UPM Financial Review 2007

- Earnings per share for 2007 were € 0.16 (€ 0.65 for 2006), excluding special items € 1.00 (€ 0.80)
- Operating profit for the year was € 483 million (€ 536 million), excluding special items € 835 million (€ 725 million)
- Operating profit for the fourth quarter was € 142 million (€ 247 million), excluding special items € 194 million (€ 252 million)
- Full year results were impacted by significantly higher than forecast cost of wood and fiber
- As a result of Profitability Programme 2006, UPM has reduced over 1.1 million tonnes of paper capacity and headcount by 3,200 persons

Key figures

	Q4/2007	Q4/2006	Q1–Q4/2007	Q1–Q4/2006	Q1–Q4/2005
Sales, €m	2,512	2,583	10,035	10,022	9,348
EBITDA, €m [1]	351	467	1,546	1,678	1,428
% of sales	14.0	18.1	15.4	16.7	15.3
Operating profit, €m	142	247	483	536	318
excluding special items, €m	194	252	835	725	558
Profit before tax, €m	92	203	292	367	257
excluding special items, €m	144	202	644	550	399
Net profit for the period, €m	29	195	81	338	261
Earnings per share, €	0.06	0.37	0.16	0.65	0.50
excluding special items, €	0.24	0.30	1.00	0.80	0.54
Diluted earnings per share, €	0.06	0.38	0.16	0.65	0.50
Return on equity, %	1.7	10.8	1.2	4.6	3.5
excluding special items, %	7.1	8.7	7.4	5.7	3.8
Return on capital employed, %	5.1	8.8	4.3	4.7	3.4
excluding special items, %	6.9	8.7	7.4	6.2	4.5
Gearing ratio at end of period, %	59	56	59	56	66
Equity to assets ratio at end of period, %	48.8	50.4	48.8	50.4	47.3
Shareholders' equity per share at end of period, €	13.21	13.90	13.21	13.90	14.01
Net interest-bearing liabilities at end of period, €m	3,973	4,048	3,973	4,048	4,836
Capital employed at end of period, €m	11,098	11,634	11,098	11,634	12,650
Capital expenditure, €m	173	197	708	699	749
Personnel at end of period	26,352	28,704	26,352	28,704	31,522

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

The market in 2007

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

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

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

America, average US dollar prices for magazine papers were down about 6%. In Asia, fine paper prices increased from last year.

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

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

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

Changes in reporting classifications

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

Earnings

Q4 of 2007 compared with Q4 of 2006

Sales for the fourth quarter of 2007 were € 2,512 million, 3% less than € 2,583 million in the fourth quarter of 2006.

Operating profit was € 142 million (€ 247 million), 5.7% of sales (9.6%). Operating profit excluding special items was € 194 million, 7.7% of sales (€ 252 million, 9.8% of sales). Operating profit for the fourth quarter includes charges net of € 52 million (€ 5 million) as special items. The main special items were charges of € 100 million related to the closure of the Miramichi paper mill, including a € 19 million asset impairment and € 81 million other costs, and a non-taxable capital gain of € 58 million from the sale of the port operators Rauma Stevedoring Ltd and Botnia Shipping Ltd. Other special items, net of € 10 million, include charges of € 12 million from settlements of certain class-action lawsuits raised against magazine paper and labelstock manufacturers in the United States.

Profitability declined clearly from last year. The strong increase in the cost of wood and recycled fibre and the adverse impact of the strengthened euro against other main trading currencies more than offset the achieved cost savings. Also, the average price for the Group's paper deliveries was lower than last year. In Label Materials, the cost of expansion together with the lower average price reduced profitability. In Wood Products, profitability improved slightly from last year.

The change in the fair value of biological assets, net of wood harvested, was € 47 million (negative € 5 million). The share of results of associated companies and joint ventures was € 2 million (€ 9 million).

Profit before tax was € 92 million (€ 203 million) and excluding special items € 144 million (€ 202 million). In 2006, a gain of € 6 million from sale of shares was reported after operating profit as a special item. Interest and other finance costs net were € 46 million (€ 46 million). Exchange rate and fair value gains and losses resulted in a loss of € 4 million (a gain of € 4 million).

Income taxes were € 63 million (€ 8 million). Fourth quarter income taxes include as special items charges of € 39 million from the decrease of deferred tax assets in Canada, primarily due to the decrease in the tax rate.

Profit for the fourth quarter was € 29 million (€ 195 million) and earnings per share were € 0.06 (€ 0.37). Earnings per share excluding special items were € 0.24 (€ 0.30).

Return on equity was 1.7% (10.8%) and return on capital employed 5.1% (8.8%). Excluding special items, the respective figures were 7.1% (8.7%) and 6.9% (8.7%).

2007 compared with 2006

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

Operating profit was € 483 million (€ 536 million), 4.8% of sales (5.3%). Operating profit excluding special items was € 835 million, 8.3% of sales (€ 725 million, 7.2% of sales). Operating profit for 2007 includes as special items capital gains of € 133 million and charges net of € 485 million, totaling net charges of € 352 million (net charges of € 189 million).

