

# Remuneration Statement 2019



## HKScan remuneration statement 2019

This remuneration statement has been prepared in accordance with the Finnish Corporate Governance Code 2015. The company will present a new CEO and Board Remuneration Policy in the Spring 2020 Annual General Meeting, after which the company will in the future publish a Remuneration Report instead of a Remuneration Statement.

### Remuneration governance

This section describes the decision-making procedure concerning the remuneration of the members of the Board of Directors (Board), the CEO and other executives.

The Annual General Meeting (AGM) decides on the remuneration and other financial benefits of the members of the Board and the committees of the Board annually based on a proposal by the Nomination Committee.

The Board decides, based on the proposal made by the Compensation Committee, on the remuneration principles and remuneration of the CEO. The remuneration and terms of employment of the Group Management Team (GMT) are decided by the Board on the basis of a proposal from the CEO. In addition, the Board approves all Group-wide incentive plans for senior management and key personnel.

The AGM decides on the use of the company's shares for share-based incentives and may authorise the Board to decide on the issue of shares and special rights

entitling to shares. Information about the valid authorisations of the Board concerning remuneration, as well as any decisions made by the Board concerning remuneration are described in the end of the Remuneration Statement.

### Main principles of remuneration

This section describes the main principles relating to the remuneration of the Board members, the CEO and other executives.

Remuneration at HKScan Group is based on the principles of remuneration approved by the Board. The longstanding remuneration principles support our business strategy, performance driven rewards, continuous improvement, individual accountability and value-based behaviour. The Group's strategic goals and financial results are taken into account in reward planning.

A competitive remuneration system aims at ensuring that we can retain key people and senior management in the markets in which HKScan operates. The targets of the incentive schemes are based on business strategy execution and shareholder value creation. Supported by the motivating rewards, our target is to retain core competencies and key people. Competitive salaries and performance-based incentive systems, the selection of the best people for key positions, job rotation and succession planning are the strengths of the company in the long term.

## Remuneration structure

HKScan Group's remuneration scheme consists of a base salary, benefits, as well as short-term and long-term incentive schemes.

### Board of Directors

The remuneration of the Board members consists of annual fees based on memberships of the Board and its committees, and in addition, members receive an attendance payment for each Board or Committee meeting. The company has no share-based incentive scheme for Board members, nor are the members of the Board covered by the company's incentive or pension plans. Board members receive no separate meeting attendance fees for serving on the Boards of Directors of the Group's subsidiaries or associated companies.

The AGM 2019 resolved to keep the annual fees for the Board members on the same level as in 2018. The annual fees are the following: Board member EUR 27,625, Vice Chairman of the Board EUR 33,875 and Chairman of the Board EUR 67,750.

The AGM on 11 April 2019 resolved the annual remuneration payable to the members of the Board as follows:

**Annual fee in EUR**

|                               |        |
|-------------------------------|--------|
| Chairman of the Board         | 67,750 |
| Vice Chairman of the Board    | 33,875 |
| Member of the Board           | 27,625 |
| Deputy member of the Board    | 13,810 |
| Chairman of a Board Committee | 5,000  |

The AGM also resolved that the annual fee is paid in Company shares and cash so that 20 per cent of the remuneration is in Company shares acquired on the market on the Board members' behalf, and the rest is paid in cash. The AGM also resolved the following: The shares are acquired within two weeks of the publication of HKScan Corporation's half-year report 1 January - 30 June 2019, providing that the acquisition of the shares is possible pursuant to the regulations applied to the acquisition of shares. If acquisition of shares is at the designated time not possible as described above, the acquisition of the shares will be carried out without delay after the hindrance has been removed. If acquisition of shares is not possible due to a reason arising from the Company or the Board member, the entire remuneration is paid in cash. The Company bears the costs arising from the share transfer.

The AGM 2019 resolved the annual remuneration of a deputy member of the Board to be EUR 13,810, unchanged from 2018. An annual remuneration of EUR 5,000 was resolved for Chairs of Board Committees (Audit, Nomination, Remuneration and Working Committee). In addition, an attendance payment of EUR 550 is paid to each member of the Board for each Board and Committee meeting they attend, and a compensation of EUR 300 is paid for a meeting, which requires a Board member's participation beyond Board and Board Committee meetings. Travel expenses of Board members are compensated according to the Company's travelling regulations.





