



# CORPORATE GOVERNANCE STATEMENT 2019

UPM-KYMMENE CORPORATION

# CORPORATE GOVERNANCE STATEMENT 2019

UPM-Kymmene Corporation (UPM or the company) follows the Finnish Corporate Governance Code (CG Code) issued by the Securities Market Association which entered into force on 1 January 2020. The CG Code is publicly available on the Securities Market Association’s website at [www.cgfinland.fi](http://www.cgfinland.fi). UPM complies with all recommendations of the CG Code.

UPM’s Corporate Governance Statement (CG Statement) for the financial year 2019 has been prepared in accordance with the CG Code’s corporate governance reporting section. UPM presents the CG Statement as a separate report, distinct from the Report of the Board of Directors. The CG Statement is available on the corporate website’s Investors section under Governance ([upm.com/governance](http://upm.com/governance)). The Report of the Board of Directors is presented on pages 120–143 of UPM’s Annual Report 2019, 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-Kymmene Corporation and its subsidiaries form UPM Group having approximately 18,700 employees in 46 countries. UPM Group’s business operations are divided into six business areas and global functions. UPM shares are listed on Nasdaq Helsinki Ltd.

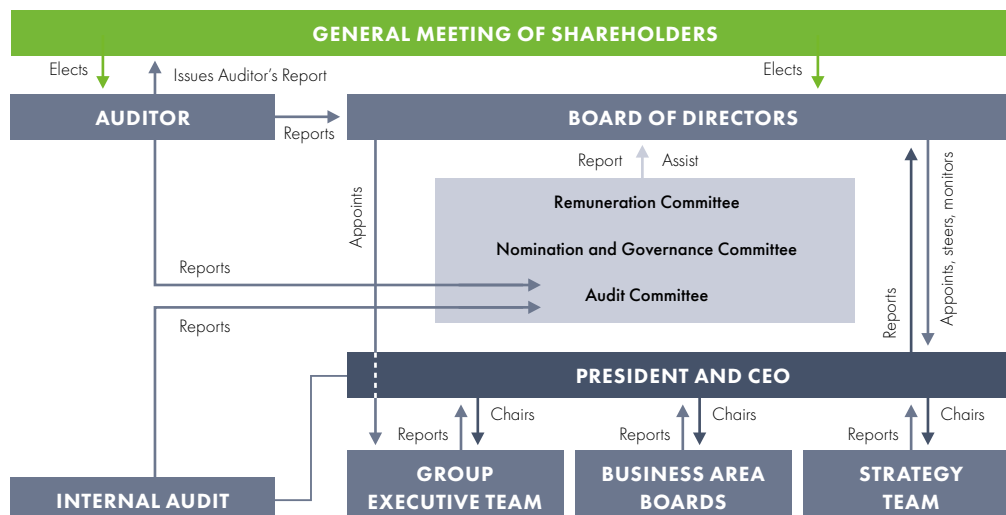
UPM uses a one-tier governance model, which, in addition to the general meeting of shareholders, comprises the Board of Directors and the President and CEO as presented in the illustration below. In the operative management of the company, the President and CEO is assisted by the Group Executive Team,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

The Group Executive Team assists the President and CEO in respect of approving and executing group-level guidelines and procedures.

The Business Area Boards assist the President and CEO as regards 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 organisational changes as well as HR matters.

The Strategy 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 approval by the Board of Directors.

## GOVERNANCE STRUCTURE OF UPM-KYMMENE CORPORATION



## Governance framework

UPM's decision making, management and operations are guided by UPM values and UPM Code of Conduct. UPM values and UPM Code of Conduct form the framework for all company operations and set out standards of behaviour for all UPM employees including directors and executives without exception. Compliance and responsible and ethical practices are the foundation of UPM's businesses. The Board of Directors approved the updated version of UPM Code of Conduct in April 2019, and it is available in 19 languages at [upm.com/governance](http://upm.com/governance) and on UPM intranet.

In addition to the Finnish CG Code, 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, corporate policies and rules, as well as rules and guidelines issued by the European Securities and Markets Authority, the Finnish Financial Supervisory Authority and the Nasdaq Helsinki stock exchange.

## Annual General Meeting 2019

The company's Annual General Meeting (AGM) 2019 was held on 4 April in Helsinki. A total of 3,561 (2018: 3,386) shareholders attended the meeting either in person or through a legal or proxy representative, representing 50.2% (2018: 52.2%) 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, and the lead audit partner were

present at the meeting. All decisions at the meeting were taken without voting. Information on these decisions is available at [upm.com/aggm2019](http://upm.com/aggm2019).

## Board of Directors

The AGM elected ten members to UPM's Board of Directors for a one-year term which will end upon closing of the AGM 2020. All incumbent directors i.e. Berndt Brunow, Henrik Ehrnrooth, Piia-Noora Kauppi, Marjan Oudeman, Jussi Pesonen, Ari Puheloinen, Veli-Matti Reinikkala, Suzanne Thoma, Kim Wahl and Björn Wahlroos were re-elected to the Board. All directors except Jussi Pesonen are non-executive. The directors' biographical 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 and to also express his/her own opinion of his/her independence. The directors' independence is assessed based on the CG Code's independence criteria and other factors and circumstances to be taken into account in the overall evaluation from both the standpoint of the company and the directors. The Nomination and Governance Committee also considers additional director independence criteria adopted by it. These criteria are available at [upm.com/governance](http://upm.com/governance).

