

# Remuneration Statement 2018

CAVERION CORPORATION  
PUBLIC

**Caverion**

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# LETTER FROM THE CHAIRMAN OF THE HR COMMITTEE

Dear Stakeholders,

Caverion has had a year of transformation both in the business and in the leadership. In the business we have succeeded to take clear steps further and improve our performance (measured by adjusted EBITDA) in four consecutive quartiles. However, we still have work to do going forward to get the whole business into a healthy state.

To enhance continuous improvement we have made changes in the Group Management Board and appointed a new Head

of Sweden, Head of Germany, Head of Denmark and Head of Business Unit Projects. We also divided Division Eastern Europe – the Baltics business is now reporting to Division Finland and Russia as well as Poland continued under interim leadership, reporting directly to the President and CEO of Caverion Group. In the end of the year the Polish and Czech businesses, the Project Piping and tank business and the related Ylivieska Workshop of Division Industrial Solutions were sold. A new Head of Russia was appointed.

We redesigned the Caverion Reward Strategy during 2018 to better support the best in class business performance and to ensure pay for performance. The guiding principles set the focus and priorities for our reward decisions. We recognise that we need to be able to attract and retain the most suitable employees in all Caverion countries with competitive reward packages in the relevant local market whilst controlling costs and managing risks.

## Caverion Reward Strategy

### PRINCIPLES

Pay for Performance | Fair & Consistent | Harmonised | Competitive in local market | Cost efficient | Well communicated | Well governed



### FOUNDATION

Job Architecture | Grading structure | Overall performance evaluation | Target setting | Market benchmark data

We have three different long-term incentive plans in place for 2018. We launched the new Matching Share Plan for key Caverion leaders with a clear encouragement to take an individual risk via high own investment in the company with relatively high earning potential. The only measure used in this plan is the development of the share price, aligning the interest of the top management with the interest of the shareholders. The full participation in this Plan confirms the commitment and personal trust that the top management is showing towards the Caverion strategy.

Our Performance Share Plan 2018-2020 includes approximately 100 key employees and the aim is to engage and reward for the long term performance of the company. We also have a Restricted Share Plan 2018 to be used in special cases to reward and attract the key employees. The measures used in the 2018 long-term incentive plans are based on the development of the share price, Earning per Share and Cash Flow. A new Performance Share Plan structure was developed for launch in 2019 with a stronger alignment with shareholder interest through increased earning period and renewed measures.

Our short-term incentive plans are developing towards increased focus on measures that are closer to the direct influence of the participant. At the same time we want to ensure the good development of the whole business and collaboration between regions, therefore retaining also the higher level targets.

While Caverion's business develops, we will renew our short- and long-term incentive plans in a way that supports the new phases and strategic focus areas, boosting performance and rewarding top performance at an appropriate level.

I am proud to say that our HR Committee has been very committed to lead and support Caverion's Reward Strategy development and we will continue to support the actions that build a strong and top performing winning Caverion team.

Michael Rosenlew  
Chairman of the HR Committee

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## INTRODUCTION

The aim of Caverion's remuneration systems is to drive top performance at every level, to attract, develop and retain the best talent and to align shareholder and employee interest in the long run.

## DECISION-MAKING PROCEDURES CONCERNING REMUNERATION

Caverion Corporation's Annual General Meeting decides on the remuneration of the Board of Directors. The Human Resources Committee of the Board of Directors is responsible for preparing a proposal for the remuneration of the Board of Directors to be presented to the Annual General Meeting. The Human Resources Committee also prepares general remuneration principles, short- and long-term incentive schemes and the compensation policy of Caverion Group, which the Board of Directors approves.

The Board of Directors appoints the President and CEO and approves his/her terms of employment and remuneration. The Board of Directors also appoints the members of the Group Management Board. According to Caverion Guidelines, all individual remuneration decisions have to be approved by the manager's manager. The Chairman of the Board approves the remuneration of the Group Management Board members.

