2017

ANNUAL REPORT

HKSCAN

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HKSCAN IN BRIEF

HKScan is the leading Nordic food company with over a hundred years' experience in responsible meat production and processing of high-class raw materials. Our team of approximately 7 300 professionals is committed to serving the world's most demanding consumers and making their daily lives tastier.

We sell, market and produce high-quality, responsibly-produced pork, beef, poultry and lamb products such as meals and cold cuts. Our widely recognized iconic brands include HK®, Scan®, Rakvere®, Kariniemen®, Rose® and Tallegg®.

We serve customers in the retail, food service, industrial and export sectors. Our home market comprises Finland, Sweden, Denmark and the Baltics. We also export to nearly 50 countries.

We are committed to high standards of economic, social and environmental responsibility as well as animal health and welfare both in our strategy and operations. Our offering comes with a promise of tasty food and Nordic purity, quality and responsibility. This promise covers the entire meat value chain and everyone involved in the process – from farm to fork.

MARKET AREAS

HKScan's home market consists of Finland, Sweden, Denmark and the Baltics. We are headquartered in Turku, Finland. We additionally have sales offices in Germany and Hong Kong, and a representative office in St. Petersburg, Russia.

HKScan has customers around the world from the US to New Zealand. Asia represents a significant growing market for us. Consumers in nearly 50 countries enjoy products made from our raw materials everywhere from homes and schools to workplace cafeterias and restaurants.

Our production units are located around the Baltic region, which enables flexible adjustment of our production capacity and allows us to maximize our efficiency and synergies in developing our offering.

In February 2018, HKScan closed its own sales operations in the UK.

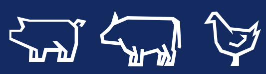
YEAR 2017 BY MARKET AREA

SWEDEN

NET SALES	**759 MEUR**
OPERATING PROFIT *	**9 MEUR**
PERSONNEL	**2 139**
MEAT TYPE	

FINLAND

NET SALES	**742 MEUR**
OPERATING PROFIT *	**-9 MEUR**
PERSONNEL	**2 964**
MEAT TYPE	

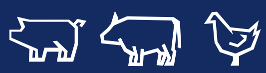


DENMARK

NET SALES	**148 MEUR**
OPERATING PROFIT *	**-3 MEUR**
PERSONNEL	**663**
MEAT TYPE	

BALTICS

NET SALES	**159 MEUR**
OPERATING PROFIT *	**4 MEUR**
PERSONNEL	**1 527**
MEAT TYPE	



*** Comparable**

OPERATING ENVIRONMENT

HKScan's business and operating environment are affected by global megatrends. Consumer trends and economic cycles have a direct and indirect impact both on our own business and that of our customers. To maintain our competitive edge, it is vitally important that we gain insight on the latest market trends to serve as a basis for our innovation and R&D work.

We listen to consumers and strive to gain forward-thinking market insights in order to understand today's and tomorrow's business environment. Through close cooperation with our customers, suppliers and other stakeholders, we strive to anticipate emerging trends in consumer behaviour, food retail, the food industry and food services in order to help us develop a commercially successful offering.

MEAT CONSUMPTION TRENDS

Meat consumption is showing no signs of decline on HKScan's home markets. Meat is eaten by over 90 per cent of the population in our home markets. Meat consumption is continuing to rise globally, and this growth is expected to continue for at least another decade. In Europe, meat consumption is growing by a few per cent per year, owing mostly to growth in poultry consumption.

CONSUMER TRENDS

Food has become an increasingly important part of our daily lives and consumer identity. It is a widely discussed hot topic both in the media and social media. The links between good health and nutrition have been widely covered in the media recently. Consumers are also taking a growing interest in the environmental impacts of meat production. Read on for example of consumer trends that are directly impacting both HKScan and the entire food industry.

THE CHANGING CONCEPT OF "MEALTIME" – SNACKING IS ON THE RISE

Many meals we enjoy these days – particularly on weekdays – are "mini-meals", or basically snacks. This trend stems from our new urban lifestyle and the vast amount of time we spend commuting and enjoying leisure-time activities. The rise of snacking culture is also related to the fact that the average size of households is growing smaller. The percentage of one-person households is growing steadily in the Nordic countries. To a growing degree, consumers want a greater variety of alternatives, smaller packages, and high-quality products. Dining out is another trend that is clearly here to stay.

FOOD IS PART OF OUR IDENTITY

Today's consumers are hungry for new experiences. On the one hand, they want authentic, local products, and on the other hand, they are keen to try new, inspiring international flavours. Cooking and dining is becoming an increasingly communal experience. Whenever our busy schedules allow, we enjoy getting together with loved ones to enjoy a stress-free "slow dining" experience. More and more people are embracing food and cooking as a personal hobby, and social media is an inspiring platform for sharing new culinary ideas.

Many consumers who invest extra effort into their weekend meals want something different from their weekday cooking: ease and convenience – but without compromising on quality or responsibility.

We are seeing rapid proliferation of small, local producers and specialized niche suppliers, and their presence is expected to expand in the future.

THE WELLNESS TRACKING BOOM

Today's consumers are interested in looking after their health and wellness. A growing number of them also keep tabs on their wellness with fitness trackers, sleep trackers and heart rate monitors. Health-conscious consumers want wholesome sources of protein, they are keen to reduce salt in their diet, and they favour clean label range products free of artificial additives. Many consumers wish to reduce their consumption of fats and sugars. Vegan and organic product ranges are also expanding rapidly.

CORPORATE RESPONSIBILITY IS THE NEW NORMAL

Today's consumers expect a solid commitment to corporate responsibility both in the products they consume as well as from the manufacturers. All links in the supply chain are expected to adhere to uniform principles of responsibility. Today, everyone from primary producers, industrial manufacturers and retailers to the HoReCa industry and public sector must be mindful of the environmental and climate impacts of their actions. Other priorities include social and economic responsibility as well as product traceability and animal welfare throughout the entire supply chain.

PACKAGING: PROTECTION, COMMUNICATION, SUSTAINABILITY

New-generation innovations such as smart and active packaging are making a breakthrough. New packaging materials and solutions can help to extend the shelf life of food products and also to reduce food waste. Consumers expect packaging to be as eco-efficient as possible. Optimized sizing and renewable raw materials are rising trends in packaging. Labelling is also gaining importance; consumes expect clear, explanatory labels that are fully transparent in their informative content. They also expect to be provided as much information as possible on the product's life cycle. The number of single-person households is on the rise, which is pushing demand for optimized sizing of products and packaging.

CUSTOMER TRENDS

The retail industry is in the midst of a major transition. The line between shops and restaurants is being blurred, which is altering patterns of consumer behaviour. Rapid urbanization is a positive indicator for traditional brick and mortar establishments, provided that they are able to offer services and offerings that are carefully tailored to the needs of specific customers.

International competition and digitalization are posing challenges for traditional, domestic retail chains. Price competition is growing fiercer. Private-label brands have seized a growing market share and strengthened their foothold also in the fresh meat segment.

While the proliferation of digital services is posing a threat to the future of traditional brick-and-mortar establishments, online platforms also present a number of exciting opportunities. Digital platforms offer retailers a new channel for reaching out, serving and interacting with consumers. They provide a real-time environment for faster, more open communication on topics such as food quality, health, origin and traceability and corporate responsibility.

For now, food industry e-commerce remains relatively small in scale on HKScan's home markets. The food industry needs to find new ways of getting closer to its key customers, fostering innovation, increasing the visibility of its brands and promoting growth alongside private-label brands. One of the key assets offered by traditional retailers is the high quality and broad selection of fresh foods included in their offering.

Ready-to-heat meals are gaining popularity in the HoReCa segment. Sous vide and other slow-cooked products are also in high demand. Recent trends in the food services sector largely conform to those in the retail segment: on-the-go meals are on the rise and locally-grown meat that is traceable from farm to fork is likewise gaining popularity.

KEY FIGURES

NET SALES
1 808.1
EUR MILLION

EBIT
-17.6
EUR MILLION
(Comparable)

EBIT MARGIN
-1.0
%
(Comparable)

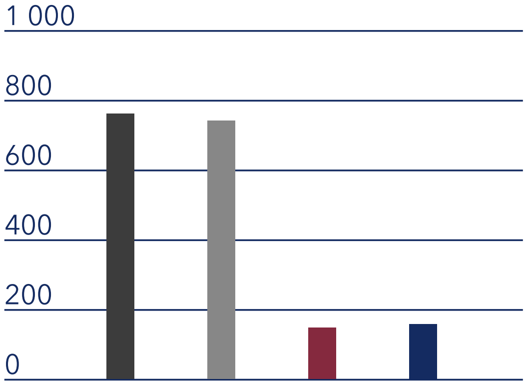
MARKET POSITION
#1-2
IN HOME MARKETS

EMPLOYEES
7 292
AVERAGE

KEY FIGURES

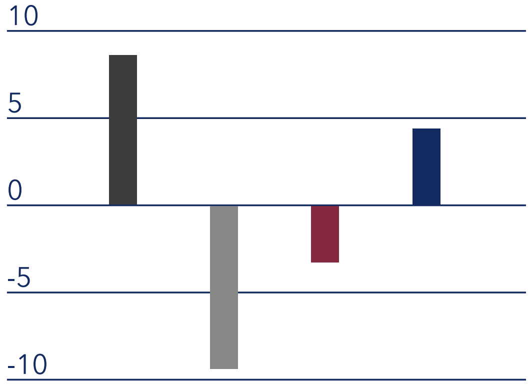
	2017	2016
Net sales, EUR million	1 808.1	1 872.9
EBIT, EUR million	-40.3	9.7
% of net sales	-2.2	0.5
Profit/loss before taxes, EUR million	-49.2	0.9
% of net sales	-2.7	0,0
Return on capital employed (ROCE) before taxes, %	-6.3	2.1
Equity ratio, %	36.9	47.9
Net gearing, %	59.3	33.5
Gross investments, EUR million	125.5	97.6

