

Remuneration Report 2020



Greetings from the Chairman of the Compensation Committee

The Remuneration Report 2020 for HKScan includes our remuneration principles for the Members of the Board of Directors and the CEO and provides a description of how the remuneration policy has been put into practice. The report also discloses payments made to the Members of the Board of Directors and CEO during the year 2020.

As a company we are committed to fair and responsible remuneration. We regularly evaluate the purposefulness and alignment of our remuneration policies and practices with HKScan's strategic objectives. We observe the following principles in our remuneration: the remuneration programs are linked to the company's strategy and financial performance, support value-based behaviours, encourage individual and team accountability, and reward competitively and fairly.

The Compensation Committee of HKScan has reviewed the remuneration policy and ensured that the remuneration practices were aligned with the company's policy principles.

We are convinced that our current remuneration policy is fair and competitive. The remuneration framework will remain in place. This ensures that the remuneration includes all the key elements for engaging and promoting the performance of existing employees and for attracting new talent to the company and retaining them, which is essential for the implementation of the strategy.

The wellbeing and engagement of our employees are our core assets to execute the company strategy. In 2021, we focus on planning and implementing actions to further drive employee engagement, health and wellbeing with internal projects covering the entire HKScan Group. We believe that highly engaged and wellbeing employees will also build the best customer and consumer experience in the industry.

As a company we are committed to developing and maintaining a trusted relationship with our shareholders. Our goal is to make HKScan an increasingly interesting and versatile food company that rewards its owners and employees.



Per Olof Nyman

Chairman of the Compensation Committee

Remuneration Report 2020

1. Introduction

This Remuneration Report 2020 presents the remuneration of the members of the Board of Directors (Board) and the CEO of HKScan Corporation (HKScan) for the financial year 2020.

This Report will be addressed and submitted for adoption at the Annual General Meeting (AGM). It has been prepared in accordance with the requirements set forth in the Finnish Limited Liability Companies Act, Decree of the Ministry of Finance on the remuneration policy and remuneration report of a share issuer, the Finnish Corporate Governance Code and Securities Markets Act.

Application of the Remuneration Policy in 2020

The remuneration for the Board of Directors and the CEO during the financial year 2020 was executed in accordance with the adopted Remuneration Policy published in a Stock Exchange Release on 13 March 2020 and at the AGM's advisory resolution on approval on 10 June 2020. The policy remains fit for purpose and achieves the guiding principles and objectives of attraction, retention and performance motivation of our employees.

No temporary deviations from the Remuneration Policy have been made and no remuneration of the CEO nor the Board has been reclaimed or restated (clawback and malus provisions) during the financial year 2020.

The amount of the annual remuneration payable to the members of the Board of Directors was increased as follows: to a Board member EUR 30,000 (previously 27,625), to the Vice Chairman of the Board EUR 37,500 (previously 33,875) and to the Chairman of the Board EUR 70,000 (previously 67,750). An annual remuneration of EUR 15,000 (previously 13,810) was paid to a deputy member of the Board of Directors. The annual remuneration was paid entirely in cash.

The annual remuneration of Chairmen of the Board committees was as follows: to the Chairman of the Audit Committee EUR 7,500 (previously 5,000) and to the Chairmen of the Compensation, Working and Special Committees EUR 5,000. A compensation of EUR 600 (previously 550) per meeting was paid to all the Board members for each attended Board and Board committee meeting, and a compensation of EUR 300 for a meeting or occasion, which requires participation as a member of the Board of Directors. Travel expenses of the members of the Board of Directors were compensated according to the Company's travel policy.

Alignment with company performance and long-term sustainability goals

HKScan Turnaround programme for 2019-2021 is systematic and goal-oriented, targeting to strengthen the company's financial performance. For each year, the company has defined clear, market-specific goals and measures as well as their systematic implementation and follow-up. The Turnaround programme provides a solid foundation and is a prerequisite for growth into a versatile food company. The company has strengthened its balance sheet with a successful share issue, reduced financial risk and taken extra efforts to increase its profitability to a healthy level. Incentive plans have focused mainly on profitability and return-related financial measures.

