International Accounting (22E00400)

20.4-03.6.2021

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Welcome!

Nina Sormunen, PhD

- PhD: Copenhagen Business School (2012)
- Work experience:
  - Senior expert, Group Accounting and Reporting, UPM (current)
  - IFRS expert, Accounting and Reporting, EY (2017-2018)
  - Assistant Professor, Department of Accounting and Auditing, Copenhagen Business School (2013-2017)
  - PhD fellow (2010-2012)
- Publications:
  - Sormunen, N (2016). Mikä on tilintarkastuskertomuksen merkitys lainanantajien päätöksenteossa? Balanssi.
  - Sormunen, N. (2014). Konkurssia edeltävä toiminnan jatkuvuuden arviointi Pohjoismaissa. Balanssi.
  - Sormunen, N. (2014). The Bank Officers' Perceptions and Uses of Qualified Audit Reports. Qualitative Research in Accounting and Management, 11:3, 215-237.
  - Sormunen, N, K. Jeppesen, S. Sundgren & T. Svanström (2013). Harmonisation of Audit Practice: Empirical Evidence from Going-Concern Reporting in the Nordic Countries. International Journal of Auditing, 17:3, 308-326.
  - Sormunen, N. & T. Laitinen (2012). Late Financial Distress Process Stages and Financial Ratios: Evidence for Auditor's Going Concern Evaluation. The Finnish Journal of Business Economics, 1, 41-69.
  - Sormunen, N. & S. Sundgren (2010). Konkurssit ja tilintarkastajan jatkamiskelpoisuusharkinta ennen konkurssia. Majakka.
- On-going co-authored working papers:
  - Price Competition among Big 4 Audit Firms: Evidence from Nordic Countries
  - Going-Concern Uncertainty and Loan Officers' Information Search Behavior: Evidence from Eye-Tracking
  - Auditors' Work Motivation – Explorative study of different motivation profiles and their consequences
  - Independence Threats, Truthfulness and the Auditor's Decision Process

What do you expect from the course?

Welcome!
Learning objectives of the course

This course will teach you how to understand, apply and explain fundamental concept and principles of most important IFRS standards.

At the course you will get a good overall picture of IFRS standards including preparation of financial statements in accordance with IFRS. You will also understand the main challenges that entities and auditors are facing in applying IFRS standards.

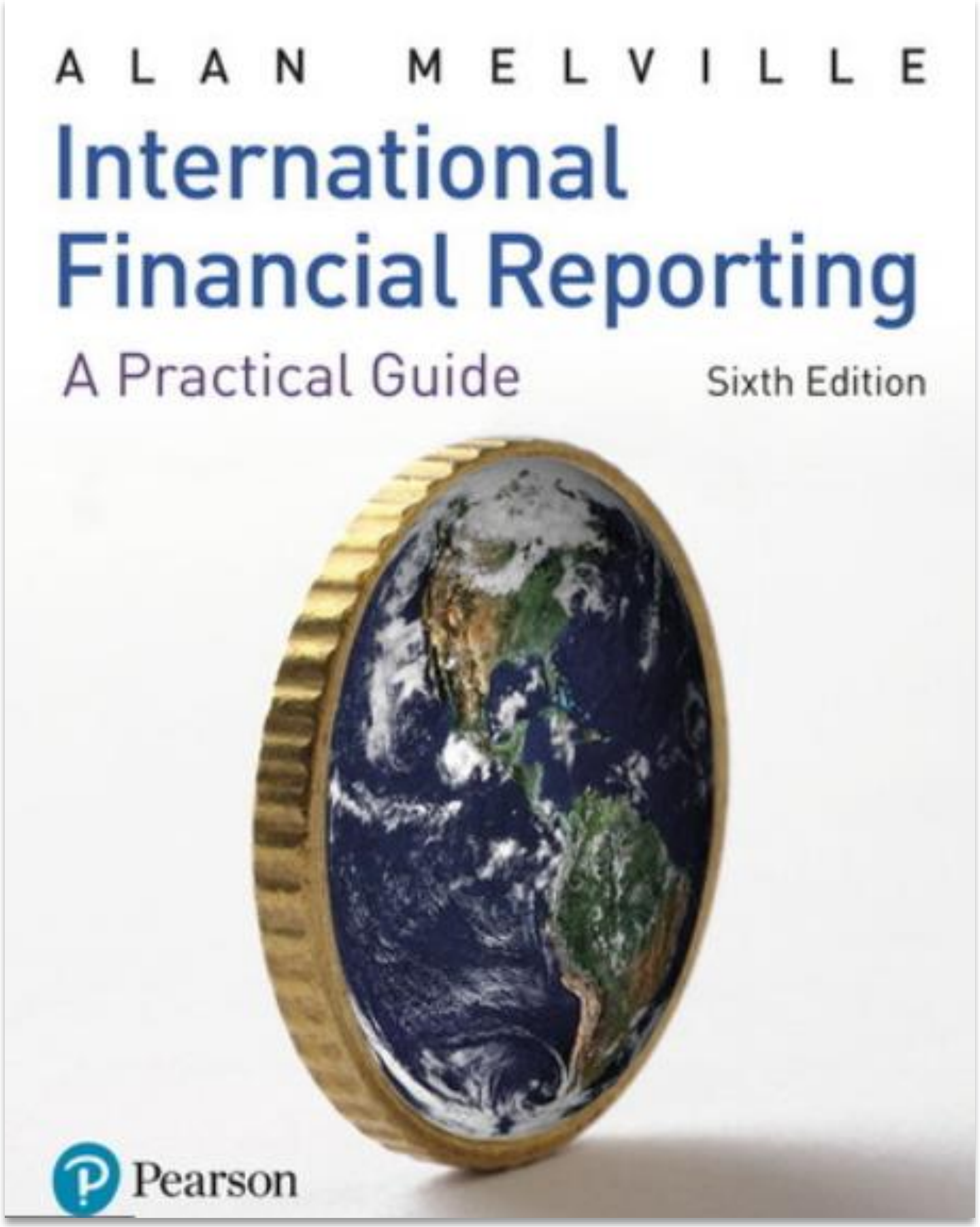
NOTE! Before each lecture you will find more specific learning objectives in MyCourses

Welcome!
Teaching philosophy

- Main accounting standards
- Concepts and underlying principles
- Numeric or other examples / cases
- Pre-assignment and term paper (both mandatory)

Welcome!
Readings

Get familiar with the IAS/IFRS standards before each lecture!



Welcome!
How to prepare for classes

- Get familiar with the IFRS (&IAS) standards that will be discussed in class, including learning objectives!
- You can also check e.g. Youtube for each IFRS/IAS standard
- Check IFRS/IAS standard descriptions from the IASB website (www.ifrs.org)

Active participation is taken into consideration in the overall grading!

