



# CORPORATE GOVERNANCE STATEMENT 2020

UPM-KYMMENE CORPORATION

# CORPORATE GOVERNANCE STATEMENT 2020

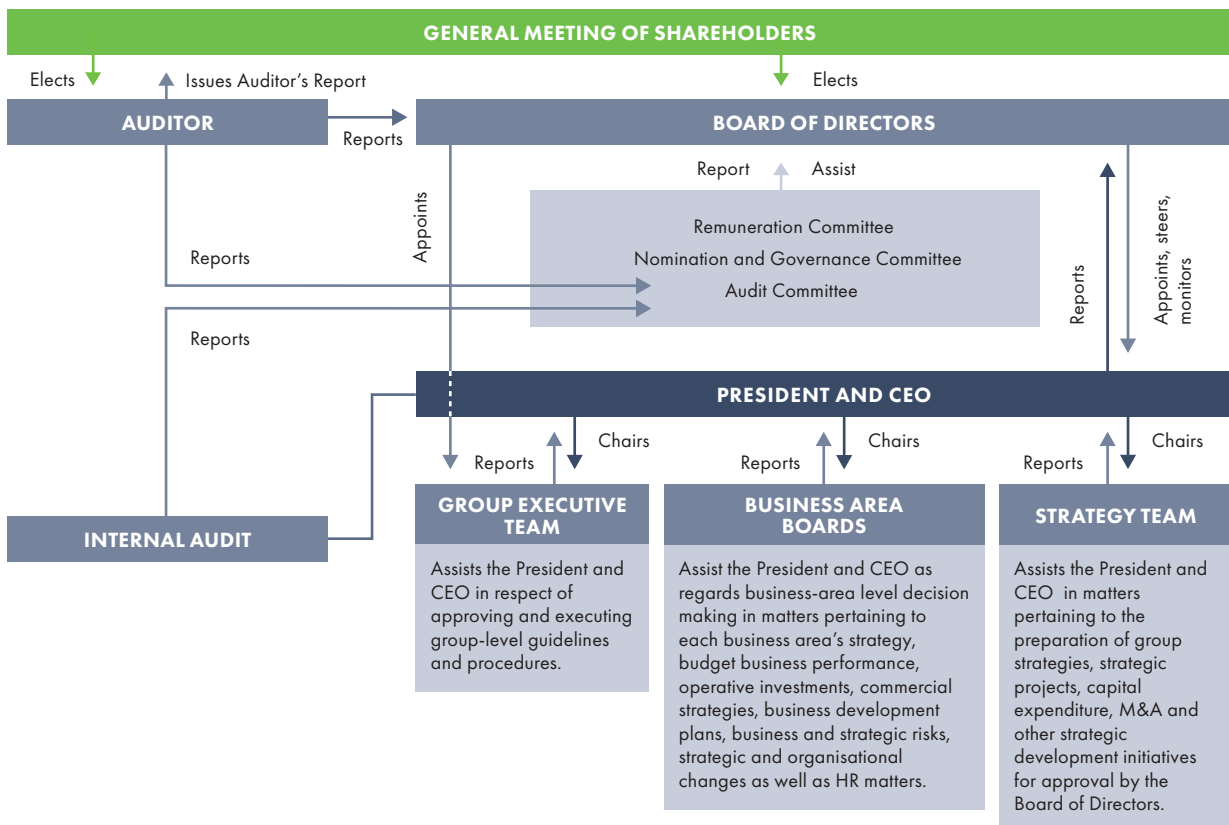
UPM-Kymmene Corporation (UPM or the Company) follows the Finnish Corporate Governance Code 2020 (CG Code) issued by the Securities Market Association and complies with all recommendations of the CG Code. The CG Code is publicly available on the Securities Market Association’s website at [www.cgfinland.fi](http://www.cgfinland.fi).

UPM’s Corporate Governance Statement (CG Statement) for the financial year 2020 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 ([www.upm.com/governance](http://www.upm.com/governance)). The Report of the Board of Directors is presented on pages 118–144 of UPM’s Annual Report 2020, 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 18,000 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.

