



n

s a

o

a

m

a

Remuneration Report 2020

m

a

# Remuneration Report

Overview of remuneration in 2020 .....	2
Development of financial performance and remuneration .....	3
Remuneration of the Board .....	5
Remuneration of the CEO .....	6

This Remuneration Report sets out how Sanoma Corporation has implemented its Remuneration Policy in 2020. This report includes information concerning the remuneration of the Board of Directors and the President and CEO of Sanoma between 1 January 2020 and 31 December 2020.

The Remuneration Report has been reviewed by Sanoma's Human Resources Committee and approved by the Board. The shareholders will make an advisory decision on the approval of the Remuneration Report at the Company's Annual General Meeting 2021. This report is based on the recommendation on Corporate Governance Code 2020 as well as the provisions on the Finnish Securities Market Act and Limited Liability Companies Act.

# Overview of remuneration in 2020

Remuneration of the Sanoma governing bodies is based on the Remuneration Policy that was presented for an advisory decision at the Annual General Meeting held on 25 March 2020. The policy will be applied until the Annual General Meeting 2024, unless the Board decides, based on HR Committee's proposal, to bring it for an advisory decision at an earlier General Meeting. Remuneration of Sanoma's top executives is designed around the following principles:

- Support the business strategy
- Pay for performance
- Pay competitively
- Encourage share ownership
- Be fair, transparent and simple in design

The decision-making process on remuneration, as defined in the Remuneration Policy, has been followed in the remuneration decision-making in 2020. No temporary deviations from the Remuneration Policy were applied in 2020. Furthermore, the Board did not observe any circumstances or activities that would have resulted in the need to apply clawback clauses applicable to the CEO's variable remuneration in 2020. However, the Board used its right to take into account the extraordinary business environment caused by the coronavirus pandemic and decided to make adjustments to performance criteria applied in 2020 as well as the earning opportunities in the variable pay plans in 2020, as described in more detail later in the report.

In line with the Remuneration Policy, the remuneration in 2020 has supported the Group's business strategies with a focus on creating long-term growth and shareholder value, while maintaining a solid focus on short-term financial results. The majority of the CEO's total remuneration opportunity has been performance-based to encourage the achievement of targets, while still being balanced and linked to the long-term results to avoid excessive short-term risk-taking. The HR Committee has evaluated the CEO's remuneration and benchmarked it in order to ensure a competitive and fair total remuneration opportunity compared to the relevant peers and markets. To encourage share ownership in Sanoma, shareholding guidelines for the CEO have been in place to further support and align shareholder and top executive interests.

Sanoma's performance was strong in an exceptional year 2020. Net sales grew to EUR 1,062 million (2019: 913) driven by acquisitions, and operational EBIT excl. PPA improved to EUR 157 million (2019: 138) with the corresponding margin of 14.7% (2019: 15.1%) being close to the previous year's level. The Group completed four significant M&A transactions during the year; the acquisitions of Santillana Spain and the regional news media business in Finland and the divestments of Sanoma Media Netherlands and the online classifieds business Oikotie in Finland; which shifted the focus of the Group's business even more strongly towards learning. The Group's financial position remained solid and it has a good ability to generate a positive free cash flow.

In 2020, there was a short-term incentive plan (STI) and a long-term incentive plan (LTI, Performance Share Plan 2020-2022) in place for the CEO. The Board resolved on the earning opportunities and performance targets for both plans at the beginning of the financial year. However, because of the extraordinary business environment due to the coronavirus pandemic, the Board decided in September 2020 to adjust the performance targets of both incentive plans to reflect the extreme changes and challenges in the markets. Simultaneously, the Board decided to respectively decrease the maximum earning opportunities of the 2020 performance periods for both short-term and long-term incentive plans to 50% of the original on-target value.

With solid financial performance during the exceptional year 2020, the performance outcome in the short-term incentive plan 2020 was at the updated target level. The performance outcome in the long-term incentive plan at 97% was close to the target level set by the Board in September of 2020. Detailed information on the application of the performance criteria is available on p. 6.

