

# REMUNERATION STATEMENT 2018



**HKSCAN**

# REMUNERATION STATEMENT 2018

This remuneration statement has been prepared in accordance with the Finnish Corporate Governance Code 2015.

## 1. DECISION MAKING IN RELATION TO REMUNERATION

This section describes the decision-making procedure concerning the remuneration of the member 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 Leadership Team (GLT) are decided by the Board on the basis of a proposal from the CEO. The Board approves all Group-wide incentive plans for senior management and key personnel.

The AGM decides on the use of company's shares for share based incentives and may authorize the Board to decide on the issue of shares and special rights entitling to shares. The information about the valid authorisations of the Board concerning the remuneration, as well as any decisions made by the Board as part of remuneration are described in section 3.

## 2. MAIN PRINCIPLES OF REMUNERATION

This section describes the main principles of remuneration 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, and attention is paid to the Group's strategic objectives and financial performance. A motivating remuneration scheme is used as a tool to elicit the commitment to the Group of core expertise and key employees.

HKScan Corporation's remuneration scheme consists of 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, neither 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 on 12 April 2018 resolved the annual remuneration payable to the members of the Board as follows:

<b>ANNUAL FEE IN EUR</b>	
Chairman of the Board	67 750
Vice Chairman of the Board	33 875
Board member	27 625
Deputy member of the Board	13 810
Chairman of the Board committee	5 000

The AGM resolved that the annual fee is paid in Company shares and cash so that 20 per cent of the remuneration is in the Company shares acquired on the market on the Board members' behalf, and the rest is paid in cash.

**Additional fees:** The AGM resolved to compensate EUR 550 per a meeting for all the Board members for each attended Board and Board committee meeting.

**Expenses:** The AGM resolved to compensate the travel expenses of the members of the Board of Directors according to the Company's travel policy.

## CEO

The principles of the CEO's remuneration 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, business travel insurance, and liability insurance.
Pension	Retirement age is 63. In addition to 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 annual 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 program subject to the terms and conditions of such program in effect. The performance criteria on the basis of the STI payout is predefined by the Board annually. The mix of Group 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 Chairman of the Board. Maximum award value is 60% of annual base salary.
Long-term incentive (LTI)	The CEO is entitled to participate in HKScan's LTI program subject to the terms and conditions of such program 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 is 100% of annual salary. Final award value is depended on performance and share price appreciation.
Share ownership guidelines	The Board recommends that the CEO would hold 50% of all the shares received from LTI 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 is entitled to a sign-on bonus of maximum EUR 150.000 at the time of assuming his duties. 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 GLT members' remuneration are described below. The GLT consists of members from Finland, Sweden, Denmark and Estonia.

REMUNERATION ELEMENT	DESCRIPTION
Base salary	Annual salary consists of base salary and customary fringe benefits such as company car and phone. Each GLT member's annual salary package varies according to position and country where they reside.
Insurances	To support and protect the GLT members in the performance of their duties, HKScan provides them with health insurance, life and disability insurance, business travel insurance, and liability insurance.
Pension	The GLT members participate in local retirement programs according to local market and company practice in the country where they reside. Additionally, the Finnish members of GLT 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 GLT members are entitled to participate in HKScan's STI program subject to the terms and conditions of such program in effect. The performance criteria on the basis of the STI payout is predefined by the Board annually. 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. Maximum award value is 50% of annual base salary.
Long-term incentive (LTI)	The GLT members are entitled to participate in HKScan's LTI program subject to the terms and conditions of such program in effect. The Board decides the plan terms & conditions and performance criteria based on strategic targets in the beginning of each earning period. 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 can be up to 90% of annual salary according to the position. Final award value is depended on performance and share price appreciation.
Share ownership guidelines	The Board recommends that the members of GLT would hold 50% of all the shares received from LTI 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. GLT members are, in the event of termination by the company, entitled to 6 months' severance payments.

## 3. REMUNERATION REPORT

In this section HKScan discloses the remuneration and other financial benefits paid to the Board, the CEO and other executives (GLT) during the previous financial period, i.e. 2018. The remuneration paid during the financial period preceding the reported financial period, i.e. 2017, is presented for comparison.

### Board of Directors

Remuneration paid to the members of the Board in 2018 and 2017 are set forth in the table below.

	ANNUAL FEES (EUR)		MEETING ATTENDANCE FEES (EUR)		PAID IN SHARES <sup>12)</sup> (NUMBER OF SHARES)		OTHER FEES FROM PARTICIPATING MEETINGS (EUR)	
	2018	2017	2018	2017	2018	2017	2018	2017
Mikko Nikula <sup>7)</sup>	55 917	59 222	12 650	12 100	5 025	4 378	16 800	23 200
Reijo Kiskola <sup>2)</sup>	18 954		8 250		2 053		5 700	
Pirjo Väliaho <sup>1)</sup>	10 874	25 452	3 850	17 600		1 783		900
Marko Onnela <sup>6)</sup>	27 102	20 420	11 000	9 900	2 517	2 190	6 600	6 100
Jari Mäkilä <sup>4)</sup>	14 208	5 000	8 800	1 100			2 100	1 300
Riitta Palomäki <sup>10)</sup>	27 100	16 242	13 750	13 750	2 053	1 783	900	1 600
Tuomas Salusjärvi <sup>11)</sup>	22 100	12 906	11 000	11 000	2 053	1 783	600	600
Per Olof Nyman <sup>5)</sup>	25 433	12 906	11 000	7 150	2 053	1 783	600	1 000
Veikko Kemppe <sup>3)</sup>	4 578	9 232	2 750	7 150			100	1 000
Carl-Peter Thorwid	13 810	9 232	12 650	9 350			600	1 000
Bengt-Olov Gunnarsson <sup>8)</sup>			550	550			100	100
Per Lindahl <sup>9)</sup>			550					
<b>Total</b>	<b>220 076</b>	<b>170 612</b>	<b>96 800</b>	<b>89 650</b>	<b>15 754</b>	<b>13 700</b>	<b>34 100</b>	<b>36 800</b>

<sup>1)</sup> Member of the Board, Audit Committee and Compensation Committee until 12 April 2018.

