

UPM Progress Report
2013/2014
To the Leadership Declaration of the



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. We create value from renewable and recyclable materials. UPM's structure consists of the following business areas: UPM Biorefining, UPM Energy, UPM Raflatac, UPM Paper Asia, UPM Paper ENA (Europe and North America) and UPM Plywood. Cost leadership, change readiness, engagement and safety of our people form the foundation of our success.

In 2014, UPM's sales totalled € 9.9 billion. UPM has production plants in 13 countries. Our 20,000 people work in 45 countries across six continents. UPM shares are listed on the NASDAQ Helsinki stock exchange.

UPM – The Biofore Company – www.upm.com

LEADERSHIP DECLARATION

All signatory companies acknowledge and support the three objectives of the international “Convention on Biological Diversity”:

1. Conservation of biological diversity
2. Sustainable use of its components
3. Fair and equitable sharing of the benefits that arise out of the utilization of genetic resources and commit themselves to:
 1. Analyzing corporate activities with regard to their impacts on biological diversity;
 2. Including the protection of biological diversity within their environmental management system;
 3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the Management Board;
 4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years;
 5. Publishing activities and achievements in the biodiversity sector in the company’s annual, environmental, and/or corporate social responsibility report;
 6. Informing suppliers about the company’s biodiversity objectives and integrating suppliers accordingly and step by step;
 7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-à-vis the biodiversity domain.

To demonstrate ongoing commitment, member companies will provide the Initiative with a progress report every two years.

UPM's commitment to

1. Analysing corporate activities with regard to their impacts on biological diversity

UPM business is based on natural, renewable and recyclable raw materials. Wood is the most important raw material for UPM and the annual wood consumption is nearly 30 million m³. Therefore wood sourcing and forestry are the main areas of UPM's business which have an impact on biodiversity.

Due diligence in UPM forestry operations is managed through a hierarchical approach with respect to regulations, starting with legislation (Forest Act, Nature Protection Act etc.), the Environmental Management System under ISO 14001, Forest Certification schemes and, finally, the UPM Global Biodiversity Programme and operational instructions, the continuous training of personnel and development activities. Biodiversity is addressed at all levels of UPM's due diligence system as is described in detail in the Progress Report 2011/12. UPMs environmental targets can be found at <http://www.upm.com/EN/RESPONSIBILITY/Principles-and-Performance/Targets/Pages/default.aspx>

UPM owns c. 1.2 million hectares of forest land in Finland, Uruguay and USA. All these forests are certified under FSC and/or PEFC. Since forest certification standards vary in scope and emphasis from country to country UPM has developed a global biodiversity programme to ensure that biodiversity is adequately addressed. The UPM Global Biodiversity Programme is based on promoting six key elements vital to any forest ecosystem, each with global targets:

Key element	Global target
Native tree species	Maintain and promote native tree species and their natural composition.
Deadwood	Manage deadwood quality and quantity to enhance biodiversity.
Valuable habitats	Protect valuable habitats and manage them for their biodiversity value.
Forest structure	Manage variation in forest structure at landscape and stand level.
Water resources	Maintain open water bodies and wetlands, secure high water quality.
Natural forests	Implement plan for remnants of natural forests.

The UPM Global Biodiversity Programme is implemented in all UPM owned forests and the best practice it defines is promoted in wood sourcing. The Implementation of the UPM Global Biodiversity Programme has been reviewed by IUCN (International Union for Conservation of Nature) in Finland and UK. The Programme will be further developed according to recommendations received of IUCN, and other stakeholder feedback. For more information see

<http://www.upm.com/EN/RESPONSIBILITY/Forests/Biodiversity/Pages/default.aspx>

2. Including the protection of biological diversity within their environmental management system

All of UPM's wood is legal, controlled, and PEFC and FSC CoC and FSC Controlled Wood/PEFC Controlled Sources certified. In 2013, 80 percent of all wood used at UPM was certified according to FSC or PEFC. In 2014, the percentage rose to 83 percent.

The UPM approach to forestry and wood sourcing is described previously and the same approach applies to the mills. Mill sites themselves provide various habitats for a number of species and the goal is to collect, analyze and present information on the mill site biodiversity in the next Progress Report 2015/16.

