

METSÄ GROUP

Remuneration statement **2019**



Metsä

Remuneration statement 2019

This Remuneration Statement of Metsä Group on the remuneration of the Board of Directors, Supervisory Board and executive management has been issued for the last time pursuant to the Finnish Corporate Governance Code 2016 published by the Securities Market Association (www.cgfinland.fi/en/). The description of the decision-making procedure and principles concerning remuneration in this Remuneration Statement is updated when necessary, but always at least simultaneously with the Corporate Governance Statement. The Remuneration Report concerning the remuneration paid during the previous financial period is published at the same time. The remuneration paid during the financial period 2020 will be published on the Remuneration Report prepared according to the Finnish Corporate Governance Code 2020.

DECISION-MAKING PROCEDURE CONCERNING REMUNERATION

Decisions on the remuneration of the Supervisory Board of the Group's parent company, Metsäliitto Cooperative, are made by the Representative Council. Decisions on the remuneration of the members of Metsäliitto Cooperative's Board of Directors are made by the Supervisory Board on the basis of a proposal made by the Supervisory Board's Nomination Committee. The Board of Directors decides on the remuneration and other financial benefits of the Group President and CEO and the members of the Group's Executive Management Team employed by Metsäliitto Cooperative, as well as on the principles of the short and long-term incentive systems on the basis of the Compensation Committee's preparation. All Metsä Group companies comply with the same remuneration principles, and the remuneration criteria are approved by the Board of Directors of each subsidiary.

PRINCIPLES OF REMUNERATION

SUPERVISORY BOARD AND BOARD OF DIRECTORS

Pursuant to a decision of the Representative Council, the Chairman and Deputy Chairman of the Supervisory Board are paid fixed monthly remuneration and meeting fees. Other members of the Supervisory Board are paid meeting fees. Meeting fees are also paid for the meetings of the Supervi-

sory Board's committees. The members of the Supervisory Board are furthermore entitled to travel allowance pursuant to Metsä Group's travel policy. The remuneration paid to the Chairman and Deputy Chairman of the Supervisory Board accumulate pension benefits. Pursuant to the Supervisory Board's decision, each member of the Board of Directors is paid fixed monthly remuneration and meeting fees. Meeting fees are also paid for the meetings of the Board of Directors' committees. In addition, the Chairmen of the Board of Directors' Audit Committee and Compensation Committee are paid separate monthly compensation. The members of the Board of Directors are entitled to travel allowance pursuant to Metsä Group's travel policy. The remuneration paid for Board work accumulates pension benefits. The members of the Board of Directors do not participate in Metsä Group's short- or long-term incentive systems.

EXECUTIVE MANAGEMENT

The purpose of the remuneration system for Metsä Group's executive management is to remunerate the management in a fair and competitive manner for the performance of Metsä Group and for implementing the company's strategy and the development of its business operations. The remuneration system for executive management comprises a fixed monthly salary, a short-term incentive reward based on financial criteria and individual targets ("short-term incentive system"), a long-term incentive reward ("long-term incentive system") and the management's pension benefits.

PRESIDENT AND CEO

Metsäliitto Cooperative has a CEO, who also acts as the President and CEO of Metsä Group, unless otherwise decided by the Board of Directors. The President and CEO manages the operations of the entire Metsä Group. President and CEO Ilkka Härmälä (M.Sc. (Eng.), born in 1961) has acted as the CEO of Metsäliitto Cooperative as of 1 January 2018 and as the President and CEO of Metsä Group since 1 April 2018. The terms and conditions of President and CEO Ilkka Härmälä's service contract are defined in writing in the President and CEO's contract, the terms of which have been confirmed by the Board of Directors. The period of notice pursuant to the contract is 12 months. If the service contract

