

Metsä Board Remuneration Report 2020



Review by the Chairman of the Nomination and Compensation Committee



DEAR SHAREHOLDER,

In February 2020, Metsä Board's Board of Directors decided on a new remuneration policy and its presentation to the Annual General Meeting. The policy was addressed at the General Meeting held on 11 June 2020 by special arrangement, and it is available on the company's website. The principles of the policy are applicable to the remuneration of the entire personnel, and compliance with them promotes the implementation of the company's strategy and long-term financial success.

Metsä Board's remuneration reporting has been updated in accordance with the Finnish Corporate Governance Code, published in 2020 by the Securities Market Association. This updated Remuneration Report describes how the principles of the remuneration policy for the governing bodies are applied and complied with. The report also reviews

the remuneration of the company's Board members and CEO during the past financial year. Information on the remuneration of management and personnel is also available in the company's financial statements and on its website.

We believe that the new Remuneration Report is clear and informative, and provides our shareholders and other stakeholders with a clear overall picture of the remuneration of the company's governing bodies.

Ilkka Härmälä
Chairman of the
Nomination and Compensation Committee
of Metsä Board's Board of Directors

Introduction

Metsä Board's remuneration aims to support profitable growth and the increase of shareholder value in a fair manner in line with the company's values and interests. The key objective is to enable the achievement of the company's vision as well as its strategic and operational targets including our sustainability targets. We aim to motivate excellent performance over both the short and long term.

SHORT-TERM AND LONG-TERM TARGETS

Metsä Board has a short-term incentive system with a review period of one calendar year as well as a long-term, share-based incentive system with a performance period of three years and a restriction period of approximately two years. The targets of the long-term incentive system – tied to the return on capital employed, operating result and equity ratio – impact the development of shareholder value in the long term. With the support of the incentive systems, the Board of Directors steer the company's operations over the short and long term. Metsä Board's financial result has a direct impact on the CEO's remuneration through both the short- and long-term incentive systems.

REVIEW OF REMUNERATION POLICY AT GENERAL MEETING

The remuneration policy was addressed at the company's Annual General Meeting on 11 June 2020. The General Meeting was held by special arrangement pursuant to the act allowing temporary derogation from the Companies Act in such a way that the meeting could be attended only by means of advance voting. Of the advance votes cast, 98.52% voted for and 1.48% voted against the remuneration policy. Shareholders did not submit any opinions or questions about the content of the policy by the prescribed deadline. The Board of Directors has thereby concluded that the policy enjoys the broad support of shareholders.

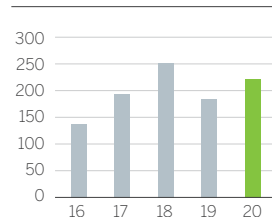
COMPLIANCE WITH THE REMUNERATION POLICY

Metsä Board's remuneration policy was complied with throughout the financial year, and the policy was not deviated from in any respect.

METSÄ BOARD'S FINANCIAL DEVELOPMENT

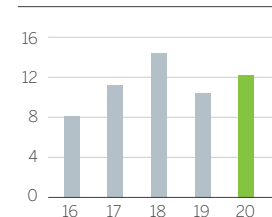
OPERATING RESULT, COMPARABLE

EUR million



RETURN ON CAPITAL EMPLOYED, COMPARABLE

%



DEVELOPMENT OF REMUNERATION 2016–2020

In 2017, the annual remuneration of the Board of Directors was increased by a decision of the General Meeting to correspond with general salary developments and development in companies belonging to the company's peer group. The increase was around 8%. The CEO's base salary was increased by approximately 1.0% over the five-year

period. The development of the gross earnings has been influenced particularly by the company's success, and thereby by the stronger share price and the number of the company's B-series shares earned within the long-term incentive system. The development of employees' average earnings has been moderate.

