

Corporate Governance Statement 2015

UPM-Kymmene Corporation (UPM or the company) follows the Finnish Corporate Governance Code (Code) issued by the Securities Market Association which entered into force on 1 January 2016. The Code is publicly available on the Securities Market Association's website www.cgfinland.fi. UPM complies with all recommendations of the Code.

UPM's Corporate Governance Statement for the financial year 2015 has been prepared in accordance with the corporate governance reporting section of the 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 in the Investors section under Governance. The Report of the Board of Directors is presented on pages 79–89 of UPM's Annual Report 2015, which is also available on the corporate website.

UPM's governance structure

UPM is a Finnish limited liability company with headquarters in Helsinki, Finland. The parent company UPM and its subsidiaries form the UPM Group having approximately 19,600 employees in 45 countries. The Group's business operations are divided into six business areas supported by global functions. UPM shares are listed on the Nasdaq Helsinki exchange.

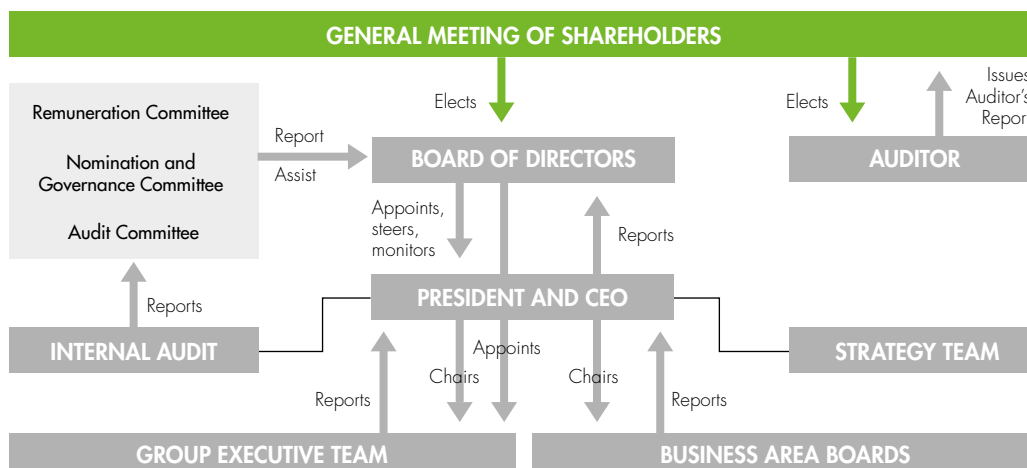
UPM uses a one-tier governance model, which, in addition to the general meeting of shareholders, comprises the Board of Directors and the President and CEO as presented in the illustration below. In the operative management of the company, the President and CEO is assisted by the Group Executive Team, the Business Area Boards and the Strategy Team.

The Group Executive Team consists of the executives heading the business areas and the global functions, and it is responsible for approving and

executing group-level guidelines and procedures. The President and CEO chairs the Group Executive Team.

The Business Area Boards comprise, in addition to the President and CEO chairing the boards, the CFO, the EVPs of the global functions, and the EVP of the business area in question. The Business Area Boards are responsible for business area level decision-making in matters pertaining to each business area's strategy, budget, business performance, operative investments, commercial strategies, business development plans, business and strategic risks, strategic and organizational changes as well as HR matters.

The Strategy Team is chaired by the President and CEO and its other members are the CFO and the EVPs of the strategy, technology and legal functions. The team assists the President and CEO in matters pertaining to the preparation of group strategies, strategic projects, capital expenditure, M&A and other strategic development initiatives for the Board of Directors' approval.



Governance guidelines

UPM's decision-making and management are guided by UPM values and the Code of Conduct. UPM's Code of Conduct forms the framework for all company operations and sets out standards of behaviour for all UPM employees including directors and officers without exception. It covers topics relating to legal compliance and disclosure, conflicts of interest, gifts and anti-bribery, HR practices, human rights issues and environmental matters. The Code of Conduct has been approved by the Board of Directors and it is available on the corporate website in the Investors section under Governance.

The company follows, among others, the Finnish Limited Liability Companies Act and other laws and regulations applicable to publicly listed companies in Finland, the company's Articles of Association, Board and committee charters, company policies and guidelines, FIN-FSA's regulations and guidelines, and the rules and guidelines of the Nasdaq Helsinki exchange.

Annual General Meeting 2015

The company's Annual General Meeting (AGM) 2015 was held on 9 April in Helsinki. A total of 2,607 (in 2014: 1,984) shareholders attended the meeting either in person or through a legal or proxy representative, representing a total of 51.4% (45.6%) of the company's registered share capital and voting rights at the time of the meeting. The members of the Board of Directors, the President and CEO, the statutory auditor in charge and the new director

candidates were present at the meeting. All decisions at the meeting were taken without voting.

