

Ahlstrom-Munksjö Oyj, Remuneration report 2020

Introduction

This remuneration report outlines of how Ahlstrom-Munksjö's Remuneration Policy, adopted by the annual general meeting 2020, has been implemented in 2020. The report also provides details on the remuneration of the President and CEO ("the CEO") and the Deputy CEO and the members of the Board of Directors ("the Board"). This report also provides details of the active incentive plans.

Further information on executive remuneration is available in note 7 (Employee and Board of Directors Remuneration) in the annual report 2020. Information on the work of the Human Resources Committee is set out in the corporate governance report in the annual report 2020.

Highlights in 2020

In 2020 Group net sales decreased by 8% compared to 2019 due to an adverse currency effect, lower selling prices and a less favorable product mix. Comparable EBITDA increased, supported by lower costs. Group cash flow remained on good level. Rapid response to the coronavirus pandemic and an early establishment of Covid-19 Safety Protocol ensured that plants and customer service were operational throughout year. Expansion of face mask materials' manufacture to production lines normally used for industrial products and cost saving actions cushioned the impact of the pandemic.

On September 24, 2020, a consortium consisting of Ahlstrom Invest B.V., funds managed or advised by Bain Capital, Viknum AB and Belgrano Inversiones Oy announced a voluntary public cash tender offer for all the issued and outstanding shares in Ahlstrom-Munksjö Oyj.

Application of the Remuneration Policy in 2020

The remuneration of the members of the Board, the Board Committees and the Shareholders' Nomination Board was decided by the Annual General Meeting of Ahlstrom-Munksjö based on a proposal by the Shareholders' Nomination Board.

The Board of Directors decided on the remuneration matters considering the CEO and Deputy CEO based on proposals by the Human Resources Committee ("the Committee").

Remunerations of the CEO and the Deputy CEO were based on predetermined and measurable performance and result criteria. The CEO or the Deputy CEO did not participate in the preparation nor the decision making regarding their own remuneration.

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. The Human Resources Committee consisted of four members, all of which were Board members who were independent of the company.

Remuneration of the CEO and the Deputy CEO

The decisions regarding remuneration of the CEO and the deputy CEO in 2020 have been made in accordance with the Remuneration Policy.

The remuneration of the CEO and the Deputy CEO in 2020 consisted of elements defined in the Remuneration Policy. The maximum values at grant of the short and long term incentive plans corresponded up to 230% of the CEO's fixed remuneration and 180% of the Deputy CEO's fixed remuneration. The grants were within the limits set in the Remuneration Policy.

To mitigate the negative financial impact of Covid-19 the CEO and Deputy CEO decided voluntarily to give up one month's and ½ of one month's base salary respectively in the second quarter of 2020.

The payments from the incentive programs in 2020 corresponded 37 % of the CEO's fixed remuneration and 35 % of the Deputy CEO's fixed remuneration. The payments were within the limits set in the Remuneration Policy.

Paid in 2020

Remuneration element	CEO	Deputy CEO
Fixed salary (including holiday pay)	599 337,00 €	320 688,00 €
Contribution to voluntary pension	124 001,00 €	64 138,00 €
STI 2019	223 201,35 € 45% of maximum level	113 184,00 € 45% of maximum level
LTI 2017-2019	no payment	no payment
Other benefits and programs	240 €	240 €
Total:	946 779,35 €	498 250,00 €

