certified forests. Since June 2006, all of UPM's pulp and paper mills have a thirdparty-audited chain of custody in place.

UPM has continued to improve the efficiency of the production processes and the use of energy for those processes. In 2008, paper production decreased by 8% (increased by 2%). The total fossil carbon dioxide emissions of mill power plants decreased by 19% (decreased by 3%). The total amount of solid waste, primarily ash from mill power plants, to landfills decreased by 7% (decreased by 23%). Biofuels presently account for approximately 57% of all fuels used in heat and electricity generation at the mills. The average effluent amount of paper mills per produced paper ton remained unchanged (decreased by 5%). The corresponding chemical oxygen demand (COD) of discharges increased by 6% (unchanged in 2007).

UPM continues to invest in biomass-fired power plants. In 2008, UPM completed the rebuild of the chemical recovery plant at its Kymi pulp mill in Kuusankoski, Finland. The new plant enables increasing the use of biofuels and doubling of the bio-electricity production capacity.

UPM may face the responsibility to remediate contaminated mill areas. UPM assesses the condition of old mill areas that are no longer in use. In the event that hazardous substances have been found and remediation is needed, a remediation plan has been made together with authorities. The authorities give their approval after the remediation and the area can be taken into use, in most cases industrial use. The potential environmental risks in acquisitions and divestments are minimised and assessed in an environmental due diligence and the liabilities are agreed upon in the purchase or sales agreement between the seller and the purchaser.

UPM is committed to minimise the Group's impact on climate change by managing the carbon dioxide emissions through the whole value chain. This is done for example by increasing the use of forest energy, by investing in new mill site power plants using biomass-based fuels, by continuous improvement of energy efficiency, and investing in biofuel production. Additional measures include the use of renewable and recyclable materials and sustainable management of the forests so that they act as sequesters of carbon dioxide.

EU-wide trading of carbon dioxide emissions allowances started on the 1 January 2005. The second trading phase began on 1 January 2008. Carbon dioxide emission permits were granted to all UPM units that are subject to the scheme. In 2008 and 2007, UPM did not use all granted allowances.

UPM has made consistent efforts to increase the proportion of recycled fibre in the raw material base. UPM is the largest user of recovered paper for graphic papers in the world, with a consumption of 3.0 million tonnes in 2008 (3.0 million tonnes). Currently, 29% of the total fibre usage for paper production is gained from recovered paper.

In 2008, UPM continued promoting the use of the following third-party certified environmental labels: European Eco-label (EU Eco-label), PEFC and FSC. The EU Eco-label proves that the paper fulfils certain environmental criteria, among them that production has a lower environmental impact, in areas such as 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 (unaudited) is given in UPM's Annual Report 2008 and via www.upm-kymmene.com.

Business area reviews

Energy

2008 compared with 2007

The operating profit excluding special items for Energy was € 175 million, € 80 million higher than in 2007. Sales totalled € 478 million (379 million), whereof € 137 million was external sales (59 million). The electricity sales volume was 10.2 TWh (10.3 TWh).

Profitability improved from the year 2007, mainly due to the higher average electricity sales price. The average electricity sales price increased by 33% to € 37.5/MWh (28.2/MWh). The hydro-power volume increased by 21% to 3.8 TWh, which had a positive impact on the average cost of procuring electricity.

Energy	2008	2007
Sales, €m	478	379
EBITDA, €m ¹⁾	207	118
% of sales	43.3	31.1
Share of results of associated companies and joint ventures, €m	-26	-17
Depreciation, amortisation and impairment charges, €m	-6	-6
Operating profit, €m	175	95
% of sales	36.6	25.1
Special items, €m	-	-
Operating profit excl. special items, €m	175	95
% of sales	36.6	25.1
Electricity deliveries, MWh	10,167	10,349
Capital employed (average), €m	951	994
ROCE (excl. special items), %	18.4	9.6

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

Market review

In 2008, energy markets were characterised by high volatility. The average price in the Nordic electricity exchange rose by 60% in 2008 from last year, to € 44.7/MWh (27.9/MWh). In the early part of the year oil and coal prices increased rapidly in the global energy markets. At the same time CO₂ emission allowance prices increased compared with 2007 as the second phase of the EU emission trading scheme started. The combination of higher fuel and CO₂ prices drove the increase in electricity market prices.

In the latter part of the year fossil fuel, CO₂ emission allowance and electricity forward prices started to decline. In December the spot electricity price in the Nordic power exchange was € 44.5/MWh and the one year forward price averaged € 39.6/MWh.

Pulp

2008 compared with 2007

The operating profit excluding special items for Pulp declined to € 148 million (188 million). Sales totalled € 944 million (808 million). Pulp deliveries from UPM's own pulp mills increased by 3% to 1,982,000 tonnes (1,927,000).

Profitability decreased from the year 2007, mainly due to higher wood costs.

The share of the results of the associated company Metsä-Botnia was € 86 million (58 million). The improvement came from Metsä-Botnia's new pulp mill in Uruguay, started up in November 2007, which more than compensated for the weakened profitability in Metsä-Botnia's Finnish operations.

In December UPM closed down the Tervasaari pulp mill (annual capacity 210,000 tonnes of pulp). As special items UPM booked charges of € 59 million consisting of impairment charges of € 51 million and other costs of € 8 million related to the closure of the mill.

Pulp	2008	2007
Sales, €m	944	808
EBITDA, €m ¹⁾	139	188
% of sales	14.7	23.3
Share of results of associated companies and joint ventures, €m	86	58
Depreciation, amortisation and impairment charges, €m	-128	-101
Operating profit, €m	89	145
% of sales	9.4	17.9
Special items, €m ²⁾	-59	-43
Operating profit excl. special items, €m	148	188
% of sales	15.7	23.3
Pulp deliveries, 1,000 t	1,982	1,927
Capital employed (average), €m	1,674	1,423
ROCE (excl. special items), %	8.8	13.2

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

²⁾ In 2008, special items of € 59 million relate to the closure of the Tervasaari pulp mill. Special items in 2007 comprise of a goodwill impairment charge of € 43 million.

Market review

In the first half of 2008, chemical market pulp demand and prices increased from the previous year. Global chemical pulp market prices peaked during the second quarter in USD and in October in euro terms. Since then market pulp prices have fallen very rapidly as the weakening global economy led to decreasing pulp demand and growing pulp producer inventories.

The average softwood pulp (NBSK) market price in euro terms in 2008 was practically unchanged from 2007, at € 579/tonne. However, at the end of the year, the NBSK price had fallen to € 458/tonne, which is 21% below the year's average price during the year. The average hardwood pulp (BHKP) market price in euro terms, at € 536/tonne, increased some 4% from 2007 (€ 513/tonne). However, at the end of the year the price stood at € 417/tonne, 22% below the average price level.

Forest and timber

2008 compared with 2007

The operating profit excluding special items for Forest and timber declined to a loss of € 23 million (profit of € 214 million). Sales decreased by 6% to € 1,920 million (2,039 million). Sawn timber deliveries contracted 8% to 2,132,000 cubic metres (2,325,000 cubic metres).

Profitability declined from the same period last year, mainly due to significantly lower prices of sawn timber and higher cost of wood, including a write down of € 36 million in wood inventory booked at the end of the year. The average price of sawn timber fell approximately 17% from the previous year.

The increase in the fair value of biological assets net of wood harvested was € 50 million (79 million), including the increase of € 138 million (195 million) in the value of growing trees and the cost of € 88 million (116 million) for wood harvested from own forests.

In June UPM closed down the Luumäki timber components and planing mill.

In December UPM closed down the Leivonmäki sawmill (annual capacity 80,000 cubic metres of sawn timber).

Special items of € 36 million in 2008 include impairment charges of € 31 million related to the Finnish sawmilling operations recognised in September, and other restructuring costs of € 5 million. The primary reasons for the impairment were the increased cost of wood raw material, weakened demand for sawn goods in the main markets and lower sales prices.

Forest and timber	2008	2007
Sales, €m	1,920	2,039
EBITDA, €m ¹⁾	-48	159
% of sales	-2.5	7.8
Change in fair value of biological assets and wood harvested, €m	50	79
Share of results of associated companies and joint ventures, €m	-	1
Depreciation, amortisation and impairment charges, €m	-56	-44
Operating profit, €m	-59	201
% of sales	-3.1	9.9
Special items, €m ²⁾	-36	-13
Operating profit excl. special items, €m	-23	214
% of sales	-1.2	10.5
Sawn timber deliveries, 1,000 m ³	2,132	2,325
Capital employed (average), €m	1,878	1,679
ROCE (excl. special items), %	-1.2	12.7

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

²⁾ Special items in 2008 include an impairment charge of € 31 million related to fixed assets of the Finnish sawmills. In 2007, special items include impairment charges of € 19 million related mainly to Miramichi's forestry and sawmilling operations and a gain of € 6 million on sale of estate assets.

Market review

The market balance of sawn timber continued to weaken substantially throughout the year. Demand for both redwood and whitewood timber declined, partly due to the weakening situation in the construction industry. The sawn timber supply in Europe remained high, leading to a significant reduction in price. The decline in sawn timber demand and prices was further intensified towards the end of the year.

In Finland fibre wood market prices remained at the high level that was reached in 2007 and only started declining during the fourth quarter as wood demand slowed down. Log market prices decreased from the previous year but at a slower pace than sawn timber prices.

Wood purchases in the Finnish wood market were some 25% lower than in 2007. The mild winter and the anticipated prohibitive Russian wood export duties contributed to the slow market activity and persistently high prices.

In Russia the authorities continued to implement the increase in export duties for round wood by raising the tariff from € 10 to € 15 per cubic metre in April. According to the original plan, the tariff was to be raised to € 50 per cubic metre from the beginning of 2009. However, in November 2008 it was announced that the tariff increase has been postponed until October–December 2009.

Paper

2008 compared with 2007

The operating profit excluding special items for Paper was € 250 million, € 12 million lower than in the previous year (262 million). Sales decreased to € 7,011 million (7,328 million).

Paper deliveries decreased by almost 7% to 10,641,000 tonnes (11,389,000). Deliveries of publication papers (magazine papers and newsprint) decreased by 6% and those of fine and speciality papers by 8% from the previous year. At the end of the period, paper inventory levels were approximately 200,000 tonnes lower than in 2007.

Profitability decreased from the previous year, due to the markedly higher energy and fibre costs. Higher paper prices offset most of the negative impact of lower delivery volumes. The stronger euro against both GBP and USD weakened the profitability of exports. When translated into euros, the average price for all paper deliveries was over 2% higher than a year ago. The fixed costs were lower than in 2007.

The production of the Miramichi paper mill in Canada was stopped in August 2007. During 2008, Kajaani mill PM4 in Finland was temporarily idled from March, and at Nordland fine paper mill PM2 in Germany production was temporarily shut down since early summer until the end of the year. In France, Docelles mill, there was one month production curtailment in August. In China, the Changshu fine paper mill took considerable production downtime during the fourth quarter to meet an abrupt decline in market demand.

The Kajaani paper mill in Finland, with a capacity of 640,000 t/a of newsprint, special newsprint and uncoated magazine papers, was shut down permanently in December 2008. UPM booked as a special item an approximately € 101 million write-off in fixed assets and made a provision for the layoff and other closure costs of approximately € 42 million with a cash impact mainly in 2009. Additionally, Paper recorded a € 230 million impairment charge from the business area's goodwill. The impairment resulted from lower-than-forecast newsprint market demand in Europe and continued overcapacity in Europe combined with increased costs.

Paper	2008	2007
Sales, €m	7,011	7,328
EBITDA, €m ¹⁾	885	939
% of sales	12.6	12.8
Share of results of associated companies and joint ventures, €m	1	–
Depreciation, amortisation and impairment charges, €m	–967	–995
Operating profit, €m	–129	–137
% of sales	–1.8	–1.9
Special items, €m ²⁾	–379	–399
Operating profit excl. special items, €m	250	262
% of sales	3.6	3.6
Deliveries, publication papers, 1,000 t	7,090	7,530
Deliveries, fine and speciality papers, 1,000 t	3,551	3,859
Paper deliveries total, 1,000 t	10,641	11,389
Capital employed (average), €m	6,503	7,317
ROCE (excl. special items), %	3.8	3.6

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

²⁾ In 2008, special items include the goodwill impairment charge of € 230 million impairment charges of € 101 million and other restructuring costs of € 42 million related to the closure of the Kajaani paper mill, and other restructuring costs, net of € 6 million. Special items in 2007 include personnel expenses of € 54 million and other costs of € 36 million related to the closure of the Miramichi paper mill, and an income of € 8 million related to other restructuring measures. Special items also include a goodwill impairment charge of € 307 million, an impairment charge of € 22 million related to the Miramichi paper mill, and income of € 11 million related to impairment reversals.

Market review

Demand for publication papers in Europe was 2% lower than a year ago and for fine papers demand decreased by 3%. In North America, the demand for publication papers continued to decline and demand was 10% down from last year. In Asia demand for fine papers continued to grow although at a slower pace than last year.

In Europe the average market prices for magazine papers in local currencies increased by about 5% from 2007. The standard newsprint market prices were 8% lower. The average market price for coated fine papers decreased by 3% and for uncoated fine papers by 2% from the previous year. In North America the average US dollar prices for magazine papers were 20% higher. In Asia market prices for fine papers increased.

Label

2008 compared with 2007

The operating profit of Label excluding special items declined to € 2 million from € 56 million. Sales were € 959 million, about 4% less than in the previous year (998 million).

Profitability declined as material costs increased. Also the increase in fixed costs related to two new factories and decline in sales volume had a negative effect on profitability. Sales prices continued to contract until the first quarter of 2008. The price increases initiated since the first quarter improved prices and the average price of sales when translated into euro was about the same as the year before.

UPM Raflatac opened two new pressure sensitive label factories. In January a factory in Dixon, USA, was opened and in November a factory in Wroclaw, Poland, was started up.

As market demand for self-adhesive labelstock began to decline, in November UPM announced a plan to reduce coating capacity and to close two slitting terminals in Europe. The aim is to secure the cost competitiveness of Label in all circumstances. UPM booked charges of € 28 million as special items related to the above measures.

Label	2008	2007
Sales, €m	959	998
EBITDA, €m ¹⁾	34	85
% of sales	3.5	8.5
Depreciation, amortisation and impairment charges, €m	-39	-29
Operating profit, €m	-26	60
% of sales	-2.7	6.0
Special items, €m ²⁾	-28	4
Operating profit excl. special items, €m	2	56
% of sales	0.2	5.6
Capital employed (average), €m	510	420
ROCE (excl. special items), %	0.4	13.3

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

²⁾ In 2008, special items of € 28 million relate to measures to reduce coating capacity and close two slitting terminals in Europe. Special items in 2007 include an income of € 4 million related to restructuring measures.

Market review

In Europe, demand remained stable until summer but since then has contracted especially during the fourth quarter, reflecting a decline in consumer goods demand and customers' drive for inventory reductions. For the year the demand declined approximately 3% from last year both in Europe and North America. In the Asia-Pacific region, demand continued to grow but even there the pace of growth slowed in the autumn.

Plywood

2008 compared with 2007

The operating profit excluding special items for Plywood was € 25 million, € 25 million less than in 2007 (50 million). Sales were € 530 million (591 million). Plywood deliveries were 806,000 m³ (945,000).

Profitability for Plywood declined during the second half of the year due to lower deliveries. The cost of wood logs increased from the 2007. The average price for all plywood deliveries was higher than in 2007 although prices started to decline in the latter part of the year. The availability of logs improved and returned to normal.

In the second half of the year the decline in new orders resulted in reduction in production at all mills, and UPM decided to temporarily shut down the Heinola mill from 19 January 2009 onwards.

Plywood	2008	2007
Sales, €m	530	591
EBITDA, €m ¹⁾	46	71
% of sales	8.7	12.0
Depreciation, amortisation and impairment charges, €m	-21	-21
Operating profit, €m	28	50
% of sales	5.3	8.5
Special items, €m ²⁾	3	-
Operating profit excl. special items, €m	25	50
% of sales	4.7	8.5
Deliveries, plywood, 1,000 m ³	806	945
Capital employed (average), €m	307	300
ROCE (excl. special items), %	8.1	16.7

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

²⁾ Special items in 2008 include reversals of provisions related to the disposed Kuopio plywood mill.

Market review

In 2008, plywood demand was still brisk in the first half of the year but it has declined since then due to sharply falling construction activity in Europe. Transport and other industrial uses of plywood have followed the same cycle. Declining demand in Europe has left much idle capacity and led to reduction of inventory levels in all parts of the chain.

Other operations

Other operations include developments units (the wood plastic composite unit ProFi, RFID tags and biofuels). It also includes logistic services and corporate administration.

2008 compared with 2007

Excluding special items, the operating loss of Other operations was € 64 million (loss of € 30 million). Sales were € 200 million (450 million).

Operating profit and sales were affected by the following disposals made in 2007: the real estate company UPM-Asunnot Oy in April and Walki Wisa in June and port operators Oy Rauma Stevedoring Ltd and Oy Botnia Shipping Ab in October.

Logistic services represented about half of the sales, of which a major part was internal. Development units made an operating loss. Development units continued to invest in product development. During the year UPM established a new UPM Biorefinery Development Centre for the research of biofuels and biochemicals in Lappeenranta, Finland, and opened a new state-of-the-art RFID manufacturing site in Guangzhou, China, and a new wood composite UPM ProFi factory in Bruchsal, Germany.

Other operations	2008	2007
Sales, €m	200	450
EBITDA, €m ¹⁾	-57	-14
% of sales	-28.5	-3.1
Share of results of associated companies and joint ventures, €m	1	1
Depreciation, amortisation and impairment charges, €m	-8	-28
Operating profit, €m	-54	69
% of sales	-27.0	15.3
Special items, €m ²⁾	10	99
Operating profit excl. special items, €m	-64	-30
% of sales	-32.0	-6.7
Capital employed (average), €m	137	217
ROCE (excl. special items), %	-46.7	-13.8

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

²⁾ In 2008, special items include an adjustment of € 5 million to sales of disposals of 2007 and other restructuring income net of € 5 million. In 2007 special items include capital gains of € 58 million on the sale of port operators Rauma Stevedoring and Botnia Shipping, € 42 million related to the sale of UPM-Asunnot and € 29 million related to the sale of Walki Wisa. In addition special items include a compensation charge of € 12 million related to class action lawsuits in the US, and other impairment charges and restructuring costs of € 18 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 2008, UPM shares worth, in total € 10,549 million (16,472 million) were traded on the NASDAQ OMX Helsinki stock exchange. The highest quotation was € 13.87 in January and the lowest € 8.15 in December.

The company's ADSs are traded on the US over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt programme.

The Annual General Meeting held on 26 March 2008 approved a proposal to authorise the Board of Directors to decide to buy back not more than 51,000,000 own shares. The authorisation is valid for 18 months from the date of the decision.

On the basis of the decisions of the Annual General Meeting of 27 March 2007, the Board has the authority to decide 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.

In addition, the Board has the authority to decide to issue shares and special rights entitling the holder 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, 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. Furthermore, the Board is authorised to decide on the disposal of own shares. To date, this authorisation has not been used. These authorisations of the 2007 Annual General Meeting will remain valid for no more than three years from the date of the decision.

The meeting 27 March 2007 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.

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

In 2008, 7,400,768 shares were subscribed for through exercis-

ing of outstanding share options. The number of shares entered in the Trade Register on 31 December 2008 was 519,970,088. Through the issuance authorisation and share options, the number of shares may increase to a maximum of 790,970,088.

At the end of the year the company held 15,944 of its own shares, 0.003% of the total number of shares, which have been granted under the Group's share reward scheme. These shares have been returned in connection with termination of service contracts.

The company has received the following notifications from shareholders: Norges Bank on 24 October 2008 held 5.01% of the share capital and the voting rights. Franklin Resources, Inc. held 9.94% of the voting rights on 3 November 2008.

Listing of UPM 2005H stock options on the NASDAQ OMX Helsinki stock exchange commenced on 1 October 2008.

Company directors

Under the Companies Act, a general meeting of shareholders elects members of the Board of Directors. The Annual General Meeting of 26 March 2008 confirmed that the number of members on the Board of Directors is 10.

At the Annual General Meeting Mr Matti Alahuhta, President and CEO of KONE Corporation, and Mr Björn Wahlroos, President and CEO of Sampo plc, were elected to the Board of Directors as new members. In addition, Mr Michael C. Bottenheim, LL.M., MBA; Mr Berndt Brunow, Board member 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 Jussi Pesonen, President and CEO of UPM; Ms Ursula Ranin, LL.M., B.Sc. (Econ.); and Mr Veli-Matti Reinikkala, President of ABB Process Automation Division, 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 Björn Wahlroos was elected as Chairman, and Mr Berndt Brunow and Mr Georg Holzhey were elected as Vice Chairmen. In addition, the Board of Directors elected from its members the Audit Committee with Mr Michael C. Bottenheim as Chairman, and Ms Wendy E. Lane and Mr Veli-Matti Reinikkala as members. The Human Resources Committee was elected, with Mr Berndt Brunow as Chairman, and Mr Georg Holzhey and Ms Ursula Ranin as members. Furthermore, the Nominating and Corporate Governance Committee was elected, with Mr Björn Wahlroos as Chairman, and the other members being Mr Matti Alahuhta and Mr Karl Grotenfelt.

Risks

Risk management

UPM regards risk management as a systematic and proactive means to analyse and manage opportunities and threats related 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. The 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 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 energy, 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.

