

# METSÄ BOARD

SALARY AND REMUNERATION REPORT 2017



**MetsäBoard**

# SALARY AND REMUNERATION REPORT

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This salary and remuneration report of Metsä Board Corporation (Metsä Board or the Company) has been issued pursuant to recommendations concerning reporting of the Finnish Corporate Governance Code 2015. The description on remuneration principles and decision-making is updated on a regular basis, two times every calendar year as a starting point, however, always in connection with the annual Corporate Governance Statement. A report regarding the fees paid out during the previous financial year is also published concurrently.

## DECISION-MAKING ORDER AND PRINCIPLES OF REMUNERATION

### GENERAL

The purpose of the management's compensation system is to compensate management in a fair and competitive way for a successful and profitable implementation of the Company's strategy. The objective of remuneration is also to encourage management in the development of the Company's strategy and business and to thereby act for the benefit the Company in the long run. The Board approves the forms and basis of compensation and incentive systems as well as the measures and targets applied. The Board's Nomination and Compensation Committee assists the Board in matters relating to management remuneration, conditions of employment and engagement of management members as well as prepares Board decisions relating to management remuneration.

The Company currently uses a short-term bonus scheme for management and personnel as well as a long-term share based compensation scheme for management and key employees.

### BOARD OF DIRECTORS

The Annual General Meeting of the Company decides on the remuneration of the Board of Directors. The Nomination and Compensation Committee presents the General Meeting with proposals for remuneration of the Board of Directors, taking into account the Company's financial standing at

a given time and, among other things, remuneration guidelines in other comparable companies. The Committee consults, if necessary, the majority shareholder, who has the decisive vote at the General Meeting as regards Board remuneration.

### CHIEF EXECUTIVE OFFICER

The Board of Directors in turn appoints and discharges the CEO and approves his salary and compensation. The Board can discharge the CEO without a specific reason. The CEO can also resign from his assignment. The mutual term of notice is six months. The Board may, however, decide to discharge the CEO without a period of notice. When the service contract of the CEO is terminated by the Board, the CEO is entitled to receive discharge compensation equal to his 12-month salary. The Board may, in accordance with the CEO's service contract, decide that the CEO annually receives bonus pay based on his overall performance and corresponding to a maximum of his seven (7) month salary.

The CEO is covered by the Finnish Employees' Pension Act, which provides for a pension compensation based on service years and earnings. Basic salary, rewards and fringe benefits are included in the calculation, but not stock option or share plan based income. The Company has commissioned an extra pension insurance policy for the CEO, entitling the CEO to retire at the age of 62. The policy entitles the CEO to receive pension compensation equal to 60 per cent of his salary at the time of retirement (calculated in accordance with Finnish pension laws) on the basis of a five-year-period preceding the moment of retirement.

### CORPORATE MANAGEMENT TEAM

The CEO decides on the compensation of other Corporate Management Team members in cooperation with the Board Chairman and in accordance with the principles approved and guidelines given by the Board.

Also other Corporate Management Team members have written employment contracts. The period of notice of Corporate Management Team members is six months. Termination of employment without

cause entitles members of the Corporate Management Team (excluding the Vice President for HR) to receive discharge compensation equal to their 6 to 12-month salary.

Excluding the CEO, Corporate Management Team members have no extraordinary pension arrangements which would deviate from applicable pension legislation. The members are covered by the Finnish Employees' Pension Act, which provides for a pension compensation based on service years and earnings. Basic salary, rewards and fringe benefits are included in the calculation, but not stock option or share plan based income.

### LONG-TERM SHARE INCENTIVE SCHEME

The Board decided in December 2013 to continue the share-based incentive scheme for management. The plan consists of three new three-year earnings periods, namely calendar years 2014–2016, 2015–2017 and 2016–2018. The aim of the plan is to combine the objectives of shareholders and executives in order to increase the value of the company, to commit the executives to perform the mutual strategy, and to offer them a competitive reward plan based on share ownership. At the beginning of each period, the Board of Directors decided on the earnings criteria and defined performance targets. The potential reward from the plan for each of the earnings periods is based partly on Metsä Board Group's equity ratio at the end of the period as well as the development of return on capital employed (ROCE) and operating results (EBIT) and partly based on corresponding indicators for Metsä Group, as determined by the Board for each earnings period. An earnings period is followed by a two-year restriction period during which a participant is not entitled to transfer or dispose of the shares. In case the Company or a participant terminates the employment or service contract during the restriction period, the Board may require the participant to return the shares already earned.

