



REMUNERATION STATEMENT

UPM-KYMMENE CORPORATION

REMUNERATION STATEMENT

This Remuneration Statement has been prepared in accordance with the Finnish Corporate Governance Code issued in 2015 and applicable for the financial year 2019.

A Remuneration Report in accordance with the Finnish Corporate Governance Code issued in 2019 and applicable as of 1 January 2020 will be prepared for the financial year 2020 and published in 2021.

Decision-making procedure concerning remuneration

The remuneration of the members of the Board of Directors is resolved by the Annual General Meeting based on the proposal prepared by the Board of Directors' Nomination and Governance Committee.

The remuneration of the President and CEO is resolved by the Board of Directors based on the proposal by the Board of Directors' Remuneration Committee.

The remuneration of the company's other executives, i.e. the members of the Group Executive Team (GET members) is resolved by the Board of Directors. The President and CEO presents a proposal for the GET members' remuneration to the Remuneration Committee, which prepares a proposal to the Board of Directors for resolution.

The Board of Directors resolves on the terms and conditions of the company's short- and long-term incentive schemes and annually commencing plans based on the proposal prepared by the Remuneration Committee.

The Board and its committees may engage external advisors in the preparation of the remuneration matters.

The Board of Directors has an authorisation from the Annual General Meeting to issue 25 million shares or special rights entitling to shares and an authorisation to decide on the repurchase of a maximum of 50 million of the company's own shares. Both of these authorisations include the right to use the shares as a part of the company's incentive plans. The Board of Directors has not exercised these authorisations. The Board of Directors has proposed the renewal of these authorisations to the Annual General Meeting 2020.

Main principles of remuneration

Members of the Board of Directors

When preparing its proposal to the Annual General Meeting regarding the remuneration of the members of the Board of Directors, the Nomination and Governance Committee considers the development of the directors' annual fees, the level of director remuneration in peer companies, Board and committee duties and responsibilities, and ability to attract competent and diverse talent to the Board. The committee has underlined the importance of aligning the interests of directors with those of shareholders and has preferred payment of the directors' annual base fees in the form of shares and cash. The cash portion of the remuneration is meant to cover taxes. The Board members do not receive any other financial benefits for their Board or committee membership in addition to the annual base and committee fees. The committee fees are paid in cash.

According to the Board charter, Board members are encouraged to own company shares on a long-term basis.

President and CEO and GET members

The aim of the company's management remuneration is to promote the company's long-term financial success, competitiveness and favourable development of shareholder value. The remuneration comprises fixed and variable components. The variable components are linked to predetermined and measurable performance and results criteria, and maximum levels have been set for the variable components of the remuneration. The company has the right to recover any rewards under the variable components if they have been awarded under false pretences or erroneously.

The remuneration of the President and CEO and other GET members consists of the base salary and fringe benefits, performance-based short- and long-term incentives and pension benefits. The Board of Directors reviews the total remuneration annually with the assistance of the Remuneration Committee. The review includes benchmarking the different

components of total remuneration to market practices in corresponding positions.

The President and CEO and GET members participate in the company's Short-Term Incentive Plan and in the Performance Share Plan (PSP). In addition to PSP, there are no other long-term, share-based incentive plans in place for the President and CEO and GET members.

COMPONENTS OF MANAGEMENT REMUNERATION

COMPONENT	PAYABLE IN	PAYABLE ON THE BASIS OF	TIME OF PAYMENT
Base salary	Cash	Service agreement / Executive contract	Monthly
Fringe benefits	E.g. company car and phone	Service agreement / Executive contract	Monthly
Short-term incentives	Cash	Short-Term Incentive Plan	Annually
Long-term incentives	Shares	Performance Share Plan	Annually following a three-year earning period

Short-term incentives

Short-term incentives are based on the company's Short-Term Incentive Plan and they are paid annually in cash. The amount of the incentive is linked to the executive's position and achievement of annually set targets.

In 2019, the short-term incentive plan for the President and CEO and other GET members was linked to the achievement of predetermined financial targets of the group or business area as well as individual targets of the executive. Financial targets amounted to 80% of the short-term incentive plan structure and individual targets to 20%. The main financial targets used were EBITDA and cash flow.

The maximum incentive levels for the President and CEO and other GET members are presented in the table below. The maximum levels are presented as percentage of the annual base salary.