Protection of biodiversity calls for a long term commitment which started in 1996 with UPMs first Environmental Policy. Information on actions from 1996 to 2011 can be found in the Progress Report 2011/12. New actions since 2011 are listed below:

Year	Action
2011	<ul style="list-style-type: none"> UPM owned forests certified under FSC in Finland (c. 394000 ha)
2012	<ul style="list-style-type: none"> Developing forest planning and operation based on ecosystem services approach Participation in Business and Biodiversity Initiative in the corporate responsibility Network FIBS in Finland Working with Aves Uruguay, member of BirdLife International for Chestnut Seedeater (<i>Sporophila cinnamomea</i>) and other grassland birds' conservation in Finland. Bird species assemblage of palm groves areas under restoration, as a part of WWF New Generation project in Uruguay. Straight-Billed Reedhaunter (<i>Limnoctites rectirostris</i>) conservation and monitoring programme in Uruguay Indicator species monitoring programme in El Jabali Protected Area, Characterization of the population demography of Yatay Palm (<i>Butia yatay</i>) in restoration and protected areas in Uruguay. Faculty of Agronomy Thesis. Which University? Natural vegetation recovery and evolution after Eucalyptus plantations in Uruguay. Internal protected areas network management. Working together with Vida Silvestre Uruguay (IUCN member) to consolidate the network, identifying high conservation values, internal and external (National Protected Areas System) complementarity in terms of habitats and species protection, development of Annual Operational Plan for every protected area Comprehensive monitoring of flora in El Jabalí and Mafalda Protected Area, with special attention to the species included in the official list of endangered species. Working with Carlos Brussa, expert in local flora, Uruguay FSC Group Certification in Finland. In the research and development project "Fuel wood use and forest biodiversity", launched in October of 2012, UPM is involved as a representative of the forest-based industries.

2013	<ul style="list-style-type: none"> • Developing forest planning and operation based on ecosystem services approach • Participation in Business and Biodiversity Initiative in the corporate responsibility Network FIBS in Finland • Near 100,000 ha achieved in FSC Group Scheme in Finland. • Research project managed by UPM in cooperation with the Fraunhofer Institute for Building Physics in Leinfelden Echterdingen. The aim of project manager Jan Paul Lindner is to quantify the impacts of the industrial production, usage and disposal of printing papers on biodiversity.
2014	<ul style="list-style-type: none"> • New PEFC Group scheme established in Finland • Biodiversity projects integrated into UPM stakeholder strategy in Finland • Esker forest habitat project with Finnish Environment Institute • Beetle inventories and retention tree impact study in Finland. • Habitat restoration and other projects with BirdLife in Finland. • Game bird inventories in UPM Harviala Forest estate in Finland. • Maintaining and developing artificial nest network with Osprey Foundation in Finland. • Boreal peatland Life (EU) – project • White-Backed Woodpecker project with WWF, Metsähallitus and Finnish Environment Institute • Developing and training continuous cover forestry methods in Finland • UPM has been listed as the industry leader in the Dow Jones European and World Sustainability Indices (DJSI) for 2014-2015. UPM is listed in the indices for the third year in a row. UPM received full score in Biodiversity indicator and full score in all wood sourcing and forestry related sustainability indicators as well. • Review of UPM Global Biodiversity Programme by IUCN in Finland and UK

3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the Management Board

UPM Stakeholder relations is a global function of UPM, headed by Executive Vice President, and responsible for all environmental, communication and stakeholder issues in support of UPMs business groups. UPM Stakeholder Relations supports environmental excellence in sourcing, production and markets. In addition each UPM business area's production units and mills have personnel responsible for management of environmental issues on site. Total number of Stakeholder Relations is 100 persons.