Consumer preferences. Over the last several decades, consumer expectations with respect to paper used for such items as magazines, newspapers, catalogues, 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 continue to do so. 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 into which UPM might enter 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 the business portfolio. Although UPM believes that its product portfolio and geographic spread is currently quite suited for profitable business, the 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 signifi-

cant 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 environment-related processes and management are based on full compliance with such laws and regulations, and environmental investments, audits and measurements are carried out on a 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 16% of the company's sales of € 9.5 billion in 2008.

Operational risks

Cyclical nature 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 2008, third-party suppliers accounted for approximately 90% UPM's wood requirements and approximately 15% 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 shifts in the availability and price of wood, especially in the Baltic Rim area, or uncertainties on how proposed policies of the EU Energy package impacts the availability and costs of fibre and energy.

Partnerships. UPM currently works together with many partners and the highly competitive market situation is likely to increase partnerships to seek higher efficiency. Partnerships, however, may create risks to the profitability e.g. through changes occurring within the partner company or changes in how the joint venture operates. Partnership arrangements may also be too rigid to enable timely changes required e.g. by changes in the market conditions or economy.

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 rate 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 globally, 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, environment, 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.

Litigation

Certain competition authorities are continuing investigations into alleged antitrust activities with respect to various products of UPM. The authorities have granted UPM conditional full immunity with respect to certain conduct disclosed to them. UPM has settled or agreed to settle the class-action lawsuits in the US except for those filed by indirect purchasers of labelstock. The remaining litigation matters may last several years. No provisions have been made in relation to these investigations.

Events after the balance sheet date

On 14 January 2009, UPM's associated company Oy Metsä-Botnia Ab announced the permanent closure of the Kaskinen pulp mill in the first quarter of 2009. The special charges resulting from the closure will reduce UPM's associated company results by approximately € 27 million in the first quarter of 2009. UPM's share in Oy Metsä-Botnia Ab is 47%.

On 15 January 2009, UPM sold its former paper mill and related assets in Miramichi, New Brunswick, Canada, to Umoe Solar AS of Norway. The sale includes the closed paper mill site, woodlands operations, and two sawmills located nearby in Bathurst and Blackville. UPM records an income of approximately € 20 million on the sale as a special item in the first quarter of 2009.

The Group's management is not aware of any other significant events occurring after 31 December 2008.

Outlook for 2009

Economic growth in UPM's main markets is forecast to contract. This will have an impact on consumer demand, construction activity, and advertising expenditure in media and thus on demand for graphic papers.

Due to estimated lower demand for most of UPM's products, UPM is curtailing production. The company seeks cost savings through flexible ways of operating mills and units.

Higher external sales volume is forecast in Energy for 2009 due to lower consumption in own production. Average market price for electricity is estimated to be lower.

UPM's paper deliveries for 2009 are forecast to be lower than last year. Deliveries for the first quarter of the year are estimated to be clearly lower than for the fourth quarter of 2008. In the beginning of the year the average price for UPM's papers is higher than during the fourth quarter 2008.

Demand for self-adhesive labelstock is estimated to decline slightly from 2008 in all markets. On average labelstock prices are expected to remain about the same as last year.

Demand for birch and spruce plywood is forecast to be clearly lower than last year. Cost of wood raw material will gradually be lower but also pressure on sales prices continues.

For the group wood and other raw material costs are expected to be lower than 2008, however, main impact would be during the second half of the year. Also lower fixed costs are expected. Capital expenditure for 2009 is forecast to be about € 400 million.

Board of Directors' proposal for the distribution of profits

The distributable funds of the parent company are € 3,030,264,469.16. The Board of Directors proposes to the Annual General Meeting that a dividend of € 0.40 per share be paid on the shares outstanding at the record date.

On 5 February 2009, there are 519,954,144 outstanding shares and the corresponding amount to be paid in dividends is € 208.0 million.

The Board of Directors proposes that the dividend to be paid on 8 April 2009.

No material changes have taken place in respect of the company's financial position after the balance sheet date. In the opinion of the Board of Directors 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 2008

Helsinki, 5 February 2009

Björn Wahlroos
Chairman

Berndt Brunow

Georg Holzhey

Matti Alahuhta

Michael C. Bottenheim

Karl Grotenfelt

Wendy E. Lane

Ursula Ranin

Veli-Matti Reinikkala

Jussi Pesonen
President & CEO

Consolidated income statement

€m	Note	Year ended 31 December	
		2008	2007
Sales	4	9,461	10,035
Other operating income	6	83	200
Costs and expenses	7	-8,407	-8,650
Change in fair value of biological assets and wood harvested	8	50	79
Share of results of associated companies and joint ventures	9	62	43
Depreciation, amortisation and impairment charges	10	-1,225	-1,224
Operating profit	4	24	483
Gains on available-for-sale investments, net	11	2	2
Exchange rate and fair value gains and losses	12	-25	-2
Interest and other finance costs, net	12	-202	-191
Profit (loss) before tax		-201	292
Income taxes	13	21	-211
Profit (loss) for the period		-180	81
Attributable to:			
Equity holders of the parent company		-179	85
Minority interest		-1	-4
		-180	81
Earnings per share for profit (loss) attributable to the equity holders of the parent company			
Basic earnings per share, €	14	-0.35	0.16
Diluted earnings per share, €	14	-0.35	0.16

The notes are an integral part of these financial statements.

Consolidated balance sheet

€m	Note	As at 31 December	
		2008	2007
ASSETS			
Non-current assets			
Goodwill	16	933	1,163
Other intangible assets	17	403	392
Property, plant and equipment	18	5,688	6,179
Investment property	19	19	14
Biological assets	20	1,133	1,095
Investments in associated companies and joint ventures	21	1,263	1,193
Available-for-sale investments	22	116	116
Non-current financial assets	23	361	82
Deferred tax assets	28	258	284
Other non-current assets	24	201	121
		10,375	10,639
Current assets			
Inventories	25	1,354	1,342
Trade and other receivables	26	1,686	1,717
Income tax receivables		24	18
Cash and cash equivalents		330	237
		3,394	3,314
Assets classified as held for sale	18	12	–
Total assets		13,781	13,953

€m	Note	As at 31 December	
		2008	2007
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	27	890	890
Translation differences		-295	-158
Fair value and other reserves	27	130	193
Reserve for invested non-restricted equity		1,145	1,067
Retained earnings		4,236	4,778
		6,106	6,770
Minority interest		14	13
Total equity		6,120	6,783
Non-current liabilities			
Deferred tax liabilities	28	658	745
Retirement benefit obligations	29	408	441
Provisions	30	191	171
Interest-bearing liabilities	31	4,534	3,384
Other liabilities	32	25	12
		5,816	4,753
Current liabilities			
Current interest-bearing liabilities	31	537	931
Trade and other payables	33	1,258	1,443
Income tax payables		33	43
		1,828	2,417
Liabilities related to assets classified as held for sale	18	17	-
Total liabilities		7,661	7,170
Total equity and liabilities		13,781	13,953

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity

€m	Attributable to equity holders of the parent company							Total	Minority interest	Total equity
	Share capital	Share premium reserve	Treasury shares	Translation differences	Fair value and other reserves	Reserve for invested non-restricted equity	Retained earnings			
Balance at 1 January 2007	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										
fair value gains/losses, net of tax	—	—	—	—	—	—	—	—	—	—
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
Translation differences	—	—	—	—193	—	—	—	—193	—	—193
Net investment hedge, net of tax	—	—	—	56	—	—	—	56	—	56
Cash flow hedges										
fair value gains/losses, net of tax	—	—	—	—	29	—	—	29	—	29
transfers from equity, net of tax	—	—	—	—	—62	—	—	—62	—	—62
Available-for-sale investments										
fair value gains/losses, net of tax	—	—	—	—	—	—	—	—	—	—
transfers to income statement, net of tax	—	—	—	—	—	—	—	—	—	—
Other items ¹⁾	—	—	—	—	—	—	—12	—12	—	—12
Loss for the period	—	—	—	—	—	—	—179	—179	—1	—180
Total recognised income and expense for the period	—	—	—	—137	—33	—	—191	—361	—1	—362
Share options exercised	—	—	—	—	—	78	—	78	—	78
Acquisition of treasury shares	—	—	—	—	—	—	—	—	—	—
Cancellation of treasury shares	—	—	—	—	—	—	—	—	—	—
Share-based compensation, net of tax	—	—	—	—	—29	—	33	4	—	4
Dividend paid	—	—	—	—	—	—	—384	—384	—	—384
Business combinations	—	—	—	—	—	—	—	—	2	2
Other items	—	—	—	—	—1	—	—	—1	—	—1
Total of other changes in equity	—	—	—	—	—30	78	—351	—303	2	—301
Balance at 31 December 2008	890	—	—	—295	130	1,145	4,236	6,106	14	6,120

¹⁾The Group's share of changes recognised directly in the associates' equity.

The notes are an integral part of these financial statements.

Consolidated cash flow statement

€m	Year ended 31 December	
	2008	2007
Cash flow from operating activities		
Profit (loss) for the period	-180	81
Adjustments to profit (loss) for the period (Note 5)	1,232	1,390
Interest received	9	4
Interest paid	-202	-191
Dividends received	18	23
Other financial items, net	-41	-72
Income taxes paid	-76	-164
Change in working capital (Note 5)	-132	-204
Net cash generated from operating activities	628	867
Cash flow from investing activities		
Acquisition of shares in associated companies	-19	-25
Capital expenditure	-558	-673
Proceeds from disposal of subsidiary shares, net of cash (Note 5)	6	205
Proceeds from disposal of shares in associated companies	4	2
Proceeds from disposal of available-for-sale investments	2	3
Proceeds from sale of tangible and intangible assets	33	71
Proceeds from non-current receivables	-	1
Increase in non-current receivables	-	-9
Net cash used in investing activities	-532	-425
Cash flow from financing activities		
Proceeds from non-current liabilities	1,083	965
Payments of non-current liabilities	-624	-879
Proceeds from (payment of) current liabilities, net	-153	66
Share options exercised	78	104
Dividends paid	-384	-392
Purchase of treasury shares	-	-266
Other financing cash flow	-1	-
Net cash used in financing activities	-1	-402
Change in cash and cash equivalents	95	40
Cash and cash equivalents at the beginning of year	237	199
Foreign exchange effect on cash	-2	-2
Change in cash and cash equivalents	95	40
Cash and cash equivalents at year-end	330	237

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 ("the parent company" or "the company") 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 consists of three Business Groups, which are Energy and pulp, Paper, and Engineered materials. UPM reports financial information for the following segments: Energy, Pulp, Forest and timber, Paper, Label, Plywood, and Other operations. 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. The parent company is listed on NASDAQ OMX Helsinki Ltd.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 5 February 2009.

Basis of preparation

These consolidated financial statements of UPM are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 changed 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. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associated company and joint venture, unless the loss provides evidence of an impairment of the asset transferred. Associated company and joint venture accounting policies have been changed where necessary to ensure consistency with the policies adopted by the

Group. Equity accounting is discontinued when the carrying amount of the investment in an associated company or interest in a joint venture reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company or joint venture.

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.

Transactions with minority interests are treated as transaction with parties external to the Group. Disposals of minority interests result in gains or losses for the Group and are recorded in the income statement. Purchases of minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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. On consolidation, exchange differences arising from the translation of the net investment in foreign operations and other currency instruments designated as hedges of such investments, are taken into shareholders' equity. When a foreign entity is partially disposed of, sold or liquidated, translation differences recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Derivative financial instruments and hedging activities

Derivatives are initially recognised on the balance sheet at fair value and thereafter remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised asset or liability (fair value hedge), a hedge of a highly probable 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 Treasury 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.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and CEO.

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.

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.

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 and presented as provision in the balance sheet. 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 Group'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 Group's projection of future price development.

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

Financial assets

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

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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

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

Trade receivables are non-derivatives that are recognised initially at fair value and subsequently measured at amortised cost less provisions for impairment for doubtful accounts. Provisions for impairment for doubtful accounts are charged to the income statement when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or default 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 available 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 borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Cash and cash equivalents

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

Treasury shares

Where any Group company purchases the parent 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 parent 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 parent 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 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.

Gains or losses on the curtailments or settlements of a defined benefit plan are recognised when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement includes possible changes in the present value of defined benefit obligation, change in fair value of plan assets and any impact of actuarial gains and losses and past service costs not previously recognised.

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

Other post-employment obligations

Some Group companies provide post-employment 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.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

Based on the share ownership programme, the executive management is compensated with shares depending on the Group's financial performance. Shares are valued using the market rate on the grant date. The settlement is a combination of shares and cash. The Group 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 parent 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 parent company's shareholders.

Earnings per share

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

Adoption of new and revised International Financial Reporting Standards interpretations and amendments to existing standards

Amendments and interpretations effective in 2008

In 2008, the Group has adopted the following amendments and interpretations:

Amendments to *IAS 39 Financial Instruments: Recognition and Measurement* and *IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets* are effective from 1 July 2008. As respond to the credit crisis the amendments introduce a possibility of reclassification of some financial instruments. Amendments do not have an impact on the Group's financial statements.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have an impact on the Group's financial statements, as the Group is not subject to any minimum funding requirements.

Standards early adopted

IFRS 8 Operating Segments was early adopted from 1 January 2008. IFRS 8 replaces IAS 14 Segment Reporting and aligns segment reporting with the requirements of the US GAAP standard SFAS 131. The new standard 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 adoption of IFRS 8 does not have a material impact on the Group's financial statements, since the Group has already reported segment information in a manner consistent with the internal reporting.

New and revised standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, interpretations and amendments to existing standards have been published and are mandatory for accounting periods beginning on 1 January 2009. The Group has not early adopted any of the standards:

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.

IFRIC 12 Service Concession Arrangements is effective for annual periods beginning on or after 1 January 2010. The interpretation addresses the accounting by private sector operators involved in the

provision of public sector infrastructure assets and services. This interpretation is not relevant for the Group, since it has not had any such arrangements in current or previous periods. 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. This interpretation is not relevant for the Group.

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.

Revised *IFRS 3 Business Combinations* is effective for annual periods beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The revised standard will have an impact on the accounting for the Group's future business combinations. This amendment is not yet endorsed by the EU.

Amendment to *IAS 27 Consolidated and Separate Financial Statements* is effective for annual periods beginning on or after 1 July 2009. The amendment requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. This amendment is not yet endorsed by the EU.

Amendment to *IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations* is effective for annual periods beginning on or after 1 January 2009. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not expected to have a material impact on the Group's financial statements.

Amendments to *IAS 32 Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* are effective for annual periods beginning on or after 1 January 2009. The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an

obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. It is not expected that amendments will have an impact on the Group's financial statements.

Amendments related to *Improvements to IFRSs*, (Annual Improvements 2007), are mainly effective for annual periods beginning on or after 1 January 2009. Through annual improvement projects minor changes to wordings to clarify the meaning and removals of unintended inconsistencies between standards are combined and implemented annually. Annual improvements 2007 related to 34 different standards. These amendments are not expected to have a material impact on the Group's financial statements.

Amendments to *IFRS 1 First Time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* are effective for annual periods beginning on or after 1 January 2009. These amendments relate to first time adoption of IFRS and therefore are not relevant for the Group.

IFRIC 15 Agreements for Construction of Real Estates is effective for annual periods beginning on or after 1 January 2009. The interpretation clarifies whether IAS 18 Revenue or IAS 11 Construction contracts should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations. This interpretation is not yet endorsed by the EU.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation is effective for annual periods beginning on or after 1 October 2008. IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21 do apply to the hedged item. The interpretation is not expected to have a material impact on the Group's financial statements. This interpretation is not yet endorsed by the EU.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items* is effective for annual periods beginning on or after 1 July 2009. The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of: a one-sided risk in a hedged item, and inflation in a financial hedged item. The amendment is not expected to have an impact on the Group's financial statements. This amendment is not yet endorsed by the EU.

IFRIC 17 Distribution of Non-Cash Assets to Owners is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies how an entity should measure the distribution of assets when it distributes other assets than cash. It is not expected that the interpretation will have a material impact on the Group's financial statements. This interpretation is not yet endorsed by the EU.

Revised *IFRS 1 First Time Adoption of IFRS* is effective for entities applying IFRS for the first time for annual periods beginning on or after 1 July 2009. The revised standard relates to first time adoption of IFRS and therefore is not relevant for the Group. The revised standard 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 or defined benefit obligation. Significant differences in actual experience or significant changes in assumptions may materially affect the future amounts of the defined benefit obligation and future expense.

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 other 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 and from 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 currency cash flows on a rolling basis over the next 12-month period based on the units' forecasts. According to the Group's Treasury Policy 50% hedging is considered risk neutral. Some 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 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. 52% of the forecasted 12-month currency flow was hedged on 31 December 2008 (31.12.2007: 53%). The table below shows the nominal values of the hedging instruments at 31 December 2008 and 2007.

Nominal values of hedging instruments

Currency	2008 €m	2007 €m
USD	294	342
GBP	219	315
JPY	77	36
AUD	79	168
CHF	32	26
DKK	32	44
Others	21	128
Total	754	1,059

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 functional currency. The aim is to hedge this balance sheet exposure fully using financial instruments. The Group might, however, within the limits set in the Group Treasury Policy have unhedged balance sheet exposures. At 31 December 2008 unhedged balance sheet exposures in interest bearing assets and liabilities amounted to 45 million (31.12.2007: 17 million). In addition to this the Group has non interest bearing accounts receivable and payable balances denominated in foreign currencies. The nominal values of the hedging instruments used in accounts payable and receivable hedging were 277 million (31.12.2007: 327 million).

Translation exposure

Translation exposure consists of net investments in foreign subsidiaries. The exchange risks associated with the shareholders' equity of foreign subsidiaries are only hedged in Canada. The net investments of all other foreign operations remain unhedged.

Foreign exchange risk sensitivity

At 31 December 2008, 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 € 4 million (2007: € 2 million) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been € 39 million (2007: € 34 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2008, 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 (2007: € 0) higher/lower due to balance sheet foreign exchange exposure. The effect in equity would have been € 22 million (2007: € 31 million) lower/higher, arising mainly from foreign currency forwards used to hedge forecasted foreign currency flows.

As of 31 December 2008, 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 € 7 million (2007: € 16 million) higher/lower. The effect in equity would have been € 1 million (2007: € 0 million) lower/higher.

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 2008 the average duration was 6 months (2007: 6 months). The Group uses interest rate derivatives to change the duration of the net debt.

The Group's net debt per currency corresponds to the parent company's and subsidiaries' loan portfolios in their functional currencies. The nominal values of the Group's interest-bearing net debts including derivatives by currency at 31 December 2008 and 2007 were as follows:

Currency	2008 €bn	2007 €bn
EUR	4.3	3.8
CNY	0.3	0.4
USD	0.3	0.3
CAD	-0.6	-0.3
Others	0.1	-0.1
Total	4.4	4.1

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 2008, 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 € 9 million (2007: € 7 million) lower/ higher, mainly as a result of higher/lower interest expense on floating rate interest-bearing liabilities. There would be no effect on equity.

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

- The variation of interest rate is assumed to be 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 interest-bearing liabilities that are measured at amortised cost and which are not designated to fair value hedge relationship are not subject to interest rate risk sensitivity.
- Variable rate interest-bearing liabilities that are measured at amortised cost and which are not designated as hedged items are included in interest rate sensitivity analysis.
- Changes in the market interest rate of interest rate derivatives (interest rate futures, swaps and cross currency swaps) that are not designated as hedging instruments 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 2008 was 5.7 years (2007: 6.1 years).

Cash funds and committed credit facilities

€m	2008	2007
Cash funds	330	237
Committed facilities	2,500	2,500
of which used	-687	-538
Used uncommitted credit lines	-74	-416
Long-term loan repayment	-344	-389
Available liquidity	1,725	1,394

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)

The contractual maturity analysis for financial liabilities is presented in Note 31.

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.

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 15% (11%) of the Group's trade receivables as at 31 December 2008 – i.e., approximately € 190 million (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 2008 at Nord Pool electricity exchange would have been 25% higher/lower with all other variables constant, pre-tax profit for the year would have been € 19 million (2007: € 0.3 million based on 15% higher/lower) higher/lower. Profit was more sensitive to electricity price movements in 2008 than in 2007 because of the increased amount of the electricity derivatives and increased volatility.

- The sensitivity analysis assumes a 25% 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 90%.

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

€m	As at 31 December	
	2008	2007
Equity attributable to the equity holders of the parent company	6,106	6,770
Minority interest	14	13
Total equity	6,120	6,783
Long-term interest-bearing liabilities	4,534	3,384
Short-term interest-bearing liabilities	537	931
Liabilities related to assets classified as held for sale, interest-bearing	2	–
Interest-bearing liabilities, total	5,073	4,315
Total capitalisation	11,193	11,098
Interest-bearing liabilities, total	5,073	4,315
Less: Interest-bearing receivables, total	–752	–342
Net interest-bearing liabilities	4,321	3,973
Gearing ratio, %	71	59

4 SEGMENT INFORMATION

As of 1 December 2008, UPM has been applying a new business structure. The company consists of three Business Groups, which are Energy and pulp comprising Energy, Pulp, and Forest and timber reportable segments; Paper as a reportable segment; and Engineered materials comprising Label and Plywood reportable segments. Other operations include development units (the wood plastic composite unit ProFi, RFID tags, biofuels), logistic services and corporate administration.

UPM has early adopted IFRS 8 Operating Segments at 1 January 2008. The adoption of IFRS 8 does not have a material impact on the Group's financial statements, since the Group has already reported segment information in a manner consistent with the internal reporting.

The comparative segment information for year 2007 has been revised to correspond with the new business structure and IFRS 8 presentation requirements.

