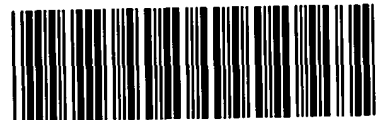


COMPANY REGISTRATION NUMBER SC102969

UPM-Kymmene (UK) Limited
Annual Report and Financial Statements
For the year ended 31 December 2022

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UPM-Kymmene (UK) Limited

Annual Report and Financial Statements

For the year ended 31 December 2022

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UPM-Kymmene (UK) Limited

Officers and Professional Advisers

The Board of Directors M Salmelin (resigned on 17 November 2022)
T J Talvia (appointed on 17 November 2022)
J M Airamaa
B McMurdo
S A Page

Company Secretary T L Knox

Registered office 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 2022

The Directors present their Strategic Report of UPM-Kymmene (UK) Limited (the "Company") for the year ended 31 December 2022, 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.

Review of business

As shown in the Company's Profit and Loss Account on page 13, the Company's 2022 sales totalled £186,523,000 (2021: £171,066,000). Operating profit has increased from an operating loss of £26,191,000 to an operating profit of £16,083,000.

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

The Company's turnover for the year was £186,523,000 (2021: £171,066,000) and profit for the financial year was £13,656,000 (2021: loss £18,382,000).

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 and was last updated in 2022.

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.

UPM-Kymmene (UK) Limited

Strategic Report (continued)

For the year ended 31 December 2022

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. Other cooperative bodies in Finland and Germany aim to promote employee participation and dialogue, both between the 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 79% (2021:83%).

UPM rewards and recognises high performance. The approach to rewarding and recognising 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 in total 477 employees.

Approved and signed on behalf of the board



S A Page
Director

Meadowhead Road
Irvine
Ayrshire
KA11 5AT

Approved and signed on behalf of the board on 5 December 2023

UPM-Kymmene (UK) Limited

Directors' Report

For the year ended 31 December 2022

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2022 (referred to as "2022" and "year" throughout the financial statements). The comparatives are for the year ended 31 December 2021.

Dividends

The Directors do not propose the payment of a dividend (2021: £nil). The retained profit has been transferred to reserves. There was no dividend distributed for the year ended 31 December 2022 (2021: £nil).

UPM Communication Papers

The Company belongs to the UPM Communication Papers business area. Comparable EBIT for UPM Communication Papers increased compared to 2021. Significantly higher sales prices and active margin management more than offset the negative impact of higher variable costs, particularly in energy and fibres. Production and delivery volumes were lower in 2022, partly due to the strike in Finland during January - April 2022. Demand for graphic papers in Europe was 12% lower than in 2021, however demand and supply balance in Europe remained tight and UPM was able to strengthen its position with strategic customers.

Caledonian Paper Mill production volumes were similar to 2021. Higher sales prices offset the significant cost increases in raw materials and energy accumulated to an operating profit 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

There have not been any significant changes in the company's principal activities in the year under review.

The Directors are not aware, at the date of this report, of any likely major changes to the company's activities in the next year.

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 2022

Environmental policy (continued)

The Company recognises the importance of its environmental responsibilities and monitors closely its impact on the environment. The renewable energy power plants at Caledonian Paper Mill helps reduce the Company's carbon emissions and reliance on carbon based fuels. The Company also works closely with 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 has no third party debt.

Future outlook

There are significant uncertainties in the outlook for 2022, relating to continuation of the global economic recovery, the unusual energy market situation and tight raw material supply chains.

In the early part of 2023 demand for many UPM products is expected to be held back by destocking in various product value chains. 2023 is starting with high cost level for many inputs, while the lower demand is exerting pressure on product prices. UPM will continue to manage margins with product pricing, by optimizing its product and market mix and by taking measures to improve variable and fixed cost efficiency.

UPM-Kymmene (UK) Limited

Directors' Report (continued)

For the year ended 31 December 2022

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 auditors

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 profit after taxation of £13,656,000 (2021: loss of £18,382,000). The Company had net assets of £126,020,000 (2021: £146,108,000) 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 auditors 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) Limited for the financial year 1 January to 31 December 2022, are 31,847 tonnes of carbon dioxide equivalent (tCO₂e) (2021: 37,263 tonnes).

