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UPM does not publish a separate environmental and corporate responsibility report but has integrated the contents into this annual report. Various highlights from the year 2013 can be found under the sections for each business area. The GRI content index is on pages 51–52. To find out more about UPM’s responsibility agenda, please visit [www.upm.com/responsibility](http://www.upm.com/responsibility).
UPM – The Biofore Company

UPM integrates bio and forest industries and builds a sustainable future across six business areas.

In 2013, UPM’s sales totalled EUR 10.1 billion. UPM has production plants in 14 countries and a global sales network. UPM employs approximately 21,000 employees worldwide. UPM shares are listed on the NASDAQ OMX Helsinki stock exchange. At the end of 2013, UPM had 94,568 shareholders.

UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses and plantation operations. UPM has four modern pulp mills in Finland and Uruguay and four sawmills in Finland. UPM’s biorefinery for producing wood-based renewable diesel will start up in summer 2014 in Finland. The main pulp customers are producers of tissue, specialty papers and board as well as the oil and petrochemicals industry for biofuels. Timber customers are construction, joinery and furniture industries. UPM aims to grow as a reliable pulp supplier and seeks growth in advanced biofuels.

UPM Energy generates cost competitive low-emission energy and operates in physical and derivatives trading on the Nordic and Central European energy markets. UPM’s energy generation capacity consists of hydropower, nuclear power, condensing power and wind power. UPM Energy aims to grow on the Nordic CO₂ emission-free energy market.

UPM Raflatac

UPM Raflatac manufactures self-adhesive label materials for product and information labelling for label printers and brand owners in the food, personal care, pharmaceutical and retail segments, for example. UPM Raflatac is the second-largest producer of self-adhesive label materials worldwide. UPM Raflatac aims to advance in growth markets and strengthen its position in specialty labelstock products.

UPM Paper Asia

UPM Paper Asia serves growing markets with fine papers in Asia and labelling materials globally. The operations consists of the UPM Changshu paper mill in China and labelling and packaging materials production lines at the UPM Tervasaari and UPM Jämijärvenmäki mills in Finland. The main customers are retailers, printers, publishers, distributors and paper converters. UPM Paper Asia seeks growth in office papers in China and the Asia-Pacific region, and in labelling materials worldwide.

UPM Paper ENA (Europe and North America)

UPM Paper ENA produces magazine paper, newsprint and fine papers for a wide range of end uses in 18 modern paper mills in Europe and the United States. The main customers are publishers, retailers, printers and distributors. UPM has a global paper sales network and an efficient logistics system. UPM Paper ENA focuses on cost leadership and improved profitability to secure cash flow.

UPM Plywood offers plywood and veneer products, mainly for construction, transport and other manufacturing industries. UPM is the leading plywood supplier in Europe, with production in Finland, Estonia and Russia. UPM Plywood aims to improve profitability and the value offering and service packages for selected end-use customers.

Other operations

Wood Sourcing and Forestry secures competitive wood and biomass for all UPM businesses using wood and manages UPM-owned forests. In addition, UPM offers a wide range of wood trade and forestry services to forest owners and forest investors. UPM Biocomposites and UPM Biochemicals units are also included in Other operations.
During 2013, we launched a number of measures to increase profitability. Our growth initiatives also proceeded well.

The implementation of the new company business structure was a major milestone. The business group structure introduced in 2008 had fulfilled its purpose. Within that framework, we created commercial platforms and market-driven business organisations for Energy and Pulp. We also achieved profitability turnaround in the Timber and Plywood businesses and restructured our European Label business. These are all now healthy UPM businesses in their own right.

The new business structure is based on six business areas and is already off to a good start. We expect that the new structure will sharpen the focus, targets and required actions for each area.

At the same time we also announced a short-term profitability improvement programme targeting EUR 200 million in cost savings by the end of 2014. The implementation of the programme is proceeding rapidly and by Q4 we had achieved 48% of the targeted savings.

We have also set ourselves clear targets over the next three years for focused growth initiatives in biofuels, wood-free uncoated speciality papers and labelling materials in China, label materials and pulp production. These projects aim to increase EBITDA by EUR 200 million. In parallel with this process we also seek to simplify our business portfolio.

Satisfactory results in 2013

In terms of business performance, 2013 started off with a brisk headwind but ended with satisfactory results thanks to the many profit improvement measures. Operating profit excluding non-recurring items improved to EUR 683 million (556 million). Thanks to a strong operating cash flow we were able to reduce our net debt by EUR 170 million throughout the course of the year.

In particular, the UPM Biofinning, UPM Plywood and UPM Paper ENA (Europe and North America) business areas were able to improve their performance significantly through active internal measures.

Many pulp mills in the UPM Biofinning business area were able to break their production records last year which boosted our pulp volumes. The granting of permission to increase pulp production in the UPM Fray Bentos mill in Uruguay also had a positive impact on the results for the final quarter of 2013.

Plywood performance has improved consistently throughout the year. Both the sales strategy and production efficiency have been in management's particular focus with excellent results. In Paper ENA, decreasing volumes and prices as well as unfavourable exchange rates were sources of serious headwind throughout the year and called for strong cost-saving actions. By the end of the year the business had managed to restore its profitability to the level of the previous year and had a significantly more competitive cost structure than in early 2013.

UPM Energy was able to maintain unchanged average electricity prices. In UPM Raflatac there were positive sales developments, particularly in the growth markets. Despite challenging currency developments in Asia, the performance of UPM Paper Asia was satisfactory.

Responsibility brings competitive advantages

Sustainable and responsible operations are at the core of UPM’s Biofore strategy. We are strongly committed to continuous improvement in economic, social and environmental performance. To enhance transparency towards our stakeholders, we have adopted the Global Reporting Initiative (GRI) reporting framework. Our target is sustainable operations that will bring us competitive advantages in various businesses.

Also in 2013, UPM’s consistent work in the area of responsibility received third-party recognition. The company was again listed in the Dow Jones Sustainability Indices. The companies which perform better against sustainability criteria than their competitors are selected in the indices.

Our efforts to make UPM a safer place to work were successful for a second year in a row. The Step Change in Safety programme has reduced the accident frequency by over 60% in two years. Every UPMer can take pride in creating a safer working culture within UPM. There is still some way to go, but we are on the right track.

Outlook

Growth in the European economy is expected to remain low in 2014, but also to improve from last year. Growth in the US and developing economies is expected to continue to outperform Europe.

UPM’s business outlook for the first half of 2014 is broadly stable. UPM has a versatile business portfolio with many well performing businesses. Our upward investment project is proceeding according to plan. The Lappeenranta biorefinery reached full construction height last year and will start the production of renewable wood-based diesel during the summer of 2014. The advanced renewable diesel is made from crude tall oil, a residue from pulp production. Renewable diesel opens up a new horizon for the company’s growth prospects. In the long term, also biocomposites and biochemicals will complement UPM’s range of new products. The versatile use of forest biomass, competitiveness and being at the forefront of developments will advance UPM’s Biofore strategy in 2014. The transformation of the company has proceeded rapidly and I am proud of the change readiness that UPMers have shown in the face of these changes. This gives us confidence in proceeding further with our profitability and growth initiatives.

Our goal is to enhance the value of UPM businesses. The Board’s dividend proposal of EUR 0.60 indicates the owners’ confidence in UPM’s stable outlook and its ability to reinvest itself.

Jussi Pesonen
President and CEO
Shifting gear in UPM transformation

In 2013, UPM adopted a new business structure to facilitate UPM transformation and performance and to drive clear change in profitability. Profit improvement target is EUR 400 million from performance improvement and focused growth initiatives.

1. Profit improvement programme EUR 200 million
2. EBITDA target for growth initiatives EUR 200 million

Business portfolio development and value creation

Vision
As the frontrunner of the new forest industry UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future. Cost leadership, change readiness, engagement and safety of our people form the foundation of our success.

Purpose
We create value from renewable and recyclable materials by combining expertise and technologies within fibre-based, energy-related and engineered materials businesses.

Values
Trust and be trusted
Achieve together
Renew with courage

The size of pictures corresponds to the businesses’ portion of the Group’s EBITDA.
Biofore strategy in a changing operating environment

The world around us is changing rapidly and the future will bring both opportunities and challenges that we have never experienced before. Global demand for resources – oil, food, water and energy – is surging, driven by global population growth, urbanisation and a growing middle class in the emerging markets. Climate change has already emerged as a major global phenomenon. Furthermore, the shifting of economic power from West to East and the increasing pace at which business is conducted and digital technologies are becoming integrated into our everyday life challenge the operating environment considerably. UPM’s Biofore strategy fits well into this changing world.

Renewables: UPM’s products are based on sustainably sourced renewable raw materials.

More with Biofore: Making more of less is central to UPM’s resource efficiency as well as a major source of cost efficiency.

Recycling: Most of UPM’s products are recyclable and UPM recycles many of them into new products such as paper, biocomposites and energy.

Energy: In energy generation, whether in electricity, heat or biofuels, UPM’s operations are based on variable, low-emission and cost-competitive energy sources. UPM is continuously improving its energy efficiency.

Growth markets: UPM has an attractive platform for growth in Asia, Latin America and Eastern Europe in pulp, paper, label materials and wood products businesses – serving the growing consumption in a sustainable way.

Efficient operations: Cost efficient and scalable operations are important in all businesses, but form the cornerstone of success in the mature European and North American graphic paper business.

Innovation: UPM’s knowhow and strong position in the wood processing – or bioforestry – value chain is utilized to innovate new sustainable businesses with large target markets and higher value added. Many of these new renewable alternatives will replace non-renewable products.

Responsibility: UPM applies the same high standards for environmental performance, safety at work, sourcing and code of conduct everywhere in the world.

The result of the global change drivers support UPM’s businesses in the long term, but they do not affect all UPM businesses equally. This means that strategies, target costs, targets and actions vary throughout different UPM businesses in order to capture opportunities and mitigate challenges in both the short and long term.

New business structure to facilitate UPM transformation and performance

In 2013, UPM adopted a new business structure. The company now consists of the following businesses: UPM Bioforestry (pulp, biofuels and sawn timber), UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA (Europe and North America) and UPM Plywood. Other operations include UPM’s wood sourcing and forestry and UPM Biochemicals business units. Each business area has a defined strategic role and clear targets, outlined in the next table.

With the new structure, UPM aims to:

- Adopt a lean and simple structure: The new structure enables faster decision making and more differentiated target setting for the various businesses. The simplified organisation is cost efficient and scalable to the business needs.

Drive performance: UPM aims for top business area performance in its respective markets. To get a strong start towards this goal, UPM announced a short-term profitability improvement programme targeting EUR 200 million of annualised cost savings by the end of 2014 as compared with Q2 2013. The programme includes both variable and fixed cost savings and involves all business areas.

Capture growth opportunities: UPM has several businesses with attractive long-term fundamentals for growth and profitability. UPM has defined a portfolio of organic growth initiatives for the next three years and targets additional EBITDA of EUR 200 million when all the initiatives are in operation. The growth initiatives include the renewable diesel bio refinery in Lappeenranta, Finland, a further increase in pulp production capacity through debottlenecking actions in all four existing pulp mills, the new production unit for wood-free specialty papers and labelling materials at UPM Changshu, China and continued growth in the wood products business in Western Europe.

Develop the business portfolio: UPM now has the opportunity to decide on how to best uncover and increase the value of its business portfolio. This process may involve changes to ownership structures.

Create new businesses: Biofore is a good example of UPM innovation, with the renewable diesel bio refinery in Lappeenranta, Finland, under construction and coming into operation in summer 2014. Other new businesses include biocomposites that are already being marketed to customers as well as biochemicals and biofuels that are currently in the development phase.

Focus on responsibility and leadership

Corporate responsibility is an integral part of all our operations and is seen as a source of competitive advantage. UPM is strongly committed to continuous improvement in economic, social and environmental performance. Over the past years, UPM has focused heavily on improving safety at work and on further improving the environmental performance of production units. Special attention has also been paid to contractor safety. (Read more on pages 38 and 39).

Achieving the ambitious targets requires high performing people and teams to drive business transformation. This also highlights the importance of being an attractive employer with inspiring and empowering leaders who offer diverse opportunities to perform and grow. To ensure the sustainable success of our businesses and the people who make it happen, UPM’s management is paying special attention to performance orientation and employee engagement.

EVENTS

17 June: UPM changes Paper and Energy businesses’ asset values to reflect the fair values

14 March: UPM wins Sustainable Biofuels Award in Rotterdam

11 June: UPM signs joint development agreement with Remaitec Inc. in biochemicals

17 June: UPM and Ashland Inc. announce collaboration on application development for UPM’s biotransformation business

6 Aug: UPM announces its new business structure to be effective 1 November 2013

13 Sept: UPM reviews its worldwide position in the Dow Jones Sustainability Index

16 Sept: UPM forms wire Technology Innovation Award for plastic industry in China

24 Oct: UPM announces plans to streamline global functions and wood sourcing and forestry

UPM BIOFORESTRY

Growth in cost-competitive, high quality pulp and advanced biofuels

Efficient seven timber business

Unite synergies and increase value added in bioforestry

Actions in 2013

Increased productive permit for UPM Fray Bentos pulp mill in Uruguay

Subsidizing activities identified in all pulp mills targeting 10% increase in production capacity

Strategic pulp sales and marketing cooperation with Carbio Pulp

Continued construction of Lappeenranta bio refinery to produce wood-based sustainable diesel, recruitment and training of operational personnel started

Sale of Patakovo sawmill in Russia, Angelstorp further processing mill in France and Kaukas further processing operations in Finland

UPM ENERGY

Expected in reliable, cost-competitive and low emission power generation

Value creation with physical trading and hedging

Continued O&I construction

ODS planning

Relubalisation of hydropower plants continued

UPM RAFLATAC

Growth through product renewal and in emerging markets

Growth in emerging markets continued based on expansion of distributor terminal network in 2012

Growth based on new higher value added products continued

Manufacturing operations in Switzerland, South Africa and Australia discontinued as part of the profit improvement programme

UPM PAPER ASIA

Growth in Chinese and Asian paper markets

Growth in the global labels paper market

Investment in the new production unit for wood-free specialty papers and labeling materials at UPM Changshu, China

UPM PAPER ENA

Cash flow generation and cost efficiency

Consolidation in Europe

New, leaner organisation

Probability improvement actions involving fixed and variable cost savings

Class of UPM Strand and UPM Doodles blocked in January 2014 paper mills in France, UPM Rauma PWG in Finland and UPM Utingen PMH in Germany

Construction of CHP power plant investment at UPM Schoorl, Germany continued

UPM PLYWOOD

Operational efficiency and flexibility

Increased productivity on the extracted production assets

Improved sales following the customer-driven organisation initiated in 2012

UPM FORMS commercialisation progressed with several customers in various end use segments

Joint development agreement with Remaitec Inc. in biochemicals

Cooperation agreement with Ashland Inc. on development for UPM’s biotransformation business

WOOD SOURCING AND FORESTY

Secure competitive business

Build 36,000 hectares of forest land remote from UPM mills

Development of supply chain efficiency and services implementation of a new way of operating

Drivers for UPM’s businesses

- Energy prices and security of supply
- Integrating European markets
- Climate change
- Aging population in developed markets
- GDP growth, urbanisation and growing middle class in emerging markets
- Digitalisation – from print to screen
- Change in economic gravity, from mature to emerging markets
- Raw materials scarcity
- Sustainability and renewable
- Replacing oil-based materials
- Recycling and renewing

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UPM Annual Report 2013

UPM Annual Report 2013
UPM as an investment

UPM aims to increase shareholder value

At the business area level, UPM targets top performance in their respective markets. To reach this target, UPM has announced a profitability improvement programme targeting EUR 200 million in cost savings by the end of 2014 compared to Q2-2013 earnings. To expand the well performing businesses with positive long term fundamentals, UPM will implement designated growth initiatives over the next three years, targeting additional EBITDA of EUR 200 million when all the initiatives are in full operation.

UPM is seeking to simplify and develop its business portfolio in order to uncover and increase its value. Increasing the share of highly profitable businesses with good fundamentals for growth improves the company’s long term profitability and boosts the value of the shares.

Strong operating cash flow is important for UPM as it enables the realisation of organic growth initiatives and new business development, as well as paying attractive dividends to UPM shareholders. The company aims to maintain a strong balance sheet to enable portfolio changes that increase UPM’s shareholder value.

Responsibility is an integral part of UPM’s Biofore strategy. Good corporate governance, target-oriented leadership, appropriate working conditions and community involvement are essential to UPM’s way of working.

UPM’s expertise in renewable and recyclable materials, low-emission energy and resource efficiency is the key to developing new, sustainable business opportunities with high added value. Proactive corporate responsibility work also enables business impacts and risks to be efficiently identified and mitigated. UPM’s consistent efforts in this area continued to gain external recognition in 2013 (read more on page 10).

Dividend policy

UPM intends to pay an annual dividend of at least one third of the net cash flow from operating activities minus operational capital expenditure. To promote dividend stability, net cash flow will be calculated as an average over a three-year period. Remaining funds will be shared between growth capital expenditure and debt reduction. The net cash flow from operating activities for 2013 was EUR 209 million.

5-YEAR SHARE PERFORMANCE AND VALUATION MULTIPLES

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share price at 31 Dec, EUR</td>
<td>12.28</td>
<td>8.81</td>
<td>8.51</td>
<td>13.22</td>
<td>8.32</td>
</tr>
<tr>
<td>Earnings per share, excluding special items, EUR</td>
<td>0.91</td>
<td>0.74</td>
<td>0.93</td>
<td>0.99</td>
<td>0.11</td>
</tr>
<tr>
<td>Dividend per share, EUR</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.55</td>
<td>0.45</td>
</tr>
<tr>
<td>Operating cash flow per share, EUR</td>
<td>1.39</td>
<td>1.98</td>
<td>1.99</td>
<td>1.89</td>
<td>2.40</td>
</tr>
<tr>
<td>Effective dividend yield, %</td>
<td>6.9</td>
<td>6.6</td>
<td>7.1</td>
<td>4.2</td>
<td>5.4</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>19.5</td>
<td>neg</td>
<td>9.2</td>
<td>13.8</td>
<td>75.6</td>
</tr>
<tr>
<td>P/BV ratio</td>
<td>0.87</td>
<td>0.82</td>
<td>0.60</td>
<td>0.97</td>
<td>0.66</td>
</tr>
<tr>
<td>EBITDA/turnover</td>
<td>8.3</td>
<td>6.0</td>
<td>5.8</td>
<td>7.6</td>
<td>7.6</td>
</tr>
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Market capitalisation, EUR million

6,497 | 4,633 | 4,646 | 6,874 | 4,326

UPM's Biofore strategy received external recognition in 2013 for its climate, forestry and innovation actions.

UPM regained its position in both the Dow Jones European and World Sustainability Indices (DJSI) for 2013-2014. UPM was also assessed as the industry leader in environmental sustainability within the Paper and Forest Products sector, with top scores.

Innovation plays a key role in developing resource-efficient solutions for a more sustainable world. In March, UPM Biofuels received the Sustainable Biofuels Award for its success in developing an innovative production process for an advanced renewable diesel, UPM BioVerno. So, even before production has started, UPM's wood-based diesel production process has won a major international prize.

Read more: www.upm.com/responsibility
Earnings sensitivities
Changes in sales prices
The biggest factor affecting UPM’s financial results is the sales price of paper. A change in the volume delivered has less than half of the effect of the same percentage change in sales prices.

Exchange rate risk
Changes in exchange rates over a prolonged period have a marked impact on financial results. It is the company’s policy to hedge an average of 90% of its estimated net currency cash flow for 12 months ahead. At the end of 2013, UPM’s estimated net currency cash flow for the coming 12 months was EUR 1.720 million. The US dollar represented the biggest exposure, at EUR 970 million.

Financial targets
UPM sets internal financial targets for each business area and the whole Group. The financial targets emphasize the importance of cash flow and the financial flexibility of the company in steering the businesses.

The company’s long-term target is an operating profit margin that exceeds 10%. The return on equity target is at least five percentage points above the yield of a 10-year risk-free investment such as the percentage points above the yield of a 10-year government bond. At the end of 2013, UPM’s return on equity margin exceeded 10%.

The company’s long-term target is an operating profit margin that exceeds 10%.

Cost structure
The company’s biggest cost items are costs of fibre raw material and personnel expenses.

Costs, excluding depreciation
The biggest factor affecting UPM’s financial results is the sales price of paper. A change in the volume delivered has less than half of the effect of the same percentage change in sales prices.

Foreign currency net cash flow
Gearing

Operating profit excluding special items compared with target
% of sales
12
9
6
3
0
12
9
6
3
0
09 10 11 12 13
ROE compared with target
% 12
9
6
3
0
12
9
6
3
0
09 10 11 12 13
Net interest-bearing liabilities and gearing
%
12
10
8
6
4
2
0
100
80
60
40
20
0
5,000
3,000
1,000
0
100
80
60
40
20
0
5,000
3,000
1,000
0
ROE excluding special items, % Minimum target
Gearing, %

Risk management
UPM’s business operations are subject to various risks which may have an adverse effect on the company. The list below is not complete but it explains some of the risks with their potential impacts and how UPM manages those risks today.1)

1) A more detailed description of risks and risk management is included in the Report of the Board of Directors on page 67.
UPM annual chemical pulp production capacity is 3.3 million tonnes, produced in four modern, efficient pulp mills in Finland and Uruguay.

UPM is building the world’s first biorefinery producing wood-based renewable diesel. Production will start in summer 2014. The pulp mills produce renewable energy in their recovery boilers and provide CO2-neutral biomasa-based electricity. As a result of the pulp production, mills produce crude tall oil, which is the raw material in the world’s first biorefinery producing wood-based renewable diesel, in Lappeenranta, Finland. Sawmills have a central role in the wood supply chain, as their by-products are used in the production of pulp and energy. In UPM’s pulp business, UPM benefits from efficient use of raw wood materials and integrated production, where residues are refined into new value-added business.

**UNIQUE MARKET POSITION IN ASIA**

In the past three years, UPM’s pulp sales in China and the Asia Pacific region (APAC) have multiplied more than five times. At the same time, the number of customers has multiplied by nine. The majority of Asian sales go to China but UPM has strengthened its presence geographically with new customers in South Korea, Indonesia, Taiwan and Vietnam.

UPM focuses on customers operating in the growing end-use areas of tissue, board and specialty papers. Demand for their end products, such as facial tissues, toilet paper and label papers as well as packaging board, is driven by urbanisation and economic growth. The biggest end-use area for UPM’s pulp in China is tissues. Demand for tissue papers is expected to grow by 7% in the next 5-10 years.

UPM’s office in Shanghai is located close to its customers and the sales and service team is able to support them or react promptly to any feedback or enquiries. Close co-operation with UPM’s global R&D network enables technical analysis and studies in the local R&D centre in Changshu, China.

**EVENTS**

- **26 April**: UPM and VIT initiates fleet tests of wood-based diesel using Volkswagen cars
- **13 July**: UPM sells the Pietarinen mill in Russia
- **14 Aug**: UPM sells further processing operations at the Koozin mill in Finland
- **2 Oct**: UPM completes the sale of the Aigrefeuille kraft mill in France
- **3 Oct**: State of Uruguay grants UPM’s pulp mill in Paraguaná permission to increase annual pulp production
- **7 Nov**: UPM and Canfor Pulp enter into a strategic sales and marketing co-operation agreement, starting in January 2014. UPM’s sales network represents and co-markets Canfor Pulp’s products in Europe and China, while Canfor Pulp’s sales network represents and co-markets UPM Pulp in North America and Japan. This co-operation provides customers with the most versatile range of northern softwood, birch, eucalyptus and mechanical pulp available on the global market, in combination with world-class technical service.

In 2013, UPM completed the rebuild of the effluent treatment plant at the UPM PiteåsSJ mill in Finland. The rebuild covered all the main phases of waste water treatment and improved the mill’s production efficiency and environmental performance.

In November, UPM and Canfor Pulp decided to increase its strategic sales and marketing co-operation agreement, starting in January 2014. UPM’s sales network represents and co-markets Canfor Pulp’s products in Europe and China, while Canfor Pulp’s sales network represents and co-markets UPM Pulp in North America and Japan. This co-operation provides customers with the most versatile range of northern softwood, birch, eucalyptus and mechanical pulp available on the global market, in combination with world-class technical service.

In 2013, the average softwood pulp (NBSK) market price was EUR 646/tonne (634/tonne) and the average hardwood pulp (BHKP) market price was EUR 596/tonne (585/tonne). At the end of the year, the softwood pulp market price was EUR 685/tonne (613/tonne) and the hardwood pulp market price was EUR 557/tonne (507/tonne).

GLOBAL CHEMICAL PULP SUPPLY CHAIN

Global chemical pulp shipments increased by 4% from the previous year. Shipments to China and North America increased by 8%, while shipments to Western Europe remained the same.

Sawn timber demand increased in 2013. The increase was led by exports to Asia and North Africa. Demand in Europe remained fairly stable.

R&D

UPM has been able to reduce process water consumption significantly in its pulp mills. In UPM’s newest mill in Fray Bentos, Uruguay, the consumption of process water is among the lowest in the industry.

In its sawmills, the UPM Kymi mill in Finland, the UPM Kaukas mill in Russia and the UPM Vimpelin mill in Finland.

**MARKET REVIEW**

Chemical pulp market prices increased during the first half of 2013. Softwood pulp (NBSK) and hardwood pulp (BHKP) market prices diverged during the second half of the year.

Balanced market conditions supported additional price increases for softwood market pulp during the second half of 2013. The currency-denominated price remained stable as the USD/EUR exchange rate weakened.

In hardwood pulp, market prices decreased during the second half of the year as new capacity entered the market impacting the supply-demand balance.

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UPM Energy – Profitability remained high

UPM Energy has a versatile set-up of cost competitive low-emission power generation plants in Finland consisting of hydropower, nuclear power, condensing power and wind power. The electricity is sold on the Nordic electricity market.

The total electricity generation capacity of the UPM Energy business area in 2013 amounted to 1,610 MW, including UPM’s own hydropower plants and shareholdings in energy companies. UPM Energy’s largest shareholdings include 44.7% of Fortum Oyj’s (Forte) hydropower shares, 19% of Kapasers Oy’s (Kovo) hydropower shares, and the energy business area of TVO. UPM Energy is the second largest electricity generator in Finland and is active in the Nordic and Central European electricity market for electricity, gas, coal and emission allowances.

Having achieved competence in physical and derivative trading and developed an organisation over the past few years, UPM Energy has turned its energy operations into a market-driven utility business. Utilising its capacity and trading competences, UPM Energy aims to grow on the Nordic CO2, carbon-emission-free energy market.

Business performance
Operating profit decreased due to lower hydro-power generation volumes in 2013 compared to record-high hydro-power generation in 2012, as a result of exceptionally good hydrology in Finland. Thanks to a successful hedging strategy the average electricity sales price increased by 2% to EUR 46.1/MWh (45.2/MWh). Profitability continued to be strong.

Business development
UPM Energy operates in the Nordic electricity market in power generation and physical and financial trading. UPM’s versatile and cost competitive low-emission power generation provides nuclear power as base load capacity, hydropower as controllable capacity and condensing power as reliable peak load capacity. UPM Energy is the second largest electricity generator in Finland and is active in the Nordic and Central European energy market for electricity, gas, coal and emission allowances.

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More value in hydropower
UPM is the owner or co-owner of four hydropower plants operating on the Kemijoki river in Finland. In 2013, UPM Energy began to operate three of the plants.

Co-operation and co-ordination between plant owners has increased the production efficiency of all power plants. Benefits of the co-operation are such as joint planning, transparency of processes and better consideration of environmental aspects along the length of the river.

Thanks to its adjustability, hydropower plays an integral part in the reliability of an energy system. By co-ordinating and adjusting the operation of the hydropower plants, UPM Energy benefits for all of the power plant owners.

UPM’s hydropower plant renovation project will be completed in Harjavalta, where the plant will be refurbished and modernised. The refurbishment will increase generation capacity and adjustability, and improve the operational efficiency and environmental safety of the power plant. The project is scheduled for completion by the end of 2017 and will significantly increase the production of renewable energy in Finland.

UPM has systematically broadened and deepened its expertise in energy production, energy trading and portfolio management in the last few years.

Upstream and Element Power established a wind power development joint venture.

UPM has continuously upgraded its hydro-power production assets. Through its ownership of Länsi-Suomen Voima Oy, UPM decided to refurbish and modernise the Harjavalta hydropower plant to increase generation capacity. At the Voikkaa hydropower plant, refurbishment of the third unit was completed in 2013.

In April, UPM and Element Power established a wind power development joint venture in order to develop wind power production possibilities at a number of sites throughout Finland, primarily on land leased from UPM. Based on preliminary wind measurements, UPM has several land assets that are suitable for wind power production.

The largest ongoing project is at TVO, which is building a third nuclear power reactor, OL3, at Olkiluoto, Finland. The new unit will have an annual nuclear power generation capacity of approximately 1,600 MW. In 2013, the civil construction works were completed and the main components of the reactor were installed. Planning, documentation and licensing of the reactor plant automation continued through PVO, UPM is entitled to approximately 500 MW of capacity, which accounts for approximately 31% of the new plant’s output for the project.

In June, UPM decided to participate in the share issue from PVO to finance the OL3 project. UPM’s share of the issue is EUR 119 million, of which EUR 31 million was paid in Q2 2013. The remaining part of the share issue will be implemented during the coming years based on the financing needs of the project.

In July 2010, the Finnish parliament ratified the government’s favourable decision-in-principle concerning TVO’s application to construct OL4, its fourth nuclear power plant unit. UPM participates in the financing of the bidding and engineering phase of OL4.

Market review
The hydrological balance in Finland fluctuated in 2013 and was on average lower than in 2012. During the first half of the year the balance remained above the long-term average. However, a prolonged period of dry weather deteriorated the hydrological balance during the third quarter, whereas wet weather conditions in the fourth quarter restored the balance to close to normal levels by year-end.

The Nord Pool electricity system spot price was slightly higher than in the previous year, mainly due to a deteriorating hydrological balance in Scandinavia. The Finnish area price was above the Nord Pool system price as transmission cable maintenance work between Finland and Sweden limited imports, and at the same time imports from Russia remained low. In the past, electricity has flowed from Russia to Finland at a fairly steady level based on bilateral trade. Since 2011, electricity trade between Finland and Russia has gradually become price-driven, and import volumes are determined in the electricity exchange by the price levels in the markets on both sides of the border.

The average Finnish area spot price on the Nordic electricity exchange in 2013 was EUR 41.2/MWh, 13% higher than during the same period the previous year (EUR 36.6/MWh).

As a result of a weak European economy and oversupply of emission allowances, the CO2 emission allowance price decreased. The approval by a majority of EU member states for withdrawing (‘backdating’) emission allowances in the EU emissions trading system in the autumn did not stimulate the price in a meaningful way. At the end of December, the CO2 emission allowance price was EUR 4.7/t, 50% lower than on the same date the previous year (EUR 8.7/t).

The Finnish area front-year forward price closed at EUR 38.9/MWh in December, 15% lower than on the same date last year (EUR 36.5/MWh).

R&D
R&D work at UPM Energy focuses on improving the efficiency and cost competitiveness of biomass-based energy technologies. To reach its target, UPM Energy participates in several research programmes. These programmes are looking for new innovative solutions to improve the design and operation of large-scale energy conversion systems using biomass fuel mixtures.

In 2013, UPM Energy continued with the joint research programme covering the entire value chain of biocoal, i.e. torrefied biofuel that is aiming to replace coal in energy production. The programme will be completed in 2014.

Capacity to generate power through own power plants and shareholdings

<table>
<thead>
<tr>
<th>Capacity (MWh)</th>
<th>Hybridpower</th>
<th>Nuclear power</th>
<th>Condensing power</th>
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<tbody>
<tr>
<td>Total UPM</td>
<td>557</td>
<td>483</td>
<td>179</td>
</tr>
<tr>
<td>Total TVO</td>
<td>1,030</td>
<td>427</td>
<td>120</td>
</tr>
<tr>
<td>Total</td>
<td>1,686</td>
<td>910</td>
<td>299</td>
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Electricity generation

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<th>Area</th>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tr>
<td>Nordic Pool</td>
<td>7.3</td>
<td>7.4</td>
<td>7.5</td>
<td>7.5</td>
<td>7.2</td>
</tr>
<tr>
<td>Finnish</td>
<td>9.2</td>
<td>8.9</td>
<td>8.5</td>
<td>8.2</td>
<td>8.8</td>
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</table>

Specific CO2 emissions in electricity generation

<table>
<thead>
<tr>
<th>Year</th>
<th>Hydropower</th>
<th>Nuclear power</th>
<th>Condensing power</th>
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</thead>
<tbody>
<tr>
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<td>150</td>
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SALES

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<tr>
<th>AVERAGE ELECTRICITY GENERATION CAPACITY</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR million</td>
<td>EUR 166 million</td>
<td>EUR 166 million</td>
</tr>
<tr>
<td>%</td>
<td>27%</td>
<td>27%</td>
</tr>
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</table>

More value in hydropower

<table>
<thead>
<tr>
<th>Capacity (TWh)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydropower</td>
<td>708</td>
<td>708</td>
</tr>
<tr>
<td>Nuclear power</td>
<td>811</td>
<td>811</td>
</tr>
<tr>
<td>Condensing power</td>
<td>122</td>
<td>122</td>
</tr>
<tr>
<td>Total</td>
<td>1,640</td>
<td>1,640</td>
</tr>
</tbody>
</table>

Capacity to generate power through own power plants and shareholdings

Hydropower: 1,610 MW
Nuclear power: 683 MW
Condensing power: 177 MW

Total UPM: 1,686 MW
Total TVO: 1,030 MW
Total: 2,716 MW

Electricity generation

<table>
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<tr>
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UPM Raflatac – Healthy growth in specialty labels and new markets

Business performance
Operating profit decreased from the previous year, mainly due to lower sales margin. Expanded operations enabled volume growth, more than offsetting the increase in fixed costs. Price pressure remained stiff.

Business development
In the past few years, UPM Raflatac has expanded its product offering and presence in rapidly growing markets, and has continued to strengthen its position in specialty labelstock products, particularly in developed markets. This growth strategy produced satisfying results in 2013.

UPM Raflatac has significantly enhanced its service and manufacturing network by opening new slitting and distribution terminals and has invested in new technology. UPM Raflatac achieved strong 17% growth in these markets in 2013 compared to 2012. UPM Raflatac will continue to expand in these growing markets in line with its strategy.

In developed markets such as Western Europe and North America, UPM Raflatac has continuously strengthened its offering in specialty products. Focused efforts in distribution, marketing and product development have also enabled faster growth in specialty products. In 2013, UPM Raflatac achieved above average market growth in high added value products, approximately 15% compared to 2012.

Through continued initiatives, UPM Raflatac will enhance its specialty product offering. In 2013, rapidly growing markets represented approximately 30% of UPM Raflatac’s volumes, and developed markets 70%.

UPM Raflatac has competitive labelstock factories and a broad distribution network of sales offices and slitting and distribution terminals. Thanks to this set-up, UPM Raflatac was able to restructure and improve efficiency in 2013, without impacting the product range, service and deliveries offered to customers.

In July, UPM Raflatac announced plans to reduce labelstock production capacity in Europe, South Africa and Australia to secure cost competitiveness and profitability in markets where the demand situation is not in line with production capacity. Based on this plan, the labelstock factory in Martigny, Switzerland, the coating operations in Durban, South Africa, and the slitting and distribution terminal in Johannesburg, South Africa, were closed and production was reorganised and moved to other factories. The coating operations in Melbourne, Australia will be closed in spring 2014.

