

# Remuneration report 2020



# Summary

## Remuneration of the Board of Directors

The remuneration of the Members of the Board of Directors was not changed in the Annual General Meeting of the Company on 14 April 2020. In 2020 The Chairman of the Board of Directors of Lehto Group Plc received a yearly remuneration of EUR 69,000 and the Member of the Board of Directors EUR 34,500. A Deputy Chairman of the Board of Directors has not been elected. The Members of the Board of Directors accepted 40 per cent of their yearly remuneration in Lehto Group Plc shares and the remainder in cash. The Chairman of the Board of Directors received as a board meeting remuneration EUR 1,500 and the Members of the Board of Directors EUR 750 per each meeting. The Members of the Board Committees received as a meeting remuneration EUR 600 for the Chairman of the Committee and EUR 400 for the Members. The travel costs of the Members of the Board of Directors were reimbursed in accordance with the Company's travelling policies. No other remuneration or compensation was paid to the Chairman or the Members of the Board of Directors. The Members of the Board of Directors decided to voluntarily reduce their remuneration by 20 percent for a time period of five months in 2020 as a part of the Company's adjustment measures due the corona pandemic.

## Remuneration of the CEO

The remuneration of the CEO has not been changed by the decision of the Board of Directors for 2020. The fixed salary of the CEO in 2020 was EUR 10,000 per month.

The management of the Company decided to voluntarily reduce their salaries between 1 May – 30 September by 20 per cent to participate the adjustment measures of the corona pandemic. Therefore, the yearly salary of the CEO in 2020 was EUR 115,280. The CEO has not received other remuneration, additional bonuses, or retirement schemes from the Company.

## 1. Introduction

The governance of Lehto Group Plc 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](http://www.cgfinland.fi). The remuneration principles and reporting structures of the Company are developed for 2020 based on the demands set by the Governance Code.

To secure the shareholders' rights to clear and comprehensible information regarding the remuneration the Company has prepared this Remuneration Report. The Company's corporate governance guidelines, corporate governance statement, approved Remuneration Policy, and Remuneration Report are publicly available on the Company's website [www.lehto.fi](http://www.lehto.fi).

The Remuneration Policy was approved on 14 April 2020 in the Annual General Meeting of the Company and it has been followed without any deviations when deciding the remuneration of the Board of Directors and the CEO. The Company has promoted the members of the Board of Directors to receive their remuneration partly in Company's shares which supports the mutual interests of Board Members and Shareholders. All the Members of the Board of Directors accepted their remuneration partly in shares and partly in cash. The shares are subject to transfer restrictions as allowed in Remuneration Policy and hence a Board Member shall not dispose such shares during his/her membership or before six months has passed from the expiry of the said membership.

The Company has not deviated from the Remuneration Policy and there were no issues that would have warranted any clawback of the remuneration.

The remuneration of the Board of Directors and the CEO of the Company has developed as is described in the following table. It has also been compared to the average development of the remuneration of the Company's employees and the financial development of the Company. The Company did not have a deputy CEO or a Supervisory Board in 2020.

Due to the significant growth of the business volume and market value during years 2016-2018 the remuneration of the Board of Directors was revised in 2019. The increase was designed to encourage the Member of the Board of

Directors to increase their ownership in the Company. The Members of the Board of Directors were entitled to select the remuneration in only cash or partly in cash and partly in Company shares. The remuneration that was paid only in cash was kept untouched and only the remuneration option that was paid partly in cash and partly in shares was raised. By this measure the Company ensured that it would have skilled members and board professionals in the Board of Directors, the Board of Directors would have sufficient diversity and that the interests of the Members of the Board and the shareholders would be brought closer together.

During the alteration of the remuneration method, the profitability of the Company declined due to wrong strategical choices made earlier and especially due to operative issues that followed the intense growth. The revision of the remuneration strategy did not support the accomplishment of the Company's economical goals in short term, but the Company is confident that the impact will be visible in a longer, three to five years perspective.