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

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

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

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

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

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

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

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

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

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

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

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

Profit for the year was € 81 million (€ 338 million) and earnings per share were € 0.16 (€ 0.65). Earnings per share excluding special items were € 1.00 (€ 0.80). Operating cash flow per share was € 1.66 (€ 2.32).

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

Deliveries

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

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

Financing

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

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

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

Personnel

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

Capital expenditure

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

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

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

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

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

The biofuel-fired power plant investment for the Chapelle Darblay mill in France was completed in February 2007. The plant combusts energy wood and all the sludge produced in the mill's recovered paper recycling process, reducing the mill's CO_2 emissions by 95%. The amount of the investment was € 85 million. At Jämsänkoski mill, a € 45 million investment to convert coated magazine paper machine 4 to produce label papers was completed in May. A new bleaching line at the Tervasaari mill started up in September. The investment amount was € 34 million.

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

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

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

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

Changes in the Group's structure

In June 2007, UPM sold Walki Wisa to funds managed by CapMan. The sale resulted in a capital gain of € 29 million. In 2006, Walki Wisa had sales of € 287 million and it employed 950 people. In April, UPM sold the real estate company UPM-Asunnot Oy to Waterhouse Real Estate Investment Oy. The sale resulted in a capital gain of € 42 million. UPM-Asunnot owned around 2,000 rental apartments in Finland. In October, UPM sold its Finnish port operators Rauma Stevedoring Ltd and Botnia Shipping Ltd to Babcock & Brown Infrastructure. The sale resulted in a capital gain of € 58 million. The port operators' combined sales were € 62 million and they employed 660 employees.

Profitability improvement

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

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

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

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

Shares

In 2007, UPM shares worth, in total € 16,472 million were traded on the Helsinki stock exchange (€ 12,812 million). The highest quotation was € 20.59 in February and the lowest € 13.01 in November.

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

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

On 20 August 2007, the UPM Board of Directors decided to buy back up to 16,400,000 own shares representing 3.1% of the total number of shares. The share buy-backs were initiated on 29 August and completed on 9 November. Shares worth € 266.2 million were bought at an average price of € 16.23. On 19 December, the Board of Directors decided to invalidate the acquired 16,400,000 shares. The invalidating of the shares was registered in the Trade Register on 21 December.

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

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

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

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

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

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

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

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

Company directors

The Annual General Meeting of 27 March 2007 confirmed that the number of members on the Board of Directors is 11.

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

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

Litigation

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

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

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

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

Events after the balance sheet date

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

Risk factors

The announced increases in the export duty on Russian wood will gradually make wood imports uneconomical and there is a risk that these imports cannot be replaced in a financially sound manner. This could result in reduction of production at the Finnish mills already during 2008.

Until the final decisions on the proposed EU Energy Package have been made there will be uncertainties on how the proposed policies and measures will impact the availability and cost of wood fibre for wood processing industries.

Outlook for 2008

Global demand for printing papers is forecast to grow somewhat from the last year. In Europe, good demand is expected to continue especially in Eastern Europe. In North America, weakening demand trend is expected to continue. The highest growth in demand will be in China.

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

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

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

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

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

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

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

Dividend for 2007

The distributable funds of the company are € 3.2 billion. The Board of Directors will propose to the Annual General Meeting to be held on 26 March 2008 that a dividend of € 0.75 per share be paid in respect of the 2007 financial year (€ 0.75 for 2006). It is proposed that the dividend be paid on 10 April 2008.

Financial information in 2008

The Annual Report for 2007 will be published on the company's website, (main page address: www. upm-kymmene.com) on 29 February 2008. The printed Annual Report will be available in the week beginning 17 March 2008.

Publication schedule of interim reports:

Interim Report January–March 2008: 24 April 2008
Interim Report January–June 2008: 24 July 2008
Interim Report January–September 2008: 28 October 2008

Divisional reviews

Magazine Papers

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales, €m	811	847	798	793	905	861	817	771	3,249	3,354	3,094
EBITDA, €m 1)	98	116	114	113	157	155	145	113	441	570	507
% of sales	12.1	13.7	14.3	14.2	17.3	18.0	17.7	14.7	13.6	17.0	16.4
Depreciation, amortisation and impairment charges, €m	–83	–82	–443	–86	–88	–209	–210	–97	–694	–604	–566
Operating profit, €m	–62	34	–339	27	75	–62	–85	16	–340	–56	–76
% of sales	–7.6	4.0	–42.5	3.4	8.3	–7.2	–10.4	2.1	–10.5	–1.7	–2.5
Special items, €m 2)	–77	–	–371	–	6	–126	–133	–	–448	–253	–173
Operating profit excl. special items, €m	15	34	32	27	69	64	48	16	108	197	97
% of sales	1.8	4.0	4.0	3.4	7.6	7.4	5.9	2.1	3.3	5.9	3.1
Deliveries, 1,000 t	1,238	1,266	1,189	1,155	1,288	1,227	1,148	1,098	4,848	4,761	4,486
Capital employed (average), €m									3,403	4,010	4,397
ROCE (excl. special items), %									3.2	4.9	2.2

