

**SALARY AND COMPENSATION REPORT 2017**

**SUOMEN HOIVATILAT OYJ**

23 February 2017

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## 1 INTRODUCTION

The corporate governance system of Suomen Hoivatilat Oyj (“**Hoivatilat**” or “**the Company**”) is based on valid and applicable legislation and on the Company’s Articles of Association. The Company complies with the rules of Nasdaq Helsinki Ltd (“**Nasdaq**”) and the Finnish Corporate Governance Code 2015 recommendation by the Securities Market Association (“the **Corporate Governance Code**”). The reason the Company did not adhere to the Corporate Governance Code until now is that doing so was not warranted by the Company’s size and scope of its business operations. Instead, the company has adhered to its own internal corporate governance guidelines, which have been in use since 2013.

The Board of Directors approved this salary and compensation report on 27 February 2018, and both it and the Company’s Corporate Governance Code are publicly available on the Company’s website at [www.hoivatilat.fi](http://www.hoivatilat.fi).

Transactions made by the Company’s management with the Company’s financial instruments are published in accordance with current regulations through stock exchange releases. These are also available on the Company’s website at [www.hoivatilat.fi](http://www.hoivatilat.fi).

## 2 THE DECISION-MAKING PROCESS FOR COMPENSATION

The company’s statutory governing bodies are the General Meeting, the Board of Directors, the CEO and the auditor. The CFO supports the statutory governing bodies. To increase the efficiency of its operations, the Board has established two permanent committees from among its members: an Audit Committee and a Remuneration Committee. In addition, the Company has a Nomination Board for shareholders.

The Shareholders’ Nomination Board prepares proposals for the General Meeting relating to the election and compensation of the Board members, on the basis of which the General Meeting decides on the compensation payable for board and committee work, and on their grounds for compensation. As a rule, the compensation for a given person will be decided on by the body that appointed him or her. Because the Board of Directors appoints the CEO, it also decides on the CEO’s compensation. The Board of Directors also decides on the compensation payable to the CEO in the event of termination of the CEO’s contract. The Board of Directors also decides on the principles and structure of the Company’s compensation system. The Remuneration Committee assists the Board of Directors by preparing the remuneration and benefits of the company’s senior management, as well as the senior management’s remuneration and incentive schemes.

## 3 COMPENSATION OF THE BOARD MEMBERS

### 3.1 Main principles for compensation of the Board members

The Actual General Meeting decides on the compensation of the Board members. The Annual General Meeting decided on 23 February 2017 that the following compensation will be paid to the Board members for the term ending at the Annual General Meeting of the following year:

- EUR 2,500 as monthly compensation to the Chairman of the Board of Directors

- EUR 1,250 as monthly compensation to each of the other Board members

In addition, EUR 1,200 will be paid to the Chairman of the Board of Directors and EUR 600 to each of the Board members as compensation for each Board meeting they attend. The monthly compensation includes all required preparatory work for the meetings, and minor work. If the travel time of a Board member or the Chairman for the purposes of attending a meeting is over three hours, the member will receive additional compensation of 50 percent of the meeting attendance compensation. As a rule, Board members who are employed by or in the service of the Company will not be paid any meeting attendance compensation.

The Board members are also entitled to compensation for attending Committee meetings as follows:

- EUR 600 per meeting for the Chairman of a Committee
- EUR 400 per meeting for other members of a Committee

Reasonable travel costs incurred by Board members will be compensated against receipts. Board fees are paid in their entirety in cash.

### 3.2 Fees paid to the Board members in 2017

Name	Position in the company	Monthly compensation, EUR	Meeting attendance compensation, EUR	Fees, EUR	Total, EUR
Pertti Huuskonen	Chair of the Board of Directors	25,000	22,500	–	47,500
Kristiina Hautakangas	Board member (until 23 February 2017)	0	2,100	–	2,100
Mammu Kaario	Board member	12,500	13,500	–	26,000
Timo Pekkarinen	Board member	12,500	8,800	–	21,300
Reijo Tauriainen	Board member	12,500	15,000	–	27,500
Satu Ahlman	Board member (as of 23 February 2017)	12,500	9,900	–	22,400

The individuals who were elected to the Board of Directors of the Company in the 2017 Annual General Meeting are not employed by or in the service of the Company.

The Company has no currently valid, share-based incentive schemes for Board members. No compensation has been paid to the members of the Board of Directors in shares.

## 4 COMPENSATION OF THE CEO AND OTHER SENIOR MANAGEMENT

### 4.1 Main principles for compensation of the CEO, and compensation paid in 2017

The Board of Directors determines and accepts the main terms and conditions of the CEO's service contract. According to the CEO service contract concluded with the Company CEO, Jussi Karjula, his compensation consists of a fixed monthly salary of EUR 16,000 , (2017), and includes car and mobile phone benefits. The terms and conditions of service have been prepared in the form of a written CEO's service contract.