DEVELOPMENT OF THE BOARD OF DIRECTOR'S REMUNERATION, THE CEO'S REMUNERATION AND EMPLOYEES' AVERAGE EARNINGS (IN EUROS)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-----------|-----------|-----------|-----------|-----------|
| Chairman of the Board of Directors | 108,300 | 105,500 | 108,300 | 109,000 | 101,200 |
| Ilkka Hämälä as of 27 March 2018 Kari Jordan until 27 March 2018 | | | | | |
| Vice Chairman of the Board of Directors | 94,700 | 90,500 | 93,300 | 94,000 | 87,400 |
| Jussi Linnaranta as of 11 June 2020 Martti Asunta until 11 June 2020 | | | | | |
| Other members of the Board of Directors (on average) | 75,900 | 73,400 | 74,700 | 75,814 | 70,514 |
| CEO ¹⁾ | 1,148,937 | 1,333,824 | 1,766,254 | 1,339,476 | 1,173,861 |
| Mika Joukio as of 1 October 2014 | | | | | |
| Employees' average earnings ²⁾ | 50,695 | 51,418 | 54,168 | 51,181 | 51,121 |

¹⁾ The CEO was also paid deferred long-term incentives in 2020 (EUR 658,981) and in 2019 (EUR 625,703). The long-term incentives paid in 2016 and 2017 include only the portion earned as Metsä Board Corporation's CEO. The figures shown in the table do not include paid supplementary pension insurance contributions.

²⁾ The average earnings of employees have been calculated from the employee costs of Metsä Board Group in its entirety, by deducting social security costs from the total and dividing the remainder by the average number of employees.

Remuneration of the Board of Directors

REMUNERATION PAID TO THE BOARD AND BOARD PENSION ARRANGEMENT COSTS IN 2020 (IN EUROS)

| | Annual remuneration ¹⁾ | Meeting fees | Pension benefit ²⁾ | Total |
|--|-----------------------------------|----------------|-------------------------------|----------------|
| Ilkka Härmälä , Chairman | 95,000 | 13,300 | 14,784 | 123,084 |
| Jussi Linnaranta , Vice Chairman as of 11 June 2020 | 80,000 | 13,300 | 14,151 | 107,451 |
| Hannu Anttila | 62,500 | 14,000 | 11,622 | 88,122 |
| Kirsi Komi | 62,500 | 14,000 | 10,475 | 86,975 |
| Kai Korhonen ³⁾ | 62,500 | 14,000 | 0 | 76,500 |
| Liisa Leino | 62,500 | 13,300 | 10,380 | 86,180 |
| Jukka Moisio as of 11 June 2020 | 62,500 | 5,600 | 9,228 | 77,328 |
| Timo Saukkonen as of 11 June 2020 | 62,500 | 5,600 | 9,228 | 77,328 |
| Veli Sundbäck | 62,500 | 13,300 | 0 | 75,800 |
| Total | 612,500 | 106,400 | 79,867 | 798,767 |
| Previous Board members | | | | |
| Martti Asunta , Vice Chairman until 11 June 2020 | 0 | 7,700 | 1,268 | 8,968 |
| Juha Niemelä until 11 June 2020 | 0 | 7,700 | 0 | 7,700 |

¹⁾ Approximately one half of the remuneration was paid in the company's B series shares while the other half was paid in cash, which covers the taxes collected on the remuneration.

²⁾ The members of the Board of Directors are voluntarily TyEL-insured (Finnish statutory pension system) until the upper age limit of the TyEL insurance obligation is reached.

³⁾ The Chairman of the Audit Committee has also been paid a monthly fee of EUR 800.