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

2) Special items in the second quarter of 2007 include a goodwill impairment charge of € 350 million, an impairment charge of € 22 million and personnel costs of € 10 million related to the Miramichi paper mill, and an income of € 11 million related to impairment reversals. In the fourth quarter, special items include personnel charges of € 44 million and other costs of € 36 million related to the Miramichi paper mill, and an income of € 3 million related to other restructuring measures. Special items in the second quarter of 2006 include personnel charges of € 20 million related to the profitability programme, and impairment charges of € 113 million related to the closure of the Voikkaa paper mill. In the third quarter, special items include personnel charges of € 8 million and impairment charges of € 3 million of Voikkaa, and impairment charges of € 115 million of Miramichi. In the fourth quarter, special items relate primarily to the capital gain on the sale of the Rauma power plant.

Q4 of 2007 compared with Q4 of 2006

The operating profit, excluding special items, for Magazine Papers was € 15 million, € 54 million lower than a year ago (€ 69 million). Sales were € 811 million (€ 905 million). Paper deliveries decreased by 4% to 1,238,000 (1,288,000) tonnes.

Profitability weakened compared with the same period last year. The main reasons for the decline were lower paper prices and markedly increased fibre costs. The euro strengthened against USD and GBP, further reducing profitability of exports. The average price for all magazine paper deliveries when translated into euros was over 6% lower than a year ago.

2007 compared with 2006

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

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

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

Market review

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

Newsprint

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales, €m	378	365	379	348	380	360	351	345	1,470	1,436	1,308
EBITDA, €m 1)	79	91	100	92	89	98	86	72	362	345	275
% of sales	20.9	24.9	26.4	26.4	23.4	27.2	24.5	20.9	24.6	24.0	21.0
Depreciation, amortisation and impairment charges, €m	–48	–47	–47	–48	–48	–48	–47	–47	–190	–190	–198
Operating profit, €m	36	44	53	44	39	50	34	25	177	148	77
% of sales	9.5	12.1	14.0	12.6	10.3	13.9	9.7	7.2	12.0	10.3	5.9
Special items, €m 2)	5	–	–	–	–2	–	–5	–	5	–7	–5
Operating profit excl. special items, €m	31	44	53	44	41	50	39	25	172	155	82
% of sales	8.2	12.1	14.0	12.6	10.8	13.9	11.1	7.2	11.7	10.8	6.3
Deliveries, 1,000 t	702	667	683	630	697	666	660	654	2,682	2,677	2,592
Capital employed (average), €m									1,872	1,921	1,900
ROCE (excl. special items), %									9.2	8.1	4.3

1) EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
2) Special items in the fourth quarter of 2007 include an income of € 5 million related mainly to other restructuring measures. Special items booked for 2006 relate mainly to the profitability programme.

Q4 of 2007 compared with Q4 of 2006

For Newsprint, operating profit, excluding special items, decreased to € 31 million (€ 41 million). Sales were € 378 million (€ 380 million). Paper deliveries amounted to 702,000 tonnes (697,000 tonnes).

Profitability decreased from the previous year. This was due to higher deliveries to overseas markets and a stronger euro against USD and GBP. The average price for all newsprint deliveries, when translated into euros, was slightly down on the corresponding quarter in 2006. Costs remained about the same as the cost increase of wood and recycled paper was offset mainly by lower energy costs.

2007 compared with 2006

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

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

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

Market review

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

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

Fine and Speciality Papers

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales, €m	718	694	686	699	667	626	627	640	2,797	2,560	2,234
EBITDA, €m [1]	66	82	92	85	104	106	76	82	325	368	309
% of sales	9.2	11.8	13.4	12.2	15.6	16.9	12.1	12.8	11.6	14.4	13.8
Depreciation, amortisation and impairment charges, €m	–54	–53	–53	–53	–56	–55	–71	–55	–213	–237	–224
Operating profit, €m	12	29	39	32	44	50	–13	27	112	108	85
% of sales	1.7	4.2	5.7	4.6	6.6	8.0	–2.1	4.2	4.0	4.2	3.8
Special items, €m [2]	–	–	–	–	–3	–2	–36	–	–	–41	–8
Operating profit excl. special items, €m	12	29	39	32	47	52	23	27	112	149	93
% of sales	1.7	4.2	5.7	4.6	7.0	8.3	3.7	4.2	4.0	5.8	4.2
Deliveries, 1,000 t	977	954	960	968	907	878	884	881	3,859	3,550	3,060
Capital employed (average), €m									2,821	2,760	2,843
ROCE (excl. special items), %									4.0	5.4	3.3

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
[2] In 2006, special items include personnel and impairment charges related to the profitability programme.

Q4 of 2007 compared with Q4 of 2006

The operating profit, excluding special items, for Fine and Speciality Papers came to € 12 million, which is € 35 million less than last year (€ 47 million). Sales increased from € 667 million to € 718 million. Paper deliveries increased by 8% to 977,000 (907,000) tonnes.

The profitability of the division weakened mainly as a result of higher wood and pulp costs. The average price for all fine and speciality paper deliveries when translated into euros was about 1% higher than a year ago. The increase in deliveries resulted from the improved operational efficiency.

