

UPM-KYMMENE CORPORATION

Diversity Policy of the Board of Directors



1. The role and responsibilities of the Board

The primary role of the Board of Directors (the Board) of UPM-Kymmene Corporation (UPM or the Company) is to be responsible for the governance of the Company with the focus on overseeing the long-term value creation of UPM. In pursuing this goal, the directors have a duty to act on an informed basis with due care and in the best interests of the Company consistent with their other statutory duties.

To fulfill its role effectively the Board sets the Company's strategic objectives, reviews and approves financial and other plans relevant to the achievement of the objectives and reviews the performance of the management in meeting those objectives. The Board's other main responsibilities relate to the integrity of the Company's financial reporting, effectiveness of internal controls and risk management systems, and the appointment, remuneration and succession planning of the senior management of the Company.

2. Purpose of the Policy

This Diversity Policy of the Board (the Policy) aims at setting objectives and procedures for achieving appropriate diversity within the Board, thereby contributing to the effective functioning of the Board as a team.

3. Policy statement

The overarching goal of diversity is for the Board as a whole to have a broad range of skills, experience and perspectives as well as knowledge of UPM and relevant industries so that the Board can effectively discharge its responsibilities, in particular those pertaining to strategy and risk management. Within this competence-based framework, the Board seeks to ensure that it maintains an appropriate balance of independence of judgment and diversity, including gender, to generate effective dialogue and challenge, and objective decision-making. In implementing this Policy, the Board pays due regard to applicable regulatory requirements concerning diversity.

The Board's Nomination and Governance Committee (the Committee) assists the Board in the implementation of this Policy.

4. Factors contributing to Board diversity

4.1 Size of the Board

According to the Articles of Association of the Company, the minimum number of directors is five and the maximum twelve. The number of directors is deemed to be sufficient when the needs of UPM and its businesses can be reliably met, and committee assignments fulfilled. Size of the Board should, however, not be so large that it would stifle dynamic discussion and decision-making. In practice, availability of qualified candidates and resignations of incumbent directors may occasionally influence the actual size of the Board.

4.2 Relevant director qualifications

In accordance with the Finnish Corporate Governance Code (CG Code), each director is required to have the competence required by the position as a director. The Board considers it important that all directors be individuals of high integrity with the ability to exercise sound judgment on a broad range of issues. Each director is expected to be committed to the Board and devote sufficient amount of time to the Board work, including preparing for and attending meetings of the Board and its committees.

For the Board to comprise an appropriate mix of relevant knowledge and experience as well as independence of judgment and diversity of perspectives, the Board has set an objective to have certain key qualifications to be sufficiently represented in the Board.

4.2.1 Relevant professional and educational backgrounds

A sufficient number of directors is expected to have relevant professional experience and education to provide them with sound appreciation of issues pertinent to publicly listed companies of a size and scope corresponding to that of UPM including e.g.:

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

4.2.2 Other relevant director qualities

With regard to other factors relevant to Board diversity, the objective is that the Board include an appropriate number of directors of different nationalities, ages, gender, and lengths of tenure.

Since UPM's strategic agenda, risks and operating needs evolve over time it is acknowledged that the Board needs to review its skills and experience and other director attributes on a regular basis and to develop and refresh its competences and other relevant qualities as needs may arise.

5. Director evaluation and nomination process

The Committee assists the Board by preparing the Board's proposal for the composition of the Board to the Annual General Meeting of UPM.

When preparing the proposal, the Committee seeks to fulfill the objectives of the Board diversity set forth in this Policy and in the Board and Committee Charters. The Committee also takes into account relevant criteria and the consequent principle that the proposal is based on qualifications, merit and competences that director candidates are expected to bring to the Board.

The Committee prepares the proposal in accordance with the Committee's established director evaluation and nomination process which consists of the following elements:

a) Evaluation of the performance and composition of the Board

The Committee conducts an annual evaluation of the performance of the Board and considers various factors relevant to the Board effectiveness, such as the Board's composition and working methods. The Committee evaluates also on an annual basis the balance of the Board's competences and diversity in light of the Company's current and evolving needs. These evaluations help inform the Committee of possibilities and ways to enhance the Board effectiveness and identify other potential development needs. The Committee also reviews the committee assignments and the composition of the Board committees in light of the specific independence and expertise requirements applicable to committee members. If there are development needs or vacancies in the Board, then the Committee, by drawing on the results of the evaluations, initiates a search of new director candidates whose skills, experience and other qualities would address identified development needs.

b) Search of director candidates

The Committee identifies candidates for election to the Board by using a variety of means as it may deem appropriate, and the Committee may retain search firms or external advisors to assist in its search efforts.

c) Evaluation of candidates

The Committee evaluates director candidates to determine whether the candidates fulfill the criteria set by the Committee in accordance with this Policy and the Board and Committee Charters as well as applicable regulatory requirements. The Committee applies the same criteria to evaluate candidates recommended by shareholders. The Committee considers also information concerning any relationship between the shareholder and the candidate to determine if the candidate can represent the interests of all of the shareholders. However, the Committee cannot evaluate a candidate recommended by a shareholder unless such a candidate has indicated his/her willingness to serve as director and provides the Committee with information necessary for the evaluation.

d) Evaluation of independence

Evaluation of director candidates' independence is an essential part of the director nomination process. Each director candidate's

independence is assessed annually against the independence criteria of the CG Code and in accordance with the independence evaluation process and criteria adopted by the Committee. The independence of a director, who has served as a director for more than 10 consecutive years, is subject to an overall evaluation on an annual basis. Directors and director candidates shall also provide the Committee with their own assessment of their independence.

e) Recommending director nominees

Based on the evaluation of director candidates' qualifications and independence, the Committee recommends director nominees to be included in the Board's proposal for the composition of the Board to the Annual General Meeting.

f) Disclosure of director nominees

The Board's proposal for the composition of the Board is disclosed to the shareholders in the notice of the Annual General Meeting, which will be published on the corporate website and as a stock exchange release. The proposal includes also the Board's assessment of the director nominees' independence of the Company and of the Company's significant shareholders.

g) Presenting the proposal

The Committee presents the Board's proposal for the election or re-election of the members of the Board to the Annual General Meeting. The Annual General Meeting elects or re-elects the directors to the Board for a term of one year ending upon the conclusion of the Annual General Meeting following the election.

6. Measurable objective

Concerning the representation of both genders in the Board, the Board has set the following specific objective:

Both genders shall always be represented in the Board, and high priority shall be given to maintaining at least 1/3 representation of the under-represented gender among the non-executive directors in the Board. Where two candidates are equally qualified, priority shall be given to the candidate of the under-represented gender.

7. Monitoring and reporting

Principles concerning the diversity of the Board are disclosed in the Company's Corporate Governance Statement issued annually.

8. Approval of and amendments to the Policy

This Policy has been adopted by the Board on 13 December 2016 and it is effective as of the same date. Any amendments to the Policy shall be approved by the Board.