## MAIN PRINCIPLES OF THE REMUNERATION AT CAVERION

### Short-term incentive schemes

The basis of remuneration at Caverion is a fixed base salary. In addition, the Group's management and most of the salaried employees are included in a performance based short-term incentive plan. The aim of the annual short-term incentive plans is to reward the management and employees based on the achievement of pre-defined and measurable key financial and strategy driven targets. The Board of Directors approves the rules of the short-term incentive plans every year, according to which possible incentives are paid. Performance of the Group, the President and CEO as well as Group Management Board members are evaluated by the Board of Directors. Potential incentive payment is approved by the Board of Directors and paid out after the financial statements have been prepared and released.

Potential incentive payment is based on the achievement of the set financial targets, such as the Group's and/or division's/unit's financial result, strategic targets and/or individual/team objectives set separately. Individual target and maximum incentive opportunity are defined based on job requirements. Possible incentive payments can vary from zero payment to the pre-defined maximum incentive payment based on the achievement of set targets.

Performance and development discussions are an essential part of the annual incentive plan and performance management process at Caverion. Individual targets, their relative weighting and achievement of the previously agreed targets are set and reviewed in these discussions.

### Long-term incentive schemes

Long-term incentive schemes at Caverion are determined by the Board of Directors and they are part of the remuneration of management and key personnel of Caverion Group. The aim is to align the interests of the shareholders and the executives in order to promote shareholder value creation and to support Caverion in becoming a leading service company and a selective master of projects by covering the whole life cycle of buildings, industries and infrastructure. In addition, the aim is to commit the executives and key personnel to the company and its strategic targets and to offer them a competitive reward plan based on the ownership of the company's shares.

### Share-based long-term incentive plan 2016-2018

Caverion's Board of Directors approved a share-based long-term incentive plan 2016-2018 in its December 2015 meeting. The plan consists of a Performance Share Plan (PSP) as the main structure supported by a Restricted Share Plan (RSP) as a complementary structure for specific situations. Both plans consist of annually commencing individual plans, each with a three-year period. The commencement of each new plan is subject to a separate decision of the Board.

The Performance Share Plan 2016-2018 consists of a one-year operative financial performance period (2016), followed by a two-year vesting period. The targets set for the Performance Share Plan 2016-2018 were not met and therefore no rewards will be paid to the participants of the plan.

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## **Share-based long-term incentive plan 2017-2019**

Caverion's Board of Directors decided to continue the share based long-term incentive plan for the senior management of the Group in its December 2016 meeting. The share based incentive plan consists of a Performance Share Plan (PSP) as the main structure supported by a Restricted Share Plan as a complementary structure for specific situations. The plan is based on the rolling long-term incentive structure approved by the Board of Directors on December 2015.

Performance Share Plan 2017-2019 may include a maximum of approximately 120 members of senior management and key employees. The three-year plan period consists of a one-year operative financial performance period (2017), followed by a two-year vesting period. The targets set for the Performance Share Plan 2017-2019 were not met and therefore no rewards will be paid to the participants of the plan.

## **Share-based long-term incentive plan 2018-2020**

Caverion's Board of Directors decided to continue the share based long-term incentive plan for the senior management of the Group in its December 2017 meeting. The share based incentive plan consists of a Performance Share Plan (PSP) as the main structure supported by a Restricted Share Plan as a complementary structure for specific situations. The plan is based on the rolling long-term incentive structure approved by the Board of Directors on December 2015.

Performance Share Plan 2018-2020 may include a maximum of approximately 120 members of senior management and key employees. The three-year plan period consists of a one-year operative financial performance period (2018), followed by a two-year vesting period. The potential share reward is based on the targets set for the year 2018 for Earnings per share and Operating Cash Flow from Operations before interests and taxes.

The targets set for the Performance Share Plan 2018-2020 were partially met and estimated share rewards comprising approximately a total value corresponding to 84,000 shares (gross before the deduction of applicable payroll tax) will be paid in February 2021.

