

# **CORPORATE GOVERNANCE STATEMENT 2018**



**HKSCAN**

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## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Corporate governance in HKScan Corporation ("HKScan" or the "Company") is based on Finnish legislation, EU-level regulations, HKScan's Articles of Association, the Finnish Corporate Governance Code 2015 (the "Code") issued by Securities Market Association, and HKScan Group's Code of Conduct as well as Governance Policy. HKScan furthermore complies with the rules and regulations of Nasdaq Helsinki Ltd and the Finnish Financial Supervisory Authority. This corporate governance statement has been drafted in accordance with the above-mentioned Code that entered into effect on 1 January 2016 and with Chapter 7:7 of the Finnish Securities Markets Act. The corporate governance statement is issued separately from the Report of the Board of Directors 2018.

HKScan observes the Code subject to the following exceptions:

- Recommendation 15: Members of the Nomination Committee may be appointed also from outside the Board of Directors in order to bring additional knowledge and expertise to bear on key appointments within the Company. The Board of Directors appoints the members of the Nomination Committee.

HKScan's corporate governance statement may be viewed on the Company's website at [www.hkscan.com](http://www.hkscan.com) under "Investor information". The website also gives access a list of the Company's largest shareholders, the notifications of changes in holdings submitted to the Company and the Company's Articles of Association. The Code is available for review on the Securities Market Association website at <http://cgfinland.fi/en/>.

## **BOARD OF DIRECTORS**

The Board of Directors is responsible for the administration and the proper organisation of the operations of the Company. The duties and accountability

of the Board are determined primarily under the Articles of Association and the Finnish Limited Liability Companies Act. The Board's meetings procedure and duties are described in the charter adopted by the Board for each year.

Board members are elected annually by the Annual General Meeting ("AGM") based on a proposal put forward by the Board's Nomination Committee. The Articles of Association contain no mention of any special order of Board member appointments.

The Company's Board of Directors comprises between five and eight (5-8) members. In addition, a maximum of three (3) deputy members may be elected to the Board of Directors. All Board members possess the particular competence and independence consistent with the position. The Board members are proposed by the Nomination Committee taking into account the diversity principles determined by the Company in accordance with Recommendation 9 of

the Code. The Company has determined the following diversity principles:

- both genders should be represented in the Board;
- the Board members should have versatile background regarding profession and education that benefits the business of the Company;
- the Board members should have experience of international tasks; and
- the Board members should represent varied age range.

The composition of the Board of the Company in 2018 represented well the Company's diversity principles.

The term of Board members begins at the end of the General Meeting at which they were elected and ends at the end of the General Meeting first following their election. The Board of Directors elects a chair and deputy chair from among its number.

The Board conducts an annual evaluation of the independence of its members in

accordance with Recommendation 10. A member of the Board is required to submit to the Company the information necessary to conduct the evaluation of independence. A Board member is also required to notify the Company of any changes in information relating to independence.

The following persons were elected to the Board by the Annual General Meeting held on 12 April 2018:

**Mikko Nikula (b. 1972)**

Chair of the Board since 2015 - until 26 November 2018  
M.Sc. (Physics)  
Farm entrepreneur, broiler meat producer, Rusko, Finland  
Shareholding at HKScan on 31.12.2018: 13 633 (direct ownership) and 2 733 (through Myllymäen Broileri Oy)

**Marko Onnela (b. 1974)**

Deputy chair of the Board since 2017 - until 14 December 2018  
M.Sc. Agriculture  
Farm entrepreneur, pork producer, Loimaa, Finland  
Shareholding at HKScan on 31.12.2018: 13 707

**Per Olof Nyman (b. 1956)**

Member of the Board since 2017  
M.Sc. (Industrial & Management Engineering)  
President & CEO, Lantmännen ek. för.  
Shareholding at HKScan on 31.12.2018: 8 386 (nominee-reg.)