Welcome!
Course Requirements

- Exam 60 % + Term Paper 40 % totaling to 100p.
- Passing the course requires all the following conditions are met:
  - Exam 50% x 60 p = 30 p at the minimum
  - Exam + Term paper = 50 p at the minimum
  - Pre-assignment prepared and submitted according to the requirements
  - Term paper presentation and feedback to another term paper provided (by at least one of the group members).
- Exam based on the course literature + handout materials
- Course grading on the normal six-point scale (0 - 5)

TERM PAPER – See the instructions at MyCourses

Welcome!

Term paper – Group work

- Select an IAS/IFRS-standard for your term paper from the list provided in MyCourses. Once one group has selected a standard it is reserved for that group.
- Additionally, choose one Finnish Nasdaq listed company and two foreign companies operating in the same industry.
- Describe how the companies have interpreted the IFRS/IAS standard you have chosen and conduct a comparison versus requirements of the standard. Additionally, conduct a cross-comparison amongst the companies you have chosen. Describe pros and cons in how the companies have implemented the standard. Describe in specific how the companies have interpreted the main concepts and which type of information they have included in their main financial statements and related notes. Come up with three research topics for master's thesis which are related to the main concepts of the chosen standard as well as the particular line of industry.
- The main purpose (also an assessment criteria) of the term paper is that the other students would learn as much as possible from the standard based on the term paper as well as presentation.
- *Submission deadline on Thursday 13.5.2021*

Welcome!
Exam 3.6.2021

- 3.6.2021, at 9-10.30
- Based on lectures, textbook and any other material covered during the course.
- You can use the textbook and other course material during the exam. You are not allowed to search material on the internet during the exam, copy materials from others, nor discuss (or use any messaging application) during the exam.
- **Bear in mind that the timing of the exam is tight. You will not have time to look everything up, but as in a normal exam, are expected to know and understand the content beforehand and conduct your own analysis and conclusion based on IFRS/IAS standards.**

Welcome!
Course schedule

Note! Changes might occur.

Date		Time	Topics	Standards	
20.4.2021	Tuesday	17.15-20.00	Welcome!	Conceptual Framework	
			Introduction to IFRS	IAS 1 - Presentation of financial statements	
			Conceptual Framework	IFRS 13 - Fair value measurement	
			Fair value measurement	IFRS 8 - Operating segments	
			Operating segments		
22.4.2021	Thursday	17.15-20.00	Revenue and Leases	IFRS 15 - Revenue from Contracts with Customers	
				IFRS 16 - Leases	
27.4.2021	Tuesday	17.15-20.00	Assets	IAS 38 - Intangible assets	
				IAS 36 - Impairtment of assets	
				IFRS 5 - Discontinued operations	
4.5.2021	Tuesday	17.15-20.00	Liabilities	IAS 37 - Provisions, contingent liabilities and contingent assets	
				IAS 19 - Employee benefits	
				IFRS 2 - Share based payments	
11.5.2021	Tuesday	17.15-20.00	Business combinations, Associates and Joint Arrangements	IFRS 3 - Business Combinations	
				IFRS 10 - Consolidated financial statements	
				IFRS 11 - Joint arrgangements	
				IAS 28 - Investments in associates and joint ventures	
18.5.2021	Tuesday	17.15-20.00	Financial instruments and income taxes	IAS 12 - Income taxes	*Partcipation is mandatory*
			Cash flow statement	IFRS 9 - Financial instruments	*Guest speaker*
			Exam preparation	IFRS 7 - Financial instruments disclosure	
				IAS 7 - Statement of Cash Flows	
20.5.2021	Thursday	17.15-20.00	Term Paper presentations & discussion		*Partcipation is mandatory*
25.5.2021	Tuesday	17.15-20.00	Term Paper presentations & discussion + exam preparation		*Partcipation is mandatory*
3.6.2021	Thursday	09.00-10.30	Exam 1		

QUESTIONS??


IFRS – So what?

What are International Financial Reporting Standards (IFRS)?

- International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent, and comparable around the world.
- IFRS are issued by the International Accounting Standards Board (IASB).
- They specify how companies must maintain and report their accounts, defining types of transactions, and other events with financial impact.

Countries where IFRS Standards are required for domestic public companies

- IFRS Standards are required for use by **most domestic publicly accountable entities.** In most cases an SME may also choose full IFRS Standards.
- IFRS were established to create **a common accounting language** so that businesses and their financial statements can be consistent and reliable from **company to company and country to country.**

Why should I know basics about IFRS?

- IFRS is complex and difficult for any accounting professional without IFRS expertise.
- Moreover, the IFRS guidelines are continuously amended and companies have to follow the amendments.
- **Therefore, the demand for IFRS experts rises significantly.**

The IASB conceptual Framework

Textbook: Chapter 2

Learning objectives

- State the main purposes of IASB *Conceptual Framework*
  - State the objective of general purpose financial reporting and identify the primary users of financial reports
  - State and explain the qualitative characteristics of useful financial information
  - State and explain an important assumption which underlies the preparation of financial statements
  - Define each of the main elements of financial statements
  - Explain the measurement bases which are identified in the Conceptual Framework
  - Distinguish between financial capital maintenance and physical capital maintenance

Conceptual Framework for the Financial Reporting 2018

- Framework is a basic document that sets objectives and concepts for general purpose financial reporting, i.e. preparation and presentation of financial statements
- Framework was issued back in 1989
- Then in 2010, IASB published the new document
- The newest and completed Framework published in 2018 comprises 8 chapters

Is the Framework equivalent to the Standard?

- Framework is NOT a Standard itself.
  - Thus if you wish to decide on the financial reporting of certain transaction, you need to look into the appropriate standard – IFRS or IAS.
- Sometimes, it may even happen that the rules in that IFRS or IAS standard will be contrary to what the Framework says.
  - In this case, you need to apply the standard, not the Framework.
- When should you apply the Framework?
  - In most cases, when there are no specific rules for your transaction and you need to develop your accounting policy, then you would look to the Framework as you cannot depart from its basic principles and definitions.

8 Chapters

1. The Objective of General Purpose Financial Reporting
2. Qualitative Characteristics of Useful Financial Information
3. Financial Statements and the Reporting Entity
4. The Elements of Financial Statements
5. Recognition and Derecognition
6. Measurement
7. Presentation and Disclosure
8. Concepts of Capital and Capital Maintenance

Chapter 1: The objective of general purpose financial reporting

The main objective of general purpose financial reports is to ***provide the financial information*** about the reporting entity that is useful to existing and potential

- Investors,
- Lenders, and
- Other creditors

to ***help them make various decisions*** (e.g. about trading with debt or equity instruments of a reporting entity).

