

This is UPM-Kymmene Corporation's Corporate Governance Statement for the financial year 2012. The statement has been reviewed by UPM's Audit Committee and PricewaterhouseCoopers Oy, UPM's auditor, has checked that the statement has been issued and that the description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with the Financial Statements.

# Corporate Governance Statement 2012

UPM complies with the Finnish Corporate Governance Code issued by the Securities Market Association, which entered into force on 1 October 2010 and which is publicly available on the Securities Market Association's website [www.cgfinland.fi](http://www.cgfinland.fi). UPM complies with all recommendations of the code.

UPM-Kymmene Corporation's Corporate Governance Statement for the financial year 2012 has been prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code. UPM presents the statement as a separate report, distinct from the Report of the Board of Directors. The statement is available on the corporate website [www.upm.com](http://www.upm.com) in the Investors section under Governance. The Report of the Board of Directors is presented on pages 66–78 of UPM's Annual Report 2012, which is also available on the corporate website.

## Composition of the Board of Directors

The company's Board of Directors is composed of at least five but no more than twelve Directors elected by the Annual General Meeting. On 31 December 2012, the company's Board of Directors comprised the following nine members, elected by the Annual General Meeting held on 30 March 2012:

Director	Director since	Born	Education	Nationality	Independence	Main occupation
Björn Wahlroos, Chairman	2008, Chairman since the same year	1952	Ph.D. (Econ.)	Finnish	Independent of the company and significant shareholders	Chairman of the Board of Directors of Sampo Plc
Berndt Brunow, Deputy Chairman	2002, Deputy Chairman since 2005	1950	B.Sc. (Econ.)	Finnish	Independent of the company and significant shareholders	Chairman of the Board of Directors of Oy Karl Fazer Ab
Matti Alahuhta	2008	1952	D.Sc. (Eng.)	Finnish	Independent of the company and significant shareholders	President and CEO of KONE Corporation
Karl Grotenfelt	2004	1944	LL.M.	Finnish	Independent of the company and significant shareholders	Chairman of the Board of Directors of Famigro Oy
Wendy E. Lane	2005	1951	MBA (Harvard Graduate School of Business Administration)	US	Independent of the company and significant shareholders	Chairman of the Board of Directors of Lane Holdings, Inc.
Jussi Pesonen	2007	1960	M.Sc. (Eng.)	Finnish	Non-independent of the company, independent of significant shareholders	President and CEO of UPM-Kymmene Corporation
Ursula Ranin	2006	1953	LL.M., B.Sc. (Econ.)	Finnish	Independent of the company and significant shareholders	Counsel
Veli-Matti Reinikkala	2007	1957	eMBA	Finnish	Independent of the company and significant shareholders	President of ABB Process Automation Division
Kim Wahl	2012	1960	MBA, B.A., (Business Economics)	Norwegian	Independent of the company and significant shareholders	Owner and Chairman of the Board of Directors of Stromstangen AS

## Board responsibilities

The Board of Directors' and its committees' duties and responsibilities are defined in Board and Committee Charters, which are available on the corporate website [www.upm.com](http://www.upm.com) in the Investors section under Governance.

Pursuant to its charter, the Board of Directors deal with all matters pertaining to its area of responsibility under Finnish law. Under the Finnish Companies Act, the Board of Directors is responsible for the appropriate arrangement of control of the company's accounts and finances. Further responsibilities of the Board of Directors include:

- Establishing and evaluating the company's strategic direction
- Approving and evaluating business and strategic plans
- Reviewing and approving financial objectives and major corporate plans
- Establishing acceptance limits for capital expenditures, investments, divestitures and financial commitments
- Overseeing strategic and operational risk management and internal control
- Appointing the President and CEO, the members of the Group Executive Board and Group Executive Team, and approving their compensation
- Determining the dividend policy and presenting a proposal for payment of the dividend to the Annual General Meeting

The Board held 11 meetings in 2012. On average, the Directors attended 97.9% of the meetings.

## Composition and responsibilities of the Committees of the Board of Directors

The Board of Directors has established three committees composed of its members: the Audit Committee, the Human Resources Committee and the Nomination and Corporate Governance Committee.

The table below contains information on the committees' composition, number of meetings and attendance in 2012.