### GOVERNANCE STRUCTURE OF UPM-KYMMENE CORPORATION



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 on the previous page. 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.

## Governance framework

UPM's decision making, management and operations are guided by our values and by the UPM Code of Conduct. UPM's 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.

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 Nasdaq Helsinki stock exchange.

## Annual General Meeting 2020

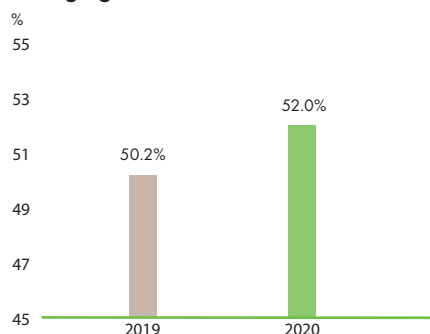
The Company's Annual General Meeting (AGM) 2020 was held by special arrangements on 31 March in Helsinki. Notice of UPM's AGM was published in January. Following the outburst of the COVID-19 pandemic, the Company took extensive measures to be able to hold the AGM as planned so that essential resolutions, such as payment of dividends, could be decided upon. Due to the COVID-19 pandemic, the shareholders were requested not to attend the meeting in person but to appoint a proxy in order to minimise physical presence at the meeting venue. In addition, other precautionary measures, such as dividing the participants into several meeting rooms with video access to the main meeting room, were taken. A total of 2,524 (2019: 3,561) shareholders attended the meeting, mainly by proxy representative. Shareholders attending the meeting represented 52.0% (2019: 50.2%) of the Company's shares and voting rights at the time of the AGM. All decisions at the meeting were made without voting. Information on these decisions is available at [www.upm.com/agm2020](http://www.upm.com/agm2020).

## Board of Directors

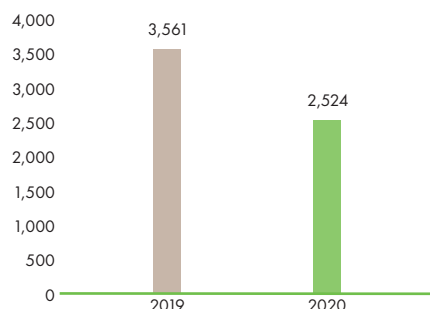
The AGM elected ten members to UPM's Board of Directors for a one-year term, which will end upon the closing of the AGM 2021. Berndt Brunow, Henrik Ehrnrooth, Piia-Noora Kauppi, Marjan Oudeman, Ari Puheloinen, Veli-Matti Reinikkala, Kim Wahl and Björn Wahlroos were re-elected on to the Board. Emma FitzGerald and Martin à Porta were elected as new directors to the Board. Suzanne Thoma and Jussi Pesonen had announced that they will not be available for re-election. All directors are non-executive.



Percentage of represented shares and voting rights in the AGM



Number of shareholders present or represented in the AGM



## COMPOSITION OF THE BOARD OF DIRECTORS, 31 DECEMBER 2020

DIRECTOR	DIRECTOR SINCE	BORN	EDUCATION	NATIONALITY	MAIN OCCUPATION	UPM SHARES 31 DEC. 2020 <sup>1)</sup>
Björn Wahlroos, Chair since 2008	2008	1952	Ph.D. (Econ.)	Finnish	Chair of the Board of Directors of Sampo Plc	268,317
Berndt Brunow, Deputy Chair since 2005	2002	1950	B.Sc. (Econ.)	Finnish	Chair of the Board of Directors of Oy Karl Fazer Ab	314,752
Henrik Ehrnrooth	2015	1969	M.Sc. (Econ.)	Finnish	CEO of KONE Corporation	11,314
Emma FitzGerald	2020	1967	MBA, D.Phil., MA (Surface Chemistry/ Solid-state Physics)	British	CEO and Executive Director of Puma Energy Ltd.	6,808
Piia-Noora Kauppi	2013	1975	LL.M.	Finnish	Managing Director of Finance Finland	21,199
Marjan Oudeman	2018	1958	LL.M., MBA	Dutch	Non-executive Director	5,363
Martin à Porta	2020	1970	M.Sc. (Eng.)	Swiss	Senior Advisor	6,008
Ari Puheloinen <sup>2)</sup>	2014	1951	General Staff Officer	Finnish	General (ret.)	13,339
Veli-Matti Reinikkala <sup>2)</sup>	2007	1957	eMBA	Finnish	Non-executive Director	46,135
Kim Wahl	2012	1960	MBA (Harvard), BA (Business Econ.)	Norwegian	Chair of the Board of Directors of Strømstangen AS.	23,113
Total <sup>3)</sup>						<b>716,348</b>

1) Including shares held by the directors' controlled entities, if any.