## COMPOSITION OF THE BOARD OF DIRECTORS IN 2019

DIRECTOR	DIRECTOR SINCE	BORN	EDUCATION	NATIONALITY	MAIN OCCUPATION	UPM SHARES 31 DEC. 2019 <sup>1)</sup>
Björn Wahlroos, chair since 2008	2008	1952	Ph.D. (Econ.)	Finnish	Chair of the Board of Directors of Sampo Plc	265,194
Berndt Brunow, deputy chair since 2005	2002	1950	B.Sc. (Econ.)	Finnish	Chair of the Board of Directors of Oy Karl Fazer Ab	312,533
Henrik Ehrnrooth	2015	1969	M.Sc. (Econ.)	Finnish	CEO of KONE Corporation	9,506
Piia-Noora Kauppi	2013	1975	LL.M.	Finnish	Managing Director of Finance Finland	19,391
Marjan Oudeman	2018	1958	LL.M., MBA	Dutch	Non-executive Director	3,155
Jussi Pesonen <sup>2)</sup>	2007	1960	M.Sc. (Eng.)	Finnish	President and CEO of UPM-Kymmene Corporation	466,472
Ari Puheloinen	2014	1951	General Staff Officer	Finnish	General (ret.)	11,531
Veli-Matti Reinikkala	2007	1957	eMBA	Finnish	Non-executive Director	44,327
Suzanne Thoma <sup>2)</sup>	2015	1962	Ph.D. (Chem. Eng.), BA (Business Admin.)	Swiss	CEO of BKW Ltd.	9,506
Kim Wahl	2012	1960	MBA (Harvard), BA (Business Econ.)	Norwegian	Chair of the Board of Directors of Strømstangen AS	21,305
<b>Total</b>						<b>1,162,920</b>

<sup>1)</sup> Including shares and share-based rights held by the directors' controlled entities, if any.

<sup>2)</sup> Not available for re-election at the AGM 2020.

Directors' independence is assessed overall and in relation to UPM, its group companies and the company's significant shareholders. A shareholder with a shareholding of at least 10% of the company's shares or the votes attached thereto, or with the right or obligation to acquire the corresponding number of already-issued shares, is deemed significant. The majority of directors shall be independent of the company, and at least two directors of this majority shall be independent of significant shareholders. In order to be considered independent of the company, a director must not have a material relationship with the company other than his/her service as a director. In the overall assessment of a director's independence, any material relationships with a director's family members or closely related persons or entities are also taken into account, in addition to any other factors that may compromise the director's independence or ability to represent all shareholders.

According to the evaluation carried out by the Board with the assistance of the Nomination and Governance Committee, all Board members are independent of the company's significant shareholders, as the company has no controlling shareholder and none of the company's shareholders has announced a holding of 10% or more of the company's shares or votes attached thereto.

The Board has also assessed that all non-executive directors are independent of the company, including Berndt Brunow, Veli-Matti Reinikkala and Björn Wahlroos, who have been the company's non-executive directors for more than ten consecutive years. Based on the Board's overall evaluation of these directors' independence, their independence is not compromised due to their long service history, and no other factors or circumstances have been identified that could impair their independence. As the President and CEO of the company, Jussi Pesonen is not independent of it.

### **Board diversity**

The Board's diversity principles are included in the Board and committee charters and specifically, in the Board's Diversity Policy. The Board of Directors' Nomination and Governance Committee assists the Board in the implementation of the policy and prepares the Board's proposal for the composition of the Board to the Annual General Meeting in accordance with the director evaluation and nomination process specified in the policy. The Diversity Policy of the Board aims at setting objectives and procedures for achieving appropriate diversity within the Board, thereby contributing to the effective functioning of the Board as a team. The policy is available at [upm.com/governance](http://upm.com/governance).

### **Diversity aspects and objectives**

The overarching goal of diversity is for the Board as a whole to have a broad range of skills, experience and

perspectives as well as knowledge of UPM and relevant industries so that the Board can effectively discharge its responsibilities, in particular those pertaining to strategy and risk management.

The Board considers it important that all directors be individuals of high integrity with the ability to exercise sound judgment on a broad range of issues. For the Board to comprise an appropriate mix of relevant knowledge and experience as well as independence of judgment and diversity of perspectives, the Board has set an objective to have certain key qualifications to be sufficiently represented in the Board. A sufficient number of directors is expected to have relevant professional experience and education to provide them with sound appreciation of issues pertinent to publicly listed companies of a size and scope corresponding to that of UPM, including:

- Financial expertise
- Relevant industry knowledge
- International experience
- Risk management experience
- Experience in the planning and implementation of company strategies, and
- Governance and leadership experience.