Board of Directors

The AGM elected ten members to UPM's Board of Directors for a term which will end upon closing of the Annual General Meeting 2016. Berndt Brunow, Piia-Noora Kauppi, Wendy E. Lane, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Kim Wahl and Björn Wahlroos were re-elected to the Board. Henrik Ehrnrooth and Suzanne Thoma were elected as new directors to the Board. Matti Alahuhta, member since 2008, stepped down from the Board. All directors except Jussi Pesonen are non-executive. The directors' personal details, main occupation and shareholdings in the company are presented in the table below.

Director independence

The Board of Directors evaluates the independence of its members annually and, in addition to this, on a continuous basis with the assistance of the Board's Nomination and Governance Committee. A Board member is obliged to provide sufficient information for the evaluation of his/her independence. The directors' independence is assessed against the independence criteria of the Finnish Corporate Governance Code.

According to the evaluation carried out by the Board, all Board members are independent of the company's significant shareholders as none of the company shareholders holds more than 10 percent of the company's shares or voting rights. The Board also assessed that all non-

COMPOSITION OF THE BOARD OF DIRECTORS

Director	Director since	Born	Education	Nationality	Main occupation	Shareholdings on 31 Dec. 2015 ¹⁾
Björn Wahlroos, Chairman	2008, Chairman since 2008	1952	Ph.D. (Econ.)	Finnish	Chairman of the Board of Directors of Sampo Plc	254,442
Berndt Brunow, Deputy Chairman	2002, Deputy Chairman since 2005	1950	B.Sc. (Econ.)	Finnish	Chairman of the Board of Directors of Oy Karl Fazer Ab	303,578
Henrik Ehrnrooth	2015	1969	M.Sc. (Econ.)	Finnish	CEO of KONE Corporation	2,276
Piia-Noora Kauppi	2013	1975	LL.M.	Finnish	Managing Director of the Federation of Finnish Financial Services	11,856
Wendy E. Lane	2005	1951	MBA (Harvard)	US	Chairman of the Board of Directors of Lane Holdings, Inc.	32,925
Jussi Pesonen	2007	1960	M.Sc. (Eng.)	Finnish	President and CEO of UPM-Kymmene Corporation	220,275
Ari Puheloinen	2014	1951	General Staff Officer	Finnish	General (ret.)	4,301
Veli-Matti Reinikkala	2007	1957	eMBA	Finnish	President of ABB Region Europe (retired 31 December 2015)	36,097
Suzanne Thoma	2015	1962	Ph.D. (Chem. Eng.), BA (Business Admin.)	Swiss	CEO of BKW Ltd.	2,276
Kim Wahl	2012	1960	MBA (Harvard), BA (Business Econ.)	Norwegian	Chairman of the Board of Directors of Strømstangen AS	14,075
Total						882,101

¹⁾ Including shareholdings of director's closely associated persons and controlled entities, if any.

executive directors are independent of the company including Berndt Brunow and Wendy E. Lane who according to the overall evaluation carried out by the Board continue to be independent of the company although they have been non-executive directors for more than 10 consecutive years. As the President and CEO of the company, Jussi Pesonen is not independent of the company.

Board diversity

The Board of Directors' Nomination and Governance Committee prepares the proposal for the composition of the Board to the Annual General Meeting. When preparing the proposal, the committee reviews the size and composition of the Board and the company's current and evolving needs in terms of director competences. When reviewing the composition of the Board, the committee considers, among others, whether the Board is sufficiently diverse in terms of professional and educational backgrounds, gender and age, and whether it represents an appropriate balance of sound judgement, skills and experience to be able to address the needs of the company's business operations and strategic agenda.

The Board's diversity in terms of directors' educational background, professional experience, length of service, age and nationality is reflected in the table on the previous page. Currently, UPM Board of Directors comprises 10 members and both genders are represented in the Board. In 2014, women counted for 25% of non-executive

directors and 22.2% of all members of the Board. In 2015, two new directors were appointed to the Board, and now female directors count for 33.3% of non-executive directors and 30% of all directors. Further information on the Board's diversity is available on the corporate website in the Investors section under Governance.

Board duties

The basic responsibility of the directors in discharging their duties as members of the Board of Directors is to always act in good faith and with due care and exercise their business judgement on an informed basis in what they reasonably believe to be in the best interests of the company and its shareholders.

The Board is responsible for the oversight and control of the entire UPM Group and for ensuring that the company's administration and operations as well as control of its accounts and finances are duly in place. The Board approves the company's financial statements and interim reports, determines the company's dividend policy and makes a proposal to the Annual General Meeting for the distribution of profits and payment of dividend.