Chapter 2: Qualitative characteristics of useful financial information

FUNDAMENTAL	ENHANCING
• ***Relevance***: capable of making a difference in the users' decisions. The financial information is relevant when it has predictive value, confirmatory value, or both. ***Materiality*** is closely related to relevance. • ***Faithful representation***: The information is faithfully represented when it is complete, neutral and free from error.	• ***Comparability***: Information should be comparable between different entities or time periods; • ***Verifiability***: Independent and knowledgeable observers are able to verify the information; • ***Timeliness***: Information is available in time to influence the decisions of users; • ***Understandability***: Information shall be classified, presented clearly and concisely.

Chapter 3: Financial Statements and the Reporting Entity

Financial Statements

Statement of Financial Position	Statement of Financial Performance	Other statements
Assets, liabilities, equity	Income and expenses	Info about elements, cash flows, contributions/distributions, methods, assumptions, estimates

Reporting entity

- ***Reporting entity*** is an entity who must or chooses to prepare the financial statements. It can be:

A ***single entity*** – for example, one company;

A ***portion*** of an entity – for example, a division of one company;

More than one entities – for example, a parent and its subsidiaries reporting as a group.

Chapter 4: Elements of the financial statements

Asset = a present economic resource controlled by the entity as a result of past events;

Liability = a present obligation of the entity to transfer an economic resource as a result of past events;

Equity = the residual interest in the assets of the entity after deducting all its liabilities;

Income = increases in assets or decreases in liabilities resulting in increases in equity, other than contributions from equity holders;

Expenses = decreases in assets or increases in liabilities resulting in decreases in equity, other than distributions to equity holders;

Chapter 5 Recognition and derecognition

Recognition

- Means ***including*** an element of financial statements in the financial statements.
- Recognizing the elements only when the recognition provides useful information – relevant with faithful representation.
- The Framework discusses the relevance, faithful representation, cost constraints and other aspects in a detail.

Derecognition

- Derecognition means ***removal*** of an asset or liability from the statement of financial position and normally it happens when the item no longer meets the definition of an asset or a liability.
- Again, the Framework discusses the derecognition in a greater detail.

Chapter 6: Measurement

- ***Measurement means IN WHAT AMOUNT*** to recognize asset, liability, piece of equity, income or expense in your financial statements.
- The Framework discusses two basic measurement basis:

Historical costs

Based on the transaction price at the time of recognition of the element

Current value

Measures the element updated to reflect the conditions at the measurement date.

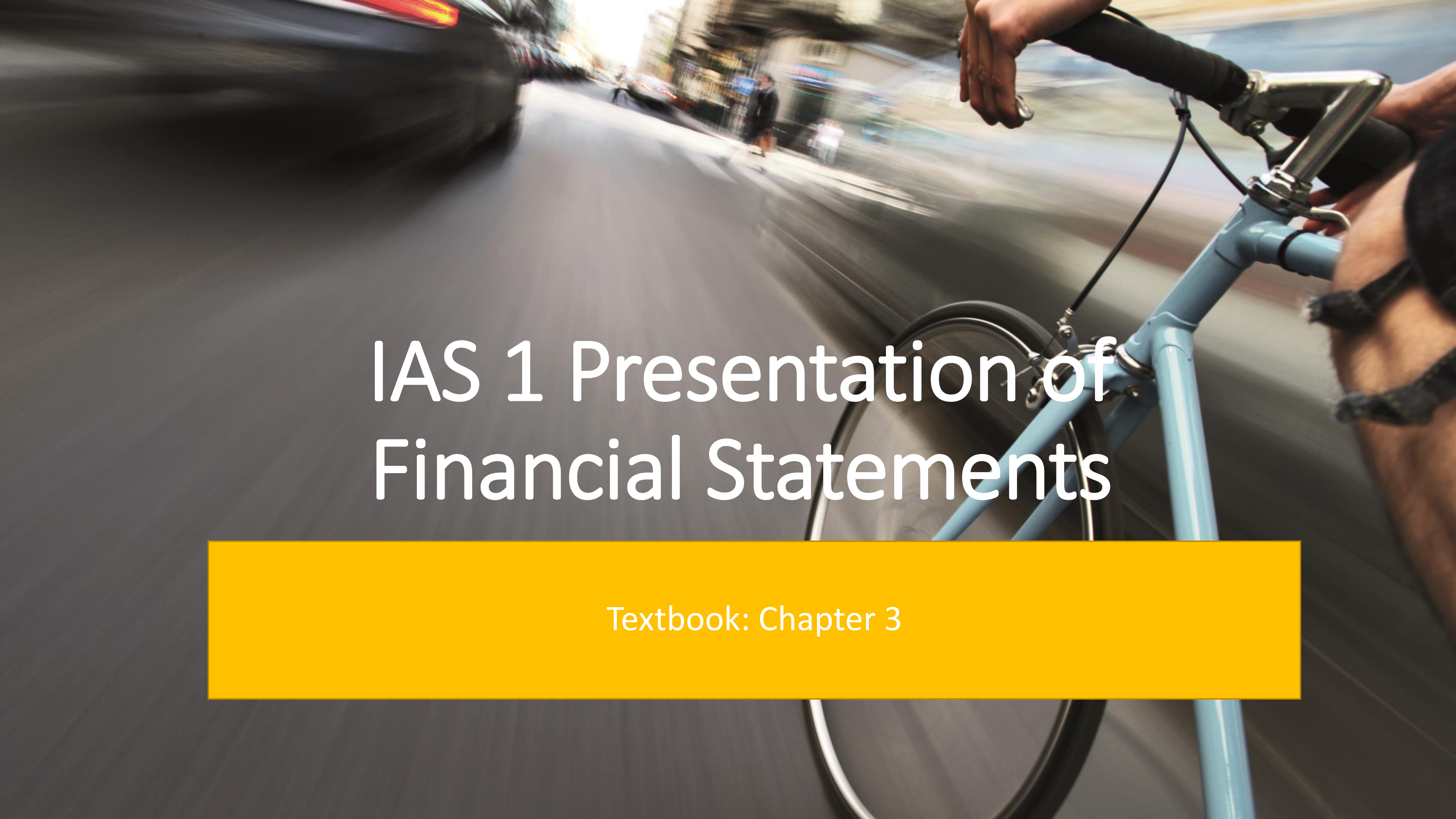
Chapter 7: Presentation and disclosure

- The main aim of presentation and disclosures is to provide an ***effective communication tool*** in the financial statements.

