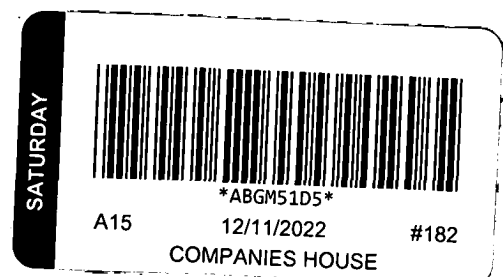


**UPM-Kymmene (UK) Limited**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2021**



**UPM-Kymmene (UK) Limited****Annual Report and Financial Statements****For the year ended 31 December 2021**

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| <b>CONTENTS</b>   | <b>PAGE</b> |
|---|-------------|
| Officers and Professional Advisers  | 2           |
| Strategic Report  | 3           |
| Directors' Report   | 5           |
| Statement of Directors' Responsibilities in Respect of the Financial Statements | 9           |
| Independent Auditors' Report to the Members of UPM-Kymmene (UK) Limited         | 10          |
| Profit and Loss Account   | 13          |
| Statement of Comprehensive Income   | 14          |
| Balance Sheet   | 15          |
| Statement of Changes in Equity  | 16          |
| Notes to the Financial Statements   | 17          |

## **UPM-Kymmene (UK) Limited**

### **Officers and Professional Advisers**

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**The Board of Directors**    M Salmelin  
                                     D G Chalmers (resigned on 30 July 2021)  
                                     G Mitchell (resigned on 30 July 2021)  
                                     J M Airamaa  
                                     B. McMurdo (appointed on 1 October 2021)  
                                     S A Page (appointed on 30 July 2021)

**Company Secretary**    T L Knox

**Registered office**        1 Meadowhead Road  
                                     Irvine  
                                     Ayrshire  
                                     KA11 5AT

**Independent auditors**   PricewaterhouseCoopers LLP  
                                     141 Bothwell Street  
                                     Glasgow  
                                     G2 7EQ  
                                     United Kingdom

**UPM-Kymmene (UK) Limited****Strategic Report****For the year ended 31 December 2021**

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The Directors present their Strategic Report of UPM-Kymmene (UK) Limited (the "Company") for the year ended 31 December 2021, detailing the main factors impacting upon the business during the year and a review of progress.

**Principal activities**

The principal activity of the Company is to manufacture, sell and distribute various paper products for the UPM Communication Papers business area. The Company had two manufacturing facilities in the UK, Shotton Paper Mill and Caledonian Paper Mill. In February 2021 the assets and employees of the Shotton paper mill were transferred from UPM-Kymmene (UK) Ltd to Shotton Paper Mill Limited, a fully owned subsidiary of UPM-Kymmene (UK) Holdings Limited. In May 2021 UPM signed an agreement to sell its Shotton paper mill site and all related assets to Eren Paper Ltd, a subsidiary of Modern Karton Sanayi Ve Ticaret A.Ş., the containerboard and corrugated packaging business of the Turkish industrial conglomerate Eren Holding ("Eren"). The closing of the transaction took place in Q3 2021 and Eren Paper Ltd took over responsibility for the Mill as of 1st October 2021. The Company will continue to manufacture at its Caledonian Paper Mill.

**Review of business**

As shown in the Company's Profit and Loss Account on page 13, the Company's 2021 sales totalled £171,066,000. Operating loss has increased from an operating loss of £10,805,000 to a loss of £26,191,000.

The Directors do not propose the payment of a dividend (2020: £nil). The retained profit has been transferred to reserves.

The Balance Sheet on page 15 of the financial statements shows the company's financial position at the year end is strong.

**Key performance indicators**

UPM-Kymmene Corporation manages its worldwide operations on a business area basis. These business areas consist of the following: UPM Biorefining, UPM Energy, UPM Raflatac, UPM Specialty Papers, UPM Communication Papers and UPM Plywood. For this reason, the directors do not believe that further key performance indicators would be necessary or appropriate for an understanding of the development, performance or position of the Company. The performance of the individual business areas are discussed in detail in UPM-Kymmene Corporation's Annual Report.

**Section 172(1) Statement**

UPM's decision making, management and operations are guided by UPM's values and by the UPM Code of Conduct. Legal compliance and responsible practices are the foundation of all of UPM's businesses and create long-term value for both UPM and its stakeholders. The UPM Code of Conduct emphasises UPM's commitment to business integrity and responsible business operations, manifesting the company's guiding principles.

UPM requires its suppliers and third party intermediaries to apply the same principles as in the UPM Code of Conduct and to fulfil the criteria concerning social and environmental responsibility. These requirements are defined in the UPM Supplier and Third Party Code, latest updates effective as of beginning of 2020.

The UPM Code of Conduct is updated every three years, the preparations for the latest update started in 2021 and it was launched in 2022.

**UPM-Kymmene (UK) Limited****Strategic Report (continued)****For the year ended 31 December 2021**

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**Section 172(1) Statement (continued)**

UPM is committed to active employer participation and consultation, organised in accordance with international and national rules and regulations. UPM continues its cooperative body, the UPM European Forum, which focuses on issues related to the business environment and changes within the organisation. The forum organises regular meetings for employee representatives from business units in Europe. There are also cooperative bodies in UPM countries, which operate in accordance with country-specific rules, regulations and company practices. The aim is to promote employee participation and dialogue between UPM business areas and country level management, and employee representatives and employees on a national level.

The annual UPM Employee Engagement Survey, which invites all employees across the organisation to evaluate different aspects of their work every year, has a high participation rate of 83% (2020:83%).

UPM rewards and recognises high performance. The approach to rewarding and recognizing employees consists of both tangible and intangible components. Tangible remuneration and recognition consists of base salary, benefits and incentives, which are determined by UPM's global rules, local legislation, general agreements, local market practices, the level of the position and individual performance. Gender, age, ethnic origin and nationality play no role in determining salaries and wages. Intangible remuneration and recognition consist of, for instance, a safe and healthy working environment, interesting and meaningful work and good leadership and career opportunities. UPM has designed its reward policy to increase employee commitment to, and motivation for, high performance. Each employee belongs to a unified annual Short-Term Incentive (STI) scheme. The scheme covers group and business-level targets, personal and team performance targets and individual performance evaluation, to differentiate and reward high performance. In addition to the Short-Term Incentive scheme, UPM provides two long-term incentive plans: Performance Share Plan (PSP) for senior executives and Deferred Bonus Plan (DBP) for other key employees. Launched annually, the plans cover approximately 400 employees.

On behalf of the Board



**S A Page**

Director

1 Meadowhead Road

Irvine

Ayrshire

KA11 5AT

Approved by the Directors on 7 November 2022

**UPM-Kymmene (UK) Limited****Directors' Report****For the year ended 31 December 2021**

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The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2021 (referred to as "2021" and "year" throughout the financial statements). The comparatives are for the year ended 31 December 2020.

**Dividends**

There was no dividend distributed for the year ended 31 December 2021 (2020: £5,000,000).

**UPM Communication Papers:**

Comparable EBIT for UPM Communication Papers decreased compared to 2020 due to significantly higher variable costs, especially for fibre and energy, and lower sales prices. Delivery volumes were higher as 2020 was impacted by the COVID-19 pandemic and the related lockdown measures. Fixed costs decreased in 2021 compared to 2020. In 2021 demand for graphic papers in Europe was 4% higher than the previous year. Newsprint demand decreased by 1%, magazine papers increased by 1% and fine papers increased by 10% compared with 2020.

Caledonian Paper Mill saw an increase in production against 2020. Volumes were higher as the comparison period was impacted by the COVID-19 pandemic and related lockdown measures. Despite good demand and successful price increases significant cost increases in raw materials and energy accumulated to an operating loss in the year.