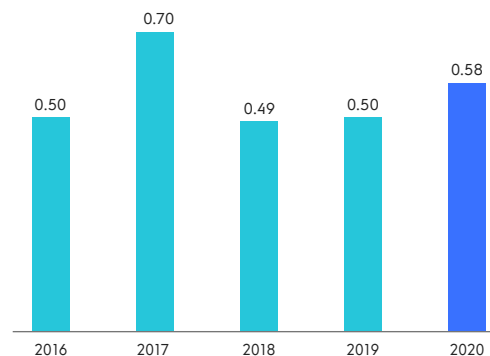
The total Compensation paid to the CEO in 2020 was EUR 3,632,689 (2019: 3,541,726). It included the rewards earned for the STI 2019 (based on performance targets set for financial year 2019) and for the LTI 2017-2019 (based on the performance targets set for financial year 2017).

# Development of financial performance and remuneration

## 5-year development of financial performance

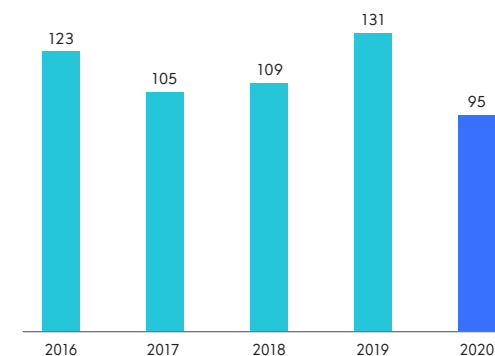
During the past five years, Sanoma has focused its business more around its strongholds and divested businesses, in which it did not have a leading position or a sustainable competitive advantage. The Group's business composition has become more stable, with learning and B2C media sales contributing approx. 75% of net sales and learning close to 70% of earnings going forward. Successful strategy execution has also strengthened the Group's financial position, performance and ability to create a positive cash flow. In 2016-2020, the dividend has increased by 155% and total return to shareholders (share price development and dividends paid) was approx. 350%.

OPERATIONAL EPS, €<sup>1</sup>



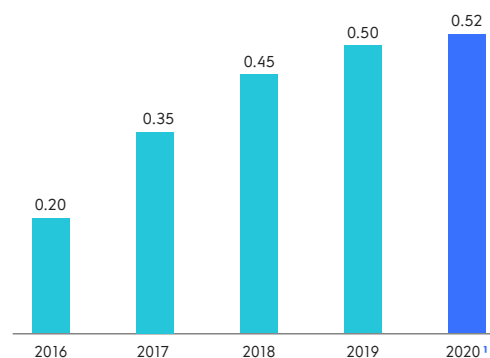
<sup>1</sup> Continuing operations

FREE CASH FLOW, M€



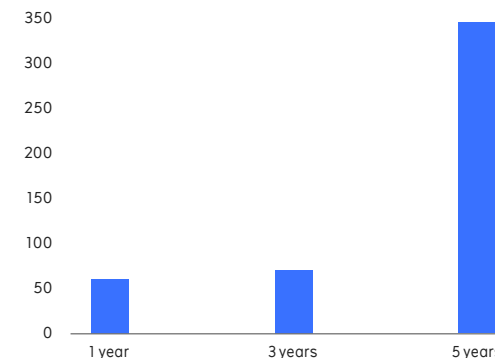
Free cash flow = Cash flow from operations less capital expenditure