Focus on objectives and principles of presentation and disclosure, not on the rules	Group similar items and separate dissimilar items	Aggregate information

Chapter 8: Concepts of capital and capital maintenance

- Profits and losses may be measured
  - In terms of changes in the financial amount of an entity's net assets (Financial Capital Maintenance)
    - Financial capital may be measured either in nominal monetary units or in units of purchasing power
  - In terms of changes in the entity's physical operating capability (Physical Capital Maintenance)



IAS 1 Presentation of Financial Statements

Textbook: Chapter 3

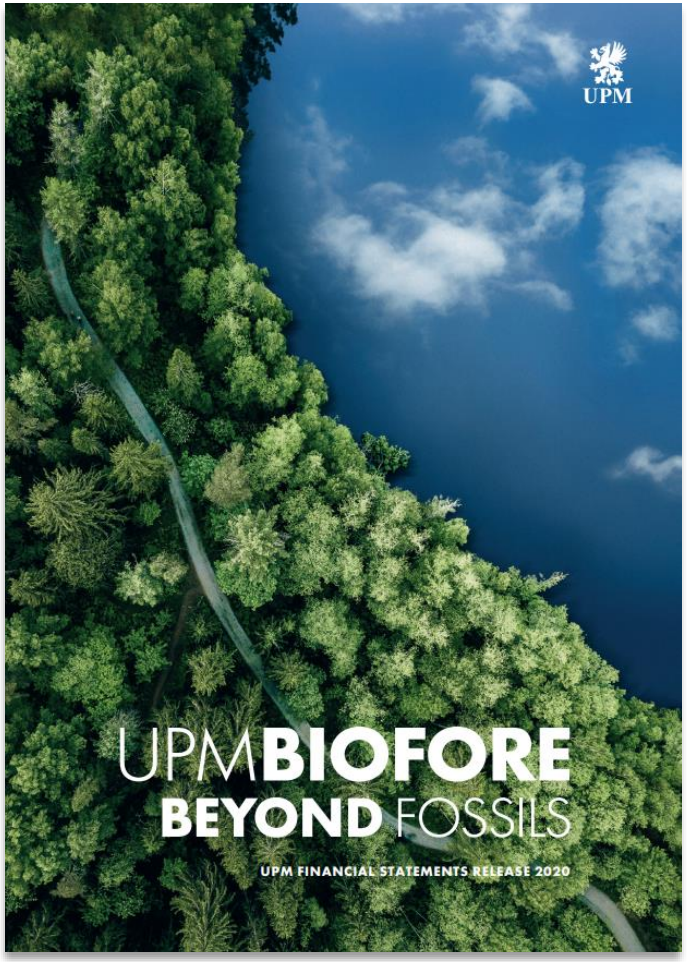
Learning objectives

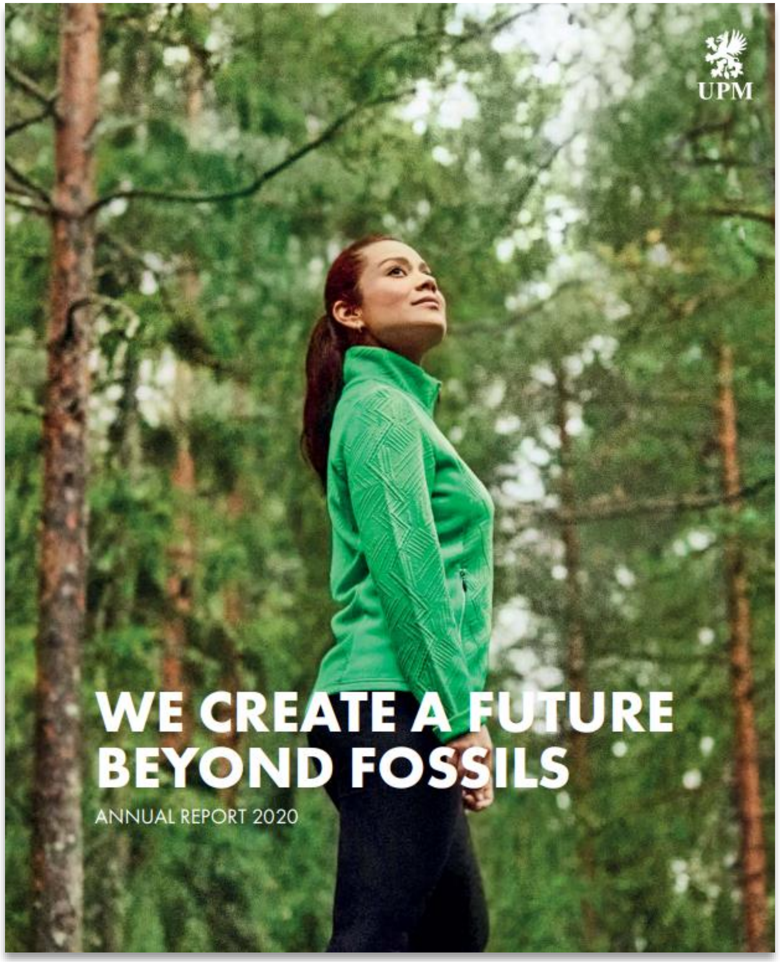
What are the components of a complete set of financial statement?

What are the general features of a set of financial statements?

What is the structure and content of each component of a set of financial statements?

Let’s take a look at UPM Annual & Interim Reports





Components of financial statements

- a statement of financial position as at the end of the period
- a statement of comprehensive income for the period
- a statement of changes in equity for the period
- a statement of cash flows for the period
- notes containing a summary of significant accounting policies and other explanatory information.

General Features

- fair presentation and compliance with IFRS
- going concern and accrual basis of accounting
- materiality and aggregation
- offsetting
- frequency of reporting
- comparative information and
- consistency of presentation.

Structure and content

- IAS 1 requires ***identification*** of the financial statements and distinguishing them from other information in the same published document.
- Every element of the financial statements shall contain the name of the reporting entity, the information whether the financial statements are of an individual or of a group, the date of the reporting entity and period covered, the presentation currency and the level of rounding (thousands, millions…).
- *IAS 1 lists the **minimum content** to be presented in the financial statements, except for the statement of cash flows (subject to IAS 7).*

The statement of financial position

- IAS 1 requires presentation of classified statement of financial position where current assets or liabilities are separated from non-current assets or liabilities. Basically, the asset or liability is current when it is expected to be recovered or settled within 12 months after the reporting period.
- ***Further subclassifications*** of the line items shall be disclosed either directly in the statement of financial position or in the notes, such as disaggregation of property, plant and equipment into classes, and similar.
- IAS 1 does NOT prescribe the precise format of the statement of financial position. Instead, several formats are acceptable if they fulfill all requirements.