**Stakeholder engagement statement**

Continuous dialogue with stakeholders improves the understanding of key risks, challenges and opportunities in the operating environment. UPM aims to understand stakeholders' needs for information and expectations of UPM and to then consider them in the strategic development and decision-making process.

We engage in active dialogue with our stakeholders to discuss our operations and targets. The UPM code of Conduct sets the standards for responsible behaviour and collaboration.

Stakeholder relations are coordinated globally at Group level, while businesses are responsible for continuous dialogue with customers and business partners as well as the local communities.

The Company's most important stakeholders include customers, suppliers, employees, authorities, non-governmental organisations and local communities.

**Business review and future development**

In August 2020 UPM announced plans for restructuring and streamlining and as part of these plans UPM announced its intention to sell UPM Shotton paper mill. In February 2021 the assets and employees of the Shotton paper mill were transferred from UPM-Kymmene (UK) Ltd to Shotton Paper Mill Limited, a fully owned subsidiary of UPM-Kymmene (UK) Holdings Limited. In May 2021 UPM signed an agreement to sell its Shotton paper mill site and all related assets to Eren Paper Ltd. The closing of the transaction took place in Q3 2021.

The Company will continue to manufacture at its Caledonian Paper Mill, and continue to sell and distribute various paper products for the UPM Communication Papers business area.

**Directors**

The Directors who served the Company during the year and up to the date of signing the financial statements are listed on page 2.

**Political contributions**

The Company made no political donations or incurred any political expenditure during the year.

**Environmental policy**

The Company has an environmental policy which states that UPM-Kymmene (UK) Limited will meet all relevant legislative and regulatory environmental requirements, codes of practice and behave in an environmentally responsible manner. The Company is committed to improving its environmental performance year on year, and has ISO 14001 certification.

**UPM-Kymmene (UK) Limited****Directors' Report (continued)****For the year ended 31 December 2021**

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**Environmental policy (continued)**

The Company recognises the importance of its environmental responsibilities and monitors closely its impact on the environment. The Shotton Paper Mill operates with 100% recycled fibre and the renewable energy power plants at both Caledonian and Shotton Paper Mills help reduce the Company's carbon emissions and reliance on carbon based fuels. The Company also works closely with both the Natural Resources Wales (NRW) and the Scottish Environment Protection Agency to ensure that legislation and best practice in the safe disposal of any manufacturing waste is adhered to.

**Financial risk management**

The Company's operations expose it to a number of financial risks, which include currency exchange rate risk. The management of such risks are undertaken by the Treasury function at a group level (see 'Principal risks and uncertainties').

**Risk management**

Risk management is an integral part of UPM's management system as risk taking is a normal part of business operations. While executing strategies, UPM and its business areas, functions and manufacturing units are exposed to a number of risk and opportunities. Each business area, function and unit is responsible for identifying, measuring and managing of risks related to its own to its own, and for reporting on risk exposures, risk management team and to the risk management function.

**Principal risks and uncertainties**

Competitive pressure in the UK and overseas is a continuing risk to the Company. The Company operates in highly competitive markets where price and quality are critical. Energy and raw material pricing is a continuous risk. The Company is exposed to currency exchange rate risks by way of both its sales and purchases in various overseas markets. The management of such risks are undertaken by the Treasury function at a group level by the ultimate parent company. The Company is financed by the parent and has no third party debt.

**Future outlook**

There are significant uncertainties in the outlook for 2022, related to the war in Ukraine, growth in the European and global economy, the energy market situation in Europe and the tight raw material and logistics markets.

Good demand is expected to continue for most UPM products in 2022. Sales prices for many UPM products increased in the beginning of 2022 whilst expected variable cost prices also increased. UPM will continue to manage margins with product pricing, optimising its product and market mix, efficient use of assets as well as by taking measures to improve variable and fixed cost efficiency.

**UPM-Kymmene (UK) Limited****Directors' Report (continued)****For the year ended 31 December 2021**

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**Employees**

The Company is committed to involve all employees in the performance and development of the Company. Regular communications are available to employees to position and share the long term strategic direction and the various financial and economic factors affecting business performance.

A high priority is placed on providing appropriate levels of training and development to enable employees to meet individual and business objectives. The European Forum continues to operate, involving representatives from subsidiary companies of our ultimate parent company. The Company recognises the importance of promoting and maintaining good communications with its employees.

**Disabled persons**

It is the Company's policy to give full consideration to suitable applications for employment by disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be trained for other positions in the Company.

**Health and safety**

The Company is committed to a culture which fully encompasses health and safety. The Company has a well established occupational health service and a voluntary health screening initiative which continues to promote the joint benefits of good health among employees.

**Disclosure of information to auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Going concern**

The financial statements are prepared on a going concern basis. The Company recorded a loss after taxation of £18,382,000 (2020: £7,325,000). The Company had net assets of £146,108,000 (2020: £137,930,000) at the end of the year.

Having considered the Company's actual and expected cash flows, the Directors have the expectation that the Company is adequately resourced to continue in existence for the foreseeable future. The Directors also note that the Company has sufficient resources to meet its day today expenses. The Directors believe that the going concern basis is an appropriate basis for the preparation of the financial statements of the Company.

**Independent auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

**Energy and Carbon Reporting**

The gross greenhouse gas (GHG) emissions reportable by UPM-Kymmene (UK) Ltd for the financial year 1st January to 31st December 2021, are 37,263 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) (2020: 43,499 tonnes).



**UPM-Kymmene (UK) Limited****Directors' Report (continued)****For the year ended 31 December 2021****Energy & Carbon Reporting (continued)***Greenhouse Gas Emissions*

|                             | 2021               | 2020               |
|-----------------------------|--------------------|--------------------|
| Energy Consumption (kWh)    |                    |                    |
| Electricity                 | 123,454,000        | 113,162,000        |
| Natural Gas                 | 42,935,663         | 90,345,072         |
| Fuel for Transport Purposes | 2,476,551          | 1,942,944          |
| <b>Total:</b>               | <b>168,866,214</b> | <b>205,450,016</b> |

Intensity ratio (kWh per tonne) is 731 (2020: 570).

|                                       | 2021          | 2020          |
|---------------------------------------|---------------|---------------|
| Emissions source (tCO <sub>2</sub> e) |               |               |
| Electricity                           | 28,732        | 26,383        |
| Natural Gas                           | 7,838         | 16,612        |
| Fuel for Transport Purposes           | 644           | 505           |
| <b>Total:</b>                         | <b>37,214</b> | <b>43,499</b> |

Intensity ratio (tCO<sub>2</sub> per tonne) is 0.1208 (2020: 0.1208).

*Quantification and Reporting Methodology*

We have followed the 2013 UK Government environmental reporting guidance. Emissions have been calculated using the 2021 Government conversion factors for company reporting of greenhouse gas emissions.

*Organisational Boundary*

We have used the financial control approach.

*Energy Efficiency Initiatives*

Energy efficiency measures undertaken in the reporting year includes:

- The installation of a new grinding surface for one of our four Pressure Groundwood (PGW) grinders. The goal of the installation is to reduce overall electrical consumptions in the PGW plant; and
- Working with our biomass suppliers to 'clean' up the streams, giving better emissions to air.

