



2019

LEHTO GROUP PLC

# Corporate Governance Statement



## Corporate Governance Statement 2019

Introduction .....	3
Descriptions concerning corporate governance.....	3
General Meeting of Shareholders .....	3
Board of Directors.....	3
Board committees.....	7
Group Management .....	8
Main features of the internal control and risk management systems related to the financial reporting process .....	12
Risk management .....	12
Internal control .....	12
Internal controls over financial reporting .....	13
Risk management and internal control roles and responsibilities .....	14
Other information to be provided.....	15
Insider Administration .....	15
Related party administration.....	16
Internal auditing.....	16
Auditing.....	16



## Introduction

Corporate governance at Lehto Group Plc (hereinafter “Lehto Group” or “Company”) is based on the laws in force and the Company’s Articles of Association. Lehto Group follows the rules and regulations of Nasdaq Helsinki Ltd (hereinafter “Nasdaq Helsinki” or the “Helsinki Stock Exchange”) and the Finnish Corporate Governance Code 2020 (hereinafter “Corporate Governance Code”) issued by the Securities Market Association. The Corporate Governance Code is available in its entirety on the website of the Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi).

On 19 February 2020, the Company’s Board of Directors approved this Corporate Governance Statement (hereinafter “CG Statement”), which was drawn up separately from the report by the Board of Directors. This CG statement will be published on Lehto Group’s website at [www.lehto.fi/en](http://www.lehto.fi/en).

## Descriptions concerning corporate governance

The responsibility for Lehto Group’s corporate governance has been divided in accordance with the Limited Liability Companies Act between its General Meeting of Shareholders, the Board of Directors and the CEO. Shareholders exercise their rights mainly in the General Meeting of Shareholders, which is normally convened by the Company’s Board of Directors. Furthermore, a General Meeting of Shareholders must be held if so required in writing by the Company’s auditor or shareholders representing at least one tenth of all shares issued by the Company.

### GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is Lehto Group’s highest decision-making body. According to the Limited Liability Companies Act, the shareholders exercise their power of decision in matters related to the Company at the General Meeting of Shareholders. The General Meeting of Shareholders decides on matters required by the Limited Liability Companies Act and the Company’s Articles of Association. The shareholders participate in the General Meeting of Shareholders either personally or through a representative. Each share entitles its holder to one vote.

The Annual General Meeting is held annually on the date determined by the Board of Directors, within six months from the termination of the financial year. In accordance with the Limited Liability Companies Act and the Articles of Association, the Annual General Meeting decides on matters that fall within its competence, such as adoption of the financial statements, the use of the profit shown on the balance sheet, and the appointment of the members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting also decides on the discharge of the Members of the Board of Directors and the Chief Executive Officer from liability. An Extraordinary General Meeting shall be held if the Board of Directors considers it necessary or if the Company’s auditor or shareholders whose shares represent at least one tenth of all shares issued by the Company so demand in writing in order for a given matter to be dealt with.

In accordance with the Company’s Articles of Association, a written notice of a General Meeting of Shareholders shall be given to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the shareholders’ meeting, however, no later than nine (9) days prior to the record date of the General

Meeting of Shareholders. A notice of a General Meeting of Shareholders shall be given by publishing it on the Company’s website or in some other verifiable written form.

### BOARD OF DIRECTORS

The Company’s Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors shall be responsible for the appropriate arrangement of the control of the Company’s accounts and finances. The Board of Directors or a member of the Board of Directors shall not comply with a decision of the General Meeting of Shareholders or the Board of Directors where it is invalid owing to being contrary to the Limited Liability Companies Act or the Company’s Articles of Association. The General Meeting of Shareholders elects the members of the Board of Directors.

The Board of Directors is elected annually at the Annual General Meeting. By virtue of the Company’s Articles of Association, the Company has a Board of Directors which consists of 3–8 ordinary members. The Board members’ term of office shall expire at the end of the next Annual General Meeting following their election.

### Composition and operations of the Board of Directors

The Board of Directors has drawn up a charter of the Board of Directors, which defines the Board’s key duties and operating principles.

The Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors, among its other duties, controls and supervises the Company’s operative management, appoints and discharges the CEO,



determines the duties and conditions of employment of the CEO, approves the strategic objectives and the principles of risk management for the Company and its businesses and ensures the proper operation of the management system. The Board of Directors also ensures that the Company has defined the operating principles for internal control and that the Company monitors the functioning of the internal control. The Board of Directors approves the policies and guidelines for internal control, risk management and corporate governance, as well as the Company's information dissemination policy. Based on the Company's strategy, the Board of Directors approves the action plan and budget and supervises their implementation. Furthermore, the Board of Directors annually approves the total amount and priorities of investments in the Company's business operations and decides on major and strategically important investments, acquisitions and divestments. The Board of Directors confirms the Company's ethical values and working methods and monitors their implementation. The Board of Directors also defines the Company's dividend policy on the basis of which it submits a dividend proposal to the Annual General Meeting for consideration.