Market review
Label materials have a wide range of end uses: food and beverage labelling, retail and logistic applications, personal care, home care and durables, and security and pharmaceutical labelling. Roughly 80% of self-adhesive label stock demand is driven by private consumption and the remaining 20% depends on industrial production. Continuous product development creates new end-use applications. The label materials market offers growth potential around the world. In terms of volume, growth potential is strongest in Asia, Latin America and Eastern Europe. In the mature markets of Western Europe, the United States and Japan, growth is mainly driven by product renewal and tailored solutions. Although most growth is in developing markets, the main volume shift comes from mature markets.

Along with a gradual, albeit slow, improvement in the macro-economic environment, growth in the global demand for self-adhesive labelstock improved over the year. Demand in Western Europe is estimated to have improved slightly, especially during the second half of the year, whereas in North America demand is estimated to have experienced modest growth during the course of the year. In Eastern Europe, Asia and Latin America growth continued, but at a lower level.

Products driven by private consumption, e.g. those for food, beverage and personal care end uses, fared better than products used in industrial production and logistics.

Average raw material costs remained stable. Raw material costs decreased in the first half of 2013, and increased slightly during the second half of 2013. Average sales prices decreased.

R&D
In the specialty business, UPM Raflatac focused on developing new high added value products to its range. New adhesive solutions for the wine industry and various new security-ty labelling solutions were introduced in 2013. The product capabilities were also expanded to gummed and pressure sensitive postage stamps as well as multilayer film laminates.

In the standard products, a large number of paper-based products were re-engineered for greater cost efficiency and improved performance. This re-engineering activity was particularly focused on the Asian markets. New thinner film products were also introduced to improve the cost competitiveness of the films products.
**UPM Paper Asia – Growth and healthy profitability**

**Business performance**
Operating profit decreased in 2013, mainly due to lower fine paper prices. Deliveries remained on the same level as the previous year.

**Business development**
UPM Paper Asia seeks growth in office papers in China and the Asia-Pacific region, and in labelling materials worldwide.

The fine paper market is nearly 40 million tonnes in the Asia-Pacific region, and the demand outlook is healthy. China is by far the largest market in the Asia-Pacific region, offering the strongest growth opportunities. In recent years, new paper machine investments, especially in China, have increased production capacity faster than demand has increased, which has resulted in intensified competition.

In fine papers, UPM focuses on high quality office papers and selectively on coated and uncoated graphic papers, where UPM Paper Asia holds a strong position. Demand in the office paper segment is expected to grow by approximately 3-5% per annum in the Asia-Pacific region and by twice as much in China.

In labelling materials, UPM focuses on high quality release liners and face papers for various end uses. UPM has invested consistently for labelling materials over the last 15 years, and current assets at the UPM Tervasaari and UPM Jämsänkoski mills are performing well, providing added value in a growing market.

The annual growth of UPM’s labelling materials is expected to be approximately 3-5% worldwide. In developing markets, fast urbanisation, growing middle classes and higher income levels are the main drivers for demand growth in labelling materials. Demand growth is also supported by rapid development of retailers, distributor networks and automated product labelling. Mature market demand is driven by economic activity and characterised by increasing demand for customer-specific solutions.

Investment for the third production unit focusing on wood-free uncoated specialty papers and labelling materials at the UPM Changshu mill in China is proceeding.

The investment will facilitate growth and enhance the cost efficiency and global market coverage of labelling materials. In addition, it provides an excellent platform for strengthening UPM’s global partnerships with self-adhesive labelstock customers and expanding with these products in Asia with a local production facility. The production unit is expected to start up by the end of 2015.

**Market review**
Fine paper prices decreased in Asia during 2013. The slide levelled off towards the end of the year, and price increases in selected markets were implemented. On average, market prices were lower than the previous year, which was compounded with the negative currency impact in some of UPM’s major markets.

In 2013, demand for fine paper increased only slightly in Asia, though the growth varied by product and market segment. There was overcapacity in all major fine paper grades in Asia.

Demand growth and Chinese government actions to shut down technically outdated, non-environmentally friendly paper capacity will relieve the situation in the medium term. This development is supported by a growing number of Asian customers who are looking for certified environmentally friendly products, enhancing UPM’s competitive position.

**EMAS REGISTRATION FOR UPM CHANGSHU MILL**

UPM Changshu is the first paper mill to be awarded EU Eco-Management and Audit Scheme (EMAS) registration in China.

“The environmental performance of the UPM Changshu paper mill has been very good (see examples on the left and we have already fulfilled the basic requirements set by the EMAS certification, but registration only became a possibility recently,” explains Environmental Manager Lisheng Jin.

“The certification highlights transparency regarding reporting emissions to water, air and soil. We have to follow and fulfill domestic and international environmental regulations very strictly. EMAS audits are an excellent way to improve our environmental performance further,“ Jin notes.

In 2012, the UPM Fray Bentos pulp mill in Uruguay became the first non-European site ever to achieve EMAS registration.

Read more: www.upm.com/responsibility
BUSINESS PERFORMANCE

SALES

2013 5,560 EUR million
2012 6,192 EUR million

OPERATING PROFIT *)

2013 0 EUR million
2012 81 EUR million

*) excluding special items

UPM’s OPERATING PROFIT 2013 (excl. special items)

EUR million

TOTAL 683
0%

MATERIAL EFFICIENCY IMPROVED AT UPM STEYRERMÜHL

UPM Steyrermühl paper mill has achieved significant results in material efficiency (see example on the left) in total, the mill saves some 1.1 million euros annually due to production process improvements, including savings generated by reduced process chemicals.

The improvements are part of the Paper business’ material efficiency programmes launched in 2011. The programme aims to reduce process water consumption and lower the amount of suspended solids. Thanks to these achievements, both material and cost efficiency have improved.

“The success of the material efficiency programme is the result of employee engagement and good co-operation at UPM Steyrermühl. We have already made major steps and we still have ideas for further improvement,” said General Manager Matthias Scharer.

The project group consists of specialists from different areas of mill processes. Based on the development ideas, a total of 14 projects to improve material efficiency have been put into effect.

UPM Steyrermühl’s ideas and achievements have also been shared with other UPM mills.

KEY FIGURES

2013 2012

Sales, EUR million 5,560 6,192
Operating profit excl. special items, EUR million 0 81
Capital employed (average), EUR million 2,672 4,739
ROCE excl. special items, % 0 17
Personnel on 31 Dec 11,081 11,886
Paper deliveries, 1,000 t 8,910 9,901

EVENTS

7 Jan: Costed programme paper production started at UPM Södra Säve.
17 Jan: UPM announces plans to reduce graphic paper capacity in Europe by 580,000 tonnes.
8 April: UPM closes down the PM9 at UPM Rauma mill in Finland and the PM4 at UPM Ettlingerg in Germany.
6 May: UPM finalises the sale of its closed Spånga paper mill.

The strict capital expenditure policy continues. Capital expenditure within the UPM Paper business area was EUR 92 million (155 million). The largest ongoing investment is the combined heat and power plant project at UPM Schongau in Germany. With the EUR 85 million investment, UPM aims to reduce energy costs significantly and secure the energy supply for the mill. The start-up is scheduled to take place by the end of 2014.

Market review

The European market paper continued to be impacted by the recession. In 2013, demand for graphic papers decreased by 5% in Europe. The decrease was steeper in the first half of the year, which was also reflected in the paper price development. Graphic paper prices decreased at the beginning of the year and remained largely stable during the second half of the year. On average, graphic paper prices were 4% lower than in 2012. Due to the challenging market conditions, graphic paper production capacity was closed during the second half of the year, especially in newspapers, where the supply-demand balance was also improved. Newsprint prices increased during the second half of the year. Supported by continuous growth in the US economy, demand for magazine papers decreased only 1% in North America. The average US dollar price for magazine papers was slightly lower than in the previous year.

Magazine publishers in Europe experienced a steeper decrease in readership and circulation figures. The number of advertising pages decreased, mainly due to the continuous weak economy but also due to advertisers allocating spending from print to digital media as a result of changes in consumers’ time usage. In Europe, magazine advertising expenditure decreased by 8% compared to the previous year. Spending on magazine advertising in North America, the Asia-Pacific region and Latin America, on the other hand, decreased by approximately 2%.

The year 2013 was also challenging for newspaper publishers. Both printed newspaper titles and circulations decreased in Europe. Newspapers advertising expenditure decreased by 8% in Europe in 2013. Direct mail end-use and demand from the retail sector remained stable in 2013. The increase in several studies, direct mail continues to play an important role in multi-channel marketing campaigns. Confidence that direct marketing provides higher returns on marketing spend is also high among retailers.

R&D

The R&D work focuses on improving cost efficiency through the material efficiency programme launched in 2011. One key target is to reduce water consumption at the paper mills (Read more on the outcome at the UPM Steyrermühl mill on page 21.) UPM is also studying ways to exploit denitrogenization processes and to recycle surplus materials coming from paper mills to use waste streams more efficiently.

GROWTH

Key growth drivers for the coming years include, as already mentioned: print to digital migration, multi-channel advertising, and improving the customer experience. The company is committed to achieve its sustainable development targets set in strategy 2015. According to the previous asset review 2014, the overall capital spending has been secured for the next 3-5 years.

FCC, which was launched in 2008, has contributed significantly to the company’s cost efficiency improvement and is an important platform for enhancing customer and employee satisfaction. The programme’s focus areas are operating costs, material efficiency, energy efficiency and product cost efficiency.

A total of 138 projects have been completed in the programme, and 28 projects are ongoing. The main project groups were operating costs, material efficiency, energy efficiency and product cost efficiency. The programme is being continuously restructured.

In 2013, the programme covered 16 projects, and material efficiency projects accounted for 7 projects.

The project group consists of specialists from different areas of mill processes. Based on the development ideas, a total of 14 projects to improve material efficiency have been put into effect.

UPM Paper ENA – Enhancing operational focus through simplified structure

UPM Paper ENA (Europe and North America) provides newspapers, newspapers, fine papers and fine papers for a wide range of end uses.

The main customers are publishers, retailers, printers and distributors.

The annual production capacity is 10.2 million tonnes, manufactured in 18 modern paper mills in Finland, Germany, Switzerland, France, Austria and the United States.

UPM has a global sales network and an efficient logistics system.

The combined heat and power (CHP) plants operating on paper mill sites are included in the business area.

-45% FRESH WATER

-23% WASTEWATER LOAD

3,200 TONNES OF FIBRES AND FILLERS RETURNED BACK TO PRODUCTION

2,200 MWH IN ENERGY SAVINGS

CONTENTS
UPM Plywood – Improved profitability thanks to increased deliveries and strict cost control

Plywood is a composite product made of renewable raw materials with excellent strength-to-weight properties. It is used in building and construction, as well as in a number of industrial applications such as transportation equipment.

UPM’s annual plywood and veneer production capacity is approximately one million cubic metres.

Progress was good in demanding end-use segments.

UPM sells its plywood and veneer products under the registered trademark WISA. The new thermoformable wood material is sold under the trademark UPM Grada.

Business performance
Operating profit increased due to higher delivery volumes and lower fixed costs. Mix adjusted average price was slightly higher than in the previous year, whereas variable costs remained fairly stable.

Business development
The UPM Plywood business area is aiming to improve its profitability. It is also aiming to improve the value offering and service packages for selected end-use customers.

The market environment remained fairly similar for UPM Plywood in 2013 compared to the previous year. Activity in the European construction sector remained weak in general, whereas deliveries to more demanding end-use segments outside Europe increased. During the second half of the year, deliveries to construction-related end-use segments in certain markets in Europe revived slightly compared to the second half of 2012. Deliveries for industrial applications in Europe remained stable over the year.

In order to stand out in the competitive plywood market following a lengthy slowdown in Europe over the past few years, UPM Plywood has successfully established business outside Europe in more demanding end-use segments, such as the LNG (liquefied natural gas) industry. Investment activity in LNG terminals and carriers is high, and the outlook remains promising. UPM Plywood has also intensified its efforts to improve customer focus, agility and cost competitiveness alongside the major restructuring measures that have been implemented over the past few years. Through strict cost control and focused cost reduction initiatives, cost inflation was largely mitigated in 2013.

The extension and modernisation work at the Savonlinna birch plywood mill in Finland was completed in 2012. As a result of the refurbishment, the Savonlinna mill is one of the world’s most technically advanced birch plywood mills, with a broad product offering of high quality special birch plywood. Mill performance improved in 2013.

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R&D
UPM Plywood’s product and technology development work focused on creating new customer-focused products that are more economic with good functional properties.

Development of rigid structures for vehicle flooring continued with pilot installations for selected customers. In addition, plywood with high friction surface was in the development pipeline.

UPM Plywood also developed new patent pending vision technology machine for veneer production. The new measuring technology enables improved raw material utilisation and new type of product solutions.

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** **
Innovations to replace non-renewable materials with renewable alternatives

Biofuels are a topical example of UPM’s innovation work, with the renewable diesel biofinery in Lappeenranta due to start operating in summer 2014. Other new businesses include biocomposites, which are already being marketed to customers from the mechanical electronics and biofuels, which are currently in the development phase.

The versatility of renewable wood biomass, combined with material efficiency, resource efficiency and sustainability, is the cornerstone of UPM’s Biofore strategy. Innovations are at the forefront of the creation and development of new products that can be used to replace non-renewable materials with renewable, recyclable and low-impact alternatives and provide resource-efficient alternatives for the future. The objective of UPM’s R&D programmes and business development is to create new technologies and products for UPM’s developing businesses and to provide support for its current businesses and ensure that they remain competitive. In particular, improvements in material efficiency and recyclability make it possible to consume fewer resources and raw materials in production processes.

In developing businesses, UPM’s development expenditure has increased steadily. The majority of UPM’s R&D input is focused on new technologies and businesses. In total, UPM spent approximately EUR 155 million (8.1%) on research and development for existing and developing businesses, which equates to 20.6% (8.8%) of UPM’s operating cash flow.

On top of the direct R&D expenditure of approximately EUR 38 million (45 million), the figures include negative operating cash flow and capital expenditures in developing businesses. The focus is on developing biofuels, biocomposites, biofuels and bio-added-value materials. In 2013, the UPM BioFore section on page 13.

New applications in UPM Biocomposites

In 2013, UPM combined its two composite units, UPM Profi and UPM Formi, to form UPM Biocomposites. The business unit develops products for a wide range of consumer and industrial applications.

UPM Profi and UPM Formi composites combine the best characteristics of natural fibres and plastics. Their principal ingredients are cellulose fibres and polymers, which can be either virgin or recycled. The composites can be recycled and are non-toxic.

UPM Profi products are used for decking and other outdoor end uses. They are made mainly from the surplus paper and plastic left over from the production of self-adhesive label materials. In 2013, the UPM Profi decking product portfolio was expanded to include a new solid profile decking board.

UPM Formi composite is used to replace plastics in many applications, from furniture to consumer electronics and high-end speakers. UPM Formi is manufactured from cellulose fibres and plastics. Around half of the oil-based plastic is replaced with cellulose fibres in the biocomposite. (Read more on the new applications page 45.)

Products manufactured from UPM Formi comply with food contact material requirements stipulated in EU and US Food and Drug Administration (FDA) regulations. The composite also complies with EU toy safety regulations.

In 2013, UPM Biocomposites developed new material and coating technologies combining the two different composites which improve product quality and the cost effectiveness of the production processes.

Business opportunities with UPM Biochemicals

In 2013, UPM combined its biochemicals-related business initiatives to form UPM Biochemicals. The unit develops wood-based chemical building blocks, performance chemicals and biofuels.

Product development at UPM Biochemicals is at the pre-commercial phase, and UPM is actively developing and testing industrial applications with its partners in Finland and abroad in order to create mid-scale industrial concepts.

Chemical building blocks are a cost competitive replacement for fossil-based monomers and chemicals such as intermediates to bioplastics. Performance chemicals utilise the basic structure of the natural biopolymers of wood, such as lignin and hemicellulose. These structures provide a unique performance for adhesives, resins and plastics, for example. Biofuels are macro- and nano-fibrillated cellulose products that can be used to shape materials and give them new characteristics. They are suitable for many industrial applications that require a high stabilisation capacity and high viscosity.

In 2013, the R&D work on biofuels continued for developing pilot- and plant-scale industrial applications continued. UPM signed a co-operative agreement with Ashland Inc. to develop and commercialise products containing UPM’s biofuels technology. UPM and Ashland will jointly study the use of biofuels in a wide range of industrial applications and opportunities.

UPM also signed a joint development agreement with Remmatix Inc. to further develop Remmatix’s water-based Plantre™ process to convert woody biomass into intermediates for subsequent downstream processing into biochemicals. The long-term goal of the initiative is to offer cost competitive alternatives for selected petrochemicals on an industrial scale.

Co-operation to support implementation

The European Commission’s Agency for Technology and Innovation, is an important partner for UPM, as it is supporting several research projects, such as the development of biofuels, energy-saving technologies and bioeconomic competence and biobricks technology.

In 2013, UPM received approximately EUR 3.8 million (3.7 million) from Tekes for its research projects. These projects were carried out in co-operation with research institutes, universities and other companies.

In 2013, the European Commission and the industries within the bioeconomy launched the Public Private Partnership (PPP) programme, which aims to support bioforestry concepts and the growth of the bioeconomy in Europe. The PPP is an important funding element for speeding up the implementation of future investments in new areas such as biochemicals, biocomposites and biofuels.

In recent years, UPM’s intellectual property rights applications have increased significantly. The importance of patent registration highlights the progress in new businesses. UPM is a shareholder in the Finnish Bioeconomy Cluster (FIBIC). The Cluster’s research programmes focus on the bioeconomy and products based on renewable materials, thus supporting UPM’s internal R&D activities.

Global network of research centres supporting businesses

The focus at the UPM Research Centre in Lappeenranta, Finland, is mainly on fibre composites, materials, paper and process development for pulping, biofuels and biochemicals. The UPM Bioforestry Development Centre for piloting biofuels and biochemicals is also located in Lappeenranta.

UPM’s recycled fibre research is based in Augsburg, Germany. The WISA R&D Centre for plywood and composites is located in Lahti, while labelstock R&D takes place in Tampere, Finland.

The UPM Asia R&D Centre in China is responsible for research on local raw materials and the specific market needs for UPM products, as well as manufacturing and technical customer service support for UPM’s production units in China and the Asia-Pacific region.

At the UPM Fray Bentos pulp mill in Uruguay, UPM’s competence centre focuses on researching eucalyptus species and their impact on end-product properties. The centre works in co-operation with Uruguayan research institutes and universities.
Finding the right fit with stakeholder dialogue

Dialogue, feedback and good co-operation in line with UPM’s values are the most important ways of promoting mutual understanding with stakeholders.

Corporate responsibility is an integral part of the company’s long-term business development, which enables UPM to partner and create value with stakeholders, benefitting both the business and local communities.

UPM continuously develops tools and platforms to foster dialogue between the company and its stakeholders.

UPM’S MATERIALITY ANALYSIS 2013

Stakeholder engagement is a critical part of UPM’s operations worldwide. The key focus areas and activities vary locally and according to stakeholder needs. The company’s stakeholder engagement procedures provide targets for co-operation and guidance for identifying stakeholders.

Several UPM mills have long-established community forums in place, such as the UPM Blandin Advisory panel in the United States and the Steyerermühl Bürgerbeirat in Austria.

In the Finnish pulp and paper mills, UPM has regional collaboration teams in place. The teams are headed by mill managers and meet monthly to discuss the main priorities including issues related to local stakeholder engagement.

UPM has also established new platforms for stakeholder engagement, such as Kaukas forum at the UPM Kaukas integrate mill in Lappeenranta, Finland. The forum consists of representatives of local stakeholders. The Kaukas forum meets 2–3 times a year and its aim is to enhance dialogue with local stakeholders.

The UPM Foundation in Uruguay promotes the development of communities through education, training and entrepreneurship. The goal is to facilitate, encourage and activate grassroots projects to promote the long-term, sustainable development of local communities.

UPM continuously tracks stakeholder views, monitors global sustainability megatrends and follows up on weak signals relating to the changing operating environment.

UPM’s main stakeholders are customers, suppliers, investors, employees, media, non-governmental organisations (NGOs), governments and regulators, as well as the communities where UPM operates.

Their feedback is analysed from the point of view of both risk and opportunity. Various stakeholder feedback channels exist across the company.

In 2013, UPM conducted its materiality analysis by studying global sustainability megatrends, corporate risk mapping, internal and external stakeholder feedback and other relevant sources to identify the issues that are critical to each business. Based on the work, UPM has defined the following issues as critical:

- safety and environmental risk management
- sustainable forest management and raw material sourcing
- resource efficiency
- product characteristics such as safety and e-labels

Addressing stakeholder views

Based on stakeholder feedback, the main stakeholder concerns are discussed locally on a one-to-one basis. The main themes in 2013 with regard to the production plants were short term air emissions such as smell and noise. Feedback on wood sourcing and forest harvesting was

THE FOCUS OF UPM’S STAKEHOLDER ENGAGEMENT WORK IN 2013

- the extent of added value globally.
- the key stakeholders have been identified in the company’s stakeholder strategy work. The key focus areas and activities vary locally and according to stakeholder needs. Find out more about our activities in 2013 in this picture.

UPM’s economic impact is significant in the surrounding communities. The company’s operations contribute to local, regional and national economies by generating economic benefits for different stakeholder groups. The related direct monetary flows indicate the extent of added value globally.
also discussed, and corrective actions were taken where necessary. Dialogue about product safety issues also continued with several suppliers.

In 2013, UPM conducted several stakeholder engagement surveys in co-operation with third parties. These surveys included customer satisfaction surveys and the annual Employee Engagement Survey (EES). (Read more on page 36.) These stakeholder surveys were designed to identify how stakeholders perceive UPM and the key areas for development. The studies also provide information that is used to assess the impact of emerging sustainability trends and risks to the company’s operations. Based on the feedback, UPM’s stakeholders appreciate the Biofore vision and the company’s strong track record in environmental performance.

Raising concerns

UPM does not tolerate any violations of the UPM Code of Conduct or the rules and guidelines that accompany it.

All employees and external parties are encouraged to report suspected violations anonymously using the UPM Report Misconduct channel, and the company has internal procedures in place to deal with alleged breaches of the Code of Conduct.

In 2013, a total of ten concerns were reported through the UPM Report Misconduct channel. In all cases, UPM took the corrective actions considered appropriate to the circumstances.

The complaints related mainly to suspected failures to adhere to the company’s anti-bribery procedures and suspected conflicts of interest.

The economic impacts cover all UPM’s key stakeholders from investors and employees to customers, local communities and decision-makers.

The economic impacts of UPM’s operations and production plants have a particularly important role in the provinces outside the growth centres.

UPM HAS A SIGNIFICANT IMPACT ON SOCIETY – CASE FINLAND

UPM’s economic impact on the Finnish society is significant. The value chain from forest creates broad economic prosperity. The most important multiplied impacts relate to employment, logistics, raw materials supply, tax revenues, income from exports and investments. UPM’s operations and production plants have a particularly important role in the provinces outside the growth centres.

The economic impacts cover all UPM’s key stakeholders from investors and employees to customers, local communities and decision-makers.

LITTLE SCIENTIST LABS FOR PUPILS IN CHINA

UPM initiated a new project in co-operation with Beijing Green and Shine Foundation to promote rural education in China. The Little Scientist Lab aims to foster science skills in primary school pupils in remote areas that have little access to resources and lessons on science and nature.

UPM has donated lab facilities which can be used to conduct basic experiments in physics, chemistry and biology.

Xinhua Central School in Guangxi city, Sichuan province was chosen as the first school. The school has close ties with the neighbouring Finnish Sichuan Charity School. UPM became one of the active corporate sponsors of the Finnish Charity School after the 2008 earthquake in Sichuan.

UPM’s support for the first “Little Scientist Lab” in the region will not only significantly improve the pupils’ capability to explore nature and science, but will also increase the ability to provide effective education in rural areas. Furthermore, the lab project provides a great platform for strengthening UPM’s local stakeholder engagement and reinforces UPM’s role as a responsible company operating in China.

The Little Scientist Labs see the continuation of the co-operation between UPM and Beijing Green and Shine Foundation following the mini library project in Yunnan province. In 2013, UPM continued to donate books to several rural primary schools.
**CUSTOMER COLLABORATION IN UPM’S BUSINESSES**

<table>
<thead>
<tr>
<th>Product</th>
<th>Paper</th>
<th>Label</th>
<th>Plywood</th>
<th>Wood Sourcing and Forestry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product range</strong></td>
<td>Softwood, birch and eucalyptus pulp</td>
<td>Magazine papers, newspapers, fine papers, labelling and packaging materials</td>
<td>Plywood and veneer products</td>
<td>Wood and wood-based biomasses (logs, pulpwood, chips, forest residues etc.), forest estates and lakeshore plots</td>
</tr>
<tr>
<td><strong>Biofuels</strong></td>
<td>Wood-based renewable diesel for transport</td>
<td>Self-adhesive paper and film labelstock</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Timber products</strong></td>
<td>Wood-based renewable diesel for transport</td>
<td>Self-adhesive paper and film labelstock</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>Wood-based renewable diesel for transport</td>
<td>Self-adhesive paper and film labelstock</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Paper</strong></td>
<td>Wood-based renewable diesel for transport</td>
<td>Self-adhesive paper and film labelstock</td>
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<td><strong>Label</strong></td>
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UPM offers a wide range of renewable and recyclable products to be further processed into a variety of useful everyday products, and also provides services that meet the needs of a versatile range of customers.

**UPM’s businesses vary in the products and services they offer.** Each business has its own customer management process and way of interacting with customers. A comprehensive understanding of the market, knowledge of end-uses and an understanding of customers’ needs form the basis of UPM’s customer relationship management. UPM’s target is to provide customers with solutions that improve customers’ business processes, with a special focus on creating mutual benefits with increased efficiency. Topics related to environmental performance are also at the centre of UPM’s customer offering.

**Collaboration with customers**
In addition to a continuous operative dialogue, UPM is engaged in various development projects with customers. Many of the projects are related to product development, supply chain efficiency and optimisation, as well as the co-planning of activities. Customer satisfaction is measured regularly in most businesses through customer satisfaction surveys conducted by a third party. These serve as a tool for developing actions, and bring an important voice to customers.

**Actions in 2013**
- Strengthening of sales, supply chain and market support teams
- Focus on pulp quality and appearance
- Introduction of a sustainability scorecard
- Brand building initiatives
- Launching of new products
- Joint product development
- Development of web solutions

**Target**
- To strengthen our position in growing end-use areas and markets
- Market entry, establishing strong customer relations and building platform for wood-based bales
- To increase market share in strategic markets and to improve the customer service level further
- To capture more value in the electricity and commodities market
- To ensure the mutual benefits of future customer projects and increase responsiveness further
- To strengthen market position/shares in selected businesses, by offering products and services to improve customers’ process efficiency

**UPM as a company 1–12**
**Businesses 13–26**
**STAKEHOLDERS 27–38**
**Responsibility 39–53**
**Governance 54–64**
**Accounts 65–135**
Suppliers are an integral part of UPM value creation

Sourcing operations play a significant role in ensuring the efficiency and profitability of UPM. The objective of UPM’s sourcing operations is to maintain a supplier base that is capable of delivering material and service solutions that are both cost-effective and innovative to UPM businesses globally.

Every year, UPM’s sourcing professionals purchase a wide range of products, materials and services. These include the company’s primary raw materials such as wood, pulp, energy and recycled paper, as well as other direct and indirect materials such as chemicals, pigments, spare parts, and services from IT and logistics to maintenance. The company’s sourcing network consists of suppliers ranging from private forest owners and local companies to large global corporations.

Towards long-term co-operation with selected suppliers

UPM aims to be a professional partner to its suppliers and to develop supplier relationships in a responsible manner that delivers long-term benefits to both parties. Long-term co-operation plans based on mutual commitment and co-operation between companies are in place with key suppliers. The aim of this co-operation is to work together to optimise the entire value chain, while sharing best practices for areas such as supply chains, manufacturing and product development.

Ensuring responsible sourcing is an integral part of supplier performance management. UPM works closely with suppliers to ensure that all the company’s requirements are met and to establish mutual understanding on the issue of sustainability.

In 2013, UPM co-operated with suppliers with regard to safety in particular. A key number of suppliers have been trained in the company’s new safety requirements.

Wood is the primary raw material for UPM’s businesses

UPM is both a major forest owner and a purchaser of wood. UPM’s wood sourcing operations are closely integrated with UPM businesses using wood as a basic raw material. UPM sources all wood assurities to ensure optimal utilisation of this valuable raw material.

In 2013, UPM sourced 20.0 million (25.2 million) cubic metres of wood around the world. The majority of wood is purchased from the Finnish private forest owners to whom UPM also offers a wide range of forest services. A network of local entrepreneurs takes care of harvesting, logistics and forestry work operations.

In Finland, UPM’s total wood purchases in the private wood market were 9.4 million cubic metres in 2013, 24% higher than in 2012 (7.5 million).

Tracing the origin of wood is a prerequisite for UPM

UPM’s tracing systems and chain of custody model cover the requirements for both PEFC and FSC forest certification schemes. UPM considers forest certification to be an excellent tool for promoting sustainable forestry. With its chain of custody system, UPM ensures full traceability of the origin of wood worldwide.

UPM verifies that the raw wood material supplied to its mills is sustainably sourced, legally logged and procured according to the requirements of international forest certification schemes and the new EU Timber Regulation. UPM therefore has control over the origin of its own harvesting and ensures that other sources are controlled through contractual terms of agreement and supplier audits.

All of UPM’s wood supplies are covered by third-party-certified chains of custody and 80% (77%) of the wood used is certified.

Pulp and chemicals are purchased worldwide

UPM buys approximately 1.6 million tonnes of chemical pulp from external suppliers. Specific requirements are set for pulp suppliers with regard to environmental performance, forestry, wood sourcing and performance reporting.

UPM is also a major purchaser of chemicals. Chemical suppliers are subject to specific requirements with regard to product safety, such as the UPM Restricted Chemical Substance List (UPM RSL) and EU Ecolabels. The UPM RSL was updated in 2013 and currently contains approximately 6,000 restricted chemicals. The implementation of the new list will start in 2014. (Read more on page 41.)

Environmental and social performance data is collected regularly from UPM’s pulp and chemical suppliers. The results of these surveys are discussed with the suppliers, both on-site and off-site.

Some of the purchased paper for recycling is reprocessed at UPM’s own sorting facilities located in the vicinity of the UPM Shotton mill in the UK, the UPM Smedesheim mill in Austria and UPM Chapelle Durbly mill in France.

SYSTEMATIC SUPPLIER ASSESSMENT AND REQUIREMENTS

Transparent and systematic supplier requirements are the basis for the company’s supplier selection process and supplier performance evaluation. UPM’s risk assessment covers environmental, social and economic risks and is carried out at supplier level where appropri- ate. Supplier audits are initiated based on identified risks or gaps in supplier performance.

UPM requires all its suppliers to apply the principles of the Code of Conduct and to fulfil the criteria concerning social and environmental responsibility. These supplier requirements are defined in the UPM Supplier Code.

In 2013, 64% (36%) of supplier spend was qualified against the Supplier Code. Additional specific requirements are in place for areas such as wood, chemicals, safety, logistics, pulp and packaging.

Suppliers are encouraged to apply management systems based on internationally recognised standards and the best available techniques and practices.

UPM is a significant user and buyer of paper for recycling

UPM is the world’s largest user of paper for recycling for the production of graphic papers. In 2013, the total consumption of paper for recycling was approximately 2.5 million tonnes.

Efficient paper recycling depends on the local infrastructure for national collection schemes and recovery systems. The recycled paper used by UPM is purchased from European Chemical Substance List (UPM RSL) and EU Ecolabels.

The UPM RSL was updated in 2013 and currently contains approximately 6,000 restricted chemicals. The implementation of the new list will start in 2014. (Read more on page 41.)

Environmental and social performance data is collected regularly from UPM’s pulp and chemical suppliers. The results of these surveys are discussed with the suppliers, both on-site and off-site.

The data collection is an integral part of supplier risk and performance management.

In 2013, sourcing professionals at UPM Rafinaria conducted a responsibility and product safety survey with almost 200 paper, chemical and film suppliers. Suppliers were given feedback based on their responses.

Energy from renewable sources

UPM is both a significant purchaser and a producer of energy. The majority of electrical and thermal energy is used for the company’s pulp and paper production. UPM favours a wide range of low-emission energy sources and focuses on energy efficiency and energy savings in its businesses. In 2013, 67% (68%) of the fuels used by UPM were from renewable sources.

In addition to the company’s own electricity generation, electricity is also purchased from the Nordic and Central European energy markets. In Germany, the company also has bilateral agreements in place with electricity suppliers. In 2013, 6.2 TWh (7.1 TWh) of electricity was purchased.

Logistics form the foundation for on-time deliveries

UPM delivers approximately 21,000, loads of products and raw materials around the world every week. Of all UPM deliveries, 68% are by rail and road and 32% are by sea traffic. The majority of UPM’s haulage is handled by contract partners. UPM aims to create strategic long-term alliances in order to create benefits for the company and its customers.

The criteria for forming these alliances are efficiency and the ability to meet environmental and social responsibility requirements. UPM has set compulsory requirements for the handling, transportation and warehousing of UPM products.

As more stringent regulations on transport emissions come into force, UPM is developing alternative logistics and fuel solutions with alliance partners. Regarding the new sulphur regulation approved by the European Parliament in September 2012, UPM is co-operating with shipping lines and ship owners to find ways of complying with the forthcoming regulation, which comes into effect in 2015.
People enable company transformation

The main objective of UPM’s People strategy is to drive the company’s transformation into the Biofore Company by enhancing the UPM culture.

As a result of the “Step Change in Safety” initiative, safety results continued to improve significantly.

UPM’s responsible restructuring continued in impacted locations in 2013.

UPM invests in the development of all employees, with a focus on supporting learning at work. UPM invests in multi-skilled employees and their professional competencies. An additional focus area in recent years has been the reinforcement of a collaborative way of working.

UPM offers opportunities to perform and grow

As a global company, UPM offers a variety of career opportunities all over the world.

UPM aims to provide its employees with meaningful jobs where they are able to achieve results, and a motivating and safe working environment with a focus on employees’ wellbeing. As an employer, UPM has reward and recognition processes with an emphasis on high performance. Responsibility is an inherent part of UPM’s Biofore strategy and is an integral part of UPM’s Biofore strategy and its everyday operations.

At the end of 2013, UPM had a total of 26,950 employees. The reduction of 1,230 employees is mostly attributable to the restructuring and sale of businesses. At the same time, the number of employees in the biofuels business increased.

UPM started its new two-year apprenticeship programme at the UPM Kymi and UPM Kaukas mills in Finland. The aim of the programme is to attract new talent and enable the new working generation to work on a wider range of tasks in various departments in the mills. There were over 1,300 applications for the 45 apprentice vacancies. The aim of the new apprenticeship programme, which will begin in February 2014, is for apprentices to obtain a vocational degree in the paper industry. The programme is run in co-operation with a local vocational school.

In Germany, more than 100 apprentices start in 15 professions at UPM every year.