The potential reward for the earnings period 2016–2018 will be paid in 2019 and entitled at the start of the period the payment of a maximum of 243,750 B-shares. On top the Company pays in money an amount covering the applicable withholding tax and

related payments. The amount of the annually payable reward may be limited. Rewards earned for the earnings periods 2014–2016 and 2015–2017 have been described below under “Remuneration Report 2017”.

The Board decided in January 2017 to further continue the share-based incentive scheme for management. The plan consists of three additional three-year earnings periods, namely calendar years 2017–2019, 2018–2020 and 2019–2021. At the beginning of each period, the Board of Directors decides on the earnings criteria and defines performance targets. The potential reward from the plan for the earnings period 2017–2019 is based 50 per cent on the development of Metsä Board Group’s return on capital employed (ROCE) and 50 per cent on the corresponding indicator for Metsä Group, as determined by the Board.

The Board further has the right to limit rewards from the system, in whole or in part, if defined earnings or equity ratio criteria are not met. If the reward together with the short term bonus (2018–2019) or the reward only (2018–2020) would exceed the participant’s annual salary (or in the case of the CEO his annual salary multiplied by two), the exceeding part is not paid. An earnings period is followed by a two-year restriction period during which a participant is not entitled to transfer or dispose of the shares. In case the Company or a participant terminates the employment or service contract during the restriction period, the Board may require the participant to return the share reward already earned. The potential reward for the earnings period 2017–2019 is paid in the spring of 2020 in Metsä Board Corporation’s B-shares. Correspondingly the potential reward for the earnings period 2018–2020 is paid in the spring of 2021 in Metsä Board Corporation’s B-shares.

The target group of the plan for the performance period 2017–2019 consisted in December 2017 of 21 participants, including

the members of the Corporate Management Team as well as key individuals in sales, production and corporate administration. Changes in participants during the earnings period such as changes in Corporate management Team members in January 2015 and September 2017 have an effect on the maximum amount. The rewards to be paid on the basis of the plan for the performance period 2017–2019 will amount to a maximum of 263,750 B shares. In addition, a cash proportion is included in the reward to cover taxes and tax-related costs arising from the reward.

## REMUNERATION REPORT 2017

### BOARD OF DIRECTORS

The Annual General Meeting held in March 2017 resolved to increase the Board’s annual remuneration such that the Chairman received an annual remuneration of EUR 95,000, the Vice Chairman EUR 80,000 and members EUR 62,500. One half of the remuneration was decided to be paid in cash while the other half was to be paid in the Company’s B-series shares acquired from the stock exchange between 1 and 30 April 2017. As a result, the Chairman received 7,964, the Vice Chairman 6,706 and each Board member 5,239 B-series shares at EUR 5.96 per share. The Board members are not allowed to transfer these shares within a period of two years from the grant date. The amount of the cash consideration corresponds to the estimated withholding tax. In addition, the Annual General Meeting resolved to pay to the members a remuneration of EUR 700 per each attended Board and committee meeting. Travel expenses of the Board are compensated in accordance with the Company’s travel policy. Further, the Annual General Meeting decided that an additional monthly compensation of EUR 800 be paid to the Chairman of the Audit Committee.

The Nomination and Compensation Committee of the Board of Directors proposes to the 2018 Annual General Meeting that the remuneration for the members of the Board of Directors be kept unchanged. The Committee additionally proposes that one half of the annual remuneration be paid in the company’s B-class shares to be acquired from public trading between 1 and 30 April 2018 and that the transfer of these shares would be restricted for a period of two years from the grant date. The Committee finally proposes that an additional monthly remuneration of EUR 800 be paid to the Audit Committee Chairman also going forward. The Board’s annual remuneration has been paid in shares and cash since 2009.