Jussi Karjula's service contract is valid until further notice, and both parties have the right to terminate it with a six-month period of notice without giving a special reason. If the Company terminates Karjula's service contract without reference to any cause attributable to Karjula, he is entitled to severance pay corresponding to six month's salary, in addition to his monthly salary for the period of notice.

Under the Employment Contracts Act (55/2001), Karjula is entitled to a pension and other statutory pension provisions, and does not have a supplementary pension.

In addition, based on the criteria specified by the Board of Directors, Karjula is entitled each year to a bonus payment that is equivalent to a maximum of six months of his cash salary. In 2018, Karjula's annual bonus is equivalent to no more than six months of his monthly salary in cash, in line with the targets set for the year by the Board of Directors.

In 2017, the CEO was paid a total of EUR 281,897 in salary and compensation, including fringe benefits.

Karjula is part of the share-based compensation scheme 4.3 outlined below. In 2017, no Company shares or options were paid to the CEO as compensation.

#### **4.2 The main principles for compensation of other senior management, and compensation paid in 2017**

The other senior management of the company are the members of the Company's Management Group. In 2017, the members of the Company's Management Group were (in addition to CEO Jussi Karjula) Tommi Aarnio, CFO; Antti Kurkela, Sales Director; Riikka Säkkinen, Communications Manager; and Juhana Saarni, Property Director. In addition, Timo Tanskanen was a member of the Management Group until 11 September 2017.

The executive employment contracts for the members of the Management Group include the usual terms and conditions related to determination of compensation and employee benefits. The Management Group's executive employment contracts are valid until further notice, and both parties have the right to terminate the contract with a six-month period of notice without giving a special reason. Under the Employment Contracts Act (55/2001) and other applicable legislation, each member of the Management Group is entitled to a pension, but the members of the Management Group do not have supplementary pensions. In addition, based on the criteria specified by the Board of Directors, each member of the Management Group is entitled each year to a bonus payment that is equivalent to a maximum of one and a half (1.5) months of their cash salary.

In the 2017 financial year, the members of the Management Group was paid a total of EUR 523,049 in salary and compensation, including fringe benefits.

Each of the members of the Management Group is part of the share-based compensation scheme outlined in section 4.3. In the financial year 2017, no Company shares or options were paid to any of the members of the Management Group as compensation.

### **4.3 The share reward system**

In accordance with the authorisation issued at the Annual General Meeting on 8 April 2014, the Board of Directors decided, on 12 December 2014, on the implementation of a share reward system for the management and key personnel. This system came into effect at the beginning of 2015. In accordance with the conditions of the 2015 share reward system, which was approved by the Board of Directors on 10 February 2015, the system consists of three performance periods, each lasting one whole year, covering the calendar years 2015, 2016 and 2017. The target group of the system consists of the Company's key personnel, who are designated by the Board of Directors for each performance period. Each of the participants in the system has the opportunity to earn shares in the Company as compensation for meeting the earnings targets set by the Board of Directors for each respective performance period. The Board of Directors decides separately on the maximum reward for each participant for each performance period. In addition to the net number of the shares to be subscribed for, the compensation includes a cash portion, which covers up to 50 percent of the taxes and tax-like payments incurred by the participant of the compensation. The reward is paid to the participants no later than by the end of April of the year following the performance period.

In a decision given in the AGM of 18 February 2016, the existing authorisation granted in an earlier AGM was replaced by an authorisation having the same content. This was done in such a way that through the granting of the share rights on the basis of the new authorisation, the maximum number of new shares was adjusted in the 2016 AGM to take account of the effect of the free share issue (split) less the share rights that were already granted in accordance with the original authorisation, and the shares that were subscribed on the basis of these share rights. Under the new authorisation, a maximum of 221,892 new shares in the Company may be issued. Based on the authorisation, a total of 28,800 Company shares have been issued by the end of 2017, and so based on the new authorisation, a maximum of 193,092 new shares can still be issued.

The compensation for the performance period 2016–2017 is based on the development of the Company's total shareholder return (TSR) during the performance period. For the performance period 2016–2017, Karjula is entitled to compensation that, in addition to a cash component, also consists of share rights for a maximum of 72,000 new shares in the Company. For the performance period 2016–2017, the five (5) key persons in the Company were entitled to compensation that in addition to a cash component also consists of share rights for a maximum of 84,000 new shares in the Company.

The shares subscribed on the basis of these share rights may not be transferred, pledged or otherwise used during the vesting period. The vesting period starts from the date of payment of the bonus, and for the shares earned in the performance period 2015, it ends on 31 December 2018. For the shares earned in the period 2016–2017, the vesting period ends on 31 December 2019. The restriction on the right of disposal also applies to any shares and other securities obtained free of charge on the basis of shares earned in the system.