The Board has prepared a written charter for its work including the Board's main duties and operating principles. The duties and responsibilities of the Board of Directors, as defined in the charter, are presented below. The entire charter is available on the corporate website in the Investors section under Governance.

BOARD OF DIRECTORS' DUTIES AND RESPONSIBILITIES

Strategy	Evaluate and approve the company's strategic direction Evaluate the implementation of the strategic plans annually Approve the strategic plans of the company and its business areas annually
Financial performance	Review and approve the company's financial objectives
Restructurings, investments, financing, M&A	Review and approve major corporate plans and transactions Establish limits for capital expenditures, investments, divestitures and financial commitments not to be exceeded without Board approval
Internal control	Ensure that the company has defined the operating principles of internal control Monitor the functioning of internal control
Risk management	Oversee the assessment and management of risks related to the company's strategy and operations
Compliance	Monitor the company's compliance with the applicable legal and regulatory requirements
Values	Oversee the establishment of the company's values to be applied in all its operations
Appointments	Appoint and dismiss the President and CEO Appoint members of the senior management reporting directly to the President and CEO Appoint the Chairman and the Deputy Chairman from among its members annually Appoint Chairmen and members of the Board committees annually
Succession planning	Oversee the succession planning of the President and CEO and other senior executives
Management remuneration	Approve the President and CEO's and other senior executives' service contracts Approve the President and CEO's and other senior executives' remuneration, including salaries, short and long term incentives and other financial benefits
Committees	Establish specific committees, determine their sizes and compositions and approve their charters
Director independence	Evaluate the independence of its members annually Monitor compliance with independence requirements applicable to directors of publicly listed companies in Finland
Charters	Periodically review and reassess the adequacy of the Board and Committee Charters
External audit	Meet regularly with the external auditor without members of the management present
Self-evaluation	Conduct an annual evaluation of its performance and working methods
Other	Meet regularly without members of the management present Consider proposals by shareholders for matters to be dealt with by the general meeting

Attendance in the meetings

There is no minimum attendance requirement for the directors' attendance in the meeting as the general assumption is that directors attend all meetings unless there is a valid reason for the non-attendance. In 2015, the Board held 8 meetings. The directors' average attendance at the meetings was 96.4% (99.0%). Each director's attendance at the meetings is presented in the table below.

Board self-evaluation

The Board of Directors reviews its performance and working methods annually. The evaluation is usually conducted as a self-assessment and its results are reviewed and discussed at the Board meeting in December. Directors evaluate the Board's performance of its aforementioned duties and responsibilities, Board composition and structure, Board culture, effectiveness of Board meetings, and individual director participation. During the past three years, the directors have also assessed the performance of the Chairman of the Board. Identified areas of improvement are considered when planning the Board's work and the Nomination and Governance Committee takes the results in consideration when it is preparing its proposal for the composition of the Board to the Annual General Meeting.

Board committees

To enhance the preparation of matters for the Board's decision-making, the Board has established three committees composed of its members: the Audit Committee, the Remuneration Committee and the Nomination and Governance Committee. The Board appoints the members of the committees and their Chairmen annually. The President and CEO may not be appointed as a member of these committees. A committee always has at least three members.

The committees assist the Board of Directors by preparing matters to be decided by the Board. In addition, the committees assist the Board in its oversight and monitoring responsibilities. The Board is responsible for the performance of any duties assigned to the committees. The committees do not have any independent decision-making power. Instead, the Board makes decisions based on the preparation and resolution proposals by the committees.

The directors appointed to the Board committees in the Board's organizational meeting on 9 April 2015 are presented in the table below. The table also contains information on the number of committee meetings and committee members' attendance in the meetings. All committee members are independent both of the company and its significant shareholders so the committees fulfill their respective independence criteria as set out in the Finnish Corporate Governance Code. In the appointment of the committee members, the respective qualification requirements have also been taken into account.