is terminated by the company, Hämälä is entitled to severance pay corresponding to 12 month salary. No severance compensation is paid if the contract is terminated by Hämälä himself. Hämälä's monthly salary is agreed in the President and CEO's contract (EUR 65 209 in December 2019) and it includes housing, company car and other minor fringe benefits. The Board of Directors may decide that Hämälä shall be paid a short-term incentive, based on defined financial criteria and strategic targets. In 2019 a short-term incentive system reward was 93,75% of the annual base salary at the maximum. A short-term incentive system reward from 2018 was 75% of the annual base salary at the maximum. Hämälä falls within the scope of the Employees Pensions Act. It provides pension security based on the period of service and earned income as provided in the Act. Hämälä's retirement age is in accordance with the Employees Pensions Act. Hämälä is also entitled to the supplementary defined benefit pension insurance that covers Metsä Group's management. According to the supplementary pension insurance the President and CEO's maximum level of pension is 60% of the total salary under the Employees' Pensions Act, calculated on the basis of the five-year period preceding retirement. In case the President and CEO's service with Metsä Group terminates before his retirement age, the President and CEO is entitled to a free policy.

OTHER EXECUTIVES

The other members of Metsä Group's Executive Management Team also have written employment contracts. The period of notice applicable to members of the Executive Management Team is six months, and the members are entitled to severance pay equaling 6–12 month salary if their contract is terminated on grounds not related to the executive. Other members of Metsä Group's Executive Management Team may be paid a short-term incentive in addition to their monthly salary. In 2019 a short-term incentive system reward was 75% of the annual base salary at the maximum. A short-term incentive system reward from 2018 was 58,33% of the annual base salary at the maximum. The criteria for the short-term incentive system are the performance targets at Group level and in the executives' own areas of responsibility, as well as individual targets. The other members of the Executive Management Team fall within the scope of the Employees Pensions Act. It provides pension security based on the period of service and earned income as provided in the Act. Depending on the date on which the employment contract began, some members of Metsä Group's Executive Management Team are entitled to the supplementary defined benefit pension insurance, with a retirement age of 62. According

to the supplementary pension insurance the maximum level of pension is 60% of the total salary under the Employees Pensions Act, calculated on the basis of the five-year period preceding retirement. In case their employment relationship with Metsä Group terminates before the retirement age, a member of the Executive Management Team is entitled to a free policy. At the end of 2019, four members of the Executive Management Team in addition to the President and CEO had a supplementary pension insurance.

LONG-TERM REMUNERATION

Share ownership plan for 2014–2018:

The Board of Directors of Metsäliitto Cooperative decided in February 2014 on a share ownership plan for Metsä Group's executives for the years 2014–2018. The share ownership plan had three performance periods of three years each: the calendar years 2014–2016, 2015–2017 and 2016–2018. The purpose of the plan is to align the objectives of the owners and the executives in order to increase the Group's value, to commit the executives to perform the Group's mutual strategy, and to offer the executives a competitive reward plan based on share ownership. Metsäliitto Cooperative's Board of Directors determined the performance criteria for each performance period and the targets set for them as well as the executives who belong to the target group and the number of shares allocated to them at the beginning of each performance period. Reaching the targets set for a performance period determined the proportion of the share reward which was paid to the executives. The amount of the reward paid annually was limited. The President and CEO's maximum reward (including both shares and the cash proportion) was 2.5 times the size of CEO's annual salary and the maximum reward of the other members of Metsä Group's Executive Management Team was twice the size of their annual salary. Possible reward was paid partly as Metsä Board Corporation's series B shares and partly in cash. The reward was paid in the spring following the performance period. Each performance period has been followed by a subsequent two-year restriction period, during which the executive is not allowed to transfer or assign the shares received. If an executive terminates their employment or service contract during the restriction period, the executive is obliged to return the share reward they have earned without compensation. If a Group company terminates the employment or service contract of an executive for a reason not related to the executive or if the employment or service contract of the executive ends pursuant to mutual agreement prior to the end of the restriction period, the executive is entitled to keep the shares subject to the transfer restriction

and the said restriction discontinues. The plan's reward from the performance period 2015–2017 was based on Metsä Group's return on capital employed (ROCE), earnings before interest and taxes (EBIT), and equity ratio. The reward for the performance period 2016–2018 was based Metsä Group's return on capital employed (ROCE). Minimum levels had also been set for earnings before the interest and taxes as well as the equity ratio. The reward earned for the performance period 2016–2018 is detailed below in the section "Remuneration Report 2019".