The Company aims to ensure that its Board of Directors has, as a whole, and taking into account its duties, sufficient and versatile expertise and experience. In the preparation of the proposal of the shareholders' Nomination Committee for the composition of the Board of Directors, particular attention shall be paid to the requirements set by the company's operations and development stage, and furthermore it shall be ensured that the Board of Directors and its members have sufficient expertise, know-how and experience to meet the requirements of the company. A person elected as a Board member must have the competence required by the position and the possibility to devote

a sufficient amount of time to attending to the duties. The number of Board members and the composition of the board of directors shall be such that they enable the Board of Directors to see to its duties efficiently. For the evaluation of the diversity and composition of the Board of Directors, individuals who have been proposed as members shall, in confidence and as instructed by the Company, provide the information required to evaluate their competence and the amount of time they can devote to the task to the Shareholders' Nomination Committee.

The Board of Directors shall also evaluate the independence of its members. The majority of the Board members shall be independent of the Company. Furthermore, at least two members who are

independent of the Company shall also be independent of the significant shareholders of the Company. Board members' independence shall be evaluated on an annual basis.

The Board of Directors elected by the Annual General Meeting of 29 March 2019 consisted of Martti Karppinen, Mikko Räsänen, Pertti Korhonen, Anne Korkiakoski and Seppo Laine. Martti Karppinen has acted as Chairman of the Board of Directors. During the financial year 2019, the Board of Directors had a total of 14 meetings, five of which was conducted by phone or email. The average attendance rate of Board members was 97 per cent.

Basic information on Board members, their independence, remuneration, holdings and attendance in Board meetings is provided in the following tables.

#### MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Year of birth	Education	Independence of the Company	Independence of significant shareholders
Martti Karppinen	Chairman of the Board of Directors	1947	M.Sc. (Tech.)	Yes	Yes
Pertti Korhonen	Member of the Board of Directors	1961	M.Sc. (Tech.)	Yes	Yes
Mikko Räsänen	Member of the Board of Directors	1978	M.Sc. (Econ.)	Yes	Yes
Anne Korkiakoski <sup>2</sup>	Member of the Board of Directors	1964	M.Sc. (Econ.)	Yes	Yes
Seppo Laine <sup>2</sup>	Member of the Board of Directors	1953	APA	Yes	Yes
Sakari Ahdekivi <sup>1</sup>	Member of the Board of Directors	1963	M.Sc. (Econ.)	Yes	Yes
Päivi Timonen <sup>1</sup>	Member of the Board of Directors	1970	LL.M. Trained on the Bench	Yes	Yes

<sup>1</sup> Has been a member of the Board of Directors until 29 March 2019.

<sup>2</sup> Has been a member of the Board of Directors since 29 March 2019.



## BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES 31 DECEMBER 2019

Name	No. of shares held	Shareholding ratio
Martti Karppinen	14,568	0.02%
Pertti Korhonen	11,284	0.02%
Mikko Räsänen	6,284	0.01%
Anne Korkiakoski	21,284	0.04%
Seppo Laine	27,284	0.05%
<b>Board of Directors in total</b>	<b>80,704</b>	<b>0.14%</b>

## REMUNERATION OF THE MEMBERS OF THE BOARD (INCLUDING REMUNERATION OF AUDIT COMMITTEE), SERVICES SOLD TO THE COMPANY AND ATTENDANCE IN MEETINGS

Name	Remuneration for 2019, paid as shares, EUR	Remuneration for 2019, paid as cash, EUR	Sale of services to the Company in 2019, EUR	Attendance in Board meetings
Martti Karppinen	27,600	68,700	-	14/14
Pertti Korhonen	13,800	35,950	-	14/14
Mikko Räsänen	13,800	34,800	-	13/14
Anne Korkiakoski <sup>2</sup>	13,800	25,950	-	10/10
Seppo Laine <sup>2</sup>	13,800	27,000	-	9/10
Sakari Ahdekivi <sup>1</sup>	-	9,000	-	4/4
Päivi Timonen <sup>1</sup>	-	8,800	-	4/4
<b>Board of Directors in total</b>	<b>82,800</b>	<b>210,200</b>	<b>-</b>	<b>97%</b>

<sup>1</sup> Has been a member of the Board of Directors until 29 March 2019.

<sup>2</sup> Has been a member of the Board of Directors since 29 March 2019.

## Presentation of Board members

**Martti Karppinen** has been the Chairman of the Board of Directors since 2018 and a member of the Board of Directors since 2014. Prior to that, he served as an advisor to the Board of Directors in 2012–2014. His previous positions include a member of the Board of Directors and Chairman of the Board of Directors of iLOQ Oyj. Since 2007, Karppinen has been CEO and Chairman of the Board of Directors of MKA Consulting Oy. Karppinen holds the degree of Master of Science in Technology.