## **Share-based long-term incentive plan "Matching Share Plan 2018-2022"**

Caverion's Board of Directors resolved to implement a new share-based long-term incentive plan "Matching Share Plan 2018-2022" in its February 2018 meeting. The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long-term, to encourage the key employees to personally invest

in the company's shares, to retain them at the company, and to offer them a competitive reward plan that is based on acquiring, receiving and holding the company's shares.

The prerequisite for participating in the Plan is that a key employee shall acquire company shares up to the number and in the manner determined by the Board of Directors. The plan participant may not participate in the Performance Share Plan 2018-2020 simultaneously with participating in the Matching Share Plan. The Plan includes four matching periods, all beginning on 1 March 2018 and ending on 28 February 2019, 29 February 2020, 28 February 2021 or 28 February 2022. The rewards from the plan will be paid in four instalments, one instalment each in 2019, 2020, 2021 and 2022. However, the reward payment will be deferred, if a yield of the share has not reached the pre-set minimum yield level by the end of the matching period in question. If the pre-set minimum yield level has not been reached by the end of reward instalment specific grace periods ending in 2021-2022, no reward from a matching period in question will be paid.

The company provided the participants a possibility to finance the acquisition of the company's shares through an interest-bearing loan from the company, which some of the participants utilised. By the end of December 2018 the total outstanding amount of these loans amounted approximately to EUR 4.1 million. The loans will be repaid in full on 31 December 2023, at the latest. Company shares have been pledged as a security for the loans.

## **Share-based long-term incentive plan 2019-2021**

Caverion's Board of Directors approved the establishment of a new share-based long-term incentive plan for key employees of the Group in its December 2018 meeting. The new plan is based on a performance share plan (PSP) structure. The Board approved at the same time the commencement of a new plan period 2019-2021 in the Restricted Share Plan (RSP) structure, a complementary share-based incentive structure for specific situations.

The first plan (PSP 2019-2021) within the new PSP structure commenced in the beginning of 2019 and the potential share rewards thereunder will be paid in the spring 2022 provided that the performance targets set by the Board are achieved. PSP 2019-2021 may include a maximum of approximately 75 key employees of Caverion Group. However, the individuals who currently participate in Caverion's top management Matching Share Plan, including the members of Caverion's Group Management Board, are not included in this plan. The performance target measures are the relative total shareholder return of the Company's share and earnings per share. If all targets will be met, the share rewards based on PSP 2019-2021 will comprise a maximum of approximately 1.3 million Caverion shares (gross before the deduction of applicable taxes).

## Share ownership recommendation policy

Caverion applies a share ownership recommendation policy for the members of the Group Management Board, according to which the members should retain at least 50 per cent of the share rewards received (net shares after the deduction of applicable payroll tax) under the share based incentive plans until the share ownership of these individuals in Caverion amounts to at least his/her annual gross base salary.

More information on the long-term incentive plans was released in stock exchange releases on 18 December 2015, 21 December 2016, 21 December 2017 and 18 December 2018.

More information on the Matching Share Plan 2018-2022 and the related share issues and transfers was released in stock exchange releases on 7 February 2018, 19 February 2018, 1 March 2018 and 8 March 2018.

## REMUNERATION REPORT

### Remuneration of the Board of Directors

Based on the decisions of the Caverion Corporation's Annual General Meeting on 26 March 2018, the members of the Board of Directors are entitled to the following fees:

- Chairman of the Board of Directors: EUR 6,600 per month (EUR 79,200 per year)
- Vice Chairman of the Board of Directors: EUR 5,000 per month (EUR 60,000 per year)
- Members of the Board of Directors: EUR 3,900 per month (EUR 46,800 per year)

A meeting fee of EUR 550 is paid for each Board and Committee meeting attended in addition to travel costs associated.

The remuneration paid to the members of the Board of Directors totalled EUR 494,436 in 2018 (EUR 454,930 in 2017). None of the Board members have an employment relationship or service contract with Caverion Group and they are not covered by any of Caverion Group's short- or long-term incentive schemes or pension plans.