4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years

UPM's responsibility principles are accompanied by operational targets that create the framework of responsibility for all company operations which can be found: <http://www.upm.com/EN/RESPONSIBILITY/Principles-and-Performance/Targets/Pages/default.aspx>

The environmental targets have improved from 2012 as follows:

Key area of responsibility	Target	Achievement 2014
PRODUCTS Taking care of the entire lifecycle	<ul style="list-style-type: none"> Environmental management systems certified in 100% of production units (continuous) Environmental declarations for all product groups (continuous) 25% growth in the share of ecolabelled products by 2020³⁾ 	<ul style="list-style-type: none"> All sites except one have a certified environmental management system in place. UPM is a global frontrunner in the use of EU EMAS. Environmental declarations are available for all relevant UPM products. In 2014, UPM launched Product Safety Profiles for its paper products. Increase of ecolabelled sales in line with target. UPM actively participated in developing new EU Ecolabel criteria for converted products.
CLIMATE Creating climate solutions	<ul style="list-style-type: none"> 15% reduction in fossil CO₂ emissions by 2020³⁾ 	<ul style="list-style-type: none"> Development not in line with target. Despite improvements in fuel mix and energy efficiency, actions have not compensated for the increased level caused by the Myllykoski acquisition in 2011.
WATER Using water responsibly	<ul style="list-style-type: none"> 15% reduction in wastewater volume by 2020⁴⁾ 20% reduction in COD load by 2020⁴⁾ 	<ul style="list-style-type: none"> Development not in line with target. Average specific wastewater volume for UPM decreased only slightly due to a higher weight of pulp in portfolio, despite the fact that UPM Fray Bentos has one of the lowest process water use rates in the industry. Development in line with target. 16% reduction achieved since 2008 for the UPM average product.
FOREST Keeping forests full of life	<ul style="list-style-type: none"> Maintain high share of certified fibre 85% 100% coverage of chains of custody (continuous) 	<ul style="list-style-type: none"> Development in line with target. The certified share increased from 80% to 83%. Coverage is 100%.
WASTE Reduce, reuse and recycle	<ul style="list-style-type: none"> 40% reduction in waste to landfill by 2020 	<ul style="list-style-type: none"> Development in line with target. 21% reduction achieved since 2008 for the UPM average product.

UPM's Global Biodiversity Programme and related targets can be found at:

<http://www.upm.com/EN/RESPONSIBILITY/Forests/Biodiversity/Pages/default.aspx>

5. Publishing activities and achievements in the biodiversity sector in the company's annual, environmental, and/or corporate social responsibility report

UPM does not publish a separate environmental and corporate responsibility report but has integrated this information into its Annual Report since 2007. UPM environmental and corporate social responsibility issues can be found in the UPM Annual Report, see pages 39 – 53: <http://user-fudicvo.cld.bz/UPM-annual-report-2014>

UPM reports activities and achievements in biodiversity in the company's annual report (produced in accordance with the Global Reporting Initiative), web pages as well as many other reporting initiatives, such as Forest Footprint Disclosure and Dow Jones Sustainability Index.

UPM was announced as the sector leader for the materials industry in CDP's 2014 global forests report "Deforestation-free supply chains: from commitments to action". UPM received the sector leader position for the second year in a row.

In 2013, the 'Biodiversity in Good Company' Initiative in Germany was singled out as the official project of the UN Decade Office for Biodiversity by the German Federal Ministry for the Environment.

Dr. Stefanie Eichiner from UPM was newly elected as board member of the 'Biodiversity in Good Company' Initiative in Germany in 2013.

During the UPM Tree Planting Seasons 2013 and 2014 between March 21st, the UN International Day of Forests and May 22nd, the UN Day of Biodiversity UPM has organized tree planting events together with its stakeholders all over the world.



Also children have the opportunity to participate in a tree planting organized by UPM in 2013

On 17 November 2014, UPM discussed joint responsibility for global natural capital with about 100 companies at Otto Group in Hamburg. The event was held at the invitation of the 'Biodiversity in Good Company' Initiative to discuss challenges and policy options for maintaining natural capital. Special guest was Secretary of State Jochen Flasbarth from the German Federal Environment Ministry.

The comprehensive reporting including our annual report can be found here: <http://www.upm.com/EN/RESPONSIBILITY/Pages/default.aspx>.