Signed on behalf of the Board



**S A Page**

Director

1 Meadowhead Road

Irvine

Ayrshire

KA11 5AT

Approved by the Directors on 7 November 2022

**UPM-Kymmene (UK) Limited**

**Statement of Directors' Responsibilities in Respect of the Financial Statements**

**For the year ended 31 December 2021**

---

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Signed on behalf of the Directors



**S A Page**  
Director

1 Meadowhead Road  
Irvine  
Ayrshire  
KA11 5AT

Approved by the Directors on 7 November 2022

**UPM-Kymmene (UK) Limited**

**Independent Auditors' Report to the Members of UPM-Kymmene (UK) Limited**

**For the year ended 31 December 2021**

---

**Report on the audit of the financial statements**

**Opinion**

In our opinion, UPM-Kymmene (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Profit and Loss Account, the Statement of Other Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**UPM-Kymmene (UK) Limited****Independent Auditors' Report to the Members of UPM-Kymmene (UK) Limited (continued)****For the year ended 31 December 2021**

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**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

**Responsibilities for the financial statements and the audit****Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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, the directors are 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 unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 (UK) will always detect a material misstatement when it exists. Misstatements can 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 users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

**UPM-Kymmene (UK) Limited****Independent Auditors' Report to the Members of UPM-Kymmene (UK) Limited (continued)****For the year ended 31 December 2021**

---

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, Health and Safety regulations, and Environmental regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates, posting inappropriate journal entries to manipulate revenue or profit or to extract cash from the business. Audit procedures performed by the engagement team included:

- Evaluation of management's controls designed to prevent and detect irregularities;
- enquiry of management around actual and potential litigation and claims;
- reviewing minutes of meetings of those charged with governance;
- challenging assumptions and judgements made by management in areas involving significant accounting estimates;
- identifying and testing unusual account combination journals entries related to manipulation of revenue, profit or cash which may be indicative of fraud; and
- incorporating an element of unpredictability into our audit plan.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting****Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



**Lorraine Quinn (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
7 November 2022

**UPM-Kymmene (UK) Limited****Profit and Loss Account****For the year ended 31 December 2021**

|   | Note(s) | 2021<br>£'000   | 2020<br>£'000   |
|---|---------|-----------------|-----------------|
| <b>Turnover</b>   | 2       | <b>171,066</b>  | <b>149,870</b>  |
| Change in stocks of finished goods and work in progress                         |         | 1,104           | (92)            |
| Other operating income  |         | 5,494           | 5,064           |
| Raw materials and consumables   |         | (134,513)       | (96,355)        |
| Staff costs   | 5       | (29,896)        | (31,218)        |
| Depreciation and other amounts written off tangible and intangible fixed assets | 9, 11   | (7,074)         | (8,390)         |
| Other operating expenses  |         | (32,372)        | (29,684)        |
| <b>Operating Loss</b>   |         | <b>(26,191)</b> | <b>(10,805)</b> |
| Income from shares in group undertakings  | 12      | 240             | 1,348           |
| Interest receivable and similar income  | 6       | 701             | 1,636           |
| Interest payable and similar expenses   | 7       | (56)            | (85)            |
| <b>Loss before taxation</b>   |         | <b>(25,306)</b> | <b>(7,906)</b>  |
| Tax on loss   | 8       | 6,924           | 581             |
| <b>Loss for the financial year</b>  |         | <b>(18,382)</b> | <b>(7,325)</b>  |

The notes on pages 17 to 40 form part of these Financial Statements.

All activities in the current year relate to continuing operations.

**UPM-Kymmene (UK) Limited****Statement of Comprehensive Income****For the year ended 31 December 2021**

|   | 2021<br>£'000   | 2020<br>£'000   |
|---|-----------------|-----------------|
| <b>Loss for the financial year</b>  | <b>(18,382)</b> | <b>(7,325)</b>  |
| <i>Items that will not be subsequently reclassified to Profit and Loss Account:</i> |                 |                 |
| Remeasurements of defined benefit liability   | 35,440          | (11,438)        |
| Movement on deferred tax relating to pension liability                              | (8,860)         | 2,173           |
| <b>Total Comprehensive income/(expense) for the year</b>                            | <b>8,198</b>    | <b>(16,590)</b> |

The notes on pages 17 to 40 form part of these Financial Statements.

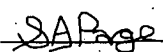
All activities in the current year relate to continuing operations.

**UPM-Kymmene (UK) Limited****Balance Sheet****At 31 December 2021**

|  | Note(s) | 2021<br>£'000   | 2020<br>£'000   |
|--|---------|-----------------|-----------------|
| <b>Fixed Assets</b>  |         |                 |                 |
| Right-of-use assets  | 9       | 123             | 414             |
| Intangible assets  | 10      | 5,057           | 1,192           |
| Tangible assets  | 11      | 51,210          | 75,692          |
| Investments  | 12      | 10              | 10              |
| Pension asset  | 23      | 18,911          | -               |
|  |         | <u>75,311</u>   | <u>77,308</u>   |
| <b>Current Assets</b>  |         |                 |                 |
| Stocks   | 13      | 12,649          | 13,442          |
| Debtors  | 14      | 96,535          | 109,729         |
| Cash at bank and in hand                                       |         | 156             | 154             |
|  |         | <u>109,340</u>  | <u>123,325</u>  |
| <b>Creditors: amounts falling due within one year</b>          | 15      | <u>(30,674)</u> | <u>(37,540)</u> |
| <b>Net current assets</b>                                      |         | <u>78,666</u>   | <u>85,785</u>   |
| <b>Total assets less current liabilities</b>                   |         | <u>153,977</u>  | <u>163,093</u>  |
| <b>Creditors: amounts falling due after more than one year</b> | 16      | (24)            | (137)           |
| <b>Provisions for liabilities</b>                              |         |                 |                 |
| Pension liability  | 23      | -               | (21,573)        |
| Deferred tax liability   | 17, 18  | (6,508)         | (2,259)         |
| Other provisions   | 17      | (1,337)         | (1,194)         |
| <b>Net assets</b>  |         | <u>146,108</u>  | <u>137,930</u>  |
| <b>Capital and reserves</b>                                    |         |                 |                 |
| Called up share capital  | 19      | 80,000          | 80,000          |
| Profit and loss account  |         | 66,108          | 57,930          |
| <b>Total shareholders' funds</b>                               |         | <u>146,108</u>  | <u>137,930</u>  |

The notes on pages 17 to 40 form part of these Financial Statements.

The Financial Statements on pages 13 to 40 were approved by the Board of Directors on 7 November 2022 and were signed on its behalf by:



**S A Page**  
Director

Company registration number SC102969



**UPM-Kymmene (UK) Limited****Statement of Changes in Equity****For the year ended 31 December 2021**

|   | <b>Called up<br/>share capital<br/>£'000</b> | <b>Profit and loss<br/>account<br/>£'000</b> | <b>Total<br/>shareholders'<br/>funds<br/>£'000</b> |
|---|--|--|--|
| <b>Balance at 1 January 2020</b>                          | 80,000                                       | 79,530                                       | 159,530  |
| Total comprehensive expense for the year                  |  |  |  |
| Loss for the financial year                               | -  | (7,325)                                      | (7,325)  |
| Other comprehensive expense                               | -  | (9,265)                                      | (9,265)  |
| <b>Total comprehensive expense for the year</b>           | -  | (16,590)                                     | (16,590)   |
| Transactions with owners, recorded directly in equity     |  |  |  |
| Dividends   | -  | (5,000)                                      | (5,000)  |
| Equity settled share based payment transactions           | -  | (10)   | (10)   |
| <b>Total contributions by and distributions to owners</b> | -  | (5,010)                                      | (5,010)  |
| <b>Balance at 31 December 2020 and at 1 January 2021</b>  | 80,000                                       | 57,930                                       | 137,930  |
| Total comprehensive income for the year                   |  |  |  |
| Loss for the financial year                               | -  | (18,382)                                     | (18,382)   |
| Other comprehensive income                                | -  | 26,580                                       | 26,580   |
| <b>Total comprehensive income for the year</b>            | -  | 8,198  | 8,198  |
| Transactions with owners, recorded directly in equity     |  |  |  |
| Dividends   | -  | -  | -  |
| Equity settled share based payment transactions           | -  | (20)   | (20)   |
| <b>Total contributions by and distributions to owners</b> | -  | (20)   | (20)   |
| <b>Balance at 31 December 2021</b>                        | 80,000                                       | 66,108                                       | 146,108  |

The notes on pages 17 to 40 form part of these Financial Statements.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements****For the year ended 31 December 2021****1. Accounting policies**

UPM-Kymmene (UK) Limited ("the Company") is a private company, limited by shares, incorporated, domiciled and registered in Scotland, in the United Kingdom. The registered number is SC102969 and the registered address is 1 Meadowhead Road, Irvine, Ayrshire, KA11 5AT.