DIVIDEND PER SHARE, €



<sup>1</sup> Board's proposal to the AGM 2021

TOTAL RETURN, %

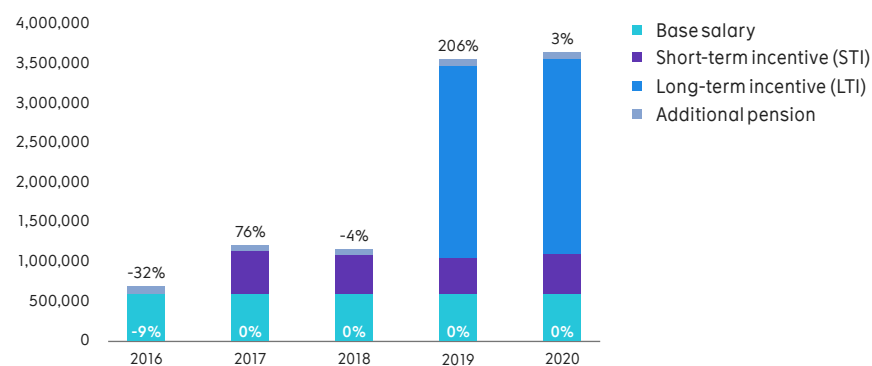


## 5-YEAR DEVELOPMENT OF REMUNERATION (PAID REMUNERATION PER YEAR)

	2016	2017	2018	2019	2020
Chairman of the Board	102,000	102,000	102,000	102,000	133,500
Change y-o-y	0%	0%	0%	0%	31%
Vice Chairman of the Board	78,000	78,000	78,000	78,000	82,500
Change y-o-y	0%	0%	0%	0%	6%
Member of the Board	66,000	66,000	66,000	66,000	70,500
Change y-o-y	0%	0%	0%	0%	7%
President & CEO	688,596	1,209,360	1,157,971	3,541,726	3,632,689
Change y-o-y	-32%	76%	-4%	206%	3%
Sanoma employee <sup>1</sup>	59,000	59,000	57,000	56,000	58,000
Change y-o-y	5%	0%	-4%	-1%	4%

<sup>1</sup> Average Sanoma employee remuneration is calculated by dividing the Group's total salary costs by the average number of employees. For 2018-2020, only continuing operations are included.

## DEVELOPMENT OF CEO COMPENSATION (PAID), €



The graph presents development of remuneration paid to the CEO in the corresponding financial year. For example, in 2020:

- Base salary 1-12/2020
- Short-Term Incentive (STI) earned in 2019 and paid in 2020
- Long-Term Incentive (LTI) earned in PSP 2017-2019 and paid in 2020
- Additional pension payment in 2020

# Remuneration of the Board

Shareholders resolved on the Board Remuneration in the Annual General Meeting of 2020 as follows.

## Monthly Fees

- EUR 12,000 to Chairman
- EUR 7,000 to Vice Chairman and
- EUR 6,000 to members.

## Meeting Fees

- For Board members who reside outside Finland:  
EUR 1,000 / Board meeting where the member was present;
- For the Chairmen of Board's Committees:  
EUR 2,000 / Committee meeting participated;
- For Committee members who reside outside Finland:  
EUR 2,000 / Committee meeting where the member was present and EUR 1,000 / Committee meeting participated; and
- For Committee members who reside in Finland:  
EUR 1,000 / Committee meeting participated

Board Remuneration is paid fully in cash.

## BOARD REMUNERATION IN 2020

Director	Fixed Fees	Meeting Fees	Total
Pekka Ala-Pietilä (Chairman)	133,500	-	133,500
Antti Herlin (Vice Chairman)	82,500	-	82,500
Julian Drinkall <sup>1</sup>	54,000	3,000	57,000
Rolf Grisebach <sup>1</sup>	54,000	5,000	59,000
Mika Ihamuotila	70,500	8,000	78,500
Nils Ittonen	70,500	8,000	78,500
Denise Koopmans	70,500	12,000	82,500
Sebastian Langenskiöld	70,500	2,000	72,500
Rafaela Seppälä	70,500	3,000	73,500
Kai Öistämö	70,500	6,000	76,500
Anne Brunila <sup>2</sup>	16,500	2,000	18,500

<sup>1</sup> From 25 March 2020

<sup>2</sup> Until 25 March 2020

# Remuneration of the CEO

## Application of performance criteria in 2020

In 2020, the CEO was offered two performance-based incentive plans: a short-term incentive (STI) and a share-based long-term incentive (LTI, Performance Share Plan 2020-2022). The purpose of the short-term incentive is to incentivise for achieving financial and non-financial short-term targets aligned with business strategy. The purpose of the long-term incentive is to incentivise and support the development and execution of business strategies linked to long-term performance and shareholder value creation, and to serve as a retention tool.