With regard to other factors relevant to Board diversity, the objective is that the Board include an appropriate number of directors of different nationalities, ages, and lengths of service. As to the representation of both genders in the Board, the Board has set the following measurable objective: Both genders shall always be represented in the Board, and high priority shall be given to maintaining at least 1/3 representation of the under-represented gender among the non-executive directors in the Board. Where two candidates are equally qualified, priority will be given to the candidate of the under-represented gender.

### **Implementation and results**

In 2019, no changes took place in the composition of the Board. The Board comprises 10 members and all of them have a university degree and two of them hold doctoral degrees. The directors' degrees are from different areas of study with the majority of them in finance and economics and business administration. All directors have international professional experience in various types of positions, and they are or have been executives or non-executive members of the Board of Directors in both listed and unlisted companies. The cultural background of the Board is also diverse: the members represent four different nationalities and speak five different languages as their native language. When it comes to age, the directors represent different ages evenly between 45 and 70 years of age. Likewise, the directors' length of service is evenly spread: 50% of

the directors have served in UPM's Board for more than seven and the other half less than seven years. With regard to the representation of both genders in the Board, female directors count for 33.3% of UPM's non-executive directors and 30% of all directors.

### Board duties

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 other financial 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 charter was amended in 2019 to reflect the changes in the regulatory environment. The charter is available at [upm.com/governance](http://upm.com/governance).

BOARD OF DIRECTORS' DUTIES AND RESPONSIBILITIES	
Strategy	<ul style="list-style-type: none"> <li>Review and approve the company's strategic objectives</li> <li>Review and approve the strategic plans of the company and its business areas annually</li> <li>Monitor the implementation of the strategic plans</li> </ul>
Financial performance	<ul style="list-style-type: none"> <li>Review and approve the company's financial targets</li> <li>Monitor the company's financial performance</li> </ul>
Financial reporting	<ul style="list-style-type: none"> <li>Monitor and assess the company's financial reporting process</li> <li>Oversee the integrity of financial reporting</li> <li>Approve the company's financial reports</li> </ul>
Restructurings, investments, financing, M&A	<ul style="list-style-type: none"> <li>Review and approve major corporate plans and transactions</li> <li>Establish limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval</li> <li>Review and approve the company's annual investment frame</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>Ensure that the company has defined the operating principles of internal control</li> <li>Monitor and assess the effectiveness of internal control</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>Monitor and assess the effectiveness of risk management systems</li> <li>Oversee the assessment and management of risks related to the company's strategy and operations</li> </ul>
Audit	<ul style="list-style-type: none"> <li>Monitor the company's audit</li> <li>Monitor and assess the auditor's performance and independence</li> <li>Monitor and assess the provision of non-audit services by the auditor</li> <li>Prepare the proposal for the election of auditor</li> <li>Meet regularly with the auditor without members of the management present</li> </ul>
Appointments	<ul style="list-style-type: none"> <li>Appoint and dismiss the President and CEO</li> <li>Appoint members of the senior management reporting directly to the President and CEO</li> <li>Appoint the Chair and the Deputy Chair from among its members annually</li> <li>Appoint Chairs and members of the Board committees annually</li> </ul>
Management remuneration	<ul style="list-style-type: none"> <li>Approve the President and CEO's and other senior executives' service contracts</li> <li>Approve the President and CEO's and other senior executives' remuneration, including salaries, incentives and other financial benefits</li> </ul>
Succession planning	<ul style="list-style-type: none"> <li>Oversee the succession planning of the President and CEO and other senior executives</li> </ul>
Governance principles	<ul style="list-style-type: none"> <li>Approve the company's Code of Conduct and other corporate policies</li> <li>Oversee the establishment of the company's values to be applied in its operations</li> <li>Periodically review and reassess the adequacy of the Board and committee charters</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>Monitor compliance with the applicable legal and regulatory requirements</li> <li>Monitor compliance with the corporate policies approved by the Board</li> </ul>
Conflicts of interest	<ul style="list-style-type: none"> <li>Establish the principles concerning the monitoring and evaluation of related party transactions and review any potential conflicts of interest accordingly</li> </ul>
Committees	<ul style="list-style-type: none"> <li>Establish specific committees to assist the Board</li> <li>Determine the size and composition of the committees</li> <li>Approve the committee charters</li> </ul>
Director independence	<ul style="list-style-type: none"> <li>Evaluate director independence and qualifications annually</li> <li>Monitor compliance with independence criteria applicable to directors</li> </ul>
Evaluation	<ul style="list-style-type: none"> <li>Conduct an annual evaluation of its performance and working methods</li> <li>Conduct an annual evaluation of the committee performance and working methods</li> </ul>
Other	<ul style="list-style-type: none"> <li>Meet regularly without members of the management present</li> <li>Consider proposals by shareholders for matters to be dealt with by the general meeting</li> </ul>

## Attendance at the meetings

There is no minimum attendance requirement for the directors' attendance at the meetings, but directors are expected to attend all meetings unless there is a valid

reason for non-attendance. In 2019, the Board held 11 meetings. The directors' attendance at the meetings was 96.4% (2018: 100%). Each director's attendance at the meetings is presented in the table below.