ATTENDANCE IN BOARD MEETINGS 2015

Director	Attendance / No of meetings	Attendance-%
Björn Wahlroos (Chairman)	8/8	100
Berndt Brunow (Deputy Chairman)	8/8	100
Matti Alahuhta (retired 9 April)	1/1	100
Henrik Ehrnrooth (from 9 April)	6/7	86
Piia-Noora Kauppi	8/8	100
Wendy E. Lane	8/8	100
Jussi Pesonen	8/8	100
Ari Puheloinen	8/8	100
Veli-Matti Reinikkala	7/8	88
Suzanne Thoma (from 9 April)	6/7	86
Kim Wahl	8/8	100

COMMITTEE MEMBERS AND THEIR ATTENDANCE IN COMMITTEE MEETINGS 2015

Committees	Members	Attendance / No of meetings	Attendance-%
Audit Committee	Piia-Noora Kauppi (Chairman)	6/6	100
	Wendy E. Lane	6/6	100
	Kim Wahl	6/6	100
Remuneration Committee	Veli-Matti Reinikkala (Chairman from 9 April)	3/3	100
	Berndt Brunow (Chairman and member until 9 April)	1/1	100
	Matti Alahuhta (retired 9 April)	1/1	100
	Henrik Ehrnrooth (from 9 April)	2/2	100
	Suzanne Thoma (from 9 April)	0/2	0 ¹⁾
Nomination and Governance Committee	Björn Wahlroos (Chairman)	4/4	100
	Matti Alahuhta (retired 9 April)	1/1	100
	Berndt Brunow (from 9 April)	3/3	100
	Ari Puheloinen	4/4	100

¹⁾ Ms Thoma could not accommodate her schedule to the committee meeting schedule due to her other engagements agreed prior to the start of her committee membership.

Committee charters

The written committee charters approved by the Board of Directors set forth the purposes, composition, operations and duties of each committee as well as qualifications for committee memberships. The charters are available on the corporate website in the Investors section under Governance.

Committee work

The committees hold their meetings prior to Board meetings in order to prepare matters for the Board's decision-making. In the Board meeting following the committee meetings, the Committee Chairmen report to the Board on matters discussed and actions taken by the committees. In addition, minutes are kept for the committee meetings and submitted to the Board members for their information.

The committees review and reassess the adequacy of their charters periodically and propose any changes they consider necessary to the Board for approval.

In their last meeting each year, the committees conduct self-evaluation and evaluate the performance of their duties and responsibilities, working methods, committee composition and the effectiveness of committee meetings.

In addition to these duties and working methods common to all committees, each committee is responsible for carrying out the duties assigned to it in its charter. More information on the committee duties and responsibilities is available in the tables on this and the following page.

Audit Committee

Duties and responsibilities of the Audit Committee are related to the oversight of the company's financial reporting processes, accounting, statutory audit, financial reporting, internal control, internal audit and risk management processes. The committee's duties and responsibilities, as defined in the committee charter, are presented below.

AUDIT COMMITTEE'S DUTIES AND RESPONSIBILITIES

Financial reporting	<ul style="list-style-type: none"> Monitor the reporting process relating to financial statements Oversee the financial reporting process Review the company's annual financial statements and quarterly financial statements
Internal control	<ul style="list-style-type: none"> Monitor the efficiency of the company's internal control system
Internal audit	<ul style="list-style-type: none"> Monitor the efficiency of the company's internal audit Review the company's policies with respect to the internal audit function Review the organization, responsibilities and staffing of the internal audit function periodically
Risk management	<ul style="list-style-type: none"> Monitor the efficiency of the company's risk management systems Review the company's policies with respect to financial risk assessment and risk management Review the organisation, responsibilities and staffing of the risk management function as to its financial risk management responsibilities
External audit	<ul style="list-style-type: none"> Evaluate external auditor's qualifications, performance and independence Prepare the proposal for the election or re-election of the external auditor to the general meeting Approve the external auditor's annual fees under the guidance given by the Annual General Meeting Monitor the statutory audit of the financial statements and consolidated financial statements Review the external auditor's annual audit plan Assess the external auditor's provision of audit-related and non-audit related services to the company Review the experience, qualifications and performance of the senior members of the external audit engagement team Ensure the rotation of the leading audit engagement team partner of the external auditor at least every seven years
Compliance	<ul style="list-style-type: none"> Review any legal matters including the status of pending litigations that may have a significant impact on the company's financial position Review any material reports or inquiries from regulatory or governmental agencies Review the company's Code of Conduct and compliance therewith Oversee procedures for treatment of complaints and concerns submitted to the company anonymously or otherwise Review the company's corporate governance statement
Other	<ul style="list-style-type: none"> Perform such other duties and functions as may be assigned by the Board or deemed necessary or appropriate by the committee for the performance of its oversight function

Remuneration Committee

Duties and responsibilities of the Remuneration Committee are related to the remuneration of the President and CEO and senior executives reporting directly to the President and CEO, and to the evaluation, planning and preparation of the company's incentive schemes and annually commencing plans. The committee's duties and responsibilities, as defined in the committee charter, are presented below.

Nomination and Governance Committee

Duties and responsibilities of the Nomination and Governance Committee are related to the composition and remuneration of the Board of Directors and to corporate governance. The committee's duties and responsibilities, as defined in the committee charter, are presented below.

