Martela

Martela Oyj´s Remuneration Policy 2020-2023

Introduction to the Remuneration Policy

The Remuneration Policy will be presented to the shareholders at the Annual General Meeting to be held on 12.3.2020. The shareholders may take an advisory vote on the Policy but may not amend it.

Martela's Remuneration Policy contains a description of the main principles of Martela's executive remuneration and information on the remuneration for the Board of Directors and the Group CEO and the decision-making process complied with when approving, assessing and implementing the Remuneration Policy.

The Remuneration Policy complies with the recommendations of the Finnish Corporate Governance Code for listed companies and the Shareholders' Rights Directive legislation.

The remuneration principles set out in the Policy shall guide Martela's remuneration, incentive structure and performance metrics. The goal of Martela's Remuneration Policy is to align Martela shareholders and executives' objectives on short-term and long-term basis as well as to commit executives to execute Company's strategy on becoming the workplace thought leader. Martela's Remuneration Policy has been designed to attract, retain and motivate the most suitable talent to lead Martela and contribute to the success of Martela. Martela wants to offer competitive pay and remuneration schemes to attract, retain and motivate this talent. The Board of Directors and Human Resource and Rewarding Committee regularly observes the performance of Martela's remuneration schemes in order to ensure that the measures and methods selected support Martela's business strategy and long-term financial performance.

Remuneration elements have been balanced in order to ensure positive development in both the short-term and long-term. When determining the alignment Martela's strategy in relation to performance metrics, size and structure of incentive arrangements and the split between fixed and variable pay, the Board of Directors will consider the principles set out in this Remuneration Policy.

When performance is exceptional, the rewards should be adequate. On the other hand, when falling short of targets, the variable remuneration should be low. Thus, when performance does not meet the set targets, variable pay may be zero.

When setting the remuneration for executives, Martela follows the same main principles as for other employees in the Company. Although the role and responsibilities affect the amount of compensation and potentially differentiate incentive schemes. The remuneration of employees across the Company is reviewed regularly to secure its competitiveness and to attract and retain talents.

Decision-making process

Remuneration decision-making process follows the principles set out below.

The Remuneration Policy is prepared by the Human Resource and Rewarding Committee and reviewed by Board of Directors. This Remuneration Policy is approved by the Annual General Meeting and will be presented to the Annual General Meeting every four years or when changed substantially. After the approval at the Annual General Meeting the Remuneration Policy will be applied to the Board of Directors' and the Group CEO's remuneration and the Remuneration Policy is published on the Company's website.

Martela's Annual General Meeting decides on the remuneration payable for the Board of Directors. The Annual General Meeting also decides on the Board of Directors' authorizations to decide on repurchase of own shares and the issuance of shares or special rights entitling to shares that can be used e.g. as

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part of Martela’s incentive schemes.

Preparations concerning the composition and remuneration of the Board of Directors are carried out by the principal shareholders, who propose Board candidates to the Annual General Meeting based on their preparatory work. The Board of Directors elects from among its members a Chairman and Vice Chairman to serve until the end of the next Annual General Meeting. According to the principles of the Board diversity, the members of the Board of Directors must have sufficient and complementary experience and expertise in Martela’s most important business sectors and markets.

The Board of Directors decides on the remuneration and other terms of employment of the Group CEO. In addition, the Board of Directors decides on the long-term incentive plans for the key personnel based on the proposal prepared by the Human Resource and Rewarding Committee.

The Board of Directors authorizes the Human Resource and Rewarding Committee to decide on the remuneration issues and annual performance bonus scheme of the CEO.

These decisions will be made within the limits of the Remuneration Policy approved at the Annual General Meeting.

The Human Resource and Rewarding Committee also monitors the effectiveness of the incentive schemes for executives and key employees to ensure that the schemes promote the achievement of the Company’s short-term and long-term goals.

Martela may also use external consultants to support in reviewing and determining the compensation payable to the Board of Directors and the Group CEO.

Remuneration of the Board of Directors

The Annual General Meeting decides on remuneration for being a member of the Board of Directors as well as potential separate remuneration for being in Board of Directors Committee(s). The amount of the remuneration varies based on the position in the Board of Directors.

The Board of Directors’ compensation can be paid out in shares or cash or combination of those.

Preparations and proposal concerning the remuneration of the Board of Directors are carried out by the principal shareholders. The proposal of Board of Directors’ remuneration is based on among other things benchmarking data on Board compensation. Remuneration is set at appropriate level to attract and retain members of sufficient caliber and experience to the Board of Directors of Martela.

The remuneration of the executives and the Board of Directors is differentiated, and the members of the Board cannot participate in the same incentive programs with other executives or personnel.