### ATTENDANCE AT BOARD MEETINGS IN 2019

DIRECTOR	ATTENDANCE/ NO. OF MEETINGS	ATTENDANCE %
Björn Wahlroos (Chair)	11 / 11	100
Berndt Brunow (Deputy Chair)	11 / 11	100
Henrik Ehrnrooth	10 / 11	91
Piia-Noora Kauppi	11 / 11	100
Marjan Oudeman	11 / 11	100
Jussi Pesonen	11 / 11	100
Ari Puheloinen	11 / 11	100
Veli-Matti Reinikkala	11 / 11	100
Suzanne Thoma	9 / 11	82
Kim Wahl	10 / 11	91

## Board 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 afore mentioned duties and responsibilities, Board composition and structure, Board culture, effectiveness of Board meetings, and individual director performance. The directors also assess the performance and working methods of the Chair of the Board and the Board committees. 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 the 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:

- Audit Committee
- Remuneration Committee, and
- Nomination and Governance Committee.

The Board appoints the members of the committees and their Chairs annually. The President and CEO or the executives reporting to 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 constitutive meeting on 4 April 2019 are presented in the table below. The table also contains information on the number of committee meetings and committee members' attendance at 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 CG Code. In the appointment of the committee members, the respective qualification requirements have also been taken into account.

### COMMITTEE MEMBERS AND THEIR ATTENDANCE AT COMMITTEE MEETINGS IN 2019

COMMITTEE	MEMBERS	ATTENDANCE/ NO. OF MEETINGS	ATTENDANCE %
Audit Committee	Piia-Noora Kauppi (Chair)	5 / 5	100
	Marjan Oudeman	5 / 5	100
	Kim Wahl	5 / 5	100
Remuneration Committee	Veli-Matti Reinikkala (Chair)	5 / 5	100
	Henrik Ehrnrooth	4 / 5	80
	Suzanne Thoma	5 / 5	100
Nomination and Governance Committee	Björn Wahlroos (Chair)	5 / 5	100
	Berndt Brunow	5 / 5	100
	Ari Puheloinen	5 / 5	100

## 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 committee charters are available at [upm.com/governance](http://upm.com/governance). The charters were amended in 2019 to reflect the changes in the regulatory environment.

## 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 Chairs 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.

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. The Committee Chairs report on the results of these evaluations to the Chair of the Nomination and Governance Committee.

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 on this and the following pages.

## Remuneration Committee

Duties and responsibilities of the Remuneration Committee are related to the preparation of the company's remuneration principles and practices and to the remuneration and succession planning of the President and CEO and other senior executives. The committee's duties and responsibilities, as defined in the committee charter, are presented below.

### REMUNERATION COMMITTEE'S DUTIES AND RESPONSIBILITIES

Remuneration framework	<ul style="list-style-type: none"> <li>Assist the Board with its responsibilities relating to the preparation of the Company's remuneration principles and practices including remuneration schemes and plans</li> <li>Assist the Board in the preparation of the remuneration policy and review its appropriateness at least annually</li> <li>Present the remuneration policy to shareholders at the annual general meeting</li> </ul>
Service contracts	<ul style="list-style-type: none"> <li>Make recommendations to the Board concerning the terms and conditions of the service contracts with the President and CEO and with other senior executives</li> <li>Make recommendations to the Board concerning the terms and conditions of any severance arrangements or retention plans or agreements with the senior executives</li> </ul>
Management remuneration	<ul style="list-style-type: none"> <li>Make recommendations to the Board for salaries and other financial benefits of the President and CEO and other senior executives</li> <li>Make recommendations to the Board for the payout of short- and long-term incentives to the President and CEO and other senior executives</li> <li>Assist the Board in the preparation of the remuneration report annually</li> <li>Present the remuneration report to shareholders at the annual general meeting</li> </ul>
Incentive schemes	<ul style="list-style-type: none"> <li>Make recommendations to the Board with respect to the company's remuneration schemes and annually commencing plans, including short- and long-term incentive plans and pension plans</li> <li>Review the short- and long-term performance measures and related targets and weightings relevant to the remuneration of the President and CEO and other senior executives</li> <li>Make recommendations to the Board for the short- and long-term performance measures and related targets and weightings</li> <li>Evaluate the President and CEO's and other senior executives' performance in light of the set targets</li> <li>Oversee the administration of the company's incentive plans approved by the Board</li> </ul>
Succession planning	<ul style="list-style-type: none"> <li>Review procedures and development strategies for senior level positions at least annually</li> <li>Review succession plans for the President and CEO and other senior executives and report to the Board on such matters at least annually</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>Oversee regulatory compliance with respect to remuneration matters</li> <li>Review the company's share ownership recommendations and compliance therewith</li> </ul>
Other	<ul style="list-style-type: none"> <li>Meet without members of the executive management present at least once a year</li> <li>Meet with the internal auditor as necessary</li> <li>Meet with the auditor as necessary</li> <li>Meet with the company executives as necessary</li> <li>Perform any other duties delegated to the committee by the Board from time to time</li> </ul>