Reportable segments

Energy

The Energy segment includes UPM's hydropower plants and shares in energy companies, mainly in the associated company Pohjolan Voima Oy, and in Kemijoki Oy. Combined heat and power (CHP) plants operating on paper mill sites are included in the Paper segment.

Pulp

The Pulp segment includes the Group's pulp mills and shares in the associated company Oy Metsä-Botnia Ab.

Forest and timber

The Forest and timber segment includes forests, wood procurement, and sawmills with an annual production capacity of 2.4 million cubic metres.

Paper

The Paper segment includes the Group's paper mills, producing magazine papers, newsprint, fine papers, and speciality papers. The annual production capacity is approximately 11 million tonnes. This segment also includes the CHP plants at paper mill sites.

Label

The Label segment includes labelstock factories and slitting and distribution terminals.

Plywood

The Plywood segment includes plywood mills. The segment's annual production capacity is 1.1 million cubic metres.

Other operations

Other operations include development units (the wood plastic composite unit ProFi, RFID tags, and biofuels) logistic services and corporate administration.

The Group has not aggregated any operating segments in determination of the above reportable segments.

The Group's management has determined the operating segments based on management reporting regularly reviewed by the Group's chief operating decision maker. The chief operating decision maker has been identified as the Group's President and CEO.

The information reported for each segment is the measure of what the Group's President and CEO uses internally for evaluating segment performance and deciding on how to allocate resources to operating segments. The operating segments are organised on a basis of products.

The performance of operating segment is evaluated primarily based on segment's Operating profit, which is measured on a basis consistent with consolidated financial statements. Sales between the segments are based on market prices.

The amounts provided to the President and CEO in respect of segments assets and liabilities are measured on a basis consistent with consolidated financial statements. The assets and liabilities are allocated to the segments based on the segments operations. Unallocated assets and liabilities comprises of other than energy shares under available-for-sale investments, non-current financial assets, deferred tax assets and liabilities, other non-current assets, income tax receivables and payables, cash and cash equivalents, assets classified as held for sale and related liabilities, retirement benefit obligations, provisions, interest-bearing liabilities and other liabilities and payables.

Segment information for the year ended 31 December 2008

€m	Energy	Pulp	Forest and timber	Paper	Label	Ply-wood	Other operations	Eliminations and re-conciliations	Group
External sales	137	63	869	6,761	956	491	184	–	9,461
Internal sales	341	881	1,051	250	3	39	16	–2,581	–
Total sales	478	944	1,920	7,011	959	530	200	–2,581	9,461
Share of results of associates and joint ventures	–26	86	–	1	–	–	1	–	62
Operating profit	175	89	–59	–129	–26	28	–54	–	24
Gains on available-for-sale investments, net									2
Finance costs, net									–227
Income taxes									21
Profit (loss) for the period									–180
Special items in operating profit ¹⁾	–	–59	–36	–379	–28	3	10	–	–489
Operating profit excluding special items	175	148	–23	250	2	25	–64	–	513
Assets ²⁾	480	1,040	1,976	6,378	661	313	161	–139	10,870
Associates and joint ventures ²⁾	498	745	1	15	–	–	4	–	1,263
Unallocated assets									1,648
Total assets									13,781
Liabilities ³⁾	23	67	135	377	132	18	32	–141	643
Unallocated liabilities									7,018
Total liabilities									7,661
Other items									
Depreciation and amortisation	5	77	24	639	32	21	8	–	806
Impairment charge	1	51	32	328	7	–	–	–	419
Capital expenditure ⁴⁾	8	151	24	219	96	22	31	–	551
Capital employed, 31 December ⁵⁾	955	1,718	1,843	6,016	529	295	134	–297	11,193
Capital employed, average	951	1,674	1,878	6,503	510	307	137	–814	11,146
Return on capital employed, excluding special items % ⁶⁾	18.4	8.8	–1.2	3.8	0.4	8.1	–46.7	–	4.6
Personnel at year end	39	1,159	3,278	13,262	2,851	3,799	595	–	24,983
Personnel, average	27	1,379	3,445	13,777	2,824	3,950	615	–	26,017

¹⁾ In 2008, special items of the Pulp segment of € 59 million relate to the closure of the Tervasaari pulp mill. In Forest and timber segment special items include an impairment charge of € 31 million related to fixed assets of the Finnish sawmills. Special items of the Paper segment include the goodwill impairment charge of € 230 million, impairment charges of € 101 million and other restructuring costs of € 42 million related to the closure of the Kajaani paper mill, and other restructuring costs, net of € 6 million. In Label segment special items of € 28 million relate to measures to reduce coating capacity and close two slitting terminals in Europe. In Plywood segment special items include reversals of provisions related to the disposed Kuopio plywood mill. In Other operations special items include an adjustment of € 5 million to sales of disposals of 2007 and other restructuring income net of € 5 million.

²⁾ 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.

³⁾ Segment liabilities include trade payables and advances received.

⁴⁾ 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 ventures.

⁵⁾ Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

⁶⁾ The formula for calculation of the return on capital employed; segments: Operating profit excluding special items/Capital employed (average) x 100, the Group: (Profit before tax + interest expenses and other financial expenses–special items)/(Total equity+interest bearing liabilities (average)) x 100.

Segment information for the year ended 31 December 2007

€m	Energy	Pulp	Forest and timber	Paper	Label	Ply-wood	Other operations	Eliminations and re-conciliations	Group
External sales	59	35	1,021	7,081	997	555	287	–	10,035
Internal sales	320	773	1,018	247	1	36	163	–2,558	–
Total sales	379	808	2,039	7,328	998	591	450	–2,558	10,035
Share of results of associates and joint ventures	–17	58	1	–	–	–	1	–	43
Operating profit	95	145	201	–137	60	50	69	–	483
Gains on available-for-sale investments, net									2
Finance costs, net									–193
Income taxes									–211
Profit for the period									81
Special items in operating profit ¹⁾	–	–43	–13	–399	4	–	99	–	–352
Operating profit excluding special items	95	188	214	262	56	50	–30	–	835
Assets ²⁾	475	910	1,968	7,344	597	327	152	–123	11,650
Associates and joint ventures ²⁾	523	652	2	12	–	–	4	–	1,193
Unallocated assets									1,110
Total assets									13,953
Liabilities ³⁾	23	91	195	491	149	29	23	–179	822
Unallocated liabilities									6,348
Total liabilities									7,170
Other items									
Depreciation and amortisation	5	58	25	678	29	21	15	–	831
Impairment charge	1	43	19	317	–	–	13	–	393
Capital expenditure ⁴⁾	3	239	25	296	106	17	22	–	708
Capital employed, 31 December ⁵⁾	975	1,472	1,774	6,865	448	299	133	–868	11,098
Capital employed, average	994	1,423	1,679	7,317	420	300	217	–984	11,366
Return on capital employed, excluding special items ⁶⁾	9.6	13.2	12.7	3.6	13.3	16.7	–13.8	–	7.4
Personnel at year end	26	1,186	3,510	14,538	2,568	3,945	579	–	26,352
Personnel, average	28	1,309	3,628	15,145	2,569	4,063	1,504	–	28,246

¹⁾ In 2007, special items of the Pulp segment comprise of a goodwill impairment charge of € 43 million. In Forest and timber segment special items include impairment charges of € 19 million related mainly to Miramichi's forestry and sawmilling operations and a gain of € 6 million on sale of estate assets. In Paper segment special items include impairment charge of € 22 million, personnel expenses of € 54 million and other costs of € 36 million related to the closure of the Miramichi paper mill, and an income of € 8 million related to other restructuring measures. Special items also include a goodwill impairment charge of € 307 million, and income of € 11 million related to impairment reversals. In Label segment special items include an income of € 4 million related to restructuring measures. In Other operations special items include capital gains of € 58 million on the sale of port operators Rauma Stevedoring and Botnia Shipping, € 42 million related to the sale of UPM-Asunnot and € 29 million related to the sale of Walki Wisa. In addition special items include a compensation charge of € 12 million related to classaction lawsuits in the US, and other impairment charges and restructuring costs of € 18 million.

²⁾ 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.

³⁾ Segment liabilities include trade payables and advances received.

⁴⁾ 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 ventures.

⁵⁾ Capital employed is segment assets less segment liabilities. Eliminations include unallocated assets and unallocated non-interest bearing-liabilities.

⁶⁾ The formula for calculation of the return on capital employed; segments: Operating profit excluding special items/Capital employed (average) x 100, the Group: (Profit before tax + interest expenses and other financial expenses-special items)/(Total equity+interest bearing liabilities (average)) x 100.

Geographical information

External sales by destination

€m	Year ended 31 December	
	2008	2007
Germany	1,640	1,707
United Kingdom	1,040	1,203
Finland	946	865
France	552	607
Other EU countries	2,259	2,418
Other European countries	467	493
United States	940	1,140
Canada	65	115
China	397	382
Rest of world	1,155	1,105
Total	9,461	10,035

Total assets by country

€m	As at 31 December	
	2008	2007
Germany	2,514	2,830
United Kingdom	565	642
Finland	7,547	7,197
France	521	568
Other EU countries	592	646
Other European countries	132	145
United States	592	620
Canada	186	233
China	832	801
Rest of world	300	271
Total	13,781	13,953

Capital expenditure by country

€m	Year ended 31 December	
	2008	2007
Germany	33	23
United Kingdom	56	28
Finland	280	439
France	13	31
Poland	68	23
Other European countries	17	31
North America	23	62
China	9	17
Rest of world	52	54
Total	551	708

5 NOTES TO THE CASH FLOW STATEMENT

Acquisitions and disposals

In 2008 and 2007, no acquisitions were made.

In 2008 disposals relate to the sale of UPM's RFID antenna manufacturing company Inture Circuits Ltd in July and adjustments to disposals in 2007.

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.

None of these disposals are classified as discontinued operations.

Net assets and liabilities of disposals

€m	Year ended 31 December	
	2008	2007
Cash and cash equivalents	1	2
Other intangible assets	–	7
Property, plant and equipment	–	68
Investment property	–	17
Inventories	–	44
Receivables	2	52
Accounts payable and other liabilities	–3	–47
Interest-bearing liabilities	–1	–65
	–1	78
Gain/loss on disposal	8	129
Total consideration	7	207
Settled in cash and cash equivalents	7	207
Cash and cash equivalents in subsidiary disposed	–1	–2
Net cash inflow arising from disposals	6	205

Adjustments to profit (loss) for the period

€m	Year ended 31 December	
	2008	2007
Taxes	–21	211
Depreciation, amortisation and impairment charges	1,225	1,224
Share of results in associated companies and joint ventures	–62	–43
Profits and losses on sale of non-current assets	–28	–157
Gains on available-for-sale investments, net	–2	–2
Finance costs, net	227	193
Settlement of restructuring charges	–56	–
One-time contributions to pension funds	–85	–30
Other adjustments	34	–6
Total	1,232	1,390

Change in working capital

€m	Year ended 31 December	
	2008	2007
Inventories	–55	–152
Current receivables	138	–129
Current non-interest bearing liabilities	–215	77
Total	–132	–204

6 OTHER OPERATING INCOME

€m	Year ended 31 December	
	2008	2007
Gains on sale of non-current assets ¹⁾	28	160
Rental income, investment property	6	6
Rental income, other	7	7
Emission allowances received (Note 7)	37	–
Derivatives held for trading	2	22
Other	3	5
Total	83	200

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.

7 COSTS AND EXPENSES

€m	Year ended 31 December	
	2008	2007
Change in inventories of finished goods and work in progress	93	-41
Production for own use	-17	-34
	76	-75
Materials and services		
Raw materials, consumables and goods		
Purchased during the period	5,244	5,360
Change in inventories	-84	-52
External services ¹⁾	720	744
	5,880	6,052
Personnel expenses		
Salaries and fees	1,079	1,163
Share-based payments (Note 37)	5	15
Indirect employee costs		
Pension costs-defined benefit plans (Note 29)	31	44
Pension costs-defined contribution plans	146	125
Post-employment medical benefits (Note 29)	2	3
Other indirect employee costs ²⁾	143	159
	322	331
Other operating costs and expenses		
Rents and lease expenses	53	50
Emission expenses (Note 6)	26	-1
Losses on sale of non-current assets	1	4
Other operating expenses ³⁾	965	1,111
	1,045	1,164
Costs and expenses, total	8,407	8,650

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 € 49 (2007: € 50) million.

REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE TEAM

In accordance with the decision made by the 2008 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 (2007: € 175,000), the Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee a fee of € 120,000 (2007: € 120,000), and the members of the Board of Directors a fee of € 95,000 (2007: € 95,000). Of this fee in 2008 and 2007 60% was paid in cash and 40% in the form of the company shares purchased on the members' behalf. In 2008, 7,077 company shares were paid to the Chairman, 4,852 shares to the Vice Chairmen of the Board of Directors and the Chairman of the Audit Committee, respectively and a total of 19,205 shares to the other members of the Board of Directors.

Shareholdings (no. of shares) and fees of the Board of Directors

€ 1,000	Shareholding 31 Dec. 2008	Year ended 31 Dec.	
		2008	2007
Board members			
Björn Wahlroos, Chairman	109,077	175	-
Berndt Brunow, Vice Chairman	274,988	120	120
Georg Holzhey, Vice Chairman	438,398	120	95
Matti Alahuhta	6,641	95	-
Michael C. Bottenheim	16,260	120	120
Karl Grotenfelt	29,726	95	95
Wendy E. Lane	8,299	95	95
Ursula Ranin	7,361	95	95
Veli-Matti Reinikkala	6,221	95	95
Jussi Pesonen, President and CEO	62,814	-	-
Former Board members			
Vesa Vainio	-	-	175
Jorma Ollila	-	-	120
Françoise Sampermans	-	-	95
Total	959,785	1,010	1,105

Executive Team remuneration

€ 1,000	Year ended 31 December	
	2008	2007
President and CEO Jussi Pesonen		
Remuneration		
Salaries	1,024	984
Incentives	90	210
Share rewards	443	555
Benefits	23	20
Total	1,580	1,769
Pension costs		
Finnish TyEL scheme	196	206
Voluntary pension plan	165	123
Total	361	329

The 12 (2007: 13) members of the Executive Team, including President and CEO, were paid salaries and fringe benefits totalling € 7.0 (2007: € 6.2) million, of which € 1.5 (2007: € 0.7) million were paid as bonuses. The remunerations paid are based on the performance of the Executive Team members in the previous year. In 2008, bonuses include share rewards of € 1.3 million paid under the terms and conditions of the Group's share ownership plan (2007: share rewards € 2.8 million).

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 € 1.1 million (2007: € 4.6 million) including share options of € 0.5 million (2007: € 2.6 million) and share rewards of € 0.6 million (2007: € 2.0 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 2008 were € 0.5 (2007: € 1.1) million, and the expenses of their defined contribution plans were € 0.8 (2007: € 0.9) 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	
	2008	2007
Audit fees	2.3	3.4
Audit related fees	0.1	0.5
Other non-audit services	0.4	–
Tax consulting fees	1.5	1.0
Total	4.3	4.9

8 CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS AND WOOD HARVESTED

€m	Year ended 31 December	
	2008	2007
Wood harvested	–88	–116
Change in fair value	138	195
Total	50	79

9 SHARE OF RESULTS OF ASSOCIATED COMPANIES AND JOINT VENTURES

€m	Year ended 31 December	
	2008	2007
Oy Metsä-Botnia Ab	86	58
Pohjolan Voima Oy	–26	–14
Others	2	–1
Total	62	43

10 DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

€m	Year ended 31 December	
	2008	2007
Depreciation on property, plant and equipment		
Buildings	98	97
Machinery and equipment	613	628
Other tangible assets	33	33
	744	758
Depreciation on investment property		
Buildings	1	1
Amortisation of intangible assets		
Intangible rights	16	17
Other intangible assets	45	55
	61	72

€m	Year ended 31 December	
	2008	2007
Impairment charges on property, plant and equipment		
Land areas	–	1
Buildings	58	6
Machinery and equipment	120	21
Other tangible assets	4	15
	182	43
Impairment of intangible assets		
Goodwill	230	350
Intangible rights	–	8
Emission allowances	2	2
Other intangible assets	5	2
	237	362
Impairment reversal		
Machinery and equipment	–	–12
Depreciation, amortisation and impairment charges, total	1,225	1,224

In 2008, impairments include in Paper segment an impairment of goodwill of € 230 million. In 2007, impairments include in Paper segment, an impairment of goodwill of € 307 million and in Pulp segment an impairment of goodwill of € 43 million. For goodwill test see Note 16.

In September 2008, UPM recognised an impairment charge of € 31 million in assets of Finnish sawmills within the Forest and timber segment, due to weakened profitability of sawmilling.

In November 2008, UPM's Label segment announced plans to restructure its European operations, resulting into impairment charges of € 7 million.

In December 2008, UPM closed down uncompetitive paper and pulp capacity in Finland, including the Kajaani paper mill and the Tervasaari pulp mill. This resulted into impairment charges of € 101 million in Paper segment related to the closure of the Kajaani paper mill and impairment charges of € 51 million in Pulp segment related to the closure of the Tervasaari pulp mill.

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 Forest and timber segment. In addition, other impairment charges of € 12 million were recorded in Other operations.

Impairment reversals in 2007 relate to machinery and equipment in Paper segment 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	
	2008	2007
Fair value gains and losses on disposals	2	2
Total	2	2

12 FINANCE COSTS

€m	Year ended 31 December	
	2008	2007
Exchange rate and fair value gains and losses		
Derivatives held for trading	223	-131
Fair value gains on derivatives designated as fair value hedges	337	7
Fair value adjustment of borrowings attributable to interest rate risk	-358	-7
Foreign exchange gain/loss on financial liabilities measured at amortised cost ¹⁾	-248	187
Foreign exchange gain/loss on loans and receivables	21	-58
	-25	-2

Interest and other finance costs, net

Interest expense on financial liabilities measured at amortised cost	-213	-221
Interest income on derivative financial instruments	3	31
Interest income on loans and receivables	5	5
Gains and losses on sale of associated companies and joint ventures shares	4	2
Other financial expenses	-1	-8
	-202	-191
Total	-227	-193

Net gains and losses on derivative financial instruments included in the operating profit

€m	Year ended 31 December	
	2008	2007
Derivatives designated as cash flow hedges	82	44
Derivatives held for trading	2	22
Total	84	66

The aggregate foreign exchange gains and losses included in the consolidated income statement

€m	Year ended 31 December	
	2008	2007
Sales	88	33
Costs and expenses	-14	6
Net financial items	-7	-4
Total	67	35

13 INCOME TAXES

€m	Year ended 31 December	
	2008	2007
Major components of tax expenses		
Current tax expense	60	162
Change in deferred taxes (Note 28)	-81	49
Income taxes, total	-21	211

Income tax reconciliation statement

Profit before tax	-201	292
Computed tax at Finnish statutory rate of 26%	-52	76
Difference between Finnish and foreign rates	-9	-16
Non-deductible expenses and tax exempt income	42	50
Tax loss with no tax benefit	6	5
Results of associated companies	-18	-12
Change in tax legislation	12	4
Other	-2	104
Income taxes, total	-21	211

Effective tax rate	10.4%	72.3%
--------------------	-------	-------

Income taxes for 2008 include an € 28 million income from a decrease of deferred tax liabilities relating to an impairment of Paper segments goodwill. Change in tax legislation includes a tax expense of € 13 million related to change in the UK tax legislation.

Income taxes for 2007 include an € 25 million income from a decrease of deferred tax liabilities relating to an impairment of goodwill of Paper and Pulp segments. 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.

14 EARNINGS PER SHARE

	Year ended 31 December	
	2008	2007
Profit (loss) attributable to the equity holders of the parent company, €m	-179	85
Average weighted number of shares (1,000)	517,545	522,867
Basic earnings per share, €	-0.35	0.16

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

Profit (loss) attributable to the equity holders of the parent company, €m	-179	85
Profit (loss) used to determine diluted earnings per share, €m	-179	85
Average weighted number of shares (1,000)	517,545	522,867
Effect of options ¹⁾	-	2,862
Average weighted number of shares for diluted earnings per share (1,000)	517,545	525,729
Diluted earnings per share, €	-0.35	0.16

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. 6.0 million shares exercisable with options (2007: 3.0 million) were excluded from the calculation of diluted earnings per share as they were not dilutive.

15 DIVIDEND PER SHARE

The dividends paid in 2008 were € 384 million (€ 0.75 per share) and in 2007 € 392 million (€ 0.75 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of € 208 million (€ 0.40 per share) will be paid in respect of 2008.

16 GOODWILL

€m	As at 31 December 2008	2007
Acquisition cost at 1 Jan.	1,513	1,514
Disposals	–	–1
Acquisition cost at 31 Dec.	1,513	1,513
Accumulated impairment at 1 Jan.	–350	–
Impairment charges	–230	–350
Accumulated impairment at 31 Dec.	–580	–350
Carrying value at 1 Jan.	1,163	1,514
Carrying value at 31 Dec.	933	1,163

On 1 December 2008, UPM adopted a new business structure. The organisational change resulted to a reallocation of goodwill of the previous Magazine Paper, Newsprint, Fine and Speciality Papers segments to Paper and Pulp reportable segments. The allocation was based on the proportionate value in use calculations of the new segments.

