



# REMUNERATION REPORT 2020

UPM-KYMMENE CORPORATION

# 1. INTRODUCTION

This Remuneration Report 2020 (the Report) presents the remuneration of the members of the Board of Directors (the Directors) and the President and CEO (the CEO) of UPM-Kymmene Corporation (the Company or UPM) regarding the financial year 2020.

The Report has been prepared in accordance with the requirements set forth in the Finnish Limited Liability Companies Act, the Finnish Securities Markets Act, Decree of the Ministry of Finance on the remuneration policy and remuneration report of a share issuer and the Finnish Corporate Governance Code 2020.

The Report has been prepared by the Board of Directors' Remuneration Committee and Nomination and Governance Committee and approved by the Board of Directors (the Board) for presentation and adoption at the Annual General Meeting (the AGM) of 2021. The resolution of the general meeting on the Report is advisory. This is the first time that the Report will be presented to the AGM for adoption under the new regulation requirements set forth.

The Company's statutory auditor has verified that the information required by the above-mentioned Decree of the Ministry of Finance has been provided in this Report.

The AGM adopted the Remuneration Policy (the Policy) on 31 March 2020. The Policy shall be presented to the general meeting every four years unless a revised Policy is presented to the general meeting before that.

The remuneration for the Directors and the CEO during the financial year 2020 was executed in accordance with the adopted Policy. No temporary deviations from the Policy have been made and no remuneration of the CEO nor the Board has been reclaimed or restated (clawback and malus provisions) during the financial year 2020.

In the financial year 2020, the remuneration paid to the CEO was in line with the Company's pay for performance approach and based on the performance, achievement and progression of the Company's ambitious strategic targets and priorities, which in turn promoted the Company's long-term financial success, competitiveness and favourable development of shareholder value.

In 2020, the focus areas of UPM Biofore strategy remained constant and financial targets unchanged despite highly exceptional circumstances resulting from the COVID-19 pandemic. The challenging business environment resulting from the COVID-19 pandemic weighted the importance of actions to ensure financial performance and improve competitiveness. The Company continued with the implementation of transformative growth projects in both Uruguay and in Germany without interruption. UPM's financial standing remained very strong and enabled the Company to proceed with its growth strategy.

## REMUNERATION AND COMPANY PERFORMANCE OVER THE LAST FIVE FINANCIAL YEARS

POSITION/ COMPANY MEASURE	2016 <sup>1)</sup>	2017 <sup>1)</sup>	2018 <sup>1)</sup>	2019 <sup>1)</sup>	2020 <sup>1)</sup>
<b>Chair of the Board (EUR)</b>	175,000	190,000	190,000	190,000	190,000
<b>Deputy Chair of the Board (EUR)</b>	120,000	135,000	135,000	135,000	135,000
<b>Other member of the Board (EUR)</b>	95,000	110,000	110,000	110,000	110,000
Chair of the Audit Committee <sup>2)</sup> (EUR)	No committee fees were payable, but AC Chair's annual fee was 120,000	35,000 (Committee fees introduced)	35,000	35,000	35,000
Member of the Audit Committee <sup>2)</sup> (EUR)	No committee fees were payable	15,000 (Committee fees introduced)	15,000	15,000	15,000
Chair of Remuneration or Nomination and Governance Committee <sup>2)</sup> (EUR)	No committee fees were payable	20,000 (Committee fees introduced)	20,000	20,000	20,000
Member of Remuneration or Nomination and Governance Committee <sup>2)</sup> (EUR)	No committee fees were payable	10,000 (Committee fees introduced)	10,000	10,000	10,000
<b>CEO (EUR 1,000)</b>	5,065	4,854	5,507	5,576	4,747
<b>UPM Average Employee <sup>3)</sup> (EUR)</b>	51,164	51,447	49,718	51,888	54,752
<b>Total Shareholder Return (%) <sup>4)</sup></b>	+119	+114	+51	+50	+35
<b>Comparable ROE, %</b>	10.9	11.9	12.9	11.2	7.5
<b>Comparable EBIT (EUR 1,000)</b>	1,143	1,292	1,513	1,404	948

<sup>1)</sup> The Annual General Meeting resolves for the Board and Committee remuneration annually in connection to the election of the Board members.