**Riitta Palomäki (b. 1957)**

Member of the Board since 2017 - until 14 December 2018  
M.Sc. (Econ.)  
Shareholding at HKScan on 31.12.2018: 3 836

**Tuomas Salusjärvi (b. 1973)**

Member of the Board since 2017 - until 14 December 2018  
PhD Biochemistry  
Valio Oy, Executive Vice President  
Shareholding at HKScan on 31.12.2018: 3 836

**Reijo Kiskola (b. 1954)**

Member of the Board since 12 April 2018 and Chair of the Board as of 27 November 2018  
Dairy Engineer  
Shareholding at HKScan on 31.12.2018: 2 053

**Jari Mäkilä (b. 1970)**

Deputy member of the Board since 12 April 2018 and acting Member of the Board as of 27 November 2018  
Agricultural technician, pork producer, Oripää, Finland  
Shareholding at HKScan on 31.12.2018: 7 790 (direct ownership) and 35 000 (through Mäkilän Tila Oy)

**Carl-Peter Thorwid (b. 1964)**

Deputy member of the Board since 2017 and acting Member of the Board as of 14 December 2018  
M.Sc. (Industrial Engineering and Management)  
CEO Lantmännen Cerealia AB  
Shareholding at HKScan on 31.12.2018:-

Actual members of the Board, Mikko Nikula and Marko Onnela, and deputy member Jari Mäkilä are not independent from the Company. Actual member of the Board, Per Olof Nyman and deputy member Carl-Peter Thorwid are not independent from the Company's major shareholder. Other actual members of the Board are independent from the Company and its major shareholders.

During 2018, the Board held 16 meetings. The average attendance rate of Board members and deputy members was 100 per cent. The Board constitutes a quorum when more than half of its members are present. Besides the members, the Group's CEO, the CFO and the General Counsel, Head of Legal as secretary to the Board, also regularly attended the Board meetings.

Mikko Nikula resigned from his post as Chairman of the Board and Board member on 26 November 2018. Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi announced on 14 December 2018 that they will resign from the Board with this date. The Company's Board of Directors informed on 14 December 2018 that an Extraordinary General Meeting be convened to fill the vacancies in the Company's Board of Directors. The invitation to the Extraordinary General Meeting was published on 7 January 2019. The Extraordinary General Meeting held on 30 January 2019 elected Jari Mäkilä, Harri Suutari and Terhi Tuomi as new members of the Board. Ilkka Uusitalo was elected as new deputy member of the Board.

**CHARTER OF THE BOARD**

The work of the Board of Directors is based on the provisions of the Finnish Limited Liability Companies Act and the Company's Articles of Association as well as on the charter adopted by the Board.

According to the charter, the following key matters are among those to be resolved by the Board of Directors at HKScan:

- appointments and dismissals of the CEO and senior executives, and decisions on the terms of employment of management;
- terms of employment of managing directors of HKScan Group companies and senior management;
- HKScan Group management's and personnel's incentive schemes and bonus criteria;
- HKScan Group and organisation structure, commencement of new business, changes and discontinuation of central business;
- HKScan Group strategy, business plan and performance targets for the following year, and related underlying assumptions;
- HKScan Group's significant investments, as well as company, business and real estate arrangements, and sales and outsourcing of significant equipment and machinery;
- other significant contracts of the HKScan Group;
- dividend policy and division proposal to the Annual General Meeting;
- principles of risk management and communication related to HKScan Group's business and follow up of the legality of business operations;
- approving of investment plans and approval of relevant investments deviating from the plan;

- taking out HKScan Group loans and giving securities;
- giving procuration and other representative rights of the Company.

The meetings of the Board of Directors follow the annually agreed management calendar. Extra meetings may be convened if required. The chair of the Board convenes the Board meetings and prepares the meeting agenda together with the CEO.

## PERFORMANCE EVALUATION OF THE BOARD

The Board conducts an annual evaluation of its performance and working methods in the interests of enhancing its operations. The evaluation addresses the composition and processes of the Board, the quality of the Board's performance, cooperation between the Board and operative management, and the expertise and participation of Board members.