## CEO

The principles of the CEO's remuneration in 2019 are described below:

| Remuneration element       | Description   |
|----------------------------|---|
| Base salary                | Fixed salary which includes taxable fringe benefits (car, housing and telephone). CEO's salary is EUR 56,000 per month.   |
| Insurances                 | To support and protect the CEO in the performance of his duties, HKScan provides him with health insurance, life and disability insurance and business travel insurance.  |
| Pension                    | Retirement age is 63. In addition to the Finnish statutory pension plan, the CEO is covered by supplementary defined contribution pension plan, which provides a retirement benefit based on the accrued savings capital. The supplementary pension plan is financed in full by the employer and the contribution is 20% of the annual base salary. If the CEO's contract ends before retirement age, he is entitled to retain the accrued savings.   |
| Short-term incentive (STI) | The CEO is entitled to participate in HKScan's STI programme subject to the terms and conditions of such programme in effect. The performance criteria on the basis of the STI pay-out is annually predefined by the Board. The mix of Group and individual targets, and their threshold and maximum ranges, are defined based on financial and strategic targets. The achievement of individual performance targets shall be evaluated annually by the Chairman of the Board. The maximum award value was 60% of the annual base salary in 2019.   |
| Long-term incentive (LTI)  | The CEO is entitled to participate in HKScan's LTI programme subject to the terms and conditions of such programme in effect. The Board decides annually the plan terms and performance criteria based on strategic targets. If the performance targets are achieved, the share rewards attained based on the plan will be paid partly in HKScan's series A shares and partly in cash. The cash portion is intended to cover tax and tax-related costs arising from the award. The maximum award value at grant was 150% of the annual base salary in 2019. The final award value is dependent on performance and share price appreciation. |
| Share ownership guidelines | The Board recommends that the CEO would hold 50% of all the shares received from the LTI programme until the value of share ownership corresponds to his annual salary. This share ownership should be held during the validity of service.   |
| Sign-on bonus              | The CEO was entitled to a sign-on bonus at the time of assuming his duties. The Company can pay half of the bonus, at maximum, in HKScan's shares.  |
| Termination                | The agreement can be terminated by both parties. Notice period for the CEO is 6 months. In the event that HKScan terminates the agreement, the CEO is entitled to compensation corresponding to his 12 months' salary. In addition, he will be paid the salary for the termination period.  |

## Other Executives

The principles of the GMT members' remuneration in 2019 are described below. The GMT consists of members from Finland, Sweden, Denmark and Estonia.

| Remuneration element       | Description   |
|----------------------------|---|
| Base salary                | The annual salary consists of a base salary and customary fringe benefits such as company car and phone. Each GMT member's annual salary package varies according to position and country of residence.   |
| Insurances                 | To support and protect the GMT members in the performance of their duties, HKScan provides them with health insurance, life and disability insurance and business travel insurance.   |
| Pension                    | The GMT members participate in local retirement programmes according to local market and company practice in their countries of residence. Additionally, the Finnish members of the GMT are covered by a supplementary defined contribution pension plan. The retirement age according to the pension plan is 63 years.   |
| Short-term incentive (STI) | The GMT members are entitled to participate in HKScan's STI programme subject to the terms and conditions of such programme in effect. The performance criteria on the basis of the STI pay-out is annually predefined by the Board. The mix of Group, Unit/Function and individual targets, and their threshold and maximum ranges, are defined based on the strategic targets. The achievement of individual performance targets shall be evaluated annually by the CEO. The maximum award value was 50% of the annual base salary in 2019.   |
| Long-term incentive (LTI)  | The GMT members are entitled to participate in HKScan's LTI programme subject to the terms and conditions of such programme in effect. The Board decides the plan terms & conditions and performance criteria based on strategic targets annually. If the performance targets are achieved, the share rewards attained based on the plan will be paid partly in HKScan's series A shares and partly in cash. The cash portion is intended to cover tax and tax-related costs arising from the award. The maximum award value at grant was 150% of the annual base salary according to position in 2019. The final award value is dependent on performance and share price appreciation. |
| Share ownership guidelines | The Board recommends that the members of GMT would hold 50% of all the shares received from LTI programme until the value of share ownerships correspond to their annual salaries. This share ownership should be held during the validity of employment.   |
| Termination                | The agreement can be terminated by both parties with a notice period of 6 months. GMT members are, in the event of termination by the company, entitled to 6 months' severance payments.  |

## Remuneration report

In this section, HKScan discloses the remuneration and other financial benefits paid to the Board, the CEO and other executives (GMT) during the previous financial period, i.e. 2019. The remuneration paid during the financial period preceding the reported financial period, i.e. 2018, is presented for comparison.