Remuneration of the CEO

REMUNERATION PAID TO THE CEO AND THE COST OF THE SUPPLEMENTARY PENSION ARRANGEMENT IN 2020 (IN EUROS)

| | 2020 |
|---|------------------|
| Base salary including fringe benefits ¹⁾ | 511,158 |
| Short-term incentive ²⁾ | 64,903 |
| Long-term incentive ³⁾ | 572,876 |
| Deferred long-term incentive ⁴⁾ | 658,981 |
| Total | 1,807,918 |
| Supplementary defined-benefit pension insurance | 476,612 |

- ¹⁾ The base salary includes a company car and phone benefit, as well as extended health, travel and accident insurance coverage.
- ²⁾ The paid short-term incentive concerns performance in 2019.
- ³⁾ The paid long-term incentive concerns the performance period 2017–2019.
- ⁴⁾ In accordance with the terms of the share ownership plan and the Board of Director's decision, the total amount of deferred long-term incentives paid for previous years was EUR 658,981.

The short-term incentive paid to the CEO was based on performance in 2019. The maximum level of remuneration available in the short-term incentive system in 2019 was, accounting for Metsä Group's EBIT multiplier, 75% of the fixed annual salary. The reward was based on Metsä Board's operating result (50% weighting) and the strategic goals defined by the Board of Directors (50% weighting) as well as the realisation of Metsä Group's EBIT multiplier. The CEO's short-term incentive for 2019, accounting for Metsä Group's EBIT multiplier, was 12.7% of the base salary paid in 2020. The reward was paid in March 2020.

The reward paid from the long-term incentive system concerned the performance period 2017–2019 of the performance share plan 2017–2021. The paid long-term incentive was based on the development of Metsä Board Group's (50%) and Metsä Group's (50%) return on capital employed (ROCE, %), as determined by the Board of Directors. Minimum levels had also been set for the operating result and equity ratio. The realisation of the performance period 2017–2019 was 75.1%.

The amount of the reward is limited, and the reward of the CEO (including both shares and cash) can be 200% of the CEO's annual base salary at the maximum. The long-term incentive paid in March 2020 is followed by a restriction period of approximately two years, during which the CEO may not transfer or dispose of the shares. The realisation of the long-term incentive was 112.1% of the base salary paid in 2020.

REALISATION OF THE PERFORMANCE PERIOD 2017–2019 OF THE LONG-TERM INCENTIVE SYSTEM AND THE SHARES DELIVERED TO THE CEO IN 2020

| Performance period | 2017–2019 |
|--------------------------------------|--------------------|
| Performance criteria | ROCE ¹⁾ |
| Realisation of performance period, % | 75.1 |
| Year of payment of reward | 2020 |
| Restriction period | 2 years |
| Share price on date of transfer, EUR | 4.86 |
| Number of shares delivered | 56,325 |

- ¹⁾ The three-year average ROCE of Metsä Board Group and Metsä Group. Minimum values have also been set for equity ratio and operating result.

The potential reward for the performance period 2018–2020 is based on the development of Metsä Board Group's (50%) and Metsä Group's (50%) return on capital employed (ROCE, %), as determined by the Board of Directors. Minimum levels have also been set for the operating result and equity ratio. The amount of the reward is limited, and the reward of the CEO (including both shares and cash) can be 200% of the CEO's annual base salary at the maximum. Potential reward will be paid in March 2021. The payment of the reward is followed by a restriction period of approximately two years, during which the CEO may not transfer or dispose of the shares.

The variable pay (short and long-term incentives) constitutes a significant part of the CEO's remuneration. The relative proportions of the fixed annual salary and variable pay are shown in the graph below.

The CEO is entitled to the supplementary defined benefit pension insurance, with a retirement age of 62. The contribution to the supplementary defined-benefit pension insurance during the previous financial year was EUR 476,612. No other financial benefits were paid to the CEO in 2020.

BREAKDOWN OF THE CEO'S REMUNERATION INTO A FIXED BASE SALARY, SHORT-TERM INCENTIVE AND LONG-TERM INCENTIVE IN 2020

| | |
|---------------------------------------|-----|
| Base salary including fringe benefits | 44% |
| Short-term incentive | 6% |
| Long-term incentive | 50% |





**Together we make
the perfect package**

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