**Pertti Korhonen** has been a member of the Board of Directors since 2018. Korhonen started his long career with Nokia in 1986, first in product development duties as the head of its Oulu unit and later as Chief Technology Officer and a member of the Group Executive Board. In 2006-2009, Korhonen served as the CEO of Elektrobit Corporation, and in 2010-2016 as the CEO of Outotec Corporation. Korhonen also holds numerous positions of trust. For instance, he serves as the Chairman of the Board of Directors of DNA Plc, Chairman of the Board of Directors of Traffic Management Finland Group, a member of the Board of Directors of Granlund Oy and the Chairman of the Board of Business Finland.

**Mikko Räsänen** has been a member of the Board of Directors since 2013. He has experience in Nordic property markets, property development, property investment and the financing of property transactions. Räsänen is a co-owner and Chairman of the Board of the property investment company NREP Oy as well as the Chairman or a member of the Board in several

companies that form part of NREP's investment portfolio. Räsänen joined NREP Oy in 2006. He previously worked as a management consultant in the Boston Consulting Group in 2004–2006. Räsänen holds the degree of Master of Science in Economics.

**Anne Korkiakoski** has been a member of the Board of Directors since 2019. She is an expert in marketing and communication and acts as a member of the Board of Directors in several entities such as Lindström, University of Vaasa, Nordic Morning Group, Lunawood, Irepse, and Kalevala Jewelry. Earlier in her career Korkiakoski has acted as the Executive Vice President of Marketing and Communications at Kone Corporation

and at Elisa Corporation and as the CEO and Partner in the Nordic advertisement and communication offices of Havas. Korkiakoski holds the degree of M.Sc. (Econ.).

**Seppo Laine** has been a member of the Board of Directors since 2019. He acts as Chairman of the Board of Directors in Cor Group Ltd, Pohjaset Ltd, Trevia asset Management Ltd and Fysiopalvelu Easymove Ltdas well as a Member of the Board in Apetit Plc. Laine has previously in his career worked as the CFO and the Chairman of the Board of Directors in Elektrobit Plc and as the Director of Oulu regional office and International Partner in Auditing Company Ernst & Young. Laine is an Authorised Public Accountant.



From left: Seppo Laine, Pertti Korhonen, Anne Korkiakoski, Mikko Räsänen and Martti Karppinen



### **The memberships of the Board of Directors that ended during 2019**

**Päivi Timonen** was member of the Board of Directors since 2014 until the Annual General Meeting of the year 2019.

**Sakari Ahdekivi** was member of the Board of Directors since 2016 until the Annual General Meeting of the year 2019.

### **Statement on the implementation of the Board Diversity Policy 2019**

In 2019, the Board of Directors confirmed that the Company's Board Diversity Policy shall be followed in the selection of the persons proposed as Board members. The implementation of the diversity policy will be monitored on an annual basis in connection with the Corporate Governance Statement.

In order to be able to comprehensively support and develop the Company's business, the composition of the Board of Directors shall be sufficiently diverse. When selecting the persons to be proposed as Board members a balance with regard to the educational background, professional skills, experience, nationality as well age and gender distribution of its members shall be considered. As a whole, the composition of the Board of Directors shall be such that the directors have sufficiently comprehensive competence, skills and experience. The shareholders' Nomination Committee shall take into consideration the sufficient diversity of the Board when preparing the suggestion for the composition of the Board.

At the 2019 Annual General Meeting, the shareholders' Nomination Committee proposed that Martti Karppinen, Mikko Räsänen and Pertti Korhonen be re-elected as members of the Board of Directors. Furthermore, the shareholders' Nomination Committee proposed that Anne Korkiakoski and Seppo Laine be elected to the Board to replace Sakari Ahdekivi and Päivi Timonen. The proposed persons were elected to the Board. At its organisation meeting, Martti Karppinen was elected as Chairman of the Board.

The defined diversity goal is well implemented in the Company Board of Directors. The Board of Directors includes members that have knowledge in commerce, law, and technology. The Board is composed of members representing different ages, genders, and educational backgrounds who most have strong expertise in the real estate business. The Board members additionally have experience in international duties, and they have the capacity to develop the Company and assess the view of parties that use the Company's services. According to the self-assessment of the Board of Directors, the members of the Board have been able to devote a sufficient amount of time to Board duties to ensure the Board's operating conditions.

### **BOARD COMMITTEES**

The preparation of matters within the competence of the Board of Directors may be made more efficient by the establishment of Board committees allowing more extensive concentration on matters. The committees have no independent decision-making power, but they prepare issues which will be resolved by the Board. The Board of Directors remains responsible for the

duties assigned to the Committee. The Committee shall regularly report on its work to the Board of Directors. The reports shall include at least a summary of the matters addressed and measures proposed by the Committee. The Annual General Meeting decides on the remuneration of the members of the Board committees.