### Board of Directors' Committees 2012

Committees	Audit Committee	Human Resources Committee	Nomination and Corporate Governance Committee
Members	Karl Grotenfelt (Ch.) Wendy E. Lane Kim Wahl (as of 30 March) Veli-Matti Reinikkala (until 30 March)	Berndt Brunow (Ch.) Ursula Ranin Veli-Matti Reinikkala (as of 30 March) Robert J. Routs (until 30 March)	Björn Wahlroos (Ch.) Matti Alahuhta Karl Grotenfelt
Number of meetings	4	3	4
Attendance-%	91.8	100	100

## Audit Committee

The Board has defined the duties of the Audit Committee in accordance with Recommendation 27 of the Finnish Corporate Governance Code.

In accordance with the Audit Committee Charter, desirable qualifications for committee members include appropriate understanding of accounting practices and financial reporting, which may have been gained through education or experience performing or overseeing related functions.

Pursuant to the charter, the main responsibilities of the Audit Committee are to oversee the financial reporting processes, monitor the statutory audits of the financial statements, and assist the Board of Directors in overseeing matters pertaining to financial reporting, internal control and risk management.

Further responsibilities include:

- Monitoring the effectiveness of the internal control, internal audit and risk management systems
- Evaluating the qualifications and independence of the statutory auditor
- Preparing the proposal for election of the statutory auditor
- Evaluating the performance of the internal audit

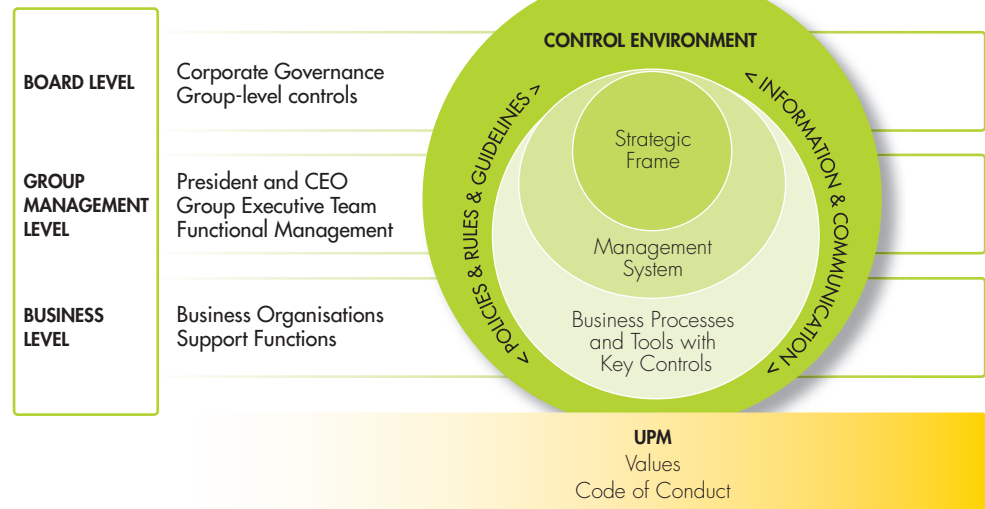
## Human Resources Committee

Pursuant to its charter, the main responsibilities of the Human Resources Committee are to assist the Board of Directors with regard to the appointment, assessment and remuneration of the President and CEO and executives reporting to the President and CEO, to oversee human resources policies, compensation plans and programmes, and to review procedures for appropriate succession planning for senior management.

## Nomination and Corporate Governance Committee

Pursuant to its charter, the main responsibilities of the Nomination and Corporate Governance Committee are to review annually the composition of the Board of Directors, identify individuals qualified

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT PROCESS IN UPM



to serve as directors, prepare a proposal for the election of the members of the Board of Directors and their remuneration for consideration at the Annual General Meeting, develop and recommend a set of corporate governance principles (i.e. Board Charter) to the Board of Directors, and review the general corporate governance of the company. The Committee also reviews annually the independence of members of the Board of Directors and the independence and qualifications of Committee members.

**President and CEO**

UPM’s Board of Directors appoints the President and CEO and decides on the terms and conditions of his/her executive contract. Jussi Pesonen, M.Sc. (Eng.), born in 1960, has served as UPM-Kymmene Corporation’s President and CEO since January 2004. He has also been a member of UPM’s Board of Directors since March 2007.

The President and CEO is responsible for developing the overall strategic and business plans for submission to the Board and for day-to-day management of the company’s affairs in accordance with the instructions and orders given by the Board of Directors.