2007 compared with 2006

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

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

To curtail production, UPM decided in December 2007 to close temporarily two label paper machines for 3 months in Finland, one in Tervasaari (PM5) and the other in Jämsänkoski (PM4).

Market review

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

Label Materials

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales, €m	249	252	260	261	251	240	245	251	1,022	987	859
EBITDA, €m [1]	15	18	21	26	25	20	24	24	80	93	71
% of sales	6.0	7.1	8.1	10.0	10.0	8.3	9.8	9.6	7.8	9.4	8.3
Depreciation, amortisation and impairment charges, €m	–9	–8	–8	–8	–8	–9	–8	–7	–33	–32	–30
Operating profit, €m	10	10	13	18	17	11	16	17	51	61	41
% of sales	4.0	4.0	5.0	6.9	6.8	4.6	6.5	6.8	5.0	6.2	4.8
Special items, €m	4	–	–	–	–	–	–	–	4	–	–
Operating profit excl. special items, €m	6	10	13	18	17	11	16	17	47	61	41
% of sales	2.4	4.0	5.0	6.9	6.8	4.6	6.5	6.8	4.6	6.2	4.8
Capital employed (average), €m									439	388	368
ROCE (excl. special items), %									10.8	15.7	11.1

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
[2] Special items in the fourth quarter of 2007 include an income of € 4 million related to other restructuring measures.

Q4 of 2007 compared with Q4 of 2006

The operating profit, excluding special items, for Label Materials was € 6 million (€ 17 million). Sales were € 249 million (€ 251 million).

The division's profitability was clearly lower than last year due to slightly lower average prices, the stronger euro against USD and expansion costs. Delivery volumes of self-adhesive label materials grew in the European and North American markets. In Asia, volumes increased due to the start-up of the new factory in China at the end of 2006 and the opening of new distribution terminals in the region. For RFID, the sales growth continued to be strong.

2007 compared with 2006

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

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

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

Market review

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

Wood Products

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales, €m	297	262	326	314	287	310	378	346	1,199	1,321	1,290
EBITDA, €m [1]	26	8	51	42	24	22	33	25	127	104	86
% of sales	8.8	3.1	15.6	13.4	8.4	7.1	8.7	7.2	10.6	7.9	6.7
Depreciation, amortisation and impairment charges, €m	–11	–10	–11	–10	–10	–11	–11	–11	–42	–43	–75
Operating profit, €m	21	–2	41	32	14	104	22	4	92	144	6
% of sales	7.1	–0.8	12.6	10.2	4.9	33.5	5.8	1.2	7.7	10.9	0.5
Special items, €m [2]	6	–	–	–	–	93	–	–10	6	83	–32
Operating profit excl. special items, €m	15	–2	41	32	14	11	22	14	86	61	38
% of sales	5.1	–0.8	12.6	10.2	4.9	3.5	5.8	4.0	7.2	4.6	2.9
Deliveries, plywood 1,000 m^3	239	204	247	255	243	205	232	251	945	931	827
Deliveries, sawn timber 1,000 m^3	520	480	637	587	598	517	622	580	2,224	2,317	1,883
Capital employed (average), €m									577	616	660
ROCE (excl. special items), %									15.0	9.9	5.8

[1] EBITDA is operating profit before depreciation, amortisation and impairment charges and excluding special items.
[2] Special items in the fourth quarter of 2007 include a gain of € 6 million on sale of estate assets. Special items in the first quarter of 2006 include a loss of € 10 million from the sale of the Loulay plywood mill, and in the third quarter, a capital gain of € 93 million on the sale of Puukeskus.

Q4 of 2007 compared with Q4 of 2006

The operating profit, excluding special items, for Wood Products was € 15 million (€ 14 million). Sales increased to € 297 million (€ 287 million). Plywood deliveries were 239,000 (243,000) cubic metres in volume and sawn timber deliveries 520,000 (598,000) cubic metres.

The profitability of Wood Products improved. Higher prices more than offset the strong increase in the cost of wood. The profitability of plywood was better than the previous year. Availability of birch logs was tight, causing less optimal use of production capacity. Sawmilling profitability weakened clearly from last year. The market balance for sawn timber weakened, causing a decline in timber prices.

2007 compared with 2006

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

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

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

Market review

During 2007, birch plywood demand continued to be strong and prices increased. Demand for spruce plywood and veneers remained solid and prices increased slightly. In the first half of the year, redwood and whitewood sawn timber demand was strong and prices increased. After summer, the markets slowed down first for whitewood – partly due to the new capacity – and then during the last quarter also for redwood. Sawn timber inventories increased in the main markets. In the beginning of the year, the supply of logs was tight but the situation normalised for all wood species except birch. The prices of logs were considerably higher than a year ago.