The STI and LTI performance criteria for 2020 were set by the Board at the beginning of the financial year. Because of the extraordinary business environment due to the coronavirus pandemic, the Board decided to adjust the performance targets in September 2020 for both incentive plans for all employees including the CEO to reflect the extreme changes and challenges in the markets. Simultaneously, the Board decided to respectively decrease the earning opportunities in 2020 performance periods for both incentive plans. Thus, the CEO's

STI target for 2020 was decreased from 67% of annual base salary to 33.5%, and PSP 2020-2022 target was decreased from 100,000 shares to 50,000 shares (gross).

## Share-based incentives

Sanoma's long-term remuneration framework is built on share-based incentive plans, Performance Share Plans and Restricted Share Plans, which offer the Group's management an opportunity to earn Sanoma shares as long-term incentives. The purpose of the share-based incentives is to encourage the executives and the selected key employees to work on a long-term basis to increase shareholder value and to commit to the company. The shares are paid after a vesting period of two to three years provided that the conditions set for receiving the shares are met. The Board decides annually on the issuance, conditions and performance criteria for new plans based on the HR Committee's proposal.

The Performance Share Plan (PSP) offers an opportunity to earn a predetermined number of Sanoma shares as a reward for achieving performance targets set by the Board. The maximum award size for a long-term incentive period is expressed as

a number of shares, as defined annually by the Board at the beginning of each plan period. The plan consists of annually commencing 1-year performance periods followed by 2-year vesting periods, and the share delivery is conditional upon continued employment until the moment of transferring shares, or a good leaver ground. The possible reward is paid as a combination of shares and cash. The cash component is dedicated to cover the taxes and tax-related costs related to the reward.

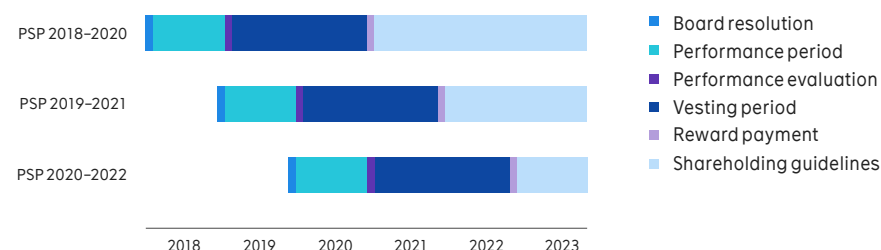
The Restricted Share Plan (RSP) offers an opportunity to earn a predetermined number of Sanoma shares as reward for continuous service and retention. After a vesting period, shares in the RSPs are usually delivered to the participants provided that their employment with Sanoma continues uninterrupted throughout the duration of the plan and until the shares are delivered. The possible rewards under the RSPs are paid as a combination of shares and cash. The cash component is dedicated to cover the taxes and tax-related costs related to restricted shares. The CEO has not been granted awards in the RSP since 2017, when she was granted 50,000 restricted shares as compensation for lower pension payments than contractually agreed due to changes in the regulation. These shares were paid to the CEO in 2019.