## BOARD COMMITTEES

Four committees have been set up in HKScan to streamline the preparation and management of matters for the consideration of the Board. The Board selects the members and chairs of the committees from among its members or deputy members, except for the Nomination Committee, to which members may be selected from outside the Board in order to bring additional knowledge and

expertise to bear on key appointments within the Company. With respect to the Nomination Committee, the Company deviates from Recommendation 15 of the Code.

### Audit committee

The Board elects at least three members of the Audit Committee from among its members or deputy members. At least one of the members must possess particular expertise in the fields of accounting, bookkeeping or auditing. The majority of the members of Audit Committee shall be independent of the Company and at least one member shall be independent of significant shareholders. The CEO of the Company or other senior executives may not be elected to the Audit Committee.

The Audit Committee assists the Board by preparing matters within its remit for the consideration of the Board and by submitting proposals or recommendations for Board resolution. The duties of the Audit Committee have been determined in its charter adopted by the Board, in keeping with Recommendation 16 of the Code. The tasks of the Audit Committee of HKScan's Board of Directors include, among other things, the following:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;

- to monitor the efficiency of the Company's internal control, internal auditing and risk management system;
- to evaluate and review the corporate governance statement covering the internal control and risk management related to the financial reporting process;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of auditors and the provision of related ancillary services to the Company in particular; and
- to prepare the proposal for decision on the election of the auditors.

The Audit Committee reports on its work to the Board at the Board meeting first following the meeting of the Committee and submits for the information of the Board the minutes of the committee's meeting.

The Audit Committee was chaired by Riitta Palomäki (until 14 December 2018), and its other members are Marko Onnela (until 14 December 2018), Carl-Peter Thorwid and Mikko Nikula (until 26 November 2018), and Reijo Kiskola as of 27 November 2018.

The Audit Committee held five meetings during 2018. The average attendance rate of Committee members was 100 per cent. Committee meetings were also regularly attended by the Company's CEO, the CFO, the internal auditor

and by the external auditors. The chair of the Audit Committee prepares the agenda for the meeting based on a proposal made by the CFO and convenes the meetings, under normal circumstances with at least one week's notice.

### Nomination committee

The Board elects the three members of the Nomination Committee. The members of the Committee need not be Board members. The CEO of the Company or other senior executives may not be elected to the Nomination Committee.

The duties of the Nomination Committee are defined in its charter adopted by the Board. The Committee is tasked with preparing the proposals to be presented to the General Meeting of Shareholders concerning the number, appointment and remuneration of Board members. The Nomination Committee convenes at least once before the General Meeting of Shareholders and reports on its work to the Board of Directors immediately following the meeting of the Committee.

When the Nomination Committee plans the composition of the Board of Directors, the target is to ensure that the Board of Directors forms a functional entity. The prerequisite is sufficient diversity of the Board of Directors. The Board's Nomination Committee searches, evaluates and recommends members to be elected in the Board of Directors and

evaluates the number of the members of the Board of Directors. When designing the proposal for election of Board members, the diversity principles determined by the Company shall be taken into account:

- both genders should be represented in the Board;
- the Board members should have versatile background regarding profession and education that benefits the business of the Company;
- the Board members should have experience of international tasks; and
- the Board members should represent varied age range.

The members of the Nomination Committee are Jari Mäkilä (Chair), Per Lindahl and Mikko Nikula (until 26 November 2018), and Reijo Kiskola as of 27 November 2018.

The Nomination Committee held two meetings during 2018. The average attendance rate of Committee members was 100 per cent.

Introduction:

**Per Lindahl (b. 1964)**

Chair of the Board of Lantmännen Farmer, Kristianstad, Sweden

**Compensation committee**

The Board elects at least three members of the Compensation Committee from

among its members or deputy members. The majority of the members of the Compensation Committee must be independent of the Company. The CEO of the Company or other senior executives may not be elected to the Compensation Committee.