UPM-Kymmene (UK) Limited

Directors' Report (continued)

For the year ended 31 December 2022

Energy & Carbon Reporting (continued)
Greenhouse Gas Emissions

	2022	2021
Energy Consumption (kWh)		
Electricity	112,210,440	123,454,000
Natural Gas	50,251,300	42,935,663
Fuel for Transport Purposes	2,241,570	2,476,551
Total:	164,703,310	168,866,214

Intensity ratio (kWh per tonne) is 769 (2021: 731).

	2022	2021
Emissions source (tCO ₂ e)		
Electricity	21,699	28,732
Natural Gas	9,204	7,838
Fuel for Transport Purposes	583	644
Total:	31,486	37,214

Intensity ratio (tCO₂ per tonne) is 0.1471 (2021: 0.1208).*Quantification and Reporting Methodology*

We have followed the 2013 UK Government environmental reporting guidance. Emissions have been calculated using the 2022 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 investment submission and subsequent approval for the installation in 2023 of:
- The removal of seven vacuum pumps to be replaced by the installation of three energy efficient turbo blowers;
- A second new grinding surface for a second of four Pressure Groundwood (PGW) grinders. The goal of the installation is to reduce overall electrical consumptions in the PGW plant;
- The installation of an advanced Process control system connected to the control of the Caledonian CHP combustion process, resulting in an improvement to the boiler combustion efficiency and reduced gas flow rates and reduced emissions.
- The installation of 4 EV chargers for employee and contractor use

Approved and signed on behalf of the board



S A Page
Director

Meadowhead Road
Irvine
Ayrshire
KA11 5AT

Approved and signed on behalf of the board on 5 December 2023

UPM-Kymmene (UK) Limited

Statement of Directors' Responsibilities in Respect of the Financial Statements

For the year ended 31 December 2022

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.

Approved and signed on behalf of the board



S A Page
Director

Meadowhead Road
Irvine
Ayrshire
KA11 5AT

Approved and signed on behalf of the board on 5 December 2023

Independent auditors' report to the members of UPM-Kymmene (UK) Limited

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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2022; the Profit and Loss Account, the Statement of 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)

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 on, 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 2022 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)

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 and Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 posting of inappropriate journal entries to overstate profit. 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; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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. 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.

Toni Alderson

Toni Alderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
5 December 2023

UPM-Kymmene (UK) Limited**Profit and Loss Account****For the year ended 31 December 2022**

	Note(s)	2022 £'000	2021 £'000
Turnover	2	186,523	171,066
Change in stocks of finished goods and work in progress		23	1,104
Other operating income		3,052	5,494
Raw materials and consumables		(131,072)	(134,513)
Staff costs	5	(21,214)	(29,896)
Depreciation and other amounts written off tangible and intangible fixed assets	9, 11	(6,492)	(7,074)
Other operating expenses		(14,737)	(32,372)
Operating profit/(loss)		16,083	(26,191)
Income from shares in group undertakings	12	-	240
Interest receivable and similar income	6	1,006	701
Interest payable and similar expenses	7	(24)	(56)
Profit/(loss) before taxation		17,065	(25,306)
Tax on profit/(loss)	8	(3,409)	6,924
Profit/(loss) for the financial year		13,656	(18,382)

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 2022**

	2022 £'000	2021 £'000
Profit/(loss) for the financial year	13,656	(18,382)
<i>Items that will not be subsequently reclassified to Profit and Loss Account:</i>		
Remeasurements of defined benefit liability	(43,376)	35,440
Movement on deferred tax relating to pension liability	9,642	(8,860)
Total Comprehensive (expense)/income for the year	(20,078)	8,198

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

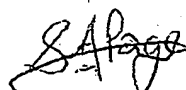
All activities in the current year relate to continuing operations.

