

# Remuneration Policy 2020

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## 1. INTRODUCTION

With this remuneration policy (hereinafter “Remuneration Policy”), Lehto Group Plc (“the Company”) fulfils its obligation pursuant to legislation and the Corporate Governance Code to define the principles for the remuneration of the Board of Directors, the President and CEO, and the deputy to the CEO, if one has been appointed. The principles applying to the CEO described below shall apply equally to the deputy to the CEO.

The Remuneration Policy has been approved in the Board of Directors on 19 February 2020 and it shall be discussed in the Annual General Meeting of the Company on 14 April 2020. The Company will apply this Remuneration Policy until the end of the Annual General Meeting of 2024 unless need for significant changes arises before that so that the policy shall be replaced with a new remuneration policy. The potential replacing remuneration policy shall be prepared and discussed in the manners approved in this policy.

The key principle of the Remuneration Policy is that it supports the realisation of the Company’s strategy, efficiency, profitability and competitiveness. The principles behind the policy are fairness, openness and incentivisation. The Remuneration Policy seeks to support the Company’s business strategy and facilitate its long-term financial success by committing and motivating the Company’s management to work towards supporting the Company’s objectives.

When drafting the Remuneration Policy, the Company’s employment contract instructions – which are guidelines for management and key supervisors – have also been taken into consideration. These instructions concern principles applying during their careers in recruitment, salary determination and raises, and end of the employment contract. In the remuneration of the Company’s CEO, in particular, the guidelines set for the remuneration of the Company’s management and key employees may be taken into consideration and used as applicable when deciding on remuneration.

The level of remuneration is based on the content and demand level of the job tasks and the employee’s performance in the task. In addition, the level of remuneration is affected by the specific competencies and qualifications of the employee and managerial responsibilities. In managerial and key positions, the salary level is also affected by regional or nationwide competition for specialist experts. The salary and remuneration criteria at managerial level are always assessed on a situation-specific basis by the Company’s management.

## 2. DESCRIPTION OF THE DECISION-MAKING PROCESS

### Approval of the Remuneration Policy

The preparation of the Remuneration Policy and any significant amendments to it is the responsibility of the Company’s Board of Directors or the Board committees whose rules of procedure include the preparation of the Remuneration Policy. The section on Board remuneration is prepared by the Shareholders’ Nomination Committee. During the preparation of the Remuneration Policy the Board of Directors can discuss with the major owners of the Company regarding the policy.

The Board of Directors prepares and presents the Remuneration Policy and any significant amendments to it to the General Meeting. The Remuneration Policy is presented to the General Meeting at intervals of at least four

years. On the proposal of the Board of Directors, the General Meeting makes an advisory decision on whether it supports the presented Remuneration Policy. However, shareholders do not have the option of rejecting the presented Remuneration Policy; in this case, the Remuneration Policy is reviewed at the next AGM, until which time the presented Remuneration Policy will be applied in the remuneration of the Board of Directors and CEO.

### **Assessment of the Remuneration Policy**

The Company's Remuneration Policy is assessed annually by the Company's Board of Directors or the Board committee it has appointed to the task. The Board of Directors presents a Remuneration Report to the AGM each year on the basis of which shareholders can evaluate the realisation of the Remuneration Policy. The AGM makes an advisory decision on whether to adopt the presented Remuneration Report.

### **Implementation of the Remuneration Policy**

The Company's AGM decides on the remuneration of the Company's Board of Directors each year on the basis of a proposal prepared by the Shareholders' Nomination Committee. The proposal of the Shareholders' Nomination Committee shall be in line with the Board remuneration principles laid out in the Company's Remuneration Policy.

The Company's Board of Directors decides on the remuneration of the Company's CEO in line with the remuneration principles for the CEO in the Remuneration Policy.

The General Meeting can decide or authorise the Board of Directors to decide on granting shares, options or other special rights entitling to shares. If shares, options or other special rights entitling to shares are granted as remuneration, this must be done in compliance with the Remuneration Policy.

### **Conflicts of interest regarding the Remuneration Policy**

The Company has taken conflicts of interest with respect to remuneration into consideration such that the remuneration of the Board of Directors is prepared and presented to the General Meeting by the Shareholders' Nomination Committee of the Company and the remuneration of the CEO is prepared by the Company's Board of Directors or its committee. The Chairman of the Board of Directors does not participate in the preparation of Board remuneration as an expert member of the Shareholders' Nomination Committee, and the CEO does not participate in Board or Committee meetings insofar as they deal with the remuneration of the CEO..

## **3. DESCRIPTION OF THE REMUNERATION OF THE BOARD OF DIRECTORS**

The Company's General Meeting decides on the remuneration of the Board of Directors on the basis of the proposal made by the Shareholders' Nomination Committee or another shareholder. The remuneration of the Board of Directors may consist of a variety of components. For instance, the Chairman, Vice Chairman and members of the Board may be paid annual or monthly fees and meeting fees for individual meetings. The fees paid to the Chairman and Vice Chairman of the Board may be larger than those paid to ordinary Board members.