€m	As at 31 December 2008	2007
Pulp	113	113
Forest and timber	2	2
Paper	798	1,028
Label	7	7
Plywood	13	13
Total	933	1,163

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. In the largest segment, in Paper, a negative growth rate of approximately 1 % in real terms has been applied beyond the period covered by the most recent management's forecasts. 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 rate used in 2008 for Paper segment was 9.00% and for Pulp segment 9.90%. In the previous business structure, the pre-tax discount rates used in 2007 impairment tests were for Magazine Papers, Newsprint and Fine Papers segments 8.40%, 8.26% and 8.55%, 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. As at 31 December 2008, in Paper segment, a hypothetical 2% decrease in product prices used in impairment tests would lead to a recognition of impairment loss against goodwill approximately by € 100 million. Other essential assumptions in Paper are costs for chemical pulp, delivery services and personnel. Group believes that any reasonably possible change in these other key assumptions

on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

In Pulp segment, the recoverable amount, in addition to the pulp sales price, is most sensitive to cost of wood raw material. As at 31 December 2008, a decrease of 1% in pulp prices, an increase of 1% in wood costs, or an increase of 0.50% in the pre-tax discount rate would result to a recognition of impairment loss against goodwill.

In September 2008, an impairment charge of € 230 million, recognised in Newsprint segment, is allocated to Paper segment. The main factors for the impairment were lower-than-forecast realised newsprint market demand in Europe and increased costs. The impairment test for goodwill was performed on the level of cash generating unit. 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 7.75%.

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. Of the € 350 million goodwill impairment charge, € 307 million has been allocated to Paper segment and € 43 million to Pulp segment.

17 OTHER INTANGIBLE ASSETS

€m	As at 31 December 2008	2007
Intangible rights		
Acquisition cost at 1 Jan.	412	411
Additions	4	5
Disposals	–14	–2
Reclassifications	1	–1
Translation differences	3	–1
Acquisition cost at 31 Dec.	406	412
Accumulated amortisation and impairment at 1 Jan.	–147	–124
Amortisation	–16	–17
Disposals	13	1
Impairment charges	–	–8
Reclassifications	–	1
Translation differences	–1	–
Accumulated amortisation and impairment at 31 Dec.	–151	–147
Carrying value at 1 Jan.	265	287
Carrying value at 31 Dec.	255	265
Other intangible assets ¹⁾		
Acquisition cost at 1 Jan.	525	511
Additions	19	16
Disposals	–34	–20
Reclassifications	3	22
Translation differences	–3	–4
Acquisition cost at 31 Dec.	510	525
Accumulated amortisation and impairment at 1 Jan.	–407	–364
Amortisation	–44	–55
Impairment charges	–5	–2
Disposals	34	15
Reclassifications	–	–3
Translation differences	2	2
Accumulated amortisation and impairment at 31 Dec.	–420	–407
Carrying value at 1 Jan.	118	147
Carrying value at 31 Dec.	90	118

€m	As at 31 December 2008	2007
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	9	11
Additions	22	18
Disposals	–	–3
Reclassifications	–4	–17
Acquisition cost at 31 Dec.	27	9
Carrying value at 1 Jan.	9	11
Carrying value at 31 Dec.	27	9
Emission allowances		
Acquisition cost 1 Jan.	–	16
Additions ²⁾	56	1
Disposals and settlements	–23	–15
Impairment charges	–2	–2
Acquisition cost 31 Dec.	31	–
Carrying value at 1 Jan.	–	16
Carrying value at 31 Dec.	31	–
Other intangible assets, total	403	392

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 (2007: € 189 million) in respect of the water rights of hydropower plants belonging to the Energy segment. The water rights of power plants are deemed to have an indefinite useful life as the company has a contractual right to exploit water resources in the energy production of power plants. The values of water rights are tested annually for impairment.

18 PROPERTY, PLANT AND EQUIPMENT

€m	As at 31 December 2008	2007
Land and water areas		
Acquisition cost at 1 Jan.	350	361
Additions	4	7
Disposals	–3	–16
Reclassifications	5	–
Translation differences	–1	–2
Acquisition cost at 31 Dec.	355	350
Accumulated depreciation and impairment at 1 Jan.	–8	–7
Impairment charges	–	–1
Accumulated depreciation and impairment at 31 Dec.	–8	–8
Carrying value at 1 Jan.	342	354
Carrying value at 31 Dec.	347	342
Buildings		
Acquisition cost at 1 Jan.	2,942	2,941
Additions	57	66
Disposals	–141	–71
Reclassifications	50	33
Translation differences	–40	–27
Acquisition cost at 31 Dec.	2,868	2,942

€m	As at 31 December 2008	2007
Accumulated depreciation and impairment at 1 Jan.		
Depreciation	–98	–96
Impairment charges	–58	–6
Disposals	136	32
Reclassifications	12	11
Translation differences	24	7
Accumulated depreciation and impairment at 31 Dec.	–1,483	–1,499
Carrying value at 1 Jan.	1,443	1,494
Carrying value at 31 Dec.	1,385	1,443
Machinery and equipment		
Acquisition cost at 1 Jan.	12,550	12,545
Additions	267	209
Disposals	–775	–239
Reclassifications	254	174
Translation differences	–134	–139
Acquisition cost at 31 Dec.	12,162	12,550
Accumulated depreciation and impairment at 1 Jan.	–8,721	–8,377
Depreciation	–617	–623
Impairment charges	–120	–21
Impairment reversal	–	12
Disposals	765	203
Reclassifications	–	1
Translation differences	152	84
Accumulated depreciation and impairment at 31 Dec.	–8,541	–8,721
Carrying value at 1 Jan.	3,829	4,168
Carrying value at 31 Dec.	3,621	3,829
Other tangible assets		
Acquisition cost at 1 Jan.	899	879
Additions	29	29
Disposals	–68	–17
Reclassifications	7	9
Translation differences	–2	–1
Acquisition cost at 31 Dec.	865	899
Accumulated depreciation and impairment at 1 Jan.	–696	–666
Depreciation	–33	–33
Disposals	66	16
Reclassifications	2	1
Impairment charges	–4	–14
Translation differences	3	–
Accumulated depreciation and impairment at 31 Dec.	–662	–696
Carrying value at 1 Jan.	203	213
Carrying value at 31 Dec.	203	203
Advance payments and construction in progress		
Acquisition cost at 1 Jan.	362	271
Additions	114	333
Disposals	–4	–4
Reclassifications	–334	–235
Translation differences	–6	–3
Acquisition cost at 31 Dec.	132	362
Carrying value at 1 Jan.	362	271
Carrying value at 31 Dec.	132	362
Property, plant and equipment, total	5,688	6,179

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 2008	2007
Machinery and equipment		
Acquisition cost	53	53
Accumulated depreciation	-39	-34
Carrying value at 31 Dec.	14	19
Leased assets, total	14	19

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 € 11 million in 2008 and € 10 million in 2007. Amortisation of capitalised borrowing costs was € 8 million in 2008 (2007: € 8 million) and impairment charges related to capitalised borrowing costs were € 2 million in 2008 (2007: € 0 million). In 2008 and 2007 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 5.52% (2007: 4.63%), which represents the costs of the loan used to finance the projects.

Assets classified as held for sale

On 15 January 2009, UPM sold its former paper mill and related assets in Miramichi, New Brunswick, Canada to Umoe Solar AS of Norway. The sale includes also woodlands operations, and two sawmills located nearby in Bathurst and Blackwill. UPM records an income of approximately € 20 million on the sale as a special item in the first quarter of 2009.

The following assets of Paper segment and Forest and timber segment and related liabilities have been classified as assets held for sale and related liabilities:

€m	As at 31 December 2008	2007
Land and water areas	1	-
Buildings	2	-
Machinery and equipment	6	-
Biological assets	2	-
Inventories	1	-
Assets total	12	-
Provisions	2	-
Other non-current liabilities	3	-
Trade and other payables	11	-
Accruals and deferred income	1	-
Liabilities total	17	-
Liabilities related to assets held for sale, interest bearing (Note 31)	2	-
Liabilities related to assets held for sale, non-interest bearing	15	-
Liabilities total	17	-

19 INVESTMENT PROPERTY

€m	As at 31 December 2008	2007
Acquisition cost at 1 Jan.	46	74
Additions	1	-
Disposals	-	-47
Reclassifications	19	19
Acquisition cost at 31 Dec.	66	46
Accumulated depreciation and impairment at 1 Jan.	-32	-44
Depreciation	-1	-1
Disposals	-	28
Reclassifications	-14	-15
Accumulated depreciation and impairment at 31 Dec.	-47	-32
Carrying value at 1 Jan.	14	30
Carrying value at 31 Dec.	19	14

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 2008 was € 16 million (2007: € 9 million) and the fair value of investment property in other countries at 31 December 2008 was € 11 million (2007: € 11 million). In April 2007, UPM sold real estate company UPM-Asunnot Oy.

The amounts recognised in the income statement

€m	Year ended 31 December 2008	2007
Rental income	6	6
Direct operating expenses arising from investment properties that generate rental income	3	3

There were no contractual obligations for future repair and maintenance or purchase of investment property.

All assets under investment property are leased to third parties under operating leasing contracts.

20 BIOLOGICAL ASSETS

€m	As at 31 December 2008	2007
At 1 Jan.	1,095	1,037
Additions	2	1
Disposals	-13	-20
Wood harvested	-88	-116
Change in fair value	138	195
Translation differences	-1	-2
At 31 Dec.	1,133	1,095

The pre-tax discount rate used in determining the fair value in 2008 was 7.50% (2007: 7.50%). A 1% decrease (increase) in discount rate would increase (decrease) the fair value of biological assets by approximately € 140 million. In addition to the discount rate, the growth of the forest stock and timber prices are other essential assumptions used in the valuation.

21 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

€m	As at 31 December	
	2008	2007
At 1 Jan.	1,193	1,177
Additions	19	27
Disposals	-12	-2
Share of results after tax	62	43
Dividends received	-18	-23
Translation differences	19	-29
At 31 Dec.	1,263	1,193

Investments in associated companies at 31 December 2008 include goodwill of € 51 million which relates to Pohjolan Voima Oy's shares (2007: € 51 million).

€m	As at 31 December	
	2008	2007
Sale and leaseback contracts included in investments in associated companies		
Acquisition cost	13	13
Accumulated increases	1	4
Carrying value at 31 Dec.	14	17

Associated companies and joint ventures

	Group holding percentage %		Carrying value	
	2008	2007	2008	2007
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
Botnia South America S.A., UY ²⁾	12.40	12.40	108	76
Oy Metsä-Botnia Ab, FI	47.00	47.00	637	576
Paperinkeräys Oy, FI	22.98	22.98	3	3
Pohjolan Voima Oy, FI	41.84	41.99	477	502
Powest Oy, FI ¹⁾	9.98	9.98	15	15
RETS Timber Oy Ltd, FI	50.00	50.00	1	1
Steveco Oy, FI	34.32	34.32	9	9
Others			6	4
At 31 Dec.			1,257	1,187
Joint ventures				
Kainuun Voima Oy, FI	50.00	50.00	6	6
			6	6
Associated companies and joint ventures at 31 Dec.			1,263	1,193

¹⁾ The Group's share of the voting right in Powest Oy is 0.61% (2007: 0.61%). The Group is entitled to 51.22% (2007: 51.22%) of the respective dividends of Powest Oy.

²⁾ Botnia South America S.A. is a subsidiary of UPM's associated company Oy Metsä-Botnia Ab.

Pohjolan Voima Oy ("PVO") holds a 58.12% 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.

In December 2008, Teollisuuden Voima Oy informed UPM that the supplier of the nuclear power plant Olkiluoto 3 has filed a request for arbitration concerning the delay and related costs.

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:

2008	Lia-		Profit/	
€m	Assets	bilities	Sales	Loss
Associated companies and joint ventures				
Oy Metsä-Botnia Ab, FI	1,306	561	798	86
Pohjolan Voima Oy, FI	1,219	742	328	-26
Others	150	109	291	2
Total	2,675	1,412	1,417	62
2007	Lia-		Profit/	
€m	Assets	bilities	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

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.

€m	Year ended 31 December	
	2008	2007
The amount of assets and liabilities related to investments in joint ventures		
Non-current assets	29	30
Current assets	5	3
Non-current liabilities	-20	-22
Current liabilities	-7	-4
Net assets	7	7

€m	Year ended 31 December	
	2008	2007
The income and expenses related to investments in joint ventures		
Sales	18	15
Expenses	-18	-15
Profit	-	-

The average number of employees in the joint ventures	47	45
---	----	----

Transactions and balances with associates and joint ventures

€m	Year ended 31 December	
	2008	2007
Sales to associates and joint ventures	138	130
Purchases from associates and joint ventures	592	500
Receivables from associates and joint ventures	37	29
Payables to associates and joint ventures	27	42

Loan receivables from associates and joint ventures ¹⁾

€m	Year ended 31 December	
	2008	2007
At 1 Jan.	6	6
Loans granted	2	2
Repayments	-	-2
At 31 Dec.	8	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	
	2008	2007
At 1 Jan.	116	127
Disposals	-	-9
Changes in fair values	-	-2
At 31 Dec.	116	116

At 31 December 2008, 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.

Principal available-for-sale investments

	Number of shares	Group holding percentage	Carrying value	
			2008	2007
Kemijoki Oy	100,797	4.13	106	106
Other			10	10
Carrying value of available-for-sale investments at 31 Dec.			116	116

23 NON-CURRENT FINANCIAL ASSETS

€m	As at 31 December	
	2008	2007
Other loan receivables	16	15
Derivative financial instruments	345	67
At 31 Dec.	361	82

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	
	2008	2007
Defined benefit plans (Note 29)	173	93
Other non-current assets	28	28
At 31 Dec.	201	121

25 INVENTORIES

€m	As at 31 December	
	2008	2007
Raw materials and consumables	664	522
Work in progress	54	58
Finished products and goods	589	687
Advance payments	47	75
At 31 Dec.	1,354	1,342

26 TRADE AND OTHER RECEIVABLES

€m	As at 31 December	
	2008	2007
Trade receivables	1,235	1,359
Loan receivables	11	8
Other receivables	117	137
Derivative financial instruments	269	137
Prepayments and accrued income	54	76
At 31 Dec.	1,686	1,717

Ageing analysis of trade receivables

€m	As at 31 December	
	2008	2007
Undue	1,067	1,181
Past due up to 30 days	115	126
Past due 31-90 days	31	31
Past due over 90 days	22	21
At 31 Dec.	1,235	1,359

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 2008. Impairment of trade receivables amounted to € 22 million in 2008 (2007: € 13 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 2008 (2007: € 1 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 2008	2007
Personnel expenses	3	3
Indirect taxes	16	20
Other items	35	53
At 31 Dec.	54	76

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. 2007	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
Exercise of share options	7,401	–	–	–
At 31 Dec. 2008	519,970	890	–	890

Shares

At 31 December 2008, the number of the company's shares was 519,970,088. 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 held on 26 March 2008 approved a proposal to authorise the Board of Directors to decide to buy back not more than 51,000,000 own shares. The authorisation is valid for 18 months from the date of the decision. As at 31 December 2008 the company held 15,944 of its own shares, 0.003% of the total number of shares, which have been granted under the Group's share reward scheme in 2008 and 2007. The average acquisition cost of these shares is € 16.42 per share. These shares have been returned in connection with termination of service contracts.

On the basis of the decisions of the Annual General Meeting of 27 March 2007, the Board has the authority to decide 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.

Authorisations to increase the number of shares

The Annual General Meeting of 27 March 2007 has in addition authorised the Board to decide to issue shares and special rights entitling the holder 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, 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. Furthermore, the Board is authorised to decide on the disposal of own shares. To date, this authorisation has not been used. These authorisations of the 2007 Annual General Meeting will remain valid for no more than three years from the date of the decision.

The meeting 27 March 2007 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.

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

If all the remaining 3,000,000 2005G share options and 3,000,000 2005H share options authorised in 2005 are exercised to subscribe all 6,000,000 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 21,000,000, i.e. by 4.04%.

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 52.12%, i.e. by 271,000,000 shares, to 790,970,088 shares.

Redemption clause

Under § 12 of UPM-Kymmene Corporation's Articles of Association, a shareholder who alone or jointly with another shareholder owns 33 1/3 percent or 50 percent or more of all the company's shares or their associated voting rights shall, at the request of other shareholders, be liable to redeem 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	
	2008	2007
Hedging reserve	13	46
Legal reserve	53	53
Share premium reserve	50	50
Share-based compensation	14	44
At 31 Dec.	130	193

Changes in hedging reserve

€m	Year ended 31 December	
	2008	2007
Hedging reserve at 1 Jan.	46	19
Gains and losses on cash flow hedges	39	91
Transfers to sales	-83	-57
Transfers to initial cost of property, plant and equipment	-1	1
Tax on gains and losses on cash flow hedges	-10	-23
Tax on transfers to income statement	22	15
Hedging reserve at 31 Dec.	13	46

28 DEFERRED INCOME TAXES**Reconciliation of the movements of deferred tax asset and liability balances during the period**

€m	As at 1 Jan. 2008	Charged to the income statement	Charged to equity	Translation differences	Acquisitions and disposals	As at 31 Dec. 2008
Deferred tax assets						
Retirement benefit and other provisions	98	15	-	-5	-	108
Intercompany profit in inventory	9	2	-	-	-	11
Book over tax depreciation	127	-11	-	-14	-	102
Tax losses and tax credits carried forward	195	20	-	-9	-	206
Other temporary differences	4	2	-	-	-	6
Deferred tax assets, total	433	28	-	-28	-	433
Deferred tax liabilities						
Tax over book depreciation	595	-45	-	-16	-	534
Fair value adjustments of net assets acquired and biological assets	263	4	-	-	-	267
Other temporary differences	36	-12	8	-	-	32
Deferred tax liabilities, total	894	-53	8	-16	-	833
The amounts recognised in the balance sheet						
Assets	284	2	-	-28	-	258
Liabilities	745	-79	8	-16	-	658
Deferred tax liabilities, less deferred tax assets	461	-81	8	12	-	400

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. 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.

Deferred income tax charged to equity during the year

€m	2008	2007
Cash flow hedges	-12	8
Net investment hedge	20	-
Total	8	8

At 31 December 2008, the net operating loss carry-forwards for which the Group has recorded a deferred tax asset amounted to € 689 million (2007: € 645 million), of which € 372 million (2007: € 274 million) was attributable to German subsidiaries, € 203 million (2007: € 239 million) to a Canadian subsidiary and € 78 million (2007: € 86 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 € 136 million in 2008 (2007: € 155 million). These net operating loss carry-forwards are mainly attributable to Canadian and Chinese subsidiaries.

Upon the decision to close the Miramichi paper mill in December 2007 a write-down of € 123 million deferred tax assets was recorded due to inability to utilise them before they expire. On 31 December 2008 the Group had deferred tax assets of € 86 million (2007: € 105 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.

No deferred tax liability has been recognised for the undistributed profits of Finnish subsidiaries and associated companies as, in most cases, such earnings are transferred to the Group without any tax consequences.

In addition the Group does not recognise a deferred tax liability in respect of undistributed earnings of non-Finnish subsidiaries to the extent that such earnings are intended to be permanently reinvested in those operations.

29 RETIREMENT BENEFIT OBLIGATIONS

The Group operates a number of defined benefit and contribution plans in accordance with the local conditions and practises in the countries in which it operates.

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.

In Finland, the pensions of approximately 10% of employees are arranged through Group's own pension funds. All schemes managed by the pension funds are classified as defined benefit plans.

Foreign plans include both defined contribution and defined benefit plans. Globally approximately one third of the employees belong to defined benefit arrangements.

DEFINED BENEFIT PLANS

€m	As at 31 December 2008	2007
Pension benefits	182	291
Post-employment medical benefits	19	21
Net liability	201	312
Other long-term employee benefits	34	36
Overfunded plan shown as asset (Note 24)	173	93
Total liability in balance sheet	408	441

PENSION BENEFITS

The amounts recognised in the balance sheet

€m	As at 31 December 2008	2007
Present value of funded obligations	543	803
Present value of unfunded obligations	351	373
	894	1,176
Fair value of plan assets	-573	-753
Unrecognised actuarial gains and losses	-139	-132
Net liability	182	291

The amounts recognised in the income statement

€m	Year ended 31 December 2008	2007
Current service cost	14	23
Interest cost	57	55
Expected return on plan assets	-49	-46
Actuarial gains and losses	12	8
Past service cost	-	1
Curtailments	-3	-38
Settlements	-	41
Total included in personnel expenses (Note 7)	31	44

The actual return on plan assets was € -104 million in 2008 (2007: € 39 million).

The movement in the present value of defined benefit obligations

€m	As at 31 December 2008	2007
Defined benefit obligation as of beginning of the year	1,176	1,194
Current service cost	14	23
Interest cost	57	55
Contributions by plan participants	-	3
Actuarial gains and losses	-120	-15
Benefits paid	-85	-52
Curtailments	-3	-43
Settlements	-59	28
Translation differences	-86	-17
Defined benefit obligation as of end of the year	894	1,176

The movement in the fair value of plan assets

€m	As at 31 December 2008	2007
Fair value of plan assets as of beginning of the year	753	681
Expected return on plan assets	49	46
Actuarial gains and losses	-153	8
Contributions by plan participants	-	3
Contributions by the employer	146	81
Benefits paid	-85	-52
Settlements	-59	-
Translation differences	-78	-14
Fair value of plan assets as of end of the year	573	753

The contributions to Group's defined benefit pension plans are expected to be € 25 million in 2009.

The major categories of plan assets as a percentage of total plan assets

	As at 31 December 2008	2007
Equity instruments	38%	43%
Debt instruments	24%	32%
Property	7%	6%
Money market	5%	3%
Bonds	26%	16%
Total	100%	100%

In Finland, the pension plan assets include the company's ordinary shares with a fair value of € 1 million (2007: € 1 million). In 2007 assets included a loan receivable of € 72 million issued to the company by the company's own fund. The loan receivable was settled in 2008. The interest paid on the loan in 2008 was € 2 million (2007: € 8 million).