UPM-Kymmene (UK) Limited**Balance Sheet****At 31 December 2022**

	Note(s)	2022 £'000	2021 £'000
Fixed Assets			
Right-of-use assets	9	103	123
Intangible assets	10	7,395	5,057
Tangible assets	11	46,188	51,210
Investments	12	10	10
Pension asset	22	-	18,911
		<u>53,696</u>	<u>75,311</u>
Current Assets			
Stocks	13	12,719	12,649
Debtors	14	114,468	96,535
Cash at bank and in hand		175	156
		<u>127,362</u>	<u>109,340</u>
Creditors: amounts falling due within one year	15	<u>(34,672)</u>	<u>(30,674)</u>
Net current assets		<u>92,690</u>	<u>78,666</u>
Total assets less current liabilities		<u>146,386</u>	<u>153,977</u>
Creditors: amounts falling due after more than one year	16	(11)	(24)
Provisions for liabilities			
Pension liability	22	(18,732)	-
Deferred tax liability	17; 18	(44)	(6,508)
Other provisions	17	(1,579)	(1,337)
Net assets		<u>126,020</u>	<u>146,108</u>
Capital and reserves			
Called up share capital	19	80,000	80,000
Profit and loss account		46,020	66,108
Total shareholders' funds		<u>126,020</u>	<u>146,108</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 5 December 2023 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 2022

	Called up share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 January 2021	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
Total other comprehensive income	-	26,580	26,580
Total comprehensive income for the year	-	8,198	8,198
Transactions with owners, recorded directly in equity			
Equity settled share based payment transactions	-	(20)	(20)
Total contributions by and distributions to owners	-	(20)	(20)
Balance at 31 December 2021 and at 1 January 2022	80,000	66,108	146,108
Total comprehensive expense for the year			
Profit for the financial year	-	13,656	13,656
Other comprehensive expense	-	(33,734)	(33,734)
Total other comprehensive expense	-	(33,734)	(33,734)
Total comprehensive expense for the year	-	(20,078)	(20,078)
Transactions with owners, recorded directly in equity			
Equity settled share based payment transactions	-	(10)	(10)
Total contributions by and distributions to owners	-	(10)	(10)
Balance at 31 December 2022	80,000	46,020	126,020

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 2022

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 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK-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 2022****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.

- Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract.
- Amendments to References to the Conceptual Framework in IFRS 3.
- Amendments to IAS 16: Property, Plant and Equipment - Proceeds before Intended Use.
- Annual Improvements to IFRS Standards 2018-2020 (effective 1 January 2022):
 - IFRS 1 - Subsidiary as a first-time adopter. The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs;
 - IFRS 9 - Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities; and
 - IFRS 16 - Leases - Lease incentives.

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

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 2022****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 2022****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 2022****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 2022****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 2022

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 2022****2 Turnover**

	2022 £'000	2021 £'000
Sales to third parties	9,074	21,213
Sales through group companies	177,449	149,853
	<u>186,523</u>	<u>171,066</u>

All sales through group companies are made via the European Sales Office who sell to the end customer.

3 Expenses and auditors' remuneration

	2022 £'000	2021 £'000
Auditors' remuneration associated with audit services	35	41
Depreciation of tangible fixed assets (Note 11)	6,219	6,628
Impairment of tangible fixed assets	-	207
Research and development	190	239
Depreciation of Right of use assets (Note 9)	273	239

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 (2021: £nil).

4 Directors' remuneration

	2022 £'000	2021 £'000
Aggregate emoluments	259	403
Aggregate pension contributions	24	23
	<u>283</u>	<u>426</u>

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

4 Directors' remuneration (continued)

Retirement benefits accrued in the year to two Directors (2021: two) under a defined contribution scheme. Deferred retirement benefits have accrued to one Director (2021: one) under a closed defined benefit scheme. One (2021: one) Director received share options in respect of their qualifying services under incentive schemes in the current year.

The other Directors' remuneration was borne by another group entity (2021: £nil). Their services to this Company are of a nonexecutive nature and their remuneration is deemed to be wholly attributable to their services to the parent company. Accordingly, the above details include no remuneration in respect of the Directors.