The duties of the Compensation Committee are defined in its charter adopted by the Board of Directors. The Compensation Committee is tasked with preparing matters pertaining to the Company's compensation schemes, such as CEO compensation, other management compensation, the Company's incentive and benefit plans and review of other arrangements or agreements between the Company and CEO or other senior executives.

The Compensation Committee convenes at least twice a year and reports on its work to the Board following the meeting of the Committee and submits for the information of the Board the minutes of the Committee's meetings.

The Committee is chaired by Per Olof Nyman and its other members are Riitta Palomäki (until 14 December 2018), Tuomas Salusjärvi (until 14 December 2018) and Mikko Nikula (until 26 November

2018), and Reijo Kiskola as of 27 November 2018.

The Compensation Committee held four meetings during 2018. The average attendance rate of Committee members was 100 per cent. The Compensation Committee has used external consultants in its work.

**Working committee**

Within the Working Committee the Board considers matters without the presence of the operative management of the Company.

The duties of the Working Committee are defined in its charter adopted by the Board of Directors. The Working Committee is tasked with promoting the efficient accomplishment of the duties of the Company's Board of Directors. The aim of the Committee is to advance compliance with the Finnish Corporate Governance Code in HKScan.

All members and deputy members of the Board are members of the Working committee. The Chair of the Board, Mikko Nikula until 26 November 2018 and Reijo Kiskola as of 27 November 2018, acts as the Committee's Chair. The Working Committee held six meetings during 2018. The average attendance rate of Committee members was 100 per cent.

**CHIEF EXECUTIVE OFFICER (CEO)**

The CEO and the possible deputy CEO are appointed by the Company's Board of Directors. The CEO is tasked with managing the HKScan Group's business activities and administration in accordance with the Articles of Association, the Finnish Limited Liability Companies Act and instructions provided by the Board of Directors. The CEO is accountable to the Board of Directors for the implementation of the objectives, plans, procedures and goals laid down by the Board. In managing the HKScan Group, the CEO is supported by the Group Leadership Team.

The Company's CEO does not serve on the Board but attends its meetings and provides monthly reports to the Board on the HKScan Group's financial performance, financial position, solvency and market position. He or she also presents the materials of the financial statements and interim reports to the Board. The CEO furthermore reports to the Board on the implementation of the Board's resolutions and on the measures and outcomes to which these have given rise.

Jari Latvanen (b. 1964), MBA, has worked as HKScan's President and CEO as of 31 October 2016 until 27 November 2018. As of 27 November 2018, for the time being, the duties of the President and CEO were carried out by the Chairman of the Board Reijo Kiskola.



## MEETING ATTENDANCE OF THE BOARD AND ITS COMMITTEES

	BOARD OF DIRECTORS	AUDIT COMMITTEE	NOMINATION COMMITTEE	COMPENSATION COMMITTEE	WORKING COMMITTEE
Mikko Nikula <sup>7)</sup>	12/12	4/4	2/2	2/2	5/5
Marko Onnela <sup>6)</sup>	14/14	4/4			5/5
Riitta Palomäki <sup>10)</sup>	14/14	5/5		4/4	5/5
Tuomas Salusjärvi <sup>11)</sup>	14/14			4/4	5/5
Per Olof Nyman <sup>5)</sup>	16/16			2/2	6/6
Reijo Kiskola <sup>2)</sup>	13/13	1/1		0/0	5/5
Pirjo Väliaho <sup>1)</sup>	3/3	1/1		2/2	1/1
Jari Mäkilä (deputy) <sup>4)</sup>	13/13		2/2		5/5
Carl-Peter Thorwid (deputy)	16/16	5/5			6/6
Veikko Kemppe (deputy) <sup>3)</sup>	3/3				1/1
Per Lindahl <sup>9)</sup>			1/1		
Bengt-Olov Gunnarson <sup>8)</sup>			1/1		

<sup>1)</sup> Member of the Board, Audit Committee and Compensation Committee until 12 April. Between 1.1.-12.4.2018 the Board had 3 meetings, the Working Committee 1 meeting, the Audit Committee 1 meeting and the Compensation Committee 2 meetings.