MAXIMUM INCENTIVE LEVELS 2019	
President and CEO	150%
Business Area Executives	100%
Other members of GET	70%

Long-term incentives

The company's long-term incentives consist of the Performance Share Plan (PSP) for senior executives and the Deferred Bonus Plan (DBP) for other key employees. In both PSP and DBP, earning of shares is subject to the achievement of predetermined earning criteria. PSP and DBP share deliveries are executed by using already existing shares and the plans, therefore, have no dilutive effect.

The Performance Share Plan consists of annually commencing three-year plans. The plan is targeted at the President and CEO and other GET members as well as other selected members of the management. The earned shares are delivered after the three-year earning period has ended. Under the ongoing plans, UPM shares are awarded based on total shareholder return during a three-year earning period. The total shareholder return takes into account share price appreciation and paid dividends. The number of shares earned under the performance share plans as well as other key figures of the plans are presented in the table on the following page. The indicated actuals and estimates of the share rewards represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

The Deferred Bonus Plan is targeted at other selected key employees and it consists of annually commencing plans. Each plan consists of a one-year earning period and a two-year restriction period. UPM shares are awarded based on achievement of group or group and business area EBITDA targets. Prior to share delivery, the share rewards earned are adjusted with dividends and other capital distribution, if any, paid to all shareholders during the restriction period. Key figures related to the deferred bonus plans are presented in the table on the following page. The indicated actuals and estimates of the share rewards represent the gross value of the rewards of which the applicable taxes will be deducted before the shares are delivered to the participants.

PERFORMANCE SHARE PLAN

PERFORMANCE SHARE PLANS	PSP 2015–2017	PSP 2016–2018	PSP 2017–2019	PSP 2018–2020	PSP 2019–2021	PSP 2020–2022
No. of participants (31 Dec. 2019) ¹⁾	24	22	21	27	30	31
Actual achievement	100%	100%	100%	–	–	–
Max no. of shares to be delivered: ²⁾						
to the President and CEO	107,196	112,500	92,500	84,100	94,072	85,589
to other members of GET	325,876	319,500	275,500	264,400	313,600	291,500
to other selected members of management	252,980	240,500	169,000	181,000	236,850	226,700
Total max no. of shares to be delivered	686,052	672,500	537,000	529,500	644,522	603,789
Share delivery (year)	2018	2019	2020	2021	2022	2023
Earning criteria (weighting)	Total share- holder return (100%)	Total share- holder return (100%)	Total share- holder return (100%)	Total share- holder return (100%)	Total share- holder return (100%)	Total share- holder return (100%)

¹⁾ For PSP 2020–2022, number of participants at grant.

²⁾ For PSP 2015–2017, PSP 2016–2018 and PSP 2017–2019, the gross number of shares actually earned.

DEFERRED BONUS PLAN

DEFERRED BONUS PLANS	DBP 2015	DBP 2016	DBP 2017	DBP 2018	DBP 2019	DBP 2020
No. of participants (at grant)	350	340	360	370	390	393
No. of participants (31 Dec. 2019)	321	303	304	330	367	–
Max. no. of shares to be delivered (at grant)	800,000	770,000	525,000	450,000	460,000	429,558
Estimated no. of shares to be delivered (31 Dec. 2019) ¹⁾	382,497	350,261	291,340	294,665	165,711	–
Share delivery (year)	2018	2019	2020	2021	2022	2023
Earning criteria	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA	Group/ business area EBITDA

¹⁾ For DBP 2015, DBP 2016 and DBP 2017, the gross number of shares actually earned.

President and CEO's pension benefits and severance pay

The President and 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 President and CEO continues in his position until further notice (stock exchange release on 24 October 2019).

The President and CEO has a voluntary pension benefit in addition to the Finnish statutory pension scheme (TyEL). The President and CEO's voluntary pension benefit is arranged through a defined benefit plan. Under the defined benefit plan, the target pension is 60% of the average indexed earnings from the last 10 full calendar years of employment calculated according to the Finnish statutory pension scheme.

Should the company or the President and CEO give notice of termination of the service agreement, no severance pay will be paid in addition to the salary for the 12-month notice period.

If there is a change of control in the company, the President and CEO may terminate his service agreement within three months from closing the takeover and shall receive compensation equivalent to 24 months' base salary.