Highest paid Director

	2022 £'000	2021 £'000
Emoluments of the highest paid Director were as follows:		
Aggregate emoluments	162	201
Aggregate pension contributions	13	6
	<u>175</u>	<u>207</u>

The highest paid director received share options in respect of their qualifying services under incentive schemes in the current year. (2021: £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:

	2022 Number	2021 Number
Production	220	304
Administration	98	152
	<u>318</u>	<u>456</u>

The aggregate payroll costs of these persons were as follows:

	2022 £'000	2021 £'000
Wages and salaries	16,269	23,762
Social security costs	1,892	1,886
Other pension costs	2,657	3,835
Share based payments (Note 20)	(11)	152
Indirect employee costs	407	261
	<u>21,214</u>	<u>29,896</u>

UPM-Kymmene (UK) Limited**Notes to the Financial Statements (continued)****For the year ended 31 December 2022****6 Interest receivable and similar income**

	2022 £'000	2021 £'000
Intercompany interest income	904	453
Net foreign exchange gain	61	14
Other similar income	41	234
	<u>1,006</u>	<u>701</u>

7 Interest payable and similar expenses

	2022 £'000	2021 £'000
Other similar charges	5	40
Interest and financial charges on leases	2	5
Net foreign exchange loss	17	11
	<u>24</u>	<u>56</u>

8 Tax on profit/(loss)**Recognised in the Profit and Loss Account**

	2022 £'000	2021 £'000
UK corporation tax		
Current tax on income for the year at 19% (2021: 19%)	1,279	-
Adjustments in respect of prior years	11	(1,751)
Group relief receivable	<u>(1,059)</u>	<u>(562)</u>
Total current tax	<u>231</u>	<u>(2,313)</u>
Deferred tax charge (Note 18)		
Origination and reversal of timing differences	3,015	(7,394)
Adjustments in respect of prior periods	(9)	1,574
Effect of tax rate change on opening balance	<u>172</u>	<u>1,209</u>
Total deferred tax	<u>3,178</u>	<u>(4,611)</u>
Tax on profit/(loss)	<u>3,409</u>	<u>(6,924)</u>

Factors affecting the tax expense/(income)

The tax charge is higher (2021: credit is lower) than that calculated using the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

8 Tax on profit/(loss) (continued)

Reconciliation of effective tax rate	2022 £'000	2021 £'000
Profit/(loss) for the year	13,656	(18,382)
Total tax on profit/(loss)	<u>3,409</u>	<u>(6,924)</u>
Profit/(loss) before taxation	17,065	(25,306)
Tax using the UK corporation tax rate of 19% (2021: 19%)	3,242	(4,808)
Effects of:		
Permanent differences	18	(12)
Adjustments in respect of prior periods - current tax	11	(1,751)
Adjustments in respect of prior periods - deferred tax	(9)	1,574
Other chargeable tax adjustments, reliefs and transfers	8	(1,998)
Remeasurement of deferred tax for changes in tax rates - opening balance	-	1,209
Remeasurement of deferred tax for changes in tax rates - movements	172	(1,136)
Group relief claimed	1,059	562
Receipt for group relief	(1,059)	(562)
Deferred tax not recognised	(11)	(2)
Effect of capital allowances super deduction	(22)	-
Total tax on profit/(loss)	<u>3,409</u>	<u>(6,924)</u>

Factors that may affect future tax charges

In the Finance Bill 2021, the Government announced that from 1 April 2023, the corporation tax rate would increase to 25%. This new law was substantively enacted on 24 May 2021. The Company has accordingly evaluated the impact of this change in deferred tax liabilities. As at 31 December 2022 £44,000 (2021: £6,508,000) deferred tax liabilities have been recognised.

9 Right-of-use assets

	Leased Land and Buildings £'000	Leased Plant and Machinery £'000	Right-of-use assets £'000
Cost			
Balance at 1 January 2022	460	332	792
Additions	652	50	702
Disposal	(945)	(44)	(989)
Balance at 31 December 2022	<u>167</u>	<u>338</u>	<u>505</u>
Accumulated depreciation			
Balance at 1 January 2022	447	222	669
Charge for the year	206	67	273
Disposal	(500)	(40)	(540)
Balance at 31 December 2022	<u>153</u>	<u>249</u>	<u>402</u>
Net book value			
At 31 December 2021	<u>13</u>	<u>110</u>	<u>123</u>
At 31 December 2022	<u>14</u>	<u>89</u>	<u>103</u>

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

9 Right-of-use assets (continued)

In 2022, the total cash outflow for leased assets was £51,000 (2021: £248,000).