## Audit Committee

Duties and responsibilities of the Audit Committee are related to the oversight of the company's financial reporting processes and financial reporting, internal

control, internal audit and risk management, and to monitoring the audit and compliance procedures of the company. 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"> <li>• Monitor and assess the financial reporting processes</li> <li>• Submit recommendations or proposals to ensure the integrity of the financial reporting process</li> <li>• Monitor the quality and integrity of the financial statements and other financial reports</li> <li>• Review the Report of the Board of Directors including information on non-financial matters</li> </ul>
Financial performance	<ul style="list-style-type: none"> <li>• Monitor the company's financial performance</li> <li>• Review the company's annual financial statements and half-year and interim financial reports</li> <li>• Discuss with the management the nature of the financial information and earning guidance provided to the market</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Monitor and assess the effectiveness of the company's internal control system</li> </ul>
Internal audit	<ul style="list-style-type: none"> <li>• Monitor and assess the effectiveness of the company's internal audit</li> <li>• Review the company's policies with respect to the internal audit function</li> <li>• Review internal audit reports</li> <li>• Approve annual internal audit plan and budget</li> <li>• Review the organisation, responsibilities and staffing of the internal audit function periodically</li> <li>• Meet separately with the internal auditor at least twice a year</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>• Monitor and assess the company's risk management process</li> <li>• Monitor and assess the effectiveness of the company's risk management systems</li> <li>• Review the company's policies with respect to risk assessment and risk management</li> <li>• Oversee that risk management activities are aligned with these policies</li> <li>• Review the organisation, responsibilities and staffing of the risk management function</li> </ul>
Audit	<ul style="list-style-type: none"> <li>• Monitor the performance of the statutory audit of the annual and consolidated financial statements</li> <li>• Inform the Board of the outcome of the statutory audit and explain how it contributed to the integrity of the financial reporting</li> <li>• Oversee the arrangement of tendering processes for audit services</li> <li>• Approve annual audit fees under the guidance given by the shareholders at the Annual General Meeting</li> <li>• Review the scope, planning and staffing of the annual audit plan</li> <li>• Evaluate the appropriateness of the auditor's provision of audit-related and non-audit services and approve related fees</li> </ul>
Auditor	<ul style="list-style-type: none"> <li>• Be responsible for the procedure applied in the selection of the auditor</li> <li>• Prepare the proposal for the remuneration of the auditor</li> <li>• Prepare the proposal for the election or re-election of the auditor</li> <li>• Evaluate the qualifications and performance of the auditor</li> <li>• Monitor and assess the independence of the auditor</li> <li>• Review the experience, qualifications and performance of the senior members of the audit engagement team</li> <li>• Ensure the rotation of the lead audit partner of the auditor at least every seven years</li> <li>• Meet separately with the auditor at least twice a year</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>• Monitor and assess the effectiveness of the company's compliance system</li> <li>• Review compliance reports</li> <li>• Review the organisation, responsibilities and staffing of the compliance function</li> <li>• Review any legal matters that may have a significant impact on the company's financial position</li> <li>• Review any material reports or inquiries from regulatory or governmental agencies</li> <li>• Review the company's Code of Conduct</li> <li>• Review compliance with the Code of Conduct and other corporate policies approved by the Board</li> <li>• Oversee procedures for treatment of complaints and concerns submitted to the company anonymously or otherwise</li> <li>• Review the company's corporate governance statement annually</li> </ul>
Conflicts of interest	<ul style="list-style-type: none"> <li>• Assist the Board in the establishment of principles concerning the monitoring and evaluation of related party transactions</li> <li>• Monitor and assess how agreements and other legal acts between the company and its related parties meet the requirements of ordinary course of business and market terms</li> <li>• Review any questions of potential conflicts of interest in contemplated transactions with the company's related parties requiring Board approval</li> <li>• Make recommendations to the Board for appropriate actions regarding contemplated related party transactions requiring Board approval</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Meet separately with the representatives of the management at least twice a year</li> <li>• Meet regularly without members of the management present</li> <li>• 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</li> </ul>



## Nomination and Governance Committee

Duties and responsibilities of the Nomination and Governance Committee are related to the composition, diversity and remuneration of the Board of Directors and

to corporate governance. When needed, the committee also identifies individuals qualified to serve as the President and CEO. The committee's duties and responsibilities, as defined in the committee charter, are presented below.