Performance share plan for 2017–2021:

The Board of Directors of Metsäliitto Cooperative decided in January 2017 to continue the performance share plan for Metsä Group's executives to the years 2017–2021. The purpose of the plan is to align the objectives of the owners and the executives in order to increase the Group's value, to commit the executives to perform the Group's mutual strategy, and to offer the executives a competitive reward plan based on share ownership. The performance share plan for 2017–2021 has three performance periods: the calendar years 2017–2019, 2018–2020 and 2019–2021. The Board of Directors determines the performance criteria for each performance period and the targets set for them as well as the executives who belong to the target group and the number of shares allocated to them at the beginning of each performance period. Reaching the targets set for a performance period determines the proportion of the share reward to be paid to the executives. The possible reward from each performance period (2017–2019, 2018–2020 and 2019–2021) is based on the development of Metsä Group's return on capital employed (ROCE, %) as specified by the Board of Directors. Minimum levels have also been set for earnings before the interest and taxes as well as the equity ratio. The amount of the reward paid annually is limited. The President and CEO's maximum reward (including both shares and the cash portion) is 2.5 times the size of CEO's annual salary and the maximum reward of the other members of Metsä Group's Executive Management Team is twice the size of their annual salary. Each performance period will be followed by a subsequent, approximately two-year restriction period during which the executive is not allowed to transfer or dispose the shares received. If an executive terminates their employment or service contract during the restriction period, the executive is obliged to return the share reward they have earned without compensation. If a Group company terminates the employment or service contract of an executive for a reason not related to the executive or if the employment or service contract of the executive ends pursuant to mutual agreement prior to the end of the restriction period, the executive is

entitled to keep the shares subject to the transfer restriction and the said restriction expires. The possible reward for the performance period 2017–2019 will be paid in the spring of 2020 partly as Metsä Board Corporation's series B shares and partly in cash. Correspondingly, any reward for the performance period 2018–2020 will be paid in the spring of 2021 and any reward for the performance period 2019–2021 in the spring of 2022. During the 2017–2019 performance period, the plan's target group consists of 75 people (December 2019), including the members of Metsä Group's Executive Management Team. The reward to be paid on the basis of the plan for the performance period 2017–2019 is equal in value to a maximum of 2.4 million Metsä Board Corporation series B shares, including the proportion payable in cash. The cash proportion covers any taxes and tax related charges resulting from the reward to an executive. During the 2018–2020 performance period, the plan's target group consists of 78 people (December 2019), including the members of Metsä Group's Executive Management Team. The reward to be paid on the basis of the plan for the performance period 2018–2020 is equal in value to a maximum of 2.5 million Metsä Board Corporation series B shares, including the proportion payable in cash. The cash proportion covers any taxes and tax related payments resulting from the reward to an executive. During the 2019–2021 performance period, the plan's target group consists of 90 people (December 2019), including the members of Metsä Group's Executive Management Team. The reward to be paid on the basis of the plan for the performance period 2019–2021 is equal in value to a maximum of 2.7 million Metsä Board Corporation series B shares, including the proportion payable in cash. The cash proportion covers any taxes and tax related payments resulting from the reward to an executive.