REMUNERATION COMMITTEE'S DUTIES AND RESPONSIBILITIES

Management remuneration	<p>Review the corporate goals and objectives relevant to the remuneration of the President and CEO and other senior executives</p> <p>Evaluate the President and CEO's and other senior executives' performance in light of the set goals and objectives</p> <p>Make recommendations to the Board for the remuneration of the President and CEO and other senior executives</p> <p>Review short-term incentive targets and make recommendations to the Board for the pay-out of incentives to the President and CEO and other senior executives</p> <p>Make recommendations to the Board for the pay-out of share based long term incentives to the President and CEO and other senior executives</p> <p>Make recommendations to the Board concerning the terms of service contracts, severance arrangements or retention plans with the President and CEO or with other senior executives</p>
Incentive schemes	<p>Make recommendations to the Board with respect to the company's remuneration policies and plans, including incentives, share-based plans and pension plans</p> <p>Oversee the administration of the company's share-based incentive and other plans approved by the Board</p>
Succession planning	<p>Review the succession planning procedures and development strategies for senior level positions</p> <p>Review succession plans for the President and CEO and other senior executives</p>
Compliance	<p>Oversee regulatory compliance with respect to remuneration</p> <p>Review the company's share ownership recommendations and compliance with them</p>
Other	<p>Perform any other duties delegated to the committee by the Board from time to time</p>

NOMINATION AND GOVERNANCE COMMITTEE'S DUTIES AND RESPONSIBILITIES

Board composition	<p>Review annually the size and composition of the Board</p> <p>Prepare annually a proposal to the general meeting for the election or re-election of the members of the Board and present the said proposal to the general meeting</p> <p>Identify candidates for election or re-election to the Board</p> <p>Evaluate shareholders' potential proposals regarding Board member candidates</p>
Board remuneration	<p>Review annually Board remuneration</p> <p>Prepare annually a proposal to the general meeting for the remuneration of the members of the Board for the term of election and present the said proposal to the general meeting</p>
Director independence	<p>Evaluate annually the independence of the Board members and Board member candidates</p> <p>Assist the Board in monitoring the compliance with the independence requirements applicable to Board members of publicly listed companies in Finland</p> <p>Assist the Board in the assessment of the Board members' ability to devote the necessary time and attention to the company</p>
Board self-evaluation	<p>Establish criteria for Board self-evaluation</p> <p>Assist the Board in its annual self-evaluation</p>
Appointments	<p>Recommend the appointment of the Chairman and the Deputy Chairman of the Board for Board approval</p> <p>Identify individuals qualified to serve as the President and CEO and make recommendations to the Board for its approval of the appointment of the President and CEO</p>
Committees	<p>Review annually committee assignments and the composition of the committees</p> <p>Recommend annually to the Board nominees for each Board committee and Committee Chairmen</p>
Charters	<p>Review and reassess periodically the adequacy of the Board and Committee Charters</p>
Conflicts of interest	<p>Consider questions of possible conflicts of interest of Board members and senior executives</p> <p>Initiate appropriate action to address any conflicts of interest</p>
Other	<p>Assist the Board in connection with major management reorganizations</p> <p>Perform any other duties or responsibilities delegated to the committee by the Board from time to time</p>

President and CEO

Jussi Pesonen is the President and Chief Executive Officer of UPM-Kymmene Corporation since January 2004. He is also member of the company's Board of Directors since March 2007. He was born in 1960 and holds a master's degree in process technology from Oulu University, Finland.

The President and CEO's duty is to manage and oversee the company's day-to-day business operations in accordance with the instructions and orders given by the Board of Directors. He is responsible for the arrangement of the company's day-to-day administration, and supervises that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The President and CEO ensures that the Board receives adequate information on the company's operations to facilitate informed decision-making. The President and CEO reports to the Board on the company's business and financial performance, and supervises the execution of Board resolutions.

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 the authorization from the Board of Directors, unless the time required to obtain such authorization would cause substantial harm to the company. In the latter case, the Board of Directors shall be notified of the measures taken as soon as possible.

Other executives

In the operative management of the company, the President and CEO is assisted by the Group Executive Team, the Business Area Boards and the Strategy Team as presented in the illustration on the first page of this statement.

The company's management system was modified during the year with the purpose of creating a more direct leadership channel from the group level to the business area level. As a result of this modification, UPM initiated a new forum, Business Area Boards, for business area level decision-making. Also, the roles of the Group Executive Team and the Strategy Team were reconsidered. The composition and duties of these management bodies are presented on the first page of this statement.