NET SALES IN 2017 BY MARKET AREA EUR MILLION



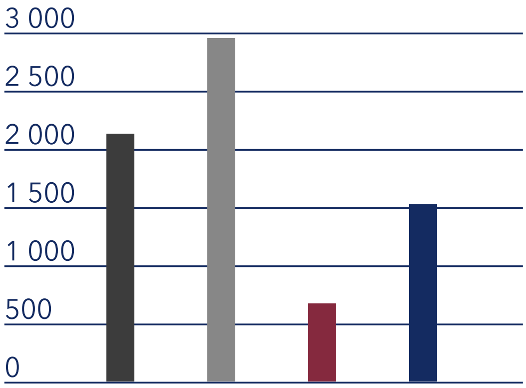
759.4 Sweden
742.2 Finland
147.8 Denmark
158.7 Baltics
1808.1 Total

OPERATING PROFIT IN 2017 BY MARKET AREA[1)] EUR MILLION



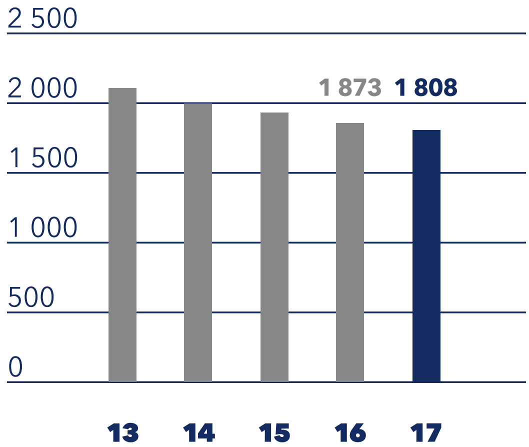
8.6 Sweden
-9.3 Finland
-3.2 Denmark
4.4 Baltics
-17.6 Total

PERSONNEL IN 2017 BY MARKET AREA AVERAGE NUMBER

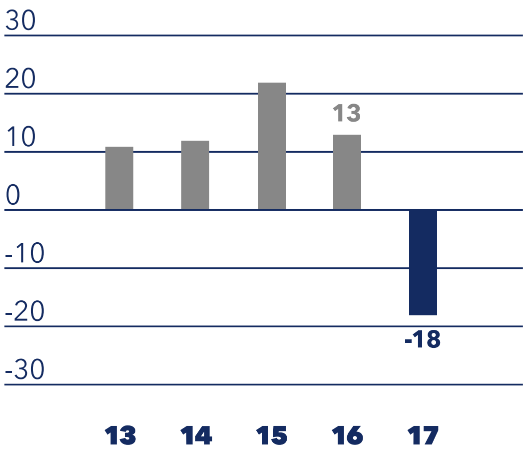


2 139 Sweden
2 964 Finland
663 Denmark
1 527 Baltics
7 292 Total

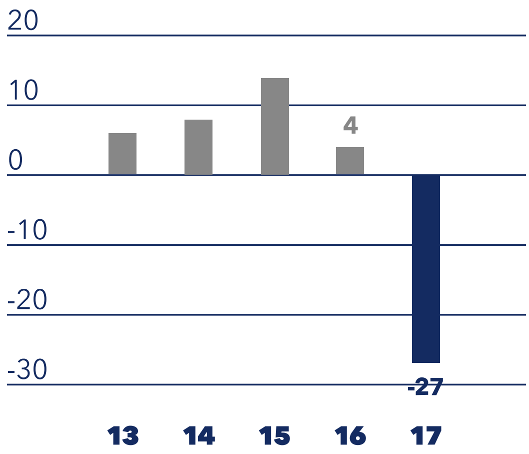
NET SALES MEUR



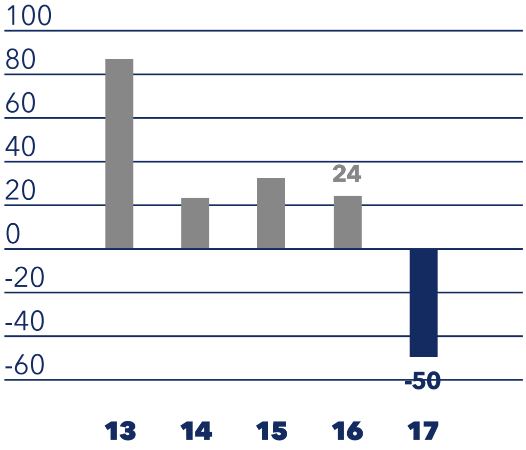
**OPERATING PROFIT[1)]
EUR MILLION**



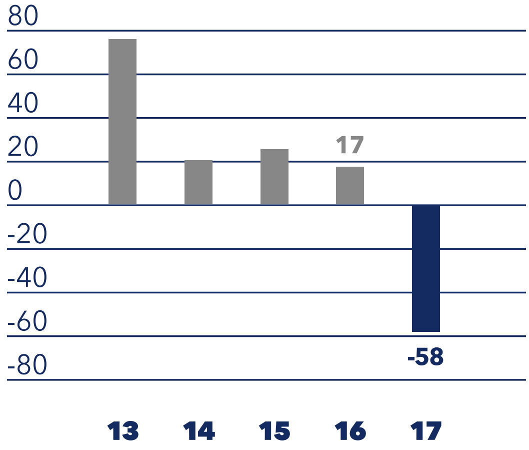
**PROFIT BEFORE TAX[1)]
EUR MILLION**



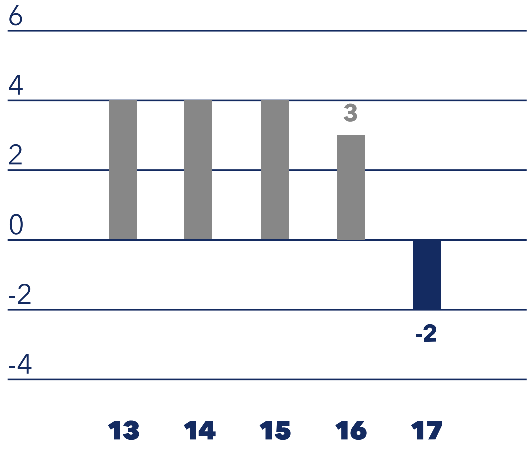
**CASH FLOW
BEFORE DEBT SERVICE
EUR MILLION**



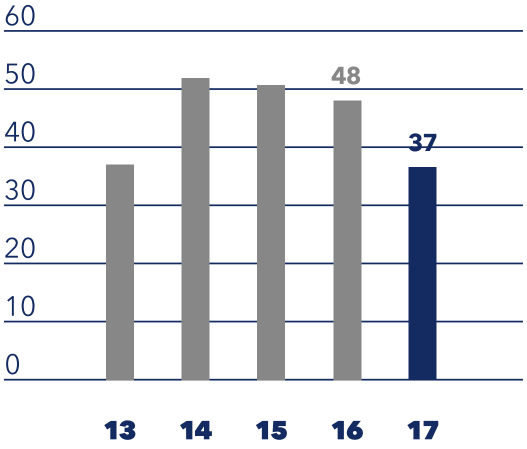
**CASH FLOW BEFORE
FINANCING ACTIVITIES
EUR MILLION**



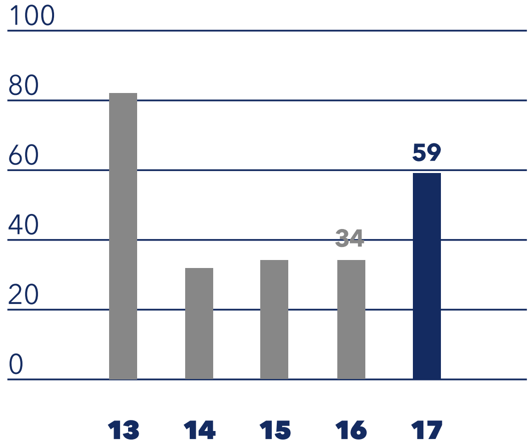
RETURN ON CAPITAL EMPLOYED (ROCE)[1]
%



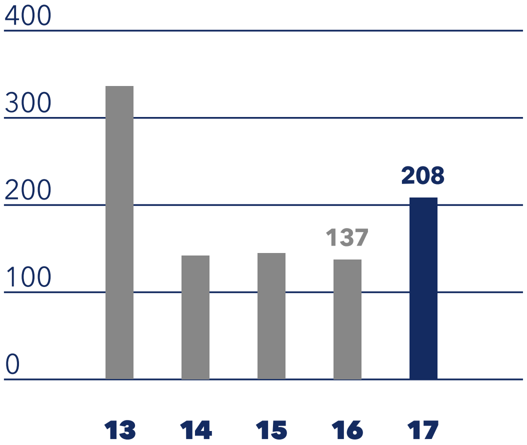
EQUITY RATIO
%



NET GEARING
%



NET DEBT
EUR MILLION



[1] Comparable

CEO'S REVIEW

Food is trendier than ever. Food industry, retail and HoReCa business are going through an interesting transformation, which offers unique opportunities for renewal. Our business is impacted by global megatrends such as population growth, urbanization, the digital revolution, and growing concern about global warming. We are also affected by shifts in the global economy and politics. After a long period of recession, 2017 finally saw an upswing in demand and growing consumer confidence in economic recovery on HKScan’s home markets. Consumers also showed growing interest in healthier, responsibly produced food products. This trend added further momentum to the efficient execution of HKScan’s strategy.

While consumer demand picked up appreciably, competition at the customer interface continued. The retail industry in HKScan’s home markets is facing challenges from international competition, e-commerce and digitalization, and new trends in the HoReCa sector. Consumers are dining out more often, shopping for food through digital channels, and buying takeaway meals directly from restaurants.

These new trends make it imperative for all parties in the food supply chain to respond to changing consumer needs more directly, more transparently and in real time. This is why we at HKScan are critically re-evaluating our ways of working, our efficiency, and our performance in corporate responsibility.

WE ARE COMMITTED TO PROMOTING SUSTAINABILITY

As a leading food company, HKScan plays an important role in mitigating climate change, the responsible use of natural resources, and the advancement of human rights and social responsibility. Our work to promote sustainability has national significance, as our business impacts the national economies of our home markets by stimulating exports, providing jobs and safeguarding a viable future for domestic agriculture.

Embracing corporate responsibility is a cornerstone of HKScan's strategy. We have defined our strategic corporate responsibility focus areas and the responsibility themes that we regard as holding key importance to our business.

One of our key corporate responsibility goals is to reduce our environmental footprint. We are committed to improving our energy efficiency, investing in renewable energy, reducing our industrial waste and striving to reduce food waste generated by our customers and consumers. We also strive to efficiently harness our raw material side streams as part of the circular economy.