Other Operations

€m	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales 1)	188	173	214	234	224	206	189	204	809	823	970
EBITDA 2)	67	51	32	60	69	27	33	70	210	199	178
Depreciation, amortisation and impairment charges	–31	–6	–5	–10	–8	–9	–9	–6	–52	–32	–37
Operating profit											
Forestry 3)	61	43	34	28	23	20	–82	20	166	–19	64
Energy Department, Finland	42	23	19	28	36	–	18	40	112	94	135
Other and eliminations	20	–	59	–9	–10	–18	28	–5	70	–5	–55
Operating profit, total	123	66	112	47	49	2	–36	55	348	70	144
Special items 4)	10	–	71	–	–6	–1	41	–5	81	29	–31
Operating profit, excluding special items	113	66	41	47	55	3	–77	60	267	41	175
Capital employed at the end of period (including associated companies)									3,220	3,395	3,484

1) Includes sales outside the Group.
2) EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in value of biological assets and special items.
3) The fourth quarter of 2007 includes an increase of € 47 million in the fair value of biological assets and wood harvested. The second quarter of 2006 includes a change of € 102 million of the decrease in the fair value of biological assets and wood harvested.
4) Special items in the second quarter of 2007 include capital gains of € 42 million related to the sale of UPM-Asunnot and € 29 million related to the sale of Walki Wisa. In the fourth quarter, special items include a capital gain of € 58 million on the sale of port operators Rauma Stevedoring and Botnia Shipping, compensation charge of € 12 million related to class-action lawsuits in US, impairment charges of € 31 million related mainly to Miramichi's forestry and sawmilling operations, and other restructuring costs of € 5 million. Special items in 2006 include in the first quarter the donation of € 5 million to UPM-Kymmene Cultural Foundation, and in the second quarter the capital gain of € 41 million for the sale of the Group head office real estate.

Q4 of 2007 compared with Q4 of 2006

Excluding special items, the operating profit for Other Operations was € 113 million (€ 55 million). Sales amounted to € 188 million (€ 224 million).

The operating profit of forestry was € 61 million (€ 23 million). The price of wood increased significantly. The cost of wood raw material harvested from the Group's forests was € 27 million (€ 27 million) and the increase in the fair value of biological assets (growing trees) was € 74 million (€ 22 million).

The operating profit of the Energy Department in Finland was € 42 million (€ 36 million). Availability of hydropower was very good and on a higher level than the previous year. The price of electricity in Nord Pool was lower than last year.

2007 compared with 2006

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

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

The price of wood increased markedly. The availability of wood was weak at the beginning of the year due to unusually warm and rainy weather in Finland and Russia, which made it more difficult to reach the felling sites. The authorities in Russia increased the export duties for round wood in July to € 10 per m^3 from € 4. Fellings from own forests remained on a high level.

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

The sale of the real estate company UPM-Asunnot was concluded in April.

The sale of WalkiWisa was concluded in June.

In October, UPM sold port operators Rauma Stevedoring Ltd and Botnia Shipping Ltd to Babcock & Brown Infrastructure (BBI) for approximately € 90 million.

Associated companies and joint ventures

€m	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Share of result after tax											
Oy Metsä-Botnia Ab	6	19	12	21	18	24	13	14	58	69	36
Pohjolan Voima Oy	–4	–5	–5	–	–9	–7	–5	7	–14	–14	–
Other	–	–	–1	–	–	1	–	5	–1	6	5
Total	2	14	6	21	9	18	8	26	43	61	41

Deliveries

	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Deliveries											
Magazine papers, 1,000 t	1,238	1,266	1,189	1,155	1,288	1,227	1,148	1,098	4,848	4,761	4,486
Newsprint, 1,000 t	702	667	683	630	697	666	660	654	2,682	2,677	2,592
Fine and speciality papers, 1,000 t	977	954	960	968	907	878	884	881	3,859	3,550	3,060
Converting papers, 1,000 t											34
Paper deliveries total	2,917	2,887	2,832	2,753	2,892	2,771	2,692	2,633	11,389	10,988	10,172
Wood products deliveries											
Plywood, 1,000 m^3	239	204	247	255	243	205	232	251	945	931	827
Sawn timber, 1,000 m^3	537	505	666	617	621	557	663	616	2,325	2,457	2,016

Helsinki, 5 February 2008

UPM-Kymmene Corporation

Board of Directors

Financial information

Consolidated income statement

€m	Q4/2007	Q4/2006	Q1–Q4/2007	Q1–Q4/2006	Q1–Q4/2005
Sales	2,512	2,583	10,035	10,022	9,348
Other operating income	87	20	200	231	117
Costs and expenses	−2,270	−2,141	−8,650	−8,514	−8,092
Change in fair value of biological assets and wood harvested	47	−5	79	−126	34
Share of results of associated companies and joint ventures	2	9	43	61	41
Depreciation, amortisation and impairment charges	−236	−219	−1,224	−1,138	−1,130
Operating profit	142	247	483	536	318
Gains on available-for-sale investments, net	–	−2	2	−2	90
Exchange rate and fair value gains and losses	−4	4	−2	18	−4
Interest and other finance costs, net	−46	−46	−191	−185	−147
Profit before tax	92	203	292	367	257
Income taxes	−63	−8	−211	−29	4
Profit for the period	29	195	81	338	261
Attributable to:					
Equity holders of the parent company	32	196	85	340	263
Minority interest	−3	−1	−4	−2	−2
	29	195	81	338	261
Earnings per share for profit attributable to the equity holders of the parent company					
Basic earnings per share, €	0.06	0.37	0.16	0.65	0.50
Diluted earnings per share, €	0.06	0.38	0.16	0.65	0.50