### NOMINATION AND GOVERNANCE COMMITTEE'S DUTIES AND RESPONSIBILITIES

Board composition	<ul style="list-style-type: none"><li>• Prepare the principles concerning the diversity of the Board</li><li>• Review the structure, size, composition, diversity and successional needs of the Board</li><li>• Prepare a proposal for the election or re-election of the members of the Board and present the said proposal to the general meeting</li><li>• Identify candidates for election or re-election to the Board</li><li>• Evaluate shareholders' potential proposals regarding director candidates</li></ul>
Board remuneration	<ul style="list-style-type: none"><li>• Assist the Board in the preparation of the remuneration policy and annual remuneration reports together with the Remuneration Committee</li><li>• Review Board remuneration annually</li><li>• Prepare a proposal to the general meeting for the remuneration of the members of the Board in accordance with the remuneration policy</li><li>• Present the proposal for the Board remuneration to the general meeting</li></ul>
Director independence	<ul style="list-style-type: none"><li>• Evaluate directors' and director candidates' independence</li><li>• Assist the Board in monitoring the compliance with the independence criteria applicable to directors of publicly listed companies in Finland</li><li>• Assist the Board in the assessment of the directors' ability to devote the necessary time and attention to the company</li></ul>
Board evaluation	<ul style="list-style-type: none"><li>• Establish criteria for the Board's evaluation of its performance and working methods</li><li>• Assist the Board in the annual evaluation</li></ul>
Appointments	<ul style="list-style-type: none"><li>• Recommend the appointment of the Chair and Deputy Chair of the Board for Board approval</li><li>• Identify individuals qualified to serve as the President and CEO</li><li>• Recommend to the Board the appointment of the President and CEO</li></ul>
Committees	<ul style="list-style-type: none"><li>• Review committee assignments and the composition of the committees</li><li>• Recommend to the Board committee members and chairs</li><li>• Establish criteria for the committees' evaluation of their performance and working methods</li><li>• Assist the committees in the annual evaluation</li></ul>
Charters	<ul style="list-style-type: none"><li>• Review and reassess periodically the adequacy of the Board and committee charters</li></ul>
Other	<ul style="list-style-type: none"><li>• Assist the Board in connection with major management reorganisations</li><li>• Meet without members of the management present as necessary</li><li>• Perform any other duties or responsibilities delegated to the committee by the Board from time to time</li></ul>

## President and CEO

Jussi Pesonen has been the President and Chief Executive Officer of UPM-Kymmene Corporation since January 2004. He was born in 1960 and holds a master's degree in process technology from Oulu University, Finland.

According to his service agreement, Jussi Pesonen would have been entitled to retire in November 2020 at the age of 60. At the request of the company's Board of Directors, he will continue as President and CEO until further notice (stock exchange release on 24 October 2019).

Jussi Pesonen has also been a member of the company's Board of Directors since March 2007. He has informed the Board that he will not be available for re-election to the Board in the Annual General Meeting of 2020 (stock exchange release on 24 October 2019).

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. In practice, the President and CEO chairs the Strategy Team, Group Executive Team and Business Area Boards and makes decisions on matters relevant to the company's daily operations. He is also 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 the company's financial affairs have been arranged in a reliable manner.

The President and CEO ensures that the Board receives adequate information on the company's business operations, operating environment, and financial position 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.

## 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. The compositions of these management bodies are presented in the table below and their duties on the first page of this statement in connection with the illustration of the company's governance structure. The management bodies' authority is not based on the Limited Liability Companies Act or the company's Articles of Association but their position

in the company's management system.

Members of the Group Executive Team carry the main responsibility for the business areas and global functions they are heading. The members of the Group Executive Team report directly to the President and CEO. The Group Executive Team members and their biographical details, responsibility areas and shareholdings in the company are presented in the table below.

### COMPOSITION OF MANAGEMENT BODIES

GROUP EXECUTIVE TEAM	BUSINESS AREA BOARDS	STRATEGY TEAM
President and CEO (Chair)	President and CEO (Chair)	President and CEO (Chair)
CFO	CFO	CFO
General Counsel	General Counsel	General Counsel
Business area EVPs	Business area EVP	EVP Strategy
EVPs of global functions	EVPs of global functions	EVP Technology

### MEMBERS OF THE GROUP EXECUTIVE TEAM

EXECUTIVE	TEAM MEMBER SINCE	BORN	EDUCATION	NATIONALITY	POSITION AT UPM	UPM SHARES 31 DEC. 2019 <sup>1)</sup>
Jussi Pesonen	2001	1960	M.Sc. (Eng.)	Finnish	President and CEO	466,472
Tapio Korpeinen	2008	1963	M.Sc. (Tech.), MBA	Finnish	CFO, Executive Vice President, UPM Energy	168,013
Bernd Eikens	2013	1965	Ph.D.	German	Executive Vice President, UPM Biorefining <sup>2)</sup>	84,785
Pirkko Harrela	2004	1960	M.A.	Finnish	Executive Vice President, Stakeholder Relations	92,264
Antti Jääskeläinen	2016	1972	M.Sc. (Eng.), M.Sc. (Econ.), MBA	Finnish	Executive Vice President, UPM Raflatac	23,700
Juha Mäkelä	2008	1962	LL.M.	Finnish	General Counsel	73,894
Jaakko Nikkilä	2019	1967	M.Sc. (Eng.), eMBA	Finnish	Executive Vice President, UPM Specialty Papers <sup>3)</sup>	2,172
Jyrki Ovaska	2002	1958	M.Sc. (Eng.)	Finnish	Executive Vice President, Technology	99,054
Riitta Savonlahti	2004	1964	M.Sc. (Econ.)	Finnish	Executive Vice President, Human Resources	26,781
Winfried Schaur	2016	1965	Dipl.Ing. (FH)	German	Executive Vice President, UPM Communication Papers	50,292
Mika Sillanpää	2013	1958	M.Sc. (Eng.)	Finnish	Executive Vice President, UPM Plywood	52,719
Kari Ståhlberg	2013	1971	M.Sc. (Eng.)	Finnish	Executive Vice President, Strategy	41,971
<b>Total</b>						<b>1,177,117</b>

