

UPM-KYMMENE A/S

Universitetsparken 7
4000 Roskilde

CVR no. 46 39 61 11

Annual report 2019

The annual report was presented and approved at the
Company's annual general meeting on 26 May 2020

Mirja Inkeri Margareeta Salmelin
chairman

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of UPM-Kymmene A/S for the financial year 1 January - 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report should be approved at the annual general meeting.

Roskilde, 26 May 2020

Executive Board:

Niels Ole Rasmussen
CEO

Board of Directors:

Stefan Mebus

Mirja Inkeri Margareeta
Salmelin

Juuli Anniina Räsänen

Independent auditor's report

To the shareholder of UPM-Kymmene A/S

Opinion

We have audited the financial statements of UPM-Kymmene A/S for the financial year 1 January - 31 December 2019, comprising income statement, balance sheet and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Hellerup, 26 May 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR-no. 33 77 12 31

Jan Boje Andreassen

State Authorised

Public Accountant

mne-nr. 2338

Management's review

Company details

UPM-KYMMENE A/S
Universitetsparken 7
4000 Roskilde

Telephone: +45 33 48 18 18

CVR no.: 46 39 61 11
Established: 25. May 1973
Financial year: 1 January - 31 December

Board of Directors

Stefan Mebus
Mirja Inkeri Margareeta Salmelin
Juuli Anniina Räsänen

Executive Board

Niels Ole Rasmussen, CEO

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup

Management's review

Operating review

Principal activities

The purpose of the Company is trade and industry or other related activities as estimated by the Board of Directors.

Development in activities and finances

The profit for the year amounts to DKK 1,111 thousand (2018: DKK 1,071 thousand).

The development of the year is consistent with the expectations. For next year the management expect a similar result.

Events after the balance sheet date

As reference to Stock Exchange release published by UPM-Kymmene Corporation 30 March 2020, the business operations have performed during the first quarter of 2020 as expected. However, the fast developing corona virus pandemic represents significant uncertainty for the rest of the year.

Since January 2020, the development of the local epidemic of COVID-19 virus from China to a worldwide pandemic, as confirmed by the World Health Organisation on 11 March 2020, has been fast. Until now the UPM businesses have not been adversely impacted by the pandemic and the customer demand has been on expected level. The business operations have performed during the first quarter as expected. However, the fast developing corona virus pandemic represents significant uncertainty for the rest of the year 2020.

UPM Group's financial position is strong, it has net cash in the balance sheet and high liquidity reserves. In addition, the liquidity was further strengthened by the EUR 750 million revolving credit facility which was signed on 17 March 2020.

UPM is taking extensive precautions to protect the health and safety of its employees and to ensure business continuity. Despite these efforts it is possible that during an extended pandemic the operation of one or more units or the supply chain and logistics could be disrupted. In these circumstances some units would need to limit operations or be temporarily shut down. Although many UPM products serve essential everyday needs, it is likely that the customer demand for some UPM products would deteriorate due to the slowing world economy. These possible impacts can be caused by both the pandemic itself as well as by the extensive public restrictions to limit the spreading of the virus and may differ in various business areas and operating locations.

In order to prepare for different scenarios, UPM is planning to use shift arrangements, temporary layoffs, or reduced working hours to adjust its operations. Employee consultation processes regarding the plans will proceed in line with local legislation to enable fast decision making, would such decisions be needed. Decisions on measures are subject to the impact of the pandemic on UPM's operations, and subject to appropriate consultation process being completed in each country.

Events after balance sheet date are described in note 9 in the Financial Statement.

Financial statements 1 January - 31 December

Income statement

DKK	Note	2019	2018
Gross profit		<u>8,737,583</u>	<u>9,200,715</u>
Staff costs	2	<u>-7,326,851</u>	<u>-7,776,605</u>
Operating profit		1,410,732	1,424,110
Financial income	3	11,709	3,163
Financial expenses	4	<u>-23,676</u>	<u>-29,082</u>
Profit before tax		1,398,765	1,398,191
Tax on profit for the year	5	<u>-287,512</u>	<u>-327,294</u>
Profit for the year		<u>1,111,253</u>	<u>1,070,897</u>
Proposed profit appropriation			
Retained earnings		<u>1,111,253</u>	<u>1,070,897</u>

Financial statements 1 January - 31 December

Balance sheet

DKK	Note	31/12 2019	31/12 2018
ASSETS			
Current assets			
Receivables			
Trade receivables		3,877	3,040
Receivables from group entities		14,218,782	14,980,408
Other receivables		145,519	203,992
Deferred tax assets		143,097	168,565
		<u>14,511,275</u>	<u>15,356,005</u>
Cash at bank and in hand		<u>3,039,115</u>	<u>1,753,157</u>
Total current assets		<u>17,550,390</u>	<u>17,109,162</u>
TOTAL ASSETS		<u><u>17,550,390</u></u>	<u><u>17,109,162</u></u>

Financial statements 1 January - 31 December

Balance sheet

DKK	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	6	4,522,319	4,522,319
Retained earnings		10,479,339	9,368,086
Total equity		<u>15,001,658</u>	<u>13,890,405</u>
Liabilities			
Current liabilities other than provisions			
Trade payables		144,167	225,908
Payables to group entities		0	20
Corporation tax		101,489	150,711
Other payables		2,303,076	2,842,118
		<u>2,548,732</u>	<u>3,218,757</u>
Total liabilities		<u>2,548,732</u>	<u>3,218,757</u>
TOTAL EQUITY AND LIABILITIES		<u>17,550,390</u>	<u>17,109,162</u>
Contractual obligations, contingencies, etc.	7		
Related parties	8		

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Contributed capital	Retained earnings	Total
Equity at 1 January 2019	4,522,319	9,368,086	13,890,405
Transferred over the profit appropriation	0	1,111,253	1,111,253
Equity at 31 December 2019	4,522,319	10,479,339	15,001,658

Financial statements 1 January - 31 December

Notes

1 Accounting policies

The annual report of UPM-Kymmene A/S for 2019 has been presented in accordance with the provisions applying to reporting class B entities with opt-in from higher accounting class under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

The annual report is presented in DKK.