Members of the Group Executive Team continue to carry the main responsibility for the business areas and global functions they are heading, and they are 'the other executives' referred to in the Finnish Corporate Governance Code. The members of the Group Executive Team report directly to the President and CEO. The Group Executive Team members and their personal details, position and shareholdings in the company are presented in the table below.

MEMBERS OF THE GROUP EXECUTIVE TEAM

Executive	Team member since	Born	Education	Nationality	Position at UPM	Shareholdings on 31 Dec. 2015 ¹⁾
Jussi Pesonen	2001	1960	M.Sc. (Eng.)	Finnish	President and CEO	220,275
Bernd Eikens	2013	1965	Ph.D.	German	Executive Vice President, UPM Paper ENA	13,747
Pirkko Harrela	2004	1960	M.A.	Finnish	Executive Vice President, Stakeholder Relations	40,870
Tapio Kolunsarka	2013	1975	M.Sc. (Eng.), M.Sc. (Econ.)	Finnish	Executive Vice President, UPM Raflatac	13,588
Tapio Korpeinen	2008	1963	M.Sc. (Tech.), MBA	Finnish	CFO, Executive Vice President, UPM Energy	54,747
Juha Mäkelä	2008	1962	LL.M.	Finnish	General Counsel	37,500
Jyrki Ovaska	2002	1958	M.Sc. (Eng.)	Finnish	Executive Vice President, Technology	74,269
Kim Poulsen (until 31 Oct. 2015)	2013	1966	M.Sc. (Econ.)	Finnish	Executive Vice President, UPM Paper Asia	
Riitta Savonlahti	2004	1964	M.Sc. (Econ.)	Finnish	Executive Vice President, Human Resources	17,803
Mika Sillanpää	2013	1958	M.Sc. (Eng.)	Finnish	Executive Vice President, UPM Plywood	11,883
Kari Ståhlberg	2013	1971	M.Sc. (Eng.)	Finnish	Executive Vice President, Strategy	7,229
Heikki Vappula	2010	1967	M.Sc. (Econ.)	Finnish	Executive Vice President, UPM Biorefining	17,111
Total						509,022

¹⁾ Including shareholdings of the executive's closely associated persons and controlled entities, if any.

Executives' responsibility areas

As mentioned earlier, the group's business operations and global functions are divided into six business areas and six main support functions each headed by a member of the Group Executive Team. Each executive's area of responsibility is presented in the illustration below. Kim Poulsen headed UPM Paper Asia until he left the company

at the end of October 2015. Bernd Eikens, Executive Vice President of UPM Paper ENA was appointed his successor in December and he assumed his new duties as the Executive Vice President of UPM Paper Asia as of 1 February 2016. At the end of 2015, the recruitment process to find a successor for Mr Eikens was still ongoing.

RESPONSIBILITY AREAS OF THE MEMBERS OF THE GROUP EXECUTIVE TEAM

President and CEO Jussi Pesonen					
CFO ¹⁾	Tapio Korpeinen		Heikki Vappula	UPM Biorefining	
General Counsel	Juha Mäkelä		Tapio Korpeinen	UPM Energy	
Strategy	Kari Ståhlberg		Tapio Kolunsarka	UPM Raflatac	
Technology ²⁾	Jyrki Ovaska		Kim Poulsen ⁴⁾	UPM Paper Asia	
Human Resources	Riitta Savonlahti		Bernd Eikens	UPM Paper ENA	
Stakeholder Relations ³⁾	Pirkko Harrela		Mika Sillanpää	UPM Plywood	

¹⁾ Incl. Finance & Control, Treasury, IR, IT, Sourcing and Real Estate (incl. Finnish forest assets)

²⁾ Incl. Investment Management, R&D, new business development (biocomposites, biochemicals)

³⁾ Incl. Brand & Communications, Environment & Responsibility, Public Affairs

⁴⁾ Kim Poulsen headed UPM Paper Asia until 31 October 2015

Internal control, risk management and other control procedures

The purpose of the company's internal control and risk management is to ensure that the company's operations are effective, that financial and other information is reliable, and that the company complies with the relevant regulations and operating principles. The Board of Directors, assisted by the Audit Committee, is responsible for monitoring the company's internal control and risk management systems. Internal audit assists the Board of Directors with its monitoring responsibility by ensuring that the group's control measures have been planned and set up effectively.

Risk management

UPM regards risk management as a systematic and proactive means to analyse and manage the opportunities and threats related to its business operations. It also includes careful planning and evaluation of future projects and business environment in order to avoid risks. The Board of Directors has approved the company's Risk Management Policy, which sets out the operating principles, roles and responsibilities regarding risk

management, and defines the company's risk management objectives and risk management process.

