

Ahlstrom-Munksjö Remuneration Policy

Introduction

The following sections set out our Remuneration Policy (“Policy”) for the President and CEO (“CEO”), the Deputy President and CEO (“Deputy CEO”), and for the Board of Directors (“Board”), which will be put forward for an advisory shareholder vote at the Annual General Meeting in 2020. This Policy shall be applied until the Annual General Meeting to be held in 2024, unless the Board determines that it shall be brought for approval at an earlier date.

This Policy has been developed in accordance with Ahlstrom-Munksjö’s (“Company”) remuneration principles and the requirements set forth by the EU Shareholder Rights Directive II, which has been implemented in Finland mainly into the Limited Liability Companies Act, Securities Markets Act, Decree of the Ministry of Finance, as well as the Finnish Corporate Governance Code 2020.

Remuneration Principles

The objective of remuneration in Ahlstrom-Munksjö is to ensure that the Company has the right people capabilities and leadership to achieve its performance and strategic goals.

Company’s target is to achieve profitable growth in selected markets, which offer a positive growth outlook and are supported by sustainable market drivers. By implementing the strategy the Company aims to fulfil its vision of being a global leader in chosen segments and achieving its financial targets.

The bodies governing remuneration in the Company regularly review the structure of the total remuneration to ensure that it is aligned with the Company’s long-term value development, its business strategy, financial results as well as the employees’ contribution. Remuneration is based on predetermined and measurable performance and result criteria.

Decision Making Process

The remuneration of the members of the Board, the Board Committees and the Shareholders’ Nomination Board is decided by the Annual General Meeting of Ahlstrom-Munksjö based on a proposal by the Shareholders’ Nomination Board. The Board decides on the remuneration of the CEO and Deputy CEO based on a proposal by the Human Resources Committee (“the Committee”) within the confines of this Policy.

The Committee considers the perspective and input from multiple internal and external stakeholders. The Committee regularly consults with the Executive Vice President responsible for HR to be mindful of employee pay, conditions and engagement across the broader employee population. The Committee also engages regularly with shareholders on pay and broader matters to hear their views on the Company’s compensation policies, programs and associated disclosures and reflect on their feedback.

The composition and duties of the Committee are described in detail in the Corporate Governance Statement, as well as in the Ahlstrom-Munksjö Human Resources Committee Charter. In order to avoid any conflict of interest, at least half of the members of the Committee shall be independent of the Company. The Committee has the power in its sole discretion to retain compensation consultants to assist the Committee in evaluating executive compensation.

The CEO or the Deputy CEO shall not participate in the preparation nor the decision making regarding their own remuneration.



Remuneration Elements

The remuneration of the CEO and the Deputy CEO may consist of fixed salary, short and long-term variable remuneration, pension and other benefits. Variable elements at grant may correspond up to 300% of the CEO's and the Deputy CEO's maximum fixed remuneration at the maximum STI and LTI pay-out level. Details of their current remuneration are visible on the Company's web pages.

Element	Purpose and link to strategy	Opportunity and operation
Fixed salary	To attract and retain high performing individuals to lead the Company	<p>The Committee normally reviews the CEO's and the Deputy CEO's salaries annually, taking into account various factors including performance of the Company and the individual, role scope, salary change history and external benchmark data when determining any salary change.</p> <p>There is no prescribed maximum fixed salary increase.</p>
Pension	To provide competitive retirement benefits	<p>Retirement arrangements shall reflect relevant market practices. The CEO and the Deputy CEO may participate in the applicable retirement benefits in the country of employment.</p> <p>Details of the pension arrangements for the current CEO and the current Deputy CEO are shown on the Company's web pages.</p>
Short-term incentives	To drive the short-term strategy and recognize performance against key financial and other strategic priorities	<p>The short-term incentive plan ("STI") may have maximum one year performance period. The maximum earning from the STI is capped. Performance measures, weightings as well as target and maximum levels for the selected measures are set by the Board to ensure that they continue to support Company strategy. These can vary from year to year to reflect business priorities and typically include a balance of key financial, strategic and operational measures. Performance targets for each measure and for each performance period are set by the Board at the beginning of the corresponding period.</p> <p>After the end of the STI period the Board reviews the performance and determines the extent to which each of the targets have been achieved, to determine the final pay-out level.</p>
Long-term incentives	<p>To reward for delivery of long-term performance strategic and financial performance.</p> <p>To provide long-term alignment of</p>	<p>The long-term incentive program(s) ("LTI") may be share - or option based plans with at least three year earning or vesting period(s).</p> <p>The maximum earnings from the LTI plans shall be capped. Performance measures, weightings as well as target and maximum levels for selected measures are set by the Board to ensure they continue to support Company strategy. Performance measures may</p>