The statement of financial position

- With regard to a minimum content, the following line items shall be presented:

Assets	Equity and liabilities
PPE	Issued capital and reserves attributable to owners of the parent
Investment property	
Intangible assets	Non-controlling interests
Financial assets	Financial liabilities
Investments accounted for using equity method	Provisions
Biological assets	
Inventories	
Trade and other receivables	Trade and other payables
Cash and cash equivalents	
Totals of assets in accordance with IFRS 5	Totals of liabilities in accordance with IFRS 5
Current tax assets	Current tax liabilities
Deferred tax assets	Deferred tax liabilties

The statement of comprehensive income

Profit or loss for the period

- All items of income and expenses must be recognized.

Other comprehensive income:

- Items recognized directly to equity or reserves, such as changes in revaluation surplus, gains or losses from subsequent measurement of available-for-sale financial assets, etc.

The statement of comprehensive income

- As a ***minimum,*** the statement of comprehensive income must contain the following items:

Assets	Other comprehensive income
Revenue	Each component of other comprehensive income classified by nature
Gains and losses arising from the derecognition of financial assets at amortized costs	Share of the other comprehensive income of associates and joint venture accounted for using equity method
Finance costs	Total comprehensive income
Share of the profit or loss of associates and joint ventures accounted for using the equity method	
Tax expense	
Post-tax profit/gain or loss of operations or assets in accordance with iFRS 5	
Profit or loss	

The statement of changes in equity

Total comprehensive income for the period, showing separately amounts attributable to owners of the parent and to non-controlling interests

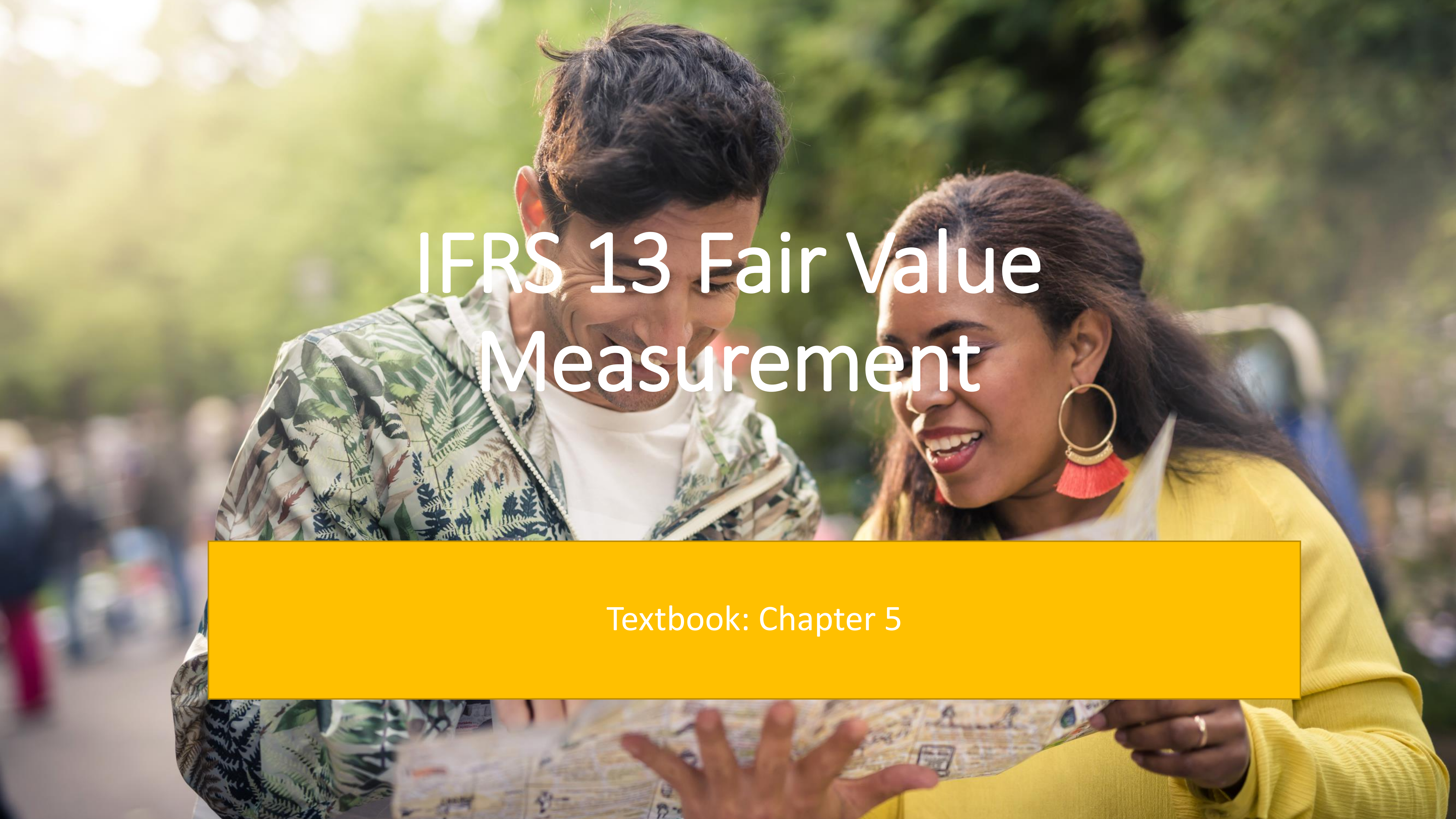
The effect of retrospective application or restatement for each component of equity (if applicable)

The reconciliation between the carrying amount at the beginning and the end of the period for each component of equity. Here, the following changes shall be disclosed separately:

- those resulting from profit or loss
- resulting from other comprehensive income
- resulting from transactions with owners (contributions, distributions and changes in ownership)

The notes to the financial statements

- The notes are meant to be the document accompanying numerical financial statements listed above. They should provide additional information not contained in the numbers, the basis of preparation of the financial statements and some additional information that might be relevant.
- IAS 1 sets that the notes shall contain a statement of compliance with IFRS, summary of significant accounting policies applied, supporting information for the numbers presented in the financial statements and other disclosures.



IFRS 13 Fair Value Measurement

Textbook: Chapter 5

Learning objectives

- Definition of fair value
- Measurement at fair value – valuation approaches and techniques
- Fair value disclosures

What is fair value?

”the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”

This is the notion of an ***exit price***.

What is fair value?

Fair value is a market-based measurement, not an entity-specific measurement. It means that an entity:

- shall look at how the market participants would look at the asset or liability under measurement
- shall not take own approach (e.g. use) into account.

3 techniques identified in IFRS 13

Market approach	• uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities, or a group of assets and liabilities, such as a business (e.g., quoted prices of listed shares)
Cost approach	• reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)
Income approach	• converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Measurement of fair value

When determining fair value, an entity shall use valuation techniques:

- Appropriate in the circumstances
- For which sufficient data are available to measure fair value
- Maximizing the use of relevant observable inputs
- Minimizing the use of unobservable inputs.