<sup>2)</sup> Member of the Board as of 12 April. Between 12.4.-31.12.2018 the Board had 13 meetings and the Working Committee 5 meetings. Member of Audit Committee, Compensation Committee and Nomination Committee as of 27 November. Between 27.11.-31.12.2018 the Audit Committee had 1 meeting, the Compensation and Nomination Committee had no meetings.

<sup>3)</sup> Deputy member of the Board until 12 April. Between 1.1.-12.4.2018 the Board had 3 meetings and the Working Committee 1 meeting.

<sup>4)</sup> Deputy member of the Board as of 12 April. Between 12.4.-31.12.2018 the Board had 13 meetings and the Working Committee 5 meetings.

<sup>5)</sup> Member of the Compensation Committee as of 12 April. Between 12.4.-31.12.2018 the Compensation Committee had 2 meetings.

<sup>6)</sup> Member of the Audit Committee as of 12 April until 14 December. Between 12.4.-14.12.2018 the Audit Committee had 4 meetings. Member of the Board until 14 December. Between 1.1.-14.12.2018 the Board had 14 meetings and the Working Committee 5 meetings.

<sup>7)</sup> Member of the Compensation Committee as of 12 April until 26 November. Between 12.4.-26.11.2018 the Compensation Committee had 2 meetings. Member of the Board, Audit Committee and Nomination Committee until 26 November. Between 1.1.-26.11.2018 the Board had 12 meetings, the Working Committee 5 meetings, the Audit Committee 4 meetings and the Nomination Committee 2 meetings.

<sup>8)</sup> Member of the Nomination Committee until 12 April. Between 1.1.-12.4.2018 the Nomination Committee had 1 meeting.

<sup>9)</sup> Member of the Nomination Committee as of 12 April. Between 12.4.-31.12.2018 the Nomination Committee had 1 meeting.

<sup>10)</sup> Member of the Board, Audit Committee and Compensation Committee until 14 December. Between 1.1.-14.12.2018 the Board had 14 meetings, the Working Committee 5 meetings, the Audit Committee 5 meetings and the Compensation Committee 4 meetings.

<sup>11)</sup> Member of the Board and Compensation committee until 14 December. Between 1.1.-14.12.2018 the Board had 14 meetings, the Working Committee 5 meetings and the Compensation Committee 4 meetings.

On 28 November 2018 Tero Hemmilä, M.Sc. (agr. econ.), was appointed as President and CEO of HKScan Corporation. He started at HKScan on 4 February 2019.

### GROUP LEADERSHIP TEAM

The Group Leadership Team ("GLT") of HKScan assists the President and CEO in the management of the HKScan Group, in the preparation of matters such as business plans, strategy, policies and other matters of importance, as well as in the implementation of the strategic and operative targets. The members of the GLT are appointed by the Board.

The Group Leadership Team on 31 December 2018:

#### Reijo Kiskola (b. 1954)

President and CEO  
Dairy Engineer  
Shareholding at HKScan on 31.12.2018: 2 053

#### Mikko Forsell (b. 1974)

CFO of HKScan  
M.Sc. (Tech.) and M.Sc. (Econ.)  
Shareholding at HKScan on 31.12.2018: 4 000

#### Kati Rajala (b. 1972)

EVP Market area Finland (as of 2 May 2018)  
M.Sc. (Tech.)  
Shareholding at HKScan on 31.12.2018: -

#### Sami Sivuranta (b. 1975)

EVP Operations  
M.Sc. (Tech.)  
Shareholding at HKScan on 31.12.2018: -

#### Jukka Nikkinen (b. 1962)

EVP Market Area Denmark and International  
M.Sc. (Econ.)  
Shareholding at HKScan on 31.12.2018: 15 657