Recognition and measurement

The financial statements have been prepared under the historical cost method.

Revenue is recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised costs are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

1 Accounting policies (continued)

Income statement

Gross Profit

Pursuant to Section 32 of the Danish Financial Statements Act, the Company has decided only to disclose gross profit.

Regarding the items summarised, we state the following:

Revenue

Income from the supply of services is recognised as revenue with reference to the stage of completion, VAT, indirect taxes and discounts are excluded from the revenue.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

Staff costs

Staff expenses comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit for the year

Tax for the year comprises current tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity.

Balance sheet

Receivables

Receivables are measured at amortised cost, which substantially corresponds to nominal value.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Prepayments and deferred income

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

1 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and which are subject to only an insignificant risk of changes in value.

Equity

Dividends

The expected dividends payment for the year is disclosed as a separate item under equity.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities measured on the planned use of the asset or settlement of the liability, respectively. However, deferred tax is not recognised on temporary differences relating to office buildings non-deductible for tax purposes and other items where temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Debts

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value.

UPM-KYMMENE A/SAnnual report 2019
CVR no. 46 39 61 11**2 Staff costs**

DKK	2019	2018
Wages and salaries	6,202,682	7,009,264
Pensions	968,295	738,182
Other social security costs	155,874	29,159
	<u>7,326,851</u>	<u>7,776,605</u>
Average number of employees	<u>9</u>	<u>9</u>

According to the Danish Financial Statements Act section 98 B (3), information regarding the Executive Board's salary is omitted.

Management is included in UPM-Kymmene Oyj's share based compensation program. Warrants are granted with a vesting period of 3 years. There are performance conditions in connection with the program. Payment to the parent company regarding share delivered to employees according to the program are recognized as expense in the income statement.

3 Financial income

DKK	2019	2018
Interest income from group entities	11,619	3,163
Other interest income	90	0
	<u>11,709</u>	<u>3,163</u>

4 Financial expenses

DKK	2019	2018
Interest expense to group entities	1,810	1,829
Other interest costs	21,866	27,253
	<u>23,676</u>	<u>29,082</u>

5 Tax on profit for the year

DKK	2019	2018
Current tax for the year	300,608	277,266
Taxes from previous years	-38,564	0
Deferred tax for the year	25,468	50,028
	<u>287,512</u>	<u>327,294</u>

6 Equity

The Company's share capital consists of 45,223 shares of a nominal value DKK 100 each.

All shares rank equally.

There have been no changes in the share capital the past 5 years, except for 2015, where the share capital was reduced by DKK 30,000,000.

UPM-KYMMENE A/S

Annual report 2019
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7 Contractual obligations, contingencies, etc.

Lease obligations under operating leases. Total future lease payments:

DKK	2019	2018
Operating lease obligations		
Within 1 year	426,878	585,988
Between 1 and 5 years	326,289	308,671
	<u>753,167</u>	<u>894,659</u>

8 Related parties

UPM-KYMMENE A/S' related parties comprise the following:

UPM-Kymmene Oyj, Helsinki, Finland

UPM-Kymmene A/S is included in the consolidated financial statements of UPM-Kymmene Helsinki, Finland.

The consolidated financial statements of UPM-Kymmene Helsinki, Finland can be obtained at the following webpage: www.upm.com.

9 Events after the balance sheet date

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The signatures in this document are legally binding. The document is signed using Penneo™ secure digital signature. The identity of the signers has been recorded, and are listed below.

"By my signature I confirm all dates and content in this document."

Stefan Mebus

Bestyrelsesformand

On behalf of: UPM-Kymmene A/S

Serial number: stefan.mebus@upm.com

IP: 193.24.xxx.xxx

2020-05-25 20:11:38Z

Stefan Mebus

Juuli Räsänen

Bestyrelsesmedlem

On behalf of: UPM-Kymmene A/S

Serial number: juuli.rasanen@upm.com

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2020-05-26 05:24:43Z

Juuli Räsänen

Mirja Salmelin

Bestyrelsesmedlem

On behalf of: UPM-Kymmene A/S

Serial number: mirja.salmelin@upm.com

IP: 193.24.xxx.xxx

2020-05-26 09:55:45Z

Mirja Salmelin

Niels Ole Rasmussen

Adm. direktør

On behalf of: UPM-Kymmene A/S

Serial number: PID:9208-2002-2-496529118628

IP: 193.24.xxx.xxx

2020-05-26 15:44:15Z

NEM ID 

Jan Boje Andreassen

Statsautoriseret revisor

On behalf of: PricewaterhouseCoopers Statsautoriseret

Revisionspartnerselskab

Serial number: CVR:33771231-RID:61973527

IP: 83.136.xxx.xxx

2020-05-26 16:47:46Z

NEM ID 

Mirja Salmelin

Dirigent

On behalf of: UPM-Kymmene A/S

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2020-05-26 19:30:37Z

Mirja Salmelin

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