UPM promotes active participation

UPM complies with international, national and local laws and regulations and respects international agreements with regard to human and labour rights. UPM respects freedom of association and abides by legally binding collective agreements. UPM promotes equal opportunities and objectivity in employment and career development and respects employee privacy. Employee participation and consultation are organised in accordance with international and national rules and regulations.

The UPM European Forum is the Group’s official international co-operative body, and representatives from UPM’s mills in Europe attend its meetings. The European Forum met twice in 2013. Meetings covered topical issues and open dialogue related to the business situation and changes within the company and the business environment.

Another way of promoting employee participation is the annual Employee Engagement Survey (EES). The survey provides information about development in the workplace and provides feedback to managers. In 2013, the response rate stayed at the same level as the previous year (78%). The overall engagement index declined slightly to 60% (63%). The manager effectiveness index continued to increase (74%). The Occupational Health and Safety (OHS) index remained at the same level as the previous year (77%).

Based on the results of the survey, the company-wide areas for development being carried out. Workplace safety remains high up on UPM’s agenda. UPM does not collect information on or report on its employees’ union membership at a global level due to differences in national legislation in various countries. The estimated percentage of employees covered by collective agreement mechanisms is 65%.

Striving for achievements, personal growth and renewal

UPM utilises the 70/20/10 model stating that 70% of learning takes place on the job, 20% comes from learning from others and their experiences and 10% is training off the job. UPM’s performance management process is used systematically to set strategy-related targets and development plans for employees around the world. The focus of personal performance review is clear target setting, feedback and individually agreed development areas.

UPM organises training and coaching for managers in order to develop their performance management skills. In 2013, 93% (84%) of all UPM employees had a personal performance review with their managers.

Empowering leadership as a target

In 2013, UPM renewed the leadership development programme portfolio to support the ongoing transformation in the company. Key themes for the new development programmes are self-leadership, coaching and leading in complexity. UPM aims to have inspiring and empowering leaders that are able to lead in an agile and sustainable manner and for all employees to have strong self-leadership capabilities.

UPM continued its mentoring programme and its leadership development alumni and front-line managers’ development programmes.
Focus on safety and wellbeing

The company-wide “Step Change in Safety 2012-2014” initiative has resulted in a substantial improvement in safety results. In 2013, UPM’s last-time accident frequency (the number of last-time work accidents per one million hours of work) was 3.4 [8.5]. The second year of the campaign brought nearly 40% improvement from previous year.

The target for the end of 2014 is below five.

At the end of the year, 11 production units achieved more than one year without any last-time accidents.

Unfortunately, there was one fatal travel accident during a business trip in Finland in 2013.

The 2013 theme “We can prevent all accidents” underlined the importance of the work community’s role in making safety a natural part of everyday activities. Evaluation, learning and improvement, and making safety an integral part of our business management system and daily activities have been the focus areas. In addition, UPM introduced a new safety theme: Focus on Health.

Absences due to illness and accidents decreased slightly from 2012. UPM’s global absenteeism was 3.4% (3.5%). Absenteeism decreased in France and in the United States in particular. In addition to the decrease in the number of accidents, absenteeism due to accidents at work decreased significantly (nearly 40%).

Monitoring employees’ wellbeing

At UPM, there is a good co-operation between employer, employee and occupational health organisation to improve the occupational health of personnel. Various metrics and indicators are used to monitor employees’ wellbeing locally. These indicators include, for example, the annual employee engagement survey (EES), follow-up of safety and absence indicators and occupational health check aligned with national legal requirements. This information is used to monitor individuals and work communities and plan local activities to support wellbeing at work.

As of the beginning of 2013, all UPM’s sites in Finland are non-smoking. Some UPM sites in the UK and France were already non-smoking.

Focus on health

In connection with the Step Change in Safety initiative, a special focus area for 2014 will be health. The aim of the “Focus on Health” campaign is to continue improvements, improvements of employees’ health, quality of life, and ability to perform on a voluntary basis. Most UPM sites already have activities and practices to support a healthier lifestyle. Local management teams will review their health practices at all UPM sites. Based on the findings, further development activities will be arranged. In addition, a personal health plan consisting of a medical check, wellness assessment and personal action plan will be piloted at a few sites.

Absence due to sickness and accidents at work, all UPM personnel

% absence hours/theoretical working time

<table>
<thead>
<tr>
<th>Year</th>
<th>Absence due to sickness</th>
<th>Absence due to accidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5.0%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2011</td>
<td>4.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>2012</td>
<td>4.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2013</td>
<td>3.5%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

-15% reduction in the number of contractor accidents

UPM considers the health and safety of employees, visitors and other people affected by its operations to be of paramount importance. UPM aims to be an industry leader in safety and to have no fatal accidents at UPM premises.

Lost time accident frequency fell to 5.4 over 60% improvement in two years

- 2012 | 6.0
- 2013 | 5.4

400-2,000 contractors working on each UPM pulp and paper mill annually

More than 4,000 contractors trained in UPM

Quality improvement in every aspect of the business is essential for maintaining growth and growth. UPM's contractors are an essential part of the overall business. All contractors must have a basic understanding of UPM's safety procedures and be able to conduct job-specific safety training.

As part of the safety initiative, UPM has updated its safety requirements for contractors. In addition to the general requirements, specific requirements have been introduced for contractors working at UPM's premises and for drivers of heavy-goods vehicles.

UPM introduced a special web-based safety induction to complement the UPM general safety and site-specific inductions. The safety induction is a prerequisite before starting work at a UPM site or making deliveries with a heavy-goods vehicle. More than 17,000 contractors have completed the induction already.

The target of the safety requirements and training sessions is to ensure that both UPM employees and contractors are subjected to any risks when working on UPM's premises. UPM has also taken further risk assessment measures by conducting safety self-assessments with over 300 key contractors working in high-risk safety positions.

From 2014 onwards, contractors will also be rewarded for their good safety performance, commitment and initiative with an annual safety award.

The UPM safety requirements are reviewed annually and updated as needed to reflect changes in the business environment.

The UPM safety self-assessment process is used to identify areas for improvement and to develop action plans to address identified issues.

Employees

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UPM’s Biofore strategy represents a commitment to sustainable development

The foundation for corporate responsibility at UPM is the company’s Biofore strategy. It sets the direction for innovation, product development, and safe and sustainable operations.

UPM regained its position in both the European and World Dow Jones Sustainability Indices (DJSI) and received other external recognition for its climate, forestry and innovation actions.

More with Biofore: material efficiency in operations improved significantly.

UPM’s corporate initiative “Step Change in Safety” proceeded with excellent results – nearly 40% reduction in lost-time accident frequency in 2013.

Businesses based on renewable and recyclable raw materials form the core of UPM’s Biofore strategy. Responsible use of resources brings with it advantages with regard to energy, production and cost efficiency. UPM products are produced in a way that uses less water, less energy and fewer raw materials, and at the same time generates less waste, giving the products more economic and environmental value.

UPM’s long-term commitment to responsibility is evident throughout the lifecycle of its products. The social and environmental impacts of raw material procurement and sourcing, production, delivery and product use take into account the product is recycled, reused or disposed of.

In addition, UPM’s wide range of expertise in biomass utilisation and recycling combined with the existing sourcing network provides a solid platform for the development of new, highly valued added businesses. Many of UPM’s current and new products provide alternatives to non-renewable materials.

The evaluation of global sustainability megatrends, risks and stakeholder expectations is an integral part of UPM’s strategy process. Renewable, recyclable and resource efficiency have been identified as critical issues for UPM’s current and future business and a response to resource scarcity and societal needs on a large scale.

Although climate change or resource scarcity could potentially become a risk, UPM also sees opportunities as long as its products are based on renewable raw materials, the majority of its energy generation and use is based on fossil-coal neutral sources and most of its products are recyclable. These strengths ensure that UPM will be well positioned in an operating environment where renewable and recyclable resources are acknowledged for their environmental credentials.

Committing to responsibility targets

UPM has defined corporate responsibility principles with forward-looking targets and corresponding measures in the key areas of economic, social and environmental responsibility. Sustainable products and climate, water, forest and waste management have been defined as the key areas of environmental responsibility. In terms of social issues, sourcing, local stakeholder engagement, safety and responsible restructuring are key focus areas.

UPM aims to improve its performance in all of these areas continuously.

In 2013, UPM’s corporate responsibility activities focused on the company-wide safety initiative, improving contractor safety and expanding the internal Clean Run environmental campaign into new business areas.

Training on the rules has been organised. UPM is committed to monitoring and reviewing its performance in relation to preventing corruption and bribery. In connection with this development, the Ethics Advisory Committee has been established to periodically review and evaluate the effectiveness of the Rules. The Committee reports regularly to the UPM Audit Committee on the status of anti-bribery compliance within the company.

Investments in resource efficiency show returns

UPM has invested to ensure compliance and performance that exceeds environmental regulations. UPM’s investments in environmental performance are part of the Group’s investment programme, and their aim is to promote the efficient and responsible use of energy, water and raw materials.

In 2013, UPM’s environmental investments totalled EUR 29 million (37 million). The largest investment was the rebuild of the biologcal effluent treatment plant at the UPM Pietarsaari pulp mill in Finland.

UPM’s environmental costs, which were mainly attributable to effluent treatment and waste management, totalled EUR 134 million (133 million), including depreciation.

No significant environmental incidents occurred in 2013. However, there were several minor temporary deviations from permit conditions. These deviations were reported to the relevant authorities immediately, and corrective and preventive measures were taken.

Employment and responsible restructuring are key focus areas.

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Committed to responsible business practices

The foundation for UPM’s responsible business practice is the company’s Code of Conduct, which provides the basis for the company’s approach to human and labour rights, ethical business conduct, safety, environmental practices and safeguarding company assets. The Code of Conduct is complemented by more detailed policies, rules and guidelines (read more on the company’s policies on page 57).

UPM provides regular training in the area, and Code of Conduct training is part of the induction of new employees.

UPM requires all of its employees to participate in training on the Code of Conduct. By the end of the year, over 17,000 employees had participated in the training (83% also participated in the training by 2015). UPM is also committed to the ten principles of the UN Global Compact. The ten principles

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PRODUCT SAFETY STARTS WITH CHEMICAL PURCHASING

UPM Restricted Chemical Substances List (UPM RSL), updated in 2013, takes product safety further to ensure that UPM’s products are safe to use and environmentally sound. If it is anticipated that a chemical will include prohibited substances, UPM starts discussions with its suppliers about the role of restricted substances in the product.

Programme director Marja Kaljolinen from the Baltic Sea Action Group (BSAG) welcomes UPM’s initiative in updating the list. UPM’s product safety approach guarantees that the substances will not enter the water system.

“UPM’s new list also includes hazardous chemicals that have been discovered only recently and are not yet officially prohibited. These chemicals are toxic, accumulative and long lasting and will cause, among other things, harmful effects to reproduction processes in humans and animals,” she says.

The chemicals usually enter the water system through industrial or municipal water treatment plants as they can also be found in several consumer products. “They do not have a direct impact on water eutrophication, for example, but they will accumulate and transfer into the food chain,” notes Kaljolinen.

UPM has signed a voluntary commitment with BSAG to participate in the Baltic Sea rescue mission. According to Kaljolinen, UPM’s commitment is ideal as it fits the company’s own processes, business model and targets, and develops them in a direction that helps the Baltic Sea and the company.

Key trends

ECONOMIC

Profit
Shareholder value creation
- Operating profit margin > 10%
- Return on equity at least 5 percentage points above the yield of a 10-year risk-free investment
- Greasing ratio to be kept below 40%
- 90% coverage of participants in UPM Code of Conduct training by 2015

Goverance
- 85% of employees have completed the Code of Conduct training.

SOCIAL

Leadership
Responsible leadership
- Employee engagement index overall favourable score exceeding 70% by 2015
- Employee engagement survey response rate reaching 70% and over by 2015

People development
High performing people
- Employee Personal Performance Review (PPR) coverage exceeding 90% globally by 2015

Working conditions
Safe and encouraging working environment
- No fatal accidents (continued)
- Continue accident frequency below 0.5 per million hours or work by 2015
- Annual targets set for the reporting of near misses and safety observations

Community involvement
Local commitment
- Continuous development of strategic sustainability initiatives with leading NGOs
- Continuous sharing of best practices of stakeholder initiatives

Responsible sourcing
Value creation through responsible business practices
- 80% of UPM supplier spend qualified against UPM Supplier Code by 2015

ENVIRONMENTAL

Products
Taking care of the entire lifecycle
- Environmental management system certified in 100% of production units (continued)
- Environmental declarations for all product groups (continued)
- 25% growth in the share of eco-labeled products by 2020

Climate
Creating climate solutions
- 15% reduction in fossil CO2 emissions by 2020

Water
Using water responsibly
- 15% reduction in water waste volume by 2020

Forest
Keeping forests full of life
- Maintain share of certified fibre 85%
- 100% coverage of shares of custody (continued)

Waste
Reduce, reuse and recycle
- 40% reduction in solid waste to landfill by 2020

For UPM, responsible sourcing is key to achieving its sustainability targets. UPM has set ambitious targets for responsible sourcing, and has integrated the contents into this annual report. Various highlights from the year 2013 can be found under the sections for each business area. The GRI content index is on pages 51–52.

To find out more about UPM’s responsibility agenda, please visit www.upm.com/responsibility.
Taking care of the entire lifecycle

UPM's products are made from renewable, biodegradable and recyclable raw materials.

UPM has certified all its European pulp and paper mills and the UPM Fray Bentos pulp mill in Uruguay in accordance with the voluntary EU Eco-Management and Audit Scheme (EMAS). EMAS promotes transparency and mitigation of environmental impacts on the local area. In 2013, the UPM Changsha paper mill became the first paper mill in China to be certified by EMAS (read more on page 19).

UPM uses eco-labels, such as the EU Ecolabel and German Blue Angel, PEFC and FSC forest certification labels. These labels demonstrate a commitment on the part of UPM to meet a wide range of sustainability criteria, set by external stakeholders.

UPM is the largest producer of EU Ecolabelled newsprint, graphic and copying papers. In 2013, UPM was awarded the EU Ecolabel Communication Award for increasing public awareness and knowledge of the EU Ecolabel. UPM also contributed heavily to the creation of EU Ecolabel criteria for converted paper products. UPM’s papers can be used as substrates in this new criterion, which will be published in early 2014.

Sustainability starts with product development

UPM businesses have adopted an ecodesign approach in their product development processes, which means systematic integration of environmental aspects into product design at an early stage, covering the whole lifecycle. In 2013, UPM received the Sustainable BioEcoBusiness Award 2013 for Breakthrough Innovation in Technology at the World BioEcoBusiness Markets Congress & Exhibition for its success in developing an innovative production process for an advanced renewable diesel, UPM Biofine.

UPM’s aim is to deliver “More with Biofore” by continuously reducing the environmental impact of its products over the whole lifecycle. For this ambitious goal to be achieved, material efficiency needs to play a key role in all company operations. (Read more on the results for UPM Steyrmühlen on page 21.)

The majority of UPM’s production sites, as well as its forestry operations, are covered by environmental, quality and health and safety systems, which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively.

Waste is today’s new material

UPM is committed to maximising the reuse of materials and minimising the generation of waste.

Nearly all organic production residues, including bark and wood residues, as well as fibre-containing solids from drinking and effluent treatment, are used in energy generation at mill sites.

Ash resulting from bioenergy generation forms the most significant proportion of UPM’s solid waste. Ash is used on a large scale in applications ranging from landscaping to road building. Today, approximately 90% of all UPM’s production waste is reused or recycled.

UPM’s new construction product, Cinerit, made of fly ash from the thermal recovery of biowaste materials, is used to stabilise and improve soils. Using fly ash instead of burning limestone reduces CO2 emissions significantly.

UPM has developed innovative ways to reduce its own waste and reuse waste in new products. These include UPM BioVerno, UPM’s renewable diesel made of crude tall oil, which is a residue of pulp production.

In addition, UPM ProFi composite products are made from the surplus paper and plastic left over from the production of self-adhesive label materials.

UPM is also the world’s largest user of paper for recycling for the production of graphic papers, consuming 3.5 million tonnes of paper for recycling in 2013.

By 2020, UPM aims to reduce the amount of its solid waste sent to landfill by 40% compared with the 2008 level. The reduction target was increased in 2012 because of the good progress made.

NEW USES FOR UPM FORMI

2013 saw many new uses for UPM Formi biocomposite material.

One of the world’s most well-known high-quality speaker manufacturers, the Finnish company Genelec, uses UPM Formi in their new speaker model. The material is easy to mould and has excellent acoustic features.

The kitchen fitting manufacturer Puustelli Group developed, in cooperation with UPM, kitchen fitting frame components that increase the utilisation of renewable natural fibres and reduce the manufacturing carbon footprint by 35–45%.

“The new UPM raw material will revolutionise the manufacturing of kitchen fittings and also enable the frames to be recycled. The lighter weight of the material also means lower transport costs and increased energy savings”, says managing director Jussi Aine of Puustelli.

Read more about UPM Formi:

www.upmformi.com

36% OF ALL FIBRE USED IN UPM’S PAPER PRODUCTION IS RECYCLED FIBRE

APPROXIMATELY 90% OF ALL PRODUCTION WASTE IS REUSED

UPM’s renewable diesel, UPM BioVerno, is produced from crude tall oil, a residue of pulp production.

UPM’s new construction product Cinerit is made of fly ash from the thermal recovery of biowaste materials.

UPM’s total waste to landfills

The total amount of solid waste sent to landfill has decreased by over 15% over the last ten years. However, from 2012 to 2013 the amount of waste to landfill increased significantly. The reason is that former reuse possibilities for ash ceased at one of UPM’s paper mills and new ways of reuse are being investigated.

The new UPM raw material will revolutionise the manufacturing of kitchen fittings and also enable the frames to be recycled. The lighter weight of the material also means lower transport costs and increased energy savings’, says managing director Jussi Aine of Puustelli.

Read more about UPM Formi:

www.upmformi.com
Climate actions recognised and energy efficiency improved

UPM products offer an alternative to fossil-based products, because they are renewable and store carbon. UPM is continuously reducing the carbon footprint of its operations and improving energy efficiency.

UPM has a wide range of energy sources and it maximises the use of carbon-neutral energy. Biomass-based fuels make up approximately 84% of the fuels used by UPM in Finland and approximately 87% of those used worldwide. UPM is the second-largest generator of biomass-based electricity in Europe.

In addition, UPM has invested significantly in renewable energy since 2000. The largest ongoing projects are the new combined heat and power (CHP) plant at the UPM Schongau mill in Germany, due to be completed by the end of 2014, and the refurbishment of the company’s own hydropower production assets in Finland. UPM’s investments in biomass-based power and heat generation (CHP) at the production sites have more than doubled the capacity.

In 2013, the UPM Korkeakoski sawmill in Finland introduced a new bioheating plant that uses only bark for heat energy generation. The plant improves the sawmill’s energy efficiency in an environmentally responsible way by using bark that is left over from the sawing process.

UPM’s continuous target is to improve energy efficiency. Energy efficiency has been significantly improved by energy audits, promoting innovation and internal campaigns over the last 15 years.

From its energy-saving investments carried out in 2013, UPM gained savings of EUR 6.1 million, achieved 32,000 t avoidance in CO2 emissions and 138,000 MWh reduction in energy consumption. The annual savings are EUR 4.7 million, 48,000 t and 195,000 MWh.

In 2013, UPM’s climate change actions were recognised externally. UPM achieved a top position in the Carbon Disclosure Project (CDP) Nordic 26 Climate Disclosure Leadership Index (CDLI) for the fifth year running. The index evaluates companies’ climate reporting.

By 2020, UPM aims to reduce fossil CO2 emissions by 20% over the last ten years.

According to the calculation, approximately 50% of the direct and indirect greenhouse gas emissions are related to UPM’s energy use, but raw materials, transportation and processing of finished products also have a significant impact. More details are available at www.upm.com/responsibility.
UPM ensures that all wood and wood fibre is sustainably sourced

Wood is a renewable material and the primary raw material for UPM’s businesses. UPM is both a major forest owner and a purchaser of wood. (Read more on wood sourcing on page 33.)

UPM manages its forests with a view to enhancing biological diversity, natural ecosystems and the carbon cycle, and operates according to the principles of sustainable forest management.

UPM ensures that all wood and wood fibre is sustainably sourced by using third-party-verified chains of custody and forest certifications.

All of UPM’s own forests and eucalyptus plantations are certified according to the FSC and/or PEFC certification schemes. In addition, UPM has an FSC Group Certificate in Finland and a UKWAS Group Certificate in the UK to which private forest owners can sign up.

The aim of UPM’s global biodiversity programme is to maintain and increase biodiversity in forests and to promote best practices in sustainable forestry. In connection with the biodiversity programme, UPM carried out several projects with stakeholders in 2013.

UPM became a network partner in the “Biodiversity in Good Company” initiative in Germany in 2013.

UPM continued its cooperation with the WWF’s New Generation Plantations Project in Uruguay to develop and promote sustainable plantations.

In 2013, UPM started a Chestnut Seedbearer (Spiorolia cinnamomea) conservation project in co-operation with the NGO Avex Uruguay to increase the grassland bird population. The bird requires tall grasslands for nesting and feeding but local farmers also use these grasslands for cattle grazing.

In 2012, some grassland areas were already excluded from cattle grazing with the help of Avex Uruguay experts. Recent findings indicate that the strategy has been successful as both male and female Chestnut Seedbearers have been spotted for the first time. The next stage of the project is to expand the conservation area.

In Finland, Birdlife renovated an old tower for bird watching in a 200-hectare protected area in Toivonjoki, Jukkaslått. Three quarters of the conservation area is on UPM property. The Toivonjoki area is part of the EU’s Natura 2000 network of protected areas and is an important feeding and resting area for migrating birds.

In the UK, UPM Tilhill has carried out an experimental project to restore 114 hectares of rough grazing and hill ground to native forest in Scotland. The fenced area helps wildlife such as the black grouse (Lyrurus tetrix), which has suffered serious habitat loss. Apart from that, some 410,000 trees were planted over the last two years in this region.

Read more: www.upm.com/responsibility

More results with responsible water management

Water has an important role in UPM’s pulp and paper production and hydro-power generation. When using water, UPM’s target is to minimise the impacts of operations on local water resources and safeguard the natural water cycle in forests. UPM’s main production plants are located in areas where there is sufficient water available.

UPM uses water responsibly in terms of the company’s water consumption and effluent quality. All UPM’s pulp and paper mills have both mechanical and biological wastewater treatment facilities. The material efficiency programme, launched in 2011, continued at the paper mills. The objective is to reduce process water consumption and suspended solids. (Read more on the results of the material efficiency programme at the UPM Styrerryh mill on page 21.)

In 2013, the rebuild of the effluent treatment plant at the UPM Pietarsaari pulp mill in Finland was completed. Read more about improving wastewater treatment plants below.

In the pulp business, process water consumption has been defined as a strategic development project. In 2013, UPM completed a project with the aim of improving the existing mill processes and developing the next-generation pulp process, where the process water requirement per tonne of pulp is further reduced from the current level. At the Uruguayan UPM Fray Bentos mill, which is UPM’s newest mill, the process water consumption is among the lowest in the industry.

By 2020, UPM aims to reduce wastewater volume by 13% and COD load by 20% in pulp and paper production compared with the 2008 levels. UPM’s 2020 COD reduction target was increased in 2012 because of the good progress made.

UPM continues with its programme to maintain and increase biodiversity in forests and to promote the best practices in sustainable forestry. In connection with the biodiversity programme, UPM carried out several projects with stakeholders in 2013.

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UPM's material balance 2013

UPM’s material balance sums up the total material, energy and emission flows to and from UPM worldwide. In 2010, UPM set long-term environmental targets for 2020, and defined indicators for monitoring and measuring performance in key areas.

In 2012, UPM revised the targets and tightened when reasonable. UPM aims to continuously reduce environmental impacts over the entire lifecycle of its products and the company bases its annual performance evaluation on these indicators.

In 2013, most of the total consumption and emission figures remained on the rather stable level compared to the previous year. Improvements are visible in the reduction of effluent load (COD, SO2), which are resulting from continuous improvement efforts.

UPM has invested significantly in the use of renewable and CO2-neutral energy to reduce the environmental load from energy generation.

UPM's CO2 target is strongly connected to measures at pulp and paper mills.

Choice of fuels, combustion technology and flue-gas purification are the primary ways to reduce these emissions. The targets for air emissions focus on the reduction of fossil carbon dioxide emissions.

Products

UPM products are mainly based on renewable raw materials that are recyclable and biodegradable.

Third-party-certified eco-labels are commonly used to prove good environmental performance.

The targets for products are to increase the share of eco-label products, certified environmental management systems and availability of environmental product declarations.

Solid waste

Much of the process waste is either used as raw material or in energy generation.

Most production sites have reduced the volume of solid waste and improved handling by sorting waste at the source.

The target for waste is to reduce the amount of production waste sent to landfills.

EMISSIONS TO AIR

The majority of UPM’s airborne emissions are caused by energy generation at its pulp and paper mills.

Choice of fuels, combustion technology and flue-gas purification are the primary ways to reduce these emissions.

The targets for air emissions focus on the reduction of fossil carbon dioxide emissions.

EMISSIONS TO WATER

UPM’s paper and pulp production is the main source of emissions to water.

All effluents are treated both mechanically and biologically in the effluent treatment plants, before being released into watercourses.

Emission levels and environmental impacts are regulated and monitored.

The targets have been set for process wastewater volume and chemical oxygen demand (COD).

Energ y

The majority of electrical and thermal energy is used for paper and pulp production. However, pulp mills are producing more energy than they are using.

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UPM’s CO2 target is strongly connected to measures at pulp and paper mills.

Choice of fuels, combustion technology and flue-gas purification are the primary ways to reduce these emissions.

Water

Water is an essential resource for pulp and paper production, where water is used within the process and for cooling. The share of the other UPM units is minor.

The majority of water that is used comes from rivers or lakes. A small amount comes from groundwater, where water levels are monitored.

The targets for water are to decrease process wastewater volume and effluent load.

Raw materials

Biomass is the basis for all UPM businesses. Certified chains of custody confirm that wood is sourced from sustainably managed forests.

UPM’s Supplier Code defines suppliers’ minimum compliance requirements in terms of responsibility with regard to matters such as environmental impact, human rights, labour practices, health and safety, and product quality.

The targets related to raw materials concern the certified fibre share and the coverage of chains of custody.
Independent Assurance Report

To the Management of UPM-Kymmene Corporation

We have been engaged by the Management of UPM-Kynnene Corporation (the “Company”) to perform a limited assurance engagement on corporate responsibility performance indicators in the areas of accountability, materiality, and performance. The limited assurance engagement was performed in accordance with the AA1000 Accountability Principles. The results of the limited assurance engagement are presented in this report.

Our responsibility is to express a conclusion on the AA1000 Accountability Principles and that the CR Reporting is not reliable, in all material respects, based on the reporting criteria.

Our multi-disciplinary team of corporate responsibility and assurance specialists performs procedures to obtain evidence about the amounts and other disclosures in the CR Reporting, and about the Company’s adherence to the AA1000 Accountability Principles.

We are responsible for the Company’s adherence to the AA1000 Accountability Principles in relation to corporate responsibility performance indicators.

The Limited Assurance Engagement

The Limited Assurance Engagement is performed in accordance with the AA1000 Accountability Principles. The results of the limited assurance engagement are presented in this report.

Our conclusions and recommendations are based on the work described in this report, which we provide the following observations and recommendations in relation to UPM-Kymmene Corporation’s adherence to the AA1000 Accountability Principles:

• Regarding Reliability: UPM-Kymmene Corporation’s CR Reporting is not reliable, in all material respects, based on the reporting criteria.

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Our multi-disciplinary team of corporate responsibility and assurance specialists performs procedures to obtain evidence about the amounts and other disclosures in the CR Reporting, and about the Company’s adherence to the AA1000 Accountability Principles. The results of the limited assurance engagement are presented in this report.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation’s CR Reporting has not been prepared, in all material respects, to the AA1000 Accountability Principles. Furthermore, nothing has come to our attention that causes us to believe that UPM-Kymmene Corporation’s CR Reporting has not been prepared, in all material respects, to the reporting criteria, that the CR Reporting is not reliable, in all material respects, based on the reporting criteria.

When reading our assurance report, the inherent limitations to the accuracy and completeness of the corporate responsibility performance indicators should be taken into consideration.

Auditor's Report

Helsinki, 14 February 2014

PricewaterhouseCoopers Oy

Juha Wahlroos

Authorised Public Accountant

Sirkus Juutinen

Partner, Corporate Responsibility & Climate Change

UPM-Kymmene Corporation is a publicly listed limited liability company domiciled in Finland, and its corporate governance is based on the Finnish Companies Act, the Securities Market Act, UPM’s Articles of Association, the rules of NASDAQ OMX Helsinki Ltd and UPM’s rules and regulations of the Finnish Financial Supervisory Authority. In addition, UPM complies with the recommendations of the Finnish Corporate Governance Code issued by the Securities Market Association. Furthermore, the company’s governance is based on the Global Reporting Initiative’s guidelines and on corporate governance. The Corporate Governance Charter and Board of Directors’ rules and guidelines are approved by the Group Executive Team.

Control and governance

Under the Finnish Companies Act, matters to be decided upon at a General Meeting include:

• Amendments to the Articles of Association
• Election of members to the Board of Directors
• Decision on the use of the profit shown on the adopted balance sheet
• Discharge from liability for the President and CEO, and the Board of Directors
• Election of members to the Board of Directors and resolution on their remuneration
• Election of the company’s auditor and resolution on auditor’s remuneration

UPM’s control and governance is divided among the shareholders represented at the General Meeting of Shareholders, the Board of Directors, and the President and CEO as shown in the illustration on the right. The General Meeting of Shareholders elect members to the Board of Directors, and the Board appoints the President and CEO. The President and CEO is assisted by the company’s Group Executive Team, the members of which are appointed by the Board of Directors.

Corporate governance

The General Meeting of Shareholders is the company’s supreme decision-making body. The Annual General Meeting is held within six months of the closing of the financial period. UPM’s Annual General Meeting 2013 was held on 4 April in Helsinki, Finland. A total of 1,769 shareholders attended the meeting in person or through a legal or proxy representative, representing 42.4% of the company’s registered share capital and voting rights at the time of the meeting.

Helsinki, 14 February 2014

PricewaterhouseCoopers Oy

Juha Wahlroos

Authorised Public Accountant

Sirkus Juutinen

Partner, Corporate Responsibility & Climate Change

GOVERNANCE 54–64
Independence of the members of the Board of Directors

The company’s Nomination and Governance Committee assists the Board of Directors in the assessment of the independence of the Directors on an ongoing basis based on information provided by the Directors. In January 2013, prior to making its proposal to the Annual General Meeting for the election of the members of the Board of Directors, the Committee assessed that all Director nominees were independent of the company and of its significant shareholders, with the exception of Presi- dent and CEO Jaakko Pesonen, who is not inde- pendent of the company. The assessment was made based on the independence criteria of the Finnish Corporate Governance Code.

Responsibilities of the Board

The duties and responsibilities of the Board of Directors and its committees are defined in the Board Charter and Committee Charters approved by the Board of Directors. The Board of Directors reviewed the Charters during the year. This review resulted in the clarification of committee duties and responsibilities and the division of these duties and responsibilities between the committees. The amended Charters are available on the corporate website in the Investors section, under Governance.

Pursuant to its Charter, the Board of Directors handles all matters pertaining to its area of responsibility under Finnish law. Under the Finnish Companies Act, the Board of Directors is accountable for the administration and the proper organisation of the company’s operations and is responsible for an appropriate arrangement of control over the company’s accounts and finances.

Further responsibilities of the Board of Directors include:

- Evaluating and approving the company’s strategic direction
- Approving the strategic plans of the company and its business areas and evaluating the implementation of such plans
- Reviewing and approving financial objec-
tives and major corporate plans and transactions
- Establishing acceptance limits for capital expenditures, investments, divestitures and financial commitments
- Overseeing strategic and operational risk management and internal control
- Appointing the President and CEO and members of the Group Executive Team, and approving their compensation
- Determining the dividend policy and presenting a proposal for payment of the dividend to the Annual General Meeting
- In accordance with the Board Charter, the Board of Directors reviews its performance and working methods annually. The Board self-evaluation survey is conducted in November and its results are reviewed at the Board meeting in December.

The Board of Directors convenes according to a pre-determined meeting schedule and when deemed necessary. The meeting schedule is based on the company’s financial reporting schedule and is complemented by the Board of Directors’ strategy and budget meetings. Items discussed at Board meetings based on a pre-prepared agenda. Minutes are kept for each meeting and are approved by the Board. In 2013, the Board held nine meetings. On average, the Directors attended 97.8% of the meetings.

Committees of the Board of Directors

The Board of Directors has established three main committees of its members: the Audit Committee, the Remuneration Committee and the Nomination and Governance Committee (previously the Nomination and Corporate Governance Committee). The Board appoints the members of the committees and their chairmen annually. A committee has at least three members. In 2013, all Board committees fulfilled their respective independ- ence and desirability qualifications requirements as set out in the Finnish Corporate Governance Code and Committee Charters. The President and CEO may not be appointed as a member of these committees.

The table on the following page contains information on the committees’ composition, the number of meetings and attendance in 2013.

Committee responsibilities

The committees assist the Board of Directors by preparing matters within the competence of the Board of Directors. The committees report to the Board of Directors on committee activities on a regular basis. In addition, minutes are kept for all committee meetings and distributed to all Directors.

The Audit Committee carries out a quarterly review of the company’s financial statements and interim financial statements for the period in question and reviews reports on assurance and legal matters, including financial control, internal audit, risk management, and litigation and other legal proceedings. The external auditor attends all committee meetings and provides the committee with a review of the interim audit as well as an assessment of the audit and non-audit fees. The committee also regu-
larly meets with the internal auditor and the external auditor to discuss matters of manage-
ment being present.

When preparing its proposal to the Annual General Meeting for the election of the external auditor, the Audit Committee evaluates the qualifications and independence of the external auditor on an annual basis. At regular intervals, the committee also arranges an audit tendering process for the audit services to ensure the independence and cost efficiency of the external auditors.

The Remuneration Committee carries out an annual review of the company’s short and long term incentive plans and related incentive mea-
tures and targets, evaluates the performance of the President and CEO and other senior executives and makes recommendations to the Board of Directors for the compensation and benefits of the President and CEO and senior executives. In addition, the committee carries out an annual review of the procedures and determinations of the Board of Directors and its committees fulfilled their respective independ-
ence and cost efficiency of the external auditors.

The company’s Nomination and Governance Committee assists the Board of Directors in the assessment of the independence of the Directors on an ongoing basis based on information provided by the Directors. In January 2013, prior to making its proposal to the Annual General Meeting for the election of the members of the Board of Directors, the Committee assessed that all Director nominees were independent of the company and of its significant shareholders, with the exception of President and CEO Jaakko Pesonen, who is not independent of the company. The assessment was made based on the independence criteria of the Finnish Corporate Governance Code.

Responsibilities of the Board

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Pursuant to its Charter, the Board of Directors handles all matters pertaining to its area of responsibility under Finnish law. Under the Finnish Companies Act, the Board of Directors is accountable for the administration and the proper organisation of the company’s operations and is responsible for an appropriate arrangement of control over the company’s accounts and finances.