2) Not available for re-election at the AGM 2021.

3) At the AGM 2020 Jussi Pesonen and Suzanne Thoma's term ended due to their announcement that they were not available for re-election.

## Director independence

### Independence evaluation process

The Board of Directors evaluates the independence of its members both annually and 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.

### Independence criteria

The directors' independence is assessed based on the independence criteria of the CG Code in addition to other factors and circumstances to be considered when performing an overall evaluation, from both the point of view of the Company and the Board of Directors. The Nomination and Governance Committee also considers additional director independence criteria adopted by it. These criteria are available at [www.upm.com/governance](http://www.upm.com/governance).

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.

### UPM directors' independence

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 have announced a holding of 10% or more of the Company's shares or votes attached thereto.

All directors are non-executive and the Board has also concluded that all directors are independent of the Company, including Berndt Brunow, Veli-Matti Reinikkala and Björn Wahlroos, who have been non-executive directors of the Company for more than ten consecutive years. Based on the Board's overall evaluation of the independence of these directors, their long-standing service does not compromise their independence and no other factors or circumstances have been identified that could affect their independence.

### Board diversity

The Board's diversity principles are included in the Board and committee charters and, more 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 [www.upm.com/governance](http://www.upm.com/governance).

### Diversity aspects and objectives

The overall aim 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 accomplish 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 judgement on a broad range of issues. In order for the Board to comprise an appropriate mix of relevant knowledge and experience, as well as have independence of judgement and diverse perspectives, the Board has set the objective of having certain key qualifications be sufficiently represented on the Board. A sufficient number of the directors on the Board is expected to have the relevant professional experience and education to provide a 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

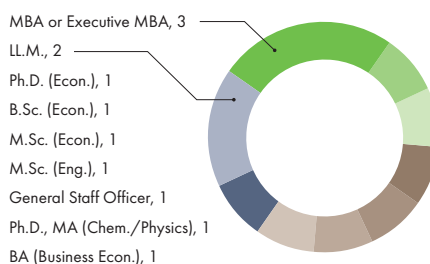
With regard to other factors relevant to Board diversity, it is the Board's objective to include an appropriate number of directors of different nationalities, ages, genders and lengths of service. The Board has set the following measurable objective: Both genders must always be represented on the Board,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

There is no set retirement age for the Board but, as stated in the Board's Diversity Policy, since UPM's strategic agenda, risks and operating needs evolve over time it is acknowledged that the Board will review its skills and experience to develop and refresh its competences and other relevant qualities as needs may arise.

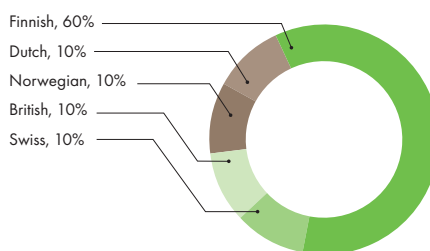
### Implementation and results

In 2020 the number of directors on the Board was ten. At the AGM 2020 the term of two members ended, as they had announced that they were not available for re-election, and two new directors were elected to the Board. Every member of the Board has a university degree and two of them have doctoral degrees. Said degrees cover different areas of study, with the majority being in finance, economics or 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 five different nationalities and speak six different languages as native languages. Regarding age, the directors on the Board evenly represent different ages between 45 and 70. Likewise, their length of service is evenly spread: 50% of the directors have served on UPM's Board for eight or more than eight years and the other half for less than eight years. With regards to the representation of both genders on the Board, female directors count for 30% of all UPM's directors.