Consolidated balance sheet

€m	31.12.2007	31.12.2006
ASSETS		
Non-current assets		
Goodwill	1,163	1,514
Other intangible assets	392	461
Property, plant and equipment	6,179	6,500
Investment property	14	30
Biological assets	1,095	1,037
Investments in associated companies and joint ventures	1,193	1,177
Available-for-sale investments	116	127
Non-current financial assets	82	74
Deferred tax assets	284	362
Other non-current assets	121	73
	10,639	11,355
Current assets		
Inventories	1,342	1,255
Trade and other receivables	1,717	1,657
Income tax receivables	18	3
Cash and cash equivalents	237	199
	3,314	3,114
Total assets	13,953	14,469
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	890	890
Share premium reserve	–	826
Translation differences	–158	–89
Fair value and other reserves	193	278
Reserve for invested non-restricted equity	1,067	–
Retained earnings	4,778	5,366
	6,770	7,271
Minority interest	13	18
Total equity	6,783	7,289
Non-current liabilities		
Deferred tax liabilities	745	790
Retirement benefit obligations	441	427
Provisions	171	187
Interest-bearing liabilities	3,384	3,353
Other liabilities	12	13
	4,753	4,770
Current liabilities		
Current interest-bearing liabilities	931	992
Trade and other payables	1,443	1,399
Income tax payables	43	19
	2,417	2,410
Total liabilities	7,170	7,180
Total equity and liabilities	13,953	14,469

Consolidated statement of changes in equity

	Attributable to equity holders of the parent									
€m	**Share capital**	**Share premium reserve**	**Treasury shares**	**Translation differences**	**Fair value and other reserves**	**Reserve for invested non-restricted equity**	**Retained earnings[1]**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2006	890	826	–3	–34	233		5,415	7,327	21	7,348
Translation differences	–	–	–	–63	–	–	–	–63	–	–63
Other items	–	–	–	–	–2	–	2	–	–	–
Net investment hedge, net of tax	–	–	–	8	–	–	–	8	–	8
Cash flow hedges										
fair value gains/losses, net of tax	–	–	–	–	45	–	–	45	–	45
transfers from equity, net of tax	–	–	–	–	–5	–	–	–5	–	–5
Available-for-sale investments										
fair value gains/losses, net of tax	–	–	–	–	–	–	–	–	–	–
transfers to income statement, net of tax	–	–	–	–	–	–	–	–	–	–
Profit of the period	–	–	–	–	–	–	340	340	–2	338
Total recognised income and expence for the period	–	–	–	–55	38	–	342	325	–2	323
Reissuance of treasury shares	–	–	3	–	–	–	1	4	–	4
Share-based compensation	–	–	–	–	7	–	–	7	–	7
Dividend paid	–	–	–	–	–	–	–392	–392	–	–392
Business combinations	–	–	–	–	–	–	–	–	–1	–1
Total of other changes in equity	–	–	3	–	7	–	–391	–381	–1	–382
Balance at 31 December 2006	890	826	–	–89	278	–	5,366	7,271	18	7,289
Translation differences	–	–	–	–69	–	–	–	–69	–	–69
Net investment hedge, net of tax	–	–	–	–	–	–	–	–	–	–
Cash flow hedges										
fair value gains/losses, net of tax	–	–	–	–	68	–	–	68	–	68
transfers from equity, net of tax	–	–	–	–	–41	–	–	–41	–	–41
Available-for-sale investments										
fair value gains/losses, net of tax	–	–	–	–	–	–	–	–	–	–
transfers to income statement, net of tax	–	–	–	–	–1	–	–	–1	–	–1
Profit of the period	–	–	–	–	–	–	85	85	–4	81
Total recognised income and expence 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