### **Audit Committee**

The Audit Committee is tasked with preparing matters relating to the Company's financial reporting and control. The key duties and operating principles of the Committee are described below.

#### **The main duties of the Audit Committee are:**

- to monitor the financial statements reporting process
- to supervise the financial reporting process
- to monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- to review the description of the main features of the Company's internal control and risk management systems related to the financial reporting process
- to monitor the statutory audit of the financial statements and consolidated financial statements
- to evaluate the independence of the statutory auditor or auditing firm, particularly the provision of related services to the Company
- to prepare a proposal for the election of an auditor.

The Company's Board of Directors shall nominate the Chairman and members of the Audit Committee.



The Audit Committee consists of at least three members of the Board of Directors. At least one of them must have special expertise in accounting, bookkeeping or auditing. Board members to be elected as members of the Audit Committee must have extensive knowledge of Lehto Group's business operations and business segments and sufficient knowledge of accounting and accounting policies. In its organisational meeting of 29 March 2019, the Board of Directors elected Seppo Laine (Chairman), Pertti Korhonen, and Mikko Räsänen as members of the Audit Committee. The members of the Committee are independent of the Company and its significant shareholders.

The Audit Committee convenes at least twice a year. In addition to the Committee members, the meetings shall be attended by the Company's CEO and Chief Financial Officer and, optionally, the Company's auditors. Furthermore, the Committee members may meet the external auditors without the operative management being present in such meetings. During the financial year 2019, the Audit Committee had four meetings and all members attended all meetings.

### **Shareholders' Nomination Committee**

The Annual General Meeting of Lehto Group Plc decided on 11 April 2017 to establish a Shareholders' Nomination Committee to prepare proposals regarding members of the Board of Directors and their remuneration for the Annual General Meeting. The main responsibility of the Nomination Committee is to ensure that the Board of Directors and its members have sufficient expertise, know-how and experience to meet the requirements of the company.

The Nomination Committee shall adhere to current legislation, other provisions and regulations as well as the rules to which the company is subject.

The members of the shareholders' Nomination Committee shall comprise the representatives of the three biggest shareholders who have accepted the responsibility. The biggest shareholders shall be annually named with regard to the situation on the last September date of public trading organised by Nasdaq Helsinki Ltd on the basis of the company's shareholders' register, held by Euroclear Finland Ltd. Each of the three biggest shareholders shall nominate one representative for the Nomination Committee. Should someone opt out of the nomination right, the right is transferred to the next biggest shareholder in order who otherwise would not have the nomination right. The Chairman of the company's Board of Directors shall act as an expert member of the Committee without a right to vote.

Should a shareholder who is represented in the Nomination Committee sell over 50% of their shares relative to the situation at the time the shareholder's representative was elected and no longer belongs to the ten biggest shareholders of the company, said representative must resign from the Nomination Committee. The Shareholders' Nomination Committee must then elect a new member to replace the resigned member.

The new elected member shall be determined by the order of the shareholders such that the shareholder with the greatest number of owned shares without a representative in the Nomination Committee shall have the primary right to name a representative for

the Committee. Should the shareholder opt out of the nomination right, the right is transferred to the next biggest shareholder in order who otherwise would not have the nomination right. The equity holdings shall be evaluated on the basis of the shareholders' register held by Euroclear Finland Ltd according to the time of resignation of the member of the Nomination Committee.

Otherwise, the term of office of a Committee member shall be valid until the last September date of public trading organised by Nasdaq Helsinki Ltd following the election.

The Nomination Committee shall have quorum when more than half of its members with a right to vote are present. The Nomination Committee cannot make a decision unless all its members have been offered the chance to take part in the discussion regarding the matter as well as the meeting.

The Nomination Committee shall prepare a proposal regarding the composition of the Board of Directors for the Annual General Meeting, which shall decide on the matter. When preparing the proposal, the Nomination Committee shall take into consideration the requirements of the Governance Code and the annual assessment of the Board. If necessary, the Nomination Committee can also hear outside experts.

According to the last October 2018 date of public trading, organised by Nasdaq OMX Helsinki, Lehto Group Plc's three biggest shareholders were Lehto Invest Oy, OP-Rahastoyhtiö Oy, and Mikko Kinnunen. They exercised their nomination right, nominating



Hannu Lehto, Vesa Vanha-Honko and Mikko Kinnunen, all accepting the nomination, as members of the Nomination Committee. The Shareholders' Nomination Committee held three meetings.

## GROUP MANAGEMENT

### CEO

The CEO is in charge of the day-to-day management of the company in accordance with the instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that the Company's accounting practices are in compliance with the law and that the financial matters are organised in a reliable manner. The CEO has a duty to provide the Board of Directors and its member(s) with any information that the Board of Directors may need in order to see to its duties.