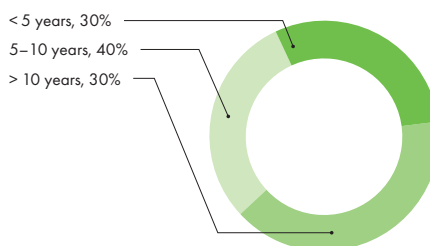
### Board diversity – education



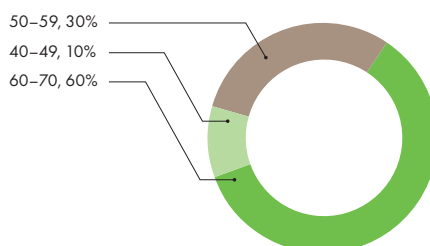
### Board diversity – nationality



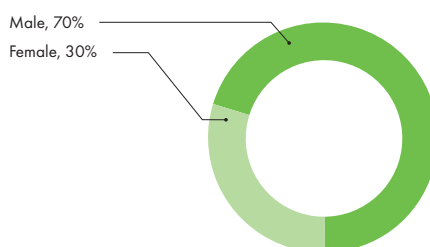
### Board diversity – tenure



### Board diversity – age



### Board diversity – gender



## 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 dividends. Board-re-

lated work was not disrupted, even during the exceptional circumstances caused by the COVID-19 pandemic. The Board convened according to its original meeting schedule, however most of the meetings were held remotely.

The Board has prepared a written charter of 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. This charter is available at [www.upm.com/governance](http://www.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 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 service contracts for the President and CEO and other senior executives</li> <li>Approve the remuneration, including salaries, incentives and other financial benefits for the President and CEO and other senior executives</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 to 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's performance and working methods</li> </ul>
Other	<ul style="list-style-type: none"> <li>Meet regularly without members of management present</li> <li>Consider proposals by shareholders for matters to be dealt with by the general meeting</li> </ul>

### Attendance at meetings

There is no minimum attendance requirement for the directors' attendance at meetings but they are expected to attend

all meetings unless there is a valid reason for non-attendance.

In 2020, the Board held 12 meetings. The average rate attendance at the meetings was 95.6% (2019: 96.4%).

### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2020

DIRECTOR	ATTENDANCE/ NO. OF BOARD MEETINGS	ATTENDANCE %	ATTENDANCE/ NO. OF COMMIT- TEE MEETINGS	ATTENDANCE %	AVERAGE ATTENDANCE %
Björn Wahlroos (Board and NGC Chair)	12/12	100	6/6	100	100
Berndt Brunow (Deputy Chair, NGC member)	12/12	100	6/6	100	100
Henrik Ehrnrooth (RC member)	12/12	100	3/3	100	100
Emma FitzGerald (Board and AC member as of 31 March 2020)	8/9	89	4/4	100	92
Piia-Noora Kauppi (AC Chair)	12/12	100	5/5	100	100
Marjan Oudeman (AC member)	11/12	92	5/5	100	94
Jussi Pesonen (Board member until 31 March 2020)	3/3	100	-	-	100
Martin à Porta (Board and RC member as of 31 March 2020)	9/9	100	2/2	100	100
Ari Puheloinen (NGC member)	12/12	100	6/6	100	100
Veli-Matti Reinikkala (RC Chair)	12/12	100	3/3	100	100
Suzanne Thoma (Board and RC member until 31 March 2020)	2/3	67	0/1	0	50
Kim Wahl (AC member)	12/12	100	5/5	100	100

NGC – Nomination and Governance Committee, RC – Remuneration Committee, AC – Audit Committee

### Performance evaluation of the Board of Directors

The Board of Directors conducts an annual evaluation of its performance and working methods, including an evaluation of the performance and working methods of its committees. The evaluation is usually conducted as a self-evaluation in November and the results are reviewed and discussed at the Board meeting in December. Directors evaluate its performance pertaining to its aforementioned duties and responsibilities, the Board's composition and structure, Board culture, the effectiveness of Board meetings and the performance of individual Board members and the Board's Chair. Identified areas for improvement are considered when planning the Board-related work, and the Nomination and Governance Committee takes the results into consideration when preparing its proposal for the composition of the Board to the Annual General Meeting.