We will continue improving our corporate responsibility performance in 2018 by fine-tuning our short-term, medium-term and long-term goals and by defining the related actions we plan to take. In doing so, we hope to deepen our dialogue with our stakeholders and further increase the transparency of our operations.

FROM FARM TO FORK – ROLLOUT OF OUR NEW STRATEGY

Last August we announced the launch of our renewed 'From Farm to Fork' strategy, which places a strong focus on the consumer. We are striving to proactively lead and renew the food value chain all the way from farm to fork. In doing so, we also aim to improve our competitiveness, profitability and performance in all fields of corporate responsibility. By executing this strategy, we hope to consolidate HKScan's position as a responsible pillar of Nordic society and advocate of sustainability.

HKScan's From Farm to Fork strategy is a tangible expression of our mission. Our primary goal is to make daily life tastier for consumers and customers – both today and tomorrow. Our vision is to offer sustainably produced, high-quality, nutritionally sound foods that serves the most demanding fork in the world.

To accelerate and efficiently execute our strategy, we have simultaneously initiated all five of our must-win battles: Focus on meat; Leadership in poultry; Continue growing meals business; Cooperate with our farming community; and Drive efficiency and cost competitiveness. As part of our strategic renewal, we have also updated our customer segments and brand strategy.

By prioritizing high quality and corporate responsibility in all our operations, we hope to gain a competitive edge both on our Nordic home markets and international export markets. We drive our business forward in line with our corporate values – Inspire, Lead, Care – and we are confident that our products will retain their popularity as part of the healthy, well-balanced diet of tomorrow's consumers.

SYSTEMATICALLY DRIVEN CHANGE

In 2017 we initiated various measures to sharpen our strategic direction and support our long-term profitability. We updated our operating model and streamlined our organization. We renewed our Group Leadership Team and invested in new competences to support the execution of our strategy. The new operating model will strengthen our capacity for renewal and enhance our efficiency in working together as a Nordic team.

Today we are still at the start of our strategic transformation process, and our performance is not yet at its target level. We are nevertheless already seeing positive signs of growth on our home markets and in our strategic product categories. Last year we increased our market share in Sweden, which is our biggest market. We made positive headway in the meals business, with encouraging growth in sales and margins reported across all our home markets throughout 2017. Branded products and novelties accounted for a growing proportion of our sales in the competitive retail segment, where retailers' private label brands have been rapidly gaining ground.

In 2017 we launched a programme to upgrade the operational efficiency of our production units and to improve our capacity utilisation. The results of the first pilots in Vantaa have been very promising. The programme is being rolled out simultaneously in numerous units across our home markets.

We have already improved our profitability in numerous areas, but there is a still a considerable amount of further work to be done. Improving our profitability remains our number one goal in 2018.

INVESTMENT IN GROWING PRODUCT CATEGORIES STRENGTHENS OUR PROFIT POTENTIAL

In 2017 HKScan took the most ambitious and strategically significant step in its entire history by investing in a wholly new production plant in Rauma which will specialize exclusively in poultry products. The project progressed on schedule, but the launch of full-scale production proved more challenging than anticipated, which had an adverse impact on our profits. In the long run, however, the Rauma unit will significantly upgrade our efficiency and competitiveness and enable us to launch innovative new concepts in the poultry category.

One of our strategic goals is to expand our presence in the attractive and growing meals business. High-quality, read-to-eat meals and semi-prepared convenience meals are rapidly gaining popularity. We are responding to this trend by expanding our premium meat offering, by pioneering locally produced artisanal products, and by developing novel meal concepts. We plan to continue expanding our meals range on all markets, and we have decided to invest in expanding our meal production capacity in Rakvere, Estonia.

OUR WORLD-CLASS FARMING COMMUNITY IS AN INCOMPARABLE COMPETITIVE ASSET

Our long-term work to enhance the quality and responsibility of the domestic food value chain was rewarded when the Chinese and Finnish food authorities signed an agreement on the launch of exports from Finland to China. Our Forssa plant has been granted permission to begin exporting pork meat to China, and we are currently preparing to start the export of pork meat grown on Finnish family farms in the first half of 2018.

In 2017 we and our contract farmers collaborated in the rollout of various strategic measures to safeguard the continued availability of responsibly produced, high-quality domestic meat across our home markets. These projects included a long-term development programme aiming to increase beef production in Finland. We also launched a new, unique hatching concept which enables chickens to be born on the farm where they are reared. We have additionally developed new 100% antibiotic-free pork, poultry and beef products. Our antibiotic-free production method is a significant competitive asset also in the export arena.

FOOD IS TRENDIER THAN EVER BEFORE

We see plenty of promising opportunities for continued growth in the future. Consumers are taking a growing interest in culinary trends, and food is becoming a more important part of our lives than ever before. For many of us, our dietary choices, cooking, and gathering around the table to enjoy a good meal with our loved ones has become an important part of our identity. The food we choose to eat is an expression of our values, attitudes and lifestyle. Today’s consumer preferences support growth in demand for responsibly produced, high-quality foods.

We are confident that we can strengthen or brands and boost the growth of our categories by developing innovative new products. We want to be change-leaders in the food industry and drive the business in a more dynamic and sustainable direction.

I would like to express my warm thanks to the entire personnel for actively contributing to the successful execution of HKScan’s important strategic changes over the past year. I am also grateful to all the customers, consumers, partners, producers and shareholders who joined us on our shared journey from farm to fork last year. May we together savour the pleasure that wholesome, uniquely Nordic food expertise can bring.

Jari Latvanen
President and CEO

STRATEGY

HKScan's strategy is to focus on the consumer by leading the food value chain from farm to fork. We revisited our strategy in 2017. HKScan's renewed strategy positions the Group uniquely within the Nordic food industry.

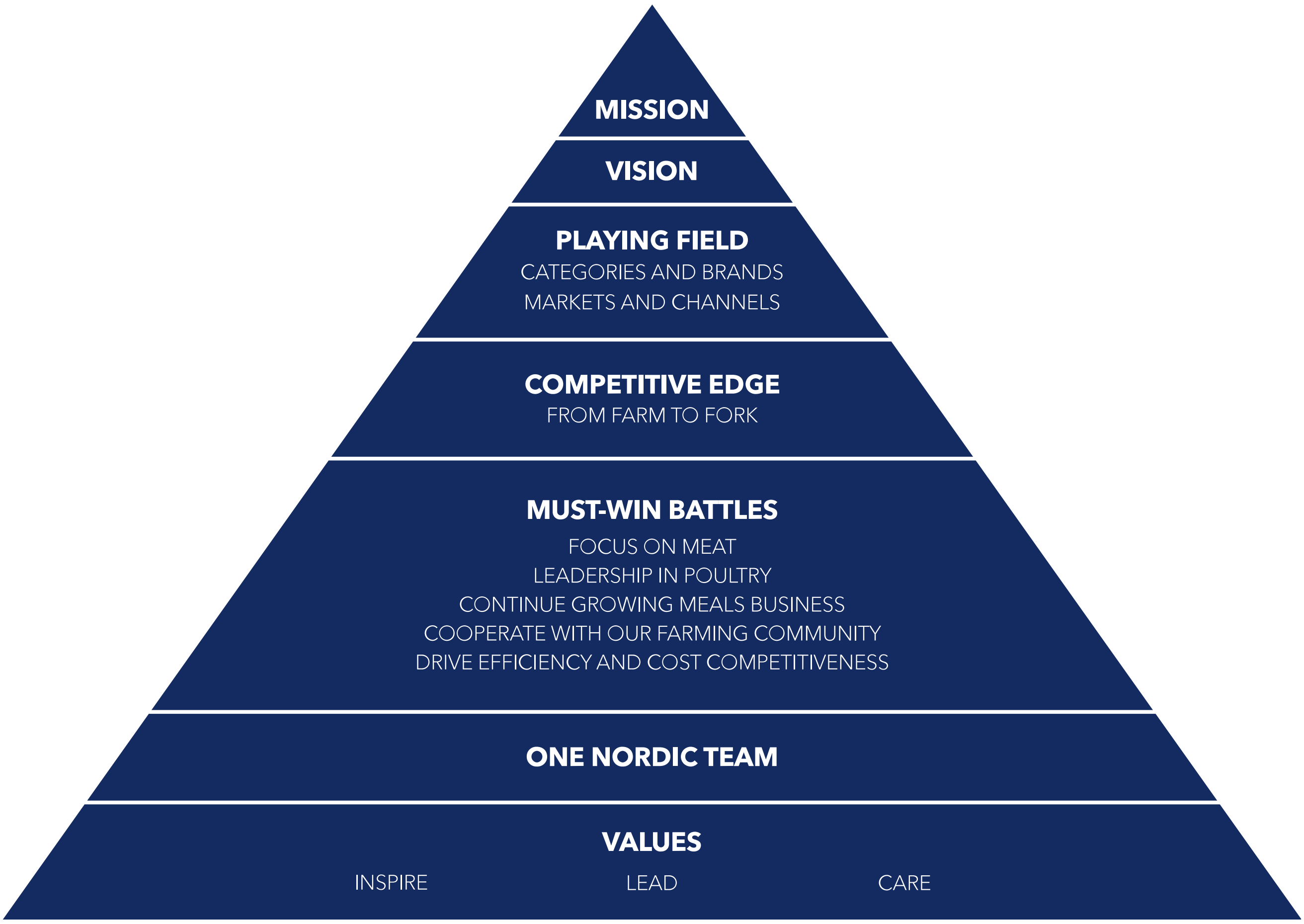
The 'From Farm to Fork' strategy focuses on active food value chain leadership, with the capability for renewal. We emphasise innovation, cost competitiveness and sustainability, with a strong focus on consumers.

HKScan's strategic choices emphasise the Group's position as a socially and environmentally responsible, as well as sustainability focused member of the Nordic societies.

SUSTAINABILITY AND QUALITY OFFER GROWTH OPPORTUNITIES

We see opportunities for growth. There are several consumer trends supporting the growing demand for sustainably produced high-quality food. We are confident that by creating innovative products and concepts that appeal to consumers, we can strengthen our brands and drive category growth.

By stressing high-quality and sustainability, we can build sustainability a differentiating edge for both Nordic and international markets.