The President and CEO is responsible for the company’s accounts complying with the law and the company’s financial administration and management being organised in a reliable manner. The President and CEO supplies the Board of Directors with the information required to perform its duties.

The President and CEO may take measures that are considered unusual or extensive in view of the scope and nature of the company’s business only with authorisation from the Board of Directors, unless the time required to obtain such authorisation would cause substantial harm to the company, in which case the President and CEO must seek prior consultation with the Chairman of the Board of Directors.

**Internal control and risk management pertaining to financial reporting**

UPM’s Board of Directors has approved the Risk Management Policy, which sets out the principles, roles and responsibilities for risk management within the Group’s organisation, and defines the risk management process.

UPM’s internal control framework is based on the internal control framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

The process-level internal control structure has been created using a top-down, risk-based approach.

Controls pertaining to financial reporting are part of the Internal Control framework.

The maturity level of internal controls at UPM is assessed annually and the results of the assessment are reported to the Audit Committee.

The five (COSO) components in the internal control framework are:

**Control environment**

The company’s values and Code of Conduct set the foundation and tone for the internal control framework at UPM.

The framework consists of:

- A group-level structure
- Group-level processes
- Group-level controls
- Business and support function controls

The Board’s Audit Committee monitors the internal control of the Group.

### Risk assessment

UPM's risk assessment with regard to financial reporting is aimed at identifying and evaluating the most significant risks that affect internal control over financial reporting in the Group's companies, business areas and processes. The risk assessment results in control targets that ensure that the fundamental demands placed on financial reporting are fulfilled and provide the basis for how risks are to be managed within the various control structures. The risk assessment is updated annually together with the planned control actions and control targets that are based on the assessment. Development of the risk assessment and the planned and executed actions are reported to the Audit Committee on a regular basis.

### Control activities

The company has developed and implemented a comprehensive internal control system that covers business and financial reporting processes. Internal control activities are led centrally by the Finance and Control function with an annual schedule and defined roles and responsibilities in the control process. The head of each unit or function will organise the internal control of his or her unit or organisation. The Finance and Control function is responsible for monitoring business, function and unit-level control processes. The aim of establishing control measures and setting up uniform testing and monitoring processes is to ensure that potential errors or deviations are prevented or detected and corrected accordingly.

An essential part of the internal control environment is the control over UPM's IT applications and IT infrastructure. A special set of internal controls aims to ensure the reliability of UPM's IT systems and the segregation of duties in the IT environment.

With regard to financial reporting, the Group Accounting Manual sets out the instructions and guidelines for preparation of the consolidated financial statements. The Finance and Control function specifies the design of the control points in the business processes, and the internal controls are implemented in the financial reporting process. Periodic control procedures are an essential part of the monthly and interim reporting process and include the reconciliations and analytical reviews required to ensure that the reported data is correct.

The results of the control risk assessment and testing of the process-level controls are analysed, and reported to the Audit Committee.

### Information and communication

Internal controls are documented and filed in the internal control database. The internal control process is reviewed on an ongoing basis, including possible changes to the internal controls. Regular communication from internal control process owners provides detailed definitions of the controls and states the minimum requirements for the relevant internal control.

### Monitoring

The Board of Directors, the Audit Committee, the President and CEO, Group Management, the Finance and Control function, and the business areas and Group companies are responsible for monitoring, thus ensuring the effectiveness of internal controls relating to financial reporting. The effectiveness of the process for assessing risks and of the execution of control activities is reviewed on an ongoing basis at various levels. Monitoring and reviewing includes following up monthly and quarterly financial reports compared with budgets and targets, key performance indicators and other analytical procedures.

The internal audit monitors and utilises the risk assessment and the test results from management's control work. The internal control planning procedures and results are documented and made available for the internal and external auditors, and for management, during the annual process. The results are reported to the Audit Committee, the business management and the control owners.

The internal controls are also assessed in the performance review. The corporate and business-level controller teams are accountable for assessing the effectiveness of the internal controls for which they are responsible. Self-assessment is common practice at UPM. Key controls are also tested regularly by independent parties. The internal audit compares its audit work against control test results. External auditors evaluate and test UPM's internal controls as part of their audit work, and recommendations and observations that they make are taken into consideration when maintaining and developing the internal control.