GET members' pension benefits and severance pay

GET members are covered by the statutory pension plan in the country of residence, supplemented by voluntary defined contribution pension plans. The retirement age is 63. Executives belonging to GET before 1 January 2010 have fully vested rights corresponding to 100% of the accumulated account. Executives who have become GET members after 1 January 2010 are entitled to fully vested rights five years after becoming a member.

For GET members, the period for severance pay is 12 months, in addition to the six months' salary for the notice period, unless notice is given for reasons that are solely attributable to the executive. Should a GET member give notice of termination to the company, no severance pay will be paid in addition to the salary for the notice period.

If there is a change of control in the company, each GET member may terminate his/her executive contract within one month from closing the takeover and shall receive compensation equivalent to 24 months' base salary.

The President and CEO's and other GET members' right to short- and long-term incentives in case their service agreement or executive contract is terminated depends on the terms and conditions of the incentive schemes. As a general rule, the right to incentives requires a valid agreement or contract.

PAYMENTS DUE TO TERMINATION OF EXECUTIVE CONTRACT

BASIS OF PAYMENT	PRESIDENT AND CEO	GET MEMBER
Salary for the notice period	12-month base salary	6-month base salary
Severance pay (notice given by the company)	–	12-month base salary
Severance pay (notice given by the executive)	–	–
Severance pay due to change of control (notice given by the executive)	24-month base salary	24-month base salary

Remuneration report

Board of Directors

The Annual General Meeting 2019 resolved that the remuneration of the members of the Board of Directors remain unchanged. No changes have taken place in the directors' remuneration since 2017.

The approved annual fees and each director's total remuneration including the number of shares purchased to each director are presented in the tables below. No annual fees were paid to the President and CEO for his role as a member of the Board.

Board members did not receive any other financial benefits for their Board or committee membership

in addition to the annual base and committee fees. Shares purchased for the Board members in 2019 may not be transferred for two years from the purchase date (29 April 2019) or until the membership of the respective Board member ends, whichever occurs first.

The payment of board remuneration in shares and cash has long been a practice at UPM. Board members are encouraged to own company shares on a long-term basis and most of them have substantial holdings, indicating a close alignment of Board members' interests with those of shareholders.

BOARD FEES AND PAYMENT MECHANISM

ANNUAL BASE FEE (EUR)	2019	2018	PAYMENT MECHANISM
Chair	190,000	190,000	<ul style="list-style-type: none"> • Approx. 40% in company shares, rest in cash to cover taxes • Two-year lock-up period
Deputy Chair	135,000	135,000	
Members	110,000	110,000	

ANNUAL COMMITTEE FEES 2018–2019 (EUR)	CHAIR	MEMBERS	PAYMENT MECHANISM
Audit Committee	35,000	15,000	Cash
Remuneration Committee	20,000	10,000	
Nomination and Governance Committee	20,000	10,000	

BOARD REMUNERATION AND SHAREHOLDINGS IN 2019

DIRECTOR	ANNUAL BASE FEE (EUR)	40% FOR SHARES (EUR)	60% IN CASH (EUR)	ANNUAL COMMITTEE FEE (EUR)	TOTAL REMUNERATION (EUR)	NO. OF PURCHASED SHARES	UPM SHARES 31 DEC. 2019
Björn Wahlroos	190,000	76,000	114,000	20,000	210,000	2,911	265,194
Berndt Brunow	135,000	54,000	81,000	10,000	145,000	2,068	312,533
Henrik Ehrnrooth	110,000	44,000	66,000	10,000	120,000	1,685	9,506
Piia-Noora Kauppi	110,000	44,000	66,000	35,000	145,000	1,685	19,391
Marjan Oudeman	110,000	44,000	66,000	15,000	125,000	1,685	3,155
Jussi Pesonen	–	–	–	–	–	–	466,472
Ari Puheloinen	110,000	44,000	66,000	10,000	120,000	1,685	11,531
Veli-Matti Reinikkala	110,000	44,000	66,000	20,000	130,000	1,685	44,327
Suzanne Thoma	110,000	44,000	66,000	10,000	120,000	1,685	9,506
Kim Wahl	110,000	44,000	66,000	15,000	125,000	1,685	21,305
Total	1,095,000	438,000	657,000	145,000	1,240,000	16,774	1,162,920

Proposal for Board remuneration in 2020

The Board of Directors' Nomination and Governance Committee has prepared a proposal for the remuneration of the Board of Directors to the Annual General Meeting to be held on 31 March 2020. According to this proposal, the remuneration of the Board of Directors remain unchanged and the Chair of the Board of Directors is proposed to be paid an annual base fee of EUR 190,000, Deputy Chair of the Board EUR 135,000 and other members of the Board EUR 110,000.