Rewards granted based on incentive plans ended 2020, payable in 2021

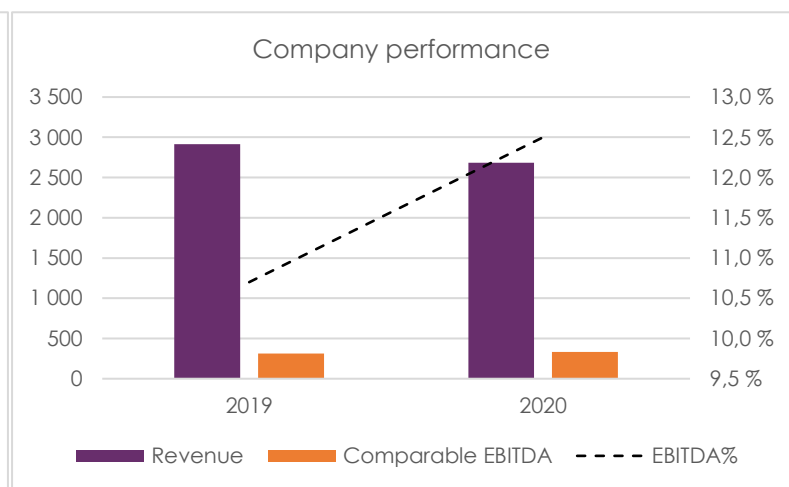
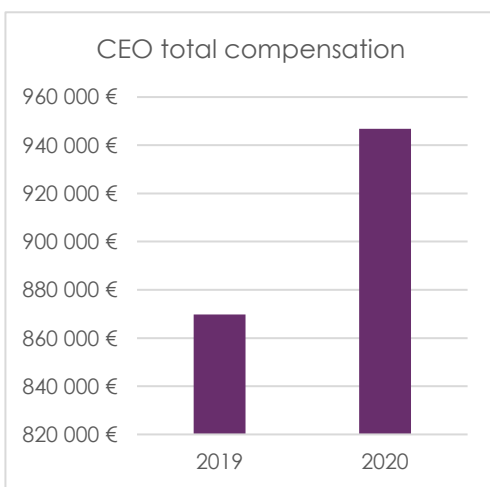
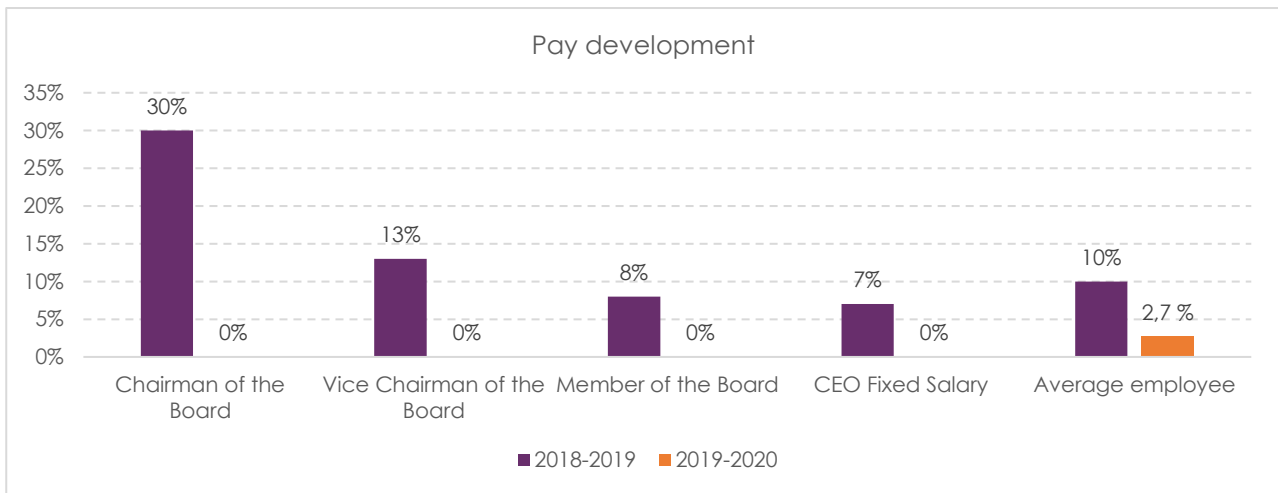
Incentive Plan	CEO	Deputy CEO
STI 2020	404 316 €	232 838 €
LTI 2018-2020	no payment	no payment

	2018–2019	2019–2020
Remuneration of the Board of Directors		
• Annual fee for the Chairman of the Board	+30%	0%
• Annual fee for the Vice Chairman of the Board	+13%	0%
• Annual fee for the ordinary member of the Board	+8%	0%
Fixed salary of the CEO ¹	+7%	0 %
Remuneration of the employees (average) ²	+10%	+2.7%
Net Sales ³	-3%	-8%
Comparable EBITDA ³	-5%	+7%

¹ In 2018, there were two (2) CEOs. The calculation is based on the monthly salary of EUR 50,000 which was reported in the remuneration statement 2018.

² Remuneration of the employees has been calculated by dividing the total amount of employee wages and salaries with the average number of employees converted to full-time equivalent (FTE).

³ For 2018, adjusted figures were used



Element	Description
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Fixed salary Based on the preparation by the Human Resources Committee, the Board resolved the base salaries of the CEO and the Deputy CEO at their meeting on March 2020.

- The fixed monthly salary of the CEO on 31st December 2020 was 51 667 €.
- The fixed salary of the Deputy CEO on 31st December in 2020 was 26 724 €.