MISSION

HKScan's mission is to make daily life tastier for consumers and customers – both today and tomorrow. As a leading Nordic food company, active on multiple markets, we impact on many people's everyday lives. We have deep insight into our consumers' needs and we provide them with an extensive offering of tasty products both for daily dining and special occasions. 'Making life tastier' not only means offering great flavour, but also giving consumer peace of mind: when they choose HKScan, they can be confident they are making a responsible choice.

VISION

Our vision is to serve the most demanding fork in the world.

Over 100 years of experience give us the skills needed to take responsibility at every step of our value chain – from farm to fork. We're committed to being the world's best, both in animal care and in reducing our environmental impact. We take the wellbeing of our communities and people seriously. We see our Nordic heritage as both a point of pride – and our key asset.

We believe that meat – in the right amount and from the right farms – is a valuable part of a happy and healthy life. This inspires us daily to offer consumers the food they love. Looking ahead to our next 100 years, we are ready to serve the world's most demanding fork.

STRATEGIC FOCUS AREAS

We aim to expand our playing field to reach a leading market position and presence in key sales channels in our Nordic home markets and develop international growth avenues with a focus on Asia.

Our core business is meat and meals. We will be present in all price segments, but drive growth by building a stronger position in upper mainstream and premium segments.

We have defined five must-win battles to reach our strategic objectives and to effectively execute the strategy.

- Focus on meat. We innovate to meet consumer demand and invest in new concepts and products. We stress high-quality and sustainability in differentiation.
- Leadership in poultry. We target the leader position in poultry with the help of the new, state-of-the-art poultry site in Rauma.
- Continue growing meals business. We invest in increasing market share in attractive meals category with both growth and premiumisation potential.
- Cooperate with our farming community. We establish producer partnerships with our community of farmers to secure responsibly produced, high-quality raw material, to enable commercial innovation and differentiation.
- Drive efficiency and cost-competitiveness. We will improve on-site efficiency and develop asset utilisation in our production network. Our new operating model, in effect since June 1st, 2017, offers the capability for renewal, strengthens our way of working effectively as one Nordic team and drives us to execute our strategy in a cost-competitive manner.

FOCUS ON MEAT	LEADERSHIP IN POULTRY	CONTINUE GROWING MEALS BUSINESS	COOPERATE WITH OUR FARMING COMMUNITY	DRIVE EFFICIENCY AND COST COMPETITIVENESS
Invest in new concepts, products and sustainability. Differentiate with high quality and full control of the value chain. Build a position closer to consumers.	Capitalise on the growth trend and utilise full food value chain control and Rauma. Invest in new concepts to defend from commoditising.	Tap into a growing and highmargin market with white spots and premiumisation opportunities. Reduce complexity to gain resource and cost effectiveness.	Secure high quality raw material. Commercial innovation and differentiation.	Improve on-site efficiency by benchmarking and sharing. Develop production network to bring up asset utilisation.

VALUES

Our common values guide us in all our everyday actions and interactions, whether between fellow HKScan team members or external partners and other stakeholders.

INSPIRE

- We are proud of what we do "From farm to fork". We encourage each other and strive to achieve our targets.
- We learn from our consumers and we ensure that they continue to enjoy the food they love.

LEAD

- We make things happen as one team and act according to our priorities.
- We are accountable for our actions and commitments.

CARE

- We create an environment of safety, trust and respect. We address issues without delay and follow through.
- We keep our promises and ensure quality in everything we do - from farm to fork

LONG-TERM FINANCIAL TARGETS

HKScan's long-term financial targets remain unchanged:

- Operating profit (EBIT): over 4 per cent of net sales
- Return on capital employed (ROCE): over 12 per cent
- Net gearing: under 100 per cent
- Dividends: over 30 per cent of net profit.

CORPORATE RESPONSIBILITY AT HKSCAN

Our responsible ways of working cover the entire value chain, all the way from animal genetics and feed production to the consumer’s table. As the leading Nordic food company, we have an opportunity and a positive responsibility to be a bench mark company in producing, selling and marketing meat and meat products that have been produced responsibly.

The origin of food, raw materials used and the sustainability of production methods as well as nutritional aspects, affect consumers’ food choices. In addition to animal welfare, the climate impacts of meat production have been discussed extensively in recent years. HKScan pays close attention to these issues. The strengths of our northern food production include pure and ample water resources, pure soil and air, and efficient agricultural production methods. The strengths arising from our expertise include animal health and welfare, product safety and a high level of hygiene.

CORPORATE RESPONSIBILITY FOCUS AREAS AND MATERIAL THEMES

Corporate responsibility work at HKScan focuses on four areas: economic responsibility, social responsibility, animal health and welfare, and environmental responsibility.

According to materiality analysis, HKScan's corporate responsibility themes are:

Read more about HKScan's materiality analysis.

CORPORATE RESPONSIBILITY REPORTING

This is HKScan's first corporate responsibility report that has been prepared in line with the Global Reporting Initiative (GRI) Standards, the world's most commonly used Sustainability Reporting Guidelines. Read more about reporting principles.

HIGHLIGHTS AND CHALLENGES IN 2017

HIGHLIGHTS 2017

Around **16%** of the products introduced by HKScan were based on an innovation or **improvement related to nutritional value.**

Use of 100% responsibly produced, certified soy in HKScan's meat value chain: This goal was achieved in Sweden in 2015 and in Finland in 2017.

Production sites have **Product Safety management system certifications.**

Extensive online survey on **values, management and competencies** received **90%** response rate.

GHG emissions were reduced by **46%** from 2014 to 2017.

Landfill waste was reduced by **98%** from 2012 to 2017.

67% of electricity consumed by HKScan was **renewable electricity.**

100% of slaughterhouses have **video surveillance** for animal welfare monitoring.

FINLAND

- At Rauma's new **slaughterhouse**, special attention was paid to the **welfare of broilers**.
- Export of 100% **"No antibiotics ever"** pork was started.
- HKScan pioneered among the first in the world with the launch of a new concept enabling **chicks to be born on the farm they are raised** rather than at a separate hatchery.
- HKScan's **Omega 3 Pork** was was awarded with Prestigious Copa Cogeca's **innovation prize** as a product that creates value across the food chain.

SWEDEN

- All production sites in Sweden are certfied according to **ISO 50001 Energy management standard**.
- The Scan® branded Gårdfärs minced meat brand was launched in Sweden in a new **chub package**. Due to the new overall process, the shelf life of the product was extended from nine days to 16 days. In addition, the **environmental impact** is 39% lower than with standard packaging.
- At Linköping slaughterhouse, HKScan has invested in a **restrainer technique**, which **reduces lambs' stress** measurably when handling them before stunning.

ESTONIA

- Tallegg® branded products have a new, **environmentally friendly packaging line**. To produce the new packaging, 71% less material is needed. For packaging storage, 96% less space is needed, which contributes to a reduction in CO_2 emissions from transport. The new packaging technology has extended the shelf life of products, which helps to minimise food waste. In addition, the new packaging line is 50% more efficient than the previous one.

DENMARK

- In Denmark, a **workshop was held for all employees** to create a good work atmosphere. The focus was on practices related to situations where an employee may witness inappropriate behaviour at the workplace.
- We continued to implement work safety campaigns in Denmark and as a result, our work **safety indicators improved by 28%**.

WHAT WE CAN IMPROVE:

- The objective of the energy efficiency project was not achieved even though small improvements were made based on the energy reviews conducted. Now there is a blueprint for future measures so that the objective could be reached in the coming years.
- In August 2017, HKScan's Estonian hatchery operations showed a serious deviation in the handling of non-viable day-old chicks and unshelled embryos. The case was immediately investigated and corrective measures were taken. In addition, relevant training and guidance was provided to the personnel. The hatchery was audited by an external animal welfare expert.
- There were 16 product recalls in 2017, which is too much. The recalls were caused by an allergen error, an incorrect ingredient or an error in dosing the ingredient, errors on the label or with the best before date or a suspicious foreign object. Making a product recall in the event of an error is part of responsible operations and the potential factors or costs that affect the company's brand or business never prevent the recall. Reasons for product recalls have been investigated and corrective measures have been taken. The cost of a recall is high from economic point of view and affects negatively company's economy.

MATERIALITY ANALYSIS

HKScan’s corporate responsibility focus areas and key sustainability themes are based on an extensive stakeholder survey carried out in 2014, with a total of 1 200 respondents from all of our countries of operation. The respondents were representative of our key stakeholder groups. Key material aspects were identified based on a materiality analysis, and these material aspects HKScan has named as corporate responsibility themes. The corporate responsibility themes were validated by country-specific management teams in 2015. The results of an extensive consumer survey carried out in 2017 confirmed that these themes continue to be relevant.

Read more: Corporate responsibility at HKScan.

GOALS AND ACHIEVEMENTS

KEY PERFORMANCE INDICATOR (KPIS)	GOALS	PERFORMANCE 2017
SAFE AND HEALTHY PRODUCTS		
• Certified sites • Number of recalls • Number of products with aspects launched	• All sites certified • Zero recalls • Enhance positive impact on nutrition and public health	• All of HKScan's production plants have certified product safety management systems. The certification of two new plants was started in 2017 and one of them had a cerfication audit then. For the other plant, the process was completed at the beginning of 2018. • 16 product recalls. • Around 16 per cent of the products introduced by HKScan were based on an innovation or improvement related to nutritional value.
ANIMAL HEALTH AND WELFARE		
• Optimal animal welfare in general and compliance with Welfare Quality Principles targeting good animal health and welfare at farms, during transportation and in slaughter	• Compliance with laws and regulations • Become the best in animal care • Enhance positive impacts on animal health and welfare through proper animal handling and conditions at farms, during transportation and in slaughter • Maintain low use of antibiotics and achieve even better results – without endangering animal welfare	• High level animal welfare: "No antibiotics ever" pork meat products were launched for exports. The animals have been healthy their entire life and hence there has been no need to treat them with antibiotics. • In HKScan's production chain, antibiotics are used for animal medicine considerably less than on average in European countries. If an animal has been treated with antibiotics, due to compliance with withdrawal period, HKScan's meat products do not have antibiotic residues at the consumer's end. • In pork meat production, the new Opti-Pekoni feed concept was launched, promoting piglets' animal welfare. • HKScan is pioneering among the first in the world with the launch of a new concept enabling chicks to be born on the farm they are raised rather than at a separate hatchery. By eliminating the need for transportation of chicks from hatchery to farm the concept marks an improvement in animal welfare. • Animal transporters were trained and transport of animals were regularly monitored by the authorities and veterinarians. • One of HKScan's partners in Finland took into use a modern semi-trailer designed especially for the transport of pigs (link in Finnish). New vehicles (link in Finnish) were also taken into use for the transport of cows and calves. Vehicles used in animal transport is of great importance for animal welfare. • HKScan has installed recording surveillance cameras in all of its slaughterhouses in its home markets. The cameras are located in areas that are critical in terms of animal welfare.
EMPLOYEES		
• Absentee rate (%)	• General goal: healthy	• Lost Time Injury (LTI) frequency rate was 44.3 per million hours worked (2016: 40.6).