	2020	2019 <sup>1)</sup>	2018	2017	2016
Chairman of the Board of Directors					
Yearly remuneration, thousand eur	69	69	55	41	37
Board meeting remuneration, eur/meeting	1 500	1 500	1 500	1 500	1 500
Member of the Board of Directors					
Yearly remuneration, thousand eur	35	35	28	23	21
Board meeting remuneration, eur/meeting	750	750	750	750	750
Committee meeting remuneration, Chairman, eur/meeting	600	600	600	600	600
Committee meeting remuneration, Member, eur/meeting	400	400	400	400	400
Total remuneration paid for a Member of the Board of Directors, average, thousand euro	48	59	40	34	32
Yearly remuneration paid for the Board of Directors, in total, thousand euro	159	248	156	128	103
Board meeting remuneration paid for the Board of Directors, in total, thousand euro	81	45	44	44	55
Board meetings, email meetings in brackets	22 (5)	14 (5)	11 (2)	10 (1)	15 (3)
CEO					
Salary and benefits, thousand euro	115	126	126	126	110
Performance bonus, thousand euro	-	-	-	-	-
Share-based remuneration, thousand euro	-	-	-	-	-
Employee salaries and earnings, in total, thousand euro	63 705	82 214	82 856	61 268	36 921
Personnel during the year, average	1 115	1 454	1 457	1 013	566
Employee salaries and earnings, average, eur / year	57 134	56 556	56 861	60 481	65 284
Net sales, thousand euro	545	668	721	598	362
Operating result, thousand euro	-2 866	-41 836	37 169	64 559	40 351
Result for the financial year, thousand euro	-8 196	-35 750	28 697	51 593	31 904
Average number of shares during the year, basic <sup>2)</sup>	71 012 014	70 597 352	70 541 661	70 541 661	65 475 497
Earnings per share, eur, basic <sup>2)</sup>	-0,12	-0,51	0,41	0,73	0,49
Share price 31 Dec <sup>2)</sup>	1,35	1,94	3,51	10,45	8,41
Dividend, eur/share <sup>2)</sup>	-	-	0,20	0,28	0,18

<sup>1)</sup> The remuneration of the Board of Directors was made in one payment in 2019

<sup>2)</sup> Issue-adjusted with the 2020 rights issue

## 2. Remuneration of the Board of Directors 2020

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 within the accepted Remuneration Policy.

The Annual General Meeting of 14 April 2020 decided that the remuneration of the members of the Board of Directors shall be made in Lehto Group Plc shares and in cash, with approximately 40 per cent of the remuneration paid in shares and the remainder in cash. The yearly remuneration paid in such manner was EUR 69,000 (69,000) for the Chairman of the Board and EUR 34,500 (34,500) for the Deputy Chairman and the Members of the Board of Directors. The remuneration shares are subjected to a transfer restriction so that the Members of the Board of Directors should

not sell their shares during the membership or before six months has passed from the expiry of the said membership.

Would a Member of the Board of Directors have notified the Company that he/she was going to abstain from accepting the Lehto Group Plc shares, the remuneration was to be paid entirely in cash. In such case the yearly remuneration was EUR 55,200 (55,200) for the Chairman of the Board of Directors and EUR 27,600 (27,600) for the Deputy Chairman and members of the Board of Directors. No member of the Board of Directors made such a notification.

Furthermore, an attendance allowance of EUR 750 (750) was to 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 and for the Board members who participated the Committee meetings EUR 600 (600) to the Chairman of a Committee per meeting and EUR 400 (400) to other members of the Committee per meeting.

The travel costs of the members of the Board of Directors were reimbursed in accordance with the Company's travelling policies.

The members of the Board of Directors elected in the Annual General Meeting of 2020 are not in an employment relationship with the Company. The members of the Board of Directors have not been subject to any kind of additional share-based remuneration systems, taken into account that partly the remuneration of the Member of the Board of Directors has been paid in Company shares.

Due to corona pandemic (COVID-19) in 2020 the remuneration of the Board of Directors was voluntarily reduced by 20 percent for a time period of five months in 2020 as a part of the adjustment measures of the Company. The remuneration that has been paid to the Members of the Board of Directors in 2020 is described in more detail in the following table.