Further responsibilities of the Board of Directors include:

- Evaluating and approving the company’s strategic direction
- Approving the strategic plans of the company and its business areas and evaluating the implementation of such plans
- Reviewing and approving financial objec-
tives and major corporate plans and transactions
- Establishing acceptance limits for capital expenditures, investments, divestitures and financial commitments
- Overseeing strategic and operational risk management and internal control
- Appointing the President and CEO and members of the Group Executive Team, and approving their compensation
- Determining the dividend policy and presenting a proposal for payment of the dividend to the Annual General Meeting
- In accordance with the Board Charter, the Board of Directors reviews its performance and working methods annually. The Board self-evaluation survey is conducted in November and its results are reviewed at the Board meeting in December.

The Board of Directors convenes according to a pre-determined meeting schedule and when deemed necessary. The meeting schedule is based on the company’s financial reporting schedule and is complemented by the Board of Directors’ strategy and budget meetings. Items discussed at Board meetings based on a pre-prepared agenda. Minutes are kept for each meeting and are approved by the Board. In 2013, the Board held nine meetings. On average, the Directors attended 97.8% of the meetings.

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The Board of Directors has established three main committees of its members: the Audit Committee, the Remuneration Committee and the Nomination and Governance Committee (previously the Nomination and Corporate Governance Committee). The Board appoints the members of the committees and their chairmen annually. A committee has at least three members. In 2013, all Board committees fulfilled their respective independence and desirability qualifications requirements as set out in the Finnish Corporate Governance Code and Committee Charters. The President and CEO may not be appointed as a member of these committees.

The table on the following page contains information on the committees’ composition, the number of meetings and attendance in 2013.

Committee responsibilities

The committees assist the Board of Directors by preparing matters within the competence of the Board of Directors. The committees report to the Board of Directors on committee activities on a regular basis. In addition,
The Group Executive Team assists the President and CEO in the operational management of the company. The main duties and responsibilities of the Group Executive Team relate to group strategy and budget, financial forecasts and financial performance of the Group and its business areas and functions, and corporate procedures and guidelines.

In matters pertaining to the preparation of group and business area strategies, financial targets, strategic projects, capital expenditure, M&A initiatives and other strategic development initiatives, the President and CEO is assisted by the Strategy Team consisting of the CFO and the Heads of the Strategy, Technology and Legal Functions.

Each of the company’s business areas and functions has its own management team, the purposes of which is to assist the Business Area or Function Head in the preparation and implementation of strategies, budgets, commercial strategies, business development plans, and the operating model and organisation for the business area or function in question.

Auditors
For the purpose of auditing the company’s administration and accounts, the Annual General Meeting elects an auditor, which may be a firm of public accountants authorised by the Central Chamber of Commerce of Finland. The auditor’s term of office begins at the end of the Annual General Meeting at which it is elected and ends at the conclusion of the next Annual General Meeting. The Annual General Meeting 2013 re-elected PricewaterhouseCoopers Oy, a firm of authorised public accountants, to act as the company’s auditor, with Juhana Waltroos, Authorised Public Accountant, as the auditor in charge.

Audit fees
The remuneration of the company’s auditor is approved by the Annual General Meeting based on the proposal prepared by the Remuneration Committee. The AGM 2013 resolved that the audit fee for 2013 would be EUR 2.6m (2012: EUR 2.9m).

Internal Control and Annual Audit
The purpose of internal control is to ensure that the company’s operations are effective and profitable, that financial and other information is reliable and that the company complies with the relevant regulations and operating principles. The company’s Board of Directors, assisted by the Audit Committee, is responsible for monitoring the company’s internal control system. The company’s Group Executive Team has approved internal control rules. Internal control pertaining to financial reporting is described in the Corporate Governance Statement on pages 136–138.

The Internal Audit function assists the Board of Directors with its supervisory responsibility by ensuring that the group’s control measures have been planned and set up effectively. The Internal Audit function is administratively subordinate to the President and CEO, but has direct access to the Audit Committee and reports to it quarterly on adequacy and effectiveness of the group’s control systems. The basic operating principles of internal audit are defined in the Internal Audit Charter, which was confirmed by the Board of Directors. The internal audit operations cover all the fields of the business operations, units, companies, processes and functions of the group.

Corporate policies
The Board of Directors approves the corporate policies that govern the management and administration of the company. These policies include the Code of Conduct, Disclosure Policy, Risk Management Policy, Group Treasury Policy and Insider Policy, and the Acceptance Policy, which defines the contract, trading and investment acceptance procedure.

Code of Conduct
The Code of Conduct forms the baseline for all company operations and sets out standards of behaviour for each individual at UPM globally. It covers topics relating to legal, professional, compliance and disclosure, conflicts of interest, gifts and bribes, HR practices, human rights issues and environmental matters. Violation of the Code will lead to disciplinary action up to and including termination of employment. The Code of Conduct is complemented by more detailed rules and guidelines approved by the Group Executive Team.

Management remuneration
The total remuneration of the President and CEO and of the members of the Group Executive Team consists of basic remuneration, short term incentives and equity-based long term incentives under the share reward plans.

Decision-making process for remuneration
The Board of Directors resolves on the remuneration of the President and CEO based on the proposal by the Board of Directors’ Remuneration Committee.

Financial benefits for the President and CEO
The President and CEO is evaluated annually by the Remuneration Committee, and, based on this evaluation, the Remuneration Committee recommends total compensation of the President and CEO to the Board for approval. The President and CEO’s annual salary and other financial benefits are shown in the table below.

In accordance with the President and CEO’s service contract, the retirement age of President and CEO Ilkka Paananen is 60. The target bonus is 40% of the average indexed earnings from the last 10 years of employment calculated according to the Finnish statutory pension scheme. The cost of lowering the retirement age to 60 is covered by supplementing the statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company before reaching the age of 60, an immediate vesting right corresponding to 100% of the earned pension (pro rata) will be applied. If notice of termination is given to the President and CEO, severance pay of 24 months’ base salary will be paid, in addition to the salary for the six-month notice period. Should the President and CEO give notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period. If there is a change of control in the company, the President and CEO may terminate his service contract within three months from the date of the event that triggered the change of control and shall receive compensation equivalent to 24 months’ base salary.
Financial benefits for the Group Executive Team

The Remuneration Committee reviews the performance of the members of the Group Executive Team annually based on the evaluation and proposal of the President and CEO. Based on this review, the Remuneration Committee recommends total compensation of the Group Executive Team members to the Board for approval. The annual salary and other financial benefits for the Group Executive Team are shown in the table below.

<table>
<thead>
<tr>
<th>SALARIES, INCENTIVES AND OTHER BENEFITS FOR THE GROUP EXECUTIVE TEAM (EXCL. THE PRESIDENT AND CEO)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eur’ 1,000</strong></td>
</tr>
<tr>
<td><strong>2013</strong></td>
</tr>
<tr>
<td><strong>Salaries and benefits</strong></td>
</tr>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>Incentives</td>
</tr>
<tr>
<td>Benefits</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Pension costs

- Female statutory pension scheme: 740 522
- Voluntary pension plan: 531 456
- Total: 1,271 978

*11 members at the end of 2013, 8 members in 2012.*

Members of the Group Executive Team are covered by the statutory pension plan in the country of residence, supplemented by voluntary defined contribution pension plans. The retirement age is 63. Executives belonging to the Group Executive Team as of 1 January 2010 have fully vested rights corresponding to 100% of the accumulated account. Executives who have become members of the Group Executive Team after 1 January 2010 are entitled to fully vested rights five years after becoming a member of the Group Executive Team.

Members of the Group Executive Team receive severance pay in the event that their service contract is terminated by the company prior to the retirement age. The period for severance pay is 12 months in addition to the six months’ salary for the notice period, unless notice is given for reasons that are solely attributable to the executive.

If there is a change of control in the company, members of the Group Executive Team may terminate their employment contract within one month from the date of the event that triggered the change of control, and will receive compensation equivalent to 24 months’ base salary.

Short term incentive plan

In 2013, the short term incentive plan for the President and CEO and the members of the Group Executive Team was linked to achievement of the predetermined financial targets of the Group or Business Group (70% of the total maximum) and the executive’s individual and safety improvement targets (together 30% of the total maximum). This amounted to a maximum annual incentive of 100% of the annual base salary for the members of the former Group Executive Board and 70% of the annual base salary for the members of the Group Executive Team. For the President and CEO, the maximum annual incentive amounted to 150% of the annual base salary. In the annual incentive plan for 2013, the financial target was based on EBITDA.

Due to the change in the company’s business structure, which became effective on 1 November 2013, the plan has been aligned with the new structure as of the start of 2014.

Long term incentive plans

As of 2011, the company’s long term incentive consist of the Performance Share Plan (PSP) for senior executives and the Deferred Bonus Plan (DBP) for other key employees.

Performance Share Plan

The Performance Share Plan consists of annually commencing three-year plans. The plan is aimed at the Group Executive Team and other selected members of management. Under the plan, UPM shares are awarded based on the group-level performance during a three-year earning period. The shares earned are delivered after the earning period has ended. The Performance Share Plans are presented in the table above.

Deferred Bonus Plan

The Deferred Bonus Plan is aimed at selected other key employees of the company and it consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. During the restriction period, prior to share delivery, the share rewards earned are adjusted with dividends and other capital distribution, if any, paid to all shareholders. The first plan began at the beginning of 2011 and the shares earned will be delivered in the spring of 2014. The Deferred Bonus Plans are presented in the table above.

SHARES AND STOCK OPTIONS HELD BY THE MEMBERS OF THE GROUP EXECUTIVE TEAM IN 2013

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Jussi Pesonen*</td>
<td>1 Jan. 195,294 31 Dec 170,000</td>
<td>360,000</td>
<td>360,000</td>
<td></td>
</tr>
<tr>
<td>Benoît Elkan* (GET member since 1 Nov.)</td>
<td>1 Nov. 21,536 31 Dec 21,536</td>
<td>23,716</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Pirkko Harrela</td>
<td>1 Jan. 35,488 31 Dec 20,000</td>
<td>70,000</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Tiago Kulmala* (GET member since 1 Sept.)</td>
<td>1 Sept. 15,140 31 Dec. 10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tiago Korpisalo*</td>
<td>1 Jan. 45,792 31 Dec 45,792</td>
<td>180,000</td>
<td>180,000</td>
<td></td>
</tr>
<tr>
<td>John Makela</td>
<td>1 Jan. 32,068 31 Dec 32,068</td>
<td>30,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Jyrki Koskela</td>
<td>1 Jan. 64,612 31 Dec 64,612</td>
<td>60,000</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Kim Poulsen* (GET member since 2 May)</td>
<td>2 May 23,730 31 Dec 16,570</td>
<td>75,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Riku Saaristö</td>
<td>1 Jan. 24,570 31 Dec 16,570</td>
<td>75,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Mikko Sillanpää* (GET member since 1 Nov.)</td>
<td>1 Nov. 9,000 31 Dec 9,000</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Sue Stillerberg (GET member since 1 Nov.)</td>
<td>1 Nov. 4,212 31 Dec 4,212</td>
<td>20,875</td>
<td>20,875</td>
<td></td>
</tr>
<tr>
<td>Jussi Vanhanen (GET member until 31 Aug)</td>
<td>1 Jan. 0 31 Aug 45,792</td>
<td>180,000</td>
<td>180,000</td>
<td></td>
</tr>
<tr>
<td>Petri Ylipaavo*</td>
<td>1 Jan. 25,920 31 Oct 40,000</td>
<td>180,000</td>
<td>180,000</td>
<td></td>
</tr>
<tr>
<td>Harri Wuster (GET member until 31 Oct)</td>
<td>1 Jan. 38,642 31 Oct 38,642</td>
<td>70,000</td>
<td>70,000</td>
<td></td>
</tr>
</tbody>
</table>

* Executives belonging to UPM’s public insiders. Their shareholdings above include shares held by their closely associated persons and controlled entities.

Share option programme

The stock option programme 2007 originally included three option series (2007A, 2007B and 2007C) entitling their holders to subscribe for a maximum of 15 million company shares. Each series had a two-year subscription period, the last of which will end on 31 October 2014 (2007C). The maximum number of shares that can be subscribed for by exercising 2007C options with the strike price of EUR 10.49 is 4,500,500. The stock option holdings of the Group Executive Team are presented in the table above. This programme has been replaced by the Performance Share Plan and Deferred Bonus Plan.

Share ownership recommendation

The Board recommends that the President and CEO maintains share ownership corresponding to a one-year gross base salary, and the other members of the Group Executive Team share ownership corresponding to a one-year gross base salary.
Björn Wahlroos
Chairman
Member and Chairman since 2008
Chairman of the Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1952
Ph.D. (Econ.)
Chairman of the Board of Sampo plc, Nordea Bank AB (publ) and Hanken School of Economics.

Berndt Brunow
Deputy Chairman
Member since 2001, Deputy Chairman since 2005
Chairman of the Remuneration Committee
Independent of the Company and significant shareholders
Born 1950
B.Sc. (Econ.)
Chairman of the Board of Lemminkäinen Corporation and of Oy Karl Fazer Ab. Board member of Hartwall Capital Oy Ab.

Matti Alahuhta
Member since 2008
Member of the Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1952
D.Sc. (Eng.)
Chairman of the Board of Oulu University and Aalto University Foundation. Member of the Foundation Board at the International Institute for Management Development (IMD, Switzerland). Vice Chairman of the Board of the Confederation of Finnish Industries (EF).

Karl Gröntfelt
Member since 2014
Chairman of the Audit Committee, Member of the Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1944
LL.M.
Chairman of the Board of Directors of Famitigo Oy since 1989. Served as Ahlstrom Oy as General Council, Administrative Director of Paper Industry and Member of the Executive Board responsible for the Paper Industry 1979–1986.

Pia-Noora Kauppi
Member since 2015
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1975
LL.M.
Board member of Suleas Oy and the Finnish Financial Ombudsmans Bureau. Member of the Supervisory Board of Helsinki University of Technology and SSE Foundation. Chairman of the Executive Committee of European Banking Federation.

Wendy E. Lane
Member since 2005
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1971
LL.B., Harvard Graduate School of Business Administration
Board member of Laboratory Corporation of America and Willis Group Holdings PLC.

Jussi Pesonen
Member since 2007
Independent of significant shareholders, non-independent of the Company
Born 1960
M.Sc. (Eng.)
Board member of DBN Bank ASA and Interchurch Capital Group plc. Chairman of Yritys AX and Yritys Foundation. Adjunct Professor at INSEAD business school.

Ursula Ranin
Member since 2006
Member of the Remuneration Committee
Independent of the Company and significant shareholders
Born 1959
LL.M., B.Sc. (Econ.)

Veli-Matti Reinikkala
Member since 2007
Member of the Nomination Committee
Independent of the Company and significant shareholders
Born 1957
M.B.A.

Kim Wahl
Member since 2012
Member of the Audit Committee
Independent of the Company and significant shareholders
Born 1940
M.B.A., Harvard Graduate School of Business Administration
BA, Business Economics (University of San Diego)

Jussi Pesonen
Member since 2007
Independent of significant shareholders, non-independent of the Company
Born 1960
M.Sc. (Eng.)
Chairman of the Board of Oulu University and Aalto University Foundation. Member of the Foundation Board at the International Institute for Management Development (IMD, Switzerland). Vice Chairman of the Board of the Confederation of Finnish Industries (EF).

Karl Gröntfelt
Member since 2014
Chairman of the Audit Committee, Member of the Nomination and Governance Committee
Independent of the Company and significant shareholders
Born 1944
LL.M.
Chairman of the Board of Directors of Famitigo Oy since 1989. Served as Ahlstrom Oy as General Council, Administrative Director of Paper Industry and Member of the Executive Board responsible for the Paper Industry 1979–1986.
Jussi Pesonen  
President and CEO  
M.Sc. (Eng.)  
Born 1960  
Member of the Group Executive Team since 2001.  
Employed by UPM-Kymmene Corporation since 1987.  
President and CEO since 2004.  
Chairman of the Board of Directors Mutual Pension Insurance Company and the Finnish Forest Industries Federation (FFIF).  
Co-Chairman of the Forest Solutions Group (FSG) in World Business Council for Sustainable Development (WBCSD).  
Board member of the Confederation of European Paper Industries (CEPI) and East Office of Finnish Industries Oy.

Tapio Korpeinen  
CFO, Executive Vice President, UPM Energy  
M.Sc. (Tech.), MBA  
Born 1963  
Member of the Group Executive Team since 2000.  
Employed by UPM-Kymmene Corporation since 2005.  
Vice President, Corporate Development and Senior Vice President, Strategy, UPM 2005–2008.  
CFO since 2010.  
Chairman of Poltavan Vamma Oy.  
Board member of Troflo Oy and Kemijoki Oy.  
Supervisory board member of Varma Mutual Pension Insurance Company.

Heikki Vappula  
Executive Vice President, UPM Biofsinling  
M.Sc. (Econ.)  
Born 1967  
Member of the Group Executive Team since 2010.  
Employed by UPM-Kymmene Corporation since 2006.  
Several management positions at Nokia Networks Corporation in Finland, Denmark, the UK and Hungary 1999–2002.  
Vice President of Nokia Mobile Phones Supply Line Management 2002–2006.  
Senior Vice President, UPM Sourcing 2006–2009.  
Board member of the Finnish Forest Industries Federation (FFIF).

Tapio Kulunsarja  
Executive Vice President, UPM Radiata  
M.Sc. (Eng.), M.Sc. (Econ.)  
Born 1975  
Member of the Group Executive Team since 2013.  
Employed by UPM-Kymmene Corporation since 2002.  
Several management positions at UPM Radiata in Finland and in the USA 2002–2008.  
Senior Vice President, UPM Radiata, Europe 2008–2010.  
Senior Vice President, UPM Radiata, Europe, Middle-East and Africa 2011–2013.

Kim Poulsen  
Executive Vice President, UPM Paper Asia  
M.Sc. (Econ.)  
Born 1966  
Member of the Group Executive Team since 2013.  
Employed by UPM-Kymmene Corporation since 2011.  
Several management positions at Firstforest Ltd. in Finland, United Kingdom and Germany 1998–2006.  
President and CEO, Palermo Group and Fennia Ltd. 2006–2010.  
Senior Vice President, UPM Plywood 2011–2013.  
Executive Vice President, Paper Business Asia Pacific and Corporate Relations 2013.

Juha Mäkäräinen  
General Counsel  
LL.M.  
Born 1962  
Member of the Group Executive Team since 2008.  
Employed by UPM-Kymmene Corporation since 2010.  
Supervisory Board member of Kemijoki Oy.

Jyrki Ovaska  
Executive Vice President, Technology  
M.Sc. (Eng.)  
Born 1978  
Member of the Group Executive Team since 2002.  
Employed by UPM-Kymmene Corporation since 1994.  
Board member of AmCham Finland (The American Chamber of Commerce in Finland).

Riitta Savolainen  
Executive Vice President, Human Resources  
M.Sc. (Econ.)  
Born 1968  
Member of the Group Executive Team since 2004.  
Employed by UPM-Kymmene Corporation since 2004.  
Senior Vice President, Human Resources at Rautio Group 2001–2010.  
Board member of Delta Corporation and Management Institute of Finland MIF Ltd.

Pekka Harrela  
Executive Vice President, Stakeholder Relations  
M.Sc. (Eng.)  
Born 1972  
Member of the Group Executive Team since 2004.  
Employed by UPM-Kymmene Corporation since 1995.  
Several positions in Communications in Finnspap and UPM Paper Division 1993–2002.  
Vice President, Corporate Communications of UPM 2003, Executive Vice President, Corporate Communications of UPM 2004–2013.
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<th>2013</th>
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<tr>
<td>Sales, EURm</td>
<td>10,054</td>
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<tr>
<td>EBITDA</td>
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<tr>
<td>Excluding special items, EURm</td>
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<td>Earnings per share, EUR</td>
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<td>Net interest-bearing liabilities at end of period, EURm</td>
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<td>Capital employed at end of period, EURm</td>
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<td>Capital expenditure, EURm</td>
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<td>Capital expenditure excluding acquisitions and shares, EURm</td>
<td>329</td>
</tr>
<tr>
<td>Personal at end of period</td>
<td>20,950</td>
</tr>
</tbody>
</table>

1. EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets, excluding the share of results of associated companies and joint ventures, and special items.

Information on key financial and share-related indicators is presented in financial statements.

Results

2013 compared with 2012

Sales in 2013 were EUR 10,054 million, 4% lower than the EUR 10,492 million in 2012. Sales decreased due to a reduction in paper deliveries and prices. EBITDA was EUR 1,155 million, 11.5% of sales (1,312 million, 12.5% of sales). The decrease in EBITDA was mainly attributable to the UPM Paper ENA business area, as a result of lower average paper prices and lower delivery volumes Fixed and variable costs in the UPM Paper ENA business decreased significantly but, in the early part of the year, could not compensate for lower paper prices and deliveries. The Group’s fixed costs decreased by EUR 134 million from the comparison period.

Operating profit excluding special items was EUR 683 million, 6.8% of sales (556 million, 5.5%). Reported operating profit was EUR 548 million, 5.5% of sales (less than EUR 1,318 million). Depreciation totalled EUR 545 million (2,614 million), and excluding special items EUR 542 million (2,603 million).

Operating profit includes net charges totalling EUR 135 million as special items. The UPM Paper ENA business area recognised net restructuring charges of EUR 59 million, mainly related to the restructuring of UPM Docelles mill and closures of paper machines Rauma PM7 and Ettingen PM4. The UPM Raflatac business area recognised restructuring charges of EUR 15 million. The streamlining of global functions and other actions under UPM’s profit improvement pro-

gramme resulted in net restructuring charges of EUR 27 million in other operations. UPM booked a EUR 40 million write-down of receiv-

ables due to the Finnish Customs’ decision to dismiss UPM’s application for the statutory refund of energy taxes for the year 2012. UPM has appealed against the decision of the authorities.

The increase in the fair value of biological assets net of wood harvested was EUR 68 million (43 million).

Profit before tax was EUR 475 million (loss of EUR 1,271 million). Excluding special items EUR 610 million (471 million). Net interest and other financial costs were EUR 84 million (2 million including the dividend of EUR 105 million from Pohjolan Voima Oyj as special income). Exchange rate and fair value gains and losses resulted in a gain in exchange rate fair value gains and losses amounted to EUR 10 million (11 million). Income taxes were EUR 140 million (149 million positive). The net impact of special items in income taxes was EUR 10 million negative (25 million positive), including charges of EUR 120 million related to a change in estimated recoverability of deferred tax assets in Canada and income of EUR 76 million related to the corporate income tax rate change from 25% to 20% in Finland. For profit for 2013 was EUR 355 million (loss of EUR 1,112 million) and earnings per share were EUR 0.63 (2.14). Earnings per share excluding special items were EUR 0.61 (0.74).

Operating cash flow per share was EUR 1.39 (1.98).

Financing

In 2013, cash flow from operating activities before capital expenditure and financing totalled EUR 735 million (1,040 million). Working capital increased by EUR 128 million (decreased by EUR 34 million) during the period, mainly due to the decrease in current liabilities.

The gearing ratio as at 31 December 2013 was 44% (42%). Net inter-

est-bearing liabilities at the end of the period came to EUR 3,040 million (3,210 million). The net debt ratio was 47% (46%).

On 31 December 2013, UPM’s cash funds and unused committed credit facilities totalled EUR 1.8 billion.

Personnel

In 2013, UPM had an average of 22,899 employees (23,153). At the beginning of the year, the number of employees was 22,180, and at 31 December 2013 it was 20,950.

More information (unaudited) on personnel is published in UPM’s Annual Report in 2013.

Capital expenditure

In 2013, capital expenditure excluding investments in shares was EUR 529 million, 3.5% of sales (347 million, 3.5% of sales). Operational capital expenditure was EUR 490 million (245 million).

UPM is investing in a biorefinery, which will produce renewable diesel fuel from crude tall oil in Lappeenranta, Finland. The biorefinery will produce approximately 100,000 tonnes of advanced renewable diesel for transport each year. Diesel production is expected to begin in summer 2014. The total investment will amount to approximately EUR 150 million.

UPM is building a new combined heat and power plant at the UPM Schongau mill in Germany. The target is to significantly reduce energy costs as well as to secure the mill’s energy supply. Start-up is planned for the end of 2014. Total investment is approximately EUR 85 million.

The rebuilding of the UPM Petaransa pulp mill’s efficient treatment plant was completed in December 2013. Total investment was EUR 32 million.

UPM is building a new woodfibre specialty paper machine at the UPM Raflatac mill in Finland. The new paper machine will be capable of producing label papers and uncoated woodfree grades. The total investment cost is EUR 300 million (approximately EUR 390 million), and the machine is expected to start up in 2015.

In June, UPM announced that it is participating in the share issue from Pohjolan Voima Oyj to finance the Oklofondo 3 nuclear power plant project. UPM’s share of the issue is EUR 110 million, of which EUR 31 million was paid in Q2 2013. The remaining part of the share issue will be implemented during the coming years based on the financing needs of the project.

Restructuring in Paper and streamlining of functions

In January 2013, UPM announced that it is planning to permanently reduce paper production capacity in Europe by 850,000 tonnes during 2013. UPM also announced plans to streamline the company’s operations and the Group’s global functions. The restructuring plans were expected to result in annual fixed cost savings of EUR 90 million. The one-off cash restructuring cost was estimated to be EUR 100 million. EUR 82 million of the restructuring costs were recognised in the results in 2013.

Production at the UPM Stracel mill was ceased in January 2013. The mill produced 270,000 tonnes of coated magazine paper annually. The assets and part of the land at the mill site were sold to Blue Paper SAS in May. The new owner will convert the mill to produce recycled fibre-based fluting and testliner.

Paper machine at the UPM Rauma mill in Finland and paper machine 4 at the UPM Ettlingen mill in Germany were permanently closed in April 2013. Both machines produced uncoated magazine paper; in total 420,000 tonnes annually.

Paper production at the UPM Docelles paper mill in France was permanently discontinued in January 2014. Docelles produced 160,000 tonnes of uncoated woodfree paper annually.

New business structure to sharpen operational focus and facilitate portfolio change

On 8 August 2013, UPM announced that it would implement a new business structure to drive clear improvement in profitability. The company also seeks to simplify and further develop its business portfolio. UPM’s new structure consists of the following business areas and reporting segments: UPM Biofore, UPM Energy, UPM Raflatac, UPM Paper Milling, UPM Paper Milling Asia, UPM Paper Milling North America and UPM Plywood. Forests and wood procurement are reported in UPM operations.

The new structure has been validated as of 1 November 2013. The new business structure consists of five strategic areas are located at the centers of these businesses: UPM Paper Milling, UPM Paper Milling Asia in Shanghai, China, UPM Paper Milling North America and UPM Plywood in Aspaa, Germany. The Group Head Office remains in Helsinki, Finland.

Through the new business structure, the company aims to sharpen the targets and required actions for each business. The new structure will also increase the transparency of company performance. UPM will also seek to simplify its business portfolio and uncover the value of its assets. These opportunities will be explored in parallel with the profitability improvement and growth initiatives may involve changes in ownership structures.

Profit improvement through simplified business structure

On 8 August 2013, UPM announced that it had identified actions with an overall profit improvement impact of EUR 200 million in business each. Each business is implementing a profit improvement programme with a simplified business model and variable and fixed cost savings. These planned actions do not include additional capacity closures at this time. The profit improvement programme includes the remaining part of the EUR 90 million savings announced in January 2013, as well as fur-

ther actions resulting from the new business structure and consequent profit improvement measures.

Future profit improvement is expected to materialise by the end of 2014 as compared with the Q2 2013 results.

In Q4 2013, the actions under the profit improvement programme resulted in a profit improvement (EUR million, i.e. approximately 46% of the annualised savings had been achieved).
Operating profit increased due to higher pulp sales prices and increased deliveries. In sawmilling operations cost efficiency improved as a result of increased production levels. Fixed costs decreased in special preparation for the commercial launch of UPM BioVerno – UPM’s renewable diesel. In July, UPM sold the Pestovo sawmill in Russia.

The decrease in operating profit was mainly due to lower hydro-power generation volumes. The average electricity sales price increased by 2% to EUR 46.1/MWh (45.2/MWh).

UPM Energy

Sales, EURm 466 482
EBITDA, EURm 1) 198 228
% of sales 42.5 47.3
Share of results of associated companies and joint ventures, EURm 1 1
Depreciation, amortisation and impairment charges, EURm –152 –191
Operating profit, EURm 346 337
% of sales 21.9 19.8
Special items, EURm 2) 15 14.4
Operating profit excl. special items, EURm 361 351
% of sales 21.5 19.7
Electricity deliveries, GWh 9,276 9,103
ROCE (excl. special items), % 10.6 8.8

1) EBITDA is operating profit before depreciation, amortisation and impairment charges, excluding the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

2) In 2013, special items of EUR 81 million relate to restructuring charges, including the change in fair value of biological assets and wood harvested, the share of results of associated companies and joint ventures, and special items.

Market review

The hydrological balance in Finland fluctuated in 2013 and was on average unfavourable during the first half of 2013. In the second half of 2013, the volume of the river water was relatively low, whereas wet weather conditions in the fourth quarter restored the balance to normal levels by the year-end. The average Finnish area spot price on the Nordic electricity exchange in 2013 was EUR 41.2/MWh, 13% higher than during the same period the previous year (36.6/MWh). The Finnish area price was above the Nord Pool system price at transmission cable maintenance work between Finland and Sweden limited imports, and at the same time imports from Russia remained low.

On 6 August 2013, UPM announced plans to reduce labelstock production in Finland and 80 in other countries during 2014-2015. The combined estimated total impact of the plans was a maximum of 275 positions, of which 135 in Finland and 80 in other countries during 2014-2015. UPM will follow and update the progress of the programme in its quarterly reporting.

Growth initiatives for the next three years

On 2 July 2013, UPM announced that its overall target to provide restructuring measures to ensure a higher growth for UPM in the coming years was EUR 460 million, including the earlier-announced EUR 200 million in the Chunghung paper machine and Lappeenranta bioenergy. EUR 132 million has already been invested, and the remaining capital expenditure in the coming three years would be EUR 548 million.

Outlook for 2014

Growth in the European economy is expected to remain low in 2014, but improve from last year. Growth in the US and in the developing economies is expected to continue to outperform Europe. This environment is expected to be supportive for the global pulp and label materials demand, as well as paper demand in Asia. The slight improvement in the European economy is likely to moderate the negative demand development seen in the European graphic paper market in the past years and stimulate European demand for wood products. The current hydrological situation in Finland is close to the long-term average level, and the forward electricity prices in Finland for H1 2014 are somewhat lower than the realised market prices in H1 2013.

UPM’s business outlook for H1 2014 is broadly stable. In H1 2014, UPM’s performance is expected to be underpinned by stable overall outlook for UPM Energy, UPM Raflatac, UPM Paper Asia and UPM Plywood, as compared to H1 2013. Profitability in UPM Paper ENA is expected to improve due to the on-going cost reduction measures. In H1 2014 compared to H2 2013, however, performance is negatively impacted by lower delivery volumes, including seasonal factors.

UPM Biorefining

2013 compared with 2012

Operating profit excluding special items for UPM Biorefining increased to EUR 300 million (248 million). Pulp deliveries increased by 1% to 3,163,000 tonnes (3,128,000).

Operating profit increased due to higher pulp sales prices and increased deliveries. In sawmilling operations cost efficiency improved as a result of increased production levels. Fixed costs decreased in special preparation for the commercial launch of UPM BioVerno – UPM’s renewable diesel. In July, UPM sold the Pestovo sawmill in Russia.

The decrease in operating profit was mainly due to lower hydro-power generation volumes. The average electricity sales price increased by 2% to EUR 46.1/MWh (45.2/MWh).

UPM Energy

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EBITDA, EURm 1) 198 228
% of sales 42.5 47.3
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Market review

Along with a gradual, albeit slow, improvement in the macro-economic environment, growth in the global demand for self-adhesive labelstock improved over the year. Demand in Western Europe is estimated to have improved slightly, especially during the second half of the year, whereas in North America demand is estimated to have experienced modest growth during the course of the year. In Eastern Europe, Asia and Latin America growth continued, but at a lower level.

UPM Paper Asia

2013 compared with 2012

Operating profit excluding special items for UPM Paper Asia was EUR 10 million (103 million).

Sales were EUR 1,108 million (1,131 million). Paper deliveries remained virtually on the previous year’s level of 1,370,000 tonnes (1,370,000).

The operating profit decreased in 2013 mainly due to lower fine paper prices. Deliveries remained on the same level as the previous year.

UPM Raflatac

2013 compared with 2012

Operating profit excluding special items for UPM Raflatac was EUR 75 million (81 million). Sales increased by 1% to EUR 1,213 million (1,202 million).

Operating profit decreased from the previous year, mainly due to the lower sales margin. Expanded operations enabled volume growth, more than offsetting the increase in fixed costs.

In July, UPM announced plans to reduce labelstock production capacity in Europe, South Africa and Australia.

UPM as a company 1–12
Businesses 13–26
Stakeholders 27–38
Responsibility 39–53
Governance 54–64
ACCOUNTS 65–135
In 2013, demand for graphic papers decreased by 5% in Europe. The decrease was mostly in the first half of the year, which was also reflected in the paper price development. Graphic paper prices decreased at the beginning of the year and remained largely stable during the second half of the year. On average, graphic paper prices were 4% lower than in 2012. Graphic paper production capacity was closed during the year, especially in newsprint, where the supply-demand balance was also improved. Newspapers prices increased during the second half of the year.

In North America, demand for magazine papers decreased by 1% and the average dollar price for magazine papers was slightly lower than in the previous year.

### UPM plywood 2013 compared with 2012

Operating profit excluding special items and other operations was EUR 21 million (2 million) in 2013. Sales increased by 9% to EUR 490 million (435 million) and deliveries by 7% to 737,000 cubic meters (679,000). Operating profit excluding special items increased due to higher delivery volumes and lower fixed costs.

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<th>2013</th>
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<tbody>
<tr>
<td>Sales, EURm</td>
<td>490</td>
<td>450</td>
</tr>
<tr>
<td>Depreciation, amortisation and impairment charges, EURm</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Operating profit, EURm</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>Special items, EURm</td>
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<td>-</td>
</tr>
<tr>
<td>Operating profit excl. special items, EURm</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>ROCE excl. special items, %</td>
<td>7.7</td>
<td>0.7</td>
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In 2013, UPM continued to work on the modernisation of its plywood mill in France. Following the decommissioning of the UPM Docelles mill in France and net charges of EUR 34 million mainly related to the servicing of global functions, in 2012, special items include restructuring charges of EUR 22 million, reinforcement of box of EUR 6 million, and a capital gain of EUR 12 million from the sale of the MIF business.

### Market review

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<td>7.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>
always subject to the applicable insurance conditions.

Risk management

UPM's management is exposed to a wide range of laws and regulations. The performance of UPM businesses, for example the biofuels business, the paper businesses and the energy business, are to a high degree dependent on the current regulatory framework, and changes to regulation, direct and indirect, may have a material effect on UPM's business. Regulation may lead to an increasing uncertainty and risk level when entering market countries, the lack of transparency and predictability of the political, economic and legal systems may lead to an increasing uncertainty and risk level when investing in countries outside the EU.

Three uncertainties may materialise as unfavourable taxation treatment, trade restrictions, inflation, currency fluctuations and nationalization of assets.

Operational risks

Earnings uncertainty

The main short-term uncertainties in UPM's earnings relate to sales prices and delivery volumes of the Group's products, as well as material and energy costs. Their developments are classified as strategic risks, operational risks, financial risks and hazard risks.