Fair value hierarchy

- IFRS 13 introduces a ***fair value hierarchy*** that categorizes inputs to valuation techniques into 3 levels. The highest priority is given to Level 1 inputs and the lowest priority to Level 3 inputs.
- An entity must ***maximize the use of Level 1*** inputs and ***minimize the use of Level 3 inputs***.

Fair value hierarchy

1

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- An entity shall not make adjustments to quoted prices, only under specific circumstances, for example when a quoted price does not represent the fair value (ie when significant event takes place between the measurement date and market closing date).

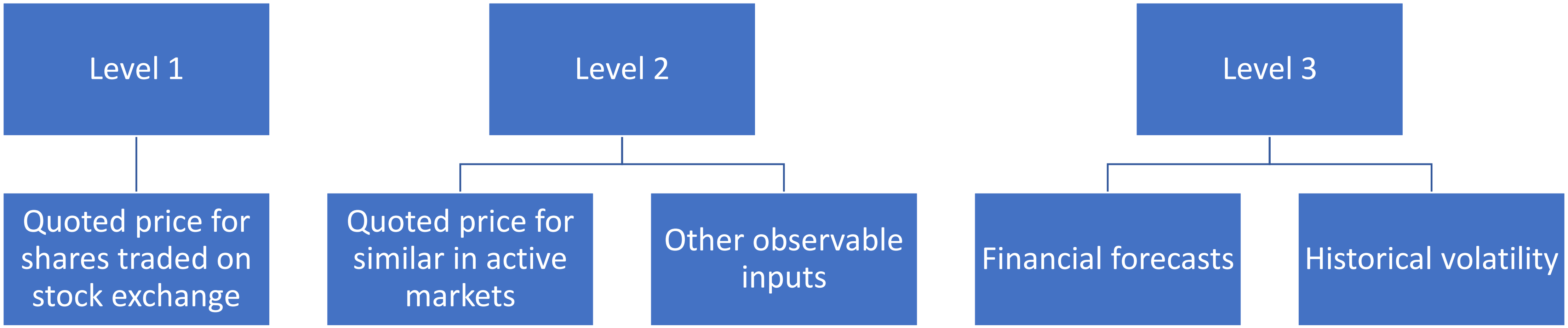
2

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Examples of such inputs include quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rate.

3

- An entity shall use Level 3 inputs to measure fair value only when relevant observable inputs are not available.
- Such inputs use the best information available about the assumptions that market participants would make when pricing the asset or liability.

Fair value hierarchy



Example – UPM annual report 2020

Forest assets

EURm	2020	2019
Carrying value, at 1 January	2,097	1,945
Additions	53	119
Disposals	–	-1
Wood harvested	-129	-101
Net change in fair value	100	125
Translation differences	-45	10
Carrying value, at 31 December	2,077	2,097

Change in fair value, change due to harvesting and gains or losses on sale of forest assets are recognised in the income statement as a net amount amounting to EUR -25 million (26 million) in 2020.

Accounting policies

The group divides all its forest assets for accounting purposes into growing forests, which are recognised as forest assets at fair value less costs to sell, and land. Own land is stated at cost whereas leased land is valued at cost less accumulated depreciation.

Any changes in the fair value of the growing forests are recognised in the operating profit in the income statement. The fair value is calculated on the basis of discounted future expected cash flows as there is a lack of a liquid market. The fair value of forest assets is a level 3 measure in terms of the fair value measurement hierarchy.

Key estimates and judgements

Fair valuation

The valuation process of forest assets is complex and requires management estimates and judgement on assumptions that have a significant impact on the valuation of the group's forest assets.

Main factors used in the fair valuation of forest assets are estimates for growth and wood harvested, stumpage prices and discount rates. Stumpage price forecasts are based on the current prices adjusted by the management's estimates for the full remaining productive lives of the trees, up to 100 years for forests in Finland and in the US and up to 10 years for plantations in Uruguay. The cash flows are adjusted by selling costs and costs related to future risks. Felling revenues and maintenance costs are estimated on the basis of actual costs and prices, taking into account the group's projection of future price and costs development. In addition, calculations take into account future forest growth and environmental restrictions.

The pre-tax discount rate used to determine the fair value of the Finnish forests in 2020 was 7.0% (7.0%) and for Uruguayan plantations 9.9% (9.9%). A decrease (increase) of one percentage point in discount rate would increase (decrease) the fair value of forest assets by approximately EUR 260 million (260 million).

IFRS 8 Operating Segments

Textbook: Chapter 24

Learning objectives

- Operating segment versus reportable segment
- Identify entity’s reportable segments
- Disclosure requirements

Objective of IFRS 8

Core principle

- An entity must: “*Disclose information to enable users of its financial statements to evaluate the nature and financial effects <u>of the different business activities</u> in which it engages and the <u>economic environments</u> in which it operates.*”

Definition of an Operating Segment

Operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including internal revenues with other segments of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Which segments must be reported (are reportable)?

- Not every single identified segment is reportable.
- If one segment, or aggregated segments based on aggregation criteria, meet at least **ONE** quantitative threshold, it must be reported separately:

The ***segment's total revenue*** (including external and intersegment) is ***10% or more*** of the total combined revenue of all operating segments (careful - not total entity's revenue); or

The ***absolute amount of its reported profit or loss is 10% or more*** of the greater, in absolute amount, of

1. the combined reported profit of all operating segments that did not report a loss; and
2. the combined reported loss of all operating segments that reported a loss; or

Its ***assets are 10% or more*** of the combined assets of all operating segments.

Few more rules on reportable segments

- If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, **additional operating segments** must be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments.
- Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an **"all other segments"** category.
- If the number of reported segments **exceeds 10**, then the entity should assess whether it is practical to report them all separately and whether the information is too detailed.