POST-EMPLOYMENT MEDICAL BENEFITS

The Group also funds certain 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 2008	2007
Present value of unfunded obligations	24	27
Unrecognised actuarial gains and losses	-5	-6
Net liability	19	21

The amounts recognised in the income statement

€m	Year ended 31 December 2008	2007
Interest cost	1	2
Actuarial gains and losses	1	1
Curtailments	-	-1
Settlements	-	1
Total included in personnel expenses (Note 7)	2	3

The movement in the present value of defined benefit obligations

€m	As at 31 December 2008	2007
Defined benefit obligation as of beginning of the year	27	33
Interest cost	1	2
Contributions by plan participants	2	2
Actuarial gains and losses	-	-3
Benefits paid	-4	-4
Settlements	-3	-
Translation differences	1	-3
Defined benefit obligation as of end of the year	24	27

The movement in the fair value of plan assets

€m	As at 31 December	
	2008	2007
Fair value of plan assets as of beginning of the year	–	–
Contributions by plan participants	2	2
Contributions by the employer	2	2
Benefits paid	–4	–4
Fair value of plan assets as of end of the year	–	–

The contributions to Group's post-employment medical benefit plans are expected to be € 2 million in 2009.

PENSION AND POST-EMPLOYMENT MEDICAL BENEFITS**The principal actuarial assumptions used as at 31 December**

	Finland		Canada		Germany		US		UK		Other	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Discount rate %	5.50	5.00	4.68	4.62	5.50	5.00	6.25	5.40	6.70	5.80	5.50	5.00
Expected return on plan assets %	7.54	6.32	4.81	7.13	N/A	N/A	4.50	4.50	6.96	6.70	4.37	4.41
Future salary increases %	3.75	3.75	N/A	2.04	2.50	2.50	N/A	N/A	N/A	4.04	2.29	2.63
Future pension increases %	N/A	N/A	N/A	–	2.00	2.00	N/A	N/A	2.45	3.07	0.89	0.87
Expected average remaining working years of participants	12.1	12.1	–	0.1	13.8	14.2	9.4	11.4	17.3	17.3	12.0	13.1

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. 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.

The assumed health care cost trend rate used in measuring the accumulated post-employment benefit obligation for US plans was 11% in 2007, 10% in 2008, 8.7% in 2009 and then declining 0.2% per year until it reaches 4.5% in 2029 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 post-employment medical benefit plans recognised in the balance sheet as at 31 December 2008

€m	Finland	Canada	Germany	US	UK	Other	Total
Present value of funded obligations	227	136	–	–	166	14	543
Present value of unfunded obligations	–	12	296	24	–	43	375
Fair value of plan assets	–256	–127	–	–	–179	–11	–573
Unrecognised actuarial gains and losses	–92	–	–6	–5	–38	–3	–144
Net liability	–121	21	290	19	–51	43	201

The amounts of pension and post-employment medical 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

Funded status for pension and post-employment medical benefit plans

€m	As at 31 December			
	2008	2007	2006	2005
Present value of defined benefit obligations	-918	-1,203	-1,227	-1,182
Fair value of plan assets	573	753	681	625
Deficit	-345	-450	-546	-557
Experience adjustments on plan liabilities	13	-21	-20	13
Experience adjustments on plan assets	-153	8	20	21

30 PROVISIONS

	Closure and restructuring provisions	Termination provisions	Environmental provisions	Reforestation provisions	Tax provisions	Actual emissions, provision	Other provisions	Total
€m								
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
At 1 Jan. 2008	18	98	21	9	–	–	25	171
Translation difference	–2	–6	–1	–	–	–	–3	–12
Additional provisions and increases to existing provisions	32	45	2	–	–	30	2	111
Utilised during year	–14	–43	–5	–3	–	–	–10	–75
Unused amounts reversed	–	–3	–1	–	–	–	–	–4
At 31 Dec. 2008	34	91	16	6	–	30	14	191

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 2008, increases in provisions relate mainly to the closures of the Kajaani paper mill and the Tervasaari pulp mill.

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.

The company takes part in government programmes aimed at reducing greenhouse gas emissions. In 2008, the Group has recognised a provision amounting to € 30 million (2007: € 0 million) to cover the obligation to return emission allowances. The company possesses emission allowances worth of € 31 million (2007: € 0 million) as intangible assets.

€m	As at 31 December	
	2008	2007
Non-current provisions	100	76
Current provisions	91	95
Total	191	171

31 INTEREST-BEARING LIABILITIES

€m	As at 31 December	
	2008	2007
Non-current interest-bearing liabilities		
Bonds	2,043	2,040
Loans from financial institutions	1,078	951
Pension loans	919	65
Trade payables	9	10
Finance lease liabilities	99	103
Derivative financial instruments	147	119
Other liabilities	239	96
	4,534	3,384
Current interest-bearing liabilities		
Current portion of long-term debt	352	391
Short-term loans	50	71
Derivative financial instruments	105	123
Other liabilities ¹⁾	30	346
	537	931
Liabilities related to assets classified as held for sale (Note 18)	2	-
Total interest-bearing liabilities	5,073	4,315

¹⁾ Includes issued commercial papers of € 0 million in 2008 (2007: € 318 million).

As of 31 December 2008 the contractual maturity of interest-bearing liabilities

€m	2009	2010	2011	2012	2013	2014+	Total
Bonds							
Repayments	250	138	–	636	–	1,071	2,095
Interests	127	110	105	105	67	415	929
	377	248	105	741	67	1,486	3,024
Loans from financial institutions							
Repayments	46	29	43	37	72	211	438
Committed facilities	–	253	–	434	–	–	687
Interests	39	28	26	16	12	22	143
	85	310	69	487	84	233	1,268
Pension loans							
Repayments	39	22	156	148	148	410	923
Interests	38	39	36	30	24	52	219
	77	61	192	178	172	462	1,142
Financial leases							
Repayments	4	4	84	3	3	5	103
Interests	4	4	4	1	1	1	15
	8	8	88	4	4	6	118
Other loans							
Repayments	5	4	4	4	3	208	228
Interests	8	7	8	8	8	93	132
	13	11	12	12	11	301	360
Interest rate swaps (liabilities)							
Repayments	–	–	–	–	–	107	107
Interests	7	5	7	8	8	65	100
	7	5	7	8	8	172	207
Current loans							
Repayments	74	–	–	–	–	–	74
Interests	1	–	–	–	–	–	1
	75	–	–	–	–	–	75
Forwards and swaps (assets and liabilities)							
Pay	4,521	3	–	–	–	–	4,524
Receive	–4,569	–3	–	–	–	–	–4,572
Net	–48	–	–	–	–	–	–48
Long term loans repayments excl. committed facilities	344	197	287	828	226	1,905	3,787

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	55	24	40	34	259	561
Committed facilities	–	–	54	–	484	–	538
Interests	49	46	42	37	20	40	234
	198	101	120	77	538	299	1,333
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
Long term loans repayments excl. committed facilities	389	350	104	134	674	1,560	3,211

Figures based on the exchange rates and interests on the reporting date.

Bonds in interest-bearing liabilities

	Interest rate %	Nominal value issued m	As at 31 Dec.	
			2008 €m	2007 €m
Fixed rate				
1997–2027	7.450	USD 375	395	279
1999–2009	6.350	EUR 250	250	246
2000–2030	3.550	JPY 10,000	48	7
2002–2012	6.125	EUR 600	619	589
2002–2014	5.625	USD 500	393	326
2002–2017	6.625	GBP 250	284	330
2003–2018	5.500	USD 250	209	166
			2,198	1,943
Floating-rate				
2002–2008	5.631	EUR 39	–	39
2002–2008	5.387	EUR 50	–	50
2002–2010	6.273	EUR 59	59	59
2002–2012	6.044	EUR 25	25	25
2002–2012	4.152	EUR 11	11	11
			95	184
Bonds, total			2,293	2,127
– current portion			–250	–87
Bonds, long-term portion			2,043	2,040

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 € 275 million (2007: € 83 million), which has increased (2007 decreased) the carrying amounts of the liabilities.

Interest rate variation of interest-bearing liabilities and interest rate swaps

Loans from financial institutions, pension loans and finance lease liabilities bear fixed or floating interest rates varying from 0.70% to 7.50% as at 31 December 2008 (2007: 3.55% to 7.50%). The Group uses interest rate swap agreements to hedge the interest rate risk relating to long term loans. At 31 December 2008, the fixed interest rates varied from 3.35% to 7.45% (2007: 3.55% to 7.45%) and the floating rates varied from 1.86% to 7.37% (2007: 3.51% to 7.65%).

NET INTEREST-BEARING LIABILITIES

€m	As at 31 December	
	2008	2007
Interest-bearing liabilities, total	5,073	4,315
Interest-bearing financial assets		
Non-current		
Loan receivables	9	9
Derivative financial instruments	345	66
Other receivables	5	6
	359	81
Current		
Loan receivables	8	6
Other receivables	12	9
Derivative financial instruments	43	9
Cash and cash equivalents	330	237
	393	261
Interest-bearing financial assets	752	342
Net interest-bearing liabilities	4,321	3,973

Finance lease liabilities

As at 31 December 2008 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 December 2007, the Group exercised its option and redeemed Kaipola power plant, which decreased lease liability by € 8 million.

In addition the Group leases certain tangible assets under long-term arrangements.

Other interest-bearing liabilities include a loan of € 50 million based on a sale and leaseback arrangement, which does not involve a lease in substance, of specified plywood production machinery and equipment in Finland. The lease period is eight years without any restrictions on the manufacturing use of the assets.

Finance lease liabilities – minimum lease payments

€m	As at 31 December	
	2008	2007
Not later than 1 year	8	8
1–2 years	8	8
2–3 years	88	7
3–4 years	4	88
4–5 years	4	4
Later than 5 years	6	10
	118	125
Future finance charges	–15	–18
Finance lease liabilities – the present value of minimum lease payments	103	107

Finance lease liabilities – the present value of minimum lease payments

€m	As at 31 December	
	2008	2007
Not later than 1 year	8	8
1–2 years	7	7
2–3 years	77	6
3–4 years	3	75
4–5 years	3	3
Later than 5 years	5	8
Total	103	107

32 OTHER LIABILITIES

€m	As at 31 December	
	2008	2007
Derivative financial instruments	18	–
Other	7	12
Total	25	12

33 TRADE AND OTHER PAYABLES

€m	As at 31 December 2008	2007
Advances received	14	47
Trade payables	594	725
Amounts due to associates and joint ventures	25	39
Accrued expenses and deferred income	450	498
Derivative financial instruments	83	33
Other current liabilities	92	101
Total	1,258	1,443

Main items included in accrued expenses and deferred income

€m	As at 31 December 2008	2007
Personnel expenses	194	195
Interest expenses	79	78
Indirect taxes	11	16
Other items ¹⁾	166	209
Total	450	498

¹⁾ Consists mainly of customer rebates.

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

2008 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	–	16	–	–	–	16	16	23
Derivative financial instruments	4	–	–	341	–	345	345	23
						361	361	
Current financial assets								
Trade and other receivables								
Trade and other receivables	–	1,363	–	–	–	1,363	1,363	26
Prepayments and accrued income	–	54	–	–	–	54	54	26
Derivative financial instruments	154	–	–	115	–	269	269	26
						1,686	1,686	
Carrying amount by category	158	1,433	116	456	–	2,163	2,163	
Non-current financial liabilities								
Non-current interest-bearing liabilities								
Non-current interest-bearing liabilities	–	–	–	–	4,387	4,387	3,867	31
Derivative financial instruments	116	–	–	31	–	147	147	31
						4,534	4,014	
Other liabilities								
Other liabilities	–	–	–	–	7	7	7	32
Derivative financial instruments	18	–	–	–	–	18	18	32
						25	25	
Current financial liabilities								
Current interest-bearing liabilities								
Interest-bearing liabilities	–	–	–	–	432	432	432	31
Derivative financial instruments	105	–	–	–	–	105	105	31
						537	537	
Trade and other payables								
Trade and other payables	–	–	–	–	725	725	725	33
Accrued expenses and deferred income	–	–	–	–	450	450	450	33
Derivative financial instruments	35	–	–	48	–	83	83	33
						1,258	1,258	
Carrying amount by category	274	–	–	79	6,001	6,354	5,834	

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	

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

	2008	As at 31 December 2008	2008	2007
€m	Positive fair values	Negative fair values	Net fair values	Net fair values
Interest rate swaps				
Fair value hedges	323	-1	322	66
Held for trading	49	-1	48	48
Forward foreign exchange contracts				
Cash flow hedges	66	-48	18	49
Net equity hedges	45	-	45	-
Held for trading	84	-96	-12	-39
Currency options				
Held for trading	-	-	-	2
Cross currency swaps				
Fair value hedges	22	-30	-8	-89
Held for trading	-	-142	-142	-109
Commodity Contracts				
Held for trading	25	-35	-10	1
Interest rate forward contracts				
Held for trading	-	-	-	-
Total	614	-353	261	-71

Notional amounts of derivative financial instruments

€m	As at 31 December 2008	2007
Interest rate swaps	2,833	2,383
Forward foreign exchange contracts	4,598	4,369
Currency options	-	110
Cross currency swaps	508	529
Commodity contracts	258	15
Interest rate forward contracts	2,668	3,642

36 PRINCIPAL SUBSIDIARIES AS AT 31 DECEMBER 2008

Name of the subsidiary, country of incorporation	Group holding %
Blandin Paper Company, US	100.00
Lignis GmbH & Co. KG, DE	74.90
Nordland Papier GmbH, DE	100.00
Norfolk House Management Ltd, GB	95.00
NorService GmbH, DE	100.00
nortrans Speditionsgesellschaft mbH, DE	100.00
Silvesta Oy, FI	100.00
Steyrermühl Sägewerks-gesellschaft m.b.H. NfG KG, AT	100.00
ZAO Tikhvinsky Komplexny Lespromkhoz, RU	99.99
Tilhill Forestry Ltd, GB	100.00
UPM Sähkösiirto Oy, FI	100.00
OOO UPM-Kymmene, RU	100.00
UPM-Kymmene AG, CH	99.80
UPM-Kymmene Asia Pacific Pte Ltd, SG	100.00
UPM-Kymmene Austria GmbH, AT	100.00
UPM-Kymmene B.V., NL	100.00
OOO UPM-Kymmene Chudovo, RU	100.00
UPM-Kymmene Forest AS, EE	100.00
OOO UPM-Kymmene Forest Russia, RU	100.00
UPM-Kymmene France S.A.S., FR	100.00
UPM-Kymmene Inc., US	100.00
UPM-Kymmene India PVT Ltd, IN	100.00
UPM-Kymmene Japan K.K., JP	100.00

Name of the subsidiary, country of incorporation	Group holding %
UPM-Kymmene Kagit Urunleri San. ve Tic Ltd. Sti., TR	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 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
PT UPM Raflatac Indonesia, ID	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 (Changshu) Co. Ltd, CN	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, E options have been issued to key personnel. A total of 3,800,000 were designated as 2002E. Each option entitles the holder to subscribe two UPM-Kymmene Corporation shares. The subscription period 2002E options was 1 April 2005 to 30 April 2008.

The share subscription price was € 14.27 per share for 2002E options. The share subscription price has been 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. The share subscription period for stock options 2002E ended on 30 April 2008. During the entire share subscription period, a total of 3,703,834 stock options 2002E were used for the subscription of 7,407,668 shares.

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 was 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.

The share subscription period for stock options 2005F ended on 31 October 2008. During the entire share subscription period a total of 4,000 stock options 2005F were used for the subscription of 4,000 shares.

Share subscriptions based on 2005G and 2005H options may increase the number of shares by a total maximum of 6,000,000.

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 NASDAQ OMX Helsinki Ltd, during 1 April to 31 May 2008 for share option 2007A i.e. € 12.40 per share, during 1 April to 31 May 2009 for share option 2007B, and during 1 April to 31 May 2010 for share option 2007C.

In January 2009, a total of 4,590,000 2007A options were granted to the Group's key personnel.

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 2008, a total of 57,400 shares were given to 12 key employees under the terms and conditions of the share ownership rewards scheme. Of this amount, 15,800 shares were given to the President and CEO, and a total of 26,800 shares to the other Executive Team members.

Changes in the numbers of share options granted

	2008		2007	
	Weighted average exercise price, €	Number of share options	Weighted average exercise price, €	Number of share options
1 Jan.	15.91	12,285,750	15.80	10,305,550
Share options granted	20.15	254,500	18.98	5,622,000
Share options forfeited	20.15	-124,000	17.93	-12,000
Share options exercised	10.53	-3,691,884	37.15	-2,853,945
Share options expired	15.13	-2,986,366	37.15	-775,855
31 Dec.	18.28	5,738,000	15.91	12,285,750
Exercisable share options		5,738,000		9,544,250

Weighted average remaining contractual life was 16 and 17 months as at 31 December 2008 and 2007, respectively.

Outstanding share option plans as at 31 December 2008

Plan/Distribution of share options	Class	Exercise price ¹⁾		Total number of share options	Number of share options granted	Exercise period	Vesting ¹⁾ schedule
		at 1 Jan.	at 31 Dec.				
2005/2007	H	20.90	20.15	3,000,000	2,872,000	1.10.2008–31.10.2010	Vested
2005/2007	G	17.15	16.40	3,000,000	2,866,000	1.10.2007–31.10.2009	Vested
				6,000,000	5,738,000		

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 2008 and 2007:

	2008	2007
Share price, €	13.99	16.79
Exercise price, €	20.15	19.74
Volatility ¹⁾	25%	24%
Risk-free interest rate	4%	3.95%
Assumed annual dividend yield	–	–
Expected option life, year	2	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 2008 and 2007 was 5%.

38 RELATED PARTY TRANSACTIONS

The Board of Directors and the Executive Team

There have not been any material transactions between UPM and its members of the Board of Directors or the Executive Team or close members of their families. There are no loans granted to any members of the Board of Directors or the Executive team at 31 December 2008 and 2007. Shares and options held by the Board of Directors and the Executive Team are disclosed in page 123. Compensation to the Board of Directors and the Executive Team are disclosed in Note 7.

Associated companies and joint ventures

The Group holds a 47% interest in Oy Metsä-Botnia Ab ("Metsä-Botnia"), an associated company with M-real Oyj ("M-real") and Metsäliitto Group. M-real is a Finnish paper and board 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 2008, the Group's chemical pulp entitlement with respect to the production of Metsä-Botnia was 1.8 million tonnes per year (2007: 1.1 million tonnes). Following the closure of the Kaskinen pulp mill announced on 14 January 2009, UPM's entitlement will be 1.6 million tonnes. Total purchases of chemical pulp from Metsä-Botnia amounted to € 287 million in 2008 and € 231 million in 2007. 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 € 98 million in the pulp mill project.

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 41.84% 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 € 222 million in 2008 and € 207 million in 2007. 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% of the Group's research and development work is conducted by Oy Keskuslaboratorio-Centrallaboratorium Ab ("KCL"), (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. On 4 February 2009, FPPRI and Technical Research Centre of Finland ("VTI") signed a letter of intent to integrate the research and laboratory operations of FPPRI to VTI.

The Group purchases recovered paper partially from the following three associated companies. LCI s.r.l. is an Italian recovered paper purchasing company in which the Group has a 50% interest. The total value of recovered paper purchases from LCI was € 25 million in 2008 and € 15 in 2007. In Finland the Group has a 22.98% interest in Paperinkeräys Oy, a company engaged in the procurement, processing and transport of recovered paper. The total value of raw material purchases from Paperinkeräys Oy was € 12 million in 2008 and € 13 million in 2007. 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 2008 and € 16 million in 2007.

The Group's associated companies and joint ventures and transactions and balances with associated companies and joint ventures are presented in Note 21.

Pension Funds

In Finland, UPM has a pension foundation (Kymin Eläkesäätiö) which is a separate legal entity. 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 € 47 million in 2008 (€ 50 million in 2007). The foundation manages and invests the contributions paid to the plan. The fair value of the foundation's assets at 31 December 2008 was € 222 million, of which 45% was in the form of equity instruments, 35% in the form of debt instruments and 20% invested in property and money market.

The Group participates in two UK Pension Schemes which are separate legal entities, one consisting of various defined benefit sections plus a defined contribution section and the other a defined benefit section only. Both Defined Benefit Schemes were closed to future accrual as at 31 December 2007 and all active members as at that date became deferred members and were invited to join the Group's only UK Defined Contribution Pension Scheme. The contributions paid by the Group to the Defined Benefit Schemes amounted to GBP 44 million in 2008 (GBP 6 million in 2007) to fully fund both Defined Benefit schemes to IAS 19 funding levels as at 31 December 2007. The fair value of the funds assets at 31 December 2008 was GBP 171 million,

of which 58% was invested in equity instruments, 33% in bonds and UK government bonds and 9% in property and money market investments.

Subsidiaries

The Group's principal subsidiaries are disclosed in Note 36.

39 COMMITMENTS AND CONTINGENCIES

Contingent liabilities

The Group is a defendant or plaintiff in a number of legal proceedings incidental to its operations. These lawsuits primarily involve claims arising out of commercial law issues.

Certain competition authorities are continuing investigations into alleged antitrust activities with respect to various products of UPM. The authorities have granted UPM conditional full immunity with respect to certain conduct disclosed to them. UPM has settled or agreed to settle the class-action lawsuits in the US except for those filed by indirect purchasers of labelstock. The remaining litigation matters may last several years. No provisions 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 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 2008 and € 13 million at 31 December 2007. They are included in the amounts disclosed in the table under "Other commitments".