#### Anne Mere (b. 1971)

EVP Market area Baltics  
MBA  
Shareholding at HKScan on 31.12.2018: 18 018

#### Heli Arantola (b. 1969)

EVP Categories and Concepts  
D.Sc. (Econ.)  
Shareholding at HKScan on 31.12.2018: -

#### Sofia Hyléen Toresson (b. 1977)

EVP Market Area Sweden  
M.Sc. (Econ.)  
Shareholding at HKScan on 31.12.2018: -

#### Anu Mankki (b. 1963)

EVP, HR of HKScan  
MA  
Shareholding at HKScan on 31.12.2018: -

#### Mikko Saariaho (b. 1977)

EVP Communications and Corporate Responsibility  
M.Sc. (Business Administration)  
Shareholding at HKScan on 31.12.2018: 300

#### Pia Nybäck (b. 1969)

EVP Animal Sourcing & Primary Production  
M.Sc. (Engineering), eMBA  
Shareholding at HKScan on 31.12.2018: -

During the year 2018 also Jyrki Karlsson has been a member of the Group Leadership Team as EVP Market Area Finland until 31 March 2018.

## **MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE FINANCIAL REPORTING PROCESS**

### **Internal control framework**

The Company's internal control framework is within the remit of Board of Directors. HKScan Group's management is responsible for maintaining and further developing effective internal control. Internal control aims to ensure compliance with laws and regulations as well as the HKScan's values and policies and guidelines. The internal control system has the further objective of supporting activities in line with HKScan's strategy. The reliability of financial reporting and measures in the service of this goal are an integral component in the Company's internal control framework.

### **CONTROL ENVIRONMENT**

HKScan's values and policies form the basis for the internal control environment. The Board of Directors and the Audit Committee in particular monitor the Company's financial position and the quality of the financial reporting. The Board carries out this duty by, among other, adopting the HKScan Group's risk management policy and determining the objectives and princi-

ples of internal control. The CEO and CFO are responsible for maintaining and further developing an effective control environment relating to financial reporting.

At HKScan, the internal audit is a management tool for the accomplishment of supervision. The Group Internal Auditor reports to the CFO and the Board of Directors. In addition to this, the Company's Head of Legal especially ensures that all operations are lawful. He reports directly to the CEO.

The aims of internal auditing are integrally linked with the Company's management system built on a principle of continuous improvement. The implementation of corrective and preventative measures is a key part of the entire process.

### **RISK MANAGEMENT**

The aim of risk management within the HKScan Group is to safeguard the conditions to achieve business objectives and enable uninterrupted business operations. The risks faced by HKScan are by nature strategic (e.g. acquisitions), operative (e.g. animal diseases), financial (e.g. currency exchange rates, interest rates, tax related

risks) and risks of damage (e.g. accidents and interruptions in production).

The Board of Directors and CEO have responsibility for the strategy and principles of risk management within the Group, and for managing risks that threaten the achievement of HKScan's strategic intents. Operative risks are the responsibility of the managers of the respective business and Group entities. The CFO is responsible for the management of financial risks and the HKScan Group's insurance policies.

The Company uses a systematic Enterprise Risk Management (ERM) process, which contain consistent principles and systematic practices for risk management. The aim of the ERM process is to promote risk awareness in HKScan and effective risk management throughout the HKScan Group, and to ensure that the Company's management and the Board of Directors are in possession of sufficient information on risks to support their decision-making. The ERM process is an integral component of the management system and strategy process. The risk management policy is applied in all of the companies in the HKScan Group, which carry out business operations.

Risk management is a key element in HKScan's financial reporting process. At the Group level, the Company strives to identify and assess, at least once a year, all significant risks inherent in material balance sheet and income statement items and to determine the key controls for risk prevention.