### Board Committees

To further improve the preparation of matters for the Board to decide on, it has established three committees that are composed of its members:

- Audit Committee
- Remuneration Committee and
- Nomination and Governance Committee

The Board appoints the members of each committee and its respective Chair from amongst its members annually, during its constitutive meeting following the Annual General Meeting. Each committee has at least three members.

The Board remains 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 provided by the committees. The committees also assist the Board in its oversight and monitoring responsibilities.

All committee members are independent both of the Company and its significant shareholders, so the committees fulfil their respective independence criteria, as set out in the Finnish CG Code. In the appointment of committee members, the respective qualification requirements have also been taken into account.

## COMMITTEE MEMBERS AND THEIR ATTENDANCE AT COMMITTEE MEETINGS IN 2020

COMMITTEE	MEMBERS	ATTENDANCE/ NO. OF MEETINGS	ATTENDANCE %
Audit Committee	Piia-Noora Kauppi (Chair)	5/5	100
	Emma FitzGerald (Director and Committee member as of 31 March)	4/4	100
	Marjan Oudeman	5/5	100
	Kim Wahl	5/5	100
Remuneration Committee	Veli-Matti Reinikkala (Chair)	3/3	100
	Henrik Ehrnrooth	3/3	100
	Martin à Porta (Director and Committee member as of 31 March)	2/2	100
	Suzanne Thoma (Director and Committee member until 31 March)	0/1	0
Nomination and Governance Committee	Björn Wahlroos (Chair)	6/6	100
	Berndt Brunow	6/6	100
	Ari Puheloinen	6/6	100

### Committee charters

The written committee charters approved by the Board of Directors set forth the purpose, composition, operations and duties of each committee, as well as the prerequisites of committee membership. The committee charters are available at [www.upm.com/governance](http://www.upm.com/governance).

### Committee-related work

The committees hold their meetings prior to Board meetings in order to prepare matters to be decided by the Board. The Committee Chairs report on matters discussed and actions taken by the committees during the Board meetings. In addition, minutes from the committee meetings are available to the Board members for information purposes.

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 a self-evaluation and evaluate the performance of their duties and responsibilities, their working methods, the composition of the committee 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 methods of working common to all committees, each committee is responsible for performing the duties assigned to it in its charter. More information on committee duties and responsibilities is available on this and the following pages.



### Audit Committee

The Audit Committee is responsible for overseeing the Company's financial reporting processes and financial

reporting, internal control, internal audit and risk management and for monitoring the Company's audit and compliance procedures.

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 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</li><li>• Review internal audit reports</li><li>• Approve the 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</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 auditor selection procedure</li><li>• Prepare the proposal for the auditor's remuneration</li><li>• Prepare the proposal for the auditor's election or re-election</li><li>• Evaluate the auditor's qualifications and performance</li><li>• Monitor and assess the auditor's independence</li><li>• Review the experience, qualifications and performance of senior members of the audit engagement team</li><li>• Ensure the rotation of the auditor's lead audit partner 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 compliance</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 dealing with 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 that require Board approval</li><li>• Make recommendations to the Board for appropriate actions regarding contemplated related party transactions that require Board approval</li></ul>
Other	<ul style="list-style-type: none"><li>• Meet separately with representatives of management at least twice a year</li><li>• Meet regularly without members of management present</li><li>• Perform other duties and functions that may be assigned by the Board or deemed necessary or appropriate by the committee itself to ensure full oversight</li></ul>

In addition to the Audit Committee's assigned matters and reports as listed above, the Audit Committee also reviewed reports on non-financial matters, cyber security, UPM's COVID-19 related response plans and climate-related

financial disclosures (TCFD). Furthermore, the committee also reviewed the preparation of UPM's Euro Medium Term Note (EMTN) programme.

### Remuneration Committee

The Remuneration Committee is responsible for preparing the Company's remuneration principles and practices and

for planning the remuneration and succession of the President and CEO, as well as other senior executives.