Cash flow statement

€m	1.1. - 31.12. 2007	2006	2005
Cash flow from operating activities			
Profit for the period	81	338	261
Adjustments to profit for the period [1]	1,390	1,195	1,125
Interest received	4	9	15
Interest paid	−191	−187	−156
Dividends received	23	16	21
Other financial items, net	−72	−18	−86
Income taxes paid	−164	−159	−93
Change in working capital [2]	−204	21	−234
Net cash provided by operating activities	867	1,215	853
Cash flow from investing activities			
Acquisition of subsidiary shares, net of cash	–	–	−6
Acquisition of shares in associated companies	−25	−68	−5
Acquisition of available-for-sale investments	–	–	−22
Capital expenditure	−673	−635	−690
Proceeds from disposal of subsidiary shares, net of cash	205	203	200
Proceeds from disposal of shares in associated companies	2	52	16
Proceeds from disposal of available-for-sale investments	3	3	284
Proceeds from sale of fixed assets	71	108	47
Proceeds from long-term receivables	1	23	25
Increase in long-term receivables	−9	–	−7
Net cash used in investing activities	−425	−314	−158
Cash flow from financing activities			
Proceeds from long-term liabilities	965	415	178
Payments of long-term liabilities	−879	−574	−641
Proceeds from (payment of) short-term borrowings, net	66	−398	262
Share options exercised	104	–	78
Dividends paid	−392	−392	−388
Purchase of own shares	−266	–	−151
Other financing cash flow	–	−2	74
Net cash used in financing activities	−402	−951	−588
Change in cash and cash equivalents	40	−50	107
Cash and cash equivalents at the beginning of year	199	251	142
Foreign exchange effect on cash	−2	−2	2
Change in cash and cash equivalents	40	−50	107
Cash and cash equivalents at year-end	237	199	251
Notes to the consolidated cash flow statement			
[1] Adjustments to net profit			
Taxes	211	29	−4
Depreciation, amortisation and impairment charges	1,224	1,138	1,130
Share of results in associated companies and joint ventures	−43	−61	−41
Profits and losses on sale of fixed assets and investments	−157	−157	−48
Gains on available-for-sale investments, net	−2	2	−90
Finance costs, net	193	167	151
Rosenlew cartel fine	–	−57	–
Other adjustments	−36	134	27
	1,390	1,195	1,125
[2] Change in working capital			
Inventories	−152	−60	−124
Current receivables	−129	−69	−130
Current non-interest bearing liabilities	77	150	20
	−204	21	−234

Quarterly information

€m	Q4/07	Q3/07	Q2/07	Q1/07	Q4/06	Q3/06	Q2/06	Q1/06	Q1–Q4/07	Q1–Q4/06	Q1–Q4/05
Sales by segment [1]											
Magazine Papers	811	847	798	793	905	861	817	771	3,249	3,354	3,094
Newsprint	378	365	379	348	380	360	351	345	1,470	1,436	1,308
Fine and Speciality Papers	718	694	686	699	667	626	627	640	2,797	2,560	2,234
Label Materials	249	252	260	261	251	240	245	251	1,022	987	859
Wood Products	297	262	326	314	287	310	378	346	1,199	1,321	1,290
Other Operations	188	173	214	234	224	206	189	204	809	823	970
Internal sales	–129	–126	–126	–130	–131	–108	–123	–97	–511	–459	–407
Sales, total	2,512	2,467	2,537	2,519	2,583	2,495	2,484	2,460	10,035	10,022	9,348
Operating profit by segment [1]											
Magazine Papers	–62	34	–339	27	75	–62	–85	16	–340	–56	–76
Newsprint	36	44	53	44	39	50	34	25	177	148	77
Fine and Speciality Papers	12	29	39	32	44	50	–13	27	112	108	85
Label Materials	10	10	13	18	17	11	16	17	51	61	41
Wood Products	21	–2	41	32	14	104	22	4	92	144	6
Other Operations	123	66	112	47	49	2	–36	55	348	70	144
Share of results of associated companies and joint ventures	2	14	6	21	9	18	8	26	43	61	41
Operating profit (loss), total	142	195	–75	221	247	173	–54	170	483	536	318
% of sales	5.7	7.9	–3.0	8.8	9.6	6.9	–2.2	6.9	4.8	5.3	3.4
Gains on available-for-sale investments, net	–	–	–	2	–2	–	–	–	2	–2	90
Exchange rate and fair value gains and losses	–4	–9	8	3	4	–3	5	12	–2	18	–4
Interest and other finance costs, net	–46	–42	–54	–49	–46	–41	–52	–46	–191	–185	–147
Profit (loss) before tax	92	144	–121	177	203	129	–101	136	292	367	257
Income taxes	–63	–25	–77	–46	–8	18	–2	–37	–211	–29	4
Profit (loss) for the period	29	119	–198	131	195	147	–103	99	81	338	261
Basic earnings per share, €	0.06	0.23	–0.38	0.25	0.37	0.29	–0.20	0.19	0.16	0.65	0.50
Diluted earnings per share, €	0.06	0.23	–0.38	0.25	0.38	0.28	–0.20	0.19	0.16	0.65	0.50
Average number of shares basic (1,000)	514,085	527,012	527,111	523,261	523,258	523,256	523,256	523,108	522,867	523,220	522,029
Average number of shares diluted (1,000)	515,322	529,530	530,980	527,086	526,416	525,938	525,874	525,936	525,729	526,041	523,652
Special items in operating profit											
Special items in operating profit are specified in the divisional reviews on pages 7–12.											
Magazine Papers	–77	–	–371	–	6	–126	–133	–	–448	–253	–173
Newsprint	5	–	–	–	–2	–	–5	–	5	–7	–5
Fine and Speciality papers	–	–	–	–	–3	–2	–36	–	–	–41	–8
Label Materials	4	–	–	–	–	–	–	–	4	–	–
Wood Products	6	–	–	–	–	93	–	–10	6	83	–32
Other Operations	10	–	71	–	–6	–1	41	–5	81	29	–31
Share of results of associated companies and joint ventures	–	–	–	–	–	–	–	–	–	–	9
Special items in operating profit, total	–52	–	–300	–	–5	–36	–133	–15	–352	–189	–240
Special items reported after operating profit	–	–	–	–	6	–	–	–	–	6	98
Special items reported in taxes	–39	–	–32	–	35	20	–29	–	–71	26	42
Special items, total	–91	–	–332	–	36	–16	–162	–15	–423	–157	–100
Operating profit, excl. special items	194	195	225	221	252	209	79	185	835	725	558
% of sales	7.7	7.9	8.9	8.8	9.8	8.4	3.2	7.5	8.3	7.2	6.0
Profit before tax, excl. special items	144	144	179	177	202	165	32	151	644	550	399
% of sales	5.7	5.8	7.1	7.0	7.8	6.6	1.3	6.1	6.4	5.5	4.3
Earnings per share, excl. special items, €	0.24	0.23	0.28	0.25	0.30	0.25	0.04	0.21	1.00	0.80	0.54
Return on equity, excl. special items, %	7.1	6.9	8.5	7.3	8.7	7.2	1.1	6.1	7.4	5.7	3.8
Return on capital employed, excl. special items, %	6.9	6.8	8.3	7.9	8.7	7.1	2.7	6.4	7.4	6.2	4.5