### **CONTROL MEASURES**

Control measures are designed to ensure that

- the Company's business is managed efficiently and profitably;
- the Company's financial reporting is accurate, transparent and reliable; and
- the Company complies with laws and regulations and all internal principles.

Control measures can take the form of manual or automated system controls. Examples of controls to ensure the reliability of financial reporting include reconciliations, approvals, reviews, analyses and the elimination of high-risk combinations of duties. The Company uses also anonymized channel, through which personnel and our partners can file notifications of unethical behaviour.

HKScan Group's financial administration has determined, via risk assessment, key controls to financial reporting process. The implementation and effectiveness of the controls is the responsibility of financial administration in the business segments. HKScan has in place a self-evaluation process, which seeks to ensure the function and effectiveness of controls relating to financial reporting. In addition to ensuring control effectiveness, self-evaluation also seeks to locate possible gaps and areas for further development in the controls.

## MONITORING

HKScan Group's earnings performance is monitored in meetings of the Board and the Group Leadership Team with the help of monthly reporting. The Audit Committee evaluates and the Board approves all interim reports and financial statements prior to their release to the market. The Company's Internal Auditor provides the Audit Committee with an internal audit plan annually and regularly reports internal audit observations. In addition, the external auditors provide the Audit Committee with an annual report on their audit plans and a quarterly report on their audit observations and the functioning of internal con-

trol. The Audit Committee in turn conducts an annual evaluation of the performance and independence of the auditors.

In 2018, the development of the internal control framework continued among others by introducing new HKScan policies and guidelines, especially relating to internal and external security, data-privacy, disclosure and animal welfare. During year 2018 the Company's Code of Conduct and internal approval policy for agreements and other transactions were renewed and approved by the Board of Directors.

Implementation of EU's General Data Protection Regulation (GDPR), which took effect in Spring, was in focus whole year as Group wide implementation project to secure compliance with the new regulation in all our home markets was carried out.

## RELATED PARTY TRANSACTIONS

The Company has identified its related parties and keeps a list of them in accordance with Recommendation 28 of the Code. The Company has defined its related parties according to the definitions of IAS 24.9 standard. The Company is engaged in transactions with its related

parties and the Company evaluates and monitors such transactions in accordance with Recommendation 28 and the Company's internal guidelines for related party transactions.

As a general principle, all transactions to be entered with the related parties shall relate to the company's normal business operations (e.g. sale and purchase of animals) and be line with the purpose of the company and executed on market or market equivalent terms and practices. To ensure that possible conflicts of interest are appropriately taken into account in the decision-making process, the Company's Board of Directors ultimately decides upon execution of any related party transactions that are considered to be material to the Company, deviate from Company's normal business operations or are not made on market or market equivalent terms.

The principle defined in the Company's internal guidelines is that the Internal Auditor regularly monitors transactions concluded between the Company and its related parties and reports to the Board's Audit Committee.

## AUDITORS

The external auditors are nominated annually by the Annual General Meeting. The AGM 2018 elected Ernst&Young Oy, the firm of authorized public accountants, with APA Erkkä Talvinko as responsible auditor of HKScan until the close of the next AGM.