Pension Pension payments for the CEO and Deputy CEO in Finland are based on the Finnish Employees Pensions Act (TyEL). In addition, the CEO and the Deputy CEO belong to a voluntary group pension plan. According to the Remuneration Policy the Company has contributed 20 per cent of the CEO's and the Deputy CEO's annual fixed salary to the plan.

- The payment to the pension for the CEO was 124 001€ in 2020
- The Payment to the pension for the Deputy CEO was 64 138€ in 2020

Short-term Incentive Plans (STI) The maximum annual reward from the STI Plan for the CEO and the Deputy CEO is 80% of their annual base salaries. The Board resolves the annual performance metrics, weightings as well as threshold, target and maximum levels for the metrics.

STI 2019:

Based on the preparation by the Human Resources Committee, the Board resolved payments based on the 2019 STI Plan scorecard in March 2020:

- The CEO was paid 223 201,35 € based on the results of the STI Plan 2019
- The Deputy CEO was paid 113 184 € based on the results of the STI Plan 2019

STI 2020:

The Board resolved the 2020 STI scorecards and target setting in their meeting in February 2020.

Due to the public tender offer for all Ahlstrom-Munksjö shares, the Board decided, as allowed in the Remuneration Policy, to deviate from the target setting process schedule and resolved in their meeting held in September to set new scorecards for the CEO and Deputy CEO and certain other employees critical for the completion of the public tender offer project.

The 2020 STI Scorecards target setting and weights for the CEO

Category	Metrics	Initial scorecard	Updated scorecard
Group Financial targets	Group EBITDA	80%	40%
	Group ONWC %	10%	20%
Safety	Total Recordable Incident Rate	5%	-
	Employee Safety Participation Rate	5%	-
Group Strategic Target	Public Tender Offer Project	-	40%
TOTAL		100%	100%

The 2020 STI Scorecards target setting and weights for the Deputy CEO

Category	Metrics	Initial scorecard	Updated scorecard
Group Financial targets	Group EBITDA	40%	20%
	Group ONWC %	10%	10%
Safety	Total Recordable Incident Rate	5%	5%
	Employee Safety Participation Rate	5%	5%
Personal Targets		40%	-
Group Strategic Target	Public Tender Offer Project	-	60%
	TOTAL	100%	100%

- The CEO will be paid estimated 404 316 EUR in 2021 based on the results of the STI Plan 2020
- The Deputy CEO will be paid estimated 232 838 EUR in 2021 based on the results of the STI Plan 2020

Long-term Incentives (LTI)

The Company had share based incentive programs and the participants were eligible to earn Company shares based on achievement of targets set by the Board.

The CEO and the Deputy CEO participated in the 2018 – 2020, 2019 – 2021 and 2020 – 2022 earning periods of the performance based LTI program (PSP) as well as the Matching Share Plans 2019 – 2021 and 2020 – 2022 savings periods.

PSP, Earning Period 2017-2019

- The Board resolved the payments based on LTI period 2017-2019 in their meeting in March 2020, based on the preparation by the Human Resources Committee. The threshold level for the EBITDA performance condition was not reached and therefore the Board resolved that rewards based on the earning period outcome were not paid.

PSP, Earning Period 2018-2020

- The Board resolved the payments based on LTI period 2018-2020 in their meeting in February 2021, based on the preparation by the Human Resources Committee. The threshold for the TSR performance condition set for the period was not reached and therefore the Board resolved that rewards based on the earning period will not be paid.

PSP, Earning Period 2019-2021

Due to the public cash tender offer for all Ahlstrom-Munksjö shares, the Board has resolved on an accelerated cash pay-out from all active long term incentive plans, conditional on the completion of the public tender offer.

- The estimated payment for the CEO will be 932 437,93 EUR. The payment will be settled in cash in May 2021
- The estimated payment for the Deputy CEO will be 297 823,46 EUR. The payment will be settled in cash in May 2021

PSP, Earning Period 2020-2022

Due to the public cash tender offer for all Ahlstrom-Munksjö shares, the Board has resolved on an accelerated cash pay-out from all active long term incentive plans, conditional on the completion of the public tender offer.

- The estimated payment for the CEO will be 511 278,52 EUR. The payment will be settled in cash in May 2021
- The estimated payment for the Deputy CEO will be 172 287,30 EUR. The payment will be settled in cash in May 2021

Matching Share Plan 2019 – 2021

Due to the public cash tender offer for all Ahlstrom-Munksjö shares, the Board has resolved on an accelerated cash pay-out from all active long term incentive plans, conditional on the completion of the public tender offer.