Performance plan for 2020–2024:

The Board of Directors of Metsäliitto Cooperative has decided in October 2019 to continue the long-term performance plan for Metsä Group's executives to the years 2020–2024. The purpose of the plan is to align the objectives of the owners and the executives in order to increase the Group's value, to commit the executives to perform the Group's mutual strategy, and to offer the executives a competitive long-term reward plan. The Plan includes three (3) performance periods (2020–2022, 2021–2023 and 2022–2024), each performance period is followed by a two-year restriction period. The Board of Directors determines the performance criteria for each performance period and the targets set for them as well as the executives who belong to the target group and the number of shares allocated to them at the beginning of each performance period. Reaching the targets set for a perfor-

mance period determines the proportion of the reward to be paid to the executives. The possible reward of Metsä Group's long-term performance plan from the performance period 2020–2022 is based on the development of Metsä Group's return on capital employed (ROCE, %) as specified by the Board of Directors. Minimum levels have also been set for earnings before interest and taxes as well as the equity ratio. The Board of Directors is entitled to reduce the rewards fully or partly if defined earnings or equity ratio criteria are not met, or if the reward should exceed the maximum reward limit defined for each executive individually. In addition to the outcome of the performance criteria the basis for the reward is a synthetic share value of which is determined based on Metsä Group's total value. The President and CEO's reward is 325% of his annual base salary at the maximum and the reward of the other members of Metsä Group's Executive Management Team is 270% of their annual base salary at the maximum. The potential reward shall be paid in cash after the restriction period and it shall include taxes and other possible expenses. Should executive's employment end during the performance or restriction period, executive shall principally lose the right to reward. At the beginning of the performance period 2020–2022, the plan covers 67 participants, including the members of Metsä Group's Executive Management Team as well as other key employees of Metsä Group (excl. Metsä Board Corporation which has an own long-term performance plan). The rewards to be paid on the basis of the plan for the performance period 2020–2022 will amount to 1 135 478 synthetic shares (gross). The final amount of the reward includes the taxes and other expenses payable for the reward. The estimated market value of the plan's first performance period, including taxes and other expenses, is approximately EUR 12.3 million.

The Board of Directors of Metsäliitto Cooperative's subsidiary Metsä Board has decided in January 2020 to continue the performance share plan directed to executives who will be rewarded with Metsä Board Corporation's series B shares as previous years. The potential reward for the performance period 2020–2022 is based on the development of Metsä Group's (50 %) and Metsä Board's (50 %) return on capital employed (ROCE, %), as determined by the Board of Directors. Minimum levels have also been set for earnings before interest and taxes as well as the equity ratio. The reward consists of a proportion to be paid in Metsä Board Corporation's series B shares and a cash proportion. The cash proportion refers to an amount used to cover the taxes to be withheld from the reward. The reward of the CEO is 270% of the CEO's annual base salary at the maximum. The potential reward shall be paid in the spring following the end of the performance period. The performance period is

followed by a two-year restriction period, during which executives are not allowed to sell or otherwise transfer the shares received. Should executive's employment end during the performance or restriction period, executive shall principally lose the right to reward. At the beginning of the performance period 2020–2022, the plan covers 25 participants, including the members of the Executive Management Team as well as other key employees of Metsä Board. The rewards to be paid on the basis of the plan for the performance period 2020–2022 will amount to 590 788 shares (gross). The final amount of the reward consists of Metsä Board Corporation's series B shares as well as the taxes and other expenses payable for the reward. The estimated market value of the plan's first performance period, including taxes and other expenses, is approximately EUR 3.6 million. Further information on Metsä Board's performance share plan is available on Metsä Board's Salary and Remuneration Report 2019.