Fees paid to the members of the Board of Directors in 2018 (EUR):

Member of the Board of Directors	Board membership	Audit committee meetings	Human Resources committee meetings	Board meetings	Total 2018	Total 2017
Jussi Aho	46,800		2,200	4,950	<b>53,950</b>	44,115
Markus Ehrnrooth	60,000	3,850		6,050	<b>69,900</b>	69,326
Joachim Hallengren	46,800		2,750	5,500	<b>55,050</b>	43,565
Antti Herlin	46,800		2,200	5,500	<b>54,500</b>	37,809
Thomas Hinnerskov	46,800	3,850		6,050	<b>56,700</b>	45,215
Anna Hyvönen	46,800		2,750	6,050	<b>55,600</b>	55,600
Eva Lindqvist	11,143	1,100		1,100	<b>13,343</b>	57,800
Mats Paulsson	35,843	2,750		4,950	<b>43,543</b>	-
Ari Puheloinen					-	12,035
Michael Rosenlew	79,200	3,850	2,750	6,050	<b>91,850</b>	89,465
<b>Total</b>	<b>420,186</b>	<b>15,400</b>	<b>12,650</b>	<b>46,200</b>	<b>494,436</b>	<b>454,930</b>

## Remuneration of the CEO

The Board of Directors decides on the remuneration, benefits and other terms of the Managing Director agreement of the President and CEO. The remuneration of the President and CEO consists of a fixed base salary, fringe benefits, annual short-term incentive plan, long-term incentive plan and other possible benefits such as a defined contribution pension plan. The President and CEO's short-term target incentive opportunity was 50% of the annual fixed base salary and the maximum incentive opportunity was 100% of the annual fixed base salary. In 2018, 40% of the incentive opportunity was tied to Group's EBITDA percentage and 60% in Group's cash flow. These measures are in line with Caverion's strategic targets.

Ari Lehtoranta has been granted 50,000 Restricted Share Units on 1 January 2017 according to the terms and conditions of the Caverion's long-term incentive plan approved by the Board of Directors. Potential Restricted Share reward will be delivered in 2019.

Remuneration paid to the President and CEO in 2018 (EUR):

EUR	Base salary	Fringe benefits	Paid short-term incentive	Total pension scheme	Performance share plan	Total 2018	Total 2017
Ari Lehtoranta 1.1.-31.12.2018	659,760	240	-	132,000	-	<b>792,000</b>	792,000

## President and CEO's pension, retirement age and termination compensation

The contractual retirement age of the President and CEO Ari Lehtoranta is 63 years. Ari Lehtoranta has a supplementary defined contribution pension plan, annual contribution being 20% of his base salary. During 1.1.2018-31.12.2018 the cost of his supplementary pension scheme was EUR 132,000. He is also eligible for the Finnish statutory pension system.

The President and CEO's notice period for both parties is six months. Severance pay (if the company terminates the agreement) is compensation amounting to 12 months' base salary as monthly payments after the termination date.

## Remuneration of the Group Management Board

The remuneration of the Group Management Board consists of a fixed base salary, fringe benefits, annual short-term incentive plan and long-term incentive plan. In 2018, the maximum short-term incentive opportunity for the members of the Group Management Board was 60-70% of the annual base salary. The targets of the short-term incentive plan were connected to the Group's and/or divisions' EBITDA percentage, cash flow or to the achievement of specific individual targets.

In addition, some of the Group Management Board members are included in country specific group pension arrangements. Compensation based on termination of employment related agreements in 2018 is estimated at a total of 823,579 euros during 2018 and 2019.

Remuneration paid to the members of the Group Management Board in 2018 (EUR):

EUR	Base salary	Fringe benefits	Paid short-term incentive	Paid long-term incentive	Total 2018	Total 2017
Group Management Board 1.1.-31.12.2018	3,087,584	160,122	362,405	-	<b>3,610,111</b>	3,156,584