<sup>2)</sup> The annual Committee fee is paid in addition to the annual base fee of the Chair, Deputy Chair or other member of the Board of Directors.

<sup>3)</sup> UPM average employee remuneration is calculated by dividing the disclosed financial statement value of Employee Costs with the number of personnel at the end of the financial year in question (excluding the CEO and the remuneration paid to the CEO during the financial year). UPM average employee remuneration includes the following elements of the Employee Costs: salaries and fees and share-based payments.

<sup>4)</sup> Three calendar year absolute total shareholder cumulative return with dividends reinvested.

# 2. REMUNERATION OF THE BOARD OF DIRECTORS

## THE BOARD REMUNERATION AS RESOLVED BY THE AGM 2020:

ANNUAL BASE FEE (EUR)	2020	PAYMENT MECHANISM
Chair of the Board	190,000	<ul style="list-style-type: none"> <li>Approximately 40% in Company shares, rest in cash to cover taxes. The Company paid costs and transfer tax related to the purchase of the Company shares.</li> <li>Shares may not be transferred within two years from the purchase date or until the Director's membership in the Board has ended, whichever occurs first.</li> </ul>
Deputy Chair of the Board	135,000	
Board member	110,000	

ANNUAL COMMITTEE FEE (EUR)	CHAIR	MEMBER	PAYMENT MECHANISM
Audit Committee	35,000	15,000	Cash
Remuneration Committee	20,000	10,000	
Nomination and Governance Committee	20,000	10,000	

DIRECTOR <sup>1)</sup>	ANNUAL BASE FEE (EUR)		ANNUAL COMMITTEE FEE (EUR)	TOTAL REMUNERATION (EUR)	NUMBER OF SHARES PURCHASED AS PART OF ANNUAL BASE FEE <sup>2)</sup>
	40% IN SHARES (EUR)	60% IN CASH (EUR)			
<b>Björn Wahlroos</b>	<b>190,000</b>		20,000	210,000	3,123
	76,000	114,000			
<b>Berndt Brunow</b>	<b>135,000</b>		10,000	145,000	2,219
	54,000	81,000			
<b>Henrik Ehrnrooth</b>	<b>110,000</b>		10,000	120,000	1,808
	44,000	66,000			
<b>Emma FitzGerald</b>	<b>110,000</b>		15,000	125,000	1,808
	44,000	66,000			
<b>Piia-Noora Kauppi</b>	<b>110,000</b>		35,000	145,000	1,808
	44,000	66,000			
<b>Marjan Oudeman</b>	<b>110,000</b>		15,000	125,000	1,808
	44,000	66,000			
<b>Martin á Porta</b>	<b>110,000</b>		10,000	120,000	1,808
	44,000	66,000			
<b>Ari Puheloinen</b>	<b>110,000</b>		10,000	120,000	1,808
	44,000	66,000			
<b>Veli-Matti Reinikkala</b>	<b>110,000</b>		20,000	130,000	1,808
	44,000	66,000			
<b>Kim Wahl</b>	<b>110,000</b>		15,000	125,000	1,808
	44,000	66,000			
<b>Total</b>	<b>1,205,000</b>		<b>160,000</b>	<b>1,365,000</b>	<b>19,806</b>
	482,000	723,000			

<sup>1)</sup> In AGM 2020 Jussi Pesonen and Suzanne Thoma's terms ended due to their announcement that they were not available for re-election. No Board fees were payable to them during financial year 2020.

<sup>2)</sup> Purchase date 24 April 2020.

The remuneration paid to the members of the Board was resolved by the Annual General Meeting 2020. Shares purchased as part of the Board remuneration for the Directors in 2020 may not be transferred within two years from the purchase date (24 April 2020) or until the term of the respective Director ends, whichever occurs first. The Directors are encouraged to own Company shares on a long-term basis and most of them have substantial holdings, indicating a close alignment of the Directors' interests with those of shareholders.

The travel and lodging expenses incurred from meetings held elsewhere than in a Director's place of residence were paid against invoice.

The Directors did not receive any meeting fees or other financial benefits for their Board or committee membership other than those stated in this Report.