Annual incentive plans

The structure of the annual incentive plan for key roles in the year ending 31 December 2020 remained broadly the same, with 70% based on financial measures and 30% on individual business objectives. The EBITDA measure (in absolute numbers) was used as a financial measure in recognition of the criticality of profitability performance in the current challenging market conditions. The short-term incentive plan for 2020 provided a bonus opportunity payable entirely in cash. The Compensation Committee makes a proposal to the Board whether to adjust annual incentive payouts to ensure they appropriately reflect underlying business performance and the experience of shareholders. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.

Long-term incentives

The Remuneration Committee remains confident that the mix of performance shares and restricted shares is an appropriate long-term incentive for the business leaders. Long-term incentives provide executives an additional stretch to be achieved and value to be delivered. This further strengthens the alignment between the interests of executives and shareholders. Awards are calculated on the basis of a cumulative Group Cash Flow from operating activities and Return on Capital Employed.

Share plans remain a majority practice within HKScan's peer group, against which the company needs to remain competitive in order to attract and retain talented people. The Committee will keep under review the targets for outstanding long-term incentive awards defined in 2019 to ensure they remain appropriate.

All LTI plans include the requirement of continuance of service upon award payment in order to be qualified to receive the potential award. Also, the CEO should retain at least 50% of all shares received as award until the value of their ownership corresponds to his annual base salaries, during the validity of service.

Remuneration of current Board members over the last five financial years

Board member, Position	Annual remuneration, euros				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Kiskola Reijo, Chairman			38,400*	107,900*	108,900
Mäkilä Jari, Vice Chairman	7,000	7,400	25,100	60,300*	57,700
Leskelä Anne, Member				36,600*	54,700
Nyman Per Olof, Member		26,600*	42,900*	49,100*	52,000
Suutari Harri, Member				47,700*	51,700
Tuomi Terhi, Member				44,000*	47,000
Thorwid Carl-Peter, Deputy Member		19,600	27,500	30,900	32,400
Uusitalo Ilkka, Deputy Member				31,400	33,000

Remuneration of former Board members over the last five financial years

Former Board member	Annual remuneration, euros				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Nikula Mikko	119,100*	108,000*	85,400*		
Väliaho Pirjo	46,300*	49,500*	14,700		
Onnela Marko	28,600	41,400*	51,500*		
Palomäki Riitta		37,100*	47,300*		
Salusjärvi Tuomas		30,000*	39,200*		
Kemppi Veikko		17,400	8,300		
Gunnarsson Bengt-Olov		700	700		
Borup Niels	55,600*	17,400			
Treschow Henrik	45,400*	14,500			
Andersen Teija	45,000*	12,500			
Nilsson Per	23,400	6,600			
Åsheim Lena	600	1,700			
Hemmilä Tero	14,600				
Gustafsson Lars	1,400				
Lindahl Per			600	600	1,100 ¹

*The annual fees were partly paid in Company shares and partly in 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 was paid in cash.

¹ Member of Nomination Committee 12 April 2018-10 June 2020

Remuneration of the CEO over the last five financial years

	Annual remuneration, euros								
	FY 2016 ²		FY 2017		FY 2018 ³		FY 2019 ⁴		FY 2020
CEO	1,251,100	302,800	382,600	807,400	1,191,400	56,800	52,500	907,400	1,101,300
	Kottonen	Laiho	Latvanen	Latvanen	Latvanen	Kiskola	Kiskola	Hemmilä	

Company performance over the last five financial years

Company Measure	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Average employee salary, euros ⁵	45,800	46,500	46,000	47,000	46,500
Net Sales, euros	1,873,000,000	1,808,000,000	1,715,000,000	1,744,000,000	1,781,000,000
Comparable EBIT, euros	13,200,000	-17,600,000	-47,500,000	-2,200,000	17,000,000

² Kottonen Hannu 1 January–20 January 2016; Laiho Aki 21 January–30 October 2016; Latvanen Jari 31 October–31 December 2016

³ Latvanen Jari 1 January–27 November 2018; Kiskola Reijo 28 November–31 December 2018

⁴ Kiskola Reijo 1 January–3 February 2019; Hemmilä Tero 4 February–31 December 2019

⁵ Personnel cost (incl. social costs) divided by headcount; excluding rented personnel



2. Remuneration of the Board of Directors

Board remuneration as resolved by the AGM 2020

Position	Annual base fee in 2020, euros
Chairman of the Board	70,000
Deputy Chair of the Board	37,500
Board Member	30,000