Strategic risks

Competition, markets and customers. The energy, pulp, timber, paper, label, plywood and biofuels markets are cyclical and highly competitive. In all these markets the competitive environment is marked by the continuous competition between existing businesses. New production capacity entering the market or old capacity being retired may impact upon the market price development. New production capacity entering the market or old capacity being retired may impact upon the market price development. Disruptions in the supply of key inputs would impact upon manufacturing operations, for example, by impacting delivery lead times. Changing demand for or shifts in the availability of critical inputs would impact upon manufacturing operations, for example, by impacting delivery lead times. Disruptions in the supply of key inputs would impact upon manufacturing operations, for example, by impacting delivery lead times.

Project execution. Investment projects in UPM businesses such as new bio-based factories or biofuel facilities can take many years to complete. UPM has experience in such projects in various businesses and locations around the world, and applies rigorous planning, project management and follow-up processes. In larger projects UPM involves risks such as cost overruns or delays, as well as achievement of the economic targets set for the investment.

M&A and changes in the business portfolio. UPM's strategic direction is to increase the share of growing businesses with positive long-term fundamentals. This may require acquisitions of new businesses or divestments of existing businesses. Participation in M&A involves risks such as unsuccessful implementation of a divestment and the ability to integrate and manage acquired operations and personnel successfully, as well as to achieve the economic targets set for an acquisition/divestment.

Regulation. UPM is exposed to a wide range of laws and regulations. The performance of UPM businesses, for example the biofuels business, the paper businesses and the energy business, are to a high degree dependent on the current regulatory framework, and changes to regulation, direct and indirect, may have a material effect on UPM's business. Regulation may lead to an increasing uncertainty and risk level when entering market countries, the lack of transparency and predictability of the political, economic and legal systems may lead to an increasing uncertainty and risk level when investing in countries outside the EU.

Political and economical risks. UPM has major manufacturing locations in Finland, Germany, the UK, France and the US. In these countries, the slow development of the individual economies and/or Europe as a whole influences adversely UPM’s performance. Furthermore, policies on European and/or national level that change GDP growth or lower the competitiveness of UPM (for example through adverse regulation or increase in direct or indirect taxation) may have an adverse impact on the values of the company's assets (e.g. biological assets or available-for-sale investments, such as energy assets), which are valued on a discounted cash flow model.

Business risks relate to the performance of the individual business units. A significant part of the company's revenues are derived through long term contracts with major customers and relationships. If these long-term contracts are terminated or do not renew, it may impact the results and cash flows of the business unit.

Hazard risks

Hazard risks include the potential for accidents, injuries and environmental damage. UPM operates a number of manufacturing facilities globally. UPM is aware of the potential for accidents, injuries and environmental damage in its operations. UPM's insurance programmes also provide coverage for insurable hazard risks, subject to terms and conditions.

Research and development

The versatile use of renewable woody biomass, combined with innovation, research and development investment, is the basis for UPM's R&D strategy. Innovations are at the forefront in the creation and development of new products and solutions that can be used to replace non-renewable and harmful materials with renewable, recyclable and lose-impact alternatives and provide resource-efficient alternatives for the future. In 2013, UPM's direct expenditure on research and development was approximately EUR 38 million (45 million), or 0.4% (0.4%) of the Group's sales. The majority of UPM's R&D input is focused on new technologies and businesses. In total, UPM spent approximately EUR 155 million (81 million) on research and development for existing and developing businesses including negative operating cash flow and capital expenditures in developing businesses, corresponding 20.6% (8.0%) of capital expenditure.
External networks
Teke, the Finnish Funding Agency for Technology and Innovation, is an important partner for UPM, as it is supporting several research projects, such as the development of biofuels, energy-saving technologies and biotechnological and biobased technology.

In 2013, the European Commission and the industries within the bioeconomy launched the Public Private Partnership (PPP) programme, which aims to support bioeconomy concepts and the growth of the bio-economy in Europe. The PPP is an important funding element for speeding up the implementation of future innovations in new areas such as biobased, biocombustion and bioliquids.

In recent years, UPM’s intellectual property rights applications have increased significantly. The importance of patent registration highlights the progress in new businesses.

UPM is a shareholder in the Finnish Bioeconomy Cluster (FBiCic). The Cluster’s research programmes focus on the bioeconomy and products based on renewable materials, thus supporting UPM’s internal R&D activities.

Businesses
UPM Biofinning
UPM has reduced process water consumption significantly in its pulp mills. In UPM’s newest mill, UPM Fray Bentos, Uruguay, the consumption of process water is among the lowest in the industry.

In plantations, operations, development work focuses on strengthening the tree-breeding programme and developing new frost-tolerant eucalyptus clones in order to create more value and improve productivity.

UPM Pulp intensified joint development activities with customers, mainly in Europe and China, in 2013.

UPM Energy
UPM Energy focuses on improving the efficiency and cost competitiveness of biomass-based energy technologies.

To reach its target, UPM Energy participates in several research programmes. These programmes are looking for innovative solutions to improve the design and operation of large-scale energy conversion systems using biomass fuel mixes.

UPM Rayflecta
In the specialty business, UPM Rayflecta focused on developing new high friction surface was in the development pipeline.

Pilot installations for selected customers. In addition, plywood with high friction surface was in the development pipeline.

UPM plywood
UPM plywood product and technology development work focused on creating new customer-based solutions in addition to commercialising and piloting applications developed previously.

One of the key areas was to improve the properties of the current LNO containment system.

For concrete forming end uses, R&D work concentrated on creating new customer-focused products that are more economic with good functional properties.

Development of rigid structures for vehicle flooring continued with pilot installations for selected customers. In addition, plywood with high friction surface was in the development pipeline.

UPM plywood also developed new patent pending vision technology machine for veneer production. The new measuring technology enables improved raw material utilisation and new type of product solutions.

Environmental performance
In 2013, UPM’s environmental investments totalled EUR 29 million (35 million). The largest investment was the rebuild of the biological effluent treatment plant at the UPM Pietarsaari pulp mill in Finland.

UPM’s environmental costs, which were mainly attributable to effluent treatment and waste management, totalled EUR 134 million (133 million), including depreciation.

No significant environmental incidents occurred in 2013. However, there were several minor temporary deviations from permit conditions. These deviations were reported to the relevant authorities immediately, and corrective and preventive measures were taken. The measures are part of the company’s internal Clean run campaign, which aims to improve environmental performance further and to promote and maintain environmental awareness.

Taking care of the entire lifecycle
UPM’s products are sustainably made from renewable, biodegradable and recyclable raw materials. UPM businesses have adopted an eco-design approach in their product development processes, which means systematic integration of environmental aspects into product design at an early stage, covering the whole lifecycle.

The majority of UPM’s production sites, as well as its forestry operations, are covered by environmental, quality and health and safety systems, which are certified in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 standards respectively. UPM has certified all the European pulp and paper mills and the UPM Fray Bentos pulp mill in Uruguay in accordance with the voluntary EU Eco-Management and Audit Scheme (EMAS). In 2013, the UPM Changshu paper mill became the first paper mill in China to be certified by EMAS.

UPM is the largest producer of EU Ecolabelled newsprint, graphic and copying papers. In 2013, UPM was awarded the EU Ecolabel Communication Award for increasing public awareness and knowledge of the EU Ecolabel.

More waste reduction through recycling and reuse
Today, over 90% of all UPM’s production waste is reused or recycled. UPM has developed innovative ways to reduce its own waste and reuse waste in new products such as UPM BioVents, UPM’s renewable diesel and UPM ProFi composite which utilises partly waste from the production of self-adhesive label materials. UPM is also the world’s largest user of recovered paper for the production of graphic papers, consuming 3.5 million tonnes of paper for recycling in 2013.

The total amount of solid waste sent to landfill has decreased by over 10% in the last ten years. However, from 2012 to 2013 the total amount of waste to landfills increased significantly. The reason is that former reutilisation obligations at one site ceased. Now ways of reuse are being investigated.

UPM ensures that all wood and wood fibre is sustainably sourced
All of UPM’s own forests and eucalyptus plantations are certified according to the FSC and/or PEFC certification schemes. All of UPM’s wood supplies are covered by third-party-verified chains of custody. 80% (77%) of all wood used by UPM is sourced from certified forests. 85% of UPM’s paper is produced using fibre that meets the criteria of either the FSC or the PEFC forest certification scheme.

In connection with the biodiversity programme, UPM carried out several projects with stakeholders in 2013. UPM became a network partner in the “Biodiversity in Good Company” initiative by Germany as part of the UN Decade Office for Biodiversity. UPM continued its co-operation with the WWF’s New Generation Plantations Project in Uruguay to develop and promote sustainable plantation practices.

Climate actions recognised and energy saved
Since 1990, specific CO2 (carbon dioxide) emissions per tonne of paper have been reduced by approximately 25%. UPM has a wide range of energy sources and it maximises the use of carbon-neutral energy. Biomass-based fuels make up 84% of the fuels used by UPM in Finland and 63% of those used worldwide. UPM is the second-largest generator of biomass-based electricity in Europe.

The largest ongoing projects are the new combined heat and power (CHP) plant at the UPM Schongau mill in Germany, due to be completed by the end of 2014, and the refurbishment of the company’s own hydropower production assets in Finland. In 2013, the UPM Korkeakoski pulp mill in Finland introduced a new bio-heating plant that uses only bark for heat energy generation.

More results with responsible water management
UPM has reduced wastewater volumes per tonne of paper by 25% and per tonne of chemical pulp by 20% over the last ten years. The COD load has decreased by 30% per tonne of paper, and by 50% per tonne of pulp, over the last ten years.

The material efficiency programme, launched in 2011, continued at the paper mills. The objective is to reduce process water consumption and suspended solids. In 2013, the rebuild of the efficient treatment plant at the UPM Pietarsaari pulp mill in Finland was completed. UPM completed a project with the aim of improving the existing pulp mill processes and developing the next-generation pulp process, where the process water requirement per tonne of pulp is further reduced from the current level.

Corporate Governance Statement
UPM presents the Corporate Governance Statement as a separate report which is available in UPM’s Annual Report 2013 on pages 136-138 and on the company’s website www.upm.com.
Board of Directors’ proposal for the distribution of profits

The Board of Directors proposes to the Annual General Meeting of UPM-Kymmene Corporation to be held on 8 April 2014 that based on the adopted balance sheet as per 31 December 2013 a dividend of EUR 0.60 per share be paid. The dividend will be paid to a shareholder registered in the Company’s shareholders’ register held by Euroclear Finland Ltd on the record date for dividend payment being 11 April 2014. The Board of Directors proposes that the dividend be paid on 24 April 2014.

On 31 December 2013, the distributable funds of the parent company were EUR 2,923,698,889.92. On the dividend proposal date, 30 January 2014, the Company’s registered number of shares is 529,301,897. The aforementioned number of shares includes 230,737 treasury shares held by the Company. Treasury shares held by the Company do not entitle to dividend. Based on this, the proposed dividend would total EUR 317.4 million.

No material changes have taken place in respect of the Company’s financial position after the balance sheet date. In the opinion of the Board of Directors the proposed distribution of profits does not risk the solvency of the Company.

Signatures of the annual accounts and the report of the Board of Directors for the year 2013

Helsinki, 30 January 2014

Björn Wahlroos  
Chairman

Björn Wahlroos  
Chairman

Karl Grotenfelt  
Pia-Noora Kauppi  
Wendy E. Lane

Jussi Pesonen  
Ursula Ramin  
Veli-Matti Reinikkala

Kim Wahl

Consolidated financial statements, IFRS

Consolidated income statement

Year ended 31 December

EURm  |  Note  |  2013  |  Restated¹
---|---|---|---
Sales  | 4  | 10,054  | 10,492
Other operating income  | 6  | 60  | 110
Costs and expenses  | 7  | −9,091  | −9,353
Change in fair value of biological assets and wood harvested  | 8  | 68  | 45
Share of results of associated companies and joint ventures  | 9  | 2  | 2
Depreciation, amortisation and impairment charges  | 10  | −545  | −2,614
Operating profit (loss)  | 4  | 548  | −1,318
Gains on available-for-sale investments, net  | 11  | 1  | 38
Exchange rate and fair value gains and losses  | 12  | 10  | 11
Interest and other finance costs, net  | 12  | −84  | −2
Profit (loss) before tax  | 13  | 475  | −1,271
Income taxes  | 13  | −140  | 149
Profit (loss) for the period  | 335  | 335  | −1,122
Attributable to:
Owners of the parent company  | 335  | 335  | −1,122
Non-controlling interests  |  |  |  
Profit (loss) attributable to owners of the parent company  | 335  | 335  | −1,122
Earnings per share for profit (loss) attributable to owners of the parent company
Basic earnings per share, EUR  | 14  | 0.63  | −2.14
Diluted earnings per share, EUR  | 14  | 0.63  | −2.13

¹Retrospective application of new and revised IFRS.

Consolidated statement of comprehensive income

Year ended 31 December

EURm  |  Note  |  2013  |  Restated¹
---|---|---|---
Profit (loss) for the period  | 335  | 335  | −1,122
Other comprehensive income for the period, net of tax:
Items that will not be reclassified to income statement:
Actuarial gains and losses on defined benefit obligations  | 69  | 98
Items that may be reclassified subsequently to income statement:
Translation differences  | −219  | −14
Net investment hedge  | 77  | 4
Cash flow hedges  | −26  | 68
Available-for-sale investments  | 58  | −672
−112  | −636
Other comprehensive income for the period, net of tax  | 13, 27  | −63  | −734
Total comprehensive income for the period  | 292  | −1,856
Total comprehensive income attributable to:
Owners of the parent company  | 292  | −1,856
Non-controlling interests  |  |  |  
Profit (loss) attributable to owners of the parent company  | 292  | −1,856

¹Retrospective application of new and revised IFRS.

The income tax relating to each component of other comprehensive income is disclosed in Note 13. Disclosure of components of other comprehensive income is presented in Note 27.

The notes are an integral part of these consolidated financial statements.
### Consolidated balance sheet

<table>
<thead>
<tr>
<th>EURm</th>
<th>As at 31 December 2013</th>
<th>As at 1 January 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>16</td>
<td>219</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>17</td>
<td>342</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>18</td>
<td>4,757</td>
</tr>
<tr>
<td>Investment property</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Biological assets</td>
<td>20</td>
<td>1,458</td>
</tr>
<tr>
<td>Investments in associated companies and joint ventures</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>22</td>
<td>2,661</td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>23</td>
<td>282</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>28</td>
<td>564</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>24</td>
<td>142</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>25</td>
<td>1,327</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>26</td>
<td>1,948</td>
</tr>
<tr>
<td>Income tax receivables</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3</td>
<td>787</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets classified as held for sale</strong></td>
<td>14,599</td>
<td>14,943</td>
</tr>
</tbody>
</table>

### Consolidated statement of changes in equity

<table>
<thead>
<tr>
<th>EURm</th>
<th>As at 31 December 2012</th>
<th>As at 1 January 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Share capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>890</td>
<td>-2</td>
</tr>
<tr>
<td><strong>Equity attributable to owners of the parent company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of new and revised IFRS, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit (loss) for the period</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligations, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net investment hedge, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flow hedges, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Available-for-sale investments, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share options exercised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share-based compensation, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,073</td>
<td>2,980</td>
</tr>
<tr>
<td>Reserve for invested non-restricted equity</td>
<td>1,226</td>
<td>1,207</td>
</tr>
<tr>
<td>Fair value and other reserves</td>
<td>2,256</td>
<td>2,232</td>
</tr>
<tr>
<td>Total equity</td>
<td>14,599</td>
<td>14,943</td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with owners for the period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total transactions with owners for the period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share options exercised</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share-based compensation, net of tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividend distribution</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at 1 January 2012</strong></td>
<td>890</td>
<td>-2</td>
</tr>
<tr>
<td><strong>Balance at 1 January 2012 (restated)</strong></td>
<td>890</td>
<td>-2</td>
</tr>
</tbody>
</table>

The notes are an integral part of these consolidated financial statements.

*Retrospective application of new and revised IFRS.*

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**Consolidated balance sheet**

**Consolidated statement of changes in equity**

The notes are an integral part of these consolidated financial statements.

*Retrospective application of new and revised IFRS.*
# Notes to the consolidated financial statements

(In the notes all amounts are shown in millions of euros unless otherwise stated.)

## 1 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

### Principal activities

UPM-Kymmene Corporation (“the parent company” or “the company”) together with its consolidated subsidiaries (“UPM” or “the Group”) is a global paper and forest products group, mainly engaged in the production of paper, with an emphasis on the manufacture and sale of printing and writing papers. UPM reports financial information for the following business areas (segments): UPM Biofuels, UPM Energy, UPM R&D; UPM Paper Asia, UPM Paper EMEA, UPM Plywood and Other operations. The Group’s activities are centred in European Union countries, North and South America and Asia with production plants in 14 countries.

UPM-Kymmene Corporation is a Finnish limited liability company, domiciled in Helsinki in the Republic of Finland. The address of the company’s registered office is Alvar Aallon katu 1, 00100 Helsinki, where a copy of the consolidated financial statements can be obtained. The parent company is listed on NASDAQ OMX Helsinki Ltd.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 30 January 2014. According to the Finnish Companies Act, the General Meeting of Shareholders is entitled to decide on the adoption of the company’s financial statements.

### Basis of preparation

These consolidated financial statements of UPM are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and IFRIC Interpretations.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets, available-for-sale investments and certain other financial assets and financial liabilities. Share-based payments are recognised at fair value on the grant date.

The preparation of financial statements requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates are employed in the financial statements to determine reported amounts, including the realisable value of certain assets, the useful lives of tangible and intangible assets, income tax and other items. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from them. The preparation of financial statements also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The most significant critical judgements are summarised in Note 2.

### Consolidation principles

**Subsidiaries**

The consolidated financial statements of UPM include the financial statements of the parent company, UPM-Kymmene Corporation, and its subsidiaries. Subsidiaries are those entities in which the Group has control. The Group has control over an entity if it has power over the entity, it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use its power to affect the amount of its returns from the entity.

Business combinations are accounted for by using the acquisition method of accounting. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred and the equity instruments issued at the acquisition date. The consideration transferred includes the fair value of any assets or liabilities resulting from a contingent consideration arrangement. Transaction costs related to an acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures any non-controlling interest in the acquiree at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (see below “Intangible assets” for goodwill accounting policy).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. All intercompany transactions, receivables, liabilities and unrealised profits, as well as intergroup profit distributions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. When the Group ceases to have control in subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in income statement.

**Joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the con-trollingly agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts in relation to its interest for the assets, liabilities, revenues and expenses related to a joint operation in accordance with IFRS applicable for the particular item. Transactions with joint operations are recognised in the consolidated financial statements only to the extent of other parties’ interests in the joint operation.

**Associated companies and joint ventures**

Associated companies are entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Interests in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Under this method the Group’s share of the associated company and joint venture profit or loss for the period is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The Group’s interest in an

## Consolidated cash flow statement

### Year ended 31 December 2013

<table>
<thead>
<tr>
<th>Cash flow from operating activities</th>
<th>2013</th>
<th>Restated*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) for the period</td>
<td>335</td>
<td>-1,122</td>
</tr>
<tr>
<td>Adjustments</td>
<td>5</td>
<td>790</td>
</tr>
<tr>
<td>Interest received</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Interest paid</td>
<td>-50</td>
<td>-83</td>
</tr>
<tr>
<td>Dividends received</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Other financial items, net</td>
<td>-20</td>
<td>-16</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>-157</td>
<td>-73</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>-128</td>
<td>34</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>735</td>
<td>1,040</td>
</tr>
</tbody>
</table>

### Cash flow from investing activities

| Capital expenditure                | -337 | -379     |
| Acquisition of businesses and subsidiaries, net of cash acquired | -    | -10      |
| Acquisition of shares in associated companies and joint ventures | -1   | -        |
| Acquisition of available-for-sale investments | -31  | -        |
| Proceeds from sale of tangible and intangible assets | 33   | 100      |
| Proceeds from disposal of subsidiaries | 5    | 2        |
| Proceeds from disposal of shares in associated companies and joint ventures | -7   | 3        |
| Proceeds from disposal of available-for-sale investments | 1    | 150      |
| Change in other non-current assets | 60   | -39      |
| Dividends received                | -    | 150      |
| **Net cash used in investing activities** | -297 | -72      |

### Cash flow from financing activities

| Proceeds from non-current liabilities | 535  | 140       |
| Payments of non-current liabilities | -323 | -927      |
| Change in current liabilities       | -64  | 110       |
| Share options exercised             | 17   | 8         |
| Dividends paid                      | 317  | -315      |
| **Net cash used in financing activities** | -322 | -937     |

### Change in cash and cash equivalents

| Increase in cash and cash equivalents | 306  | 20       |
| Foreign exchange effect on cash and cash equivalents | 486  | 512      |
| Change in cash and cash equivalents at beginning of period | 5    | -        |

### Change in cash and cash equivalents at end of period

| 789  | 486 |

The notes are an integral part of these consolidated financial statements.

*Retrospective application of new and revised IFRS.
associated company and joint venture is carried on the balance sheet at an amount that reflects its share of the net assets of the associated company and joint venture, based on the carrying amount of the investee (net of any accumulated impairment loss), less any impairment in the value of individual investments. Unrealised gains and losses on transactions between the Group and its subsidiaries and joint ventures are eliminated in the financial statements of the Group to the extent of the Group’s interest in the associated company and joint venture, unless the loss provides evidence of an impairment of the asset or joint venture accounting policies have been changed where necessary to ensure consistency with the policies of the Group. Exchange differences arising when the carrying amount of the investment in an associated company or interest in a joint venture reaches zero, unless the Group has incurred or guaranteed obligations to an associated company or joint venture.

Non-controlling interests

The profit or loss attributable to owners of the parent company and non-controlling interests is presented on the face of the income statement. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to owners of the parent company.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses of disposals of non-controlling interests are also recorded in equity.

Foreign currency transactions

Items included in the financial statements of each Group subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates (“the functional currency”). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Gains and losses on foreign currency differences relating to ordinary business operations of the Group are included in the appropriate line items above operating profit and those relating to financial items are included in a separate line item in the income statement and as a net amount in total comprehensive income.

Income and expenses for each income statement of subsidiaries that have a functional currency different from the Group’s presentation currency are translated into euros at quarterly average exchange rates. Assets and liabilities of subsidiaries for each balance sheet period are translated at the closing rate at the date of that balance sheet. All resulting translation differences are recognised as a separate component in other comprehensive income. On consolidation, exchange differences arising from the translation of net investment in foreign operations and other currency instruments designated as hedges of such investments are recognised in other comprehensive income. When a foreign entity is partially disposed of, sold or liquidated, translation differences accumulated in equity are recognised in the income statement as part of the gain or loss on sale.

Derivative financial instruments and hedging activities

Derivatives are initially recognised on the balance sheet at fair value and thereafter remeasured at fair value. The method used for recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and on the nature of the item being hedged.

On the date a derivative contract is entered into, the Group designates certain derivatives as either hedges of the fair value of a recognised asset or liability committed to or expected to be incurred, or as a highly probable forecasted transaction or cash flow variability in functional currency (cash flow hedge), or hedges of net investment in a foreign operation or its functional currency (net investment hedge). If the instrument is designated as a hedge of a non-current asset or liability or where the remaining maturity is more than 12 months, it is measured at cost as a current asset or liability when the classification is no less than 12 months from the measurement date.

The Group applies fair value hedge accounting for hedging fixed interest costs on discounted liabilities of the parent and the hedges of the derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded in the income statement under financial items, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The carrying amounts of hedged items and the fair values of hedging instruments are included in interest-bearing assets or liabilities. Derivatives that are designated and qualify as fair value hedges mature at the same time as hedged items. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Amounts deferred in equity are transferred to the income statement and classified as income or expense in the same period as that in which the hedged items affects the income statement (for example, when the forecast external sale to the Group that is hedged takes place). The period when the hedging reserve is released to sales after each derivative has matured is approximately one month. However, when the forecast transaction that is hedged results in the recognition of a non-monetary transaction for example, the fair value of an asset or amount previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecast transaction is ultimately recognised in the income statement. However, if a forecast transaction no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The fair value changes of forward exchange contracts that reflect the change in spot exchange rates are recognised in other comprehensive income. Any gain or loss relating to the interest portion of forward exchange contracts is recognised immediately in the income statement. All other losses, or losses not indicated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and policy in undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or forecast transactions.

The Group also documents its assessment, both at the hedge inception and on an on-going basis, as to whether the derivates that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Certain derivative transactions, while providing effective hedges under the Group Treasury Policy, are not accounted for as hedges. Such derivatives are classified held for trading, and changes in the fair value of such derivative instruments at each reporting date are recognised in equity. The gains and losses arising from changes in fair values of these derivatives are accounted for in the same income statement as other operating income or under financial items.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the manager who is responsible for allocating resources and assessing performance of operating segments, has been identified as the chief operating decision maker since 2008.

The accounting policies used in segment reporting are the same as those used in the consolidated accounts, except that the joint operation, UPM Paper Ena, is reported as a separate segment.

Revenue recognition

Group’s sales mainly comprises of sale of paper, pulp, sawn timber, papers, self-adhesive label materials and phytosanitary products.

Sales are recognised when it is probable that future economic benefits will flow to the entity, the associated costs and the amount of revenue can be measured reliably and the following criteria are met: existence of an arrangement exists, delivery has occurred or services have been rendered, price to the buyer is fixed or determinable, and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership of the Group has neither continuing managerial involvement with the goods nor a continuing right to dispose of the goods nor effective control of those goods. The timing of revenue recognition is largely dependent on delivery terms. Group’s terms of delivery are based on Incoterms 2010, the official rules for interpretation of trade terms issued by the International Chamber of Commerce. Revenue is recorded when the product is delivered to the destination point for terms designated Delivered Duty Paid (“DDP”) or Delivered at Place (“DAP”). For sales transactions designated Free on Carrier (“FCA”), Carriage paid to (“CPT”), or Carriage and Insurance Paid to (“CIP”), revenue is recorded at the time of shipment.

Revenues from services are recorded when the service has been performed.

Sales are recognised net of indirect sales taxes, discounts, rebates and exchange differences on sales under hedge accounting. The costs of distributing products sold are included in costs and expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences related to balances at Group level and in the income statement, unless the temporary difference relates to cash flows arising from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect either accounting or taxable profit or loss. Deferred income tax is not recognised if they arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect either accounting or taxable profit or loss. Deferred income tax is not recognised if the asset or liability has been or will be subsequent to enactment or the balance sheet date and are expected to apply when the related deferred income tax asset is reduced to the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on intercompany subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax is provided to the extent that it is probable that there will be future taxable profits against which the temporary differences can be utilised.

Special items

Certain financial performance indicators have been excluded or not been provided in order to comply with non-GAAP measures. The Group’s financial statements to eliminate the income statement impact of certain items. The Group discloses non-GAAP measures by nature. The Group believes that non-GAAP measures enhance the understanding of the historical performance. Any measures derived with eliminating special items are not measures of financial position, performance under the IFRS, and they may not be comparable to other similarly titled measures.

In the UPM Biofinning, UPM Paper Asia and UPM Paper Ena segments the transaction (income or expense) is considered to be special item, if the impact is one cost EUR (EUR 0.01) after tax per share or more, and if it arises from asset impairments, asset sales or restructuring measures, or relate to changes in legislation or legal procedure. In other segments the impact is considered to be significant if it exceeds EUR 1 million pre-tax.

Intangible assets

Intangible assets with finite lives are carried at historical cost less amortisation. Amortisation is based on the following estimated useful lives:

- Computer software: 3 years
- Computer software licences: 5 years
- Other intangible assets with finite lives

Goodwill and other intangible assets that are deemed to have an indefinite life are not amortised, but are tested annually for impairment.

Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the identifiable net assets of the acquired subsidiary, associated company or joint venture at the date of acquisition.

Goodwill is comprised of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and joint ventures is included in investments in associated companies and joint ventures and is tested for impairment as part of the overall balance. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the difference is an impairment loss, which is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Research and development

Research and development costs are expensed as incurred, except for certain development costs, which are capitalised when it is probable that a development project will generate future economic benefits, and the cost can be measured reliably. Capitalised development costs are amortised on a systematic basis over their expected useful lives, usually not exceeding 5 years.

Computer software

Costs associated with maintaining computer software programmes and costs related to the preliminary project phase of internally developed
The carrying value of property, plant and equipment on the balance sheet is recognised when disposed. Any profit or loss on disposal is recognised in other operating income in the income statement, systematically, over the compliance period to which the corresponding emission right relate. The emissions realised are expensed under other operating costs and expenses in the income statement and presented as a provision in the balance sheet. Emission rights and associated provisions are derecognised when disposed. Any profit or loss on disposal is recognised in the income statement.

Emission rights

The Group participates in government schemes aimed at reducing greenhouse gas emissions. Emission rights received from governments free of charge are initially recognised as intangible assets based on market value at the date of initial recognition. Emission rights are not amortised but are recognised at an amount not exceeding their market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as emission rights and are recognised in other operating income in the income statement, systematically, over the compliance period to which the corresponding emission right relates. The emissions realised are expensed under other operating costs and expenses in the income statement and presented as a provision in the balance sheet. Emission rights and associated provisions are derecognised when disposed. Any profit or loss on disposal is recognised in the income statement.

Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost. Assets of acquired subsidiaries are stated at fair value at the date of acquisition. Depreciation is calculated on a straight-line basis and the carrying value is adjusted for impairment charges, if any. The carrying value of property, plant and equipment on the balance sheet represents the cost less accumulated depreciation and any impairment charges.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation (or depreciation) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may exceed its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The value in use is determined by discounting the expected future cash flows expected to be generated by the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment is no longer subsequently recoverable, the carrying amount of the asset is reduced by the amount of the impairment loss. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the balance sheet and, where it differs significantly from previous estimates, depreciation periods are changed prospectively.

Inventories

Inventories are reported at the lower of the carrying amount and the fair value less costs to sell. Cost of sales is charged to the income statement at the lower of the cost or the net realisable value (normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within current interest-bearing liabilities in the balance sheet.

Taxes and taxation

Taxes and taxation comprises corporation tax, VAT, customs duties, duties on property transfers, sales tax and duties on injection of funds, and other taxes and duties. Significant portions of these taxes and duties arise from the Group’s operations in Finland.

Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred in the periods, interest-bearing liabilities are stated at amortised cost using the effective interest method, any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability, any difference between this and the interestbearing liabilities. The Group has not used the option of designating financial liabilities at fair value through profit or loss. Non-interest-bearing liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability.

Interest-bearing liabilities are classified as non-current liabilities unless they are due for settlement within 12 months of the balance sheet date.

Trade payables

Trade payables are obligations due to acquisition of inventories, fixed assets, goods and services in the ordinary course of business from suppliers. Trade payables are measured at the transaction price and are included in the balance sheet at fair value. Payments are allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment under capital leases are depreciated over the shorter of the asset’s useful life and the lease term.

Leases where the lessee retains substantially all the risks and rewards of ownership are classified as leases. Leases where substantially all the risks and rewards of ownership are not retained are classified as operating leases.

Other intangible assets

Separately acquired patents, trademarks and licences with a finite useful life are capitalised. Intangible assets are amortised over their useful life, which is determined at initial recognition. Amortisation is calculated using the straight-line method over their estimated useful lives. Other intangible assets that are deemed to have an indefinite life are not amortised and are tested annually for impairment.

Emission rights

The Group participates in government schemes aimed at reducing greenhouse gas emissions. Emission rights received from governments free of charge are initially recognised as intangible assets based on market value at the date of initial recognition. Emission rights are not amortised but are recognised at an amount not exceeding their market value at the balance sheet date. Government grants are recognised as deferred income in the balance sheet at the same time as emission rights and are recognised in other operating income in the income statement, systematically, over the compliance period to which the corresponding emission right relates. The emissions realised are expensed under other operating costs and expenses in the income statement and presented as a provision in the balance sheet. Emission rights and associated provisions are derecognised when disposed. Any profit or loss on disposal is recognised in the income statement.
Employee benefits
Pension obligations
The Group operates a mixture of pension schemes in accordance with local conditions and practices in the countries in which it operates. These programmes include defined benefit pension schemes with retirement, disability and termination benefits. Retirement benefits are usually a function of years of service with the company. Generally, the schemes are either funded through payments to insurance companies or are set-up and funded by periodic actuarial calculations. In addition, the Group also operates defined contribution pension arrangements. Most Finnish pension arrangement are defined contribution plans.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the term of the related pension liability. The cost of providing pensions is charged to the income statement as personnel expenses so as to spread the cost over the service lives of employees. Changes in actuarial assumptions and actuarial gains and losses arising from experience adjustments are charged or credited in other comprehensive income in the period in which they arise. Past service costs and gains or losses on settlement are recognised immediately in equity.

The proceeds received, net of any directly attributable transaction costs, are credited to equity when the options are exercised. The fair values of the options granted are determined using the Black-Scholes valuation model on the grant date. Non-market vesting conditions are included in the assumptions about the number of options expected to vest. Estimates of the number of exercisable options are revised quarterly and the impact of the revision of original estimates, if any, is recognised in the income statement and equity.

The amendment to IFRS 10, 11 and 12 Transition Guidance provides an additional transitional period for the requirement to determine whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. New IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangements. In addition, proportional consolidation of joint ventures is no longer allowed. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Revised IAS 27 includes new requirements on fair value measurement of investments in unconsolidated structured entities that are left after the consolidation of controlled entities and not included within the consolidated financial statements of the parent company. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Under IAS 27, entities are classified as associates, joint operation or joint ventures, based on either the provisions of IAS 28 or IFRS 11.

The amendment to IAS 19 Employee Benefits eliminates the corridor approach and calculates interest costs on a net funding basis. Under the amendment to IAS 19, if the contribution plan does not specifically recognise all actuarial gains and losses arising from its defined benefit plans and replaced interest cost and expected return of plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit obligation.

New IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. New IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangements. In addition, proportional consolidation of joint ventures is no longer allowed. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Revised IAS 27 includes new requirements on fair value measurement of investments in unconsolidated structured entities that are left after the consolidation of controlled entities and not included within the consolidated financial statements of the parent company. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Under IAS 27, entities are classified as associates, joint operation or joint ventures, based on either the provisions of IAS 28 or IFRS 11.
Impact on consolidated balance sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>2,050</td>
<td>2,580</td>
</tr>
<tr>
<td>Current assets</td>
<td>2,050</td>
<td>2,580</td>
</tr>
<tr>
<td>Net assets</td>
<td>2,050</td>
<td>2,580</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>1,550</td>
<td>2,152</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>487</td>
<td>401</td>
</tr>
<tr>
<td>Net liabilities</td>
<td>1,063</td>
<td>1,751</td>
</tr>
<tr>
<td>Equity and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>2,050</td>
<td>2,580</td>
</tr>
</tbody>
</table>

New and revised standards, interpretations and amendments to existing standards that are not yet effective and have not yet been early adopted by the Group

IFRS 9. The amendments clarify the requirements for recognition and measurement, derecognition and hedge accounting. The IASB is adding the provisions to the standard as it considers them to be complementary to the project on financial instruments, and so it will eventually form a complete replacement for IAS 39. IFRS 9 retains but simplifies the mixed measurement model for liabilities into two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The accounting and presentation for financial liabilities shall remain the same except for those financial liabilities for which the financial asset measurement topic introduces a new hedging accounting model that will allow entities to better reflect their risk management activities in the financial statements. An effective date for IFRS 9 will be added to the standard when all phases of the project are complete and a final version of IFRS 9 is issued.