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 once a year</li> <li>Present the Remuneration Policy for governing bodies 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 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 senior executives</li> </ul>
Management remuneration	<ul style="list-style-type: none"> <li>Make recommendations to the Board concerning salaries and other financial benefits for 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 annual Remuneration Report</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 yearly 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 performance of the President and CEO and other senior executives 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 once a year</li> <li>Review succession plans for the President and CEO and other senior executives and report to the Board on such matters at least once a year</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 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>

In addition, the Remuneration Committee also focused on the Remuneration Policy presented to the AGM 2020, as

well as the preparation of the Remuneration Report to be presented to shareholders at the AGM 2021 for the first time.

### Nomination and Governance Committee

The Nomination and Governance Committee is responsible for the composition, diversity and remuneration of the

Board of Directors and corporate governance. If necessary, the committee also identifies individuals who are qualified to serve as the President and CEO.

#### 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 succession needs of the Board</li><li>• Prepare a proposal for the election or re-election of members of the Board and present the said proposal to the Annual General Meeting</li><li>• Identify candidates for election or re-election to the Board</li><li>• Evaluate shareholders' potential proposals regarding Board 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 Board members in accordance with the Remuneration Policy</li><li>• Present the proposal regarding 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 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 approval</li><li>• Identify individuals qualified to serve as the President and CEO</li><li>• Recommend the appointment of the President and CEO to the Board</li></ul>
Committees	<ul style="list-style-type: none"><li>• Review committee assignments and composition</li><li>• Recommend committee members and Chairs to the Board</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>• Periodically review and reassess 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 reorganisation</li><li>• Meet without members of 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>

In addition to the Nomination and Governance Committee's assigned matters and reports, in 2020 it also focused on the new requirements for remuneration reporting as set out in

the new CG Code, as well as considering the arrangements for the AGM in the exceptional circumstances caused by the COVID-19 pandemic.

## 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 was entitled to retire in November 2020, at the age of 60. At the request of the Company's Board of Directors, he continues as the President and CEO with no set retirement age. Jussi Pesonen was also a member of the Company's Board of Directors 2007-2020, his term ended at the AGM 2020.

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 is the Chair of the Group Executive Team, Strategy Team and Business Area Boards and makes decisions on matters that are relevant to the Company's daily business operations. He is also responsible for arranging the Company's day-to-day administration, ensures that the Company's accounts are in compliance with the law and also ensures that the Company's financial affairs are reliably presented.

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. Their duties are presented on the first page of this Statement, in

connection with the illustration of the Company's governance structure. The authority of each management body 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.

## 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 have primary responsibility for the business areas and global functions that they lead. Members of the Group Executive Team report directly to the President and CEO.

## MEMBERS OF THE GROUP EXECUTIVE TEAM 2020

EXECUTIVE	TEAM MEMBER SINCE	BORN	EDUCATION	NATIONALITY	POSITION AT UPM	UPM SHARES 31 DEC. 2020 <sup>1)</sup>
Jussi Pesonen	2001	1960	M.Sc. (Eng.)	Finnish	President and CEO	504,710
Tapio Korpeinen	2008	1963	M.Sc. (Tech.), MBA	Finnish	CFO, Executive Vice President, UPM Energy	184,755
Bernd Eikens	2013	1965	Ph.D.	German	Executive Vice President, UPM Biorefining	101,661
Pirkko Harrela	2004	1960	M.A.	Finnish	Executive Vice President, Stakeholder Relations	101,358
Antti Jääskeläinen	2016	1972	M.Sc. (Eng.), M.Sc. (Econ.), MBA	Finnish	Executive Vice President, UPM Raflatac	37,341
Juha Mäkelä	2008	1962	LL.M.	Finnish	General Counsel	82,988
Jaakko Nikkilä	2019	1967	M.Sc. (Eng.), eMBA	Finnish	Executive Vice President, UPM Specialty Papers	3,655
Jyrki Ovaska	2002	1958	M.Sc. (Eng.)	Finnish	Executive Vice President, Technology	108,148
Riitta Savonlahti	2004	1964	M.Sc. (Econ.)	Finnish	Executive Vice President, Human Resources	32,231
Winfried Schaur	2016	1965	Dipl.Ing. (FH)	German	Executive Vice President, UPM Communication Papers	66,036
Mika Sillanpää	2013	1958	M.Sc. (Eng.)	Finnish	Executive Vice President, UPM Plywood	63,467
Kari Ståhlberg	2013	1971	M.Sc. (Eng.)	Finnish	Executive Vice President, Strategy	51,065
<b>Total</b>						<b>1,337,415</b>

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

## 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 audits assist the Board of Directors with monitoring 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 environments 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 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.