Commitments

€m	As at 31 December 2008	2007
On own behalf		
Mortgages ¹⁾	787	90
On behalf of associated companies and joint ventures		
Guarantees	10	10
On behalf of others		
Guarantees	2	3
Other commitments, own		
Operating leases, due within 12 months	17	21
Operating leases, due after 12 months	56	99
Other commitments	62	70
Total	934	293
Mortgages	787	90
Guarantees	12	13
Operating leases	73	120
Other commitments	62	70
Total	934	293

¹⁾ The increase in mortgages relates mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

Property under mortgages given as collateral for own commitments include property, plant and equipment, industrial estates and forest land.

Commitments related to associated companies and joint ventures

€m	As at 31 December 2008	2007
Proportionate interest in joint ventures' commitments	22	22
Contingent liabilities relating to the Group's interest in the joint ventures	8	9
Share of associated companies contingent liabilities ¹⁾	239	218

¹⁾ Includes mortgages of € 32 million (37 million) pledges € 42 million (59 million) operating leases € 156 million (112 million) and other commitments € 9 million (10 million).

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 2008	2007
Not later than 1 year	17	21
1–2 years	17	28
2–3 years	13	21
3–4 years	11	18
4–5 years	9	14
Later than 5 years	6	18
Total	73	120

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	
		2008	2007
Rebuild of debarking plant, Wisaforest	30	29	–
Waste water treatment plant, Blandin	17	17	–
New Bioboiler, Caledonian	75	16	64
Efficiency improvement, Chudovo	9	9	–
Gas usage reduction, Schwedt	9	7	9

40 EVENTS AFTER THE BALANCE SHEET DATE

On 14 January 2009, UPM's associated company Oy Metsä-Botnia Ab announced the permanent closure of the Kaskinen pulp mill in the first quarter of 2009. The special charges resulting from the closure will reduce UPM's associated company results by approximately € 27 million in the first quarter of 2009. UPM's share in Oy Metsä-Botnia Ab is 47%.

On 15 January 2009, UPM sold its former paper mill and related assets in Miramichi, New Brunswick, Canada, to Umoe Solar AS of Norway. The sale includes the closed paper mill site, woodlands operations, and two sawmills located nearby in Bathurst and Blackville. UPM records an income of approximately € 20 million on the sale as a special item in the first quarter of 2009.

The Group's management is not aware of any other significant events occurring after 31 December 2008.

Parent company accounts (Finnish Accounting Standards, FAS)

INCOME STATEMENT

€m	Note	Year ended 31 Dec.	
		2008	2007
Turnover	1)	4,738	4,775
Change in inventories of finished goods and work in progress		-54	98
Production for own use		19	33
Other operating income	2)	55	164
Materials and services			
Materials and consumables			
Purchases during the financial period		-2,808	-2,747
Change in inventories		110	52
External services		-349	-364
		-3,047	-3,059
Personnel expenses			
Wages and salaries	3)	-479	-459
Social security expenses			
Pension expenses		-125	-112
Other social security expenses		-45	-46
		-649	-617
Depreciation and value adjustments	4)		
Depreciation according to plan		-342	-335
Value adjustments to goods held as non-current assets		-184	9
		-526	-326
Other operating costs and expenses		-487	-1,526
Operating profit (loss)		49	-458
Financial income and expenses			
Income from investments held as non-current assets			
Income from Group companies		39	17
Income from participating interest companies		18	23
Interest income from Group companies		15	42
Other interest and financial income			
Other interest income from Group companies		38	61
Other interest income from other companies		7	2
Other financial income from Group companies		137	-
Other financial income from other companies		11	55
Interest and other financial expenses			
Interest expenses paid to Group companies		-38	-43
Interest expenses paid to other companies		-206	-169
Other financial expenses paid to Group companies		-	-53
Other financial expenses paid to other companies		-91	-5
		-70	-70
Profit (loss) before extraordinary items		-21	-528
Extraordinary items	5)		
Extraordinary income		19	78
Extraordinary expenses		-14	-13
		5	65
Profit (loss) before appropriations and taxes		-16	-463
Appropriations			
Increase or decrease in accumulated depreciation difference		195	45
Income taxes	6)	-42	-116
Profit (loss) for the financial period		137	-534

CASH FLOW STATEMENT

€m	Year ended 31 Dec.	
	2008	2007
Operating activities		
Profit (loss) before extraordinary items	-21	-528
Financial income and expenses	70	70
Adjustments to operating profit ^{a)}	533	1,174
Change in working capital ^{b)}	-167	-219
Interest paid	-231	-212
Dividends received	56	24
Interest received	64	103
Other financial items	177	-216
Income taxes paid ^{c)}	-21	-107
Net cash from operating activities	460	89
Investing activities		
Investments in tangible and intangible assets	-303	-429
Proceeds from sale of tangible and intangible assets	49	33
Investments in shares and holdings	-14	-15
Proceeds from sale of shares and holdings	185	190
Increase in other investments	-	-5
Decrease in other investments	25	154
Net cash used in investing activities	-58	-72
Financing activities		
Increase in non-current liabilities	940	932
Decrease in non-current liabilities	-565	-738
Increase or decrease in current liabilities	-396	343
Dividends paid	-384	-392
Group contributions, received and paid	49	37
Purchases of own shares	-	-266
Share options exercised	78	104
Net cash used in financing activities	-278	20
Cash and cash equivalents		
Change in cash and cash equivalents	124	37
Cash and cash equivalents at the beginning of the year	153	116
Cash and cash equivalents at year-end	277	153

Notes to the cash flow statement

^{a)} Adjustments to operating profit		
Depreciation	342	335
Gains and losses on sale of non-current assets	-30	862
Value adjustments on non-current assets	184	-9
Change in provisions	37	-14
Total	533	1,174

^{b)} Change in working capital		
Inventories	-46	-130
Current receivables	-21	-198
Current non-interest-bearing liabilities	-100	109
Total	-167	-219

^{c)} Taxes stemming from extraordinary items and sales of non-current assets are reported here on a net basis.

BALANCE SHEET

€m	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Intangible assets	7)		
Intangible rights		8	7
Other capitalised expenditure		198	219
Advance payments		27	7
		233	233
Tangible assets	8)		
Land and water areas		1,039	1,037
Buildings		565	591
Machinery and equipment		1,576	1,592
Other tangible assets		73	60
Advance payments and construction in progress		16	238
		3,269	3,518
Investments	9)		
Holdings in Group companies		4,184	3,422
Receivables from Group companies		48	635
Holdings in participating interest companies		648	636
Other shares and holdings		173	173
Other receivables		10	10
		5,063	4,876
Total non-current assets		8,565	8,627
Current assets			
Inventories			
Raw materials and consumables		357	246
Finished products and goods		309	363
Advance payments		60	71
		726	680
Current receivables	10)		
Trade receivables		80	95
Receivables from Group companies		1,578	1,843
Receivables from participating interest companies		30	25
Other receivables		37	65
Prepayments and accrued income		87	38
		1,812	2,066
Cash and cash equivalents		277	153
Total current assets		2,815	2,899
Total assets		11,380	11,526

€m	Note	As at 31 December 2008	2007
EQUITY AND LIABILITIES			
Shareholders' equity			
	11)		
Share capital		890	890
Revaluation reserve		551	551
Reserve for invested non-restricted equity		1,145	1,067
Retained earnings		1,748	2,667
Profit (loss) for the financial period		137	-534
Total equity		4,471	4,641
Appropriations			
Accumulated depreciation difference		969	1,165
Provisions			
	12)		
Provisions for pensions		52	52
Other provisions		59	22
		111	74
Non-current liabilities			
	13)		
Bonds		1,845	2,111
Loans from financial institutions		967	821
Pension loans		793	62
Advances received		1	1
Payables to Group companies		21	-
Other liabilities		166	127
Total non-current liabilities		3,793	3,122
Current liabilities			
	14)		
Bonds		250	89
Loans from financial institutions		2	55
Pension loans		39	143
Advances received		5	8
Trade payables		231	292
Payables to Group companies		1,089	1,210
Payables to participating interest companies		26	40
Other liabilities		54	394
Accruals and deferred income		340	293
Total current liabilities		2,036	2,524
Total liabilities		5,829	5,646
Total equity and liabilities		11,380	11,526

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	2008	2007
Gains on sale of non-current assets	35	153
Rental income	14	10
Gains on sale of emission allowances ¹⁾	5	–
Other	1	1
Total	55	164

¹⁾ Emissions trading rights are accounted for on a net basis.

3 PERSONNEL EXPENSES

€m	2008	2007
Wages and salaries		
Managing director and members of the Board of Directors ²⁾	3	3
Other wages and salaries	476	456
Total	479	459

²⁾ See Notes to the consolidated accounts, Note 7.

	2008	2007
Average number of personnel	9,420	9,552

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	2008	2007
Depreciation according to plan		
Intangible rights	2	1
Other capitalised expenditure	30	30
Buildings	43	39
Machinery and equipment	259	258
Other tangible assets	8	7
Total	342	335
Value adjustments		
Non-current assets	184	–9
Total	526	326

5 EXTRAORDINARY ITEMS

€m	2008	2007
Extraordinary income		
Group contributions	19	63
Gains on mergers	–	15
Total	19	78
Extraordinary expenses		
Group contributions	–14	–12
Losses on mergers	–	–1
Total	–14	–13
Total	5	65

6 INCOME TAXES

€m	2008	2007
Taxes on operating income for the financial period	44	117
Income taxes from previous periods	–2	–1
Total	42	116

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 2008 was € 252 million (€ 303 million).

Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued assets is € 184 million (€ 184 million).

7 INTANGIBLE ASSETS

€m	2008	2007
Intangible rights		
Acquisition cost at 1 Jan.	16	14
Increases	25	5
Decreases	–23	–1
Transfers between balance sheet items	–	–2
Acquisition cost at 31 Dec.	18	16
Accumulated depreciation at 1 Jan.	–9	–8
Accumulated depreciation on decreases and transfers	1	–
Depreciation for the period	–2	–1
Accumulated depreciation at 31 Dec.	–10	–9
Book value at 31 Dec.	8	7

€m	2008	2007
Other capitalised expenditure		
Acquisition cost at 1 Jan.	395	368
Increases	8	15
Decreases	-25	-3
Transfers between balance sheet items	5	15
Acquisition cost at 31 Dec.	383	395
Accumulated depreciation at 1 Jan.	-176	-148
Accumulated depreciation on decreases and transfers	25	2
Depreciation for the period	-30	-30
Value adjustments and their cancellations	-4	-
Accumulated depreciation at 31 Dec.	-185	-176
Book value at 31 Dec.	198	219

Advance payments

Acquisition cost at 1 Jan.	7	8
Increases	25	14
Transfers between balance sheet items	-5	-15
Book value at 31 Dec.	27	7

8 TANGIBLE ASSETS

€m	2008	2007
Land and water areas		
Acquisition cost at 1 Jan.	491	495
Increases	4	7
Decreases	-1	-11
Acquisition cost at 31 Dec.	494	491
Revaluations at 1 Jan.	546	547
Reversal of revaluation	-1	-1
Revaluations at 31 Dec.	545	546
Book value at 31 Dec.	1,039	1,037

Buildings

Acquisition cost at 1 Jan.	1,188	1,068
Increases	27	114
Decreases	-113	-12
Transfers between balance sheet items	48	18
Acquisition cost at 31 Dec.	1,150	1,188
Accumulated depreciation at 1 Jan.	-597	-545
Accumulated depreciation on decreases and transfers	113	-10
Depreciation for the period	-43	-39
Value adjustments and their cancellations	-58	-3
Accumulated depreciation at 31 Dec.	-585	-597
Book value at 31 Dec.	565	591

Machinery and equipment

Acquisition cost at 1 Jan.	5,641	5,459
Increases	184	179
Decreases	-557	-55
Transfers between balance sheet items	179	58
Acquisition cost at 31 Dec.	5,447	5,641
Accumulated depreciation at 1 Jan.	-4,049	-3,859
Accumulated depreciation on decreases and transfers	556	56
Depreciation for the period	-259	-258
Value adjustments and their cancellations	-119	12
Accumulated depreciation at 31 Dec.	-3,871	-4,049
Book value at 31 Dec.	1,576	1,592

€m	2008	2007
Other tangible assets		
Acquisition cost at 1 Jan.	186	167
Increases	13	14
Decreases	-8	-1
Transfers between balance sheet items	11	6
Acquisition cost at 31 Dec.	202	186
Accumulated depreciation at 1 Jan.	-126	-120
Accumulated depreciation on decreases and transfers	8	1
Depreciation for the period	-8	-7
Value adjustments and their cancellations	-3	-
Accumulated depreciation at 31 Dec.	-129	-126
Book value at 31 Dec.	73	60

Advance payments and construction in progress

Acquisition cost at 1 Jan.	238	98
Increases	16	220
Transfers between balance sheet items	-238	-80
Book value at 31 Dec.	16	238

9 INVESTMENTS

€m	2008	2007
Holdings in Group companies		
Acquisition cost at 1 Jan.	3,703	4,585
Increases	944	446
Decreases	-182	-1,328
Acquisition cost at 31 Dec.	4,465	3,703
Accumulated depreciation at 1 Jan.	-281	-507
Accumulated depreciation on decreases and transfers	-	1,242
Value adjustments and their cancellations	-	-1,016
Accumulated depreciation at 31 Dec.	-281	-281
Revaluations at 31 Dec.	-	-
Book value at 31 Dec.	4,184	3,422

The principal subsidiaries are listed in the Consolidated Financial Statements (Note 36).

€m	2008	2007
Receivables from Group companies		
Acquisition cost at 1 Jan.	635	985
Increases	-	2
Decreases	-587	-352
Acquisition cost at 31 Dec.	48	635
Accumulated depreciation on decreases and transfers	3	-
Value adjustments and their cancellations	-3	-
Book value at 31 Dec.	48	635

Holdings in participating interest companies

Acquisition cost at 1 Jan.	533	527
Increases	12	7
Decreases	-	-1
Acquisition cost at 31 Dec.	545	533
Revaluations at 1 Jan.	103	103
Revaluations at 31 Dec.	103	103
Book value at 31 Dec.	648	636

€m	2008	2007
Other shares and holdings		
Acquisition cost at 1 Jan.	112	116
Decreases	–	–4
Acquisition cost at 31 Dec.	112	112
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	173	173
Other receivables		
Acquisition cost at 1 Jan.	10	7
Increases	–	3
Book value at 31 Dec.	10	10

There were no loans granted to the company's Managing Director and members of the Board of Directors at 31 December 2008 or 2007.

10 CURRENT RECEIVABLES

€m	2008	2007
Trade receivables	599	685
Loan receivables	953	1,245
Other receivables	37	65
Prepayments and accrued income	223	71
Total at 31 Dec.	1,812	2,066

Main items included in current prepayments and accrued income

Personnel expenses	2	1
Interest income	11	14
Currency derivatives	199	32
Income taxes	3	16
Others	8	8
At 31 Dec.	223	71

Receivables from Group companies

Trade receivables	491	566
Loan receivables	951	1,245
Prepayments and accrued income	136	32
At 31 Dec.	1,578	1,843

Receivables from participating interest companies

Trade receivables	28	24
Loans receivables	2	–
Prepayments and accrued income	–	1
At 31 Dec.	30	25

11 SHAREHOLDERS' EQUITY

€m	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Reserve for invested non-restricted equity	Retained earnings	Shareholders' equity, total
Balance sheet value, 1 Jan. 2007	890	776	552	187	–	3,325	5,730
Share options	–	–	–	–	104	–	104
Treasury shares ¹⁾	–	–	–	–	–	–266	–266
Revaluations	–	–	–1	–	–	–	–1
Dividend 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
Share options	–	–	–	–	78	–	78
Dividend paid	–	–	–	–	–	–384	–384
Profit for the financial period	–	–	–	–	–	137	137
Other items	–	–	–	–	–	–1	–1
Balance sheet value, 31 Dec. 2008	890	–	551	–	1,145	1,885	4,471

¹⁾ See Notes to the consolidated accounts, Note 27.

€m	2008	2007
Distributable funds at 31 Dec.		
Reserve for invested non-restricted equity	1,145	1,067
Retained earnings	1,748	2,667
Profit (loss) for the financial period	137	–534
Distributable funds at 31 Dec.	3,030	3,200

12 PROVISIONS

€m	2008	2007
Provisions for pensions	52	52
Closure and restructuring provisions	40	1
Environmental provisions	16	17
Other provisions	3	4
Total at 31 Dec.	111	74

13 NON-CURRENT LIABILITIES

€m	2008	2007
Bonds	1,845	2,111
Loans from financial institutions	967	821
Pension loans	793	62
Advances received	1	1
Other liabilities	187	127
Total at 31 Dec.	3,793	3,122

Payables to Group companies

Other liabilities	21	–
At 31 Dec.	21	–

Long-term loans and their repayment schedule

Repayment in 2–5 years		
Bonds	695	945
Loans from financial institutions	757	580
Pension loans	437	62
Advances received	1	1
Payables to Group companies	21	–
	1,911	1,588
Repayment later than 5 years		
Bonds	1,150	1,166
Loans from financial institutions	210	241
Pensions loans	356	–
Other liabilities	166	127
	1,882	1,534
Total at 31 Dec.	3,793	3,122

Bonds

	Interest rate %	Currency of bond	Nominal value issued m	2008 €m	2007 €m
Fixed-rate					
1997–2027	7.450	USD	375	269	255
1999–2009	6.350	EUR	250	250	250
2000–2030	3.550	JPY	10,000	79	60
2002–2012	6.125	EUR	600	600	600
2002–2014	5.625	USD	500	359	340
2002–2017	6.625	GBP	250	263	341
2003–2018	5.500	USD	250	180	170
				2,000	2,016
Floating-rate					
2002–2008	5.631	EUR	39	–	39
2002–2008	5.387	EUR	50	–	50
2002–2010	6.273	EUR	59	59	59
2002–2012	6.044	EUR	25	25	25
2002–2012	4.152	EUR	11	11	11
				95	184
Bonds, total				2,095	2,200
– current portion				–250	–89
Bonds, long-term portion				1,845	2,111

14 CURRENT LIABILITIES

€m	2008	2007
Bonds	250	89
Loans from financial institutions	2	55
Pension loans	39	143
Advances received	5	8
Trade payables	301	380
Other liabilities	1,035	1,482
Accruals and deferred income	404	367
Total at 31 Dec.	2,036	2,524

Main items included in current accruals and deferred income

Personnel expenses	101	104
Interest expenses	29	16
Currency derivatives	248	228
Others	26	19
At 31 Dec.	404	367

Payables to Group companies

Trade payables	45	51
Other liabilities	980	1,085
Accruals and deferred income	64	74
	1,089	1,210

Payables to participating interest companies

Trade payables	25	37
Other liabilities	1	3
At 31 Dec.	26	40

15 CONTINGENT LIABILITIES

€m	2008	2007
Mortgages¹⁾		
As security against own debts	762	60
Guarantees		
Guarantees for loans		
On behalf of Group companies	994	974
On behalf of participating interest companies	10	10
Other guarantees		
On behalf of Group companies	67	95
Leasing commitments²⁾		
Commitments for next year	18	12
Commitments for subsequent years	159	118

¹⁾ The mortgages given relate mainly to giving mandatory security for borrowing from Finnish pension insurance companies.

²⁾ The commitments of long-term lease agreements relate to energy purchases and production machinery.

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 2004 – 31 December 2008

		Number of shares
2003	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
	Treasury shares cancelled	-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
	Treasury shares cancelled	-16,400,000
	Number of shares at 31 Dec. 2007	512,569,320
2008	Options exercised	7,400,768
	Number of shares at 31 Dec. 2008	519,970,088

Stock exchange trading

UPM's shares are listed on NASDAQ OMX Helsinki Ltd. The company's ADSs are traded on the U.S. over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt programme.

A total of 932.1 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2008 (952.3 million in 2007). This represented 180.1% (182.1%) of the total number of shares. The highest quotation was € 13.87 in January and the lowest € 8.15 in December. The total value of shares traded was € 10,549 million in 2008 (€ 16,472 million in 2007). During the year, 0.43 million 2005G share options were traded for € 0.32 million (0.19 million and € 0.40 million) and 0.04 million share options 2005H were traded for € 0.02 million as of the beginning of 1 October 2008.

Shares and options held by the Board of Directors and the Executive Team

At the end of the year, the members of the Board of Directors including President and CEO owned a total of 959,785 UPM-Kymmene Corporation shares (833,398 in 2007), including shares held by persons closely associated with him or her or by organisations of which the person has control. These represent 0.18% of the shares (0.16%) and 0.18% of the voting rights (0.16%). At the end of the year, President and CEO Jussi Pesonen owned 62,814 shares and 220,000 share options. Exercise of these options would increase the number of the company's shares by 220,000, which at 31 December 2008 would have represented 0.04% of the company's voting rights.

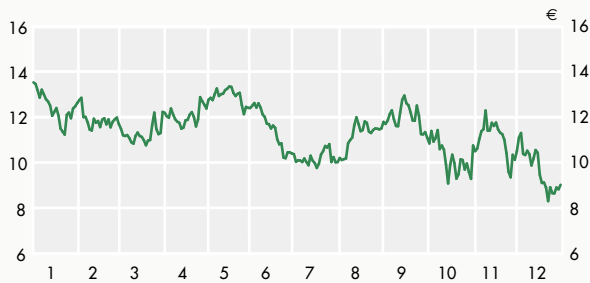
At the end of the year, the other members of the Executive Team owned a total of 83,562 shares and 687,000 share options. Exercise of these options would increase the number of the company's shares by 687,000 which at 31 December 2008 would have represented 0.13% of the company's voting rights.