The IFRS 9 standard is expected to have some impacts on accounting for Group’s financial assets. The standard is not yet endorsed by the EU. The amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities is effective for annual periods beginning on or after 1 January 2014. The amendment provides clarifications on the application of the offsetting rules. The Group is assessing the impact of the amendment on the Group’s financial statements.

The amendment to IFRS 10 Consolidated financial statements is effective for annual periods beginning on or after 1 January 2014. Many funds and similar entities will be exempted from consolidated controlled investees under amendments to IFRS 10, ‘Consolidated financial statements’. Amendments have been made to IFRS 10, IFRS 12 and IAS 27. The amendment is not relevant for the Group.

Interpretation IFRIC 21 Levies is effective for annual periods beginning on or after other future. IFRIC 21 clarifies the criteria when to recognise a liability for a levy imposed by a governmental, both for levies that are accounted for in accordance with IAS 7 and those where the timing and amount of the levy is certain. The interpretation is not expected to have a material impact on the Group’s financial statements.

The interpretation is not yet endorsed by the EU.

Adjustment to IAS 36 Impairment of assets: recoverable amount disclosures for non-financial assets, is effective for annual periods beginning on or after 1 January 2014. IFRS 13 amended IAS 16 to require disclosures about the recoverable amount of impaired assets. The new amendment clarifies that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The amendment is not expected to have an impact on the Group’s financial statements.

Adjustment to IAS 39 is effective for annual periods beginning on or after 1 January 2014. A narrow scope amendment to IAS 39 clarifies the accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty or as a result of new laws or regulations, if specific conditions are met. The amendment is not expected to have impact on the Group’s financial statements.

Environmental provisions

Operations of the Group are based on heavy process industry which requires large production facilities. In addition to basic raw materials, considerable amount of chemicals, water and energy is used in processes. The Group’s operations are subject to several environmental laws and regulations. The Group aims to operate in compliance with regulations relating to treatment of wastewater, air emissions and landfill sites. The Group has provisions for normal environmental remediation costs. Unexpected events occurred during production processes and waste treatment could cause material losses and additional costs in the Group’s operations. Provisions are disclosed in Note 19.

Income taxes

Management judgement is required for the calculation of provision for income taxes and deferred tax assets and liabilities. The Group records at each balance sheet date the carrying amounts of deferred tax assets. The Group considers whether it is probable that the subsidiaries will have sufficient future taxable income against which the temporary differences and tax credits can be utilised. The factors used in estimates may differ from actual outcome which could lead to significant adjustment to deferred tax assets and liabilities. Details of the income taxes are disclosed in Note 13 and deferred income taxes in Note 28.

Legal contingencies

Management judgement is required in measurement and recognition of provisions related to pending litigation. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past event, an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to inherent uncertain nature of litigation, the actual losses may differ significantly from the originally estimated provision. Details of legal contingencies are presented in Note 39.

Available-for-sale investments

Group’s available-for-sale investments include investments in unlisted equity shares that are measured at fair value in the balance sheet. The fair valuation requires management’s assumptions and estimates of number of factors (e.g. discount rates, electricity price, start-up schedule of Oskiluoto 3 nuclear power plant), that may differ from the actual outcome which could lead to significant adjustment to the carrying amount of the available-for-sale investment and equity. Fair value estimation of financial assets is disclosed in Note 3 and available-for-sale investments in Note 22.

Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The objective of financial risk management is to protect the Group from unavourable changes in financial markets and thus help to secure profitability. The objectives and limits for financing activities are defined in the Group Treasury Policy approved by the company’s Board of Directors.

In financial risk management various financial instruments are used within the limits specified in the Group Treasury Policy. Only such instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

A detailed overview of financial risk management carried out is set out in a central treasury department, Treasury and Risk Management (TRM). The centralisation of Treasury functions enables efficient financial risk management, cost-efficiency and efficient cash management.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (USD), the EUR and the JPY. Foreign exchange risk arises from future commercial transactions, from recognised assets and liabilities and from translation exposure. The objective of the Group is to manage the foreign exchange risk by limiting the uncertainty created by changes in foreign exchange rates on the future values of the flows and earnings as well as the Group’s balance sheet by hedging foreign exchange risk in forward currency flows and balance sheet exposures.
The following assumptions were made when calculating the sensitivity to changes in the foreign exchange risk:

- **Currency**: USD, JPY, GBP, EUR, AUD, CAD.
- **Exposure**: 100% of the transaction or balance sheet items.
- **Hedging Instrument**: The hedge is perfect, with no ineffectiveness.
- **Interest Rate Sensitivity**: The Group uses interest rate swaps to manage interest rate risk.
- **Foreign Currency Flows**: The Group uses foreign currency forwards to manage foreign currency flows.

### Liquidity

<table>
<thead>
<tr>
<th>Currency</th>
<th>2013 EURm</th>
<th>2012 EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>4.0</td>
<td>4.2</td>
</tr>
<tr>
<td>GBP</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>JPY</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>AUD</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Others</td>
<td>0.8</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Total: 5.2

The most important financial programmes in use are:

- Unseasonal:
  - Domestic commercial paper programme, EUR 1,000 million
  - Revolving Credit Facility, EUR 500 million (maturities 2016)

The contractual maturity analysis for financial liabilities is presented in Note 31.

### Credit risk

#### Financial counterparty risk

The financial instruments the Group has agreed with banks and financial institutions contain an element of risk of the counterparty being unable to meet their obligations. According to the Group Treasury Policy derivative instruments and investments of cash funds may be made only with counterparties meeting certain creditworthiness criteria. The Group monitors counterparty risk also by using a number of major banks and financial institutions. Creditworthiness of counterparties is constantly monitored by TRM.

### Operational credit risk

With regard to operating activities, the Group has a credit policy in place and the exposure to a credit risk is monitored on an ongoing basis. Open trade receivables, days of sales outstanding (DSO) and overdue trade receivables are followed on monthly basis.

#### Fair value estimation

The difference between the fair value hierarchy used in fair value estimation have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than the quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.
The fair values of derivatives are fair valued based on quoted market rates on the balance sheet date. Foreign currency options are fair valued based on quoted market rates on the balance sheet date. Interest and currency swap agreements are fair valued based on discounted cash flows. Fair valuations are fair valued based on quoted market rates on the balance sheet date. The fair values of non-traded derivatives, such as embedded derivatives, are assessed by using valuation methods and assumptions that are based on market quotations existing at each balance sheet date. Embedded derivatives that are identified are monitored by the Group and the fair value changes are reported in other operating income in the income statement.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2013:

<table>
<thead>
<tr>
<th>EURm</th>
<th>Available-for-sale investments</th>
<th>Other receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>3,345</td>
<td>3,345</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>33</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Transfers from Level 3</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Gains and losses</td>
<td>-1</td>
<td>-1</td>
<td></td>
</tr>
<tr>
<td>Recognised in statement, under gains on available-for-sale investments</td>
<td>-109</td>
<td>-112</td>
<td></td>
</tr>
<tr>
<td>Recognised in statement of comprehensive income, under available-for-sale investments</td>
<td>-682</td>
<td>-682</td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>2,587</td>
<td>2,587</td>
<td></td>
</tr>
</tbody>
</table>

The fair values of derivatives are fair valued based on quoted market rates on the balance sheet date. Foreign currency options are fair valued based on quoted market rates on the balance sheet date. Interest and currency swap agreements are fair valued based on discounted cash flows. Fair valuations are fair valued based on quoted market rates on the balance sheet date. The fair values of non-traded derivatives, such as embedded derivatives, are assessed by using valuation methods and assumptions that are based on market quotations existing at each balance sheet date. Embedded derivatives that are identified are monitored by the Group and the fair value changes are reported in other operating income in the income statement.

The following table shows the changes in Level 3 instruments for the year ended 31 December 2012:

<table>
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<tr>
<td>Additions</td>
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<td>33</td>
<td></td>
</tr>
<tr>
<td>Transfers from Level 3</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Gains and losses</td>
<td>-1</td>
<td>-1</td>
<td></td>
</tr>
<tr>
<td>Recognised in statement, under gains on available-for-sale investments</td>
<td>-109</td>
<td>-112</td>
<td></td>
</tr>
<tr>
<td>Recognised in statement of comprehensive income, under available-for-sale investments</td>
<td>-682</td>
<td>-682</td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>2,587</td>
<td>2,587</td>
<td></td>
</tr>
</tbody>
</table>

4 Segment Information

The Group’s management has determined the operating segments based on management reporting regularly reviewed by the Group’s chief operating decision maker. The chief operating decision maker has been identified as the Group’s President and CEO. The operating segments are organized on a product basis. In August 2013, UPM announced that it implements a new business structure to drive clear improvement in profitability. The company also seeks to simplify and further develop its business portfolio. As of 1 November 2013, UPM’s business structure consists of the following business areas and reporting segments: UPM Biofinning, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA (Europe and North America) and UPM Plywood. Forests and wood sourcing, UPM Biochemicals business units and Group services are reported in Other operations. Financial reporting according to the new structure has taken place from Q4 2013 onwards. The financial figures for the comparison period have been restated according to the new business and reportable segments structure.
### Segment information for the year ended 31 December 2013

#### EURm

<table>
<thead>
<tr>
<th>Segment</th>
<th>UPM Biofilling</th>
<th>UPM Energy</th>
<th>UPM Raflatac</th>
<th>UPM Paper Asia</th>
<th>UPM Paper Energy</th>
<th>UPM Pulp</th>
<th>Other operations</th>
<th>Eliminations and reconciliations</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sales</td>
<td>1,299</td>
<td>222</td>
<td>1,210</td>
<td>914</td>
<td>5,451</td>
<td>402</td>
<td>496</td>
<td>60</td>
<td>10,054</td>
</tr>
<tr>
<td>Internal sales</td>
<td>689</td>
<td>244</td>
<td>3</td>
<td>196</td>
<td>109</td>
<td>27</td>
<td>27</td>
<td>-1,260</td>
<td>-</td>
</tr>
<tr>
<td>Total sales</td>
<td>1,988</td>
<td>466</td>
<td>1,213</td>
<td>1,105</td>
<td>5,560</td>
<td>429</td>
<td>499</td>
<td>-1,200</td>
<td>10,054</td>
</tr>
<tr>
<td>Share of results of associates and joint ventures</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Operating profit

- Operating profit: 306.168
- Operating profit excluding special items: 300.186
- Operating profit profit excluding special items: 300.186

- Capital expenditure: 1593
- Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

- Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

- Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

### Segment information for the year ended 31 December 2012

#### EURm

<table>
<thead>
<tr>
<th>Segment</th>
<th>UPM Biofilling</th>
<th>UPM Energy</th>
<th>UPM Raflatac</th>
<th>UPM Paper Asia</th>
<th>UPM Paper Energy</th>
<th>UPM Pulp</th>
<th>Other operations</th>
<th>Eliminations and reconciliations</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sales</td>
<td>1,110</td>
<td>253</td>
<td>1,202</td>
<td>967</td>
<td>6,171</td>
<td>371</td>
<td>536</td>
<td>-118</td>
<td>10,492</td>
</tr>
<tr>
<td>Internal sales</td>
<td>860</td>
<td>229</td>
<td>164</td>
<td>21</td>
<td>22</td>
<td>4</td>
<td>-1,300</td>
<td>-8</td>
<td>-</td>
</tr>
<tr>
<td>Total sales</td>
<td>1,970</td>
<td>482</td>
<td>1,202</td>
<td>1,131</td>
<td>6,192</td>
<td>393</td>
<td>540</td>
<td>-1,418</td>
<td>10,492</td>
</tr>
<tr>
<td>Share of results of associates and joint ventures</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Operating profit

- Operating profit: 205.217
- Operating profit excluding special items: 248.217
- Operating profit excluding special items: 248.217

- Capital expenditure: 1586
- Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

- Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

- Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.

### Notes

1. The Group’s sales comprise mainly of product sales.
2. In 2013, special charges of EUR 2 million in the UPM Biofilling segment relate to restructuring and special expenses and special income of EUR 8 million to a capital gain from the sale of the division’s operations.
3. In the UPM Raflatac segment special items of EUR 12 million relate to restructuring charges, including impairments of EUR 2 million. In the UPM Paper Energy segment special items include charges of EUR 25 million related to the restructuring of the UPM Dollevis mill in France and set net charges of EUR 34 million mainly related to the ongoing restructuring activities. In the Other operations special items of EUR 80 million relate to write-downs of receivables due to the Finnish Customs’ decision to discontinue UPM’s application for the statutory refund of energy taxes for the year 2012. In addition, special items include charges of EUR 27 million mainly related to the streamlining of global functions.
4. Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, biological assets and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.
5. Segment liabilities include trade payables and advances received.
6. Capital expenditure includes goodwill arising from business combinations, other intangible assets, property, plant and equipment, investment property, and investments in associated companies and joint ventures, available-for-sale investments, inventories and trade receivables.
7. Capital employed is segment assets less segment liabilities. Eliminations and reconciliations include unallocated assets and unallocated non-interest-bearing liabilities.
8. Capital employed, average: 2,806.326
9. Capital employed, average: 2,806.326
10. Return on capital employed: 2,806.326
11. Return on capital employed: 2,806.326
12. Return on capital employed, excluding special items: 2,806.326
13. Return on capital employed, excluding special items: 2,806.326
14. Return on capital employed, excluding special items: 2,806.326
15. Return on capital employed, excluding special items: 2,806.326
16. Return on capital employed, excluding special items: 2,806.326
17. Personal year end average: 2,806.326
18. Personal year end average: 2,806.326
19. Personal year end average: 2,806.326
20. Personal year end average: 2,806.326
21. Personal year end average: 2,806.326
22. Personal year end average: 2,806.326
23. Personal year end average: 2,806.326
24. Personal year end average: 2,806.326
25. Personal year end average: 2,806.326
26. Personal year end average: 2,806.326
27. Personal year end average: 2,806.326
28. Personal year end average: 2,806.326
29. Personal year end average: 2,806.326
30. Personal year end average: 2,806.326
31. Personal year end average: 2,806.326
32. Personal year end average: 2,806.326
33. Personal year end average: 2,806.326
34. Personal year end average: 2,806.326
35. Personal year end average: 2,806.326
36. Personal year end average: 2,806.326
37. Personal year end average: 2,806.326
38. Personal year end average: 2,806.326
39. Personal year end average: 2,806.326
40. Personal year end average: 2,806.326
41. Personal year end average: 2,806.326
42. Personal year end average: 2,806.326
43. Personal year end average: 2,806.326
44. Personal year end average: 2,806.326
45. Personal year end average: 2,806.326
46. Personal year end average: 2,806.326
47. Personal year end average: 2,806.326
48. Personal year end average: 2,806.326
49. Personal year end average: 2,806.326
50. Personal year end average: 2,806.326
51. Personal year end average: 2,806.326
The following table summarises the consideration paid for business and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

<table>
<thead>
<tr>
<th>Consideration transferred, cash</th>
<th>At 31 August 2012</th>
<th>EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Disposals

In 2013, there were no disposals.

In March 2012, UPM completed the sale of its RFID business to SMARTTRAC N.V. UPM became an indirect shareholder of SMARTTRAC with a 10.6% economic interest through the company OEP Technology B.V., a holding company controlled by One Equity Partners and one of the major shareholders of SMARTTRAC. The capital gain on disposal of EUR 12 million was recognised on the sale. The assets and liabilities related to UPM’s RFID companies, UPM RFID Oy, UPM RFID Inc. and UPM Batac System RFID Co. Ltd. were part of the other operations and were classified as assets held for sale and related liabilities as at 31 December 2011.

In August 2012, UPM sold the closed Papierfabrik Allbruck GmbH to the German Karl Group. UPM permanently ceased graphic paper production at the mill in January 2012. Allbruck was part of the Paper and Board operations as at 31 December 2011.

The following table summarises the aggregate amount of assets and liabilities related to the businesses sold during 2012:

<table>
<thead>
<tr>
<th>Consideration transferred, cash</th>
<th>At 31 August 2012</th>
<th>EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

6 Other operating income

Gains on disposal of non-current assets

Rental income, investment property

Rental income, other

Emission rights received (Note 7)

Derivatives held for trading

Exchange rate gains and losses

Other

Total

7 Costs and expenses

Change in inventories of finished goods and work in progress

Provision for own use

Materials and services

Raw materials, consumables and goods

Derivatives designated as cash flow hedges

External services 1

Total

Notes to the consolidated cash flow statement

Adjustments

Change in fair value of biological assets and wood harvested

Share of results of associated companies and joint ventures

Depreciation, amortisation and impairment charges

Capital gains on sale of non-current assets, net

Finance costs, net

Taxes

Change in restructuring provisions

Other adjustments (in 2013 includes reversal of energy tax receivable)

Total

Change in working capital

Change in cash flow

Costs and expenses

External services

Materials and services

Other operating expenses

Total

5 Acquisitions and disposals and notes to the cash flow statement

5.1 Acquisitions

In 2013, no acquisitions were made.

On 31 August 2012 UPM acquired the labelstock business operations of Gaspogne Laminates Switzerland of the Gaspogne Group. The acquisition supports UPM’s growth in special labelstock products in Europe.

If the business had been included in the Group from 1 January 2012, it would have increased Group’s sales by EUR 20 million.
In accordance with the service contract of the President and CEO the retirement age of the President and CEO, Jussi Pesonen, is 60 years. For the President and CEO, the target pension is 60% of average indexed earnings calculated according to the Finnish statutory pension scheme from the last ten years of employment. The costs of lowering the retire- ment age to 60 years is covered by supplementary statutory pension with a voluntary defined benefit pension plan. Should the President and CEO leave the company prior to the age of 60, immediate vesting (right corre- sponding to 100% of earned pension (pro rata) will be applied. The retirement age of the other members of the Group Executive Team is 63 years. The expenses of the President and CEO’s defined benefit pension plan in 2013 were EUR 0.5 million (0.5 million), and the plan assets amounted to EUR 4.6 million and obligation to EUR 3.8 million. Other Group Executive Team members are under defined contribution plans.

In case the notice of termination is given to the President and CEO, a severance pay of 24 months’ fixed salary will be paid in addition to the salary for six months’ notice period. Should the President and CEO give a notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period. For other members of the Group Executive Team, the period for additional severance compensa- tion is 12 months, in addition to the six months’ salary for the notice period, unless notice is given for reasons that are solely attributable to the employee.

If there is a change in the control over the company, as defined in the employment or service contracts, the President and CEO may termi- nate his service contract within three months and each member of the Group Executive Team may terminate his service contract within one month, from the date of the event that triggered the change of con- trol and shall receive compensation equivalent to 24 months’ base salary.

In July 2013, UPM Raflatac announced that it will reduce labelstock production capacity in Europe, South-Africa and Australia. Impairment charges of EUR 3 million were recognised in UPM Raflatac’s segment’s property, plant and equipment.

The aggregate foreign exchange gains and losses included in the consolidated income statement
13 Income taxes

Year ended 31 December

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss)</td>
<td>475</td>
<td>–1,271</td>
</tr>
<tr>
<td>Income taxes,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax</td>
<td>123</td>
<td>125</td>
</tr>
<tr>
<td>Change in deferred taxes (Note 28)</td>
<td>17</td>
<td>–274</td>
</tr>
<tr>
<td>Income taxes, total</td>
<td>140</td>
<td>142</td>
</tr>
</tbody>
</table>

14 Earnings per share

Year ended 31 December

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) attributable to owners of the parent company, EURm</td>
<td>335</td>
<td>–1,122</td>
</tr>
<tr>
<td>Weighted average number of shares (1,000)</td>
<td>527,818</td>
<td>525,434</td>
</tr>
<tr>
<td>Basic earnings per share, EUR</td>
<td>0.63</td>
<td>–2.14</td>
</tr>
</tbody>
</table>

For the diluted earnings per share the number of shares is adjusted by the effect of the share options.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) attributable to owners of the parent company, EURm</td>
<td>335</td>
<td>–1,122</td>
</tr>
<tr>
<td>Profit (loss) used to determine diluted earnings per share, EURm</td>
<td>335</td>
<td>–1,122</td>
</tr>
<tr>
<td>Weighted average number of shares (1,000)</td>
<td>527,818</td>
<td>525,434</td>
</tr>
<tr>
<td>Effect of options 1)</td>
<td>1,042</td>
<td></td>
</tr>
<tr>
<td>Weighted average number of shares for diluted earnings per share (1,000)</td>
<td>527,818</td>
<td>526,476</td>
</tr>
</tbody>
</table>

15 Dividend per share

The dividends paid in 2013 were EUR 317 million (EUR 0.60 per share) and in 2012 EUR 315 million (EUR 0.60 per share). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 988 million related to property, plant and equipment, intangible rights and other intangible assets in European graphic paper operations. After the charge, there is no goodwill in paper operations. The valuation method Fair value less costs to sell was based on discounted cash flows. Key assumptions used in the calculation were: inflation of 2%, negative sales growth rate of 2.9% over the forecast period in real terms, and post-tax discount rate of 7.81%.

In annual impairment tests, the recoverable amount of groups of cash generating units is determined based on value in use calculations.

The discount rate is estimated using the weighted average cost of capital on the calculation date adjusted for risks specific to the business in question. The pre-tax discount rate used in 2013 for pulp operations Finland was 10.80% (10.83%), and for pulp operations Uruguay 8.48% (8.63%). The recoverable amount is most sensitive to pulp sales prices and the cost of wood raw material. As at 31 December 2013, for pulp operations Finland, a decrease of more than 11.4% in pulp prices would result in recognition of impairment loss against goodwill. The Group believes that reasonable change in wood cost would cause the aggregate carrying amount to exceed the recoverable amount.

16 Goodwill

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>222</td>
<td>1,022</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–3</td>
<td>–1</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>–16</td>
</tr>
<tr>
<td>Impairment charges</td>
<td>–11</td>
<td>–89</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>191</td>
<td>277</td>
</tr>
</tbody>
</table>

17 Other intangible assets

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible rights</td>
<td>536</td>
<td>530</td>
</tr>
<tr>
<td>Additions</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Disposals</td>
<td>–5</td>
<td>–5</td>
</tr>
<tr>
<td>Companies sold</td>
<td>–</td>
<td>–1</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>356</td>
<td>536</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>25</td>
<td>23</td>
</tr>
</tbody>
</table>

Emission rights

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Additions 2)</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>Disposals and settlements</td>
<td>–24</td>
<td>–23</td>
</tr>
<tr>
<td>Companies sold</td>
<td>–</td>
<td>–8</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>18</td>
<td>40</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>11</td>
<td>22</td>
</tr>
</tbody>
</table>

Other intangible assets, total 342 344

1) Other intangible assets consist primarily of capitalized software assets.

2) Additions include emission rights received free of charge.
18 Property, plant and equipment

As at 31 December

<table>
<thead>
<tr>
<th>EURm</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and water areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>683</td>
<td>684</td>
</tr>
<tr>
<td>Additions</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>Disposals</td>
<td>–5</td>
<td>–8</td>
</tr>
<tr>
<td>Companies sold</td>
<td>–9</td>
<td>–9</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>–3</td>
<td>–7</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 31 Dec.</td>
<td>–34</td>
<td>–34</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>649</td>
<td>682</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>636</td>
<td>649</td>
</tr>
<tr>
<td>Buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>3,598</td>
<td>3,739</td>
</tr>
<tr>
<td>Additions</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Companies acquired</td>
<td>–4</td>
<td>–4</td>
</tr>
<tr>
<td>Disposals</td>
<td>–105</td>
<td>–112</td>
</tr>
<tr>
<td>Companies sold</td>
<td>–27</td>
<td>–27</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>–9</td>
<td>–22</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–30</td>
<td>1</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 31 Dec.</td>
<td>3,489</td>
<td>3,978</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>1,264</td>
<td>1,268</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>1,156</td>
<td>1,256</td>
</tr>
</tbody>
</table>

Finance lease arrangements

Property, plant and equipment includes property that is acquired under finance lease contracts:

As at 31 December

<table>
<thead>
<tr>
<th>EURm</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>15,184</td>
<td>16,880</td>
</tr>
<tr>
<td>Additions</td>
<td>84</td>
<td>136</td>
</tr>
<tr>
<td>Companies acquired</td>
<td>–1</td>
<td>–1</td>
</tr>
<tr>
<td>Disposals</td>
<td>–691</td>
<td>–636</td>
</tr>
<tr>
<td>Companies sold</td>
<td>–505</td>
<td>–505</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>32</td>
<td>–390</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–105</td>
<td>–2</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 31 Dec.</td>
<td>14,504</td>
<td>15,182</td>
</tr>
<tr>
<td>Depreciation</td>
<td>–73</td>
<td>–63</td>
</tr>
<tr>
<td>Impairment charges</td>
<td>–6</td>
<td>–603</td>
</tr>
<tr>
<td>Disposals</td>
<td>648</td>
<td>613</td>
</tr>
<tr>
<td>Companies sold</td>
<td>–492</td>
<td>–492</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>32</td>
<td>487</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–7</td>
<td>2</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 31 Dec.</td>
<td>14,504</td>
<td>15,182</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>649</td>
<td>682</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>636</td>
<td>649</td>
</tr>
</tbody>
</table>

19 Investment property

As at 31 December

<table>
<thead>
<tr>
<th>EURm</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>47</td>
<td>75</td>
</tr>
<tr>
<td>Additions</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Disposals</td>
<td>–3</td>
<td>–1</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>–3</td>
<td>–1</td>
</tr>
<tr>
<td>Acquisition cost at 31 Dec.</td>
<td>71</td>
<td>67</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 1 Jan.</td>
<td>–28</td>
<td>–34</td>
</tr>
<tr>
<td>Depreciation</td>
<td>–2</td>
<td>–2</td>
</tr>
<tr>
<td>Disposals</td>
<td>–3</td>
<td>–3</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>–2</td>
<td>–2</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 31 Dec.</td>
<td>–31</td>
<td>–28</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>140</td>
<td>180</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>121</td>
<td>140</td>
</tr>
</tbody>
</table>

Advance payments and construction in progress

As at 31 December

<table>
<thead>
<tr>
<th>EURm</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>144</td>
<td>161</td>
</tr>
<tr>
<td>Additions</td>
<td>216</td>
<td>128</td>
</tr>
<tr>
<td>Disposals</td>
<td>–66</td>
<td>–1</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>–70</td>
<td>–120</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment at 31 Dec.</td>
<td>–240</td>
<td>–51</td>
</tr>
<tr>
<td>Carrying value at 1 Jan.</td>
<td>161</td>
<td>144</td>
</tr>
<tr>
<td>Carrying value at 31 Dec.</td>
<td>240</td>
<td>161</td>
</tr>
</tbody>
</table>

Property, plant and equipment, total |

| EURm | 4,757 | 5,087 |

20 Biological assets

As at 31 December

<table>
<thead>
<tr>
<th>EURm</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>–2</td>
<td>–2</td>
</tr>
<tr>
<td>Change in fair value</td>
<td>254</td>
<td>223</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–10</td>
<td>–4</td>
</tr>
<tr>
<td>Leased assets, total</td>
<td>205</td>
<td>226</td>
</tr>
</tbody>
</table>

Capitalised borrowing costs

In 2013, the borrowing costs capitalised as part of non-current assets amounted to EUR 2 million (1 million). In 2013, amortisation of capitalised borrowing costs was EUR 4 million (6 million). In 2013 and 2012 there were no capitalised borrowing costs associated with sold assets.

The average interest rate used was 2.33% (3.85%), which represents the costs of the loan used to finance the projects.

21 Investments in associated companies and joint ventures

As at 31 December

<table>
<thead>
<tr>
<th>EURm</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>20</td>
<td>28</td>
</tr>
<tr>
<td>Additions</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Disposals</td>
<td>–3</td>
<td>–3</td>
</tr>
<tr>
<td>Shares of results after tax</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Dividends received</td>
<td>–1</td>
<td>–7</td>
</tr>
<tr>
<td>As at 31 Dec.</td>
<td>22</td>
<td>20</td>
</tr>
</tbody>
</table>

Investments in associated companies at 31 December 2013 include good-will of EUR 1 million (1 million).
22 Available-for-sale investments

As at 31 December 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of shares</th>
<th>Carrying value, EURm</th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pohjolan Voima Oy, A series</td>
<td>8,176,191</td>
<td>407</td>
<td>387</td>
<td></td>
</tr>
<tr>
<td>Pohjolan Voima Oy, B series</td>
<td>6,410,112</td>
<td>517</td>
<td>428</td>
<td></td>
</tr>
<tr>
<td>Kemijoki Oy</td>
<td>100,797</td>
<td>454</td>
<td>463</td>
<td></td>
</tr>
<tr>
<td>Lize-Suomen Voima Oy</td>
<td>10,220</td>
<td>109</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>OIPE Technology B.V.</td>
<td>243,670</td>
<td>35</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,661,281</strong></td>
<td><strong>444</strong></td>
<td><strong>444</strong></td>
<td></td>
</tr>
</tbody>
</table>

Fair valuation of available-for-sale investments in the UPM Energy segment (Pohjolan Voima Oy’s A, B, B2, C2, C2, H, M and V shares) and Kemijski Oy shares is based on discounted cash flows model. The Group's electricity price estimate is based on fundamental simulation of Finnish area price. A change of ±5% in the electricity price used in the model would change the total value of the assets by ±6 EUR 356 million. The discount rate of 5.79% used in the valuation model is determined using the weighted average cost of capital method. A change of ±5% in the discount rate would change the total value of the assets by approximately ±7 EUR 340 million. Other uncertainties and risk factors in the value of the assets relate to start-up schedule of the fixed price turn-key Olkiluoto 3 nuclear power plant project and the on-going arbitration proceedings between the plant supplier AREVA-Siemens Consortium and the plant owner, Temppula Voima Oy (TVO). UPM's indirect share of the capacity of Olkiluoto 3 is approximately 31%, through its PVO Kerauno. The possible outcome of the arbitration proceedings has not been taken into account in the valuation. Changes in regulatory environment or taxation could also have an impact on the value of the energy generating assets.

23 Other non-current financial assets

As at 31 December 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan receivables from associated companies</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Other loan receivables</td>
<td>35</td>
<td>42</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>239</td>
<td>392</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>292</strong></td>
<td><strong>441</strong></td>
</tr>
</tbody>
</table>

The maximum exposure to credit risk in regard to other loan receivables is their carrying amount.

24 Other non-current assets

As at 31 December 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit plans (Note 29)</td>
<td>80</td>
<td>70</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>54</td>
<td>77</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>134</strong></td>
<td><strong>147</strong></td>
</tr>
</tbody>
</table>

25 Inventories

As at 31 December 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and consumables</td>
<td>365</td>
<td>368</td>
</tr>
<tr>
<td>Work in progress</td>
<td>39</td>
<td>44</td>
</tr>
<tr>
<td>Finished products and goods</td>
<td>684</td>
<td>737</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,327</strong></td>
<td><strong>1,388</strong></td>
</tr>
</tbody>
</table>

26 Trade and other receivables

As at 31 December 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>As at 31 December 2013</th>
<th>As at 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>1,398</td>
<td>1,426</td>
</tr>
<tr>
<td>Receivables</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>154</td>
<td>131</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>226</td>
<td>196</td>
</tr>
<tr>
<td>Other receivables</td>
<td>160</td>
<td>223</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,468</strong></td>
<td><strong>1,492</strong></td>
</tr>
</tbody>
</table>

27 Equity and reserves

Share capital

As at 31 December 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of shares</th>
<th>Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,000,888</strong></td>
<td><strong>Share capital</strong></td>
</tr>
</tbody>
</table>

Treasary shares

The Annual General Meeting held on 4 April 2013 authorised the Board of Directors to acquire no more than 51,000,000 of the company's own shares. The authorisations is valid for 18 months from the date of the decision.

As at 31 December 2013, the company held 230,737 (230,737) of its own shares, 0.04% (0.04%) of the total number of shares. 211,481 of the shares were returned upon their issue in 2011 to UPM without consideration as part of the contractual arrangements relating to the Myllykoski transaction and 19,256 shares in accordance with the Group’s share reward scheme due to the termination of employment contracts in 2012.

Authorisations to increase the number of shares

The Annual General Meeting, held on 4 April 2013, authorised the Board of Directors to decide on the issuance of shares and/or the transfer of the company’s own shares held by the company and/or the issue of special rights entitling holders to shares in the company as follows: (i) The maximum number of new shares that may be issued and the company’s own shares held by the company that may be transferred is, in total, 25,000,000 shares. This figure also includes the number of shares that can be received on the basis of the special rights. (ii) The new shares and special rights entitling holders to shares in the company may be issued and the company’s own shares held by the company may be transferred to the company’s shareholders in proportion to their existing shareholdings in the company, or in a directed share issue, deviating from the shareholder’s pre-emptive subscription right. This authorisation is valid until 4 April 2016.

On decisions of the Annual General Meeting of 27 March 2007, at 31 December 2013, the company has one option series 2007C that would entitle the holders to subscribe for a total 5,000,000 shares. Aside from the above, the Board of Directors has no current authorisation to issue shares, convertible bonds or share options.

In 2013, 3,175,971 (1,151,372) shares were subscribed for through exercising 2007B share options and 1,300 shares through exercising 2007C options.

The share subscription period for share options 2007B ended on 31 October 2013. During the entire share subscription period 4,370,099 shares were subscribed for through exercising 2007B share options. If all remaining 4,998,500 share options issued in 2007 are fully exercised, the number of the company’s shares will increase by a total of 4,998,500, i.e. by 0.94%.

The shares available for subscription under the Board’s share issue authorisation and through the exercise of share options may increase the total number of the company’s shares by 5.67%, i.e. by 29,980,597 shares, to 559,900,597 shares.

Redemption clause

Under § 12 of UPM-Kymmene Corporation’s Articles of Association, a shareholder who, alone or jointly with another shareholder owns 33 1/3 percent or 50 percent or more of all the company’s shares or their associated voting rights shall at the request of other shareholders, be liable to redeem their shares and any securities that, under the Companies Act, carry the right to such shares, in the manner prescribed in § 12.

A resolution of a general meeting of shareholders to amend or delete this redemption clause must be carried by shareholders representing not less than three-quarters of the votes cast and shares represented at the meeting.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes, under the Companys’ Act, the reserves of shareholders’ investments in the company unless otherwise decided by the company.
28 Deferred income taxes
Reconciliation of the movements of deferred tax asset and liability balances during the year 2013

<table>
<thead>
<tr>
<th>Components of other comprehensive income</th>
<th>As at 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Fair value and other reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 Jan.</td>
<td>306</td>
<td>239</td>
</tr>
<tr>
<td>Changes in hedging reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 Jan.</td>
<td>306</td>
<td>239</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets and property, plant and equipment</td>
<td>221</td>
<td>-8</td>
</tr>
<tr>
<td>Inventories</td>
<td>40</td>
<td>-13</td>
</tr>
<tr>
<td>Retirement benefit obligations and provisions</td>
<td>164</td>
<td>-12</td>
</tr>
<tr>
<td>Other temporary differences</td>
<td>68</td>
<td>-39</td>
</tr>
<tr>
<td>Tax losses and tax credits carried forward</td>
<td>368</td>
<td>-103</td>
</tr>
<tr>
<td>Deferred tax assets, total</td>
<td>551</td>
<td>-45</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets and property, plant and equipment</td>
<td>366</td>
<td>-127</td>
</tr>
<tr>
<td>Biological assets</td>
<td>224</td>
<td>-26</td>
</tr>
<tr>
<td>Retirement benefit obligations and provisions</td>
<td>5</td>
<td>-3</td>
</tr>
<tr>
<td>Other temporary differences</td>
<td>139</td>
<td>-2</td>
</tr>
<tr>
<td>Deferred tax liabilities, total</td>
<td>754</td>
<td>-158</td>
</tr>
<tr>
<td>The amounts recognised in the balance sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>779</td>
<td>-146</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>612</td>
<td>-129</td>
</tr>
<tr>
<td>Deferred tax liabilities, less deferred tax assets</td>
<td>-127</td>
<td>17</td>
</tr>
</tbody>
</table>

Deferred income taxes relate to the same fiscal authority.