Remuneration of the Group CEO

The main components of the Group CEO’s total remuneration are base salary and short- and long-term incentives. If targets are met, less than half of the Group CEO’s total remuneration is based on variable remuneration, with more emphasis on the short-term incentive without major increase in Martela share price. At the maximum level about half of the total remuneration is based on variable remuneration with more emphasis on the short-term incentive without major increase in Martela share price. The Group CEO’s current remuneration and detailed pay mix description is given on the Company’s website.

Element	Description and purpose

Base salary	Group CEO’s salary is based on full compensation basis, including the fixed salary and the fringe benefits. Base salary rewards the Group CEO for the day-to-day activities and ensures a balanced overall remuneration package. Paying salaries at a competitive level enables the Company to recruit and retain key executives.
Fringe benefits	The Group CEO is eligible for customary benefits package. The purpose is to provide a market-competitive level of benefits for the Group CEO to assist in the performance of the role and to support recruitment and retention.
Pension and Other financial benefits	Pension accumulation and retirement age of the Group CEO is determined by the terms of the applicable laws. Pension payment for the Group CEO is based on the Finnish Pension Act (TyEL). The Group CEO has no supplementary pension scheme.
Short-term incentive (STI)	CEO is compensated with short-term incentive plan, which is based on targets set by Martela’s Human Resource and Rewarding Committee. Time period for the short-term incentive plan is one year and it is paid annually typically in cash. The maximum earning from the short-term incentive plan is capped. The short-term incentive plan may be based on a mix of financial, operational, strategic and individual performance targets. The targets are defined annually each year depending on the key goals for the coming year. Purpose of the short-term incentive plan is to provide an effective means to motivate and compensate the Group CEO based on the achievement against annual goals.
Long-term incentive (LTI)	CEO’s long-term incentive plan consists of share-based incentive plan(s). Purpose of the plan is to unite shareholders and CEO´s objectives on long-term basis as well as to commit the Group CEO to execute Company’s strategy. In addition, plan’s objective is to offer to the CEO a competitive model to earn Company’s shares. Long-term Incentive plan(s) may comprise of any form of LTI instruments such as performance shares, stock options, restricted shares, matching shares as well as non-share based LTI agreements. *Share-based incentive plan* Martela has a share-based incentive plan in which the Group CEO may participate. The plan has performance periods of at least two (2) years. The potential shares received as a reward from the long-term incentive plan may include a holding period of one (1) year from receiving the shares. The Board of Directors will resolve on the plan's performance criteria and on the required performance level for each criterion at the beginning of a performance period. The criteria are evaluated after each performance period and the amount of the reward is determined based on the extent to which the targets have been reached during the performance period. The maximum number of shares potentially earned at reward is capped at grant. The potential reward will be paid partly in shares and partly in cash after the end of the performance period. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to a participant.

Other terms of Group CEO’s employment

In the event of termination, a mutual notice period of six (6) months shall apply. If contract is terminated by Martela, the CEO is entitled for additional 6-month severance pay without obligation to work for the Company.

The Group CEO must hold 50% of the net shares given on the basis of the long-term incentive plans, until his shareholding in the Company in total equals the value of his gross annual base salary. Such number of shares must be held as long as the key person holds the position of the Group CEO.

Malus and clawback

Based on the terms and conditions of the long-term and short-term incentive plans, Martela Board of Directors retains the ability to reduce or clawback awards where the Group CEO has acted fraudulently or dishonestly or is in material breach of their obligations to the Company, or where the Company becomes aware of material misstatement or omission in the financial statements of the Company, or circumstances occur that the Board determines to have resulted in an unfair benefit to the recipient.

The short- and long-term remuneration schemes and payout of related bonuses are not part of the terms and conditions of the Group CEO’s employment contract or remuneration, and the Board of Directors is entitled to decide on the use of the schemes or amend their terms and conditions at any time.

Temporary deviations from the Policy

The Board of Directors may temporarily deviate from the Remuneration Policy in exceptional circumstances such as essential changes to the operating conditions of the Company, for example, in case of appointment of a new Group CEO or execution of strategic corporate transactions, or, in case there are changes to the regulative environment affecting the remuneration. In such situations, deviation may be done relating to the compensation of the Group CEO. This should also cover situations where the exception is necessary to serve the long-term interests and sustainability of the Company as a whole or assure its viability.

Temporary deviations from the Remuneration Policy will be reported in the Remuneration Report. Respectively, significant and permanent changes in the composition of the total remuneration of the Group CEO will be included in the agenda of Annual General Meeting. The Human Resources and Rewarding Committee prepares the remuneration matters to be updated and proposes them to the Board of Directors for approval. After the changes have been approved the revised Remuneration Policy is presented to the Annual General Meeting.