

# NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

## BASIC INFORMATION ABOUT THE ENTITY

HKScan Corporation is a Finnish public limited company established under the law of Finland. The Company is domiciled in Turku.

HKScan Corporation comprises Group management and Group administration.

HKScan Corporation's A Share has been quoted on the Nasdaq Helsinki since 1997.

HKScan Corporation is a subsidiary of LSO Osuuskunta and part of the LSO Osuuskunta Group. LSO Osuuskunta is domiciled in Turku.

Copies of HKScan Corporation's financial statements are available at the company's registered office at Lemminkäisenkatu 48, 20520 Turku.

## ACCOUNTING POLICIES

### BASIS OF PREPARATION

The parent company's financial statements have been prepared in compliance with valid Finnish Accounting Standards (FAS). The HKScan Group's consolidated financial statements have been prepared in compliance with the IFRS (International Financial Reporting Standards) and the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2015.

The amounts in the parent company's income statement and balance sheet are in euros and the amounts in the cash flow statement and notes are in thousands of euros.

### TRANSACTIONS IN FOREIGN CURRENCY

Foreign currency denominated transactions are recognized at the exchange rates valid on the transaction date. Trade receivables, trade payables and loan receivables denoted in foreign currencies and foreign currency bank accounts have been translated into the functional currency at the closing rate quoted by the European Central Bank on the balance sheet date. Gains and losses arising from business transactions in foreign currencies and from the translation of monetary items have been recognized in financial income and expenses in the income statement.

### DERIVATIVE CONTRACTS

Outstanding derivatives in foreign currencies are measured at the forward exchange rate quoted on the balance sheet date. Hedge accounting is not applied and changes in the value of foreign exchange contracts hedging commercial flows are recognized through profit or loss in other operating income or expenses, and changes in the value of foreign exchange contracts hedging financial items are recognized in the income statement in foreign exchange gains and losses from financing operations.

Hedge accounting is applied on interest rate swaps and commodity derivatives. Changes in the fair value of these derivatives are not recorded in the income statement and balance sheet. The fair values are reported in the notes.

Realised gains or losses on interest rate swaps hedging variable-interest loans are presented under financial items in the income statement. Realised gains or losses on commodity derivatives are presented under materials and services.

## **PENSION PLANS**

HKScan Corporation employees' statutory pension provision has been organised through insurance in a pension insurance company. Statutory pension expenses have been charged in the year to which the contributions relate.

## **MANAGEMENT RETIREMENT BENEFIT OBLIGATIONS AND SEVERANCE PAYMENTS**

The remuneration of the CEO consists of a fixed monthly salary, benefits, supplementary pension benefits and possible incentive awards under the company's incentive scheme. Under the terms of the CEO's executive agreement, the CEO's employment may be terminated by the company and the CEO at six months' notice. In the event that the company terminates the CEO's executive agreement, the CEO will receive an amount that equals 12 months' salary in addition to the salary for the period of notice.

In 2015, CEO Hannu Kottonen was paid a total salary and supplementary pension benefits of EUR 0.7 million.

On 20 January 2016, HKScan announced that Hannu Kottonen will discontinue his duties as CEO of HKScan as of that day.

## **INCOME TAXES**

Consolidated accounting principles are applied to income taxes and deferred tax assets and liabilities when allowed under Finnish accounting principles. The deferred tax liability on depreciation difference is disclosed as a note.

## **LEASES**

All leasing payments have been treated as rent. Leasing payments based on unpaid leasing agreements are shown in contingent liabilities in the financial statements.

## **ACCUMULATED APPROPRIATIONS**

Accumulated appropriations consist of changes in depreciation difference. The difference in depreciation according to plan and accounting depreciation is shown as an appropriation in the income statement and the accumulated difference in depreciation according to plan and accounting depreciation is shown on the balance sheet as accumulated appropriations.