



UPM

The Biofore
Company

30 November 2015

EFRAG - European Financial Reporting Advisory Group

AISBL-IVZW
35 Square de Meeûs
B-1000 Brussels

Dear Sir/Madam,

Request for views: 2015 Agenda Consultation

We are pleased to respond to your request for views on 2015 Agenda consultations (August 2015). We support the IASB work on exploration of areas for development in financial reporting under IFRS. Following our analysis on how investors use our financial reports, mostly based on requests from the analyst community, we would like to bring the following to your attention.

UPM-Kymmene Corporation ('UPM') is a major producer of pulp, paper and mechanical wood products in Europe and globally. As part of our operations, we hold significant reserves of standing trees (biological assets), mostly used internally as a raw material in our production process. Large parts of these trees are situated in cold climate of northern Europe, where growth period for trees is very long, normally from 50 to 70 years and up to 100 years in some cases.

As required by IAS 41, *Agriculture*, the standing trees are biological assets until the point of harvesting. Given the fair value of these assets can usually be measured reliably, the standing trees are measured at fair value less cost to sell during the long period of growth.

IAS 41 requires the changes in fair values to be recognized in profit or loss during the period when such change arises. We receive repeatedly questions from analysts to report separately our operative results excluding the change in fair value of biological assets, indicating that the analysts need to separate between results of operations during a reporting period and fair value change of biological assets. However, given that these changes happen over time and each quarter, we consider reporting these as non-recurring items inappropriate.

We understand and agree with the analysts that reporting fair value change of standing trees through profit and loss and as part of results of operations makes it difficult for a stake holder to understand and evaluate the performance of operations and management stewardship in obtaining those results during a reporting period from the change in value of biological assets.

The fair value of biological assets is driven by the factors outside of management control, including climate, weather and other factors of the overall biological transformation process during the extended period of time. In addition, the value change is dependent on development of, e.g., market prices and certification requirements.



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The business model of UPM is to transform raw materials into finished goods, and we aim to generate profit from selling the finished goods. We are not in the business of holding trees for trading and maximizing their fair value. We appreciate the fair value of biological assets is important to the stake holders but we also believe that reporting the change of that value through profit and loss distorts reporting of our business performance, as the fair value change may show different trends and movements from actual business performance. In addition, there is a significant time difference between our operational cycle and time period required for trees to grow for harvesting.

We understand that not all businesses having biological assets face similar challenges as we, therefore we would suggest if IASB could consider an alternative accounting treatment based on business model, where fair value changes of biological asset would be recognized through other comprehensive income.

Yours sincerely,

Tapio Korpeinen

CFO, UPM-Kymmene Corporation