- The estimated payment for the CEO will be 396 440,48 EUR. The payment will be settled in cash in March 2021
- The estimated payment for the Deputy CEO will be 95 479,68 EUR. The payment will be settled in cash in March 2021

Matching Share Plan 2020 – 2022

Due to the public cash tender offer for all Ahlstrom-Munksjö shares, the Board has resolved on an accelerated cash pay-out from all active long term incentive plans, which is conditional on the completion of the public tender offer.

- The estimated payment for the CEO will be 120 214,84 EUR. The payment will be settled in cash in March 2021
- The estimated payment for the Deputy CEO will be 22 300,00 EUR. The payment will be settled in cash in March 2021

Other benefits and programs

The CEO and the Deputy CEO are entitled to the same fringe benefits which the company offers to its other employees.

The actual levels of STI and LTI payments are in accordance with the Remuneration policy.

Ended Incentive Programs

Program	Performance period	Time of payment	Minimum target criteria	Performance criteria	Threshold performance achieved
LTI 2017-2019	2017-2019	2020	EBITDA	TSR	No
LTI 2018-2020	2018-2020	2021	EBITDA	TSR	No
STI	2019	2020			Yes
STI	2020	2021		EBITDA, ONWC%, Total Recordable Incident Rate, Employee Safety Participation Rate, Public Tender Offer Project	

Share Ownership

Shareholding on 31st December 2019				
	Number of shares	Closing value	Total Value	% of annualized base salary
CEO and President	58 738	14,32 €	841 128,16 €	136 %
Deputy CEO	5 352	14,32 €	76 640,64 €	24 %

Shareholding on 31st December 2019				
	Number of shares	Closing value	Total Value	% of annualized base salary
CEO and President	72 215	18,10 €	1 307 091,50 €	211 %
Deputy CEO	7 852	18,10 €	142 121,20 €	44 %

Due to the public cash tender offer for all Ahlstrom-Munksjö shares, the Board has resolved to waive the share ownership recommendation.

Clawback

Clawback clauses of the incentive programs' terms and conditions were not applied in 2020.

Service and Employment Contracts; Termination Provisions

The Termination Provisions of the CEO and Deputy CEO are aligned with the Remuneration Policy.

Deviations from the Remuneration Policy

Due to the public tender offer and based on recommendation by the HR Committee, the Board resolved in September 2020 to change the STI target setting and weighting for the CEO and Deputy CEO and certain other employees critical for the completion of the public tender offer project. The Board resolved to add a strategic target based on success in the deal preparation, due diligence, transaction planning and deal negotiation. The target was not set to be conditional upon the successful completion of the public tender offer by the offeror. No additional bonuses or incentive models were introduced for the CEO or the Deputy CEO.

Remuneration of the Board of Directors

Nimi	Tehtävä	Yhtiökokouksen päättämä vuosipalkkio	Maksettu vuonna 2020	Maksettu vuonna 2019
Jaakko Eskola*	Chairman of the Board, member of the Human Resources Committee	130 000 €	107 500 €	53 000 €
Elisabet Salander Björklund	Vice Chairman of the Board, Chairman of the Audit and Sustainability Committee	105 000 €	104 250 €	102 000 €
Alexander Ehnröoth	Member of the Board and Audit and Sustainability Committee	72 500 €	70 458 €	75 000 €
Johannes Gullichsen	Member of the Board and Human Resources Committee	70 000 €	64 166 €	69 000 €
Lasse Heinonen	Member of the Board and Audit and Sustainability Committee	72 500 €	66 458 €	69 000 €
Hannele Jakosuo-Jansson	Member of the Board, Chairman of the Human Resources Committee	75 000 €	68 750 €	73 000 €
Harri-Pekka Kaukonen	Member of the Board and Audit and Sustainability Committee	72 500 €	66 458 €	71 000 €
Valerie A. Mars	Member of the Board and Audit and Sustainability Committee	72 500 €	-	-
Nathalie Ahlström	Member of the Board and Human Resources Committee	65 000 €	46 666 €	-
Kari Kauniskangas	Chairman of the Shareholders' Nomination Board	8 000 €	8 000 €	4 000 €
Mikko Mursula	Member of the Shareholders' Nomination Board	4 000 €	4 000 €	4 000 €

* Jaakko Eskola was nominated as a Chairman of the Board in AGM on 25th March 2020.

All fees of the Board of Directors have been paid out in cash. Travel expenses of the Board members have been reimbursed in accordance with the Company's travel policy.