



Remuneration report 2018

1. Introduction

The governance of Lehto Group Plc (hereinafter the “Company”) is determined by the Company’s Articles of Association, the laws of Finland (such as the Limited Liability Companies Act and the Securities Market Act) and the Company’s corporate governance guidelines. The Company complies with the Finnish Corporate Governance Code (hereinafter the “Governance Code”) published by the Finnish Securities Market Association. The Corporate Governance Code is available in its entirety on the website of the Securities Market Association at www.cgfinland.fi.

The statutory governing bodies of the Company are the shareholders’ meeting, the Board of Directors, the CEO and the auditor. They are supported by the Group Executive Board and the Group’s administrative services units. The Group Executive Board 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. The company has no Supervisory Board. The company is domiciled in Kempele, Finland.

The Lehto Group’s parent company Lehto Group Plc is responsible for the Group’s administration and for the provision of certain Group services. Lehto Group’s operative business is handled by its subsidiaries which in 2018 operate in one of the Group’s four service areas: Business Premises, Housing, Social Care and Educational Premises, and Building Renovation. Each service area has an EVP in charge of its business and a steering group which steers the service areas’ operations and draws up a strategy for it, develops its business operations, controls and monitors the achievement of the targets set for it, supports management in the approval of major investments and handles personnel matters, among its other duties. The service area steering group comprises the service area management, Group CEO, EVP of Business Support Services, CFO and CCO.

A clear and up-to-date description of the Group’s remuneration policy supports the shareholder’s access to information. For this reason, the company has drawn up this remuneration report. The company’s corporate governance guidelines, corporate governance statement and remuneration report year are available on the company’s website at Lehto Group’s website.

2. Remuneration

Decision-making procedure for remuneration

The Annual General Meeting decides on the remuneration payable for work in the Board of Directors and its Committees and determines the grounds for remuneration. The administrative organ nominating a person to a position typically decides on his/her remuneration. Since the Board of Directors nominates the CEO, it also decides on his/her remuneration. Furthermore, the Board of Directors decides on the remuneration payable to the CEO in the event of termination of employment. The Board of Directors also decides on the principles and structure of the company's remuneration system proposed by the CEO.

3. Remuneration of the Board of Directors

Remuneration and other benefits of the Board of Directors

The Annual General Meeting decides on the remuneration of the members of the Board of Directors. As a general rule, no extra remuneration is paid to Board members employed by the company for attending meetings. The Annual General Meeting of 11 April 2017 decided that the following remunerations will be paid to members of the Board of Directors to be elected, for a term that will expire at the end of the next Annual General Meeting (figures in brackets refer to year 2017):

- to the Chairman of the Board of Directors, a monthly remuneration of EUR 4,600 (3,400); and
- to the other members of the Board of Directors, a monthly remuneration of EUR 2,300 (1,900) for each.

Furthermore, an attendance allowance of EUR 750 (750) will be paid to the members of the Board of Directors and EUR 1,500 (1,500) to the Chairman of the Board of Directors for each Board meeting that they attend excluding phone or email meetings.

The Board members are also entitled to a remuneration for attending the meetings of Board Committees as follows:

- to the Chairman of a Committee, EUR 600 (600) per meeting; and
- to other members of the Committee, EUR 400 (400) per meeting.

The travel costs of the members of the Board of Directors will be reimbursed in accordance with the company's travel rules. No remuneration shall be paid to the Board of Directors in the form of shares; instead, all remunerations shall be paid in money.

Remuneration paid to the Board of Directors, 1000 EUR and shareholdings

Name	Position in the company	2018					2017	
		Yearly remuneration	Meeting remunerations	Committee remunerations	Remuneration paid, total	Shareholdings, shares	Remuneration paid, total	Shareholdings, shares
Martti Karppinen	Chairman of the Board of Directors since April 11, 2018 Member of the Board of Directors until April 11, 2018	46	12	-	58	2,000	29	-
Sakari Ahdekivi	Member of the Board of Directors	26	7	2	35	-	29	-
Pertti Korhonen	Member of the Board of Directors	20	5	1	26	5,000	-	-
Mikko Räsänen	Member of the Board of Directors	26	6	1	33	-	31	-
Päivi Timonen	Member of the Board of Directors	26	7	2	35	-	30	-

Financial benefits of the Chairman and members of the Board of Directors who are in an employment relationship with the Company, if any

The members of the Board of Directors elected by the Annual General Meeting of 2018 are not in an employment relationship with the company.

Participation of the members of the Board of Directors in share-based remuneration systems

No remuneration in the form of shares has been paid to Board members.

4. Remuneration of the CEO and other Group Management**Information on the CEO's employment relationship**

The Board of Directors determines and approves the key terms of employment of the CEO, including his/her remuneration. According to the Executive Employment Agreement concluded with the CEO Hannu Lehto, his remuneration comprises a fixed monthly salary of EUR 10,000. The terms of his employment are stated in a

written employment agreement. The employment agreement of CEO Hannu Lehto is in force until further notice and can be terminated by either party giving six (6) months' notice, for which period the CEO is entitled to receive his monthly salary and fringe benefits. If the company terminates Lehto's employment agreement without a reason attributable to him, he is entitled to a remuneration corresponding to a salary of six (6) months, providing that Lehto has not entered into an employment relationship with a third party during the said period.

The CEO is entitled to a pension in accordance with the Employment Contracts Act and other legislation regulating pensions. The company has not provided him with additional pension arrangements. The pension scheme is contribution-based.

The company's present CEO has neither participated in a share-based remuneration system nor received remuneration in the form of the company's shares or option rights. Any performance bonuses and other incentives are determined on the basis of principles defined and communicated annually in advance by the Lehto Group's Board of Directors. According to his Executive Employment Agreement, CEO Hannu Lehto is entitled to a payment of performance bonus, the grounds of which shall be determined by the Board of Directors on an annual basis.

In 2018, the remunerations paid to the CEO totalled approximately EUR 126 thousand (EUR 126 thousand in 2017).

Key remuneration principles of other Group Management

The company's other Group Management include the Group Executive Board.

The employment agreements concluded with the members of Group Executive Board contain ordinary conditions related to the determination of remuneration, employee benefits and the period of notice. The remunerations paid to the members of Group Executive Board in 2018 totalled approximately EUR 1,091 thousand (EUR 936 thousand in 2017).

Performance bonus system

The basis for the payment of a performance bonus is the achievement of predetermined targets. The vesting period is one calendar year.

The targets are set separately for each vesting period. These short-term bonuses are determined on the basis of the achievement of the company's financial and strategic targets. Furthermore, part of the bonuses may be based on other targets of the company or its service areas, or personal targets. Personal targets vary depending on the person's position.

Long-term remuneration systems

On December 2016, The Board of Directors of Lehto Group Plc has resolved to launch two new share-based incentive plans for the Group key employees. On February 2018, The Board of Directors decided to continue the share-based incentive plan. The aim of the plans is to combine the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to commit the key employees to the Company, and to offer them competitive reward plans based on earning the Company's shares.

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2016-2018 correspond to the value of an approximate maximum total of 1,000,000 Lehto Group Plc shares including also the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into the shares.

Furthermore, the Board of Directors resolved on the Group's new restricted share plan. The reward from the restricted share plan is based on a key employee's valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash.