Remuneration statement

This Remuneration Statement has been prepared according to the recommendation 47 of the Finnish Corporate Governance Code 2010.

FINANCIAL BENEFITS

Board of Directors

The fees of the Board members are decided by the Annual General Meeting. The fees have been unchanged since 2007. Of the annual fee, 60% is paid in cash and 40% in the company shares purchased on the Board members' behalf. The company pays any possible costs and transfer tax related to the acquisition of the company shares.

The annual fees of the Board and Committee members for the year 2012 were the following:

	Annual fees (EUR)	of which shares (No.)
Chairman	175,000	7,216
Deputy Chairman	120,000	4,948
Chairman of the Audit Committee	120,000	4,948
Members*	95,000	3,917

* The President and CEO receives no financial benefits for his role as a member of the Board.

According to the Board Charter, the Board members are encouraged to own company shares on a long-term basis.

In addition to annual fees, the Board members do not receive any other financial benefits for their Board membership.

President and CEO

In the last two accounting periods, the annual salary and other financial benefits of the President and CEO were the following:

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

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

The President and CEO participates in the Performance Share Plan *(see Long-term incentive plans).*

In accordance with the service contract of the President and CEO, the retirement age of the President and CEO Jussi Pesonen is 60 years. For the President and CEO, the target pension is 60% of the average indexed earnings calculated according to the Finnish statutory pension scheme from the last ten years of employment. The cost of lowering the retirement age to 60 years is covered by supplementing statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company before reaching the age of 60, an immediate vesting right corresponding to 100% of earned pension (pro rata) will be applied.

In case the notice of termination is given to the President and CEO, a severance pay of 24 months' base salary will be paid in addition to the salary for the six months' notice period. Should the President and CEO give a notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period.

If there is a change of control in the company, the President and CEO may terminate his service contract within three months from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months' base salary.

DECISION-MAKING PROCESS AND MAIN PRINCIPLES OF REMUNERATION

Decision-making process of remuneration

The Board of Directors resolves on the remuneration of the President and CEO based on the proposal by the Human Resources Committee of the Board.

The President and CEO presents a proposal for the remuneration of the members of the Group Executive Team including the Group Executive Board to the Human Resources Committee, which prepares a proposal to the Board of Directors for resolution.

Terms and conditions of all share-based long-term incentive plans are prepared by the Human Resources Committee in consultancy with independent advisors and approved by the Board. Terms and conditions of stock option programmes are resolved by the General Meeting.

Main principles of remuneration

The total remuneration of the President and CEO and of the members of the Group Executive Team consists of base salary and benefits, short-term incentives and equity-based long-term incentives under the share reward plans and stock option programmes. The total compensation is reviewed annually by the Board of Directors. The review includes benchmarking the different components of total remuneration to corresponding positions.

Short-term incentive plans

The short-term incentive plan for the President and CEO and the members of the Group Executive Team is linked to achievement of the predetermined financial targets of the Group or Business Group (70% of the total maximum) and individual targets of the executive (30% of the total maximum) amounting to a maximum annual incentive of 100% of annual base salary for the members of the Group Executive Board and 70% of annual base salary for the members of the Group Executive Team. For the President and CEO, the maximum annual incentive amounts to 150% of the annual base salary. In the annual incentive plan for 2012, the financial target was EBITDA, and it is also approved to be the financial target for 2013.

Long-term incentive plans

As of 2011 the company's long-term incentives consist of the Performance Share Plan for senior executives and the Deferred Bonus Plan for other key employees. These two plans replace the earlier Share Ownership Plan for 2008–2010 and the Stock Option Programme 2007.

The Performance Share Plan consists of annually commencing three-year plans. The plan is targeted at the Group Executive Team (GET) and other selected members of the management. Under the plan, UPM shares are awarded based on the group level performance for a three-year earning period. The earned shares are delivered after the earning period has closed. The earning criteria for 2011–2013, 2012–2014 and 2013–2015 are based on operating cash flow and earnings per share (EPS).The maximum number of shares payable under the current Performance Share Plans are the following:

The Deferred Bonus Plan is targeted to other key personnel of the company not participating in the Performance Share Plan. The Deferred Bonus Plan consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. During the restriction period, prior to the share delivery, the earned share rewards are adjusted with dividends and other capital distribution, if any, paid to all shareholders. The first plan commenced at the beginning of 2011 and the earned shares will be delivered in the spring of 2014. For the earning periods 2011 and 2012, the share incentives were based on the participants' short-term incentive targets. For the earning period 2013, the earning is based on Group and/or Business Group EBITDA targets. The number of shares to be delivered under the plan for the earning period 2011 is 347,000 shares excluding eventual dividend adjustment for 2013. The estimated number of shares under the plan for the earning period 2012 is 640,000 shares. For the earning period 2013, the estimated maximum number of shares is 1,640,000 shares. As of 31 December 2012, 459 persons were included in the 2011 plan and 566 persons were included in the 2012 plan. For 2013, approximately 580 persons are included in the plan.

The above indicated estimates of the share rewards under the Performance Share Plan and the Deferred Bonus Plan represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

The Share Ownership Plan 2008–2010 included three earning periods for the years 2008, 2009, and 2010. The number of the reward shares was based on predetermined financial targets, which were decided separately for each earning period by the Board of Directors. The earning criterion for the last earning period 2010 was based on the operating cash flow. Of the set target, 46.4% was achieved resulting to a payout of 133,864 shares to the President

	PSP 2011-2013	PSP 2012-2014	PSP 2013-2015
No. of participants	35	40	42
Max No. of shares to be paid:			
to President and CEO	150,000	219,000	219,000
to other members of GET	310,000	460,000	490,000
to other key individuals	353,000	645,000	650,000
Total max No. of shares	813,000	1,324,000	1,359,000

and CEO and the members of the Group Executive Team. The reward shares, which were delivered in April 2011, are subject to two years' restriction period and, as a general rule, the holders of reward shares are obligated to return the reward shares, if the employment in the company is terminated during the restriction period.

The stock option programme 2007 includes three option series: 2007A, 2007B and 2007C. These option series entitle holders to subscribe for a total maximum number of 15 million company shares. Each of the series has a two-year subscription period, ending on 31 October 2013 (2007B) and 31 October 2014 (2007C). The subscription period for 2007A stock options has ended on 31 October 2012.

Ownership recommendation to the executive management

The Board encourages the Group Executive Team to a direct share ownership in the company. It is recommended that the President and CEO maintains a share ownership of UPM shares corresponding to a two-year gross base salary and the other persons belonging to the Group Executive Team a share ownership corresponding to a one-year gross base salary. The recommendation is to be fulfilled through refraining from transferring shares received under the share-based incentives.

Pension agreements

The members of the Group Executive Team are covered by the statutory pension plan in the country of residence, Finland or Germany, supplemented with a voluntary pension plan. For the Finnish members of the Group Executive Team, the voluntary pension plan is a defined contribution plan with a contribution rate of 15% of the annual base salary. The retirement age is 63 years. Executives belonging to the Group Executive Team as of 1 January 2010 have fully vested rights corresponding to 100% of the accumulated account. Executives who become members of the Group Executive Team after 1 January 2010 will be entitled to fully vested rights 5 years after becoming member of the Group Executive Team. The German member of the Group Executive Team is covered by a local book reserve pension arrangement, as is common in Germany, allowing for retirement at the age of 63 years.