• Lost Time Injury (LTI) frequency rate	employees, safe working environment, employee satisfaction • Numeric Group targets for LTI and absence rate to be set	• Absentee rate was 6.2 per cent of the total working time (2016: 6.3 per cent). • In 2017, the company carried out an extensive online survey for 405 participants related to values and leadership. The survey aimed for a deeper understanding and for determining requirements for leadership in line with the company's values and management that supports strategy implementation. Participation rate was 90 per cent.
ENVIRONMENT		
• Total energy use • Greenhouse gas emissions • Total water use • Waste tons by type and disposal method • Material efficiency	• Mitigation of environmental impacts • Energy use -10% decrease by 2017 vs 2014 indexed to net sales • Numeric Group KPI targets to be set • Development towards more sustainable packaging materials and solutions • Efficient use of animal raw material – circular economy approach	• Total energy consumption measured in GWh decreased by 3 per cent from 2014 to 2017. In 2016, total energy consumption fell by 5 per cent compared to 2014. Energy efficiency project resulted -0.29 per cent as target was -10 per cent reduction of energy consumption indexed to net sales. • Greenhouse gas emissions decreased by a total of 46 per cent from 2014 to 2017. • Of the total amount of electricity consumed in HKScan's operations, 67 per cent was generated from renewable and 33 per cent from non-renewable sources. From consumed total energy in HKScan's operations 42 per cent was renewable origin and 58 per cent non-renewable origin. • HKScan's water consumption increased by 0.4 per cent from 2016 to 2017. Over the last five years, HKScan has reduced its overall water consumption by 11 per cent. • The amount of landfill waste decreased by 98 per cent from 2012 to 2017. • The amount of virgin material (packaging and transport solution) from non-renewable sources used in 2017 was 57 per cent. This covers the use of plastic, aluminium and steel in packaging solutions. From renewable sources (cardboard, paper) came 38 per cent of materials. Of these, 16 per cent were of virgin origin and 22 per cent were of recycled origin.
FARMING COMMUNITY		
• HKScan's actions to promote businesses and living at countryside, local investments, competence and professional development, wellbeing of farmers	• To enhance positive impact: farm economy, animal health and welfare • Contribution to national food supply in possible national emergency situations • Keep local countryside alive	• HKScan provides its contract producers with training and advisory services (link in Finnish) related to the rearing of animals, the planning of feeding (link in Swedish), animal healthcare (link in Finnish) and the design of new production facilities (link in Finnish), among other aspects. • HKScan organises seminars and well-being events for its producers. • Producers of the Year in Finland and Sweden were acknowledged.

RESPONSIBLE AND ETHICAL SOURCING		
• Purchase of responsible soy • Purchases from local markets (%) • Purchases from suppliers that comply with HKScan's requirements	• 100% responsible soy by the end of 2018 • Avoid ethical risks • Supplier Guidelines signed by 100% of suppliers	• Use of 100 per cent responsibly produced certified soy was achieved in Finland in 2017 and in Sweden in 2015. • HKScan aims to include its Supplier Guidelines in all of its supplier contracts by 2020. In 2017, suppliers committed to complying with HKScan's ethical principles and purchasing practices represented 65 per cent of the cost of services, goods and raw materials acquired by HKScan. This proportion will increase as the contracts are updated. • HKScan acquires nearly 100 per cent of its live animals from local markets. The origin of the meat and the growing conditions of the animals are always known. • HKScan purchases also a majority of other raw materials, products and services from its local home markets. These local purchases represent approximately 70 per cent of the Group's total sourcing spend.
ECONOMIC VIABILITY OF VALUE CHAIN		
• HKScan's four long-term financial targets • No special Corporate Responsibility KPI's	• Enhance positive impacts in value chain • Operating profit (EBIT): >4% of net sales • Return on capital employed (ROCE): >12% • Net gearing: <100% • Dividends: >30% of net profit	• HKScan creates both economic and intangible added value widely to its various stakeholders throughout the value chain in all countries where it operates. The company's net sales in 2017 were EUR 1 808.1 million with investments accounting for 6.9 per cent i.e. EUR 125.5 million. Dividends of EUR 9.0 million were paid to shareholders. Wages and salaries paid to personnel including social costs amounted to EUR 328.4 million. Raw material, energy and service suppliers were paid EUR 1 520 million and creditors EUR 11 million. The public sector was paid EUR 2 million as income taxes.
COMPLIANCE		
• No non-compliance in Corporate Responsibility-themes	• Compliance with laws and regulations	• In August 2017, evidence of a serious deviation was found in the handling of unviable chicks and unhatched embryos in HKScan's Estonian hatchery operations. The incident was immediately investigated and corrective actions were implemented. • HKScan had no serious environmental legislation violations in 2017. • In 2017, three (3) reports related to suspected human rights violations were made via Fair Way or other channels. The internal investigations of these suspected violations are still under way. • In 2017, HKScan requested the Estonian authorities to investigate whether any crimes had been committed in HKScan's Baltic operations, and simultaneously it ended its own investigation. In November 2017, the Estonian Public Prosecutor published a press release related to the criminal allegations. • In Sweden, HKScan was corporate fined for insufficient protective equipment, as a meat cutting room employee was not wearing the required cut-resistant shirt.

VALUE CHAIN

HKScan has unique expertise in the food production, and we are committed to operating responsibly throughout the value chain – from farm to fork. All stages of the value chain, from cooperation with customers and consumers to animal and feed production, are part of the Group’s day-to-day operations.

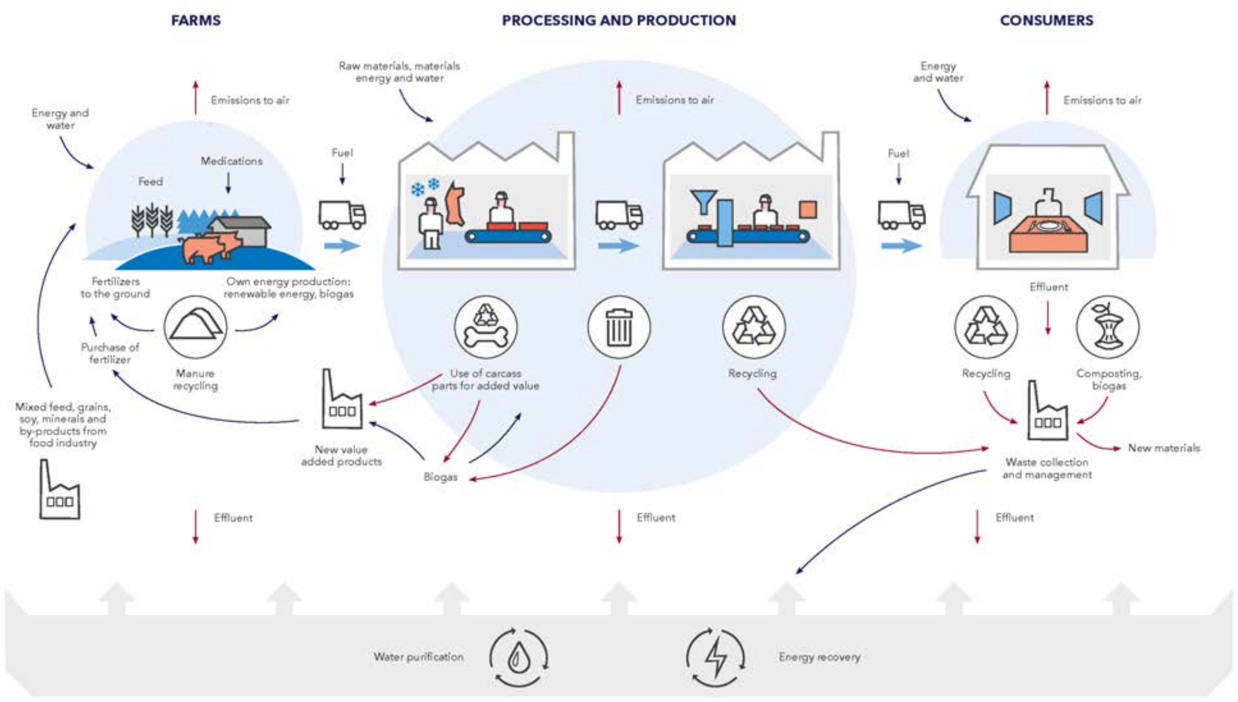
By responding proactively and innovatively to changing market needs and expectations, we are able to develop our operations sustainably and improve our competitiveness and profitability. This enables us to create added value not only in our own operations, but also for animal producers, customers, consumers, partners and society at large.

CIRCULAR ECONOMY

HKScan is part of an extensive system of the circular economy. The company aims to maintain the value of the resources used in the production and consumption chain for as long as possible. Such resources include raw materials, water and energy. It also aims to create new business operations or support existing businesses in different parts of the chain.

This report describes HKScan's operations as part of the system of circular economy. For example, measures related to resource and material efficiency are described in the section concerning the environment, and sustainable purchases are discussed in the section concerning responsible and ethical sourcing.

OUR ROAD TO CIRCULAR ECONOMY



EFFECTIVE CIRCULATION OF NUTRIENTS AND SIDE STREAMS ON FARMS

Farms are prime examples of the circular economy. For example, nutrients contained in manure are used on fields to grow grains for animal feed or for food production. Locally produced grains represent a significant part of animal nutrition, in addition to food industry side streams, which are used to feed pigs, for example, and would otherwise be regarded as waste.

Farms are increasingly using renewable energy, such as woodchips, wind energy, solar power and biogas.