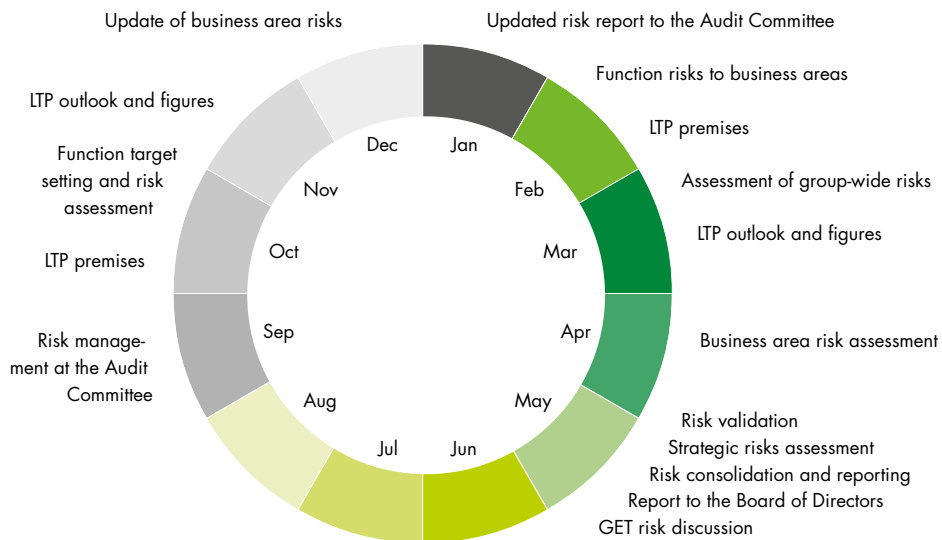
Risk management is an integral part of UPM's management system as risk taking is a normal part of business operations. While executing strategies, UPM and its business areas, functions and manufacturing units are exposed to a number of risks and opportunities. Each business area, function and unit is responsible for identifying, measuring and managing of risks related to its own operations, and for reporting on risk exposures, risk management activities and results to its own management team and to the Risk Management Function.

The Risk Management Committee, chaired by the CFO, is responsible for recommending risk tolerances and profile to the President and CEO and the Group Executive Team. The Group Executive Team is responsible for defining risk management priorities and tolerance, and aligning business and risk management strategies and policies.

The Audit Committee monitors the efficiency of the company's risk management systems and oversees that risk management activities are aligned with the Risk Management Policy, and that risk assessments are used to guide internal audit activities. The Board of Directors oversees the assessment and management of risks related to the company's strategy and operations.

Annual risk management cycle

The company's annual risk management process is linked to the company's long-term planning process (LTP) as presented in the illustration below.



Internal control

Internal control is embedded in UPM's management system and it supports systematic and profitable execution of the group strategy. Internal control is aimed at ensuring that the company's operations are efficient and reliable, and in compliance with statutory requirements, and that the company's financial reporting is accurate and reliable, and reflects operational results. The Board of Directors is responsible for ensuring that the company has defined the operating principles of internal control and for monitoring the efficiency of such control. The Audit Committee assists the Board in monitoring internal control systems' efficiency.

Internal control system

The company has developed and implemented a comprehensive internal control system that covers business and financial reporting processes. 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 five components of UPM's internal control system are:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring activities

UPM's system of internal control can be described with the lines of defense model, which is reflected in UPM's risk management and control processes.

LINES OF DEFENSE IN UPM'S RISK MANAGEMENT AND INTERNAL CONTROL



Internal control pertaining to financial reporting process

The structure of UPM's internal control framework has been defined by using a top-down, risk-based approach. The system of internal control pertaining to financial reporting is part of UPM's overall internal control framework and the 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 components of UPM's system on internal control in relation to financial reporting are described below.

Control environment

The company's values and the Code of Conduct as well as the group policies and guidelines form the basis 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

Internal control is part of the corporate culture, covering all levels and processes of the group. The company's management system enables effective monitoring in different parts of the group. Internal control in its primary and most extensive form takes place at the operational level, where internal control is continuous and part of daily routines.

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.

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.

Control activities

Internal control activities pertaining to financial reporting process 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.

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

Monitoring activities

The Board of Directors, the Audit Committee, the President and CEO, the Group Executive Team, the Finance and Control Function, and the business areas are responsible for monitoring, thus ensuring the effectiveness of internal controls. 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 business areas and global functions 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.

Internal audit

UPM's internal audit assists the company in achieving its objectives by providing a systematic and disciplined approach to evaluate and improve risk management, internal control and governance processes.

Internal audit follows the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The operating principles of internal audit have been defined in the Internal Audit Charter approved by the Board of Directors. The Audit Committee approves annually the Internal Audit Function's audit plan and budget which form the framework for the Internal Audit Function's operations.