# 3. REMUNERATION OF THE CEO

The remuneration of the CEO consists of fixed components, such as base salary and fringe benefits, variable components, such as short- and long-term incentives, pension and other financial benefits. Variable remuneration components form a significant portion of the theoretical maximum total

remuneration opportunity and the payout is dependent on the achievement of the predetermined performance measures that support the execution of the Company's strategic priorities and promote the Company's long-term value creation and financial growth.

## CEO'S TOTAL REMUNERATION:

CEO (EUR 1,000)	REMUNERATION PAID DURING THE FINANCIAL YEAR 2020	REMUNERATION CONFIRMED FROM STI 2020 AND PSP 2018-2020 (PAID DURING THE FINANCIAL YEAR 2021)
<b>Base salary</b>	<b>1,093</b>	
<b>Short-term incentive</b>	<b>888</b> (STI 2019 <sup>1)</sup> )	<b>708</b> (STI 2020 <sup>2)</sup> )
<b>Long-term incentive</b>	<b>2,734</b> (PSP 2017-2019 <sup>3)</sup> )	<b>1,902</b> (PSP 2018-2020 <sup>4)</sup> )
<b>Other financial benefits <sup>5)</sup></b>	<b>31</b>	
<b>Total</b>	<b>4,747</b>	
<b>Proportional share of fixed and variable remuneration</b>	<b>24% / 76%</b>	

<sup>1)</sup> Payment from STI 2019 Plan based on financial year 2019 performance against predetermined measures. For STI 2019 the actual achievement for the whole short-term incentive was 52.8% of the defined maximum annual short-term incentive payout opportunity and overall cap of 150% of the annual base salary. STI 2019 payout, based on 2019 performance, was paid in February 2020.

<sup>2)</sup> Payment from STI 2020 Plan based on financial year 2020 performance against predetermined measures. Approved by the Board of Directors on 28 January 2021.

<sup>3)</sup> Calculated using the volume weighted average share price of EUR 29.56 on the share delivery date, 24 February 2020.

<sup>4)</sup> Calculated using the volume weighted average share price of EUR 31.65 on the share delivery date 22 February 2021. Approved by the Board of Directors on 10 February 2021.

<sup>5)</sup> Other financial benefits include fringe benefits and the taxable values of company car, phone and health insurance. In addition to these fringe benefits, the CEO had also the following additional insurances in place during the financial year 2020: life, disability, travel and accident. The Company had also committed to pay to the CEO a full base salary for one year in case of severe illness and related absence from work. This commitment was arranged through an insurance. The CEO was also eligible to participate in other employee benefit arrangements offered to Company employees during the financial year.

There is no other remuneration confirmed for the CEO from the financial year 2020 than listed in the above table. In 2020, the CEO was also a participant in two long-term incentive plans (PSP 2019-2021 and PSP 2020-2022) in which the

three-year performance period was still in progress during the financial year 2020. Earned shares from these plans will be delivered, subject to the Board approval, in financial year 2022 and 2023 respectively.



## The CEO's Short-term Incentive in 2020

Performance measures, related targets and weightings regarding CEO's short-term incentive are set annually by the Board for a performance period of one year. These can vary from year to year to align with the Company's strategic priorities and usually include a balance of financial, strategic, operational, responsibility, safety, individual or other type of measures, provided that in any given year the majority of the measures will be based on financial criteria.

For Short-term Incentive Plan 2020 (STI 2020) the Board set EBITDA as the financial measure for the CEO and the weighting of this measure accounted for 70% of all measures. The Board also set Strategic Project (Uruguay pulp mill project) as a measure for the CEO and the weighting of this measure accounted for 30% of all measures. Set measures and target setting remained constant and unchanged throughout the financial year 2020 despite highly exceptional circumstances resulting from the COVID-19 pandemic. The Board evaluated the performance against the set measures and targets for short-term incentive and did not exercise its right for discretion for short-term incentive plan payout. Short-term incentive payout was according to the formulaic outcome. Actual

achievement for the whole short-term incentive was 42.1% of the defined maximum annual short-term incentive payout opportunity and overall cap of 150% of the annual base salary. STI 2020 payout, based on 2020 performance, was paid in February 2021.