**Basis of preparation**

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Financial Statements have been prepared on the going concern basis under the historical cost convention.

The Company has taken advantage of the following disclosure exemption in preparing these Financial Statements, as permitted by FRS 101 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

- (a) The requirements of IAS 1 to provide a Statement of Cash flows for the year;
- (b) The requirements of IAS 1 to provide a statement of compliance with IFRS;
- (c) The requirements of IAS 1 to disclose information on the management of capital;
- (d) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRSs that have been issued but are not yet effective;
- (e) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (f) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;
- (g) The requirements in IFRS 7 to disclose financial instruments;
- (h) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs;
- (i) Comparative period reconciliations for intangible assets (IAS 1, paragraph 38, Presentation of Financial Statements);
- (j) Paragraph 73(e) of IAS 16, 'Property, plant and equipment';
- (k) Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period);
- (l) Comparative period information in respect of the following (IAS 1.38):  
Reconciliations of investment property as measured under the fair value model and/or cost models at the beginning and end of the period (IAS 40.76 & 79(d));
- (m) Exemption from the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers; and
- (n) The requirements of paragraph 52;58, the second sentence of paragraph 89, and paragraph 90, 91 and 93 of IFRS 16 Leases.

The parent of the group in whose consolidated Financial Statements the Company's Financial Statements are consolidated is UPM-Kymmene Corporation, incorporated in Finland. The consolidated financial statements of UPM-Kymmene Corporation can be obtained from Alvar Aallon katu 1, P.O. Box 380, FI-00101 Helsinki, Finland.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021**

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**1 Accounting policies (continued)****Functional currency**

The Financial Statements are presented in Pound Sterling because that is the functional currency of the primary economic environment in which the Company operates.

**New accounting/amended accounting policies**

The following new and revised Standards and Interpretations have been issued and are effective for the current financial period of the company.

- IFRS 7 Financial Instrument Disclosure - Amendments regarding pre-replacement issues in the context of the IBOR reform;
- IFRS 9 Financial Instrument - Amendments regarding pre replacement issues in the context of the IBOR reform.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Company in future periods.

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Company's activities and which have not therefore been adopted in preparing these Financial Statements.

**Turnover**

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services net of trade discounts, volume rebates and marketing incentives. IFRS 15 establishes a five-step model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 specifies how and when revenue should be recognised as well as requiring enhanced disclosures.

**Financial instruments****i) Recognition and initial measurement**

Trade debtors are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit&Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade debtor without a significant financing component is initially measured at the transaction price.

**ii) Classification and subsequent measurement****Financial assets****a) Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income (FVOCI) - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****1 Accounting policies (continued)****Financial instruments (continued)****ii) Classification and subsequent measurement (continued)****Financial assets (continued)****a) Classification (continued)**

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

The Company's financial assets include intercompany loans and cash, classified as measured at amortised cost and investments in subsidiaries carried at cost less impairment.

**b) Subsequent measurement and gains and losses**

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**iii) Impairment**

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****1 Accounting policies (continued)****Intangible assets - Emission Trading Scheme**

Allowances received from the UK government, free of charge, are recognised as intangible assets based on the lower of market value at the date of initial recognition, or balance sheet date. Any losses noted in revaluation are recognised in the Profit and Loss Account. Allowances are not amortised and have an indefinite useful life.

**Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

**Land and buildings:**

|                                |   |
|--------------------------------|---|
| Heritable land                 | - not depreciated   |
| Heritable industrial buildings | - 40 years  |
| Residential property           | - 50 years  |
| Road areas                     | - 20 years  |
| Leasehold land and buildings   | - 15 to 40 years, being the shorter of estimated useful life and lease term |

**Plant and machinery:**

|                            |   |
|----------------------------|---|
| Leased plant and machinery | - 10 to 20 years, being the shorter of estimated useful life and lease term |
| Capital spare parts        | - 3 to 10 years   |
| Other plant and machinery  | - 10 to 20 years  |

**Fixtures, fittings and motor vehicles:**

|                       |            |
|-----------------------|------------|
| Fixtures and fittings | - 5 years  |
| Motor vehicles        | - 5 years  |
| Locomotive            | - 20 years |

**Fixed asset investments**

Investments are stated at the lower of cost and the underlying net asset value of the investments.

**Accrued revenue**

Revenue is presented as accrued revenue in the Balance Sheet when recognised but not yet realised.

**Critical accounting estimates and judgements**

There are assumptions or estimates that give rise to a significant risk or cause a material adjustment to the carrying amounts of assets or liabilities of the Company.

Several actuarial assumptions are used in calculating the expense and liability related to the defined benefit plans. Statistical information used may differ materially from actual results due to, among others, changing market and economic conditions, or changes in service period of plan participants. Significant differences in actual experience or significant changes in assumptions may affect the future amounts of the defined benefit obligation and future expense.

**Stocks and work in progress**

Stocks are valued at the lower of cost and net realisable value. Cost of finished product stocks and work in progress comprises the cost of raw material, utilities, carriage and a proportion of overheads based on estimated normal production levels. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Capital spare parts are capitalised as fixed assets and amortised over a period of between 3 and 10 years.

Other engineering spare parts are classified as stock and are amortised by equal instalments over 5 years. These parts are charged to the Profit and Loss Account as used.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****1 Accounting policies (continued)****Grants**

Grants are included within accruals and deferred income in the Balance Sheet and credited to the Profit and Loss Account over the estimated useful economic lives of the assets to which they relate

**Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in shareholders' funds. In this case, the tax is also recognised in Other Comprehensive Income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on the net basis.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date.

All differences are taken to the Profit and Loss Account.

**Pension costs**

The Company is the sole Sponsoring Employer of a legacy defined benefit pension scheme, which consists of various sectional benefits all of which have been closed to new membership and future accrual for many years. Contributions to the defined benefit scheme are determined in accordance with the recommendations of an independent actuary and as agreed between the Company and the Sole Professional Corporate Trustee. The defined contribution section of the scheme has now been transferred to a defined contribution Master Trust arrangement. All contributions to the defined contribution Master Trust are charged to the Profit and Loss Account as incurred.

**Provisions***Emission allowances*

Emission obligations are recognised in provisions when the allowances have been utilised. The liability is expected to be settled at the end of the period covered by the allowances.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****1 Accounting policies (continued)****Provisions (continued)***Restructuring*

Restructuring provisions are recognised in the period in which the Company becomes legally or demonstrably committed to payment.

**Employee benefits***Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation/(asset) in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset). The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid. Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations/(assets) is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

*Share-based payment transactions*

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in Statement of Comprehensive Income.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****1 Accounting policies (continued)****Leases**

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

*As a lessee*

The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.



**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****2 Turnover**

|                               | 2021<br>£'000  | 2020<br>£'000  |
|-------------------------------|----------------|----------------|
| Sales to third parties        | 21,213         | 19,337         |
| Sales through group companies | 149,853        | 130,533        |
|                               | <u>171,066</u> | <u>149,870</u> |

An analysis of the turnover by geographical destination has not been disclosed, as the Directors are of the opinion that to disclose such information would be prejudicial to the interests of the Company.