Case
Identifying reportable segments

Identify reportable segments

- A listed company has identified 7 operating segments. The following information is available for the segments as of 31 December 2020 (000)

	External revenue	Internal revenue	Profit or (loss)	Assets
Segment A	3,040	2,440	720	3,170
Segment B	1,460	0	(160)	1,590
Segment C	1,580	60	(60)	1,480
Segment D	1,720	0	120	2,150
Segment E	760	520	150	1,620
Segment F	2,360	1,740	560	3,780
Segment G	1,520	0	(50)	1,460
TOTAL	12,440	4,760	1,280	15,250

Solution

- Total revenue (internal & external) is 17,2MEUR (12,44 + 4,76). So a segment must have revenue of at least 1,720MEUR to satisfy the firs 10% test
- Combined profits are 1,55MEUR and combined losses are 0,27MEUR. The larger is 1,55MEUR. So a segment must have a profit or loss of at least 155TEUR to satisfy the second 10% test
- Total assets are 15,25MEUR. So a segment must have assets of at least 1,525MEUR to satisfy the third 10% test

Case
Identifying reportable segments

The results of the three 10% tests for each operating segment are as follows

	Total revenue at least 1,72MEUR	Profit or loss at least 0,155MEUR	Assets at least 1,525MEUR	Reportable segment
Segment A	Y	Y	Y	Y
Segment B	N	Y	Y	Y
Segment C	N	N	N	N
Segment D	Y	N	Y	Y
Segment E	N	N	Y	Y
Segment F	Y	Y	Y	Y
Segment G	N	N	N	N
TOTAL	12,440	4,760	1,280	15,250

Segments C & G fail all three of the 10% tests, so these will not be reportable as long as the remaining segments satisfy the 75% test

75% of the company's total external revenue is 9,33MEUR (75% x 12,44MEUR). The total external revenue of reportable segments A, B, D, E and F is 9,34MEUR so the 75% test is satisfied.

What information to disclose?

- General information
- Information about profit or loss, assets and liabilities
- Certain reconciliations
- Entity-wide information

Disclosures – UPM Annual Report 2020

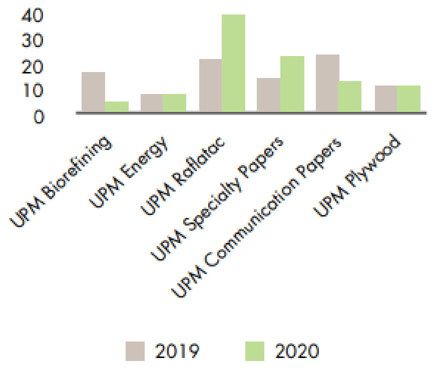
2.1 Business areas

UPM business portfolio consist of six competitive businesses with strong market positions. UPM reports financial information for the following business areas (segments): UPM Biorefining, UPM Energy, UPM Raflatac, UPM Specialty Papers, UPM Communication Papers, UPM Plywood and Other operations. UPM has production plants in 12 countries. The group's most important markets are Europe, North America and Asia.

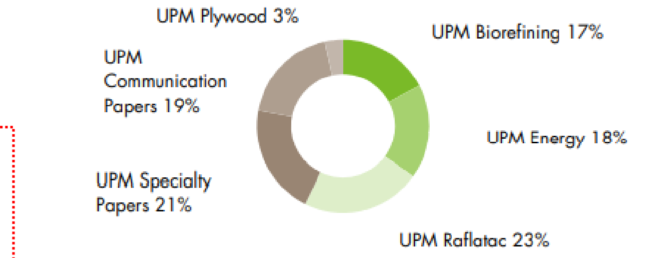
§ ***Accounting policies***

UPM business areas are reported consistently with the internal reporting provided to UPM's President and CEO who is responsible for allocating resources and assessing performance of the business areas. Internal reporting is prepared under the same basis as the consolidated accounts. Costs, revenues, assets and liabilities are allocated to business areas on a consistent basis. The sales transactions between business areas are based on market prices, and they are eliminated on consolidation.

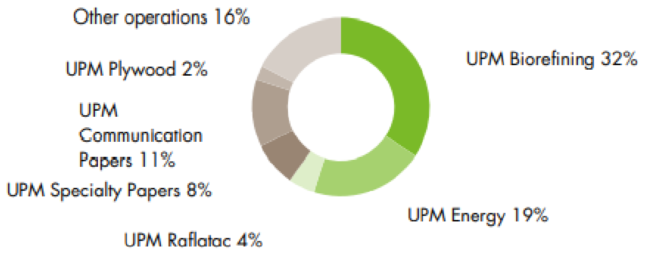
Comparable ROCE, %



Comparable EBIT 2020
EUR 948 million



Capital employed 31 Dec 2020
EUR 11,555 million



Disclosures – UPM Annual Report 2020

The goods and services included in sales revenue of each business area are presented in below table:

BUSINESS AREA	DESCRIPTION AND PRODUCTS
UPM Biorefining	UPM Biorefining consists of UPM Pulp, UPM Timber and UPM Biofuels business units. UPM Pulp offers a versatile range of responsibly-produced pulp grades suitable for a wide range of end uses such as tissue, specialty and packaging papers, graphic papers and board. UPM Timber offers certified sawn timber for joinery, packaging, furniture, planing and construction end-use segments. UPM Biofuels produces wood-based renewable diesel for all diesel engines and renewable naphtha that can be used as a biocomponent for gasoline or for replacing fossil raw materials in the petrochemical industry.
UPM Energy	UPM Energy generates cost-competitive, zero-carbon electricity. Operations also include physical electricity and financial portfolio management as well as services to industrial electricity consumers and producers.
UPM Raflatac	UPM Raflatac offers innovative and sustainable self-adhesive label materials for branding and promotion, information and functional labelling in the food, beverage, personal care, pharmaceutical and logistics segments, for example.
UPM Specialty Papers	UPM Specialty Papers offers labelling and packaging materials as well as office and graphic papers for labelling, commercial siliconising, packaging, office use and printing.
UPM Communication Papers	UPM Communication Papers offers an extensive product range of sustainably produced graphic papers for advertising and publishing as well as home and office uses.
UPM Plywood	UPM Plywood offers high quality WISA® plywood and veneer products for construction, vehicle flooring, LNG shipbuilding, parquet manufacturing and other industrial applications.
Other operations	Other operations include UPM Forest, UPM Biochemicals-, UPM Biomedicals-, UPM Biocomposites- business units and group services. UPM Forest secures competitive wood and biomass for UPM businesses and manages UPM-owned and privately-owned forests in North Europe. In addition, UPM offers forestry services to forest owners and forest investors. UPM Biochemicals offers innovative wood-based biochemicals for replacing fossil-based raw materials in various applications such as textiles, PET bottles, packaging, cosmetics, pharmaceuticals, detergents, rubbers and resins. UPM Biomedicals is the forerunner in producing nanofibrillar cellulose for clinical and life science applications in the field of drug screening, personalised medicine, advanced cell therapies, 3D bioprinting, tissue engineering and wound care. UPM Biocomposites is a pioneer in circular economy offering composite decking materials based on both recycled consumer and industrial waste. The product range also includes composite materials made from renewable fibres and polymers to replace fossil-based plastics.