Reconciliation of the movements of deferred tax asset and liability balances during the year 2012

At 31 December 2013, net operating loss carry-forwards for which the Group has recognised a deferred tax asset amounted to EUR 831 million (1,250 million), of which EUR 678 million (699 million) was attributable to German subsidiaries and EUR 74 million (569 million) to a Canadian subsidiary. In Germany the net operating loss carry-forwards do not expire. In other countries net operating loss carry-forwards expire at various dates and in varying amounts. The net operating loss carry-forwards for which no deferred tax asset is recognised due to uncertainty of their utilisation amounted to EUR 903 million (373 million) in 2013. These net operating loss carry-forwards are mainly attributable to a Canadian subsidiary and certain German subsidiaries.

No deferred tax liability has been recognised for the undistributed earnings of non-Finnish subsidiaries to the profits of Finnish subsidiaries and associated companies as such earnings can be distributed without any tax consequences. In addition the Group does not recognise a deferred tax liability in respect of undistributed earnings of non-Finnish subsidiaries to the extent that such earnings are intended to be permanently reinvested in those operations or such earnings can be distributed without any tax consequences.

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29 Retirement benefit obligations

The Group operates a number of defined benefit and contribution plans in accordance with local conditions and practices in the countries in which it operates. About 90 % of the defined benefit arrangements exist in Finland, in the UK and in Germany. The Group has defined benefit obligations also in Austria, Holland, France, Canada and in US. Globally about one quarter of employees belong to defined benefit arrangements.

In Finland employees have to insure their employees for statutory benefits, as determined in Employee’s Pension Act (TyEL). Under TyEL, the benefits that are funded during employment are old age benefit and disability benefit. The benefits can be insured in an insurance company or employer can establish a fund or a foundation to manage the statutory benefits. Approximately 92 % of UPM’s Finnish employees are insured with an insurance company and these arrangements are regarded as defined contribution plans. In addition, Group operates a TyEL foundation to fulfil the requirement for approximately 8 % of employees. The TyEL Foundation, Kynttä Elkiksiäiskä, is regarded as defined benefit plan for the benefits that are based on employer’s average salary scheme. The TyEL Foundation is administered by the representatives of both the employer and the employees. The foundation has named an authorised representative to take care of its regular operations. The Plan is supervised by Financial Supervisory Authority.

In the UK, the Group operates a defined benefit scheme, which is closed both to new members and future accrual. A defined contribution section is also in operation and is open to all current employees. The UK Pension Scheme operates under a single Trust which is independent from the Group.

In Germany employees within defined benefit arrangements are entitled to annual pensions on retirement based on their service and final salary. The members also receive benefits on disability and on death.

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In Germany employees within defined benefit arrangements are entitled to annual pensions on retirement based on their service and final salary. The members also receive benefits on disability and on death.
### Post-employment and other long-term benefits as at 31 December 2013

<table>
<thead>
<tr>
<th>EURm</th>
<th>Pension benefits</th>
<th>Other post-employment benefits</th>
<th>Other long-term employee benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of funded obligations</td>
<td>736</td>
<td>–</td>
<td>–</td>
<td>736</td>
</tr>
<tr>
<td>Present value of unfunded obligations</td>
<td>503</td>
<td>29</td>
<td>–</td>
<td>532</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>–717</td>
<td>–</td>
<td>–</td>
<td>–717</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>522</td>
<td>29</td>
<td>–</td>
<td>551</td>
</tr>
<tr>
<td>Other long-term employee benefits</td>
<td>–</td>
<td>–</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Defined benefit asset reported in the assets (Note 24)</td>
<td>88</td>
<td>–</td>
<td>–</td>
<td>88</td>
</tr>
<tr>
<td>Total liability in the balance sheet</td>
<td>610</td>
<td>29</td>
<td>41</td>
<td>680</td>
</tr>
</tbody>
</table>

### Post-employment and other long-term benefits as at 31 December 2012

<table>
<thead>
<tr>
<th>EURm</th>
<th>Pension benefits</th>
<th>Other post-employment benefits</th>
<th>Other long-term employee benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of funded obligations</td>
<td>727</td>
<td>–</td>
<td>–</td>
<td>727</td>
</tr>
<tr>
<td>Present value of unfunded obligations</td>
<td>569</td>
<td>31</td>
<td>–</td>
<td>600</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>–659</td>
<td>–</td>
<td>–</td>
<td>–659</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>637</td>
<td>31</td>
<td>–</td>
<td>668</td>
</tr>
<tr>
<td>Other long-term employee benefits</td>
<td>–</td>
<td>–</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Defined benefit asset reported in the assets (Note 24)</td>
<td>30</td>
<td>–</td>
<td>–</td>
<td>30</td>
</tr>
<tr>
<td>Total liability in the balance sheet</td>
<td>667</td>
<td>31</td>
<td>47</td>
<td>745</td>
</tr>
</tbody>
</table>

### The net liability of pension and other post-employment benefits by country as at 31 December 2013

<table>
<thead>
<tr>
<th>EURm</th>
<th>Finland</th>
<th>Germany</th>
<th>UK</th>
<th>Other countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of funded obligations</td>
<td>294</td>
<td>29</td>
<td>381</td>
<td>32</td>
<td>736</td>
</tr>
<tr>
<td>Present value of unfunded obligations</td>
<td>–</td>
<td>447</td>
<td>–</td>
<td>85</td>
<td>532</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>–380</td>
<td>–2</td>
<td>–305</td>
<td>–30</td>
<td>–717</td>
</tr>
<tr>
<td>Net liability</td>
<td>–84</td>
<td>47</td>
<td>76</td>
<td>67</td>
<td>327</td>
</tr>
</tbody>
</table>

### The net liability of pension and other post-employment benefits by country as at 31 December 2012

<table>
<thead>
<tr>
<th>EURm</th>
<th>Finland</th>
<th>Germany</th>
<th>UK</th>
<th>Other countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of funded obligations</td>
<td>314</td>
<td>–</td>
<td>366</td>
<td>67</td>
<td>727</td>
</tr>
<tr>
<td>Present value of unfunded obligations</td>
<td>–</td>
<td>515</td>
<td>–</td>
<td>85</td>
<td>600</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>–342</td>
<td>–</td>
<td>–289</td>
<td>–28</td>
<td>–659</td>
</tr>
<tr>
<td>Net liability</td>
<td>–28</td>
<td>515</td>
<td>77</td>
<td>104</td>
<td>688</td>
</tr>
</tbody>
</table>

### Present value of obligation and fair value of plan assets 2013

<table>
<thead>
<tr>
<th>Present value of obligation</th>
<th>Fair value of plan assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>Pension benefits</td>
</tr>
<tr>
<td>------</td>
<td>------------------</td>
</tr>
<tr>
<td>At 1 Jan. 2013</td>
<td>1,296</td>
</tr>
<tr>
<td>Current service cost</td>
<td>12</td>
</tr>
<tr>
<td>Contributions</td>
<td>–3</td>
</tr>
<tr>
<td>Past service cost and gains and losses from settlements</td>
<td>1</td>
</tr>
<tr>
<td>Interest expense (+) income (–)</td>
<td>39</td>
</tr>
<tr>
<td>Total included in personnel expenses (Note 7)</td>
<td>89</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligation arising from changes in demographic assumptions</td>
<td>–</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligation arising from changes in financial assumptions</td>
<td>–51</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligation arising from experience adjustments</td>
<td>4</td>
</tr>
<tr>
<td>Actuarial gains and losses on plan assets</td>
<td>–</td>
</tr>
<tr>
<td>Total remeasurement gains (+) and losses (–) included in other comprehensive income</td>
<td>–67</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>–50</td>
</tr>
<tr>
<td>Settlements</td>
<td>–</td>
</tr>
<tr>
<td>Contributions by the employer</td>
<td>–</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–9</td>
</tr>
<tr>
<td>At 31 Dec. 2013</td>
<td>1,239</td>
</tr>
</tbody>
</table>

### Present value of obligation and fair value of plan assets 2012

<table>
<thead>
<tr>
<th>Present value of obligation</th>
<th>Fair value of plan assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>Pension benefits</td>
</tr>
<tr>
<td>------</td>
<td>------------------</td>
</tr>
<tr>
<td>At 1 Jan. 2012</td>
<td>1,119</td>
</tr>
<tr>
<td>Current service cost</td>
<td>11</td>
</tr>
<tr>
<td>Contributions</td>
<td>–3</td>
</tr>
<tr>
<td>Past service cost and gains and losses from settlements</td>
<td>1</td>
</tr>
<tr>
<td>Interest expense (+) income (–)</td>
<td>49</td>
</tr>
<tr>
<td>Total included in personnel expenses (Note 7)</td>
<td>58</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligation arising from changes in demographic assumptions</td>
<td>1</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligation arising from changes in financial assumptions</td>
<td>186</td>
</tr>
<tr>
<td>Actuarial gains and losses on defined benefit obligation arising from experience adjustments</td>
<td>–8</td>
</tr>
<tr>
<td>Actuarial gains and losses on plan assets</td>
<td>–</td>
</tr>
<tr>
<td>Total remeasurement gains (+) and losses (–) included in other comprehensive income</td>
<td>179</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>–66</td>
</tr>
<tr>
<td>Settlements</td>
<td>–1</td>
</tr>
<tr>
<td>Contributions by the employer</td>
<td>–</td>
</tr>
<tr>
<td>Contributions by the plan participants</td>
<td>–</td>
</tr>
<tr>
<td>Companies sold (Note 5)</td>
<td>–20</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–7</td>
</tr>
<tr>
<td>At 31 Dec. 2012</td>
<td>1,296</td>
</tr>
</tbody>
</table>
The significant weighted actuarial assumptions used as at 31 December

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>2.95</td>
<td>2.95</td>
<td>2.95</td>
<td>2.95</td>
<td>4.50</td>
<td>4.55</td>
<td>3.62</td>
<td>3.62</td>
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<tr>
<td>Germany</td>
<td>2.30</td>
<td>2.00</td>
<td>2.00</td>
<td>2.25</td>
<td>2.35</td>
<td>2.05</td>
<td>2.05</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>N/A</td>
<td>N/A</td>
<td>2.63</td>
<td>2.64</td>
</tr>
<tr>
<td>Other countries</td>
<td>2.26</td>
<td>2.24</td>
<td>2.00</td>
<td>2.00</td>
<td>3.25</td>
<td>3.20</td>
<td>1.10</td>
<td>1.09</td>
</tr>
<tr>
<td>Expected average remaining working years of participants</td>
<td>10.3</td>
<td>11.2</td>
<td>12.6</td>
<td>12.5</td>
<td>12.0</td>
<td>13.0</td>
<td>9.1</td>
<td>8.7</td>
</tr>
</tbody>
</table>

The sensitivity analysis of the defined benefit obligation to changes in the significant weighted assumptions

<table>
<thead>
<tr>
<th>Change in assumption</th>
<th>Rate of salary increase %</th>
<th>Rate of pension increase %</th>
<th>Discount rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase by 1 year</td>
<td>0.5%</td>
<td>Decrease by 7.3%</td>
<td>Decrease by 0.5%</td>
</tr>
<tr>
<td>Increase by 1 year</td>
<td>0.5%</td>
<td>Decrease by 4.0%</td>
<td>Increase by 3%</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>Increase by 3%</td>
<td>Increase by 4.3%</td>
<td>Increase by 1%</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>Increase by 1 year</td>
<td>Increase by 7.3%</td>
<td>Decrease by 0.5%</td>
</tr>
</tbody>
</table>

The weighted average duration of defined benefit obligations is 16.7 years.

The above analyses assume that assumption changes occur in isolation, holding all other assumptions constant. The same method (projected unit basis) has been applied when calculating the pension liability as well as these sensitivities.

The main categories of pension and other post-employment benefit plan assets

<table>
<thead>
<tr>
<th>Country</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>14 –</td>
<td>19 –</td>
</tr>
<tr>
<td>Germany</td>
<td>9 –</td>
<td>9 –</td>
</tr>
<tr>
<td>UK</td>
<td>31 –</td>
<td>31 –</td>
</tr>
<tr>
<td>Other countries</td>
<td>4 –</td>
<td>4 –</td>
</tr>
<tr>
<td>Total</td>
<td>93 –</td>
<td>100</td>
</tr>
</tbody>
</table>

In Finland, plan assets include the company’s ordinary shares with a fair value of EUR 0.7 million (0.5 million). In 2014 contributions to the Group’s defined pension plans are expected to be EUR 31 million and to other post-employment plans EUR 3 million.

Main risk areas related to defined benefit plans

The main risk related to the Group’s defined benefit plans are changes in discount rate, asset volatility, inflation, changes in salaries and longevity of the beneficiaries.

Discount rates

The discount rates are based on corporate bond yields as at reporting date. A decrease in yields increases the defined benefit obligation. The decrease of 0.5% in discount rate would increase Group’s defined benefit obligation by EUR 108 million.

Asset volatility

The Group is exposed to changes of assets’ values especially in the investments of the foundations and schemes in Finland and in the UK. The asset values of these arrangements constitute 90% of total asset values in defined benefit plans within Group.

Inflation risk

In Finland, the plan’s benefits in payment are tied to TEL indexing which depends 80% on inflation and 20% on common salary index. Higher inflation increases the TEL index which increases the employer’s payments to the pooling system. Index increments do not increase directly the plan’s liabilities as they are covered through the pooling system.

In the UK the pensions in payment are tied to Retail Price Index whilst being tied to Consumer Price Index during deferment. An increase of 0.5% in indexes will increase the liabilities by some EUR 26 million.

In Germany the pensions have to be adjusted in accordance with the Consumer Price Index.

Salary risk

In Finland the salary risk is only related to 8% of employees that are insured through TyEL foundation.

In 2013, additions in provisions are mainly related to restructuring primarily in Germany, Finland and France. In Finland provisions include also unemployment arrangements and disability pensions.

Unemployment pension provisions are recognised 2–3 years before the granting and settlement of the pension.

In 2013, additions in provisions mainly to restructuring of UPM Docelles mill and closures of paper machines Rauma PM3 and Itelen PM4 as UPM Paper ENA segment and the restructuring in the UPM Refatitic segment. In addition, provisions were recognised due to the streamlining of global functions and other actions under UPM’s profit improvement programme.

In 2012, in provisions relating mainly to the closure of the Strael paper mill in France and restructuring of UPM Paper ENA segment, and to the restructuring of sawmill and further processing operations in Finland.

Environmental provisions include expenses relating to closed mills and the remediation of industrial landfills.

The company takes part in government programmes aimed at reducing greenhouse gas emissions. In 2013, the Group has recognised provisions amounting to EUR 9 million (10 million) to cover the obligations to return emission rights.

30 Provisions

Restructuring provisions include charges related primarily to mill closures. Termination provisions are concerned with operational restructuring primarily in Germany, Finland and France. In Finland provisions include also unemployment arrangements and disability pensions.

Unemployment pension provisions are recognised 2–3 years before the granting and settlement of the pension.

In 2013, additions in provisions are mainly related to restructuring of UPM Docelles mill and closures of paper machines Rauma PM3 and Itelen PM4 as UPM Paper ENA segment and the restructuring in the UPM Refatitic segment. In addition, provisions were recognised due to the streamlining of global functions and other actions under UPM’s profit improvement programme.

In 2012, in provisions relating mainly to the closure of the Strael paper mill in France and restructuring of UPM Paper ENA segment, and to the restructuring of sawmill and further processing operations in Finland.

Environmental provisions include expenses relating to closed mills and the remediation of industrial landfills.

The company takes part in government programmes aimed at reducing greenhouse gas emissions. In 2013, the Group has recognised provisions amounting to EUR 9 million (10 million) to cover the obligations to return emission rights.

Allocation between non-current and current provisions

<table>
<thead>
<tr>
<th>Type of provision</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current provisions</td>
<td>83</td>
<td>100</td>
</tr>
<tr>
<td>Current provisions</td>
<td>106</td>
<td>107</td>
</tr>
<tr>
<td>Total</td>
<td>189</td>
<td>207</td>
</tr>
</tbody>
</table>

31 Interest-bearing liabilities

<table>
<thead>
<tr>
<th>Type of facility</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>955</td>
<td>1,492</td>
</tr>
<tr>
<td>Loans from financial institutions</td>
<td>1,655</td>
<td>1,478</td>
</tr>
<tr>
<td>Pension loans</td>
<td>323</td>
<td>414</td>
</tr>
<tr>
<td>Finance lease liabilities</td>
<td>270</td>
<td>310</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>100</td>
<td>106</td>
</tr>
<tr>
<td>Other loans</td>
<td>171</td>
<td>214</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>3,485</td>
<td>3,724</td>
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</tbody>
</table>

Current interest-bearing liabilities

<table>
<thead>
<tr>
<th>Type of facility</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans from financial institutions</td>
<td>512</td>
<td>269</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>82</td>
<td>33</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>49</td>
<td>115</td>
</tr>
<tr>
<td>Total</td>
<td>643</td>
<td>417</td>
</tr>
</tbody>
</table>

Total interest-bearing liabilities | 4,128 | 4,141 |
### 32 Other liabilities

<table>
<thead>
<tr>
<th>As at 31 December</th>
<th>EURm</th>
<th>As at 31 December</th>
<th>EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2012</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>66</td>
<td>53</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>90</td>
<td>82</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>142</td>
<td>259</td>
</tr>
</tbody>
</table>

*1) Consists mainly of non-current advances received and a pay liability that is not estimated to mature within 12 months.

### 33 Trade and other payables

<table>
<thead>
<tr>
<th>As at 31 December</th>
<th>EURm</th>
<th>As at 31 December</th>
<th>EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2012</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Advances received</td>
<td>16</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Trade payables</td>
<td>831</td>
<td>956</td>
<td>414</td>
</tr>
<tr>
<td>Accrued expenses and deferred income</td>
<td>65</td>
<td>68</td>
<td>45</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>194</td>
<td>194</td>
<td>182</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>73</td>
<td>109</td>
<td>81</td>
</tr>
<tr>
<td>Total</td>
<td>1,419</td>
<td>1,546</td>
<td>751</td>
</tr>
</tbody>
</table>

Trade and other payables mature within 12 months.

### Main items included in accrued expenses and deferred income

<table>
<thead>
<tr>
<th>As at 31 December</th>
<th>EURm</th>
<th>As at 31 December</th>
<th>EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2012</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>186</td>
<td>181</td>
<td>188</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>35</td>
<td>39</td>
<td>19</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Other items (^{1)}</td>
<td>183</td>
<td>212</td>
<td>183</td>
</tr>
<tr>
<td>Total</td>
<td>424</td>
<td>444</td>
<td>388</td>
</tr>
</tbody>
</table>

\(^{1)} Consists mainly of customer rebates.
### 34 Financial instruments by category

<table>
<thead>
<tr>
<th></th>
<th>Financial assets/ liabilities at fair value through profit or loss</th>
<th>Loans and receivables</th>
<th>Derivatives used for hedging</th>
<th>Financial liabilities measured at amortised cost</th>
<th>Carrying amounts by balance sheet item</th>
<th>Fair values</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance sheet item</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-current financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Available for sale investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,661</td>
<td>2,661</td>
<td>22</td>
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<tr>
<td></td>
<td>Non-current financial assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,661</td>
<td>2,661</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>Loan receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>43</td>
<td>23</td>
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<tr>
<td></td>
<td>Derivative financial instruments</td>
<td>-</td>
<td>-</td>
<td>236</td>
<td>-</td>
<td>239</td>
<td>23</td>
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<tr>
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<tr>
<td></td>
<td>Current financial assets</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Trade and other receivables</td>
<td>-</td>
<td>1,568</td>
<td>-</td>
<td>-</td>
<td>1,568</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Prepayments and accrued income</td>
<td>-</td>
<td>154</td>
<td>-</td>
<td>-</td>
<td>154</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Derivative financial instruments</td>
<td>-</td>
<td>54</td>
<td>-</td>
<td>172</td>
<td>226</td>
<td>26</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Carrying amount by category</td>
<td>57</td>
<td>1,765</td>
<td>2,661</td>
<td>408</td>
<td>-</td>
<td>4,891</td>
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<tr>
<td></td>
<td>Non-current financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-current interest-bearing liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,385</td>
<td>3,385</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Non-current interest-bearing liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,385</td>
<td>3,489</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Derivative financial instruments</td>
<td>-</td>
<td>75</td>
<td>-</td>
<td>25</td>
<td>100</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Carrying amount by category</td>
<td>57</td>
<td>1,765</td>
<td>2,661</td>
<td>408</td>
<td>-</td>
<td>4,891</td>
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<tr>
<td></td>
<td>Other liabilities</td>
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<tr>
<td></td>
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<tr>
<td></td>
<td>Non-current interest-bearing liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>98</td>
<td>98</td>
<td>32</td>
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<td></td>
<td>Non-current interest-bearing liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>98</td>
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<tr>
<td></td>
<td>Derivative financial instruments</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>59</td>
<td>66</td>
<td>32</td>
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</tr>
<tr>
<td></td>
<td>Carrying amount by category</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>32</td>
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</tr>
<tr>
<td></td>
<td>Interest-bearing liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>561</td>
<td>561</td>
<td>31</td>
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<tr>
<td></td>
<td>Derivative financial instruments</td>
<td>-</td>
<td>82</td>
<td>-</td>
<td>-</td>
<td>82</td>
<td>31</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Carrying amount by category</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Trade and other payables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trade and other payables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>920</td>
<td>920</td>
<td>33</td>
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<tr>
<td></td>
<td>Accrued expenses and deferred income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>414</td>
<td>414</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Derivative financial instruments</td>
<td>-</td>
<td>22</td>
<td>-</td>
<td>63</td>
<td>85</td>
<td>33</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Carrying amount by category</td>
<td>1,419</td>
<td>1,419</td>
<td>1,419</td>
<td>1,419</td>
<td>1,419</td>
<td></td>
</tr>
</tbody>
</table>

Fair values of long-term loans, have been estimated as follows:

The fair value of quoted bonds is based on the quoted market value as of 31 December. The fair value of fixed rate and market-based floating rate loans is estimated using the expected future payments discounted at market interest rates.

The carrying amounts of current financial assets and liabilities approximate their fair value.
35 Derivative financial instruments

Net fair values of derivative financial instruments

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross currency contracts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward foreign exchange contracts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency options</td>
<td>33</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Commodity Contracts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward foreign exchange contracts</td>
<td>4,973</td>
<td>4,994</td>
<td>-21</td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td>-108</td>
<td>-42</td>
<td>-66</td>
</tr>
<tr>
<td>Net equity swaps</td>
<td>18</td>
<td>23</td>
<td>-5</td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td>23</td>
<td>-31</td>
<td>-27</td>
</tr>
<tr>
<td>Net equity swaps</td>
<td>-8</td>
<td>-35</td>
<td>-27</td>
</tr>
<tr>
<td>Currency options</td>
<td>-24</td>
<td>-24</td>
<td>0</td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td>101</td>
<td>-7</td>
<td>94</td>
</tr>
<tr>
<td>Net equity swaps</td>
<td>-135</td>
<td>23</td>
<td>-112</td>
</tr>
<tr>
<td>Commodity Contracts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td>-20</td>
<td>-18</td>
<td>-2</td>
</tr>
<tr>
<td>Net equity swaps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity Contracts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net equity swaps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>465</td>
<td>-333</td>
<td>828</td>
</tr>
</tbody>
</table>

No derivative financial instruments are subject to offsetting in the Group’s financial statements. All derivative financial instruments are under ISDA or similar master netting agreement.

37 Share-based payments

Share options

The Annual General Meeting held on 27 March 2007 approved the Board of Directors’ proposal to issue share options to the Group’s key personnel. The number of options was no more than 15,000,000, entitling for a total of no more than 11,000,000 UPM-Kymmene Corporation shares. Of the share options, 5,000,000 were marked with the symbol 2007A, 4,000,000 with the symbol 2007B and 5,000,000 were marked with the symbol 2007C. The subscription periods were 1 October 2010 to 31 October 2012 for share options 2007A, 1 October 2011 to 31 October 2013 for share options 2007B, and 1 October 2012 to 31 October 2014 for share options 2007C.

The share subscription price is the trade volume weighted average quotation of the share on the NASDAQ OMX Helsinki Ltd. from 1 April to 31 May 2008 for share option 2007A i.e. EUR 12.40 per share, from 1 April to 31 May 2009 for share option 2007B i.e. EUR 9.24 per share and from 1 April to 31 May 2010 for share option 2007C i.e. EUR 10.49 per share.

For the share subscription period for share options 2007A ended on 31 October 2012. During the entire share subscription period 306 shares were subscribed with share options 2007A.

The share subscription period for share options 2007B ended on 31 October 2013. During the entire share subscription period 433,009 shares were subscribed with share options 2007B.

Share-based rewards

The Group’s long-term incentives as of 2011 consist of the Performance Share Plan and the Deferred Bonus Plan.

Changes in the numbers of share options granted

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average exercise price, EUR</th>
<th>Number of share options</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8.71</td>
<td>7,734,478</td>
</tr>
<tr>
<td>2012</td>
<td>9.71</td>
<td>13,437,750</td>
</tr>
</tbody>
</table>

Outstanding 1 Jan.

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average exercise price, EUR</th>
<th>Number of share options</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>7.97</td>
<td>7,734,478</td>
</tr>
<tr>
<td>2012</td>
<td>10.49</td>
<td>13,437,750</td>
</tr>
</tbody>
</table>

Share options granted

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average exercise price, EUR</th>
<th>Number of share options</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>14.99</td>
<td>9,765,079</td>
</tr>
<tr>
<td>2012</td>
<td>12.64</td>
<td>12,452,700</td>
</tr>
</tbody>
</table>

Outstanding 31 Dec.

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average exercise price, EUR</th>
<th>Number of share options</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8.71</td>
<td>7,734,478</td>
</tr>
<tr>
<td>2012</td>
<td>9.71</td>
<td>13,437,750</td>
</tr>
</tbody>
</table>

Weighted average remaining contractual life was 10 and 17 months as at 31 December 2013 and 2012, respectively.

Outstanding share options plans as of 31 December 2013

<table>
<thead>
<tr>
<th>Plan/Distribution of share options</th>
<th>Class</th>
<th>Exercise price at 1 Jan.</th>
<th>Total number of share options</th>
<th>Number of share options granted</th>
<th>Exercise period</th>
<th>Leaving schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/2010</td>
<td>C</td>
<td>10.49</td>
<td>5,000,000</td>
<td>4,850,000</td>
<td>1.10.2012-31.10.2014</td>
<td>Vested</td>
</tr>
</tbody>
</table>
39 Commitments and contingencies

Contingent liabilities

The Group is a defendant or plaintiff in a number of legal proceedings including matters concerning Metsä Fibre Oy in connection with the sale of the shares in Metsä Fibre to Itochu Corporation. UPM claims jointly from Metsäliitto and Metsä Board a capital amount of EUR 58.5 million in damages. Metsäliitto and Metsä Board sold a 24.9% holding in Metsä Fibre to Itochu Corporation for EUR 472 million. In connection with the transaction with Itochu, Metsäliitto exercised a call option to purchase UPM’s remaining 11% ownership in Metsä Fibre for EUR 150 million. The arbitral tribunal is expected to render its final decision during Q4 2014. No receivables have been recorded by UPM on the basis of claims presented in the arbitration proceedings.

Neste Oil Oyj, a Finnish company producing traffic fuels (Neste), has filed an action for declaratory judgment against UPM in June 2013 in the Helsinki District Court. Neste seeks a declaration from the court that Neste enjoys protection on the basis of its patent against the technological process of UPM, which UPM intends to use at the biorefinery which is being constructed at UPM’s Kaukas mill site. The said action relates to the same patent concerning which UPM has filed an invalidation claim in December 2012. The invalidation claim was filed as a procedural precautionary measure to avoid unfounded legal processes. UPM considers Neste’s action to be without merit.

In Finland, UPM is participating in a project to construct a new nuclear power plant unit (OLK3) through its shareholdings in Pohjolan Voima Oyj, a company majority owned by Metsäliitto and Metsäliitto. The shareholding in Pohjolan Voima Oyj is 51% owned by Metsäliitto and Metsä Board and 49% owned by Metsäliitto and Metsä Board. Pohjolan Voima Oyj is a majority shareholder of Teollisuusliitto Kulta-Veskon Voima Oy (TVO), which owns the Olkiluoto 3 nuclear power plant and which is scheduled to start generating electricity in December 2013. In addition to Metsähallitus, individuals and companies, including municipalities and parties, have filed claims relating to the construction and operation of the Olkiluoto 3 plant in connection with the sale of the shares in Metsä Fibre to Itochu Corporation. The Group has a 50.0% interest. The purchases from those three companies represented approximately 64% (75%) of total recovered papers purchase amount from associated companies and joint ventures. Recovered paper purchases are based on market prices. The balances with the associated groups’ companies and joint ventures are presented in Note 21.

Pension Funds

In Finland, UPM has a pension foundation, Kymnä Eläkesäätiö, which is a separate legal entity. Pensions for about 8% of the Group’s Finnish employees are arranged through the foundation. In 2011 the contributions paid by UPM to the foundation amounted to EUR 11 million (11 million). The foundation manages and invests the contributions paid to the plan. The contribution period from 1 January to 31 December 2013 was EUR 377 million (800 million), of which 51% was in the form of equity instruments, 37% in the form of debt instruments and 12% invested in property and money market.

In the UK, all UPM Pension Schemes now operate under a single Trust which is independent from the Company. The Trust consists of various Defined Benefit sections, all of which are closed to future accrual and one common Defined Contribution section which is open to all UPM employees in the UK. The Group made contributions of EUR 5 million (3 million) to the Defined Benefit sections of the Scheme in 2013 and following completion of the triennial Actuarial Valuation in April 2013 has agreed to an increase in annual contributions from EUR 5 million (3 million) to EUR 6 million per annum with effect from March 2014. The next UK actuarial valuation will be as of 31 March 2016. The fair value of the UK Defined Benefit fund assets at 31 December 2013 was EUR 305 million (288 million), of which 66% was invested in equity instruments, 28% in debt instruments and 6% in property and money market.

Subsidiaries and joint operations

The Group’s principal subsidiaries and joint operations are disclosed in Note 38.
### Income statement

#### Year ended 31 Dec.

<table>
<thead>
<tr>
<th>EURm</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>1</td>
<td>3,715</td>
<td>4,132</td>
</tr>
<tr>
<td>Change in inventories of finished goods and work in progress</td>
<td>-4</td>
<td>-189</td>
<td></td>
</tr>
<tr>
<td>Production for own use</td>
<td>7</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Other operating income</td>
<td>2</td>
<td>113</td>
<td>273</td>
</tr>
<tr>
<td>Materials and services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials and consumables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases during the financial period</td>
<td>-2,377</td>
<td>-2,411</td>
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</tr>
<tr>
<td>Change in inventories</td>
<td>-11</td>
<td>-17</td>
<td></td>
</tr>
<tr>
<td>External services</td>
<td>-107</td>
<td>-154</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>-2,445</td>
<td>-2,576</td>
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<tr>
<td>Personnel expenses</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>-372</td>
<td>-382</td>
<td></td>
</tr>
<tr>
<td>Social security expenses</td>
<td>-68</td>
<td>-69</td>
<td></td>
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<tr>
<td>Pension expenses</td>
<td>-20</td>
<td>-24</td>
<td></td>
</tr>
<tr>
<td>Other social security expenses</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-52</td>
<td>-56</td>
<td></td>
</tr>
<tr>
<td>Depreciation and value adjustments</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation according to plan</td>
<td>-239</td>
<td>-265</td>
<td></td>
</tr>
<tr>
<td>Value adjustments to goods held as non-current assets</td>
<td>-25</td>
<td>-4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-264</td>
<td>-269</td>
<td></td>
</tr>
<tr>
<td>Other operating costs and expenses</td>
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<td>-432</td>
<td>-955</td>
</tr>
<tr>
<td>Operating profit</td>
<td>208</td>
<td>45</td>
<td></td>
</tr>
</tbody>
</table>

#### Financial income and expenses

<table>
<thead>
<tr>
<th>EURm</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from investments held as non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from Group companies</td>
<td>10</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-13</td>
<td></td>
<td></td>
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<tr>
<td>Other financial income from Group companies</td>
<td>969</td>
<td>1,177</td>
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</tr>
<tr>
<td></td>
<td>76</td>
<td></td>
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<tr>
<td>Other interest income from Group companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income from Group companies</td>
<td>94</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Other financial income from other companies</td>
<td>30</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Interest and other financial expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses to Group companies</td>
<td>-39</td>
<td>-38</td>
<td></td>
</tr>
<tr>
<td>Interest expenses to other companies</td>
<td>-39</td>
<td>-56</td>
<td></td>
</tr>
<tr>
<td>Other financial expenses to Group companies</td>
<td>-104</td>
<td>-11</td>
<td></td>
</tr>
<tr>
<td>Other financial expenses to other companies</td>
<td>-3</td>
<td>-3</td>
<td></td>
</tr>
<tr>
<td>Total financial income and expenses</td>
<td>58</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Profit before extraordinary items</td>
<td>267</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>

#### Operating activities

- Profit before extraordinary items: 267 (12)
- Financial income and expenses: -4 (-189)
- Adjustments to operating profit: 1,305 (625)
- Change in working capital: 2 (227)
- Interest paid: -79 (-102)
- Dividends received: 2 (124)
- Dividends received: 19 (33)
- Other financial items: 1 (-26)
- Income taxes paid: 3 (-140)
- Net cash generated from operating activities: 544 (794)

#### Investing activities

- Investments in tangible and intangible assets: -199 (-188)
- Proceeds from sale of tangible and intangible assets: 79 (182)
- Investments in shares and holdings: -36 (-972)
- Proceeds from sale of shares and holdings: 4 (156)
- Increase in other investments: -11 (-32)
- Decrease in other investments: 265 (18)
- Net cash used in investing activities: 102 (-856)

#### Financing activities

- Increase in non-current liabilities: 527 (66)
- Decrease in non-current liabilities: -244 (-836)
- Increase or decrease in current liabilities: -337 (-1,120)
- Share issue: 20 (8)
- Dividends paid: -317 (-315)
- Group contributions received and paid: -70 (-22)
- Net cash used in financing activities: -431 (-97)

#### Cash and cash equivalents

- Cash and cash equivalents at beginning of year: 351 (414)
- Change in cash and cash equivalents: 225 (-63)
- Cash and cash equivalents at end of year: 576 (351)

### Balance sheet

**As at 31 December 2013**

<table>
<thead>
<tr>
<th>EURm</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible rights</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other capitalised expenditure</td>
<td>219</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance payments</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>230</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and water areas</td>
<td>979</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>460</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>841</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other tangible assets</td>
<td>41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance payments and construction in progress</td>
<td>142</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total tangible assets</td>
<td>2,438</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Current assets**

- Cash and cash equivalents: 6,372 (6,688)
- Total non-current assets: 9,000 (9,470)
- Total assets: 11,275 (11,694)

**Current liabilities**

- Travel expenses: 1,233 (1,057)
- Other receivables: 14 (183)
- Total current liabilities: 2,702 (2,938)

**Total liabilities and shareholders’ equity**

- Shareholders’ equity: 4,306 (4,371)
- Total liabilities: 6,224 (6,477)
- Total equity: 11,275 (11,694)
1 Turnover

Owing to the corporate structure of the Group, the turnover of the parent company has not been divided by segment and destination. See Notes to the consolidated financial statements, Note 4.

