

This is UPM-Kymmene Corporation's Corporate Governance Statement for the financial year 2013. 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 relating to the financial reporting process is consistent with the Financial Statements. A more comprehensive description of the company's corporate governance is presented on pages 54–64 of UPM's Annual Report 2013.

# Corporate Governance Statement 2013

**UPM complies with all recommendations of 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-Kymmene Corporation's Corporate Governance Statement for the financial year 2013 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 67–77 of UPM's Annual Report 2013, 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 2013, the company's Board of Directors comprised the following ten members, elected by the Annual General Meeting held on 4 April 2013:

Director	Director since	Born	Education	Nationality	Independence *)	Main occupation
Björn Wahlroos, Chairman	2008, Chairman since 2008	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
Piia-Noora Kauppi	2013	1975	LL.M.	Finnish	Independent of the company and significant shareholders	Managing Director of the Federation of Finnish Financial Services
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	Chairman of the Board of Directors of Stromstangen AS

\*) The independence of Directors has been determined based on the independence criteria of the Finnish Corporate Governance Code.

## Board responsibilities

The duties and responsibilities of the Board of Directors and its committees are defined in the Board and Committee Charters. The Board of Directors reviewed the Charters during 2013. This review resulted in the clarification of committee duties and responsibilities and the division of these duties and responsibilities between the committees. The amended Charters 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 handles 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:

- Evaluating and approving the company's strategic direction
- Approving the strategic plans of the company and its business areas and evaluating the implementation of such plans
- Reviewing and approving financial objectives and major corporate plans and transactions
- 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 and members of the 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 nine meetings in 2013. On average, the Directors attended 97.8% 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 Remuneration Committee (previously the Human Resources Committee) and the Nomination and Governance Committee (previously the Nomination and Corporate Governance Committee).

The table below contains information on the composition, number of meetings and attendance for each of the committees in 2013.

### Board of Directors' Committees 2013

Committees	Audit Committee	Remuneration Committee	Nomination and Governance Committee
Members	Karl Grotenfelt (Ch.) Pii-Noora Kauppi (as of 4 April) Wendy E. Lane Kim Wahl	Berndt Brunow (Ch.) Ursula Ranin Veli-Matti Reinikkala	Björn Wahlroos (Ch.) Matti Alahuhta Karl Grotenfelt
Number of meetings	5	6	4
Attendance-%	95	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.

According to the Audit Committee Charter, desirable qualifications for committee members include an appropriate understanding of accounting practices and financial reporting, which may have been gained through education or experience in performing or overseeing related functions. The expertise and qualifications of Audit Committee members are assessed annually by the Nomination and Governance Committee prior to making its recommendation to the Board for the appointment of committee members.

Pursuant to its amended charter, the primary purposes of the Audit Committee are: to oversee the accounting and 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 internal control, internal audit and risk management systems
- Evaluating the qualifications and independence of the statutory auditor
- Preparing the proposal for the election of the statutory auditor
- Evaluating the performance of the internal audit
- Reviewing compliance with legal and regulatory requirements and with the company's Code of Conduct

## Remuneration Committee

Pursuant to its amended charter, the primary purposes of the Remuneration Committee are: to assist the Board of Directors in the assessment and remuneration of the President and CEO and other members of the senior management reporting directly to the President and CEO; to oversee the company's remuneration policies, compensation plans and programmes; and to review procedures for appropriate succession planning for senior management.

## Nomination and Governance Committee

Pursuant to its amended charter, the primary purposes of the Nomination and Governance Committee are to identify individuals qualified to serve as directors and to prepare a proposal to the Annual General Meeting regarding the election or re-election of the members of the Board of Directors and their remuneration. The committee is also responsible for identifying individuals qualified to serve as the President and CEO, and to 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 assists the Board in monitoring compliance with the independence requirements applicable to directors of publicly listed companies in Finland, and in the assessment of the directors' ability to devote the necessary time and attention to the company. In addition, the committee annually reviews 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 service 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 company's strategic and business plans for submission to the Board and for the 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 provides 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 first consult 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 regarding 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 in 1992 (COSO). During 2014, UPM plans to evaluate the effects of the updated COSO 2013 framework.

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.

Effectiveness of internal control is ensured also in the context of using outsourced service providers.

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

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

**Control environment**

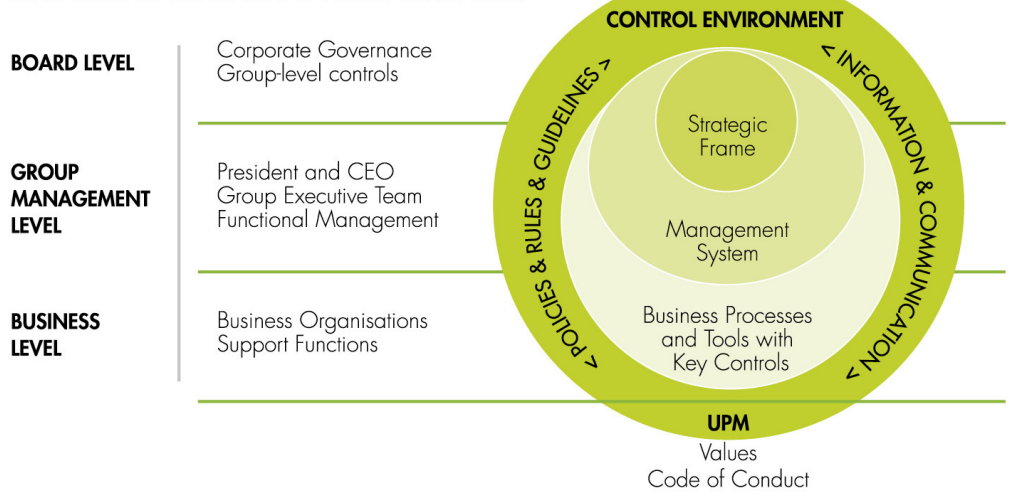
The company's values and Code of Conduct lay the foundations and set the tone for the internal control framework at UPM.

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.

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



### 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 companies, business areas and processes. The risk assessment is used to create control targets to ensure that the fundamental demands placed on financial reporting are fulfilled and provide the basis for how risks are managed within the various control structures. The risk assessment is updated annually together with the planned control actions and control targets based on the assessment. The 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 organises 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.

Controls in joint operations managed by UPM are performed and tested in the same way as in other UPM companies. Joint operations not managed by UPM are not under UPM internal control processes. Annual management certification is requested from all joint operations to ensure compliant accounting practices and proper control processes pertaining to financial reporting.

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 the preparation of 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 reconcilia-

tions 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 internal controls. Regular communication from internal control process owners ensures detailed definitions of the controls and the minimum requirements for the relevant internal control are provided.

### 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, 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 a 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.