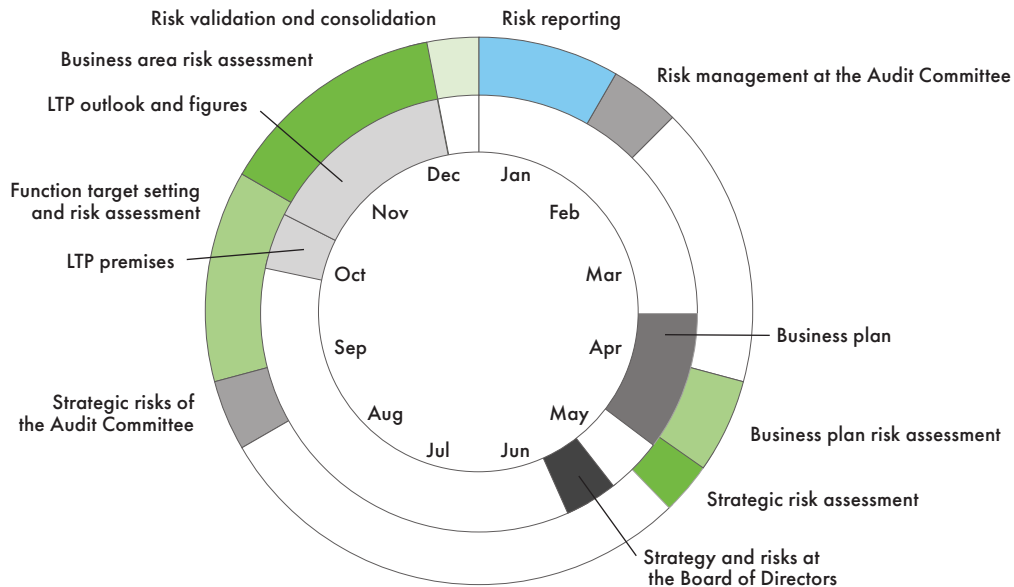
The Risk Management Committee, chaired by the CFO, is responsible for recommending risk tolerances and profiles to the President and CEO and the Strategy Team. The Strategy Team is responsible for aligning risk management priorities, business and risk management strategies and policies.

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 the 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 the internal control systems' effectiveness.

### Internal control system

The Company has developed and implemented a comprehensive internal control system that covers business and

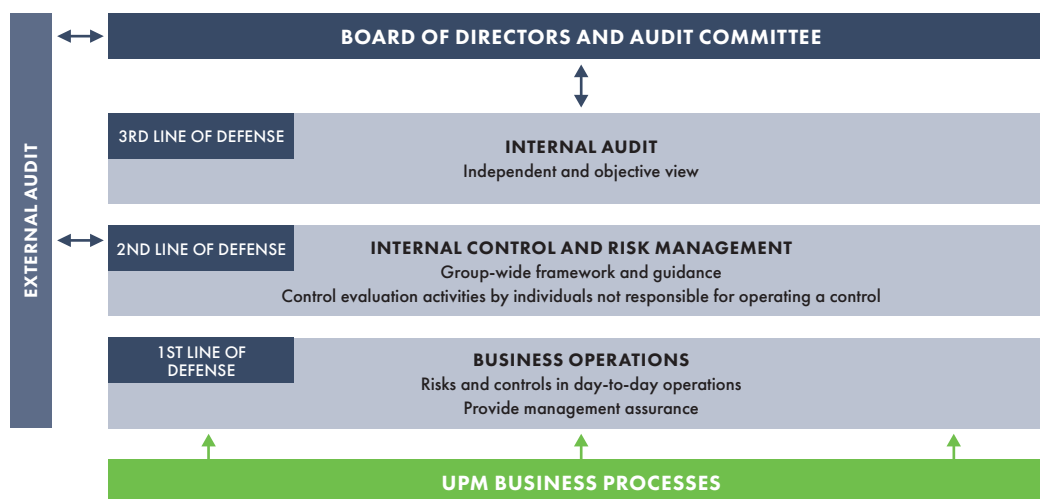
financial reporting processes. UPM's internal control framework is based on the internal control framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

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 defence model, which is reflected in UPM's risk management and control processes.