STI 2020 criteria	Weight	Performance outcome	Earned reward, to be paid in 2021
Operational EBIT excl. PPA	45%		
Adjusted Free Cash Flow in 2020	45%	100%	EUR 180,000
Employee engagement survey	10%		

PSP 2020-2022 criteria	Weight	Performance outcome	Earned reward, to be paid in 2023
Adjusted Free Cash Flow in 2020	60%		
Operational EPS in 2020	40%	97%	48,550 Sanoma shares (gross)

## SHARE-BASED INCENTIVES OF THE CEO



Shares conditionally granted to the CEO and members of the Executive Management Team (EMT) under the PSP and RSP are subject to share ownership requirement that is determined by the Board in accordance with the HR Committee's proposal. Until their required shareholding is achieved, the CEO and the members of the EMT are required to hold, and not to sell, at least 50% of the shares received as a reward. The CEO fulfils the ownership requirement of 75,000 shares already since 2016.

From 2020 onwards, the number of granted gross shares on-target level for the CEO is 100,000 shares (previously 150,000) and the CEO will under all circumstances be treated on a good leaver ground, all other conditions remaining unchanged. The final number of shares earned will be based on the fulfilment of the earnings criteria decided annually by the Board.

In 2020, base salary equalled 16% of the CEO's total compensation paid, while variable, performance-based compensation (STI and LTI) equalled 84% of total compensation paid (excluding additional pension payment).

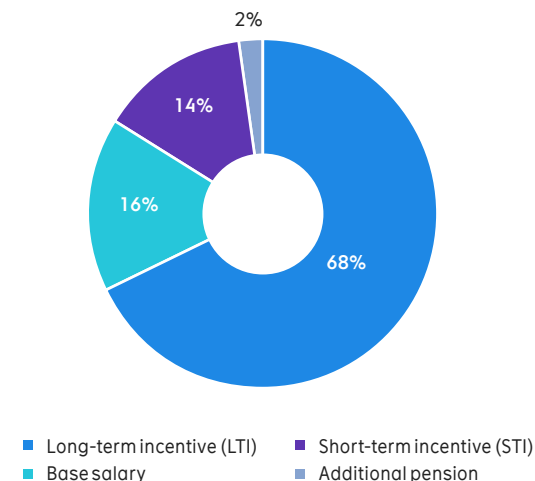
#### REMUNERATION PAID TO THE CEO IN 2020 (EUR)

Base salary and fringe benefits	586,424
Additional pension payment	87,020
Annual short-term incentive <sup>1</sup>	497,520
Long-term incentive <sup>2</sup>	2,461,725
<b>Total compensation paid</b>	<b>3,632,689</b>

<sup>1</sup> Earned in 2019

<sup>2</sup> Earned based on performance in 2017 in PSP 2017–2019  
225,000 gross shares at 3 March 2020 share price of EUR 10.94

#### STRUCTURE OF PAID COMPENSATION IN 2020



#### SUMMARY OF GRANTED, EARNED AND PAID SHARE-BASED INCENTIVES TO THE CEO

Plan	Granted	Share price at grant date	Performance criteria	Performance period	Granted reward shares at target	Achieved reward vs target (100%)	Gross shares earned	Net shares paid	Delivery time (payment)
PSP 2017–2019	7 February 2017	EUR 7.62	Adjusted free cash flow and operational EPS in 2017	2017	150,000	150% = Max	225,000	107 406	Spring 2020
PSP 2018–2020	8 February 2018	EUR 9.99	Adjusted free cash flow and operational EPS in 2018	2018	150,000	141%	211,200		Spring 2021
PSP 2019–2021	5 February 2019	EUR 8.69	Adjusted free cash flow and operational EPS in 2019	2019	150,000	145%	216,810		Spring 2022
PSP 2020–2022	7 February 2020	EUR 10.64	Adjusted free cash flow and operational EPS in 2020	2020	50,000 (originally 100,000, decreased in September 2020)	97%	48,550		Spring 2023
PSP 2021–2023	9 February 2021	EUR 17.00	Adjusted free cash flow and operational EPS in 2021	2021	100,000				Spring 2024



s a n o m a

Sanoma Corporation

Visiting address:

Töölönlahdenkatu 2

00100 Helsinki

Finland

tel. +358 105 1999

[sanoma.com](http://sanoma.com)