Internal audit work is independent and objective. Strategic focus areas and related risks of UPM businesses and functions are the key inputs for audit engagements. Internal audit identifies synergies, shares best practices and recommends improvements to operational efficiency. The scope of internal audit covers all businesses, functions, units and processes of the UPM Group.

In addition, Internal Audit Function manages the Report Misconduct channel and the related investigation process of alleged misconducts, and reports to the Audit Committee on submissions under this channel quarterly.

The Internal Audit Function operates administratively under the President and CEO and functionally under the Audit Committee, and reports on conducted audits and related findings and recommendations to the Audit Committee, the President and CEO, the CFO, the management of the audited operations, and the statutory auditor. In addition, the Head of Internal Audit meets quarterly with the Audit Committee without other members of management present.

Related party transactions

The company has identified its related parties and it is regularly engaged in transactions with some of these parties. These transactions relate to the company's normal business operations and they are in line with the purpose of the company and executed on market or market equivalent terms and practices generally observed and accepted within the industry in question (for example so called Mankala companies in energy industry). Decisions on these transactions are taken in compliance with the company's Acceptance Policy and established decision-making limits and procedures. The company's Finance and Control Function monitors and controls related party transactions as a part of the company's normal reporting and control procedures. Information on the company's related party transactions is disclosed in the notes to the company's consolidated financial statements.

Insider administration

UPM follows the Guidelines for Insiders issued by the Nasdaq Helsinki exchange. The company's Insider Policy, approved by the Board of Directors, complements other insider regulations and sets out guidelines for the company's insiders and insider administration.

The purpose of UPM Insider Policy is to create a framework of expected conduct with a view to prevent, to the extent possible, insider trading and other improper use of inside information. The policy applies to all employees, officers and directors of the UPM Group as well as other persons who possess or have access to material non-public information relating to the company or its securities. Any violations of UPM Insider Policy are reported to the company's Ethics Advisory Committee and to the Audit Committee, and may be grounds for disciplinary actions including termination of employment in accordance with the company's applicable disciplinary policies and procedures.

Persons in charge of insider matters at UPM include General Counsel, Insider Compliance Officer, Insider Administrator and a back-up person for Insider Administrator. General Counsel is in charge of the overall organization of the management of insider matters at UPM. Insider Compliance Officer together with Insider Administrator are responsible for the day-to-day management, monitoring and administration of insider matters, including the maintenance of insider registers, supervision of insider trading, and provision of training and advice.

Insiders

UPM's public insiders are the members of the Board of Directors, the President and CEO, the auditor in charge, the company's CFO and business area heads. The company's permanent, non-public company-specific insiders are company employees and other persons who have regular access to inside information based on their position, duties or an agreement. When necessary, project-specific insider registers are set up and maintained. Persons entered into a project-specific insider register are referred to as project-specific insiders. All insiders are informed of their insider status in writing, and advised of the non-disclosure and other obligations as well as trading restrictions imposed on them as the company's insiders.

Trading restrictions

UPM Insider Policy sets the following trading restrictions for the company's public and company-specific insiders. Insiders are not allowed to trade in the company's shares or other securities during closed window periods. The closed window periods are four-week periods preceding and including the date on which the company's annual or quarterly results are disclosed. Trading is allowed during the open window periods, which are three-week periods commencing on the first business day following the disclosure of the company's annual or quarterly results. Periods between the open and closed window periods are referred to as clearance periods. Trading during clearance periods requires a prior permission from the company's insider administration.

The company's insider administration informs public and permanent insiders of the commencement of each closed window period in advance and monitors compliance with the trading restrictions following both closed window and clearance periods. To avoid any suspicion related to use of inside information, the company's public insiders are advised to contact UPM insider administration prior to any contemplated securities transaction and to employ trading plans in accordance with the Trading Guidelines for Insiders issued by the Finnish Financial Supervisory Authority.

Auditor and auditor remuneration

The Annual General Meeting 2015 re-elected PricewaterhouseCoopers Oy, a firm of Authorized Public Accountants, as the company's statutory auditor for a one-year term, with Authorized Public Accountant Merja Lindh as the lead audit partner. Ms Lindh holds this position since 8 April 2014. The AGM further resolved that the audit fee would be paid against invoices approved by the Board of Directors' Audit Committee. The fees paid to the auditor, as approved by the Audit Committee, are shown in the following table.

AUDITOR'S REMUNERATION

EUR million	2015	2014
Audit fee	2.3	2.0
Tax consulting	0.8	0.6
Other services	0.5	0.5
Total	3.6	3.1