FOOD PRODUCTION – MATERIALS ARE CIRCULATED FROM PRIMARY PRODUCTION TO CONSUMPTION

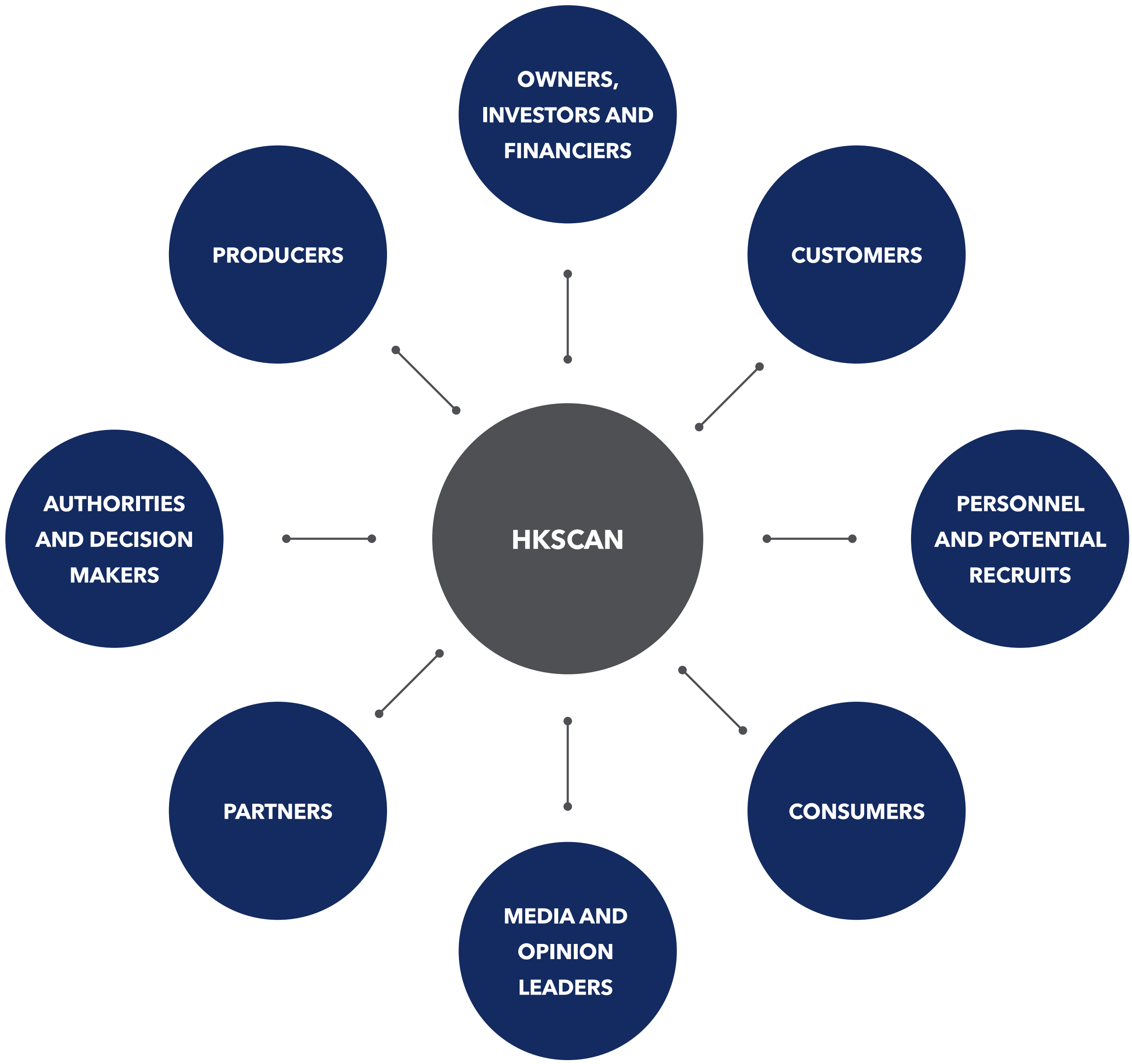
HKScan aims to use all parts of animals primarily for food production. Side streams are efficiently directed to other sectors, such as the leather, feed and pet food industries. The remaining animal-based matter is used to produce biogas or fertilisers, for example. Waste fractions from production are circulated in line with the waste management hierarchy.

Energy and material efficiency are important priorities for environmental work at HKScan. Improvements in these areas have direct positive effects on the climate.

From primary production to consumption, food production always generates emissions into water and air. Meat production has the most significant effects. Environmental work at HKScan aims to minimise environmental effects in the company's own industrial production and in its work with animal producers. HKScan's countries of production have effective, high-quality agricultural practices and production methods in place, and continuous improvement is carried out to reduce environmental effects. Therefore, HKScan actively cooperates with research institutes.

Read more about our actions as part of circular economy approach: production plants and animal primary production.

COLLABORATION WITH STAKEHOLDERS



HKScan aims to actively engage in transparent stakeholder collaboration in all its operations. Open communication and dialogue ensure that we are constantly aware of our stakeholders' expectations, and are able to provide them with relevant and up-to-date information about our activities.

HKScan's key stakeholder groups are listed in the above diagram. HKScan stakeholders were analysed and revisited in conjunction with the renewal of the corporate brand in 2014. These stakeholder groups were officially recognized by the Management Team and Board of Supervisors in their approval of the brand renewal proposal.

Our long-standing cooperation with our key stakeholders – consumers, customers, producers, business partners, the authorities and research institutes – has provided us with deeper insights into HKScan's key corporate responsibility themes. These themes are also present in our daily interaction with the stakeholders. Examples of our cooperation with stakeholders in 2017 are presented below.

HKScan has a standard practice for conducting dialogue with its stakeholders, making it easy for representatives of various groups to pose questions, make proposals, and give our company feedback. Our various channels of interaction include country-specific consumer services, through which consumers can contact us by phone, email or social media. HKScan also gains valuable insights through its country-specific customer satisfaction surveys and brand reputation surveys. We additionally have an internal whistleblowing channel through which both internal and external respondents can report any potentially irregular conduct and violations of the Code of Conduct.

Examples of our stakeholder interactions in 2017 are listed in the following.

INTERACTION WITH STAKEHOLDERS IN 2017

CONSUMERS

Consumers are one of HKScan's most important stakeholder groups. They ultimately decide which products are purchased. Consumers' needs and expectations strongly affect the development of our offerings. Important sustainability themes for consumers include product quality, responsibility, transparent operations, product portfolio, nutritional and health aspects and animal welfare.

EXAMPLES OF INTERACTION

1. In Finland, HKScan continued the Kariniemen Chicken Patrol project (link in Finnish) by inspecting chickens' living conditions with consumers to promote openness and transparency.

2. At the InnoDay, (link in Finnish) HKScan sought in-depth information about young people's favourite foods in Finland.

3. Around 100 people attended HKScan's dinner on a farm (link in Swedish) in Sweden. The guests also had an opportunity to learn about farm operations in practice and see animals in their natural environments.

4. HKScan actively participated in centenary events in Finland, such as the organisation of 40 000 exercise events as part of the Children's Movement campaign (links in Finnish).

CUSTOMERS

HKScan's customers include retailers and operators in the hotel, restaurant and catering sector, as well as the food industry in the Nordic countries, Central Europe and Asia. Close cooperation, trend scouting and sounding, information sharing and joint development projects are important for HKScan and its customers alike. Important sustainability themes for customers include product portfolio, prices, product safety, the production chain and its transparency and joint development projects to promote sustainability.

EXAMPLES OF INTERACTION

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1. In Sweden, HKScan cooperated with the Coop retail chain (link in Swedish) to meet the increasing demand for lamb.

2. In Sweden, HKScan familiarised its away-from-home customers with the pork production chain by holding Pork Academy training events.

3. In Estonia, HKScan held its first Business Forum event for its customers.

PRODUCERS

The good availability and high quality of HKScan's products depend on smoothly running cooperation with meat producers. Producers also play a key role in ensuring animal welfare and product safety. Important sustainability themes for producers include long-term business relationships based on agreements, advisory and other services for producers, fair pricing and ensuring the continuity of meat production.

EXAMPLES OF INTERACTION

1. A networking cruise was organised for Finnish and Swedish contract producers to network and share best practices.

2. The best producers of Finland and Sweden in 2017 were selected and rewarded:

- **Broiler producers: Juha and Kyösti Kaarlonen, Salo, Finland.**
- **Beef producers: Jarmo and Anne Sisso, Kiuruvesi, Finland. Therese Nilsson and Morgan Karlsson, Rockneby, Sweden.**
- **Pork producers: Reijo and Liisa Keskinen, Pälkäne, Finland. Dag and Mark Bergsland, Eskilstuna, Sweden.**
- **Lamb producers: Anne and Carl Dufwa, Askersund, Sweden.**
- **Animal transport partner: Åkeri Walléns, Björkvik, Sweden.**
- **Environmental Award: Lamb producers Anna and Tomas Olsson, Sweden.**

3. In Finland and in Sweden, products are developed in closer cooperation with the producers (link in Finnish) than before.

4. HKScan published producer magazines *Kotitilalta* in Finland and *HKScan Agri* in Sweden.

PERSONNEL

Our employees' input, expertise and commitment are essential for HKScan's success. Wellbeing at work, competence development, consistent ways of working and a strong corporate culture also ensure commitment in the future. Important sustainability themes for personnel include continuity of employment, fair salaries, appreciation of work, fair treatment, personal development opportunities as well as safety and wellbeing at work.

EXAMPLES OF INTERACTION

1. A project to improve HKScan's overall productivity was launched early this year. The project was started with a pilot project at Vantaa, with more than 100 employees being involved.

2. The company carried out an extensive internal survey to determine how the Group's values should be reflected in its day-to-day operations and management.

SHAREHOLDERS, INVESTORS, FINANCIERS

Shareholders, investors and financiers ensure the continuity of HKScan's operations. They expect the company to engage in profitable business operations that create added value and to generate returns through dividends and share performance. Important sustainability themes for shareholders, investors and financiers include profitability, returns and the success and continuity of responsible business operations.

EXAMPLES OF INTERACTIONS

1. Annual General Meeting

2. Meetings with investors and financiers

PARTNERS

Long-standing relationships with subcontractors, suppliers, business partners, research institutes, educational institutions and local communities create expertise for HKScan to further develop its operations. Key sustainability themes for partners include economic responsibility, profitability, economic impact, animal health and welfare, public health and nutrition, young people's involvement, occupational health and safety and environmental aspects.