2 Other operating income

Year ended 31 Dec.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Rental income</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
<td>123</td>
</tr>
</tbody>
</table>

Note 1: Emissions trading rights are accounted for on a net basis.

3 Personnel expenses and other operating costs and expenses

Year ended 31 Dec.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>369</td>
<td>369</td>
</tr>
<tr>
<td>President and CEO, and members of the Board of Directors</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>320</td>
<td>320</td>
</tr>
<tr>
<td>Total</td>
<td>727</td>
<td>727</td>
</tr>
</tbody>
</table>

Note 2: See Notes to the consolidated financial statements, Note 7.

4 Depreciation and value adjustments

Year ended 31 Dec.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible rights</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other capitalised expenditure</td>
<td>36</td>
<td>35</td>
</tr>
<tr>
<td>Buildings</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>160</td>
<td>186</td>
</tr>
<tr>
<td>Other tangible assets</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>259</td>
<td>295</td>
</tr>
</tbody>
</table>

Value adjustments

Non-current assets | 25 | 4 |
Total | 264 | 299 |

5 Extraordinary items

Year ended 31 Dec.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraordinary income</td>
<td>35</td>
<td>48</td>
</tr>
<tr>
<td>Group contributions received</td>
<td>35</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>96</td>
</tr>
<tr>
<td>Extraordinary expenses</td>
<td>-31</td>
<td>-157</td>
</tr>
<tr>
<td>Group contributions paid</td>
<td>-31</td>
<td>-157</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>-9</td>
</tr>
</tbody>
</table>

6 Income taxes

Year ended 31 Dec.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes for the financial period</td>
<td>116</td>
<td>82</td>
</tr>
<tr>
<td>Income taxes from the previous period</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>116</td>
<td>82</td>
</tr>
</tbody>
</table>

Deferred income taxes

Deferred income tax assets and liabilities of the parent company are not recorded on the balance sheet. Deferred tax liability mainly comprises depreciation differences, for which the deferred tax liability at 31 December 2013 was EUR 136 million at 20% tax rate (191 million at 24.5% tax rate). Deferred tax liability is not stated separately for revaluations. The potential tax liability arising from the sale of revalued asset is EUR 131 million at 20% tax rate (164 million at 24.5% tax rate). Deferred tax asset mainly comprises provisions, for which the deferred tax asset at 31 December 2013 was EUR 13 million at 20% tax rate (17 million at 24.5% tax rate).

7 Intangible assets

<table>
<thead>
<tr>
<th></th>
<th>As at 31 Dec.</th>
<th>As at 31 Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Intangible rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Increases</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Decreases</td>
<td>-3</td>
<td>-10</td>
</tr>
<tr>
<td>Acquisition cost at 31 Dec.</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Accumulated depreciation at 1 Jan.</td>
<td>-12</td>
<td>-12</td>
</tr>
<tr>
<td>Accumulated depreciation on decreases and transfers</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Depreciation for the period</td>
<td>-3</td>
<td>-3</td>
</tr>
<tr>
<td>Accumulated depreciation at 31 Dec.</td>
<td>-14</td>
<td>-14</td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Other capitalised expenditure

<table>
<thead>
<tr>
<th></th>
<th>As at 31 Dec.</th>
<th>As at 31 Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>522</td>
<td>483</td>
</tr>
<tr>
<td>Increases</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Decreases</td>
<td>-4</td>
<td>-5</td>
</tr>
<tr>
<td>Transfers between balance sheet items</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Acquisition cost at 31 Dec.</td>
<td>535</td>
<td>522</td>
</tr>
<tr>
<td>Accumulated depreciation at 1 Jan.</td>
<td>-148</td>
<td>-125</td>
</tr>
<tr>
<td>Accumulated depreciation on decreases and transfers</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Depreciation for the period</td>
<td>-26</td>
<td>-26</td>
</tr>
<tr>
<td>Accumulated depreciation at 31 Dec.</td>
<td>-154</td>
<td>-128</td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>219</td>
<td>239</td>
</tr>
</tbody>
</table>

8 Tangible assets

<table>
<thead>
<tr>
<th></th>
<th>As at 31 Dec.</th>
<th>As at 31 Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Land and water areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>626</td>
<td>582</td>
</tr>
<tr>
<td>Increases</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Decreases</td>
<td>-9</td>
<td>-11</td>
</tr>
<tr>
<td>Acquisition cost at 31 Dec.</td>
<td>621</td>
<td>575</td>
</tr>
<tr>
<td>Resovaluations at 1 Jan.</td>
<td>137</td>
<td>127</td>
</tr>
<tr>
<td>Renewal of revaluation</td>
<td>-20</td>
<td>-20</td>
</tr>
<tr>
<td>Resovaluations at 31 Dec.</td>
<td>487</td>
<td>507</td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>876</td>
<td>919</td>
</tr>
</tbody>
</table>

Buildings

<table>
<thead>
<tr>
<th></th>
<th>As at 31 Dec.</th>
<th>As at 31 Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>1,177</td>
<td>1,173</td>
</tr>
<tr>
<td>Increases</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Decreases</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Transfers between balance sheet items</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Accumulated depreciation at 1 Jan.</td>
<td>-950</td>
<td>-881</td>
</tr>
<tr>
<td>Acquisition cost at 31 Dec.</td>
<td>1,256</td>
<td>1,177</td>
</tr>
<tr>
<td>Accumulated depreciation on decreases and transfers</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Depreciation for the period</td>
<td>-13</td>
<td>-13</td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>876</td>
<td>870</td>
</tr>
</tbody>
</table>

9 Investments

<table>
<thead>
<tr>
<th></th>
<th>As at 31 Dec.</th>
<th>As at 31 Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURm</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Holdings in Group companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>6,163</td>
<td>5,236</td>
</tr>
<tr>
<td>Increases</td>
<td>5</td>
<td>973</td>
</tr>
<tr>
<td>Decreases</td>
<td>-67</td>
<td>-46</td>
</tr>
<tr>
<td>Transfers between balance sheet items</td>
<td>-22</td>
<td>-22</td>
</tr>
<tr>
<td>Acquisition cost at 31 Dec.</td>
<td>6,099</td>
<td>5,169</td>
</tr>
<tr>
<td>Accumulated depreciation at 1 Jan.</td>
<td>-1,069</td>
<td>-479</td>
</tr>
<tr>
<td>Transfers between balance sheet items</td>
<td>-1</td>
<td>-</td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>4,922</td>
<td>4,690</td>
</tr>
<tr>
<td>Value adjustments</td>
<td>-13</td>
<td>-595</td>
</tr>
<tr>
<td>Accumulated depreciation at 31 Dec.</td>
<td>-1,187</td>
<td>-1,064</td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>4,722</td>
<td>5,094</td>
</tr>
</tbody>
</table>

Value adjustments relate to holdings in Group companies in Finland and in foreign countries. Value adjustments are included in other operating costs and expenses. The principal subsidiaries are disclosed in the consolidated financial statements, Note 38.

Notes to the parent company financial statements

(All amounts in millions of euros unless otherwise stated.)

Accounting policies

The parent company financial statements are prepared in accordance with Finnish Accounting Standards. The main differences in accounting policies between the Group and the parent company relate to the measurement of derivative financial instruments and biological assets and the recognition of defined benefit obligations, valuations and deferred income taxes. See Notes to the consolidated financial statements, Note 1.
<table>
<thead>
<tr>
<th>€m</th>
<th>As at 31 Dec.</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book value at 31 Dec.</td>
<td>99,435</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receivables from participating interest companies</th>
<th>As at 31 Dec.</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>21 – 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increases</td>
<td>– 24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreases</td>
<td>– – 6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers between balance sheet items</td>
<td>– – 16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>5 – 21</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other receivables</th>
<th>As at 31 Dec.</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost at 1 Jan.</td>
<td>14 – 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increases</td>
<td>3 – 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreases</td>
<td>– – 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers between balance sheet items</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book value at 31 Dec.</td>
<td>31 – 14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 11 Shareholders’ equity

<table>
<thead>
<tr>
<th>€m</th>
<th>Balance at 31 December 2012</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>890</td>
<td>911</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>532</td>
<td>551</td>
</tr>
<tr>
<td>Reserves for non-restricted equity</td>
<td>1,199</td>
<td>1,202</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,202</td>
<td>4,823</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>4,523</td>
<td>4,823</td>
</tr>
</tbody>
</table>

### 12 Provisions

#### 12.1 Provisions

<table>
<thead>
<tr>
<th>€m</th>
<th>As at 31 Dec.</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total provisions</td>
<td>427</td>
<td>279</td>
<td></td>
</tr>
<tr>
<td>Personalfunds</td>
<td>277</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental provisions</td>
<td>12</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Other provisions</td>
<td>21</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Total at 31 Dec.</td>
<td>63</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

### 15 Contingent liabilities

<table>
<thead>
<tr>
<th>€m</th>
<th>As at 31 Dec.</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total at 31 Dec.</td>
<td>2,383</td>
<td>2,780</td>
<td></td>
</tr>
</tbody>
</table>

### 17 Other commitments

<table>
<thead>
<tr>
<th>€m</th>
<th>As at 31 Dec.</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total at 31 Dec.</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

### 18 Related party transactions

<table>
<thead>
<tr>
<th>€m</th>
<th>See Notes to the consolidated financial statements, Note 38.</th>
<th></th>
</tr>
</thead>
</table>

There were no loans granted to the company’s President and CEO, and members of the Board of Directors at 31 December 2013 or 2012.

See Notes to the consolidated financial statements, Note 35. All derivatives disclosed have been contracted by the parent Company.

See Notes to the consolidated financial statements, Note 38.
Stock exchange trading

UPM's shares are listed on NASDAQ OMX Helsinki Ltd. The company's ADSs are traded on the U.S. over-the-counter (OTC) market under a Level 1 sponsored American Depositary Receipt programme.

A total of 563.4 million UPM-Kymmene Corporation shares were traded on the Helsinki stock exchange in 2013 (661.0 million). This represented 106.7% (114.4%) of the total number of shares. The highest quotation was EUR 13.02 in November and the lowest EUR 7.30 in June. The total value of shares traded in 2013 was EUR 5,308 million (5,534 million).

During the year, 2.9 million 2007B share options were traded for EUR 8.2 million (3.3 million, EUR 9.5 million) and 5.4 million 2007C share options were traded for EUR 6.1 million (0.2 million, EUR 0.1 million).

Treasury shares

As at 31 December 2013, the company held 236,737 (230,757) of its own shares, 0.04% (0.04%) of the total number of shares. Of these shares, 211,481 were returned upon their issue to UPM without consideration as part of Myllykisän transaction and 19,256 shares in accordance with the Group's share reward scheme due to the termination of employment contracts.

Changes in number of shares 1 January 2009 – 31 December 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of shares at 31 Dec. 2008</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2009</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2010</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2011</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2012</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2013</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>529,301,897</td>
<td>529,301,897</td>
</tr>
<tr>
<td>2009</td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Changes in number of shares 1 January 2009 – 31 December 2013

<table>
<thead>
<tr>
<th>Year</th>
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<th>Number of shares</th>
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<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2010</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2011</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2012</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2013</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>519,970,088</td>
<td>529,301,897</td>
<td>529,301,897</td>
</tr>
<tr>
<td>2009</td>
<td>Options exercised</td>
<td></td>
<td>Options exercised</td>
<td></td>
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Information on shares

Changes in number of shares 1 January 2009 – 31 December 2013

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<tr>
<th>Year</th>
<th>Number of shares at 31 Dec. 2008</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2009</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2010</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2011</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2012</th>
<th>Number of shares</th>
<th>Number of shares at 31 Dec. 2013</th>
<th>Number of shares</th>
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<td>2008</td>
<td>519,970,088</td>
<td>519,970,088</td>
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<td>519,970,088</td>
<td>529,301,897</td>
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<td>2010</td>
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<td>Options exercised</td>
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<td>Options exercised</td>
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<td>2011</td>
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<td>Options exercised</td>
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<tr>
<td>2012</td>
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<td>2013</td>
<td>Options exercised</td>
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</table>

Biggest registered shareholders at 31 December 2013

<table>
<thead>
<tr>
<th>Shares at 31 December 2013</th>
<th>% of shares</th>
<th>% of votes</th>
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<tbody>
<tr>
<td>Varma Mutual Pension Insurance Company</td>
<td>11,574,488</td>
<td>2.19</td>
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<tr>
<td>Varinainen Mutual Pension Insurance Company</td>
<td>10,369,552</td>
<td>1.96</td>
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<tr>
<td>Mandatoin Life Insurance Company</td>
<td>9,531,219</td>
<td>1.80</td>
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<tr>
<td>The State Pension Fund</td>
<td>4,730,000</td>
<td>0.89</td>
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<tr>
<td>The Local Government Pensions Institution</td>
<td>4,521,794</td>
<td>0.85</td>
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<tr>
<td>Svenska Litteraturföreningen i Finland</td>
<td>3,848,600</td>
<td>0.73</td>
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<td>PensionFiska</td>
<td>3,650,600</td>
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<tr>
<td>Swiss National Bank</td>
<td>3,318,495</td>
<td>0.63</td>
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<tr>
<td>Etera Mutual Pension Insurance Company</td>
<td>2,658,612</td>
<td>0.50</td>
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<tr>
<td>Skagen Global Verdisparfond</td>
<td>1,796,493</td>
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<td>Nominees &amp; registered foreign owners</td>
<td>320,089,242</td>
<td>60.47</td>
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<td>Total</td>
<td>529,301,897</td>
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Charts in this page are unaudited.

### Share price in 2013

- **UPM share price**
- **DJ STOXX 600 (rebased)**
- **NASDAQ OMX Helsinki (rebased)**

### Equity per share

- **Monthly average share price, EUR**
- **% of all shares**

### Monthly average share price and shares traded 1–12/2013

- **Share price in 2013**
- **Shares traded**

### Earnings and dividend per share

- **Earnings per share**
- **Dividend per share (2013: proposal)**

### Market capitalisation

- **Dividend per EUR and dividend to earnings ratio (%)**

### Distribution of shareholders at 31 December 2013

<table>
<thead>
<tr>
<th>Size of shareholding</th>
<th>Number of shareholders</th>
<th>% of shareholders</th>
<th>Number of shares, million</th>
<th>% of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 100</td>
<td>26,677</td>
<td>21.89</td>
<td>1.3</td>
<td>0.7</td>
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<tr>
<td>101 – 1,000</td>
<td>53,247</td>
<td>42.7</td>
<td>22.7</td>
<td>4.3</td>
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<tr>
<td>1,001 – 10,000</td>
<td>18,258</td>
<td>14.2</td>
<td>36.6</td>
<td>6.9</td>
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<tr>
<td>10,001 – 100,000</td>
<td>1,316</td>
<td>1.07</td>
<td>106.8</td>
<td>20.0</td>
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<tr>
<td>Total</td>
<td>94,568</td>
<td>100.0</td>
<td>219.7</td>
<td>41.3</td>
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</tbody>
</table>

- **Nominees registered**
- **Not registered as book entry units**

### Total

- **Number of shareholders**
- **% of shares**

### Shareholder breakdown by sector at 31 December, %

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<td>4.3</td>
<td>4.4</td>
<td>4.1</td>
<td>3.1</td>
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<td>Financial institutions and insurance companies</td>
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<td>6.5</td>
<td>8.1</td>
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<tr>
<td>Public bodies</td>
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<td>7.9</td>
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<td>Non-profit organisations</td>
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<td>18.7</td>
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<td>19.9</td>
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<td>Non-Finnish nationals</td>
<td>60.5</td>
<td>58.3</td>
<td>51.8</td>
<td>56.2</td>
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### UPM’s share option programmes

- **Options exercised**
- **Exercise price per share**

<table>
<thead>
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<th>Options</th>
<th>Number of options</th>
<th>Number of shares</th>
<th>Exercise price per share</th>
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</thead>
<tbody>
<tr>
<td>UPM PC</td>
<td>5,000,000</td>
<td>5,000,000</td>
<td>10.49 at date of issue</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>33.49 at 31 Dec. 2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Subscription period</td>
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<td></td>
<td></td>
<td></td>
<td>at date of issue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.10.2013-31.10.2014</td>
</tr>
<tr>
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<td></td>
<td></td>
<td>Options exercised 2013</td>
</tr>
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</table>

- **Subscriptions period 2013**

- **Options exercised 2013**
### Key figures 2004–2013

#### Adjusted share-related indicators 2004–2013

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<tbody>
<tr>
<td>Earnings per share, EUR (diluted 2013: 0.63)</td>
<td>0.63</td>
<td>-2.14</td>
<td>0.88</td>
<td>1.08</td>
<td>0.33</td>
<td>-0.35</td>
<td>0.16</td>
<td>0.65</td>
<td>0.50</td>
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<td>0.60</td>
<td>0.60</td>
<td>0.55</td>
<td>0.45</td>
<td>0.80</td>
<td>0.75</td>
<td>0.75</td>
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<td>Dividend to earnings ratio, %</td>
<td>92.5</td>
<td>neg</td>
<td>68.2</td>
<td>50.9</td>
<td>136.4</td>
<td>neg</td>
<td>468.8</td>
<td>110.4</td>
<td>150.1</td>
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<td>4.9</td>
<td>6.8</td>
<td>7.1</td>
<td>4.2</td>
<td>3.4</td>
<td>4.4</td>
<td>3.4</td>
<td>3.4</td>
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<td>Operating cash flow per share, EUR</td>
<td>1.39</td>
<td>1.98</td>
<td>1.99</td>
<td>1.89</td>
<td>2.42</td>
<td>1.21</td>
<td>1.46</td>
<td>1.33</td>
<td>1.63</td>
<td>1.95</td>
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<td>317</td>
<td>315</td>
<td>286</td>
<td>234</td>
<td>208</td>
<td>384</td>
<td>392</td>
<td>392</td>
<td>393</td>
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<td>4,633</td>
<td>4,466</td>
<td>6,874</td>
<td>4,326</td>
<td>4,680</td>
<td>7,084</td>
<td>10,030</td>
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<td>8,578</td>
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<td>Dividend per share, EUR</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.55</td>
<td>0.45</td>
<td>0.40</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
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<tr>
<td>Effective dividend yield, %</td>
<td>4.9</td>
<td>6.8</td>
<td>7.1</td>
<td>4.2</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
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<tr>
<td>Capital expenditure excluding acquisitions</td>
<td>329</td>
<td>347</td>
<td>340</td>
<td>252</td>
<td>229</td>
<td>532</td>
<td>683</td>
<td>631</td>
<td>705</td>
<td>645</td>
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<td>Gearing ratio, %</td>
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<td>43</td>
<td>48</td>
<td>46</td>
<td>56</td>
<td>71</td>
<td>59</td>
<td>56</td>
<td>66</td>
<td>61</td>
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<td>–1,318</td>
<td>459</td>
<td>755</td>
<td>135</td>
<td>24</td>
<td>483</td>
<td>536</td>
<td>318</td>
<td>685</td>
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<tr>
<td>Non-current liabilities 5,019</td>
<td>5,430</td>
<td>5,320</td>
<td>4,922</td>
<td>5,432</td>
<td>5,816</td>
<td>4,753</td>
<td>4,770</td>
<td>5,843</td>
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<tr>
<td>Capital expenditure 8,825</td>
<td>9,486</td>
<td>8,911</td>
<td>9,430</td>
<td>8,865</td>
<td>10,167</td>
<td>10,349</td>
<td>10,397</td>
<td>10,886</td>
<td>10,886</td>
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<tr>
<td>Plywood (1,000 m³)</td>
<td>1,661</td>
<td>1,696</td>
<td>1,683</td>
<td>1,729</td>
<td>1,497</td>
<td>2,132</td>
<td>2,325</td>
<td>2,457</td>
<td>2,016</td>
<td>2,409</td>
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<tr>
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<td>571</td>
<td>571</td>
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<tr>
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<td>756</td>
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<td>931</td>
<td>827</td>
<td>969</td>
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<tr>
<td>Sawn timber (1,000 m³)</td>
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<td>1,683</td>
<td>1,729</td>
<td>1,497</td>
<td>2,132</td>
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| Financial indicators 2004–2013

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<tbody>
<tr>
<td>Sales</td>
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<td>8,924</td>
<td>7,719</td>
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<td>10,035</td>
<td>10,022</td>
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<td>8,911</td>
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<td>10,167</td>
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<td>8,911</td>
<td>9,430</td>
<td>8,865</td>
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<td>10,397</td>
<td>10,886</td>
<td>10,886</td>
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<tr>
<td>Plywood (1,000 m³)</td>
<td>1,661</td>
<td>1,696</td>
<td>1,683</td>
<td>1,729</td>
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<td>2,132</td>
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<td>2,457</td>
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<tr>
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<td>571</td>
<td>571</td>
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<td>769</td>
<td>756</td>
<td>836</td>
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<td>943</td>
<td>931</td>
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<td>Sawn timber (1,000 m³)</td>
<td>1,661</td>
<td>1,696</td>
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<td>2,457</td>
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</tbody>
</table>

**Note:** Formulas for calculating indicators are given on page 134.

1) Proposal.
2) Trading on the NASDAQ OMX Helsinki stock exchange. Treasury shares bought by the company are included in shares traded.
### Quarterly figures 2012–2013

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1/13</th>
<th>Q2/13</th>
<th>Q3/13</th>
<th>Q4/13</th>
<th>Q1/14</th>
<th>Q2/14</th>
<th>Q3/14</th>
<th>Q4/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>2,588</td>
<td>2,472</td>
<td>2,520</td>
<td>2,474</td>
<td>2,657</td>
<td>2,595</td>
<td>2,632</td>
<td>2,608</td>
</tr>
<tr>
<td>Earnings</td>
<td>10,054</td>
<td>10,320</td>
<td>10,054</td>
<td>10,320</td>
<td>10,054</td>
<td>10,320</td>
<td>10,054</td>
<td>10,320</td>
</tr>
</tbody>
</table>

### Calculation of key indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Formulae for calculation of financial indicators</th>
<th>Formulae for calculation of adjusted share-related indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on equity, %</td>
<td>(Net profit before special items / average equity) x 100</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>Return on capital employed, %</td>
<td>(Profit before tax, excl. special items / average assets) x 100</td>
<td>Adjusted average number of shares during the period excluding treasury shares</td>
</tr>
<tr>
<td>Operating profit (loss) excl. special items</td>
<td>(Operating profit – special items) x 100</td>
<td>Equity per share</td>
</tr>
<tr>
<td>Net interest-bearing liabilities</td>
<td>(Interest-bearing liabilities – interest-bearing assets) x 100</td>
<td>Equity attributable to owners of the parent company</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Operating profit + depreciation + amortization + impairment charge</td>
<td>Adjusted number of shares at end of period</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>Market capitalization / earnings per share</td>
<td></td>
</tr>
<tr>
<td>Dividend per share</td>
<td>Adjusted dividend per share</td>
<td></td>
</tr>
</tbody>
</table>

### Calculation of key indicators for the euro at end of period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>USD</td>
<td>1.3791</td>
<td>1.3791</td>
<td>1.3791</td>
<td>1.3791</td>
<td>1.3791</td>
<td>1.3791</td>
<td>1.3791</td>
<td>1.3791</td>
</tr>
<tr>
<td>CAD</td>
<td>1.4671</td>
<td>1.4671</td>
<td>1.4671</td>
<td>1.4671</td>
<td>1.4671</td>
<td>1.4671</td>
<td>1.4671</td>
<td>1.4671</td>
</tr>
<tr>
<td>JPY</td>
<td>144.72</td>
<td>144.72</td>
<td>144.72</td>
<td>144.72</td>
<td>144.72</td>
<td>144.72</td>
<td>144.72</td>
<td>144.72</td>
</tr>
<tr>
<td>GBP</td>
<td>0.8337</td>
<td>0.8337</td>
<td>0.8337</td>
<td>0.8337</td>
<td>0.8337</td>
<td>0.8337</td>
<td>0.8337</td>
<td>0.8337</td>
</tr>
</tbody>
</table>

### Additional notes

- **Return on capital employed**: Ratio of profit before tax to average assets.
- **Net interest-bearing liabilities**: Difference between interest-bearing liabilities and interest-bearing assets.
- **EBITDA**: Earnings before interest, tax, depreciation, and amortization.
- **P/E ratio**: Market capitalization divided by earnings per share.
Corporate Governance Statement 2013

UPM complies with all recommendations of the Finnish Corporate Governance Code issued by the Securities Market Association, which entered into force on 1 October 2010 and which is publicly available on the Securities Market Association’s website www.sfgfinland.fi.

This is UPM-Kymmene Corporation’s Corporate Governance Statement for the financial year 2013. The statement has been reviewed by UPM’s Audit Committee and PricewaterhouseCoopers Oy, UPM’s auditor, who has checked that the statement has been issued and that the description of the main features of the internal control and risk management systems relating to the financial reporting process is consistent with the financial statements. A more comprehensive description of the company’s corporate governance is presented on pages 54–64 of UPMs Annual Report 2013.

Composition of the Board of Directors

The company’s Board of Directors is composed of at least five but no more than twelve Directors elected by the Annual General Meeting. On 31 December 2013, the company’s Board of Directors comprised the following ten members, elected by the Annual General Meeting held on 4 April 2013.

Director

Chairman

Brendt Bunow

Deputy Chairman

Marti Rautanen

Pekka Haavisto

Kaisa Kauppi

Jussi Pesonen

Arno Killi

Ursula Ranin

Niclas Anderström

Key Wahl

Director since

Chairman since

1952

2002

1952

2006

1975

2013

1960

2007

1953

2006

1957

2012

Ph.D. Econ.

M.B. Sc. (Econ.)

M.Sc. (Eng.)

M.Sc. (Eng.)

M.Sc. (Eng.)

M.B. Sc. (Econ.)

eMBA

MBA, B.A. (Business Economics)

Nationality

Finnish

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Independent of the company and significant shareholders

Main-occupation

Chairman of the Board of Directors and Corporate Services of Stromstangen AS

Managing Director of Famigro Oy

Chairman of the Board of Directors

President and CEO of ABB Process Automation Division

Chairman of the Board of Directors of ABB

Chairman of the Board of Directors of Oy Karl Fazer Ab

Chair of the Board of Directors of Sampo Plc

President and CEO of HOME Corporation

Chairman of the Board of Directors of Fatogas Oy

Managing Director of the Federation of Finnish Financial Services

Chair of the Board of Directors of Lane Holdings, Inc.

President and CEO of UPM-Kymmene Corporation

Counsel

President of ABB Process Automation Division

Chairman of the Board of Directors of Stromstangen AS

Auditor’s report (Translation from the Finnish Original)

To the Annual General Meeting of UPM-Kymmene Corporation

Helsinki 14 February 2014

PricewaterhouseCoopers Oy

Authorized Public Accountants

Juha Wulffros

Authorized Public Accountant

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of UPM-Kymmene Corporation for the year ended 31 December 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company’s balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company’s accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the laws and that its financial affairs have been arranged in a reliable manner.

Auditor’s Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, whether the members of the Board of Directors that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company’s Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Kim Wahl 2012 1960 MBA, B.A.,

Graduate School of Business Administration)

Jussi Pesonen 2007 1960 M.Sc. (Eng.)

Pekka Haavisto 2006 1966 M.Sc. (Eng.)

Ursula Ranin 2006 1953 B.Sc. (Econ.)

Niclas Anderström 2007 1957 eMBA

Key Wahl 2012 1960 MBA, B.A. (Business Economics)

Deputy Chairman

Chairman

Deputy Chairman

Chairman

President and CEO

President and Managing Director

Chair of the Board of Directors of Sampo Plc

Chairman of the Board of Directors of Oy Karl Fazer Ab

Chair of the Board of Directors of Oriental Energy

Chair of the Board of Directors of Fatogas Oy

Chair of the Board of Directors of Famigro Oy

Chair of the Board of Directors of Stromstangen AS

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

Board responsibilities

The duties and responsibilities of the Board of Directors and its committees are defined in the Board and Committee Charters. The Board of Directors reviewed the Charters during 2013. This review resulted in the clarification of committee duties and responsibilities and the division of these duties and responsibilities between the committees. The amended Charters are available on the corporate website www.upm.com in the Investors section under Governance.

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

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

The Board held nine meetings in 2013. On average, the Directors attended 97.6% of the meetings.

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UPM as a company 1–12

UPM Annual Report 2013

UPM Annual Report 2013
Internal control and risk management pertaining to financial reporting

UPM’s Board of Directors has approved the Risk Management Policy, which sets out the principles, roles and responsibilities regarding risk management within the Group’s organisation, and defines the risk management process. UPM’s internal control framework is based on the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 (COSO). During 2014, UPM plans to evaluate the effects of the updated COSO framework. The process-level internal control structure has been created using a top-down, risk-based approach.

Controls pertaining to financial reporting are part of the Internal Control Framework. Effectiveness of internal control is ensured also in the context of using outsourced service providers. The maturity level of internal controls at UPM is assessed every other year and the results of the assessment are reported to the Audit Committee.

The five (COSO) components in the internal control framework are:
- Control environment
- Risk assessment
- Control activities
- Information and communication
- Control monitoring

UPM’s Board of Directors acts as the top management setting directions and establishing a risk appetite within the company. In practice, the Board of Directors delegates the planning, execution and review of the risk management process to the UPM’s Management Board, the UPM’s Risk Management and Control function, the company’s risk managers and the internal auditors.

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

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

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

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

The internal controls are also assessed in the performance review. The corporate and business-level controller teams are accountable for assessing the effectiveness of the internal controls for which they are responsible. Self-assessment is a common practice at UPM. Key controls are also tested regularly by independent parties. The internal audit compares its audit work against control test results. External audits 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 monitoring and developing the internal control.
Key financial information 2004–2013
Production plants and sales network

UPM has production plants in 14 countries and a global sales network. Logistics form the foundation for the company’s on-time deliveries of products and raw materials.

Network of sales companies and agents

North America
- Canada
- Mexico
- Puerto Rico
- United States

South America
- Argentina
- Brazil
- Chile
- Colombia
- Peru
- Uruguay
- Venezuela

Europe
- Austria
- Belgium
- Bulgaria
- Croatia
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Ireland
- Italy
- Malta
- Netherlands
- Poland
- Portugal
- Romania
- Russia
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- Turkey
- Ukraine
- United Kingdom

Asia
- China
- Hong Kong
- India
- Indonesia
- Israel
- Japan
- Jordan
- Kuwait
- Lebanon
- Malaysia
- Pakistan
- Republic of Korea
- Saudi Arabia
- Singapore
- Sri Lanka
- Syria
- Thailand
- United Arab Emirates
- Vietnam

Oceania
- Australia
- Egypt
- New Zealand
- South Africa
- Ukraine
- United Kingdom

UPM’s sales by market 2013 EUR 10,054 million

USA
- Paper mills
  - UPM Blanding, Grand Rapids, MN
  - UPM Madison, Madison, WI (50%)
- Labelstock factories
  - UPM Raflatac, Mills River, NC
  - UPM Raflatac, Fletcher, NC
  - UPM Raflatac, Dixon, IL

BRAZIL
- Labelstock factory
  - UPM Raflatac, Rio de Janeiro
- Labelstock factory
  - UPM Raflatac, São Paulo

CHINA
- Paper mill
  - UPM Changshu
- Labelstock factory
  - UPM Raflatac, Changshu

MALAYSIA
- Labelstock factory
  - UPM Batu Kawan

URUGUAY
- Pulp mill
  - UPM Fray Bentos

FINLAND
- Paper mills
  - UPM Jämsänkoski (Jämsä)
  - UPM Kaipola (Jämsä)
  - UPM Kaukas (Lappeenranta)
  - UPM Kymi (Kouvola)
  - UPM Rauma
  - UPM Savonlinna (Väike-Savimo)
- Pulp mills
  - UPM Kaukas (Jämsä)
  - UPM Kymi (Kouvola)
  - UPM Rauma
- Labelstock factory
  - UPM Kallioinen (Valkeakoski)

FRANCE
- Paper mill
  - UPM Chapelle Darblay, Grand-Couronne
- Labelstock factory
  - UPM Raflatac, Nancy

SPAIN
- Labelstock factory
  - UPM Bilbao, Haría

PORTUGAL
- Labelstock factory
  - UPM Raflatac, Braga, Braga

RUSSIA
- Plywood and veneer mill
  - UPM Chudovo

POLAND
- Labelstock factory
  - UPM Raflatac, Kobierzyce (Wroclaw)
- Converting Center
  - UPM Raflatac, Nowa Wies (Wroclaw)

ESTONIA
- Plywood mill
  - UPM Parnawa

UK
- Paper mill
  - UPM Thomson Paper, Irvine
  - UPM Skelton Paper
- Labelstock factory
  - UPM Raflatac, Scarborough

AUSTRALIA
- Labelstock factory
  - UPM Raflatac, Sydney

CONTENTS
- Production plant
- Group Head Office

UPM’s personnel by area 31.12.2013 20,950

US
- 39%
- 22%
- 5%
- 5%
- 5%
- 5%
- 5%
- 5%

Canada
- 9%
- 10%
- 11%
- 16%
- 16%
- 16%
- 16%

Europe
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

UK
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

Asia
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

Argentina
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

USA
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

Canada
- 18%
- 9%
- 10%
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Europe
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North America
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- 11%
- 16%
- 6%

South America
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

World
- 18%
- 9%
- 10%
- 5%
- 19%
- 6%
- 11%
- 16%
- 6%

1) USA, Canada and Mexico
UPM Kymmene Corporation will hold its Annual General Meeting on Tuesday 8 April 2014 at 14:00, at the Exhibition and Convention Centre, Messuvuori 1, 00520 Helsinki, Finland. Instructions for those wishing to attend are given in the notice to the meeting, which is available on the company’s website at www.upm.com.

Dividend

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.60 per share be paid for the 2013 financial year. The dividend will be paid to the shareholders who are registered in the company’s shareholder register held by Euroclear Finland Ltd. on 11 April 2014, which is the record date for the dividend payment. The Board of Directors proposes that the dividend will be paid on 24 April 2014.

Financial information in 2014

UPM will publish the interim reports in 2014 as follows:

- The Interim Report for January–March 2014 on 29 April 2014
- The Interim Report for January–June 2014 on 5 August 2014
- The Interim Report for January–September 2014 on 28 October 2014

UPM does not publish a separate environmental and corporate responsibility report but has integrated the contents into this annual report. Various highlights from the year 2013 can be found under the sections for each business area. The GRI content index is on pages 51–52. To find out more about UPM’s responsibility agenda, please visit www.upm.com/responsibility.