REMUNERATION REPORT 2019

SUPERVISORY BOARD

The Annual General Meeting of the Representative Council on April 26, 2019 decided to increase the reward of the Supervisory Board members in 2019. In 2019, the monthly reward of the Chairman of the Supervisory Board was EUR 4,100 and the meeting fee EUR 800 per meeting. In 2019, the monthly reward of the Deputy Chairman was EUR 1,800 and the meeting fee EUR 800 per meeting. Other members of the Supervisory Board were paid a meeting fee of EUR 800 per meeting. In 2019, the Chairman of the Supervisory Board was paid a total of EUR 68,850 in salaries and meeting fees (EUR 65,700 in 2018). The Deputy Chairman was paid a total of EUR 36,950 in salaries and meeting fees in 2019 (EUR 31,250 in 2018). The meeting fees paid to the other members of the Supervisory Board totaled EUR 167,100 (EUR 165,900 in 2018). The salaries and fees paid to the members of the Supervisory Board in 2019 totaled EUR 272,900 (EUR 262,850 in 2018).

BOARD OF DIRECTORS

In its meeting held in November 2018, the Supervisory Board decided to increase the reward paid to the members of the Board of Directors in 2019. The monthly reward of the Chairman of the Board of Directors in 2019 was EUR 7,500 and the monthly reward of other Board members was EUR 4,200. In addition, the members of the Board of Directors were paid a meeting fee of EUR 700 per meeting (unchanged). The separate monthly fee paid to the Chairman of the

Audit Committee was EUR 1,200 (unchanged) and the separate monthly fee paid to the Chairman of the Compensation Committee was EUR 1,000 (unchanged). In 2019, the Chairman of the Board of Directors was paid a total of EUR 105,990 in salaries and meeting fees (EUR 106,240 in 2018). The salaries and meeting fees paid to other Board members totaled EUR 466,300 (EUR 447,100 in 2018). The salaries and fees paid to the members of the Board of Directors in 2019 totaled EUR 572,290 (EUR 553,340 in 2018). The reward paid for Board work accumulated pension benefits.

PRESIDENT AND CEO

In 2019, Metsä Group companies paid President and CEO Ilkka Härmälä a total of EUR 3,366,505 in salaries, fees and other benefits (EUR 2,105,073 in 2018). In 2019, the salary, including fringe benefits, paid to the President and CEO by Metsäliitto Cooperative was EUR 821,512 (EUR 821,557 in 2018), the short-term incentives were EUR 573,300 and the long-term incentives from the performance period 2016–2018 were EUR 580,978. The salaries, fees and other benefits paid to the President and CEO by the other Group companies totaled EUR 1,390,714 (EUR 1,283,516 in 2018). The aforementioned sum also includes the long-term incentives and the paid deferred long-term incentives paid to Härmälä for his previous post as the CEO of Metsä Fibre. The costs paid for the President and CEO's supplementary defined benefit pension insurance in 2019 was EUR 1,201,421 (EUR 230,876 in 2018).

OTHER EXECUTIVES

In 2019, Metsä Group companies paid the members of the Executive Management Team (excluding President and CEO Ilkka Härmälä) a total of EUR 7,788,283 in salaries and reward (EUR 7,341,910 in 2018), of which EUR 1,983,984 consisted of salaries, including fringe benefits, (EUR 2,195,366 in 2018), EUR 804,409 of short-term incentives (EUR 843,728 in 2018) and EUR 2,449,450 of long-term incentives for the performance period 2016–2018 (EUR 4,302,817 in 2018) as well as the paid deferred long-term incentives from the previous performance periods EUR 2,550,440. In addition to the President and CEO, four members of the Executive Management Team had a supplementary defined benefit pension insurance, the costs of which totaled EUR 1,105,694 (EUR 742,310 in 2018).

LONG-TERM REMUNERATION

The reward earned for the performance period 2016–2018 of the share ownership plan was paid in the spring of 2019. The reward for the performance period in question, paid to a total of 69 persons (including all members of Metsä Group's Executive Management Team), was equal in value to approximately 2.1 million Metsä Board Corporation's series B shares, including the proportion payable in cash. The President and CEO Ilkka Härmälä's share of the reward corresponded to the value of approximately 0.2 million shares of which part is based on his previous post as the CEO of Metsä Fibre. The share of the other members of the Executive Management Team corresponded to the value of approximately 0.4 million shares.

Make the most of Metsä