EXAMPLES OF INTERACTION

1. HKScan was one of the main partners of the Central Union of Agricultural Producers and Forest Owners (MTK) during its 100th anniversary, under the theme "100 Years of Growth" (link in Finnish).

2. In Finland, HKScan has made nutrition commitments in the Commitment 2050 initiative, which promotes sustainable development (link in Finnish). HKScan's commitments guide product development in various categories.

3. HKScan and MTK invited pupils to visit a suckler cow farm in Finland.

4. In Finland we participated in SuomiAreena in cooperation with MTK, the Central Union of Agricultural Producers and Forest Owners. We also had a joint activitiy with meat industry communications group.

5. In Sweden, HKScan participated in Almedalen week (link in Swedish). The annual one-week event is organised in Gotland, focusing on political and social topics. The event is organised by the Swedish parliamentary groups. In 2017, HKScan organised a seminar under the theme "Meat is the future – The joy and sustainability of eating".

6. In Sweden, HKScan participated in the Haga Initiative, which is a network of companies cooperating to reduce greenhouse gas emissions from the business sector. The network seeks to address the climate issue by showing that corporate climate strategies create business advantages and improve profitability.

7. In Sweden, HKScan is developing piggeries of the future (link in Swedish) in cooperation with Abetong.

8. Veterinary students (link in Finnish) learned about chicken production in Finland. They visited the Rekikoski chicken farm and the HKScan slaughterhouse in Rauma in November.

9. HKScan participates in the Power Manure (link in Finnish) project in Finland to make more effective use of poultry manure.

10. National Resources Institute of Finland (Luke) and HKScan are carrying out research into replacing salt with food industry by-products (link in Finnish).

11. HKScan participates in a project studying opportunities to make use of insects in the Finnish food chain (link in Finnish).

12. A group of students from Aalto University and the University of Helsinki participated in a project to create ideas for future trends in food development in Finland.

13. In Sweden, HKScan is a member of the Soy Dialogue. Established in 2014, the Dialogue is an industry-wide initiative where members voluntarily contribute to the development of and increased demand for responsible soy production. The members consist of Swedish feed companies, food producers, associations and trading companies throughout the value chain. It is the members' responsibility that soy is certified by a credible standard or that the volume is covered by certificates that meet the criteria. In Finland, HKScan is a member of the Soy Pledge.

14. In Sweden, HKScan is a member of the Sustainable Food Chain, a network of 14 food companies and retailers. Together with WWF Sweden, the initiative was established in 2015 to address the large sustainability challenges in the value chain and to inspire sustainable solutions and ambitious goals. The goal of the Sustainable Food Chain is to significantly contribute to more sustainable food production and consumption in the Swedish food chain by 2030.

AUTHORITIES

Close cooperation with state administration and the local authorities ensures uninterrupted operations and compliance with statutory requirements for HKScan. Important sustainability themes for authorities include animal health and welfare, public health and nutrition, product safety, environmental aspects as well as participation in the preparation of laws and regulations.

EXAMPLES OF INTERACTION

1. In all its home markets, HKScan works with the authorities to receive new export permissions.

2. There is daily cooperation in food product safety at HKScan's contract farms and in slaughterhouses and production plants.

3. Work was carried out to prevent the spread of African swine fever in Estonia, Finland and Sweden.

4. Work was carried out to prevent the spread of avian flu in Denmark, Finland and Sweden.

MEDIA AND OPINION LEADERS

The media, political actors, interest groups and non-governmental organisations have a significant effect on the development, regulation and image of the industry – even internationally. Open and truthful communication is important for maintaining good relationships. Important sustainability themes for media and opinion leaders include sustainable and transparent operations, animal health and welfare, public health and nutrition and environmental aspects.

EXAMPLES OF INTERACTION

1. In Sweden, HKScan participated in Almedalen week (link in Swedish). The annual one-week event is organised in Gotland, focusing on political and social topics. The event is organised by the Swedish parliamentary groups. In 2017, HKScan organised a seminar under the theme "Meat is the future – The joy and sustainability of eating".

2. In Sweden, HKScan participated in the Haga Initiative, which is a network of companies cooperating to reduce greenhouse gas emissions from the business sector. The network seeks to address the climate issue by showing that corporate climate strategies create business advantages and improve profitability.

3. In Finland we participated in SuomiAreena in cooperation with MTK, the Central Union of Agricultural Producers and Forest Owners. We also had a joint activity with the meat industry communications group.

4. HKScan works with media in connection with significant events for the Group, such as investments, other strategic operations and important product launches.

MEMBERSHIP IN INDUSTRY ORGANIZATIONS AND ADVOCACY GROUPS

HKScan participates actively in key industry organizations and advocacy groups on its home markets, i.e. in Sweden, Finland, Denmark and Estonia. These include trade and labour organizations representing the interest of food industry employers, organizations specializing in animal health and welfare and groups advocating the interests of agricultural producers. HKScan is also a member of the European Meat Network.

ORGANISATION OF THE RESPONSIBILITY WORK

At HKScan, Corporate Responsibility (CR) is seamlessly integrated into HKScan's business and it is a fundament of the Group's 'From Farm to Fork' strategy. Our people are the greatest assets we have. We are also committed to being the world leader in animal health and welfare, reducing our environmental impact and helping consumers to make healthier choices.

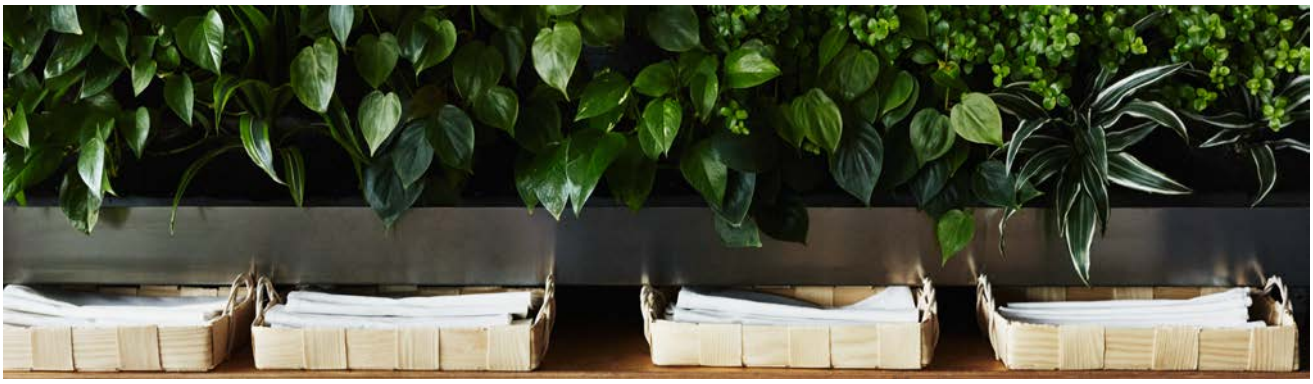
We are committed to the highest standards of corporate responsibility. We want to fulfil our responsibilities towards all our stakeholders and want to create long-term value on a sustainable basis. We see that corporate responsibility work is a journey of continuous improvements where we want to make a change to enable everyone to live tastier lives today and tomorrow. This concerns all our stakeholders including consumers and customers. We want that with HKScan, people can feel good about good food.

HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare and Environment. The focus areas and relevant themes of the corporate responsibility work are based on the extensive stakeholder survey conducted in 2014. The relevant themes are evaluated regularly, most recently in 2017. HKScan's responsibility themes are presented in this report under Corporate responsibility at HKScan. By focusing on development of the areas relevant to the Group's stakeholders, HKScan creates value for its stakeholders along the entire value chain.

BOARD OF DIRECTORS

Board of Directors has approved and supports the Group's strategy, vision, mission and values. The BoD is responsible for the administration and the proper organization 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. More detailed description of the role is described in the Corporate Governance Statement 2017.

The Board of Directors helps to establish and oversee the corporate responsibility targets and framework, including matters related to our value chain from farm to fork, the economic, environment, social and animal welfare responsibilities. The Board of Directors approves the Group policies and reviews the significant corporate responsibility related processes and commitments. The Board receives updates on progress against key performance indicators and other relevant matters. Board of Directors also approves and signs HKScan´s report on non-financial information.



GROUP LEADERSHIP TEAM

HKScan’s Group Leadership Team provides oversight and executional leadership for the implementation of the Group’s ‘From Farm to Fork' strategy. The Group Leadership Team is led by the President and CEO, and includes ten Executive Vice Presidents representing a variety of disciplines, including Markets (Finland, Sweden, Baltics, Denmark, International & Biotech), Categories & Concepts, Finance, Human Resources, Operations, Animal Sourcing & Primary Production, Communications and Corporate Responsibility. EVP Communications and Corporate Responsibility is responsible for corporate responsibility.

The Group Leadership Team of HKScan assists the President and CEO in the management of the 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 also within the area of corporate responsibility.

CORPORATE RESPONSIBILITY TEAM

With the assignment from the Group Leadership Team, the Corporate Responsibility team develops corporate responsibility related programs and procedures, drives continuous improvement and secures related measurement of the Group’s CR performance. EVP Communications and Corporate Responsibility leads the Corporate Responsibility team. In order to secure alignment with the Group strategy and targets the corporate responsibility related work is done in tight collaboration with other functions and markets.

HKSCAN'S VALUES AND OPERATING PRINCIPLES

By focusing on high quality and sustainability in all of our operations, we create a competitive advantage both in our Nordic home markets and international export markets. Our values – Inspire, Lead, Care – support sustainable operations.

Through our strategy and operations, the HKScan Group is committed to the continuous and systematic development of sustainable business operations. HKScan's operations are guided by the following external policies and ethical principles.

- Code of Conduct, Ethical Principles
- HKScan Group's Quality Policy
- HKScan Group's Food Safety Policy
- HKScan Group's Animal Welfare Policy
- HKScan Group's Environmental Policy
- HKScan Group's Animal Purchase Policy

HKScan's operations are also guided by several internal policies and guidelines.

ANTI-CORRUPTION, ANTI-COMPETITION AND HUMAN RIGHTS

HKScan's current Code of Conduct states that HKScan does not accept corruption and that the Group is committed to follow international human rights principles. The Code of Conduct applies to every employee in HKScan Group.