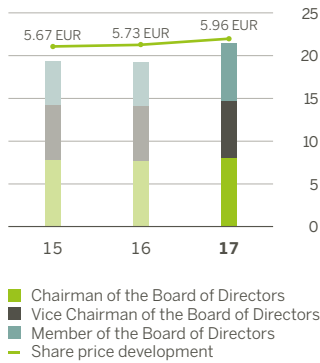
### CHIEF EXECUTIVE OFFICER

The monthly salary of CEO Mika Joukio is EUR 40,211. The salary includes car and mobile phone benefits and an extended travel and accident insurance policy. In 2017 the CEO Joukio received a total of:

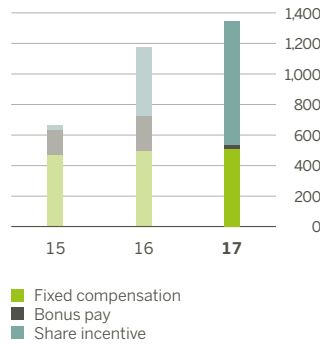
- EUR 1,339,476 in salary, bonuses and other benefits, including share incentive (EUR 1,173,860 in 2016 and EUR 693,140 in 2015), of which
- EUR 506,662 (EUR 498,301 in 2016 and EUR 469,711 in 2015) was fixed compensation and
- EUR 25,199 (EUR 229,849 in 2016 and EUR 165,319 in 2015) was short-term bonus pay and
- EUR 807,615 (EUR 445,711 in 2016 and EUR 58,109 in 2015) share incentives and related cash compensation. In addition, the payment of a total of EUR 398,125 of the share reward for the earnings period 2014–2016 was postponed for later payment in accordance with the system rules.

The bonus pay is determined by the Board and was in 2015–2017 based on the Company’s EBIT and cash flow, Metsä

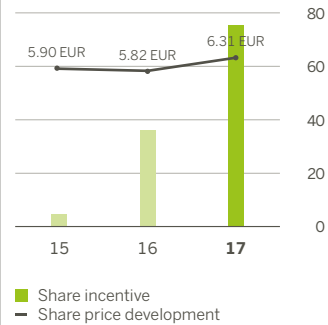
### BOARD OF DIRECTORS' SHARE REMUNERATION 1,000 SHARES



### COMPENSATION OF THE CEO 1,000 EUR



### SHARE REMUNERATION OF THE CEO 1,000 SHARES



Group's corresponding indicators and on personal targets.

#### CORPORATE MANAGEMENT TEAM

In 2017, other Corporate Management Team members (including Seppo Puotinen whose service with the Company ended during 2017) received a total of:

- EUR 1,889,801 (EUR 2,460,712 in 2016 and EUR 1,889,873 in 2015) in salary and bonuses of which
- EUR 974,431 (EUR 1,093,384 in 2016 and EUR 1,154,996 in 2015) were fixed salaries and benefits (insurance, car and mobile phone) and
- EUR 66,393 (EUR 439,657 in 2016 and EUR 454,030 in 2015) was short-term bonus pay and
- EUR 848,977 (EUR 927,671 in 2016 and EUR 280,846 in 2015) was share incentives and related cash compensation. In addition, the payment of a total of EUR 994,669 of the share reward for the earnings period 2014–2016 was postponed for later payment in accordance with the system rules.

The members of the Corporate Management Team are entitled to bonus pay corresponding to a maximum of their respective 6-month salaries. The bonus pay is defined and decided by the Board and the CEO and was in the financial years 2015–2017 based on the Company's and its functions' revenue and other targets, and on personal targets.

#### LONG-TERM SHARE-BASED COMPENSATION

The Board confirms the outcomes of the long-term share based incentive system based on principles, indicators and scales approved by it. The Board confirmed:

- in February 2016 that the result for the earnings period 2013–2015 was 74.4 per cent, based on which a total of 160,074 B-series shares were paid to participants. Of these 36,187 were paid to CEO Joukio;
- in February 2017 that the result for the earnings period 2014–2016 was 111.6 per cent (including an EBIT-multiplier), based on which a total of 259,162 B-series shares were paid to participants. Of these 82,973 were paid to CEO Joukio;

- in February 2018 that the result for the earnings period 2015–2017 was 117.1 per cent (including an EBIT-multiplier), based on which a total of 250,516 B-series shares were paid to participants. Of these 103,000 were paid to CEO Joukio. The payment of a part of the total reward is postponed in accordance with the system rules.

In addition, the reward includes a cash portion covering taxes and other tax-related costs.