**3 Expenses and auditors' remuneration**

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| Auditors' remuneration associated with audit services | 41            | 30            |
| Depreciation of tangible fixed assets                 | 6,628         | 8,113         |
| Impairment of tangible fixed assets                   | 207           | -             |
| Research and development                              | 239           | 134           |
| Depreciation of Right of use assets                   | 239           | 277           |

Audit fees are invoiced directly to UPM-Kymmene Oyj in Finland. They are then recharged to the major subsidiaries as part of an Internal Service Charge. There is no remuneration paid to the auditors in respect of non-audit services (2020: £nil).

**4 Directors' remuneration**

|                                 | 2021<br>£'000 | 2020<br>£'000 |
|---------------------------------|---------------|---------------|
| Aggregate emoluments            | 403           | 213           |
| Aggregate pension contributions | 23            | 27            |
|                                 | <u>426</u>    | <u>240</u>    |

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****4 Directors' remuneration (continued)**

Retirement benefits accrued in the year to two Directors (2020: two) under a defined contribution scheme. Deferred retirement benefits have accrued to one Director (2020: one) under a closed defined benefit scheme. One (2020: nil) Director received share options in respect of their qualifying services under incentive schemes in the current year.

The other Directors receive no payment for the services provided as Directors of the Company. The Directors are remunerated by other group undertakings and no recharge is made to UPM-Kymmene (UK) Limited.

**Highest paid Director**

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Emoluments of the highest paid Director were as follows: |               |               |
| Aggregate emoluments                                     | 201           | 177           |
| Aggregate pension contributions                          | 6             | 20            |
|  | <u>207</u>    | <u>197</u>    |

The highest paid director did not exercise any share options (2020: £nil).

**5 Staff costs**

The average monthly number of persons (including Directors) employed by the Company during the year, analysed by category, was as follows:

|                | 2021<br>Number | 2020<br>Number |
|----------------|----------------|----------------|
| Production     | 304            | 336            |
| Administration | 152            | 187            |
|                | <u>456</u>     | <u>523</u>     |

The aggregate payroll costs of these persons were as follows:

|                                | 2021<br>£'000 | 2020<br>£'000 |
|--------------------------------|---------------|---------------|
| Wages and salaries             | 23,762        | 22,594        |
| Social security costs          | 1,886         | 2,678         |
| Other pension costs            | 3,835         | 5,152         |
| Share based payments (note 21) | 152           | 128           |
| Indirect employee costs        | 261           | 666           |
|                                | <u>29,896</u> | <u>31,218</u> |

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****6 Interest receivable and similar income**

|                           | 2021<br>£'000 | 2020<br>£'000 |
|---------------------------|---------------|---------------|
| On short term deposit     | 453           | 1,612         |
| Net foreign exchange gain | 14            | 24            |
| Other similar income      | 234           | -             |
|                           | <u>701</u>    | <u>1,636</u>  |

**7 Interest payable and similar expense**

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Other similar charges                    | 40            | 45            |
| Interest and financial charges on leases | 5             | 10            |
| Net foreign exchange loss                | 11            | 30            |
|  | <u>56</u>     | <u>85</u>     |

**8 Tax on loss****Recognised in the Profit and Loss Account**

|   | 2021<br>£'000  | 2020<br>£'000 |
|---|----------------|---------------|
| UK corporation tax                                    |                |               |
| Current tax on income for the year at 19% (2020: 19%) | -              | -             |
| Adjustments in respect of prior years                 | (1,751)        | 478           |
| Group relief receivable                               | <u>(562)</u>   | <u>(307)</u>  |
| Total current tax                                     | <u>(2,313)</u> | <u>171</u>    |
| Deferred tax charge (notes 18)                        |                |               |
| Origination and reversal of timing differences        | (7,394)        | (1,011)       |
| Adjustments in respect of prior periods               | 1,574          | (314)         |
| Effect of tax rate change on opening balance          | <u>1,209</u>   | <u>573</u>    |
| Total deferred tax                                    | <u>(4,611)</u> | <u>(752)</u>  |
| Tax on loss   | <u>(6,924)</u> | <u>(581)</u>  |

**Factors affecting the tax expense**

The tax credit is lower (2020: higher) than that calculated using the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

## UPM-Kymmene (UK) Limited

## Notes to the Financial Statements (continued)

## For the year ended 31 December 2021

## 8 Tax on loss (continued)

| Reconciliation of effective tax rate                                     | 2021<br>£'000         | 2020<br>£'000       |
|--|-----------------------|---------------------|
| Loss for the year  | (18,382)              | (7,325)             |
| Total tax on loss  | <u>(6,924)</u>        | <u>(581)</u>        |
| Loss before taxation   | (25,306)              | (7,906)             |
| Tax using the UK corporation tax rate of 19% (2020: 19%)                 | (4,808)               | (1,502)             |
| <b>Effects of:</b>   |                       |                     |
| Permanent differences  | (12)                  | 142                 |
| Adjustments in respect of prior periods - current tax                    | (1,751)               | 478                 |
| Adjustments in respect of prior periods - deferred tax                   | 1,574                 | (314)               |
| Other chargeable tax adjustments, reliefs and transfers                  | (1,998)               | -                   |
| Chargeable gains and losses  | -                     | 41                  |
| Remeasurement of deferred tax for changes in tax rates - opening balance | 1,209                 | 573                 |
| Remeasurement of deferred tax for changes in tax rates - 2021 movements  | (1,136)               | -                   |
| Group relief claimed   | 562                   | 307                 |
| Receipt for group relief   | (562)                 | (307)               |
| Deferred tax not recognised  | (2)                   | 1                   |
| <b>Total tax on loss</b>   | <u><u>(6,924)</u></u> | <u><u>(581)</u></u> |

## Factors that may affect future tax charges

On 23 September 2022, it was announced that the corporation tax rate change from 19% to 25% with effect from 1 April 2023 was to be cancelled. This was not substantively enacted at the balance sheet date and therefore the impact of this change is not reflected in the measurement of deferred tax. If the rate change had been substantively enacted prior to 31 December 2021, the impact would have been to reduce the deferred tax liability by £2,200,000 with a corresponding credit to the income statement.

## 9 Right-of-use assets

|                                    | Leased<br>Land and<br>Buildings<br>£'000 | Leased<br>Plant and<br>Machinery<br>£'000 | Right-of-use<br>assets<br>£'000 |
|------------------------------------|--|---|---------------------------------|
| <b>Cost</b>                        |  |   |                                 |
| Balance at 1 January 2020          | 460                                      | 498                                       | 958                             |
| Additions                          | -  | 20  | 20                              |
| Disposal                           | -  | (186)                                     | (186)                           |
| <b>Balance at 31 December 2021</b> | <u>460</u>                               | <u>332</u>                                | <u>792</u>                      |
| <b>Accumulated depreciation</b>    |  |   |                                 |
| At 1 January 2021                  | 298                                      | 246                                       | 544                             |
| Charge for the year                | 149                                      | 90  | 239                             |
| Disposal                           | -  | (114)                                     | (114)                           |
| <b>Balance at 31 December 2021</b> | <u>447</u>                               | <u>222</u>                                | <u>669</u>                      |
| <b>Net book value</b>              |  |   |                                 |
| <b>At 31 December 2021</b>         | <u><u>13</u></u>                         | <u><u>110</u></u>                         | <u><u>123</u></u>               |
| <b>At 31 December 2020</b>         | <u><u>162</u></u>                        | <u><u>252</u></u>                         | <u><u>414</u></u>               |

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****9 Right-of-use assets (continued)**

In 2021, the total cash outflow for leased assets was £248,000 (2020: £268,000).