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



### Internal control pertaining to the 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 also ensured through 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 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 within the group. The Company's management system enables effective monitoring of 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 the day-to-day.

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 aim 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 in financial reporting within 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 the financial reporting process are led centrally by Finance and Control function, which has 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. 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. 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 reconciliation 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 and includes 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, Audit Committee, President and CEO, Group Executive Team, Finance and Control function, and the different business areas are responsible for monitoring, thus ensuring the effectiveness of internal controls. The effectiveness of the process for assessing risks and the execution of control activities is reviewed on an ongoing basis at various levels. Monitoring and reviewing includes reviewing monthly and quarterly financial reports and comparing them to budgets and targets, key performance indicators and other analytical procedures.

The internal audit monitors and utilises the risk assessment and 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, as well as 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 evaluating and improving risk management, internal control and governance processes.

The 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 auditing 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 annually approves Internal Audit's plan and budget, which form the framework for Internal Audit operations.

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

In addition, Internal Audit manages the Report Misconduct channel and the related investigation process of alleged misconduct 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.

Internal Audit operates administratively under the President and CEO and functionally under the Audit Committee. It reports on conducted audits and related findings and recommendations to the Audit Committee, President and CEO, CFO, 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 the energy industry).

The Company's Board of Directors has defined and approved principles for monitoring and assessing 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 these contemplated transactions. If the contemplated transaction deviates from the Company's normal business operations or would not be executed on market or market equivalent terms, the transaction must either be cancelled or submitted for the Board of Directors' approval.

The related party transactions are monitored in cooperation with Finance and Control, Legal and Compliance functions 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 on 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. The UPM Insider Policy has been approved by the Board of Directors and, together with related rules and instructions, it complements applicable insider regulations and sets out guidelines for the Company's insider administration and persons involved in insider projects.

### Organisation of insider administration

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

### List of managers and closely associated persons

As required by MAR, UPM's 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 the 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, as well as the 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 on this list are called "financial information recipients". Each financial information recipient is informed in writing of his/her position as such and the 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's Insider Administration is responsible for establishing, maintaining and updating insider lists when a decision to delay disclosure or to establish an insider project is taken. Each person included on an insider list is notified in writing of their inclusion on 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 on 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's Insider Policy or suspected infringements of financial market regulations, such as MAR and the Securities Markets Act, can be reported by using UPM's Report Misconduct channel. This channel is available on the corporate website and on UPM's intranet.

### Auditor and auditor fees

At the AGM 2020, PricewaterhouseCoopers Oy, a firm of Authorised Public Accountants, was re-elected as the Company's statutory auditor for a one-year term, with Authorised Public Accountant Mikko Nieminen as the lead audit partner. In addition, he is the Chief Executive Officer of PricewaterhouseCoopers Oy.

The most recent tendering process for auditing services was carried out in 2013. Following the stipulations of the Auditor Regulation, the last year that PricewaterhouseCoopers Oy can act as the Company's auditor is 2023.

The audit fee to be paid against invoices, approved by the Board of Directors' Audit Committee, was also approved at the AGM. The amounts paid to the auditor, as approved by the Audit Committee, are shown in the table below.

### AUDITOR'S FEES

EUR MILLION	2020	2019	2018
Audit fee	3.8	3.1	2.4
Audit-related services	0.1	0.2	0.0
Tax services	0.4	0.5	0.3
Other services	0.2	0.2	0.5
<b>Total</b>	<b>4.5</b>	<b>4.0</b>	<b>3.2</b>

In 2020, auditor's fees include EUR 0.1 (0.1) million related to audit services, EUR 0.0 (0.2) million related to tax services and EUR 0.2 (0.2) million related to other services paid to PwC Oy.