The Nomination and Governance Committee has further proposed that the annual committee fees remain unchanged and that the members of the Board of Directors' committees be paid annual fees as follows:

- Audit Committee:
Chair EUR 35,000 and members EUR 15,000
- Remuneration Committee:
Chair EUR 20,000 and members EUR 10,000
- Nomination and Governance Committee:
Chair EUR 20,000 and members EUR 10,000.

The annual base fee is proposed to be paid in company shares and cash so that approximately 40% will be payable in the company shares to be purchased on the Board members' behalf, and the rest in cash. The company will pay any costs and transfer tax related to the purchase of the company shares. Shares thus purchased may not be transferred within two years from the purchase date or until the membership of the respective Board member ends, whichever occurs first. The annual committee fees are proposed to be paid in cash. It is further proposed that if the term of a member of the Board of Directors terminates before the Annual General Meeting of 2021, the Board would have a right to decide upon potential reclaim of the annual fees as it deems appropriate.

President and CEO

The annual salary and other financial benefits of the President and CEO in 2019 are shown in the table below.

REMUNERATION OF THE PRESIDENT AND CEO

SALARIES AND BENEFITS (EUR 1,000)	2019	2018
Salary	1,096	1,094
Short-term incentives	1,426	1,416
Share rewards	3,025	2,966
Benefits	29	31
Total	5,576	5,507
Personal income tax withholding in Finland ^{*)}	2,791	2,739

^{*)} Income taxes withheld from salaries and benefits and remitted to tax authorities by UPM.

In 2019, costs under the Finnish statutory pension scheme for the President and CEO amounted to EUR 465,000 (2018: EUR 471,000). Payments under the voluntary pension plan amounted to EUR 1,459,000 (2018: EUR 923,000).

GET members

The annual salaries and other financial benefits of GET members (excluding the President and CEO) in 2019 are shown in the table below.

REMUNERATION OF GET MEMBERS

SALARIES AND BENEFITS (EUR 1,000)	2019	2018
Salary	4,242	3,971
Short-term incentives	1,779	2,387
Share rewards	9,421	9,014
Benefits	123	131
Total	15,565	15,502

In 2019, costs under the Finnish and German statutory pension schemes for GET members (excluding the President and CEO) amounted to EUR 924,000 (2018: EUR 988,000). Payments under the voluntary pension plan amounted to EUR 947,000 (2018: EUR 880,000).

GET members' shareholdings

Shareholdings of the President and CEO and other GET members at the end of 2019 are presented in the table below.

Ownership recommendation to GET members

The Board encourages GET members to have direct share ownership in the company. It is recommended

that the President and CEO maintains a share ownership of UPM shares corresponding to a two-year gross base salary and other GET members a share ownership corresponding to a one-year gross base salary. Until the share ownership recommendation is fulfilled, GET members shall retain 50% of the net shares received under the PSP.

SHAREHOLDINGS OF GET MEMBERS IN 2019

GET MEMBER	POSITION	UPM SHARES 31 DEC. 2019	UPM SHARES 31 DEC. 2018
Jussi Pesonen	President and CEO	466,472	418,859
Tapio Korpeinen	CFO and EVP UPM Energy	168,013	147,064
Bernd Eikens	EVP UPM Biorefining ^{*)}	84,785	65,462
Pirkko Harrela	EVP Stakeholder Relations	92,264	80,837
Antti Jääskeläinen	EVP UPM Raflatac	23,700	14,178
Juha Mäkelä	General Counsel	73,894	62,467
Jaakko Nikkilä	EVP UPM Specialty Papers ^{**)}	2,172	–
Jyrki Ovaska	EVP Technology	99,054	87,627
Riitta Savonlahti	EVP Human Resources	26,781	15,354
Winfried Schaur	EVP UPM Communication Papers	50,292	30,969
Mika Sillanpää	EVP UPM Plywood	52,719	39,388
Kari Ståhlberg	EVP Strategy	41,971	30,544
Total		1,177,117	992,749

^{*)} As of 1 March 2019. Prior to that, Mr Eikens led UPM Specialty Papers.

^{**)} As of 1 July 2019.