**10 Intangible assets**

|                                       | <b>Emission rights<br/>£'000</b> |
|---------------------------------------|----------------------------------|
| Balance as at 1 January 2021          | 1,192                            |
| Additions during the year             | 5,028                            |
| Disposals during the year             | (1,163)                          |
| <b>Balance as at 31 December 2021</b> | <b>5,057</b>                     |
| Balance as at 1 January 2020          | 104                              |
| Additions during the year             | 5,494                            |
| Disposals during the year             | (4,406)                          |
| <b>Balance as at 31 December 2020</b> | <b>1,192</b>                     |

Allowances received from the UK Government, free of charge, are recognised as intangible assets. Sales of the allowances are recognised as disposals in the year.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****11 Tangible assets**

|                                    | <b>Land and<br/>Buildings<br/>£'000</b> | <b>Plant and<br/>Machinery,<br/>Fixtures,<br/>Fittings and<br/>Motor Vehicles<br/>£'000</b> | <b>Total<br/>£'000</b> |
|------------------------------------|---|---|------------------------|
| <b>Cost</b>                        |   |   |                        |
| Balance at 1 January 2021          | 128,382                                 | 602,292   | 730,674                |
| Additions                          |   | 389   | 389                    |
| Disposals                          | (55,688)                                | (255,030)   | (310,718)              |
| <b>Balance at 31 December 2021</b> | <b>72,694</b>                           | <b>347,651</b>  | <b>420,345</b>         |
| <b>Accumulated depreciation</b>    |   |   |                        |
| Balance at 1 January 2021          | 99,241                                  | 555,741   | 654,982                |
| Depreciation for the year          | 1,796                                   | 4,832   | 6,628                  |
| Impairment for the year            | 38                                      | 169   | 207                    |
| Disposals                          | (51,454)                                | (241,228)   | (292,682)              |
| <b>Balance at 31 December 2021</b> | <b>49,621</b>                           | <b>319,514</b>  | <b>369,135</b>         |
| <b>Net book value</b>              |   |   |                        |
| At 31 December 2020                | 29,141                                  | 46,551  | 75,692                 |
| <b>At 31 December 2021</b>         | <b>23,073</b>                           | <b>28,137</b>   | <b>51,210</b>          |

The cost of heritable land amounts to £1,049,000 (2020: £2,979,000).

All land and buildings are freehold or heritable. There is no material difference between the market value and book value of these land and buildings.

Included in plant and machinery is capital work in progress of £197,000 (2020: £2,199,000), which is not depreciated.

No borrowing costs were capitalised in the current or prior year.

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****12 Investments**

|                                    | <b>Unlisted Investments<br/>£'000</b> |
|------------------------------------|---------------------------------------|
| <b>Cost</b>                        |                                       |
| Balance at 1 January 2021          | 10                                    |
| <b>Balance at 31 December 2021</b> | <b>10</b>                             |
| <b>Net book value</b>              |                                       |
| At 31 December 2020                | 10                                    |
| <b>At 31 December 2021</b>         | <b>10</b>                             |

The following information relates to investments:

| Name                    | Registered office address                                   | Class of<br>shares held | Ownership<br>2021 | Ownership<br>2020 |
|-------------------------|---|-------------------------|-------------------|-------------------|
| BSW Harvesting Limited* | East End, Earlston Berwickshire, TD4 6JA,<br>United Kingdom | Ordinary                | 30%               | 30%               |
| BSW Timber Limited*     | East End, Earlston Berwickshire, TD4 6JA,<br>United Kingdom | Ordinary                | 0%                | 0%                |

\* incorporated in Scotland

The financial year-end for BSW Timber Limited and BSW Harvesting Limited is 31 March.

The Directors believe that the carrying value of the investment is supported by their underlying net assets. The Directors believe that there is no material difference between the carrying value shown above and the fair value of the investment.

In February 2020 the entire investment holding in BSW Timber was sold; the gain on disposal was amounted to £1,348,000.

**13 Stocks**

|                                   | <b>2021<br/>£'000</b> | <b>2020<br/>£'000</b> |
|-----------------------------------|-----------------------|-----------------------|
| Raw materials                     | 8,637                 | 6,870                 |
| Engineering and consumable stores | 2,652                 | 6,315                 |
| Finished goods                    | 1,360                 | 257                   |
|                                   | <b>12,649</b>         | <b>13,442</b>         |

In the opinion of the Directors there is no material difference between the replacement cost of stocks and their Balance Sheet values. During the year the write-down of stock recognised as an expense in the Profit and Loss account amounted to £857,000 (2020: £304,000).

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****14 Debtors**

|                                    | 2021<br>£'000 | 2020<br>£'000  |
|------------------------------------|---------------|----------------|
| Trade debtors                      | 2,738         | 2,809          |
| Amounts owed by group undertakings | 64,288        | 74,769         |
| Other debtors                      | 6,962         | 5,975          |
| Prepayments and accrued income     | 22,547        | 26,176         |
|                                    | <u>96,535</u> | <u>109,729</u> |

Amounts owed by group undertakings consist of £49,218,000 (2020: £73,769,000) interest bearing and £15,070,000 (2020: 1,000,000) non-interest bearing.

**15 Creditors: amounts falling due within one year**

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Trade creditors                            | 23,628        | 24,797        |
| Amounts owed to group undertakings         | 1,463         | 5,251         |
| Taxation and social security               | 335           | 824           |
| Other creditors                            | 655           | 272           |
| Lease obligation - for right-of-use assets | 43            | 267           |
| Accruals and deferred income               | 4,550         | 6,129         |
|  | <u>30,674</u> | <u>37,540</u> |

Amounts owed to group undertakings are non-interest bearing, unsecured and repayable on demand.

**16 Creditors: amounts falling due after more than one year**

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Lease obligation - for right-of-use assets | 24            | 137           |
|  | <u>24</u>     | <u>137</u>    |



**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****17 Provisions for liabilities**

|  | <b>Emission<br/>Rights<br/>£'000</b> | <b>Restructuring<br/>£'000</b> | <b>Deferred Tax<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|--------------------------------------|--------------------------------|-------------------------------|------------------------|
| Balance at 1 January 2021  | 578                                  | 616                            | 2,259                         | 3,453                  |
| Provisions made during the year  | 1,254                                | 480                            | -                             | 1,734                  |
| Deferred tax credit in Profit and Loss Account (note 18)                 | -                                    | -                              | (4,611)                       | (4,611)                |
| Deferred tax charge in Statement of Other Comprehensive income (note 18) | -                                    | -                              | 8,860                         | 8,860                  |
| Provisions used during the year  | (582)                                | (519)                          | -                             | (1,101)                |
| Provisions released during the year                                      | -                                    | (490)                          | -                             | (490)                  |
| <b>Balance at 31 December 2021</b>                                       | <b>1,250</b>                         | <b>87</b>                      | <b>6,508</b>                  | <b>7,845</b>           |

**Emission rights**

The Company takes part in the government programme aimed at reducing greenhouse gas emissions. In 2021 the Company continued to recognise a provision to cover the obligation to return emission allowances that were utilised during the year.

**Restructuring provision**

A provision was recognised in 2020 in relation to a global restructuring exercise and was utilised in 2021.

A new provision was recognised in 2021 in relation to the sale of the Shotton Mill and is expected to be utilised in 2022.