10 Intangible assets

	Emission rights £'000
Balance as at 1 January 2021	1,192
Additions during the year	5,028
Disposals during the year	(1,163)
Balance as at 31 December 2021	5,057
Balance as at 1 January 2022	5,057
Additions during the year	3,774
Disposals during the year	(1,436)
Balance as at 31 December 2022	7,395

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 2022

11 Tangible assets

	Land and Buildings £'000	Plant and Machinery, Fixtures, Fittings and Motor Vehicles £'000	Total £'000
Cost			
Balance at 1 January 2022	72,694	347,651	420,345
Additions	-	1,197	1,197
Disposals	-	(984)	(984)
Balance at 31 December 2022	72,694	347,864	420,558
Accumulated depreciation			
Balance at 1 January 2022	49,621	319,514	369,135
Depreciation for the year	1,750	4,469	6,219
Disposals	-	(984)	(984)
Balance at 31 December 2022	51,371	322,999	374,370
Net book value			
At 31 December 2021	23,073	28,137	51,210
At 31 December 2022	21,323	24,865	46,188

The cost of heritable land amounts to £1,049,000 (2021: £1,049,000).

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 £1,300,000 (2021: £197,000), 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 2022****12 Investments**

	Investments in subsidiary undertakings £'000	Unlisted Investments £'000
Cost		
Balance at 1 January 2022	-	10
Balance at 31 December 2022	-	10
Net book value		
At 31 December 2021	-	10
At 31 December 2022	-	10

The following information relates to investments:

Name	Registered office address	Class of shares held	Ownership 2022	Ownership 2021
BSW Harvesting Limited*	East End, Earlstoun Berwickshire, TD4 6JA, United Kingdom	Ordinary	30%	30%
* incorporated in Scotland				

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

13 Stocks

	2022 £'000	2021 £'000
Raw materials	8,869	8,637
Engineering and consumable stores	2,466	2,652
Finished goods	1,384	1,360
	12,719	12,649

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 £125,000 (2021: £857,000).

UPM-Kymmene (UK) Limited**Notes to the Financial Statements (continued)****For the year ended 31 December 2022****14 Debtors**

	2022 £'000	2021 £'000
Trade debtors	1,235	2,738
Amounts owed by group undertakings	90,845	64,288
Other debtors	8,381	6,962
Prepayments and accrued income	14,007	22,547
	<u>114,468</u>	<u>96,535</u>

Amounts owed by group undertakings consist of £80,617,000 (2021: £49,218,000) interest bearing and £10,228,000 (2021: 15,070,000) non-interest bearing.

15 Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	22,077	23,628
Amounts owed to group undertakings	582	1,463
Taxation and social security	311	335
Other creditors	7,904	655
Lease obligation - for right-of-use assets	3	43
Accruals and deferred income	3,795	4,550
	<u>34,672</u>	<u>30,674</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

	2022 £'000	2021 £'000
Lease obligation - for right-of-use assets	11	24
	<u>11</u>	<u>24</u>

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

17 Provisions for liabilities

	Emission Rights £'000	Restructuring £'000	Deferred Tax £'000	Total £'000
Balance at 1 January 2022	1,250	87	6,508	7,845
Provisions made during the year	661	1,058	-	1,719
Deferred tax charge in Profit and Loss Account (Note 18)	-	-	3,178	3,178
Deferred tax credit in Statement of Other Comprehensive income (Note 18)	-	-	(9,642)	(9,642)
Provisions used during the year	(1,436)	(41)	-	(1,477)
Balance at 31 December 2022	475	1,104	44	1,623

Emission rights

The Company takes part in the government programme aimed at reducing greenhouse gas emissions. In 2022 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 2021 in relation to the sale of the Shotton Mill.