<sup>1)</sup> Including shares and share-based rights held by the directors' controlled entities, if any.

<sup>2)</sup> As of 1 March 2019. Prior to that, Mr Eikens led UPM Specialty Papers.

<sup>3)</sup> As of 1 July 2019.

## 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 and assessing the effectiveness of 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.

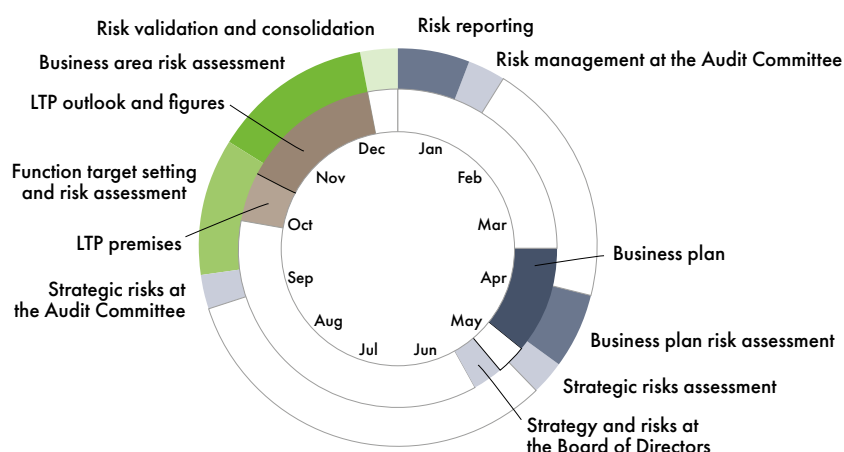
The Risk Management Committee, chaired by the CFO, is responsible for recommending risk tolerances and profile to the President and CEO and the Strategy Team. The Strategy Team is responsible for aligning risk management priorities, business and risk management strategies and policies.

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

### 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.

## ANNUAL RISK MANAGEMENT CYCLE



## Internal control

Internal control is embedded in UPM's management system and it supports systematic 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 and assessing the effectiveness of such control. The Audit Committee assists the Board in monitoring internal control systems' effectiveness.

## 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.

## 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 in the following.

## Control environment

The company's values and the UPM 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.

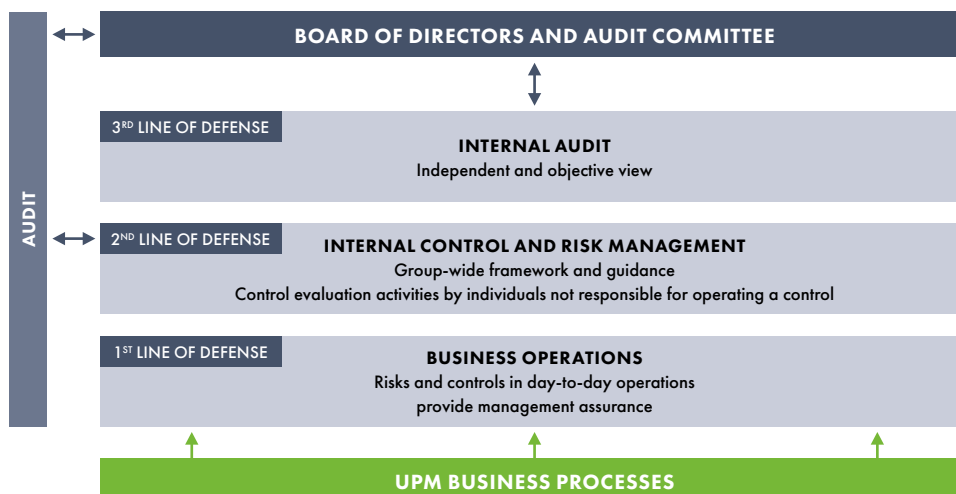
The framework consists of:

- 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.

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



### **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 pertaining to financial reporting are documented and filed in the internal control database. The internal control process is reviewed on an ongoing basis, including possible changes in internal controls due to process or organisational changes. 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 audit and 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. 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 Audit Committee, and the Board of Directors monitors and assesses the effectiveness of the internal audit together with the Audit Committee. 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 contributes to identifying synergies and sharing 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. In order to strengthen the speak-up culture and to harmonise the company's procedures, principles, roles and responsibilities with regard to reporting and investigation of misconduct and other concerns, the company's misconduct investigation protocol was updated in 2018.