**18 Deferred tax assets and liabilities***Recognised deferred tax assets and liabilities*

Deferred tax (assets)/liabilities are attributable to the following:

|   | <b>2021<br/>£'000</b> | <b>2020<br/>£'000</b> |
|---|-----------------------|-----------------------|
| Tangible fixed assets                   | 9,137                 | 9,824                 |
| Employee benefits                       | 4,727                 | (4,099)               |
| Share based payments                    | (27)                  | (22)                  |
| Provisions                              | (936)                 | (903)                 |
| Tax value of loss carryforward utilised | (6,393)               | (2,541)               |
| <b>Net tax liabilities</b>              | <b>6,508</b>          | <b>2,259</b>          |

## UPM-Kymmene (UK) Limited

## Notes to the Financial Statements (continued)

## For the year ended 31 December 2021

## 18 Deferred tax assets and liabilities (continued)

*Movement in deferred tax (assets)/liabilities during the year*

|   | 1 January<br>2021<br>£'000 | Recognised in<br>Profit and Loss<br>£'000 | Recognised in<br>Other<br>Comprehensive<br>Income<br>£'000 | 31 December<br>2021<br>£'000 |
|---|----------------------------|---|--|------------------------------|
| Tangible fixed assets                   | 9,824                      | (687)                                     | -  | 9,137                        |
| Employee benefits                       | (4,099)                    | (34)                                      | 8,860  | 4,727                        |
| Share based payments                    | (22)                       | (5)                                       | -  | (27)                         |
| Provisions                              | (903)                      | (33)                                      | -  | (936)                        |
| Tax value of loss carryforward utilised | (2,541)                    | (3,852)                                   | -  | (6,393)                      |
|   | <u>2,259</u>               | <u>(4,611)</u>                            | <u>8,860</u>   | <u>6,508</u>                 |

*Movement in deferred tax (assets)/liabilities during the prior year*

|   | 1 January<br>2020<br>£'000 | Recognised in<br>Profit and Loss<br>£'000 | Recognised in<br>Other<br>Comprehensive<br>Income<br>£'000 | 31 December<br>2020<br>£'000 |
|---|----------------------------|---|--|------------------------------|
| Tangible fixed assets                   | 9,471                      | 353                                       | -  | 9,824                        |
| Employee benefits                       | (3,296)                    | 1,370                                     | (2,173)  | (4,099)                      |
| Share based payments                    | (22)                       | -   | -  | (22)                         |
| Provisions                              | (969)                      | 66  | -  | (903)                        |
| Tax value of loss carryforward utilised | -                          | (2,541)                                   | -  | (2,541)                      |
|   | <u>5,184</u>               | <u>(752)</u>                              | <u>(2,173)</u>   | <u>2,259</u>                 |

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****19 Called up share capital**

|   | <b>2021</b>   | <b>2020</b>   |
|---|---------------|---------------|
|   | <b>£'000</b>  | <b>£'000</b>  |
| <b>Allotted, called up and fully paid</b>               |               |               |
| 8,000,000 (2020: 8,000,000) ordinary shares of £10 each | <b>80,000</b> | <b>80,000</b> |
|   | <b>80,000</b> | <b>80,000</b> |

**20 Dividends**

|  | <b>2021</b>  | <b>2020</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>Ordinary shares</b>   |              |              |
| Final dividend for the year ended 31 December 2021 of Dividend £nil per share<br>(2020 - Dividend £0.625 per share) per fully paid share | -            | 5,000        |
| <b>Total dividends provided for or paid</b>  | -            | 5,000        |
| <b>Paid in cash</b>  | -            | 5,000        |

**21 Share-based payments**

UPM-Kymmene Corporation offers rewards and recognition with an emphasis on high performance.

UPM-Kymmene Corporation has two long-term incentive plans: the Performance Share Plan (PSP) for senior executives (not applicable in the UK) and the Deferred Bonus Plan (DBP) for other key employees.

**Deferred Bonus Plan**

The Deferred Bonus Plan (DBP) is targeted at other selected key employees of the group and it consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. UPM-Kymmene Corporation shares are awarded based on achievement of group or group and business area EBITDA targets. Prior to share delivery, the share rewards earned are adjusted with dividends and other capital distributions, if any, paid to all shareholders during the restriction period.

The amount of share-based payments accrued at 31 December 2021 amounted to £207,000 (2020: £127,500). The amount charged to the Profit and Loss account during the year was £152,000 (2020: £128,000 charged) (Note 5).

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****22 Capital commitments**

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| <b>Contracted but not provided for in the financial statements</b> | <b>11</b>     | <b>449</b>    |

Capital commitments relate to contracts for project investments at the production units Caledonian Paper Mill and Shotton Paper Mill.

**23 Employee Benefits**

The Company is the sole Sponsoring Employer of a legacy defined benefit pension scheme, which consists of various sectional benefits all of which have been closed to new membership and future accrual for many years. Contributions to the defined benefit scheme are determined in accordance with the recommendations of an independent actuary and as agreed between the Company and the Sole Professional Corporate Trustee. The defined contribution section of the scheme has now been transferred to a defined contribution Master Trust arrangement. All contributions to the defined contribution Master Trust are charged to the Profit and Loss Account as incurred.

|  | 2021<br>£'000        | 2020<br>£'000          |
|--|----------------------|------------------------|
| Defined benefit asset  | 474,684              | 463,381                |
| Defined benefit liability                                    | <u>(455,773)</u>     | <u>(484,954)</u>       |
| <b>Net asset/(liability) for defined benefit obligations</b> | <b><u>18,911</u></b> | <b><u>(21,573)</u></b> |

## UPM-Kymmene (UK) Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2021

## 23 Employee Benefits (continued)

|  | Defined benefit obligation |               | Fair value of plan assets |               | Net defined benefit liability/(asset) |               |
|--|----------------------------|---------------|---------------------------|---------------|---------------------------------------|---------------|
|  | 2021<br>£'000              | 2020<br>£'000 | 2021<br>£'000             | 2020<br>£'000 | 2021<br>£'000                         | 2020<br>£'000 |
| Balance at 1 January                         | 484,954                    | 432,689       | (463,381)                 | (417,903)     | 21,573                                | 14,786        |
| Included in profit or loss                   |                            |               |                           |               |                                       |               |
| Past service cost                            | -                          | 400           | -                         | -             | -                                     | 400           |
| Interest cost/(income)                       | 6,449                      | 8,732         | (6,193)                   | (8,483)       | 256                                   | 249           |
|  | 6,449                      | 9,132         | (6,193)                   | (8,483)       | 256                                   | 649           |
| Included in OCI                              |                            |               |                           |               |                                       |               |
| Remeasurements (loss)/gain:                  |                            |               |                           |               |                                       |               |
| Actuarial (loss)/gain arising from:          |                            |               |                           |               |                                       |               |
| - Changes in financial assumptions           | (14,406)                   | 59,421        | -                         | -             | (14,406)                              | 59,421        |
| - Changes in demographic assumptions         | (1,129)                    | (1,751)       | -                         | -             | (1,129)                               | (1,751)       |
| - Experience adjustment                      | (5,619)                    | (959)         | -                         | -             | (5,619)                               | (959)         |
| Actual return less expected return on assets | -                          | -             | (14,286)                  | (45,273)      | (14,286)                              | (45,273)      |
|  | (21,154)                   | 56,711        | (14,286)                  | (45,273)      | (35,440)                              | 11,438        |
| Other  |                            |               |                           |               |                                       |               |
| Contributions paid by the employer           | -                          | -             | (5,300)                   | (5,300)       | (5,300)                               | (5,300)       |
| Disbursements paid from scheme assets        | (14,476)                   | (13,578)      | 14,476                    | 13,578        | -                                     | -             |
| Balance at 31 December                       | 455,773                    | 484,954       | (474,684)                 | (463,381)     | (18,911)                              | 21,573        |

Amounts above are shown gross. The pension liability reported on the Balance Sheet is shown gross. Amounts included in Other Comprehensive Income are split out between the deferred tax element and the gross value of the remeasurement.