The CEO may undertake measures that are unusual or extensive, considering the scope and nature of the Company's operations, only with the authorisation of the Board of Directors or if it is not possible to wait for

a decision of the Board of Directors without causing essential harm to the Company's operations. In the latter case, the Board of Directors shall be notified of the measures as soon as possible.



**Hannu Lehto**, born 1963, has been Lehto Group's CEO since 2014. In 2008–2013, he was the CEO of the Company's predecessor, the Päätoimija Group. Lehto is the Company's founding shareholder, and he has also acted as the Chairman

of the Board of Directors in 2008–2014. In 2014–2016, he was a member of the Board of Directors. Lehto became the Company's shareholder through an arrangement in which the Company, in connection with its establishment, bought the entire share capital of the construction company Rakennusliike Lehto Oy. Hannu Lehto has worked in Rakennusliike Lehto Oy since its foundation in 1985, when he and Tapio

Mustonen established a limited partnership by the name Rakennusliike Mustonen & Lehto Ky. Hannu Lehto is a Construction Engineer by education.

At the end of the financial period 2019 Hannu Lehto owns directly or indirectly 21,748,221 shares of the Company which are 37.30 per cent of the Company's shares.

### Group's executive team

The CEO is supported by the Group's executive team which on 31 December 2019 comprises in addition to CEO:

- **Veli-Pekka Paloranta**, CFO, Chief Financial Officer
- **Juha Höyhtyä**, EVP, Housing (since 1 June 2019)
- **Jaakko Heikkilä**, EVP, Business Premises
- **Ville Kettunen**, EVP, Social Care and Educational Premises
- **Timo Reiniluoto**, EVP, Business Support Services
- **Jukka Haapalainen**, EVP, Factory Production (since 1 August 2019)
- **Arto Tolonen**, CDO, Chief Development Officer
- **Kaarle Törrönen**, Vice President, Human Resources (since 1 April 2019)
- **Toni Kankare**, Chief Commercial Officer (since 1 August 2019)

The Group's executive team supports the CEO in duties falling within the CEO's competence, as well as their implementation and monitoring, particularly as regards business development, financing, asset management, internal control and risk management.



**Veli-Pekka Paloranta**, born 1972, has been the Chief Financial Officer in Lehto since November 2015. In 2010–2015, he was the CFO of Bittium Oyj (former Elektrobit Oyj), in addition to which he has served as Chairman of the Board of several subsidiaries of the Elektrobit Group. Paloranta holds the degree of Master of Science in Economics.



**Juha Höyhtyä**, born 1965, has been working for Lehto since 2019. He has a long experience of construction business. He has served altogether 24 years in Lemminkäinen in Finland as well as abroad. Previously he has acted as CEO of Telinekatata Oy, in which position he worked for approximately four years.



**Jaakko Heikkilä**, born 1971, has been employed by the Group since 2011. Prior to his current position as service area EVP, he served in the Group as Area Manager, Chief Business Officer and Deputy Managing Director of Rakennusliike Lehto. Previously, Heikkilä worked in construction tasks for the Ministry of Defence administrative sector and Finnish Customs as well as various managerial positions in production in the building sector. Heikkilä holds the degree of Master of Civil Engineering.



**Ville Kettunen**, born 1977, has over 15 years' experience of construction business. He has held various management positions in on-site construction, construction management and property development. Previously Kettunen acted as area manager in Lemminkäinen Talo Oy.



**Timo Reiniluoto**, born 1966, served from November 2014 to May 2017 as CEO of Lehto's subsidiary Rakennusliike Lehto Oy. From the beginning of March 2017, he has acted as EVP, Business Support Services at Lehto Group. He has 30 years' experience in various tasks in the construction sector, including as EVP and Head of Commercial Construction Southern Finland at Skanska. He also has ten years' work experience in Russia. In addition, Reiniluoto served as Board member of Oy Lautex Ab in 2006–2013. Reiniluoto holds the degrees of Master of Science in Technology and Hanken MBA in Real Estate Finance.



**Jukka Haapalainen**, born 1975, has been employed by Lehto since 2019. He has nearly 20 years of experience in versatile and demanding industrial development and management roles. Most recently he has worked for Nestor Cables Oy and Eastman Chemical Company.



**Arto Tolonen**, born 1966, has worked in various leadership positions in Nokia Networks for a development of business processes, product development, productization and product data management globally. In the University of Oulu, Tolonen established a new research and education stream for product management for faculty of technology, industrial engineering and management research unit within the last five years.



**Kaarle Törrönen**, born 1966, has served as Vice President, Human resources since 2018. Previously he has worked over 33 years in leading HR positions in The Finnish Defence Forces.



**Toni Kankare**, born 1979, has served as Chief Commercial Officer since 2019. He has over 15 years of experience in the real estate and construction industry, most recently as SRV Group Plc's Project Development Director. In addition to SRV, he has worked in key roles for such as Lidl Suomi Ky, EFM Suomi Oy and TKD Suomi Oy.

## DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM 31 DECEMBER 2019

Name	No. of shares held	Shareholding ratio
Veli-Pekka Paloranta	324,851	0.56%
Juha Höyhtyä (since 1 June 2019)	-	-
Jaakko Heikkilä	640,000	1.10%
Ville Kettunen	70	0.00%
Timo Reiniluoto	14,895	0.03%
Jukka Haapalainen (since 1 August 2019)	-	-
Arto Tolonen	1,782	0.00%
Kaarle Törrönen (since 1 April 2019)	3,000	0.01%
Toni Kankare (since 1 August 2019)	1,000	0.00%
<b>Total</b>	<b>985,598</b>	<b>1.69%</b>



### The memberships of the Group's Executive Team that ended during 2019

**Pasi Kokko**, born 1968, was member of the Group's Executive Team until 1 April 2019. Kokko served as Managing Director of Lehto's subsidiary Rakennuskartio Oy from 2013 to the end of 2017, after which he was EVP, Housing.

**Pekka Korkala**, born 1969, was member of the Group's Executive Team until 31 August 2019. Until that he served as CEO of Lehto's subsidiary Lehto Components Oy.

### Business operations management

The Group's operational business was during 2019 divided into three service areas: Business Premises,

Social Care and Educational Premises, Housing, and Building Renovation. In the beginning of 2019 the Building Renovation service area was merged into the Housing and Business Premises service areas and from the beginning of the year 2019 the business of the Company has been organised into Housing, Business Premises, and Social Care and Educational Premises service areas. Service areas are led by separate EVP's who, with the service area executive group, oversee the planning of the service area's products and services, production and sales as well as the general development of the service area. The EVP's report monthly to the CEO of the Group and to the service area steering group. The steering group includes the EVP of the service area, the CEO, CFO and the EVP of Business Support Services.

The actual operative business of the company takes place in the subsidiaries of the company. Three of the subsidiaries are focused on the functions of the service areas, one is focused on industrial scale production, one in designing and planning and two for functions in the Swedish markets.

The Group's parent company is not engaged in actual business operations but serves as a hub for a number of shared Group functions which are relevant for the manageability and cost efficiency of the Group's operations. These include human resources management, bookkeeping, coordination of financial affairs, legal, business development, sourcing and purchasing, communications, marketing and information management.



## Main features of the internal control and risk management systems related to the financial reporting process

### RISK MANAGEMENT

The purpose of risk management is to secure positive development of earnings of the Company and the continuation of the business by implementing risk management cost-effectively and systematically throughout the different businesses. Risk management is part of the Company's strategic and operative planning, daily decision-making process and internal control system. Business objectives, risks and risk management operations are combined through risk management as one chain of events.

The Company adheres to the risk management policy approved by the Board of Directors. Risk management contains all actions, which are connected to setting up targets, identification of risks, measurement, review, handling, reporting, follow-up, monitoring and reacting to risks.

In connection with the strategy process and annual planning, the CEOs of the Company and the EVP's of business areas review business risks which could prevent or endanger the achievement of the Group's strategic or profit targets. The service areas produce risk assessment reports for each business to support the strategy process. Strategic and operative risks are monitored through reporting by the businesses and considered by service area-specific steering groups

that convene monthly. The service areas must produce assessments of risks in their own units and provide action plans to manage risks as well as to report on measures taken including the stage and effectiveness of such measures.

The Company's CEO reports the identified risks concerning the Group as well as all planned and effected measures to control such risks to the Company's Board of Directors.

#### The aim of risk management is to:

- systematically and thoroughly identify and assess all major risks, which threaten the achievement of objectives, including risks related to business operations, property, agreements, competence, currencies, financing and strategy;
- optimise business opportunities and secure continuation of business;
- recognise and identify uncertainties and subsequently develop the prediction of risks and measures needed to manage risks;
- take only calculated and carefully assessed risks with respect to e.g. expanding the business, increasing market share and creating new businesses;
- avoid or minimise liability risks;
- ensure the safety of products, solutions and services;
- establish a safe working environment for the employees;
- minimise possibilities for unhealthy occurrences, crimes or misconduct by operating procedures by various systems, control and immediate response;

- inform interest groups of risks and risk management; and
- be cost-effective in risk management.

#### The aim of risk management is not to:

- remove all risks in their entirety;
- adapt unnecessary controlling mechanisms; or
- create unnecessary administrative burden.

### INTERNAL CONTROL

Internal control is a process applied by the Board of Directors, management and all Group personnel to ensure that management has reasonable assurance that

- operations are effective, efficient and aligned with strategy;
- financial reporting and management information is reliable, complete and timely made; and
- the Company is in compliance with applicable laws and regulations as well as the Company's internal policies and ethical values.

The first category addresses the basic business objectives, including performance and profitability goals, strategy, implementation of objectives and actions and safeguarding resources.

The second category relates to the preparation of reliable published financial statements, including interim reports and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly.