*The corresponding information from the year 2019 is shown in brackets*

### REMUNERATIONS PAID TO THE BOARD OF DIRECTORS IN 2020 AND SHAREHOLDINGS

Name	Yearly Remuneration paid in Company shares, eur	Yearly Remuneration paid in cash, eur	Board and Committee meeting remunerations, eur	Total remunerations	Services sold to the Company	Other financial benefits	Shareholding, shares
Seppo Laine (Chairman)	25 299	27 600	23 550	76 449	-	-	73 427
Mikko Räsänen	12 649	13 800	13 600	40 049	-	-	25 030
Anne Korkiakoski	12 649	13 800	14 550	40 999	-	-	48 845
Helena Säteri <sup>2</sup>	12 649	13 800	9 000	35 449	-	-	14 223
Raimo Lehtiö <sup>2</sup>	12 649	13 800	9 000	35 449	-	-	15 053
Martti Karppinen <sup>1</sup>	-	-	7 500	7 500	-	-	-
Pertti Korhonen <sup>1</sup>	-	400	3 750	4 150	-	-	-
<b>Board in total</b>	<b>75 895</b>	<b>83 200</b>	<b>80 950</b>	<b>240 045</b>	<b>-</b>	<b>-</b>	<b>176 578</b>

<sup>1</sup> Member of the Board of Directors until the Annual General Meeting of 2020, 14 April 2020

<sup>2</sup> Member of the Board of Directors from the Annual General Meeting of 2020, 14 April 2020

### 3. Remuneration of the CEO in 2020

#### Fixed annual salary

The Board of Directors determines and approves the key terms of employment of the CEO, including his/her remuneration within the accepted Remuneration Policy. According to the Executive Employment Agreement concluded with the CEO Hannu Lehto, his remuneration comprises a fixed monthly salary of EUR 10,000. In 2020, due to the corona pandemic (COVID-19) the salary of Hannu Lehto was reduced by 20 per cent for a term of five months and was therefore EUR 115,800 in total. Furthermore, the CEO has EUR 20 phone benefit and a lunch benefit pursuant to the Company policy.

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 months' notice, for which period the CEO is entitled to receive his monthly salary and 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 months, providing that he 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, in advance, annually, by the Lehto Group's Board of Directors. According to his Executive Employment Agreement, CEO Hannu Lehto is entitled to a performance bonus, based on the goals which shall be determined by the Board of Directors on an annual basis

#### Variable pay component – long-term incentive scheme (LTI)

The long-term incentive scheme is a part of the CEO's and key personnel's incentive and commitment scheme of the Company. The purpose of the scheme is to combine the goals of the shareholders and key personnel of the Company in increasing the value of the Company in the long term and to secure commitment of the key personnel to the Company and to provide them a competitive remuneration scheme based on the value of the shares of the Company.

The earning period of the scheme is the bonus term and is the length of one year. Earning period is followed by a two-year commitment period. The potential remuneration is paid to the participants after the commitment period.

The remuneration of the earning period of the LTI scheme is based on the earning of the short-term incentive. The criteria of the STI scheme are the financial outcome (IFRS) of the Group / Service area / Unit and the personal or functional goals, with the emphasis decided by the Board of Directors.

After the earning period the gross remuneration of the STI scheme is transferred into Company shares in the LTI scheme. After the earning period, before the end of April, the Board of Directors confirm the gross number of Company shares which equal to the earned STI scheme remuneration.

#### Variable pay component – short-term incentive scheme (STI)

The short-term incentive scheme is a part of the management system of the Company and is based on the profit-making ability of the Company. Alongside with the CEO the scheme also covers the employees and managers of the Company that are not included in other commission or bonus schemes. The Board of Directors resolves the bonus schemes (office employees and project employees) for one bonus term at a time. With the help of the STI scheme the mutual efforts of the employees and management are directed to complete the Group's bonus term goals and key results. The STI scheme's goal is to increase the motivation of the personnel of the Company and the commitment to the Company.

The criteria of the profit and functionality goals of the STI scheme are based on the financial outcome (IFRS) of the Group / Service area / Unit and the personal or functional goals, with the emphasis decided by the Board of Directors. Everyone who is included in the STI scheme has a personal yearly bonus potential which is calculated in a way that the monthly salary before taxes is multiplied by the personal bonus potential which can be between 1-10 months. The bonus potential of the CEO in 2020 was his monthly salary multiplied by 10 months.

In 2020 the CEO has not received financial benefits, shares or other share-based incentives based on the short term or long term incentives of the CEO agreement. Also, the CEO has not received additional pension payments, or signing, commitment, or termination bonuses. The proportions of fixed salary and variable pay component during the year 2020 has been 100 per cent fixed and 0 per cent variable.