6. Informing suppliers about the company's biodiversity objectives and integrating suppliers accordingly and step by step, simplify and focus on standards

UPM's tiered due diligence in forestry operations is outlined in detail in the Progress Report 2011/12. To proactively support suppliers in sustainable forestry and biodiversity conservation, UPM continues to invest in collaboration and education as outlined in the Progress Report 2011/12. Internal and external environmental training is an on-going exercise, since new needs continuously arise. In regions of risk UPM continued to carry out audits at the suppliers and their upstream-suppliers. In Czech Republic and Slovakia, previously considered at-risk for fraud in the forestry supply chain, democratic and anti-bribery movements have improved the situation to a point, defined by Transparency International, which all forestry standards consider low risk.

7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations (NGOs) and/ or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-à-vis the biodiversity domain

UPM's stakeholder engagement with communities is founded on decades of close cooperation. In many cases the community has grown around UPM's operations over the years.

UPM actively seeks to maintain and develop good relations with its various stakeholders. The company's key stakeholders are employees, customers, investors, suppliers, local communities, non-governmental organisations, media, governments and regulators.

Some of our other partners include the World Business Council for Sustainable Development (WBCSD) and The Forests Dialogue (TFD). The WBCSD is an organisation of forward-thinking companies that aims to create a sustainable future for business, society and the environment.

TFD is a civil society-driven, multi-stakeholder dialogue platform that aims at forging relationships and spurring collaborative action on the highest priority issues facing the world's forests. The founders of TFD are the World Bank, the WBCSD, the World Resources Institute and the WWF.

UPM and WWF have a long history of co-operation. Recently, this co-operation has been further consolidated and, by nature, it is on-going. UPM and WWF work together in a number of projects, both in Finland and internationally. These projects include

- promoting the sustainability of wood-based liquid biofuels
- White-backed Woodpecker project
- joint FSC promotion
- WWF Heritage Forest Programme
- WWF's [Check Your Paper](#) tool
- WWF's [New Generation Plantations Project](#)
- Cooperation to protect the Oder River Valley in Poland. UPM Raflatac supports WWF's valuable work in the [Rivers for Life project](#).

Local environmental organizations perform hands-on conservation work at grassroots level. UPM also acts at the local level, and its representatives are part of local communities. Therefore, it is only logical that UPM's natural resource specialists collaborate with local environmental organizations.

Such partners include Aves Uruguay, Vida Silvestre, local BirdLife organizations, The Finnish Association for Nature Conservation, The Royal Society for the Protection of Birds (UK), The Ornithological Society of Pori, Save Our Squirrels (UK) and The Osprey Foundation. In addition to ENGOs the most important stakeholders in biodiversity projects are authorities, forest owners, and research organizations.

In the research and development project "Fuel wood use and forest biodiversity" launched in October of 2012 UPM is involved as a representative of the forest based industries. As part of the project, scientists from Weihenstephan-Triesdorf University of Applied Sciences are investigating the connection between energy wood production and biodiversity. Their aim is to develop concrete recommendations for promoting an appropriately balanced pursuit of commercial and nature conservation targets. At the same time, the research project is designed to strengthen the communication between commercially-focused players, such as forest owners and the wood industry, and more protection-focused groups, such as nature conservation agencies and organizations, in order to develop integrative solutions together.

UPM and Fraunhofer Institute launched in 2013 a research project. It is managed by UPM in cooperation with the Fraunhofer Institute for Building Physics in Leinfelden Echterdingen. The aim of project manager Dr. Jan Paul Lindner is to quantify the impacts of the industrial production, usage and disposal of printing papers on biodiversity. His product-focused approach is contrary to common research approaches, which determine the impacts of certain land use types without establishing a relation to a specific product. However, it is precisely the relation to the end product, in UPM's case, printing paper for magazines and advertising publications, which is important for critical consumers wishing to make an informed choice in the market. From the scientist's point of view, relevant features include e.g. mixed forest stands, deadwood in the forest and ecosystems with nature-oriented fire management, i.e. attributes which distinguish good from bad forest management and which the scientist documented in UPM's company-owned forest in Janakkala in Finland. A presentation in March 2015 is planned for the German National Dialogue Forum Dialogplattform UBI 2020: <http://www.biologischevielfalt.de/22348.html>