<sup>2)</sup> Board member from 12 April 2018. Member of the Audit Committee, Compensation Committee and Nomination Committee from 27 November 2018.

<sup>3)</sup> Deputy member of the Board until 12 April 2018.

<sup>4)</sup> Deputy member of the Board from 12 April 2018.

<sup>5)</sup> Member of the Compensation Committee from 12 April 2018.

<sup>6)</sup> Board member until 14 December 2018. Member of the Audit Committee from 12 April to 14 December 2018.

<sup>7)</sup> Member of the Compensation Committee from 12 April to 26 November 2018. Member of the Board, Audit Committee and Nomination Committee until 26 November 2018.

<sup>8)</sup> Member of the Nomination Committee until 12 April 2018.

<sup>9)</sup> Member of the Nomination Committee from 12 April 2018.

<sup>10)</sup> Member of the Board, Audit Committee and Compensation Committee until 14 December 2018.

<sup>11)</sup> Member of the Board and Compensation Committee until 14 December 2018.

<sup>12)</sup> According to the resolution of the AGM in 2017 and 2018, 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 GLT MEMBERS

Remuneration paid to the CEO and the other members of GLT in 2018 and 2017 are set forth in the table below:

EUR (THOUSAND)	CEO		OTHER GLT MEMBERS (IN AGGREGATE) <sup>2)</sup>	
	2018 <sup>1)</sup>	2017	2018	2017
Base salary and benefits	755	677	2 055	2 810
Short-term incentives	50	0	32	73
Long-term incentives <sup>3)</sup>	0	0	26	0
Compensation related to termination of service	1 139	0	0	0
Supplementary pension	183	130	301	260
<b>Total remuneration</b>	<b>2 127</b>	<b>807</b>	<b>2 414</b>	<b>3 143</b>

<sup>1)</sup> 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.

<sup>2)</sup> Remuneration of GLT members is shown as aggregate and is not fully comparable from year to year due to changes in GLT members and in foreign exchange rates.

<sup>3)</sup> 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 2018 an annual STI plan for the CEO, other GLT members, and key employees. Performance criteria included pre-defined financial and non-financial targets at Group, Unit/function and individual levels. Overall, the 2018 financial performance did not reach the minimum STI target levels and there will be no incentive pay-out from STI 2018 program.

### LONG-TERM INCENTIVES (LTI)

HKScan's LTI 2013-2015 consisted performance share plans with three one-year performance periods and a restricted share plan with a three-year restriction period. The earning criteria for performance periods 2013 and 2014 were not met and thus no pay-out, and the awards for 2015 performance period was paid out in 2018. The awards for restricted plan have been paid in 2016.

The LTI plans 2016 and 2017 are performance share plans. The earning criteria in either of the plans were not met and thus no pay-out.

The LTI 2018-2020 is a performance share plan with three one-year performance periods. The earning criteria for performance period 2018 were not met. The main structure is complemented with a restricted share plan with one three-year vesting period. In addition to the precondition of continued employment relationship, the plan includes a financial criterion that is measured based on the average achievement of 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 GLT should retain at least 50 per cent 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:

Type of plan	LTI 2013-2015			LTI 2016		LTI 2017	LTI 2018-2020	
	Restricted share plan	Performance share plan	Performance share plan	Performance share plan	Performance share plan	Performance share plan	Restricted share plan	Performance share plan
Earning period	2013-2015	2013	2014	2015	2016	2017	2018-2020	2018
Number of participants at grant	21	22	22	25	31	26	11	27
Earnings criteria	Share ownership	70% ROCE & 30% EPS	70% ROCE & 30% EPS	70% ROCE & 30% EPS	70% EBITDA & 30% EPS	70% ROCE & 30% EPS	ROCE	50% EBIT & 50% EPS
Extent to which criteria achieved	100%	0%	0%	17%	0%	0%		0%
<b>NUMBER OF SHARES DELIVERED AFTER TAX</b>								
CEO	9 847	0	0	0	0	0		
GLT	24 235	0	0	8 244	0	0		
Year of vesting	2016	2016	2017	2018	50% in 2017 and 50% in 2018	50% in 2018 and 50% in 2019	2021	2021

## AUTHORISATIONS OF THE BOARD CONCERNING REMUNERATION

The AGM on 12 April 2018 authorized the Board to decide on share issue as well as issue of option rights and other special rights entitling to shares (stock exchange release on 12 April 2018) as follows:

The shares issued under the authorisation are new or those in the company's possession Series A shares of the Company. 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 authorized to resolve on all terms for the share issue and granting of the special rights entitling to shares. The Board of Directors is authorized 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 utilized 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, such as securing the financing needs of the Company or implementing 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 companies.

The authorisation shall be effective until 30 June 2019, and it revokes the authorisation granted on 6 April 2017 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 resolved, within its authorisation, on a directed share issue without consideration according to the Group's share-based incentive plan 2013, payment of the rewards for the performance period 2015. On 20 April 2018 a total of 16 501 HKScan Corporation's A shares owned by the company were transferred without consideration to the participants of the share-based incentive plan according to its terms (stock exchange release on 20 April 2018).