Biggest registered shareholders at 31 December 2008

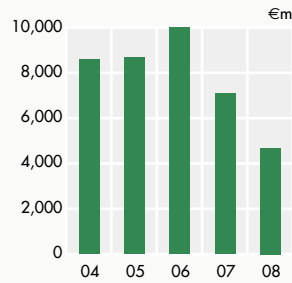
	Shares at 31 December 2008	% of shares	% of votes
Ilmarinen Mutual Pension Insurance Company	13,712,901	2.64	2.64
Varma Mutual Pension Insurance Company	11,553,899	2.22	2.22
Gustaf Serlachius (representing 5 shareholders)	6,309,811	1.21	1.21
The State Pension Fund	5,000,000	0.96	0.96
Svenska litteratursällskapet i Finland	3,827,080	0.74	0.74
OP-Delta Investment Fund	3,704,858	0.71	0.71
Etera Mutual Pension Insurance Company	2,210,000	0.43	0.43
Suomi Mutual Life Assurance Company	2,050,000	0.39	0.39
The Local Government Pensions Institution	1,935,637	0.37	0.37
Sellan Inderessenter Ab	1,725,000	0.33	0.33
Nominees & registered foreign owners	334,754,416	64.38	64.38
Others	133,186,486	25.62	25.62
Total	519,970,088	100.00	100.00

The company has received the following notifications from shareholders: Norges Bank on 24 October 2008 held 5.01% of the share capital and the voting rights. Franklin Resources, Inc. held 9.94% of the voting rights on 3 November 2008.

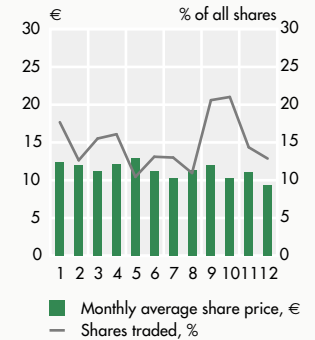
Share price in 2008



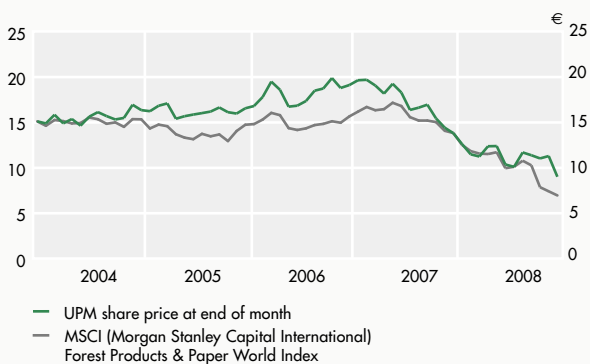
Market capitalisation



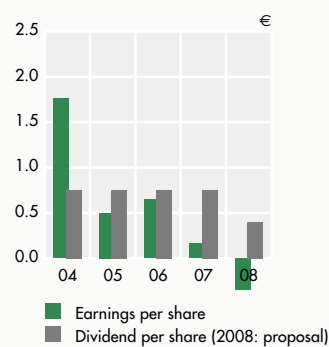
Monthly average share price and shares traded 1-12/2008



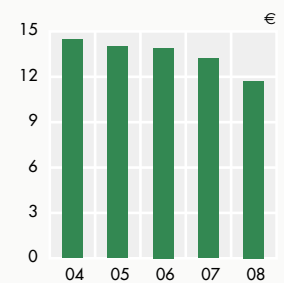
Share price 2004-2008



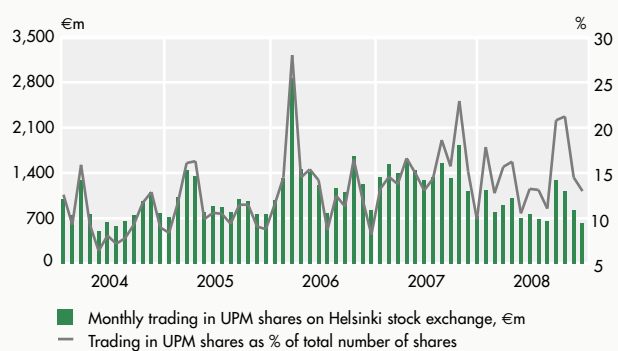
Earnings and dividend per share



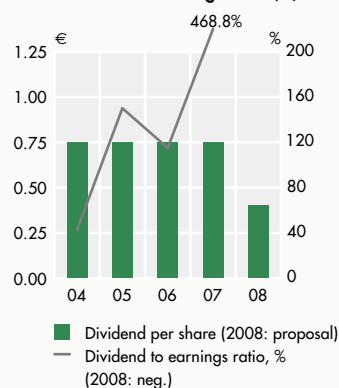
Shareholders' equity per share



Shares traded on Helsinki stock exchange 2004-2008



Dividend per share (€) and dividend to earnings ratio (%)



Distribution of shareholders at 31 December 2008

Size of shareholding	Number of shareholders	% of shareholders	Number of shares, million	% of shares
1 – 100	15,743	21.84	1.0	0.2
101 – 1,000	40,373	56.02	17.0	3.3
1,001 – 10,000	14,496	20.11	40.6	7.8
10,001 – 100,000	1,316	1.83	32.4	6.2
100,001 –	147	0.20	99.4	19.1
Total	72,075	100.00	190.4	36.6
Nominee-registered			329.4	63.4
Not registered as book entry units			0.2	0.0
Total			520.0	100.0

Shareholder breakdown by sector at 31 December, %

	2008	2007	2006	2005	2004
Companies	2.8	2.2	1.8	2.8	3.1
Financial institutions and insurance companies	3.2	2.5	2.1	3.5	2.8
Public bodies	8.1	6.4	5.2	5.8	6.4
Non-profit organisations	6.0	6.0	6.1	6.7	7.0
Households	14.9	14.1	13.5	15.4	15.6
Non-Finnish nationals	65.0	68.8	71.3	65.8	65.1
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 2008
			at date of issue €	at 31 Dec. 2008 €		
2005 G	3,000,000	3,000,000	18.65	16.40	1.10.2007–31.10.2009	–
2005 H	3,000,000	3,000,000	21.65	20.15	1.10.2008–31.10.2010	–

Key figures 1999–2008

Adjusted share-related indicators 1999–2008 ¹⁾

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Earnings per share, € (diluted 2008: -0.35)	-0.35	0.16	0.65	0.50	1.76	0.60	0.96	1.93	2.38	1.88
Shareholders' equity per share, €	11.74	13.21	13.90	14.01	14.46	13.36	13.85	13.09	11.72	10.23
Dividend per share, € ³⁾	²⁾ 0.40	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.08
Dividend to earnings ratio, % ³⁾	neg.	468.8	115.4	150.0	42.6	125.0	78.1	39.0	31.4	57.0
Effective dividend yield, % ³⁾	4.4	5.4	3.9	4.5	4.6	5.0	4.9	4.0	4.1	5.4
P/E ratio	neg.	86.4	29.4	33.1	8.9	24.8	15.9	9.7	7.7	10.6
Cash flow from operations per share, €	1.21	1.66	2.32	1.63	1.90	2.40	2.73	3.32	3.19	2.39
Dividend distribution, €m ³⁾	²⁾ 208	384	392	392	393	393	390	388	371	557
Share price at 31 Dec., €	9.00	13.82	19.12	16.56	16.36	15.12	15.30	18.63	18.28	20.00
Market capitalisation, €m	4,680	7,084	10,005	8,665	8,578	7,917	7,960	9,681	9,502	10,663
Shares traded, €m ⁴⁾	10,549	16,472	16,021	11,358	9,731	9,117	10,827	7,645	6,157	4,834
Shares traded (1,000s)	932,136	952,300	876,023	697,227	625,950	645,988	597,078	443,240	400,822	316,874
Shares traded, % of all shares	180.1	182.1	167.4	133.6	119.5	123.4	115.1	88.1	77.2	59.0
Lowest quotation, €	8.15	13.01	15.36	15.05	14.44	11.05	12.61	14.00	12.46	11.00
Highest quotation, €	13.87	20.59	20.91	18.15	17.13	17.10	22.25	19.93	22.45	21.25
Average quotation for the period, €	11.32	17.30	18.29	16.29	15.55	14.11	18.13	17.24	15.36	15.25
Number of shares, average (1,000s)	517,545	522,867	523,220	522,029	523,641	523,130	518,935	495,784	513,634	528,035
Number of shares at end of period (1,000s)	519,970	512,569	523,259	523,093	524,450	523,579	520,232	517,436	501,295	518,062

Share prices and shares traded are based on trading on the NASDAQ OMX Helsinki stock exchange.

Notes to the tables on pages 127–128

¹⁾ Figures for 2002–2008 are reported in accordance with International Financial Reporting Standards (IFRS) and for 1999–2001 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 NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.

Financial indicators 1999–2008 ¹⁾

€m	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Sales	9,461	10,035	10,022	9,348	9,820	9,787	10,417	9,918	9,583	8,261
EBITDA	1,206	1,546	1,678	1,428	1,435	1,442	1,957	2,055	2,081	1,576
% of sales	12.7	15.4	16.7	15.3	14.6	14.7	18.8	20.7	21.7	19.1
Operating profit, excluding special items	513	835	725	558	470	429	963	1,394	1,560	976
% of sales	5.4	8.3	7.2	6.0	4.8	4.4	9.2	14.1	16.3	11.8
Operating profit	24	483	536	318	685	368	861	1,614	1,860	1,573
% of sales	0.3	4.8	5.3	3.4	7.0	3.8	8.3	16.3	19.4	19.0
Profit (loss) before tax	-201	292	367	257	556	425	710	1,333	1,859	1,398
% of sales	-2.1	2.9	3.7	2.7	5.7	4.3	6.8	13.4	19.4	16.9
Profit (loss) for the period	-180	81	338	261	920	312	500	955	1,366	994
% of sales	-1.9	0.8	3.4	2.8	9.4	3.2	4.8	9.6	14.3	12.0
Exports from Finland and foreign operations	8,515	9,170	9,102	8,397	8,791	8,697	9,475	8,948	8,563	7,165
Exports from Finland	4,371	4,546	4,644	4,006	4,301	4,539	4,759	4,635	5,216	4,873
Non-current assets	10,375	10,639	11,355	12,321	12,802	13,509	14,336	12,874	10,163	8,741
Inventories	1,354	1,342	1,255	1,256	1,138	1,144	1,224	1,289	1,184	1,008
Other current assets	2,040	1,972	1,859	1,964	1,887	1,938	2,064	2,368	1,766	1,831
Assets, total	13,781	13,953	14,469	15,541	15,827	16,591	17,624	16,431	13,113	11,580
Total equity	6,120	6,783	7,289	7,348	7,612	7,029	7,237	6,838	6,175	5,558
Non-current liabilities	5,816	4,753	4,770	5,845	5,966	7,322	8,104	5,992	4,564	3,830
Current liabilities	1,828	2,417	2,410	2,348	2,249	2,240	2,283	3,601	2,374	2,192
Total equity and liabilities	13,781	13,953	14,469	15,541	15,827	16,591	17,624	16,431	13,113	11,580
Capital employed at year end	11,193	11,098	11,634	12,650	12,953	12,811	13,689	13,519	10,448	9,004
Return on equity, %	neg.	1.2	4.6	3.5	12.6	4.4	6.8	15.5	21.9	19.2
Return on capital employed, %	0.2	4.3	4.7	3.4	6.0	5.1	7.4	15.6	20.2	17.6
Equity to assets ratio, %	44.5	48.8	50.4	47.3	48.2	42.5	41.1	41.5	46.0	47.0
Gearing ratio, %	71	59	56	66	61	69	71	89	69	55
Net interest-bearing liabilities	4,321	3,973	4,048	4,836	4,617	4,874	5,135	6,041	4,071	2,940
Gross capital expenditure	551	708	699	749	686	720	620	3,850	2,175	609
% of sales	5.8	7.1	7.0	8.0	7.0	7.4	6.0	38.8	22.7	7.4
Gross capital expenditure excluding acquisitions	532	683	631	705	645	703	568	827	571	548
% of sales	5.6	6.8	6.3	7.5	6.6	7.2	5.5	8.3	6.0	6.6
Personnel at year end	24,983	26,352	28,704	31,522	33,433	34,482	35,579	36,298	32,755	30,963

Formulae for calculating indicators are given on page 130.

Deliveries and production

	Deliveries				Production (1999 – 2004)					
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Electricity (MWh)	10,167	10,349								
Pulp (1,000 t)	1,982	1,927								
Papers, total (1,000 t)	10,641	11,389	10,988	10,172	10,886	10,232	10,046	8,298	8,285	7,494
Sawn timber (1,000 m ³)	2,132	2,325	2,457	2,016	2,409	2,408	2,201	2,035	2,117	1,911
Plywood (1,000 m ³)	806	945	931	827	969	936	905	786	793	729

Quarterly figures 2007–2008

€m	Q4/08	Q3/08	Q2/08	Q1/08	Q4/07	Q3/07	Q2/07	Q1/07	Q1–Q4/08	Q1–Q4/07
Sales	2,315	2,358	2,378	2,410	2,512	2,467	2,537	2,519	9,461	10,035
Other operating income	9	23	11	40	87	15	80	18	83	200
Costs and expenses	-2,227	-1,998	-2,074	-2,108	-2,270	-2,116	-2,145	-2,119	-8,407	-8,650
Change in fair value of biological assets and wood harvested	-2	4	20	28	47	21	14	-3	50	79
Share of results of associated companies and joint ventures	-16	35	21	22	2	14	6	21	62	43
Depreciation, amortisation and impairment charges	-365	-462	-199	-199	-236	-206	-567	-215	-1,225	-1,224
Operating profit (loss)	-286	-40	157	193	142	195	-75	221	24	483
Gains on available-for-sale investments, net	-	-	2	-	-	-	-	2	2	2
Exchange rate and fair value gains and losses	-14	-	-1	-10	-4	-9	8	3	-25	-2
Interest and other finance costs, net	-60	-50	-43	-49	-46	-42	-54	-49	-202	-191
Profit (loss) before tax	-360	-90	115	134	92	144	-121	177	-201	292
Income taxes	74	3	-25	-31	-63	-25	-77	-46	21	-211
Profit (loss) for the period	-286	-87	90	103	29	119	-198	131	-180	81
Attributable to:										
Equity holders of the parent company	-287	-86	92	102	32	120	-198	131	-179	85
Minority interest	1	-1	-2	1	-3	-1	-	-	-1	-4
	-286	-87	90	103	29	119	-198	131	-180	81
Basic earnings per share, €	-0.56	-0.17	0.18	0.20	0.06	0.23	-0.38	0.25	-0.35	0.16
Diluted earnings per share, €	-0.56	-0.17	0.18	0.20	0.06	0.23	-0.38	0.25	-0.35	0.16
Earnings per share, excluding special items, €	-0.19	0.25	0.17	0.19	0.24	0.23	0.28	0.25	0.42	1.00
Average number of shares basic (1,000)	519,979	519,999	517,622	512,581	514,085	527,012	527,111	523,261	517,545	522,867
Average number of shares diluted (1,000)	519,979	519,999	516,791	513,412	515,322	529,530	530,980	527,086	517,545	525,729
Special items in operating profit (loss)	-240	-256	2	5	-52	-	-300	-	-489	-352
Operating profit (loss), excl. special items	-46	216	155	188	194	195	225	221	513	835
% of sales	-2.0	9.2	6.5	7.8	7.7	7.9	8.9	8.8	5.4	8.3
Special items before tax	-240	-250	2	5	-52	-	-300	-	-483	-352
Profit (loss) before tax, excl. special items	-120	160	113	129	144	144	179	177	282	644
% of sales	-5.2	6.8	4.8	5.4	5.7	5.8	7.1	7.0	3.0	6.4
Return on equity, excl. special items, %	neg.	7.8	5.4	5.9	7.1	6.9	8.5	7.3	3.4	7.4
Return on capital employed, excl. special items, %	neg.	7.7	5.7	6.5	6.9	6.8	8.3	7.9	4.6	7.4
EBITDA	178	378	313	337	351	366	411	418	1,206	1,546
% of sales	7.7	16.0	13.2	14.0	14.0	14.8	16.2	16.6	12.7	15.4
Sales by segment										
Energy	141	129	103	105	112	89	81	97	478	379
Pulp	200	228	247	269	187	208	208	205	944	808
Forest and timber	419	475	518	508	537	490	514	498	1,920	2,039
Paper	1,750	1,761	1,727	1,773	1,864	1,856	1,815	1,793	7,011	7,328
Label	233	239	245	242	242	245	255	256	959	998
Plywood	102	121	150	157	154	126	150	161	530	591
Other operations	34	52	66	48	80	83	160	127	200	450
Internal sales	-564	-647	-678	-692	-664	-630	-646	-618	-2,581	-2,558
Sales, total	2,315	2,358	2,378	2,410	2,512	2,467	2,537	2,519	9,461	10,035
Operating profit (loss) excl. special items by segment										
Energy	62	49	31	33	38	17	11	29	175	95
Pulp	-17	60	38	67	9	56	54	69	148	188
Forest and timber	-61	-5	17	26	73	38	61	42	-23	214
Paper	27	113	60	50	52	73	79	58	250	262
Label	-10	1	8	3	8	12	16	20	2	56
Plywood	-10	-2	16	21	15	3	15	17	25	50
Other operations	-37	-	-15	-12	-1	-4	-11	-14	-64	-30
Operating profit (loss) excl. special items, total	-46	216	155	188	194	195	225	221	513	835
% of sales	-2.0	9.2	6.5	7.8	7.7	7.9	8.9	8.8	5.4	8.3

Calculation of key indicators

Formulae for calculation of financial indicators

Return on equity, %:

$$\frac{\text{Profit before tax}^{2)} - \text{income taxes}}{\text{Total equity (average)}} \times 100$$

Return on capital employed, %:

$$\frac{\text{Profit before tax}^{2)} + \text{interest expenses and other financial expenses}}{\text{Total equity + interest-bearing liabilities (average)}} \times 100$$

Equity to assets ratio, %:

$$\frac{\text{Total equity} - \text{treasury shares}^{1)}}{\text{Balance sheet total} - \text{advances received} - \text{treasury shares}^{1)}} \times 100$$

Net interest-bearing liabilities:

$$\text{Interest-bearing liabilities} - \text{interest-bearing assets} - \text{listed shares}$$

Gearing ratio, %:

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity} - \text{treasury shares}^{1)}} \times 100$$

EBITDA:

Operating profit + depreciation + amortisation of goodwill + impairment +/- change in value of biological assets +/- share of results of associated companies +/- special items

Return on capital employed (ROCE) for the segments (operating capital), %:

$$\frac{\text{Operating profit}}{\text{Non-current assets + stocks + trade receivables} - \text{trade payables (average)}} \times 100$$

¹⁾ Treasury shares were shown in the balance sheet in 1999–2001.

²⁾ 1999–2001: Profit/loss before extraordinary items and tax.

³⁾ 1999–2001: Profit/loss before extraordinary items and tax – income tax +/- minority interest.

Formulae for calculation of adjusted share-related indicators

Earnings per share:

$$\frac{\text{Profit for the period attributable to the equity holders of the parent company}^{3)}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Shareholders' equity per share:

$$\frac{\text{Equity attributable to the equity holders of the parent company}}{\text{Adjusted number of shares at end of period}}$$

Dividend per share:

$$\frac{\text{Dividend distribution}}{\text{Adjusted number of shares at end of period}}$$

Dividend to earnings ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12.}} \times 100$$

P/E ratio:

$$\frac{\text{Adjusted share price at 31.12.}}{\text{Earnings per share}}$$

Market capitalisation:

$$\text{Total number of shares} \times \text{striking price at end of period}$$

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:

$$\frac{\text{Cash from operating activities}}{\text{Adjusted average number of shares during the period excluding treasury shares}}$$

Key exchange rates for the euro at end of period

	31.12.2008	30.9.2008	30.6.2008	31.3.2008	31.12.2007	30.9.2007	30.6.2007	31.3.2007
USD	1.3917	1.4303	1.5764	1.5812	1.4721	1.4179	1.3505	1.3318
CAD	1.6998	1.4961	1.5942	1.6226	1.4449	1.4122	1.4245	1.5366
JPY	126.14	150.47	166.44	157.37	164.93	163.55	166.63	157.32
GBP	0.9525	0.7903	0.7923	0.7958	0.7334	0.6968	0.6740	0.6798
SEK	10.8700	9.7943	9.4703	9.3970	9.4415	9.2147	9.2525	9.3462

Auditor's report

To the shareholders of UPM-Kymmene Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of UPM-Kymmene Corporation for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

We recommend that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable funds is in compliance with the Limited Liability Companies Act. We recommend that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 20 February 2009

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

Events in 2008

January

- 9** UPM announces it will start biorefining technology cooperation on the production of papermaking fibre and biochemicals using a novel technology with Chempolis Oy, a Finnish technology company. UPM investigates the possibility of building an industrial biorefinery utilising agro residues in China. The biorefinery would be the first industrial facility using this technology in the world.
- 22** Tapio Korpeinen is appointed Senior Vice President, Strategy as Heikki Malinen is appointed President and CEO of Pöyry Plc, the international consultancy and engineering company.
- 30** UPM announces it is to develop ethanol production from commercial and industrial waste into biofuel with Lassila & Tikanoja (L&T). In the production concept developed by UPM and L&T, ethanol and energy are produced from commercial and industrial waste, such as paper, cardboard, wood and plastic.