In 2022 UPM Communication Papers launched its long-term development programme, Roadmap 2025.

The programme aims to build a resilient organization that becomes more agile and better capable of responding fast to volatile market environments as seen in recent years.

In relation to this programme a number of positions in the UK Supply Chain function will be transferred to a Central Business Hub and as a result a restructuring provision was created and is anticipated to be utilised in 2023.

18 Deferred tax liability

Recognised deferred tax assets and liabilities

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

	2022 £'000	2021 £'000
Tangible fixed assets	8,528	9,137
Employee benefits	(3,481)	4,727
Share based payments	(12)	(27)
Provisions	(894)	(936)
Tax value of loss carryforward utilised	(4,097)	(6,393)
Net tax liabilities	44	6,508

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

18 Deferred tax liability (continued)

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

	1 January 2022 £'000	Recognised in Profit and Loss £'000	Recognised in Other Comprehensive Income £'000	31 December 2022 £'000
Tangible fixed assets	9,137	(609)	-	8,528
Employee benefits	4,727	1,434	(9,642)	(3,481)
Share based payments	(27)	15	-	(12)
Provisions	(936)	42	-	(894)
Tax value of loss carryforward utilised	(6,393)	2,296	-	(4,097)
	<u>6,508</u>	<u>3,178</u>	<u>(9,642)</u>	<u>44</u>

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

	1 January 2021 £'000	Recognised in Profit and Loss £'000	Recognised in Other Comprehensive Income £'000	31 December 2021 £'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>

UPM-Kymmene (UK) Limited**Notes to the Financial Statements (continued)****For the year ended 31 December 2022****19 Called up share capital**

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
8,000,000 (2021: 8,000,000) ordinary shares of £10 each	80,000	80,000
	<u>80,000</u>	<u>80,000</u>

20 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 2022 amounted to £87,000 (2021: £207,000). The amount credited to the Profit and Loss account during the year was £11,000 (2021: £152,000 charged) (Note 5).

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

21 Capital commitments

	2022 £'000	2021 £'000
Contracted but not provided for in the financial statements	<u>1,429</u>	<u>11</u>

Capital commitments relate to contracts for project investment at the production units Caledonian Paper Mill.

22 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.

	2022 £'000	2021 £'000
Defined benefit asset	266,438	474,684
Defined benefit liability	<u>(285,170)</u>	<u>(455,773)</u>
Net (liability)/asset for defined benefit obligations	<u>(18,732)</u>	<u>18,911</u>

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

22 Employee Benefits (continued)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Balance at 1 January	455,773	484,954	(474,684)	(463,381)	(18,911)	21,573
Included in profit or loss						
Past service cost						
Interest cost/(income)	8,505	6,449	(8,938)	(6,193)	(433)	256
	8,505	6,449	(8,938)	(6,193)	(433)	256
Included in OCI						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
- Changes in financial assumptions	(169,526)	(14,406)	-	-	(169,526)	(14,406)
- Changes in demographic assumptions	(215)	(1,129)	-	-	(215)	(1,129)
- Experience adjustment	9,329	(5,619)	-	-	9,329	(5,619)
Actual return less expected return on assets	-	-	203,788	(14,286)	203,788	(14,286)
	(160,412)	(21,154)	203,788	(14,286)	43,376	(35,440)
Other						
Contributions paid by the employer	-	-	(5,300)	(5,300)	(5,300)	(5,300)
Disbursements paid from scheme assets	(18,696)	(14,476)	18,696	14,476	-	-
Balance at 31 December	285,170	455,773	(266,438)	(474,684)	18,732	(18,911)