Fees can be paid entirely or partly in cash and partly in Company shares or other financial instruments. In its decision, the General Meeting may require a Board member to be obligated to buy – or the Company to acquire or otherwise convey – Company shares or other financial instruments as fees, either in full or in part, and in addition the General Meeting may require that fees paid in cash are to be used, either in full or in part, to acquire Company shares. The General Meeting may also specify other remuneration criteria or restrictions, or recommendations tied to time or Board membership for Company shares paid as fees. In its proposal, the Shareholders' Nomination Committee may also require Board members to hold shares in the Company.

Board members who are in the employ or service of the Company are not paid meeting fees, but the General Meeting may decide separately on compensation to be paid for Board work to such members.

The travel costs of the members of the Board of Directors can be reimbursed in accordance with the Company's travel rules.

#### **4. INFORMATION ON THE CEO'S EMPLOYMENT RELATIONSHIP**

##### **Remuneration components and their relative shares**

The remuneration of the CEO may consist of a fixed and variable component that aim to enable the Company to create the most effective, competitive and incentivising remuneration model. The earnings level of the CEO is assessed as a whole and must enable the Company to hire a competent person to the role.

The total earnings of the CEO may consist of a fixed monthly salary, fringe benefits and an incentivising performance bonus scheme. In addition, various long-term incentives can be provided to the CEO, such as share-based bonus schemes to elicit commitment. Insurance coverage and pension arrangements can be agreed upon with the CEO. In addition, the CEO may be offered holidays, holiday pay, occupational healthcare, sick leave and other such terms in accordance with the normal practices of the Company.

The CEO can be included in incentive schemes for the Company's key employees, such as bonuses, a share-based incentive scheme and share bonus scheme to elicit commitment. Both the short- and long-term incentives must align the objectives of the shareholders and CEO to continuously develop the Company and increase its value. The portion of the variable component may be significant when comparing to the fixed component.

##### **Criteria for potential variable compensation**

The Company's Board of Directors is responsible for the criteria of the CEO's variable compensation and assessing their realisation. The criteria set by the Board of Directors must be in line with this Remuneration Policy and may be connected to, for instance, customer satisfaction, the establishment of the Company's operations in the Nordic markets, the Company's shareholder value, development of business operations or finances, and personnel satisfaction, or the realisation of corporate social responsibility. If necessary, the Board of Directors may employ a variety of surveys as well as financial and operational reports as the basis of its assessments. The targets enhance the long-term business objectives and the business strategy to be an efficient construction company in a competed market.

The share-based bonus scheme that is executed by using the strategic criteria designed by the Board of Directors support the materialisation of the business strategy in a sustainable way so that the owner value objectives of the CEO are in line with the shareowners. With respect to share-based bonus schemes, the alignment of the long-term financial objectives of the CEO and the Company's shareholders can be ensured by setting commitment periods that are several years long and are subject to conveyance restrictions, obligations and recommendations. Commitment periods or other restrictions in conveyance shall be used mainly only when the earning periods are less than three years long.

##### **Other key terms applied to the employment relationship**

With respect to the CEO's employment contract, the Board of Directors decides on any terms applied to the length of the employment relationship, period of notice, pay during the period of notice or severance

compensation as well as other terms concerning benefits, pension benefits or additional pension coverage such that they are reasonably consistent with equivalent and market practice terms in ordinary CEO employment contracts.

### **Terms concerning the postponement or reclaiming of remuneration**

In exceptional circumstances, the Board of Directors may increase or reduce the amount of remuneration if it deems that complying with the remuneration criteria would lead to an unreasonable outcome for the Company or CEO. The Board of Directors also has the right to postpone the payment of remuneration to such a time that is better for the Company if unforeseen factors beyond the control of the Company would lead to an unreasonable outcome for the Company.

The preconditions for the full payment of the remuneration are that the CEO or the Company has not terminated or dissolved the CEO's contract before the time of payment of the full remuneration, that the Group's financial statements have not been distorted such that it would affect the amount of the remuneration, and that the Company's CEO has not acted in contravention of the Company's ethical guidelines or otherwise unethically and has not caused significant harm to the Company through his/her actions or negligence. The Board of Directors is entitled to reclaim the remuneration partly or in whole if the breaches arise during the commitment period.

### **5. CONDITIONS FOR TEMPORARY DEVIATIONS**

In specific situations, the Company has the right to deviate from this Remuneration Policy if this is necessary to safeguard the long-term interests of the Company and continuing to apply the current Remuneration Policy would not be appropriate under the changed circumstances. Such special circumstances in which the Company's Board of Directors may deviate temporarily from the Remuneration Policy, after careful consideration, include the appointment of a new CEO, a merger, acquisition, demerger or other corporate arrangement, a major change in the Company's strategy, direct and significant unforeseen commitment needs or other changes due to legislation, other regulation or taxation.

The Board of Directors reports to the General Meeting on any deviations from the Remuneration Policy regarding the CEO in its next Remuneration Report, which is dealt with at the Annual General Meeting. With respect to the remuneration of the Board of Directors, all deviations are decided on by the General Meeting.

Relevant changes to the Remuneration Policy are prepared and presented in accordance with the process described in Section 2 of the Remuneration Policy and presented to the Company's Annual General Meeting. The Company's Board of Directors may independently make any non-material changes and other technical changes to the decision-making process on remuneration – such as due to legislative amendments – and changes to the terminology used in remuneration without presenting them to the General Meeting.