## The CEO's Long-term Incentive in 2020

The CEO's long-term incentive is based on the Company's Performance Share Plan (PSP), which consists of annually commencing individual plans approved by the Board with a minimum performance period of three years. Performance measures, related targets and weightings are set annually by the Board for each commencing plan and can vary from plan to plan to promote the Company's long-term value creation and financial growth without encouraging excessive risk taking. Measures may include, but are not limited to, financial and share-price related measures, such as total shareholder return.

The maximum and actual values of the share rewards indicated in the table represent the gross number of the shares from which the applicable taxes will be deducted before the shares are delivered to the CEO.

PERFORMANCE SHARE PLAN	PSP 2017-2019	PSP 2018-2020	PSP 2019-2021	PSP 2020-2022	PSP 2021-2023
<b>Max. no. of shares allocated to the CEO</b>	92,500	84,100	94,072	85,589	83,272
<b>Earning criteria (weighting)</b>	TSR <sup>1)</sup> (100%)	TSR <sup>1)</sup> (100%)	TSR <sup>1)</sup> (100%)	TSR <sup>1)</sup> (100%)	TSR <sup>1)</sup> (100%)
<b>Actual achievement (0-100)</b>	100%	71.45%			
<b>No. of shares earned</b>	92,500	60,089			
<b>Share delivery (year)</b>	2020	2021	2022	2023	2024

<sup>1)</sup> Total shareholder return

### Performance measures for the Long-term Incentive Plan 2017-2019

For the PSP 2017-2019 the Board set absolute total shareholder return (TSR) during a three-year earning period as the performance measure for the plan with a 100% weighting. Total shareholder return takes into account share price appreciation and paid dividends.

The Board evaluated the performance against the set measure and target for the long-term incentive and did not exercise its right for discretion for the long-term incentive plan payout. Long-term incentive payout was according to the formulaic outcome. Actual achievement for the measure was 100% of the predefined maximum target setting. Earned shares from PSP 2017-2019 were delivered to the CEO in February 2020.

### Performance measures for the Long-term Incentive Plan 2018-2020

For the PSP 2018-2020 the Board set absolute total shareholder return (TSR) during a three-year earning period as the performance measure for the plan with a 100% weighting. The total shareholder return takes into account share price appreciation and paid dividends.

The Board evaluated the performance against the set measure and target for the long-term incentive and did not exercise its right for discretion for the long-term incentive plan payout. Long-term incentive payout was according to the formulaic outcome. Set measure and target setting remained constant and unchanged throughout the three-year earning period despite highly exceptional circumstances in the financial year 2020. Actual achievement for the measure was 71.45% of the predefined maximum target setting. Earned shares from PSP 2018-2020 were delivered to the CEO in February 2021.

## The CEO's pension benefit in 2020

The CEO would have been entitled to retire in November 2020 at the age of 60. At the request of the Company's Board of Directors, the CEO's service agreement continues with no set retirement age.

The CEO has an additional voluntary pension benefit to supplement the Finnish statutory pension scheme (TyEL). The CEO's voluntary pension benefit was arranged until 30 November 2020 through a Defined Benefit Plan (the DB Plan) and, as of 1 December 2020, through a Defined Contribution Plan (the DC Plan) as follows:

- The DB Plan (until 30 November 2020):
  - The last contribution to the DB Plan was made in the financial year 2020 according to the DB Plan's Terms and Conditions. The amount paid into the DB Plan in the financial year 2020 was EUR 1,421,000.
- Since the CEO continues in his position after 30 November 2020, the Company shall receive refunds from the DB Plan due to continued service and unpaid pension. The aforementioned refunds shall be used to finance the CEO's DC Plan.
- The DC Plan (as of 1 December 2020):
  - Since the CEO continues in his position after 30 November 2020, his voluntary pension benefit is arranged through the DC Plan as of 1 December 2020.
  - The first contribution to the DC Plan will take place in the financial year 2021.
  - The annual contributions to the DC Plan are financed by the funds that the Company receives as a refund from the DB Plan. The contribution paid to the DC Plan shall not exceed the amount that the Company receives as refund from the DB Plan.