[1] Segment classification has been changed, see page 2.

Changes in property, plant and equipment

€m	Q1–Q4/2007	Q1–Q4/2006
Book value at beginning of period	6,500	7,316
Capital expenditure	644	604
Decreases	–96	–325
Depreciation	–752	–804
Impairment charges	–42	–243
Impairment reversal	12	–
Translation difference and other changes	–87	–48
Book value at end of period	6,179	6,500

Commitments and contingencies

€m	31.12.2007	31.12.2006
Own commitments		
Mortgages	90	92
On behalf of associated companies and joint ventures		
Guarantees for loans	10	12
On behalf of others		
Guarantees for loans	–	1
Other guarantees	3	5
Other own commitments		
Leasing commitments for the next 12 months	21	23
Leasing commitments for subsequent periods	99	94
Other commitments	70	69

Capital commitments

€m	Completion	Total cost	By 31.12.2006	Q1–Q4/2007	After 31.12.2007
Pulp mill rebuild, Kymi	June 2008	325	25	201	99
New Bioboiler, Caledonian	September 2009	84	–	11	73
New Poland mill, UPM Raflatac	November 2008	90	–	23	67
PM5 quality upgrade, Jämsänkoski	May 2008	38	–	14	24
New USA mill, UPM Raflatac, Dixon	March 2008	75	8	51	16

Notional amounts of derivative financial instruments

€m	31.12.2007	31.12.2006
Currency derivatives		
Forward contracts	4,369	4,293
Options, bought	50	20
Options, written	60	10
Swaps	529	570
Interest rate derivatives		
Forward contracts	3,642	2,500
Swaps	2,383	2,566
Other derivatives		
Forward contracts	12	13
Swaps	3	16

Related party (associated companies and joint ventures) transactions and balances

€m	Q1–Q4/2007	Q1–Q4/2006
Sales to associated companies	130	136
Purchases from associated companies	500	448
Non-current receivables at end of period	–	–
Trade and other receivables at end of period	29	20
Trade and other payables at end of period	42	23

Key exchange rates for the euro at end of period

	31.12.2007	30.9.2007	30.6.2007	31.3.2007	31.12.2006	30.9.2006	30.6.2006	31.3.2006
USD	1.4721	1.4179	1.3505	1.3318	1.3170	1.2660	1.2713	1.2104
CAD	1.4449	1.4122	1.4245	1.5366	1.5281	1.4136	1.4132	1.4084
JPY	164.93	163.55	166.63	157.32	156.93	149.34	145.75	142.42
GBP	0.7334	0.6968	0.6740	0.6798	0.6715	0.6777	0.6921	0.6964
SEK	9.4415	9.2147	9.2525	9.3462	9.0404	9.2797	9.2385	9.4315

Basis of preparation

This unaudited financial report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting and in the Group's Consolidated Financial Statements for 2006.

The Group has adopted the following standard:

IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures, effective for annual periods beginning on or after 1 January 2007. IFRS 7 introduces new disclosures to improve the information about financial instruments. The amendment to IAS 1 introduces disclosures about how an entity manages its capital. Adoption of IFRS 7 and the amendment to IAS 1 will expand disclosures presented in the annual financial statements.

Calculation of key indicators

Return on equity, %:

$$\frac{\text{Profit before tax – income taxes}}{\text{Shareholders' equity (average)}} \times 100$$

Return on capital employed, %:

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

Earnings per share:

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

It should be noted that certain statements herein, which are not historical facts, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein including the availability and cost of production inputs, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates. For more detailed information about risk factors, see pages 15-17 of the company's annual report 2006.

UPM

UPM-Kymmene Corporation, Eteläesplanadi 2, P.O.Box 380, FI-00101 Helsinki, tel. +358 204 15 111, fax +358 204 15 110,
info@upm-kymmene.com, ir@upm-kymmene.com

www.upm-kymmene.com