### Board of Directors

Remuneration paid to the members of the Board in 2019 and 2018 are set forth in the table below.

|                    | Annual fees (EUR) |               | Meeting attendance fees (EUR) |               | Paid in shares* (number of shares) |              | Other fees from participating meetings (EUR) |              |
|--------------------|-------------------|---------------|-------------------------------|---------------|------------------------------------|--------------|--|--------------|
|                    | 2019              | 2018          | 2019                          | 2018          | 2019                               | 2018         | 2019   | 2018         |
| Kiskola Reijo      | 63,780            | 18,954        | 23,650                        | 8,250         | 8,288                              | 2,053        | 6,900  | 5,700        |
| Leskelä Anne       | 16,226            |               | 14,850                        |               | 3,378                              |              |  |              |
| Lindahl Per        |                   |               | 1,100                         | 550           |                                    |              |  |              |
| Mäkilä Jari        | 30,427            | 14,208        | 19,800                        | 8,800         | 4,144                              |              | 3,300  | 2,100        |
| Nyman Per Olof     | 27,101            | 25,433        | 16,500                        | 11,000        | 3,378                              | 2,053        |  | 600          |
| Suutari Harri      | 21,049            |               | 20,900                        |               | 3,378                              |              | 300  |              |
| Thorwid Carl-Peter | 13,810            | 13,810        | 17,050                        | 12,650        |                                    |              |  | 600          |
| Tuomi Terhi        | 19,799            |               | 18,700                        |               | 3,378                              |              |  |              |
| Uusitalo Ilkka     | 12,659            |               | 18,150                        |               |                                    |              | 600  |              |
| <b>Total</b>       | <b>204,851</b>    | <b>72,405</b> | <b>150,700</b>                | <b>41,250</b> | <b>25,944</b>                      | <b>4,106</b> | <b>11,100</b>                                | <b>9,000</b> |

\*) According to the resolution of the AGM in 2019, the Board's annual remuneration has been paid in Company shares and cash so that 20 per cent of the remuneration was paid in the Company shares acquired on the market on the Board members' behalf, and the rest was paid in cash. The shares were acquired within two weeks after the publication of HKScan Corporation's half-year financial report.

The meeting attendance fees do not include travel expenses.



## CEO and other GMT members

Remuneration paid to the CEO and the other members of GMT in 2019 and 2018 are set forth in the table below:

| EUR<br>(thousand)                              | CEO        |              | Other GMT members<br>(in aggregate) *** |              |
|--|------------|--------------|---|--------------|
|  | 2019*      | 2018**       | 2019                                    | 2018         |
| Base salary and benefits                       | 689        | 755          | 2,177                                   | 2,055        |
| Short-term incentives                          | 0          | 50           | 0                                       | 32           |
| Long-term incentives ****                      | 0          | 0            | 0                                       | 26           |
| Compensation related to termination of service | 0          | 1,139        | 1,738                                   | 0            |
| Sign-on fee                                    | 148        | 0            | 235                                     | 0            |
| Supplementary pension                          | 123        | 183          | 314                                     | 301          |
| <b>Total Remuneration</b>                      | <b>960</b> | <b>2,127</b> | <b>4,464</b>                            | <b>2,414</b> |

\*) Remuneration of the CEO in 2019 is an aggregate of payments to Reijo Kiskola (1 Jan - 3 Feb) and Tero Hemmilä (4 Feb - 31 Dec).

\*\*\*) Remuneration of the CEO in 2018 is an aggregate of payments to Jari Latvanen (1 Jan - 27 Nov) and Reijo Kiskola (28 Nov - 31 Dec), and includes compensation (payable in 2019) related to termination of Latvanen's contract.

\*\*\*\*) Remuneration of GMT members in 2019 and 2018 is not fully comparable from year to year due to changes in GMT members and in foreign exchange rates.

\*\*\*\*\*) LTI payments are gross amounts, out of which a part has been paid in shares and a part in cash.

## Short-term incentives (STI)

HKScan operated in 2019 an annual STI plan for the CEO, other GMT members and key employees. Performance criteria included pre-defined financial and non-financial targets at Group, Unit/Function and individual levels. Overall, the 2019 financial performance surpassed threshold STI performance levels. Thus, the incentives from 2019 will be payable in 2020.

## Long-term incentives (LTI)

HKScan's long-term incentive plan 2018-2020 is a performance share plan with one one-year performance period (2018) and one two-year performance period (2019-2020). The earning criteria for performance period 2018 were not met and thus there was no pay-out from this period. The main structure is complemented with a restricted share plan 2018-2020 with one three-year vesting period, and the plan includes a financial criterion that is measured based on the average achievement of a three-year period.

For the period 2019-2021 there is both a performance share plan and a restricted share plan. The performance share plan 2019-2021 has one two-year performance period (2019-2020) and one one-year performance period (2021). The main structure is complemented with a restricted share plan 2019-2021 with one three-year vesting period. In addition to a continuance of employment requirement, the plan includes a financial criterion that is measured based on the average achievement of a three-year period.

All LTI plans include the requirement of continuance of employment or service upon award payment in order to be qualified to receive the potential award. Also, the CEO and other members of the GMT should retain at least 50% of all shares received as award until the value of their ownerships correspond to their annual base salaries, during the validity of employment or service.