The third deals with complying with those laws, regulations, and internal procedures to which the Company is subject to.

#### **Lehto Group's internal control framework consists of:**

- the internal control, risk management and corporate governance policies and principles set by the Company's Board of Directors;
- management overseeing the implementation and application of the policies and principles;
- the Finance department monitoring the efficiency and effectiveness of the operations and reliability of the financial and management reporting;
- the Company's risk management process identifying, assessing and mitigating risks threatening the realisation of the Company's objectives;
- compliance procedures making sure that all applicable laws, regulations, internal policies and ethical values are adhered to;
- effective control environment at all organisational levels including control activities tailored for defined processes and creating minimum requirements for the Group's business segments and geographical areas;
- shared ethical values and strong internal control culture among all employees, and
- internal audit assignments reviewing the effectiveness of the internal controls as needed.

Risk management procedures are in place for business processes in the form of defined control points:

- relevant process risks are identified;
- common control points/Group's minimum requirement control points are identified;
- common control points are implemented in business processes;
- additional control points can be determined as needed at business or functional levels.

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks in order to achieve the Company's objectives. Control activities are set throughout the organisation, at all levels and in all functions. They include a wide range of activities, such as approvals, authorisations, verifications, reviews of operating performance, security of assets and segregation of duties.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The purpose of internal controls over financial reporting is to ensure the accuracy, reliability, timeliness and appropriateness of financial information.

#### **Financial reporting organisation and duties**

The Group's financial administration is handled centrally by the parent company, whose organisation provides financial administration services to all Group companies. Although the subsidiaries have no actual financial administration organisation, their personnel produce financial data which is used as part of the Group's financial reporting.

The main duties of financial administration include:

- Group accounting
- subsidiaries' accounting
- sales invoicing and accounts receivable management
- accounts payable management
- remittance of payments
- compilation of monthly financial reports supporting the business operations
- cash management and the coordination of financing
- control of the forecast and budgeting process
- taxation and transfer pricing
- company law-related duties.

The financial administration organisation implements operative supervision under the CFO who reports any supervisory findings to the Audit Committee.

The tasks of the financial administration organisation have been divided between individuals and documented in the job descriptions of the teams and employees.

#### **Financial reporting systems**

The Group's main financial information system is a modular V10 enterprise resource planning system which has been tailored to the needs of Lehto Group. Since the Group's business operations are mainly project-based, financial and other basic data of the project is entered in the V10 system at the beginning of the project. All income and expenses as well as payments made and received are entered in the system and are



further processed for the needs of internal and external accounting.

The general ledger accounting of the Group's special purpose vehicles is handled in the V10 system, and Group consolidation is handled in the Cognos Controller system. Payment process is handled through with Analyste Banking system.

Project and initiative management monitors project progress directly through the V10 system, but the profit reports of internal accounting are drawn up in Excel format. In the compilation of profit reports, data from Group and subsidiary accounting as well as project data obtained from the V10 system is used.

### **Supervision of financial reporting**

The correctness of financial reporting is ensured through internal instructions, job and process descriptions, authorisation matrices, segregation of obligations and duties related to general ledger accounting, and financial reporting review meetings.

Service area-specific performance data is reviewed in the regular meetings of the service areas' steering groups, where the subsidiaries' management provides background and rationale for the results achieved.

The competences of financial administration personnel are maintained through regular training. Auditors assess the correctness of reporting in connection with, for example, the compilation of interim reports and through their other auditing work performed during the financial year.

## **RISK MANAGEMENT AND INTERNAL CONTROL ROLES AND RESPONSIBILITIES**

The key roles and responsibilities regarding the Company's internal control and risk management are defined as follows:

### **Board of Directors**

The Board of Directors is ultimately responsible for the administration of the Company and for the proper organisation of its operations. According to good corporate governance, the Board also ensures that the company has duly endorsed the corporate values applied to its operations. The Board of Directors approves the policies and guidelines concerning internal control, risk management and corporate governance. The Board establishes the risk-taking level and risk bearing capacity of the Company and re-evaluates them on a regular basis as part of the strategy and goal setting of the Company. The Board reports to the shareholders of the Company.

### **Audit Committee**

The Audit Committee of the Board of Directors is responsible for the following internal control related duties:

- monitor the reporting process of financial statements;
- supervise the financial reporting process;
- monitor the efficiency of the Company's internal control, internal audit if applicable, and risk management systems;
- process the descriptions included in the Corporate

Governance statement's chapter Main features of the internal control and risk management systems related to the financial reporting process; and

- monitor the statutory audit of the financial statements and consolidated financial statements.

A more detailed description on how the Audit Committee is fulfilling its supervisory role is available in the Committee's annual plan. The Audit Committee reports to the Company's Board of Directors.