Committee	Annual fee of Chair, euros	Meeting fee, euros
Audit Committee	7,500	600
Compensation Committee	5,000	600
Nomination Committee	5,000	600
Working Committee	5,000	600
Special Committee	5,000	600

Board remuneration in 2020

Board member	Annual committee fee, euros	Total remuneration, euros
Kiskola Reijo, Chairman	9,950	108,900
Mäkilä Jari, Vice Chairman	4,650	57,700
Leskelä Anne	8,200	54,700
Nyman Per Olof	7,600	52,000
Suutari Harri	7,600	51,700
Tuomi Terhi	7,000	47,000
Thorwid Carl-Peter, Deputy	7,000	32,400
Uusitalo Ilkka, Deputy	7,600	33,000

Travel expenses of the members of the Board of Directors were compensated according to the Company's travel policy.

3. Remuneration of the CEO

The remuneration of the CEO consists of fixed components, such as base salary and fringe benefits, variable components, such as short- and long-term incentives and a defined contribution pension.

The CEO's total remuneration, euros and shares:

	2020, euros	Due remuneration: to be paid in 2021
Base salary	704,500 ⁶	
Short-term incentives	262,500 ⁷	100,500 ⁸ euros
Long-term incentives	-	0-170,000 shares ⁹
Pension contribution	134,400	
Total	1,101,000	

⁶ Fixed total compensation includes the following benefits and their tax values in euros: phone 240 euros, housing 10,928 euros, and car 15,840 euros.

⁷ Short-term incentive paid in spring 2020 based on 2019 performance.

⁸ Estimated short-term incentive to be paid in spring 2021 based on 2020 performance.

⁹ Board will confirm the outcome during Q1/2021.

In FY 2020, the relative share of the incentives was 37% of the base salary.

The retirement age of the CEO is 63.

In addition to the Finnish statutory pension plan, the CEO is covered by a 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- and long-term incentives

Short-term incentives paid in 2020

The short-term incentive maximum was 60% of the CEO's base salary in FY2019 and the incentive was paid to the CEO in spring 2020. The performance measures applied were Group EBIT, Group Cash Flow, and Individual targets. The incentive paid in spring 2020 was approximately at the targeted level.

Short-term incentives payable in 2021

The payout is in April 2021. The performance measures applied were Group EBITDA excl. NRI, and Individual targets. The individual targets focused on employee engagement, strategy implementation, corporate responsibility and strategic renewal-based measures. The due remuneration for 2020 is between the threshold and targeted level.

Long-term Incentive Plan 2018-2020

HKScan long-term incentive plan is based on the turnaround situation in HKScan.

HKScan's long-term incentive plan 2018-2020 was a performance share plan (PSP) with one one-year performance period (2018) and one two-year performance period (2019-2020). The earning criteria for performance period 2018 were EBIT and EPS. These criteria were not met and thus, there was no pay-out from this period. For the performance period 2019-2020 the performance measure was cumulative Cash Flow from operating activities. The achievement level of this two-year period is confirmed by the Board during Q1/2021. The main structure was complemented with a Restricted Share Plan (RSP) 2018-2020 with one three-year vesting period, and the plan included a financial criterion that is measured based on the average achievement of a three-year period ROCE. The cumulative ROCE was not positive and thus, there was no payout from RSP 2018-2020.

Long-term Incentive Plan 2019-2021

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. After the whole performance period, an evaluation of the overall payout of the plans will take place.

		2018	2019	2020	2021
Plan 2018-2020	PSP				
	RSP				
					Pay-out

Long term incentive plan shares reserved for the CEO, subject to Board approval:

Role	Name of plan	Performance period	Performance criteria	Grant date*	Vesting date**	Reserved, shares	Vested
CEO	2018 PSP & RSP	2018-2020	EBIT and EPS excl. NRI, Group Cumulative Cash Flow from operating activities, Average ROCE	26 June 2019	31 March 2021	170,000	0
CEO	2019 PSP & RSP	2019-2021	Group Cumulative Cash Flow from operating activities, Average ROCE	26 June 2019	31 March 2022 (50%), 31 March 2023 (50%)	604,800	0

* Board of Directors decided on the grants

** Estimated vesting date at the latest