The table below describes the main features of the long-term incentive plans:

|   | LTI 2018 -2020         |                                      |                       | LTI 2019 -2021                       |      |                             |
|---|------------------------|--------------------------------------|-----------------------|--------------------------------------|------|-----------------------------|
|   | Performance Share Plan |                                      | Restricted Share Plan | Performance Share Plan               |      | Restricted Share Plan       |
| Type of plan                                    | PSP                    | PSP                                  | RSP                   | PSP                                  | PSP  | RSP                         |
| Earning Period                                  | 2018                   | 2019-2020                            | 2018-2020             | 2019-2020                            | 2021 | 2019-2021                   |
| Number of Participants at grant                 | 27                     | 33                                   | 11                    | 10                                   | 10   | 10                          |
| Earning criteria                                | 50% EBIT & 50% EPS     | Group Cumulative Operative Cash flow | ROCE                  | Group Cumulative Operative Cash flow |      | ROCE                        |
| Achievement of criteria                         | 0%                     |                                      |                       |                                      |      |                             |
| <b>Maximum number of shares to be allocated</b> | <b>910,400</b>         |                                      | <b>44,200</b>         | <b>1,322,200</b>                     |      | <b>881,500</b>              |
| <b>Number of vested shares after taxes</b>      |                        |                                      |                       |                                      |      |                             |
| CEO   | -                      |                                      |                       |                                      |      |                             |
| GMT members                                     | -                      |                                      |                       |                                      |      |                             |
| Year of vesting                                 | -                      | 2021                                 | 2021                  | 50% in 2022 and 50% in 2023          |      | 50% in 2022 and 50% in 2023 |

## **Authorisations of the Board concerning remuneration**

The AGM on 11 April 2019 authorised the Board to decide on a share issue as well as an issue of option rights and other special rights entitling to shares (stock exchange release on 11 April 2019) as follows:

The shares issued under the authorisation are new Series A shares of the Company or those in the company's possession. Under the authorisation, a maximum of 2 500,000 Series A shares, which corresponds to approximately 4.50 per cent of all of the shares in the Company and approximately 5.00 per cent of all the Series A shares in the Company, can be issued. The shares, option rights or other special rights entitling to shares can be issued in one or more tranches.

Under the authorisation, the Board of Directors may resolve upon issuing new Series A shares to the Company itself without consideration. However, the Company, together with its subsidiaries, cannot at any time own more than 10 per cent of all its registered shares.

The Board of Directors is authorised to resolve on all terms for the share issue and granting of special rights entitling to shares. The Board of Directors is authorised to resolve on a directed share issue and issue of the special rights entitling to shares in deviation from the shareholders' pre-emptive right. A directed share issue always requires a weighty economic reason for the Company and

the authorisation may not be utilised inconsistently with the principle of equal treatment of shareholders.

The authorisation to issue new shares, option rights as well as other special rights entitling to shares was resolved in order to enable the Board of Directors to decide flexibly on capital markets transactions that are beneficial for the Company, for instance to secure the financing needs of the Company or implement acquisitions. In addition, the authorisation may be used in order to implement share-based incentive arrangements and payment of the share-based remuneration directed to the management of the company and the Group.

The authorisation shall be effective until 30 June 2020, and it revokes the authorisation granted on 12 April 2018 by the Annual General Meeting to the Board of Directors to resolve on an issue of shares, option rights as well as other special rights entitling to shares.

The Board of Directors of HKScan Corporation decided in its meeting on 24 September 2019 to use the authorisation granted by the Annual General Meeting held on 11 April 2019 to acquire the Company's own shares (stock exchange release on 25 September 2019). The Board of Directors decided to initiate a fixed-term share buy-back programme for the purpose of acquiring series A shares in the Company in order to meet the potential rewards arising from the share-based incentive scheme for key employees.

Stock exchange release on 25 September 2019: The share acquisitions will begin at the earliest on 1 October 2019 and will end at the latest on 30 June 2020. The maximum number of shares to be acquired is 2,000,000 series A shares, however up to an equivalent of EUR 5,000,000. The maximum number of series A shares to be bought back under the programme corresponds to approximately 2.02 per cent of the total number of shares in the company and 2.13 per cent of the total number of series A shares. The shares will be acquired at the market price quoted in trading organised by Nasdaq Helsinki Ltd on a regulated market at the time of acquisition. The shares will be acquired with the Company's distributable non-restricted equity.

Stock exchange release on 13 December 2019: HKScan Corporation has completed the buy-back programme concerning the company's own series A shares, the start of which was announced by the company on 25 September 2019. In trading organised by Nasdaq Helsinki Ltd, the company has between 1 October 2019 and 12 December 2019 acquired a total of 2,000,000 of its own series A shares with an average price of EUR 2.3614 per share. The total purchase price for the shares was EUR 4.7 million. After these repurchases, HKScan Corporation holds a total of 2,000,000 own series A shares.