### **CEO**

The CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders issued by the Board of Directors. The CEO sets the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. The CEO is in charge of the Company's risk management process and its continuous development, allocation of resources to the work, review of risk management policies as well as defining the principles of operation and overall process. The CEO reports to the Board on risk management as part of the monthly reporting. The CEO as well as the members of the Group's executive team, who are subordinate to the CEO of the Lehto Group, are in charge of risk management in their own areas of responsibility.

### **Chief Financial Officer and financial administration**

The CFO ensures and controls that the Group's accounting and financial reporting practices comply with the law and that both internal and external financial reporting is reliable.



The financial administration:

- ensures a setup of adequate control activities for service areas in cooperation with their management;
- follows the adequacy and effectiveness of control activities; and
- ensures that external reporting is correct, timely and in compliance with regulations.

### General Counsel

It is the task of the General Counsel to ensure and monitor the Group's compliance with its legal obligations and the manageability of contractual risks as well as to assist the service areas with the legal risk assessment of projects.

### HR Director

The HR Director ensures and controls that the Group's payroll administration and the administrative procedures related to employment relationships comply with the law and are duly implemented.

### EVP's of service areas

The EVP's of service areas are responsible for the implementation of internal control in their respective services areas. More specific internal control policies and procedures are established within each service area within the principles set by the Group functions. The service area's management is responsible for implementing risk management practices in the planning cycle and daily operations, and ensure the adherence of laws, regulations, internal policies and ethical values in their designated responsibility areas.

Some areas of risk management, in particular the management of financial risks and insurance, have been centralised for the purpose of scale advantage and for securing sufficient Group-level control.

The EVP's of service areas must also ensure that contractual risks related to their business operations have been assessed with sufficient accuracy.

## Other information to be provided

### INSIDER ADMINISTRATION

The Board of Directors of Lehto Group Plc has ratified on 9 August 2017 the company's Insider Guidelines which include directives and policies concerning insider administration, such as manager's transactions, trading restrictions and insider's register. The Insider Guidelines supplement the provisions of the Market Abuse Regulation (EU No 596/2014, the "MAR") and any rules and regulations based on it, Finnish regulations, such as the Criminal Act (39/1889, as amended) and the Securities Markets Act (746/2012, as amended), as well as Nasdaq Helsinki's Insider Guidelines effective from 3 of July 2016.

In accordance with MAR the disclosure of insider information data has been suspended and the Company has not updated a public insider information after the MAR came into force.

Lehto Group's insiders are divided into two groups. Persons obliged to declare insider holdings are members

of the Board, CEO and other senior management of the company, who have regular access to inside information and are in the position to make decisions about the company and its future development.

Project-specific insiders are persons who have access to specified inside information. Project-specific insiders may also include persons acting on behalf of the company, such as lawyers and consultants. The company maintains a project-specific insider's register of any such confidential project that can be described as projects as defined by Nasdaq Helsinki and that can have a material effect on the value of the company's financial instruments.

Lehto Group complies with the EU Regulation on Market Abuse (MAR), which declares that managers under the obligation to report insider holdings may not trade the company's financial instruments during the 30 days prior to the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release (so called "closed period"). In accordance with the Lehto Group's regulation, the closed period ends the second day from the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information. According to Nasdaq Helsinki's insider guidelines the closed window shall be applied to persons that take part in the company's half year financial reports and



financial statements and to other persons defined by the company, i.e. extended closed window. The extended closed window implies that trading with the company's financial instruments is prohibited of persons subject to the extended closed window in the 30 days prior to publication of quartal financial information and financial statements including information concerning the financial development of the company. These trading restrictions end on the second day following the publication of financial information. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information.

#### **RELATED PARTY ADMINISTRATION**

Lehto Group's related parties include Group companies, members of the Board of Directors, the CEO, the Group's executive team as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures.

On 17 August 2016, the Company's Board of Directors approved the guidelines for related party transactions, which determine the principles governing any related party transactions at Lehto Group. In addition to the above-defined related parties, these guidelines are applied more extensively to the Lehto Group's entire personnel. According to the guidelines, all related party transactions shall take place, and prices and other terms shall be set, under market conditions, i.e. under the same principles as with independent parties, and clear

reporting and advance approval procedures are in place for these.

#### **INTERNAL AUDITING**

The Company has no separate internal audit organisation. This is taken into account in the content and scope of the annual audit plan. On the one hand, external auditing focuses on specific areas in turn to be audited, and on the other hand, on separately agreed priority areas.

#### **AUDITING**

According to Section 6 of the Company's Articles of Association, an audit firm whose chief auditor is a Chartered Accountant shall be elected as the company's auditor. The auditor's term of office shall expire at the end of the next Annual General Meeting following their election. In 2019, KMPG Oy Ab, a firm of authorised public accountants, acted as the Company's auditor, with APA Tapio Raappana as the principal auditor. The fees for audit services totaled approximately EUR 244,000. Furthermore, the Company paid the auditor approximately EUR 164,000 for services not related to auditing.