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 auditor. The Head of Internal Audit attends all Audit Committee meetings, and has quarterly sessions with the committee members 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 shall be 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).

The company's Board of Directors has defined and approved principles for monitoring and assessment of related party transactions. These principles are documented in the company's approval policy. The Audit Committee monitors and assesses how agreements and other legal acts between the company and its related parties meet the requirements of ordinary course of business and market terms. The Audit Committee also reviews any questions of potential conflicts of interest in contemplated transactions with the company's related parties and makes recommendations to the Board for appropriate actions regarding the contemplated transactions. If the contemplated transaction should deviate from the company's normal business operations or would not be executed on market or market equivalent terms, the transaction shall be either cancelled or submitted for the Board of Directors' approval.

The company's Finance and Control and Compliance functions monitor related party transactions as a part of the company's normal reporting and control procedures. Information on material transactions concluded between the company and its related parties is disclosed annually in the notes to the company's consolidated financial statements. When required under the applicable laws and regulations, material transactions conducted with related parties are also published via stock exchange release.

### **Insider administration**

UPM follows the Guidelines for Insiders of Listed Companies issued by Nasdaq Helsinki Ltd. UPM Insider Policy has been approved by the Board of Directors, and it together with related rules and instructions complement applicable insider regulations and set out guidelines for the company's insider administration and for persons involved in insider projects. The Board of Directors approved the revised version of UPM Insider Policy in December 2019.

### **Organisation of insider administration**

The company's Chief Compliance Officer is in charge of the overall organisation of the company's insider administration. UPM Insider Administration comprising of the General Counsel, Chief Compliance Officer, Group Legal Counsel responsible for securities markets compliance, Insider Administrator and a back-up person for the Insider Administrator is responsible for monitoring compliance with Market Abuse Regulation (MAR), UPM Insider Policy and other applicable insider regulations and guidelines. UPM Insider Administration is also responsible for the ongoing supervision, management and administration of insider and other MAR related matters, including maintenance of insider lists, managers' transactions, notifications to managers, Finnish Financial Supervisory Authority and other relevant parties, as well as for provision of training and advice.

### **List of managers and closely associated persons**

As required by MAR, UPM Insider Administration maintains a list of persons discharging managerial responsibilities (MAR Managers) and their closely associated persons. Each MAR Manager and closely associated person is informed in writing of his/her position as such and related obligations.

At UPM, MAR Managers include the members of the Board of Directors, the President and CEO, the Chief Financial Officer and the Executive Vice Presidents of the business areas. Based on UPM's governance structure, the above-mentioned executives are deemed to comprise the senior executives of the company who have regular access to inside information relating to UPM and power to take managerial decisions affecting the future developments and business prospects of the company.

### **List of financial information recipients**

The company also maintains a list of company employees and other persons who have regular access to the company's unpublished consolidated financial information based on their position, duties or access rights. Persons entered in this list are called financial information recipients. Each financial information recipient is informed in writing of his/her position as such and related obligations.

### Trading restriction

The company's MAR Managers and financial information recipients are prohibited from trading (on their own account or on the account of a third party), directly or indirectly, in the financial instruments linked to UPM during a closed period of 30 calendar days prior to the announcement and on the date of the actual announcement (30 + 1) of UPM's annual, half-year and quarterly financial reports.

### Insider lists

UPM does not maintain a list of permanent insiders. Persons receiving inside information will be included in project-specific insider lists. UPM Insider Administration is responsible for establishing, maintaining and updating of insider lists when a decision to delay disclosure and to establish an insider project is taken. Each person included in an insider list is notified in writing of the inclusion in the list, together with the obligations and sanctions relating thereto. Persons possessing inside information are not allowed to trade in the financial instruments linked to the company. Persons entered in a project-specific insider list are also notified in writing of the termination of the insider project and related obligations.

### Whistleblowing

Any potential violations against UPM Insider Policy or suspected infringements of financial market regulations, such as MAR and Securities Markets Act, can be reported by using UPM's Report Misconduct channel. This channel is available on the corporate website and on UPM Intranet.

## Auditor and auditor's fees

The Annual General Meeting 2019 re-elected PricewaterhouseCoopers Oy, a firm of Authorised Public Accountants, as the company's statutory auditor for a one-year term, with Authorised Public Accountant Mikko Nieminen as the lead audit partner succeeding Merja Lindh who had held this position since 8 April 2014. Mikko Nieminen acts as the lead audit partner also in another listed company, Kesko Corporation. In addition, he is the Chief Executive Officer of PricewaterhouseCoopers Oy.

The latest tendering process for audit services was carried out in 2013. The last year that PricewaterhouseCoopers Oy can act as the company's auditor is 2023.

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 FEES

EUR million	2019	2018	2017
Audit fee	3.1	2.4	2.3
Audit-related services	0.2	0.0	0.1
Tax services	0.5	0.3	0.3
Other services	0.2	0.5	0.5
<b>Total</b>	<b>4.0</b>	<b>3.2</b>	<b>3.2</b>