## UPM-Kymmene (UK) Limited

## Notes to the Financial Statements (continued)

## For the year ended 31 December 2021

## 23 Employee Benefits (continued)

## Plan assets

The fair value of the defined benefit scheme assets held in each asset class was:

|                                     | 31 December 2021 |                |                | 31 December 2020 |                |                |
|-------------------------------------|------------------|----------------|----------------|------------------|----------------|----------------|
|                                     | £'000            |                |                | £'000            |                |                |
|                                     | Quoted           | Unquoted       | Total          | Quoted           | Unquoted       | Total          |
| Fixed Interest Gilts                | -                | 48,262         | 48,262         | -                | -              | -              |
| Property                            | -                | -              | -              | 18,664           | -              | 18,664         |
| Property income                     | -                | 18,288         | 18,288         | -                | 16,612         | 16,612         |
| Sterling Liquidity Fund             | 1,524            | -              | 1,524          | 143,099          | -              | 143,099        |
| Index-linked Gilts                  | -                | 59,707         | 59,707         | -                | -              | -              |
| Insured Pensions                    | -                | 18,910         | 18,910         | -                | 21,564         | 21,564         |
| Liability Driven Investments        | -                | 11,724         | 11,724         | -                | 8,958          | 8,958          |
| Infrastructure                      | -                | 23,013         | 23,013         | -                | 14,994         | 14,994         |
| Cardano Pooled Growth Asset Fund    | -                | 262,601        | 262,601        | -                | 196,814        | 196,814        |
| Illiquid Credit                     | -                | 29,381         | 29,381         | -                | 39,352         | 39,352         |
| Cash                                | 1,274            | -              | 1,274          | 3,324            | -              | 3,324          |
| <b>Total market value of assets</b> | <b>2,798</b>     | <b>471,886</b> | <b>474,684</b> | <b>165,087</b>   | <b>298,294</b> | <b>463,381</b> |

## Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date:

|  | 2021            | 2020            |
|--|-----------------|-----------------|
| Pension increases: LPI (RPI max 0% p.a.) |                 |                 |
| (2020: RPI max 5% p.a.)                  | 3.25%           | 2.90%           |
| Deferred revaluation                     |                 |                 |
| CPI-based                                | 2.60%           | 2.15%           |
| Discount rate                            | 1.90%           | 1.35%           |
| Inflation assumption - RPI               | 3.40%           | 2.95%           |
| Inflation assumption - CPI               | 2.60%           | 2.15%           |
| Pre-retirement mortality                 | AXC00/          | AXC00/          |
|  | (YOB) CMI_2020  | (YOB)           |
|  | with 1.25%      | CMI_2019 with   |
|  | p.a. trend 2000 | 1.25%           |
|  | onwards         | p.a. trend 2000 |
|  |                 | onwards         |
| Pensioner post-retirement mortality      | 80%S2PMA/88%    | 80%S2PMA/88%    |
|  | S2PFA (YOB)     | S2PFA (YOB)     |
|  | CMI_2020 with   | CMI_2019 with   |
|  | 1.25%           | 1.25% p.a. long |
|  | p.a. trend 2016 | p.a. trend 2016 |
|  | onwards         | onwards         |

## UPM-Kymmene (UK) Limited

## Notes to the Financial Statements (continued)

## For the year ended 31 December 2021

## 23 Employee Benefits (continued)

The calculation of the defined benefits obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefits obligation at the end of the reporting year would have increased/(decreased) as a result of a change in the respective assumptions.

|                     | Change in<br>assumption | Increase in<br>assumption<br>£'000 | Decrease in<br>assumption<br>£'000 |
|---------------------|-------------------------|------------------------------------|------------------------------------|
| Discount rate       | 0.25%                   | (22,305)                           | 20,872                             |
| Pension growth rate | 0.25%                   | 16,509                             | (17,983)                           |

In valuing the liabilities of the pension fund at 31 December 2021, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2021 would have increased by £21,816,000 (2020: increased by £22,942,000).

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2021 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

The equity investments and bonds which are held in plan assets are quoted and valued at current bid price.

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| Experience gains on scheme liabilities  | 5,619         | 959           |
| Experience gains and (losses) between the actual and expected return on scheme assets | 14,286        | 45,273        |

To determine the expected long-term rate of return on assets at the balance sheet date, the Company considered the level of expected returns on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations of future returns for each asset class. The expected return for each asset class was then weighted, based on the actual asset allocation at the balance sheet date, to determine the expected long-term rate of return on assets for the portfolio.

|                                | 2021<br>£'000 | 2020<br>£'000 |
|--------------------------------|---------------|---------------|
| Actual return on scheme assets | <u>20,481</u> | <u>53,754</u> |

## Analysis of the charge to Profit and Loss Account

|   | 2021<br>£'000  | 2020<br>£'000  |
|---|----------------|----------------|
| Past service cost                               | -              | 400            |
| Interest on pension scheme liabilities          | 6,449          | 8,732          |
| Expected return on assets in the pension scheme | <u>(6,193)</u> | <u>(8,483)</u> |
| Net charge to Profit and Loss Account           | <u>256</u>     | <u>649</u>     |

**UPM-Kymmene (UK) Limited****Notes to the Financial Statements (continued)****For the year ended 31 December 2021****23 Employee Benefits (continued)****Analysis of the movement in deficit in the fund during the year**

|   | 2021<br>£'000 | 2020<br>£'000   |
|---|---------------|-----------------|
| Deficit in the scheme at beginning of year            | (21,573)      | (14,786)        |
| Other finance expense                                 | (256)         | (649)           |
| Actuarial gain  | 35,440        | (11,438)        |
| Sponsor contributions                                 | 5,300         | 5,300           |
| <b>Surplus/(deficit) in the scheme at end of year</b> | <b>18,911</b> | <b>(21,573)</b> |

**Reconciliation of present value of scheme liabilities**

|   | 2021<br>£'000    | 2020<br>£'000    |
|---|------------------|------------------|
| Opening defined benefit obligation        | (484,954)        | (432,689)        |
| Past service cost                         | -                | (400)            |
| Interest cost                             | (6,449)          | (8,732)          |
| Actuarial gain                            | 21,154           | (56,711)         |
| Benefits paid                             | 14,476           | 13,578           |
| <b>Closing defined benefit obligation</b> | <b>(455,773)</b> | <b>(484,954)</b> |

**Reconciliation of present value of scheme assets**

|  | 2021<br>£'000  | 2020<br>£'000  |
|--|----------------|----------------|
| Opening fair value of scheme assets        | 463,381        | 417,903        |
| Interest income                            | 6,193          | 8,483          |
| Actuarial gain                             | 14,286         | 45,273         |
| Benefits paid                              | (14,476)       | (13,578)       |
| Sponsor contributions                      | 5,300          | 5,300          |
| <b>Closing fair value of scheme assets</b> | <b>474,684</b> | <b>463,381</b> |

Following the actuarial valuation of the UPM-Kymmene UK Pension Scheme as at April 2019, a formal recovery plan and resulting participating employer contributions was agreed between the company and trustee board. The outcome has resulted in Company contributions of £5,300,000 p.a. commencing from 2020 and are forecasted to be made at this level up to April 2023.

The Company also operates a defined contribution pension scheme, the contributions charged to the Profit and Loss Account in the year were £3,279,000 (2020: £4,503,000).

There were no outstanding contributions at 31 December 2021 (2020: £nil).



**UPM-Kymmene (UK) Limited**

**Notes to the Financial Statements (continued)**

**For the year ended 31 December 2021**

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**24 Related party transactions**

The Company has applied the exemption available under FRS 101 in respect of the requirement to disclose related party transactions with other wholly owned group members.

**25 Ultimate parent company and parent company of larger group**

The Company's immediate parent undertaking and controlling party is UPM-Kymmene Corporation, a company incorporated under the laws of Finland.

The largest and smallest group in which the Company's results are consolidated is that headed by UPM-Kymmene Corporation, Alvar Aallon katu 1, P.O. Box 380, FI-00101 Helsinki, Finland. The consolidated financial statements of UPM-Kymmene Corporation can be obtained from Alvar Aallon katu 1, P.O. Box 380, FI-00101 Helsinki, Finland.

**26 Subsequent events**

There was no subsequent event during the year.