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 2022

22 Employee Benefits (continued)

Plan assets

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

	31 December 2022			31 December 2021		
	£'000			£'000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed Interest Gilts						
Equity	2,557	491	3,048	-	48,262	48,262
Credit	2,958	59,045	62,003	-	-	-
Property	-	17,838	17,838	-	-	-
Macro orientated	11,993	782	12,775	-	-	-
Liability hedging	147,062	(47,939)	99,123	-	-	-
Property income	-	-	-	-	18,288	18,288
Sterling Liquidity Fund	-	-	-	1,524	-	1,524
Index-linked Gilts	-	-	-	-	59,707	59,707
Insured Pensions	-	14,525	14,525	-	18,910	18,910
Liability Driven Investments	-	-	-	-	11,724	11,724
Infrastructure	-	-	-	-	23,013	23,013
Cardano Pooled Growth Asset Fund	-	-	-	-	262,601	262,601
Illiquid Credit	-	-	-	-	29,381	29,381
Cash	41,685	15,441	57,126	1,274	-	1,274
Total market value of assets	206,255	60,183	266,438	2,798	471,886	474,684

Actuarial assumptions

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

	2022	2021
Pension increases: LPI (RPI max 5% p.a.) (2021: RPI max 0% p.a.)	3.15%	3.25%
Deferred revaluation CPI-based	2.50%	2.60%
Discount rate	4.80%	1.90%
Inflation assumption - RPI	3.25%	3.40%
Inflation assumption - CPI	2.50%	2.60%
Pre-retirement mortality	AMC00/ (YOB) CMI_2020 with 1.25% p.a. trend 2000 onwards	AXC00/ (YOB) CMI_2020 with 1.25% p.a. trend 2000 onwards
Pensioner post-retirement mortality	92%S3PMA/103% S3PFA (YOB) CMI_2021 with 1.25% p.a. trend 2016 onwards	80%S2PMA/88% S2PFA (YOB) CMI_2020 with 1.25% p.a. trend 2016 onwards

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

22 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 assumption	Increase in assumption £'000	Decrease in assumption £'000
Discount rate	0.25%	(9,714)	10,000
Pension growth rate	0.25%	6,606	(7,287)

In valuing the liabilities of the pension fund at 31 December 2022, 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 2022 would have increased by £10,099,000 (2021: increased by £21,816,000).

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 2022 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.

	2022 £'000	2021 £'000
Experience (losses)/gains on scheme liabilities	(9,329)	5,619
Actual return less expected return on assets	(203,788)	14,286

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.

	2022 £'000	2021 £'000
Actual return on scheme assets	<u>(194,850)</u>	<u>20,481</u>

Analysis of the (credit)/charge to Profit and Loss Account

	2022 £'000	2021 £'000
Interest on pension scheme liabilities	8,505	6,449
Expected return on assets in the pension scheme	<u>(8,938)</u>	<u>(6,193)</u>
Net (credit)/charge to Profit and Loss Account	<u>(433)</u>	<u>256</u>

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

22 Employee Benefits (continued)

Analysis of the movement in deficit in the fund during the year

	2022 £'000	2021 £'000
Surplus/(deficit) in the scheme at beginning of year	18,911	(21,573)
Other finance income/(expense)	433	(256)
Actuarial (loss)/gain	(43,376)	35,440
Sponsor contributions	5,300	5,300
(Deficit)/surplus in the scheme at end of year	<u>(18,732)</u>	<u>18,911</u>

Reconciliation of present value of scheme liabilities

	2022 £'000	2021 £'000
Opening defined benefit obligation	(455,773)	(484,954)
Interest cost	(8,505)	(6,449)
Actuarial gain	160,412	21,154
Benefits paid	18,696	14,476
Closing defined benefit obligation	<u>(285,170)</u>	<u>(455,773)</u>

Reconciliation of present value of scheme assets

	2022 £'000	2021 £'000
Opening fair value of scheme assets	474,684	463,381
Interest income	8,938	6,193
Actuarial (loss)/gain	(203,788)	14,286
Benefits paid	(18,696)	(14,476)
Sponsor contributions	5,300	5,300
Closing fair value of scheme assets	<u>266,438</u>	<u>474,684</u>

The Company also operates a defined contribution pension scheme, the contributions charged to the Profit and Loss Account in the year were £2,918,000 (2021: £3,279,000).

There were no outstanding contributions at 31 December 2022 (2021: £nil).

UPM-Kymmene (UK) Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

23 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.

24 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.

25 Subsequent events

There were no subsequent events post the Balance Sheet date and prior to the date of signing these Financial Statements that would have a material impact on the results reported or the financial position of the Company.