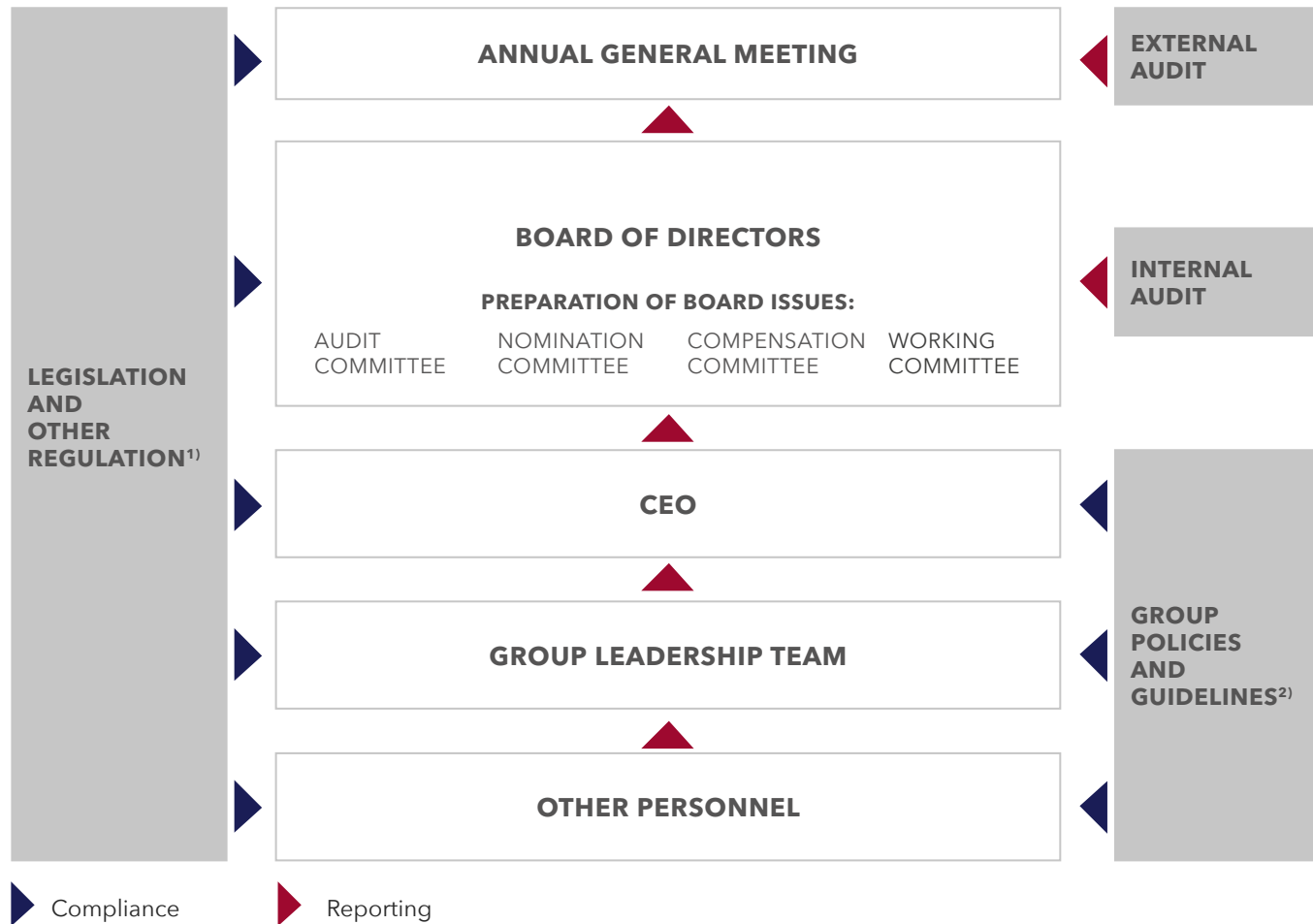
The Group's audit fees paid to independent auditors are presented in the table below. The fees are in respect of the audit of the annual accounts and legislative functions closely associated therewith. Other expert services include tax consulting and advisory services in corporate arrangements.

	2018	2017
Audit fees	-487	-498
Tax consultation	-16	-15
Other fees	-5	-767
<b>Audit fees, total</b>	<b>-508</b>	<b>-1 280</b>

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total four thousand euros during the financial year 2018.



## HKSCAN GROUP GOVERNANCE AND CONTROL SYSTEM



<sup>1)</sup> Limited Liability Companies Act, Securities Markets Act, Auditing Act, Accounting Act, EU-level regulations, Financial Supervisory Authority's regulations, Rules of the Stock Exchange, Corporate Governance Code, industry-related legislation, Market abuse regulation/MAR

<sup>2)</sup> Articles of Association, other internal policies, guidelines and operating procedures