February

- 13** UPM announces it will temporarily reduce its sawmilling capacity at all the company's sawmills in Finland due to the quickly weakened market situation.
- 14** UPM, the VTT Technical Research Centre of Finland and Helsinki University of Technology (TKK) establish a Finnish Centre for Nanocellulosic Technologies. The Centre aims to create new applications for cellulose as a raw material, substance and end product.
- 25** UPM announces it will begin RFID tag and inlay production in Guangzhou, China, in the third quarter of 2008. The new manufacturing site serves the fast-growing Asian market in all RFID end-use areas, including ticketing and the apparel industry. The production plant is inaugurated in November.

March

- 10** The laying of the cornerstone of Kaukaan Voima's biofuel power plant takes place in Lappeenranta, Finland. UPM, Pohjolan Voima and Lappeenranta Energia, a city-owned power company, are building a joint power plant at UPM's Kaukas mill site in Lappeenranta, Finland. The new plant will start up in spring 2010.
- 26** Björn Wahlroos, President & CEO of Sampo plc, is elected as Chairman of the UPM Board of Directors. Berndt Brunow and Georg Holzhey are elected as Vice Chairmen. Matti Alahuhta, President & CEO of the Kone Corporation is elected to the Board of Directors as a new member.

April

- 3** UPM Raflatac celebrates the opening of its new North American pressure sensitive labelstock manufacturing facility in Dixon, Illinois, approximately 100 miles west of Chicago.
- 11** UPM announces it will expand its wood plastic composite production by building a new mill in Bruchsal, Germany. This new production unit is designed to respond to the fast market growth and increasing demand for wood plastic composite in Central Europe. The mill is completed in December.
- 24** UPM announces temporary shutdowns in its fine paper mills in Central Europe for one to three months to address the poor profitability of certain businesses.
- 25** UPM and the Russian Sveza Group sign an agreement to form a joint venture company, OOO Borea. The target is to build a state-of-the-art forest industry facility in the Vologda region of North West Russia. The letter of intent on the project was signed on 19 December 2007.

May

- 29** UPM signs a Leadership Declaration as part of a "Business and Biodiversity Initiative" launched at the United Nations Convention on Biological Diversity (UN CBD).

June

- 12** UPM announces a plan to close its Leivonmäki sawmill in Finland due to the predicted weakening profitability of its sawn timber business. Leivonmäki sawmill operations cease at the end of 2008.

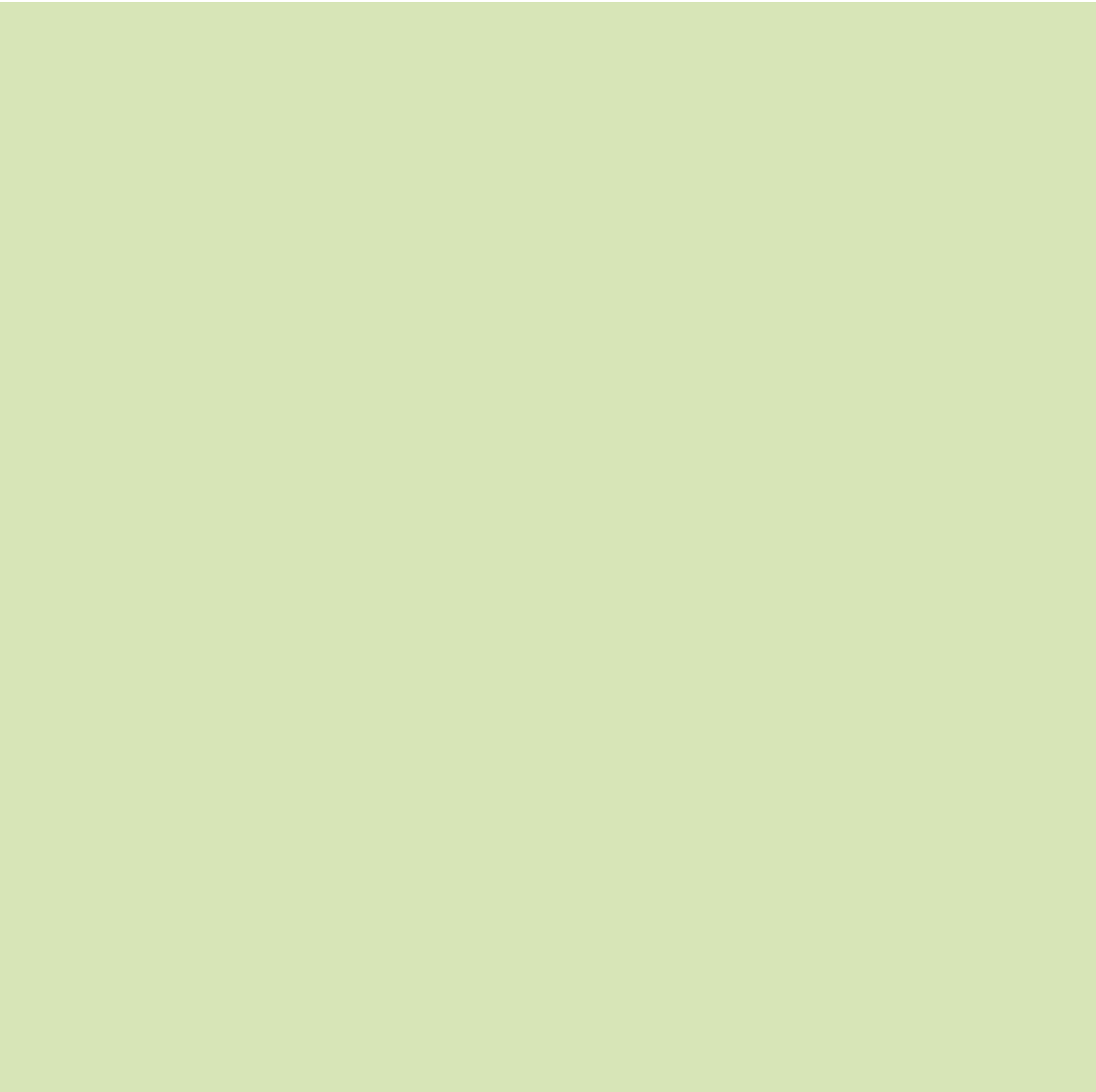
July

- 10** UPM completes the rebuild of the chemical recovery plant at its Kymi pulp mill in Kuusankoski, Finland. Construction of the new recovery plant started in May 2006. The recovery plant is inaugurated in October.

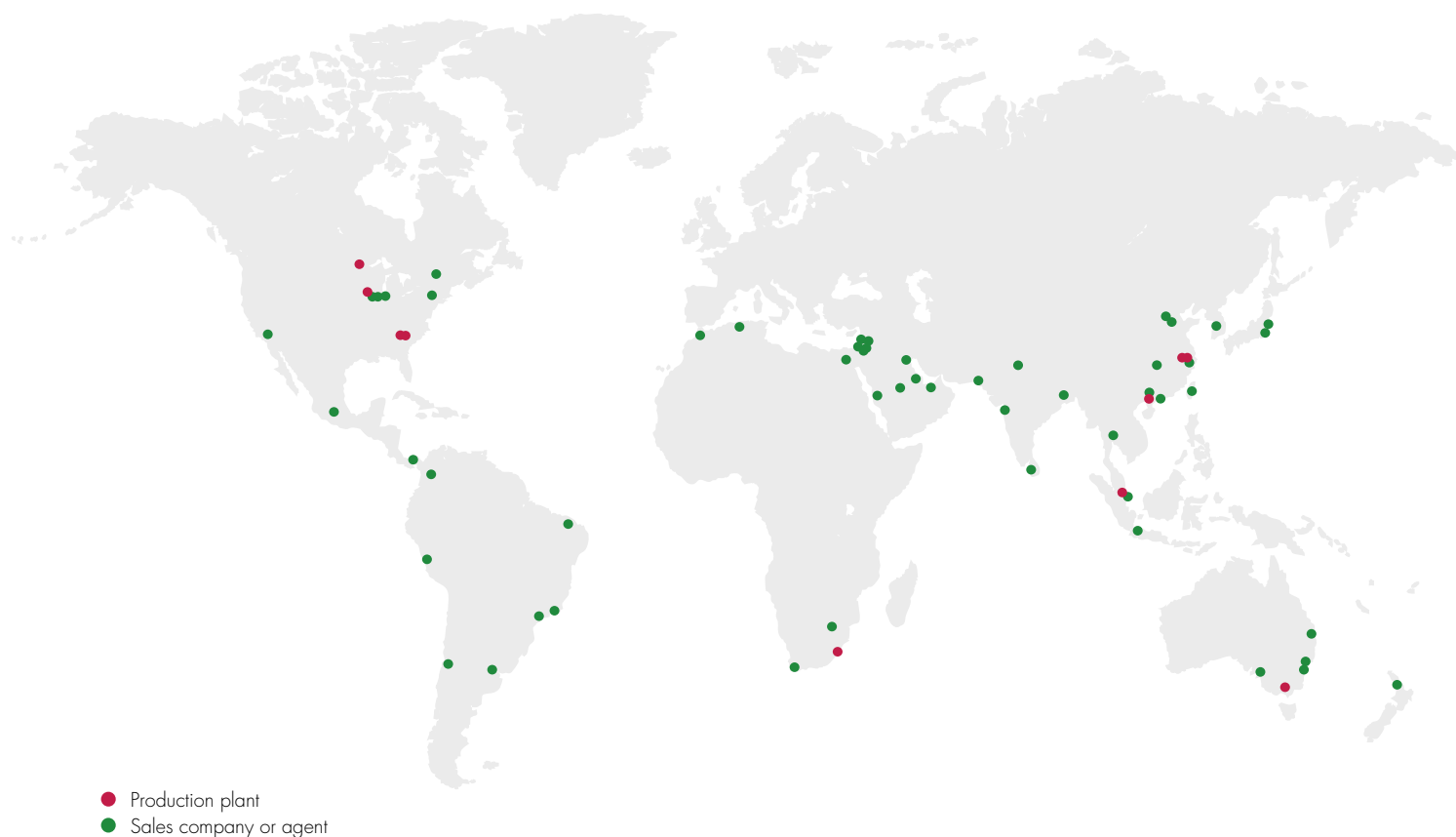
- 22** UPM sells its shareholding in RFID antenna manufacturing subsidiary Intune Circuits Ltd to Savcor Group Ltd. Founded in 2005, Intune Circuits was the first mass producer specialised in RFID antennas for global markets.

August

- 21** UPM announces it will continue temporary shutdown of the PM 2 production line at its fine paper mill Nordland Papier in Germany until the end of the year. The annual production capacity of PM 2 is 200,000 tonnes of fine paper.



Production plants and sales network



PRODUCTION PLANTS

Australia

Labelstock factory
UPM Raflatac, Braeside
(Melbourne)

Austria

UPM, Steyrermühl paper mill
UPM, Steyrermühl sawmill

China

Paper mill
UPM, Changshu

Labelstock factory
UPM Raflatac, Changshu

RFID factory
UPM Raflatac, Guangzhou

Estonia

Otepää plywood mill

Finland

Paper mills

UPM, Jämsänkoshi
UPM, Kaipola (Jämsä)
UPM, Kaukas (Lappeenranta)
UPM, Kymi (Kuusankoski)
UPM, Rauma
UPM, Tervasaari (Valkeakoski)
UPM, Pietarsaari

Pulp mills
UPM, Kaukas (Lappeenranta)
UPM, Kymi (Kuusankoski)
UPM, Pietarsaari

Labelstock factory
UPM Raflatac, Tampere

RFID factory
UPM Raflatac, Jyväskylä

Plywood mills
UPM

- Heinola
- Joensuu
- Kaukas (Lappeenranta)
- Lahti

- Pellos (Ristiina)
- Savonlinna
- Jyväskylä (Säynätsalo)

Veneer mills
UPM
- Kalso (Vuohijärvi)
- Lohja

Sawmills
UPM, Alholma (Pietarsaari)
UPM, Heinola
UPM, Kajaani
UPM, Kaukas (Lappeenranta)
UPM, Korkeakoski (Juupajoki)
UPM, Seikku (Pori)

Further processing mills
UPM, Aureskoski
UPM, Heinola
UPM, Kaukas (Lappeenranta)
UPM, Parkano

Wood plastic composite
UPM ProFi, Lahti

France

Paper mills
UPM, Docelles
UPM, Chapelle Darblay
Stracel, Strasbourg

Labelstock factory
UPM Raflatac, Pompey
(Nancy)

Further processing mills
UPM, Aigrefeuille
UPM, Boulogne

Germany

Paper mills
UPM, Augsburg
UPM, Schongau
UPM, Schwedt
Nordland Papier, Dörpen

Wood plastic composite
UPM ProFi,
Bruchsal (Karlsruhe)

Malaysia

Labelstock factory
UPM Raflatac, Johor

Poland

Labelstock factory
UPM Raflatac,
Kobierzyce (Wrocław)

Russia

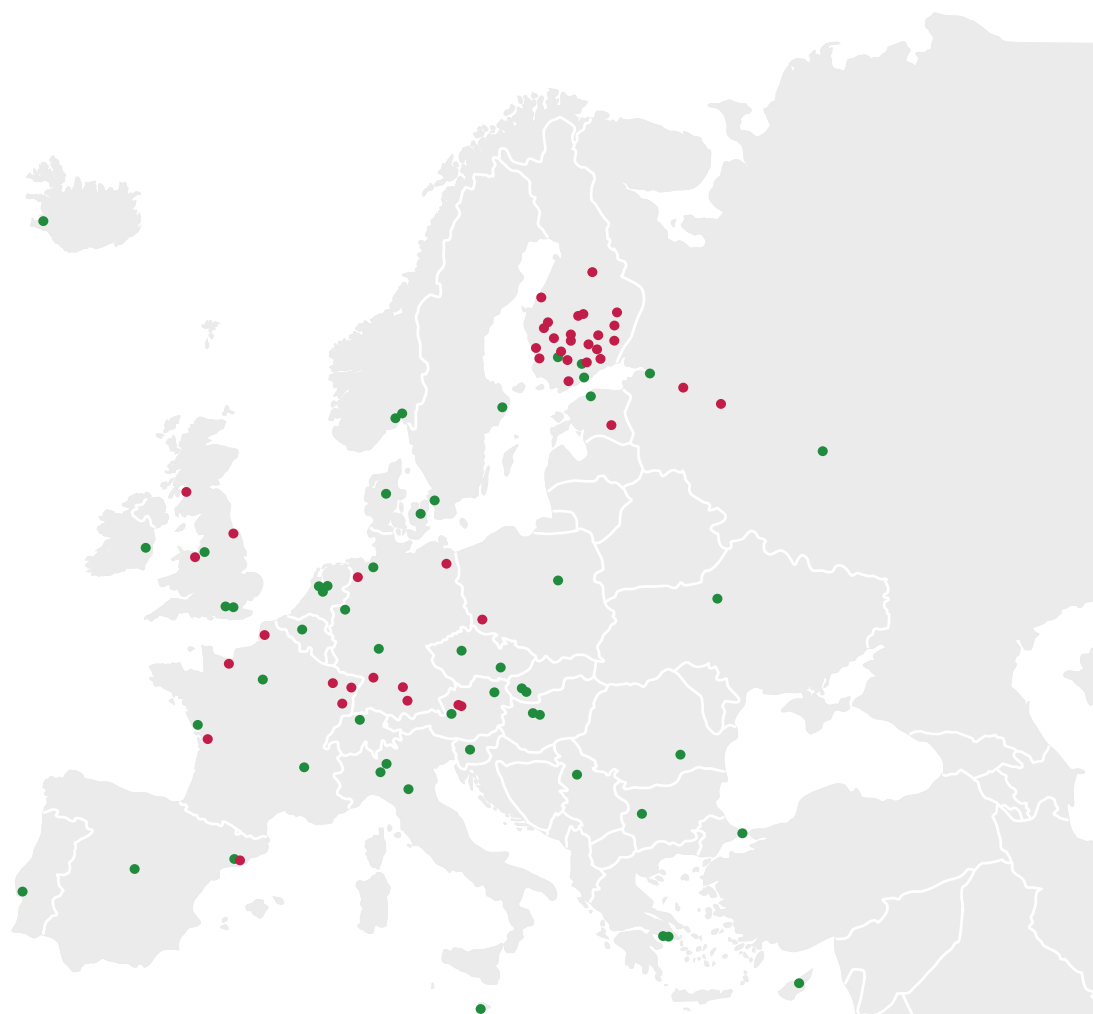
UPM, Chudovo plywood
and veneer mill
UPM, Pestovo sawmill
and further processing mill

Spain

Labelstock factory
UPM Raflatac, Polinyà
(Barcelona)

South Africa

Labelstock factory
UPM Raflatac, Durban

**SALES NETWORK**

(countries listed below)

UK

Paper mills
 Caledonian Paper, Irvine
 Shotton Paper, Shotton
 Labelstock factory
 UPM Raflatac, Scarborough

USA

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
 Cyprus
 Czech Republic
 Denmark
 Estonia
 Finland
 France

Germany
 Great Britain
 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 reader to understand terms used in this annual report.

Agricultural residues

Agricultural residues are biomass residues originating from production, harvesting and processing in farm areas. Agricultural residues or non-wood feedstocks include a number of cultivated and naturally growing plants such as straw and reed. Agro residues can be used as raw materials for pulp and biochemicals.

To audit, audit

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

BAT (Best Available Techniques)

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

Biodiesel

Diesel fuel produced from biomass.

Biodiversity

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

Bioenergy

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

Bioethanol

Ethanol produced from biomass.

Biofuels

Liquid or gaseous fuel for transport produced from biomass.

Biomass

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

Bio oil

Liquid fuel for energy purposes produced from biomass, not suitable for use as a transportation fuel.

Biorefinery

Facility that integrates biomass conversion processes and equipment to produce fuels, power and value-added chemicals from biomass.

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

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

Chain of Custody (CoC)

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

Coated fine paper (WFC)

Also known as coated woodfree paper. Coated fine paper is used for demanding printing. The amount of coating and gloss of the paper is determined by the 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.

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 specialized 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 the ink and impurities are removed from the recovered paper.

Ecoefficiency

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

EMAS (Eco-Management and Audit Scheme)

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

To evaluate, evaluation

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

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.

Fischer-Tropsch

Synthesis process in which liquid fuels are produced from synthetic gas.

Forest energy wood

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

FTBTL

Biofuel produced by biomass gasification and Fischer-Tropsch synthesis.

Gravure printing

A printing process using a thin, quick-drying ink applied from a cylindrical surface that has an engraved design. Rotogravure printing is the opposite of letterpress printing, since the design areas are recessed into the cylinder instead of being in relief.

ISO (International Organisation for Standardisation)

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

Nanofibre

Nanofibres are defined as fibres with diameters on the order of 100 nanometres. Raw-material can be cellulose based and end-uses cover several applications such as papers, composites and additives (food, cosmetics, and pharmaceuticals).

Newsprint

Uncoated paper manufactured mainly from mechanical pulp or recycled paper and used for newspapers and directories. Newsprint has a low basis weight.

Non-impact printing

A method of printing involving electrophotographic and ink jet printing. In this method, the printing element does not make contact with the paper.

NOX

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 have 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

Paper and board recovered for secondary use.

Recovery rate

The ratio of recovered paper to all paper consumed.

Recycled fibre

Fibre extracted from recovered paper.

Release paper

In self-adhesive labelstock, the back of a label that is removed and discarded.

Renewable energy

Renewable non-fossil energy sources: wind, solar, geothermal, wave, tidal, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases.

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.

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 siliconised 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 formed also during production processes.

TRS (Total Reduced Sulphur)

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

Uncoated fine paper (WFU)

Also known as uncoated woodfree 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 woodfree paper is used for wrapping and for paper bags.

VOC

Volatile organic compounds.

Woodfree, 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.

Addresses

www.upm-kymmene.com

Group Head Office

UPM
Eteläesplanadi 2
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 111
Fax +358 204 15 110
E-mail info@upm-kymmene.com

UPM
Corporate Communications
Eteläesplanadi 2
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 0020
Fax +358 204 15 0308
E-mail info@upm-kymmene.com

UPM
Investor Relations
Eteläesplanadi 2
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 0033
Fax +358 204 15 0303
E-mail ir@upm-kymmene.com

UPM
Environmental Affairs
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 111
Fax +358 204 15 110
E-mail environment@upm-kymmene.com

UPM
Environmental Forestry Affairs
Päivi Salpakivi-Salomaa
P.O. Box 32
FI-37601 Valkeakoski
Tel. +358 204 16 2162
Fax +358 204 16 120
E-mail paivi.salpakivi@upm-kymmene.com

UPM
Corporate Responsibility
Marko Janhunen
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 0572
Fax +358 204 15 0646
E-mail cr@upm-kymmene.com

Business Groups

UPM Energy and Pulp Business Group
Eteläesplanadi 2
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 111
Fax +358 204 15 0309
E-mail info@upm-kymmene.com

UPM Paper Business Group
Eteläesplanadi 2
P.O. Box 380
FI-00101 Helsinki
Tel. +358 204 15 111
Fax +358 204 15 0509
E-mail info@upm-kymmene.com

UPM Raflatac
Label and RFID Business Areas
Tesomankatu 31
P.O. Box 53
FI-33101 Tampere
Tel. +358 204 16 143
Fax +358 204 16 8037
E-mail info@upmraflatac.com

UPM Plywood and
UPM ProFi Business Areas
Niemenkatu 16
P.O. Box 203
FI-15141 Lahti
Tel. +358 204 15 113
Fax +358 204 15 112
E-mail wood@upm-kymmene.com
E-mail profi@upm-kymmene.com