Element	Purpose and link to strategy	Opportunity and operation
	executives' and shareholders' interests	<p>include, but are not limited to, financial and share-price related measures.</p> <p>Following the end of an earning or vesting period the Board reviews the performance and determines the extent to which each of the targets has been achieved, to determine the final pay-out level.</p>
Other benefits and programs	<p>To provide a competitive level of benefits</p> <p>To support recruitment, engagement and retention</p>	<p>Benefits will be provided in line with appropriate levels indicated by local market practice in the country of employment and may evolve year on year.</p> <p>Other benefits may include, but are not limited to, company car, fuel, subsidized lunch, health and wellness benefits and personal insurances, etc.</p> <p>The CEO and the Deputy CEO are eligible to participate in programs which may be offered to the Company's executives or employees at any given point such as for example matching share plans, restricted share plans, service awards, etc.</p> <p>Additional benefits and allowances may be offered in certain circumstances, such as relocation or international assignment in line with the Company's policies and practices.</p>

Share Ownership Recommendation

The CEO and the Deputy CEO shall accumulate and, once achieved, maintain a level of share ownership corresponding to their annual gross base salary. They are expected to use at least fifty per cent of the net reward received under the long-term incentive plans to accumulate their share ownership until the required share ownership level has been achieved.

Clawback

A clawback clause is included in the incentive plan rules. The Board has the discretionary right to adjust or cancel any payments or change the incentive program conditions for payments.

Service and Employment Contracts; Termination Provisions

The CEO has a Service contract and the Deputy CEO has an Employment contract with the Company. Both contracts, are typically for indefinite periods. The notice periods of the contracts are determined to be in line with the market practices at the time of signing. Any possible remuneration during a notice period and a potential severance pay are also determined to be in line with the market practices.

The treatment of payments from incentive programs will depend on the circumstances of departure according to the terms and conditions of the program(s) and company policies. Unvested incentive awards are typically forfeited upon termination of employment.



Deviations from the Remuneration Policy

The Board may upon recommendation of the Committee temporarily deviate from any sections of the Policy based on its full discretion in the circumstances described below:

- Upon change of the CEO or the Deputy CEO
- Upon material changes in the Company structure, organization, ownership and business (for example merger, takeover, demerger, acquisition, etc.), which may require adjustments to the STI and LTI plans or other remuneration elements to ensure continuity of management, and
- In any other circumstance where the deviation may be required to serve the long-term interests and sustainability of the Company as a whole or to assure its viability.

Board Remuneration Policy

The Shareholders' Nomination Board is a body of the Company's shareholders, responsible for preparing annually proposals to the Annual General Meeting for the election and remuneration of the members of the Board and the remuneration of the Board committees and the Nomination Board. The Nomination Board is further responsible for ensuring that the Board and its members maintain and represent a sufficient level of expertise, knowledge and competence for the needs of the Company.

The Shareholders' Nomination Board annually reviews the remuneration for the Chair and members of the Board against companies of similar size and complexity. Based on this review the Nomination Board prepares its proposal to the Annual General Meeting and may propose a change in remuneration levels if deemed appropriate. The Annual General Meeting ("AGM") determines the Board remuneration for the year, and remuneration for the year is disclosed in the Remuneration Report.

Given the nature of the duties and responsibilities of the members of the Board, their remuneration is not linked to the Company's performance and, therefore consists only of fixed remuneration. Members of the Board are not in an employment relationship or service contract with the Company, and they do not participate in the Company's variable pay, pension or benefit plans.

The Nomination Board's proposal for remuneration of the members of the Board may include the following elements:

- Base fee for Board Chair, Deputy Chair and members of the Board
- Base fee for the Chair and members of Board Committees
- Additional fees for attending Board and Committee meetings
- Travel expenses in accordance with the Company's travel policy
- Reimbursement of any taxable or other expenses incurred in performing their role, as well as any related tax cost on such reimbursement
- Payment of annual remuneration either in cash, shares or partially in cash or shares, and
- The Nomination Board may also introduce any new component of fees for Board members

Board members are (re-)appointed in accordance with legal and regulatory requirements.