Disclosures – UPM Annual Report 2020

Business area information for the year ended 31 December 2020

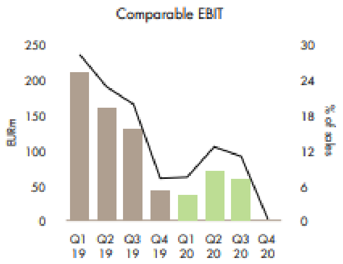
EURm, OR AS INDICATED	UPM BIO-REFINING	UPM ENERGY	UPM RAFLATAC	UPM SPECIALTY PAPERS	UPM COM PAPERS	UPM PLYWOOD	OTHER OPE-RATIONS	ELIMINATI-ONS AND RECONCILI-ATIONS [2]	GROUP
External sales	1,720	252	1,560	1,148	3,296	385	221	-1	8,580
Internal sales	463	127	–	176	37	21	4	-827	–
Total sales	2,183	379	1,560	1,324	3,333	405	225	-828	8,580
Comparable EBIT	166	171	214	199	180	33	-12	-2	948
Items affecting comparability in operating profit	–	14	-9	6	-170	-23	-3	-3	-187
Operating profit	166	184	205	206	9	10	-15	-4	761
Finance costs, net									-24
Income taxes									-169
Profit for the period									568
Operating assets [1]	4,004	2,251	656	1,069	1,757	314	2,083	-235	11,898
Deferred tax assets									421
Other non-operating assets									82
Other financial assets									2,457
Total assets									14,858
Operating liabilities [1]	325	23	142	197	436	34	198	-220	1,135
Deferred tax liabilities									564
Other liabilities									1,023
Other financial liabilities									2,623
Total liabilities									5,345
Other items									
Change in fair value of forest assets and wood harvested	-8	–	–	–	–	–	-17	–	-25
Share of results of associates and joint ventures	2	–	–	–	–	–	1	–	3
Depreciation and amortisation	-176	-7	-39	-74	-121	-27	-29	–	-472
Impairment charges	–	-3	–	–	-58	-8	-1	–	-70
Capital employed, 31 December	3,679	2,228	514	871	1,321	280	1,885	777	11,555
Average capital employed	3,620	2,313	542	897	1,446	292	1,901	504	11,514
Capital expenditure	659	6	13	27	70	17	110	2	903
Capital expenditure, excluding acquisitions and shares	659	5	13	27	70	17	110	1	902
Comparable ROCE, %	4.6	7.4	39.5	22.2	12.4	11.2	-0.6	–	8.3
Personnel, 31 December	2,695	70	3,087	1,932	7,281	2,301	649	–	18,014

Disclosures – UPM Interim Report 2020

This financial statement release is unaudited

UPM Biorefining

UPM Biorefining consists of pulp, timber and biofuels businesses. UPM Pulp offers a versatile range of responsibly produced pulp grades suitable for a wide range of end-uses such as tissue, specialty paper, graphic papers and board. UPM Timber offers certified sawn timber for construction, joinery and furniture. UPM Biofuels produces wood-based renewable diesel for all diesel engines and renewable naphtha that can be used as a biocomponent for gasoline or for replacing fossil raw materials in petrochemical industry, for example. UPM has three pulp mills in Finland and one mill and plantation operations in Uruguay. UPM operates four sawmills and one biorefinery in Finland.



	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q1–Q4/20	Q1–Q4/19
Sales EURm	569	541	563	509	592	660	708	753	2,183	2,712
Comparable EBITDA, EURm	50	104	113	81	96	171	203	254	348	724
% of sales	8.7	19.2	20.1	15.9	16.3	25.9	28.6	33.8	15.9	26.7
Change in fair value of forest assets and wood harvested, EURm	-6	-2	0	-1	-11	1	-1	-1	-8	-11
Share of results of associated companies and joint ventures, EURm	1	0	1	1	1	1	1	1	2	2
Depreciation, amortisation and impairment charges, EURm	-44	-44	-44	-44	-44	-43	-42	-42	-176	-171
Operating profit, EURm	0	58	70	37	42	130	161	212	166	544
% of sales	0.1	10.8	12.4	7.3	7.1	19.7	22.7	28.2	7.6	20.1
Items affecting comparability in operating profit, EURm	—	—	—	—	—	—	—	—	—	—
Comparable EBIT, EURm	0	58	70	37	42	130	161	212	166	544
% of sales	0.1	10.8	12.4	7.3	7.1	19.7	22.7	28.2	7.6	20.1
Capital employed (average), EURm	3,664	3,592	3,664	3,561	3,436	3,468	3,491	3,481	3,620	3,469
Comparable ROCE, %	0.1	6.5	7.6	4.2	4.9	15.0	18.4	24.4	4.6	15.7
Pulp deliveries, 1000 t	925	932	943	864	943	979	877	915	3,664	3,715

Pulp mill maintenance shutdowns: Q4 2020 UPM Kaukas, UPM Pietarsaari, Q4 2019 UPM Fray Bentos, Q2 2019 Kymi.

- Scheduled maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills
- Focus on full run strategy in pulp mills continued, production record at UPM Fray Bentos pulp mill

Results

Q4 2020 compared with Q4 2019
Comparable EBIT for UPM Biorefining decreased due the scheduled maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills. Changes in currencies were unfavourable and pulp sales prices were lower.
The average price in euro for UPM's pulp deliveries decreased by 13%.

Q4 2020 compared with Q3 2020
Comparable EBIT decreased mainly due to the scheduled maintenance shutdowns at the UPM Kaukas and UPM Pietarsaari pulp mills. Changes in currencies were unfavourable.
The average price in euro for UPM's pulp deliveries decreased by 1%.

Full year 2020 compared with year 2019
Comparable EBIT for UPM Biorefining decreased due to lower pulp sales prices. Wood and other variable costs were lower. Fixed costs were higher due to the more expensive scheduled maintenance shutdowns in 2020. The strike in Finland in the first quarter of 2020 impacted delivery volumes.
The average price in euro for UPM's pulp deliveries decreased by 24%.

Market environment

- Global chemical pulp demand was good in 2020. Demand growth was mainly driven by China. Global shipments of market pulp improved from the weak year 2019.
- In Europe, the market price for northern bleached softwood kraft (NBSK) pulp remained unchanged in the fourth quarter of 2020 compared with Q3 2020. The market price for bleached hardwood kraft pulp (BHKP) decreased compared with the previous quarter.
- In China, the market price for both northern bleached softwood kraft (NBSK) pulp and bleached hardwood kraft pulp (BHKP) increased in the fourth quarter of 2020 compared with Q3 2020.
- In 2020, the average European market price in euro was 16% lower for NBSK and 22% lower for BHKP, compared with the previous year. In China the average market price in US dollars was 7% lower for NBSK and 19% lower for BHKP, compared with the previous year.
- Good demand for advanced renewable diesel and naphtha.
- Demand for sawn timber was strong in Q4 2020. Market prices remained stable.

Sources: FOEX, UPM

NEXT TIME: IFRS 15 & IFRS 16