HKScan also expects all its suppliers to sign and commit to HKScan Group's Supplier Guidelines, which covers e.g. the suppliers' commitment not to pay or accept bribes or other improper benefits or gifts and commitment to follow human rights principles. HKScan is currently in the process of renewing its agreement templates for contract producers. By signing the new agreements, the producers officially confirm to comply with the requirements of HKScan's Code of Conduct and public policies.

In the autumn 2017, an internal training regarding the principles included in Code of Conduct, together with other governance related topics, (such as anti-competition rules and data privacy) was held to persons active in Group's different management teams. By the end of 2017, a total of seven management teams out of eleven had received a similar training. The trainings will continue in the beginning of 2018 and cover the rest of the Group's management teams. In total, 128 persons will receive a governance related training between autumn 2017 and winter 2018.

HKScan is in the process of renewing its Code of Conduct. The objective is to provide a more detailed description of HKScan's commitment to anti-corruption and an enhanced guidance to employees that no corruptive actions are tolerated. The renewed Code of Conduct will also contain more specifically described commitment to human rights. HKScan's renewed Code of Conduct will be communicated to every employee in HKScan Group, in all its operating countries.

HKScan has not made any separate risk assessment related to corruption, however, corruption is one aspect followed in HKScan's yearly Enterprise Risk Management (ERM) process. HKScan has not specifically identified any significant risks relating to corruption.

During the reporting period, HKScan has not identified any confirmed incidents regarding corruption by either employees or business partners. Neither have any public legal cases regarding corruption or human rights been brought against the organization. During the reporting period, none of HKScan Group's companies have been subject to legal actions regarding anti-competitive behaviour or violations of anti-trust legislation.

HKScan has so far not implemented a human rights impact assessment or similar human rights reviews in its operations.

ECONOMIC RESPONSIBILITY

At HKScan, economic responsibility means that we safeguard the profitability and competitiveness of our business both in the short and long term. A sound economic foundation also forms the basis for our other areas of responsibility, i.e. social and environmental responsibility, and animal health and welfare. It also allows us to invest in developing the value chain on a long-term basis. Through our operations, we also create financial value widely directly and indirectly to various different stakeholder groups.

HKScan follows EU and national legislation in its business and operations. The Group's economic responsibility is led by the following internal Group policies: Treasure policy, Governance policy, Finance policy and Risk policy. The Group President and CEO and the Board of Directors share the responsibilities as legally stipulated. The Group Leadership Team is responsible for the financial result and for the work contributing to it.

FINANCIAL VALUE CREATED TO STAKEHOLDERS IN 2017

As one of the largest food companies in Northern Europe, our operations have big financial impact on many stakeholders. For example, we pay wages to personnel, dividends to shareholders, and taxes to the Governments of our operating countries. Our business and operations have also an important impact on our contract producers, sub-contractors and suppliers of raw materials, products and services.

We employ directly over 7 000 people. We buy animals from close to 10 000 local producers in our home markets and thus enable business for local primary production. HKScan is also an important buyer of services such as cleaning, maintenance, logistics, facility management, health care and catering. Therefore, our indirect impact on employment is important especially in the regions, where our production units are located.

HKScan creates financial value widely among its stakeholder groups as described in the table below.

Economic value created for stakeholders in 2017

NET SALES
EUR 1 808.1 million

SUPPLIERS AND PRODUCTION:
raw materials, energy and service suppliers; depreciations
EUR 1 520 million

PERSONNEL:
wages, salaries and social costs
EUR 328.4 million

CREDITORS:
net financial expenses
EUR 11 million

SHAREHOLDERS:
dividends
EUR 9.0 million

INVESTMENTS:
EUR 125.5 million

PUBLIC SECTOR:
income taxes
EUR 2 million

EXAMPLE

HKScan offered over 1 300 summer jobs out of which 750 in Finland (link in Finnish) and 580 in Sweden (link in Swedish).

TAXES ARE PART OF ECONOMIC RESPONSIBILITY

The most significant tax-items for HKScan are withholding tax from salaries paid to employees, VAT and income taxes. HKScan is committed to compliance with tax law and practices in the countries where we operate. It involves disclosing all relevant facts and circumstances to the tax authorities. The location of group entities is driven by business reasons, such as the location of customers, suppliers, raw material and know-how.

Every transaction must have a solid business rationale without compromising tax compliance principles. Given the scale of our business and volume of tax obligations, risks will inevitably arise from time to time in relation to the interpretation of complex tax law. We actively seek to identify, evaluate, monitor and manage these risks to ensure they remain in line with our objectives. Where there is significant uncertainty or complexity in relation to a risk, external advice may be sought.

Management of tax risks, as any other financial risk, is on Group CFO's responsibility area and they are identified, assessed, managed and monitored under HKScan Enterprise Risk Management. We emphasise transparency in all our activities, including our relationship with tax authorities. We are collaborating with local tax authorities according to local laws and practices. We engage with local tax authorities with honesty, integrity, respects and fairness and in a spirit of co-operative compliance. Wherever possible, we do so on a real time basis, to minimise tax risks.

INVESTMENTS AND EXPORTS CONTRIBUTE TO VALUE CREATION

HKScan is implementing its strategy for example by investing in growing product categories such as poultry and meals. Investments enable the development of new branded products for growing product segments and added-value product groups. Additionally, they will improve product quality, occupational safety and working conditions while decreasing environmental impacts. In parallel with these investments, HKScan is improving efficiency by simplifying its production structure and centralizing its production technologies.

HKScan currently exports meat to nearly 50 countries. The company exports pork to many EU countries and outlying markets such as New Zealand and Japan. HKScan has also started preparations to begin exporting pork from Finland to China. Read more here.

EXAMPLES

1. HKScan made its most significant production plant investment to date in Rauma, Finland. The unit specialises in poultry products. The construction work started in 2016 and was completed at the end of 2017. The new plant helps to preserve food industry jobs in Western Finland. The new production plant will replace the existing plant in Eura.

2. HKScan decided to invest in the growing meals business by developing the Estonian Rakvere unit. The eight-million euro investment consists of modernisation of the frying department, installation of new cooking and packaging lines and expansion of the building. The investment allows HKScan to implement new technologies and packaging solutions, which will strengthen its position in the meals business. Construction is to commence in May 2018.

3. The Group has invested in primary production for example in Estonia by renovating the Tallegg Rannamõisa broiler farm with over two million euros. The investment will result in more environmentally friendly production and improve the welfare and housing conditions of the birds as ventilation, lighting, feeding and watering systems will be improved. Computer systems will be installed to monitor the indoor climate in real time. The new technology allows HKScan also to monitor and analyse the feed and heating costs of the farm complex, which in turn ensures a more efficient and economic production process. On top of this, the farm’s biosecurity measures will be enhanced, which helps to mitigate risk for animal diseases such as Avian Flu.

4. In 2017, the Chinese and Finnish food authorities signed an agreement allowing HKScan’s Forssa plant to start exports to China. Exports are scheduled to commence during the first half of 2018. HKScan products exported to China will be targeted at retail customers, industrial customers and the HoReCa sector.

5. HKScan launched Finnish poultry exports to Japan. Export customers appreciate responsibly produced, high-quality, "No antibiotics ever" antibiotic-free meat.

PRODUCERS AND HKSCAN COLLABORATE TO BOOST PRODUCTIVITY

HKScan's animal sourcing is based on long-term contract production and close collaboration with producers. In Estonia HKScan has own farms. A responsible, transparent supply chain and efficient and high-quality primary production can only be achieved through seamless collaboration with our producers.

Collaboration is conducted on many levels: our regional animal sourcing teams and producer service specialists work directly with the farms in operative matters while we also have special strategic cooperation groups working on issues common to HKScan and our farmers.

EXAMPLES

1. Demand for responsible produced, high-quality beef has increased. At the same time, self-sufficiency in beef has decreased significantly for example in Finland. HKScan strengthened its foothold in the Finnish beef market by starting a beef development programme. The aim is to increase Finnish beef meat rearing and guarantee the availability of high quality domestic beef also in the future. The target is to have 3 200 new cows in the production chain by the end of 2025. This represents a 15 per cent increase in HKScan's suckler cow stock and a nationwide increase of five per cent. The producers participating in the programme get investment support for the new cows.

2. HKScan is committed to support primary production on a long-term-basis. This is symbolised by a partnership agreement between the Finnish Central Union of Agricultural Producers and Forest Owners (MTK) and HKScan. In 2017 HKScan was the main partner on MTK's 100-year anniversary year.

3. HKScan offers various services to producers to support their profitability and competitiveness. Examples include advisory services related to animal feeding and health. Additionally, HKScan offers producers advice on the design and construction of new facilities (find out more in HKScan Agri magazine in Swedish here and here), and regarding starting production, as well as financial advice and financial services.

4. One of HKScan's beef producers invested in enlarging their beef breeding operations by 800 new places for beef cattle.

SOCIAL RESPONSIBILITY

Social responsibility plays an important role as part of HKScan's responsible ways of working. Aspects related to social responsibility include product safety and quality, occupational health, well-being at work and responsible sourcing among others.

HKScan's operations are based on safe, healthy, high-quality products. Our products are manufactured in line with strict product safety standards and responsible operating methods. Consumers' health awareness is strongly reflected in new products launched by the company. We have adjusted the composition of products for example by increasing the amount of vegetables in our meal products. We listen closely to consumers and take their preferences and expectations into account in the development of innovative products and taste experiences.

HKScan's key responsibilities as an employer include ensuring employee health and safety at work. We want to provide our employees with a safe and motivating work environment that enables them to further develop their knowledge and skills. We also develop leadership systematically. Our operations are based on an equal and diverse work environment.

HKScan bears responsibility across its supply chain. We want to operate transparently and sustainably in all of our activities. We expect the same from our suppliers, in line with HKScan's Supplier Guidelines. A well and responsibly managed supply chain ensures efficient and smooth cooperation across the value chain, from the procurement of raw materials and services all the way to the consumer's shopping basket.

As part of our new 'From Farm to Fork' strategy, we aim to actively participate in the development of local farming communities by promoting well-being and professional competence among producers, as well as supporting local primary production and investments.

HKScan also strongly supports local communities through charitable projects. In its home markets, HKScan supports primarily projects that are related to the everyday life of families with children or promote the quality of life and sustainability. In 2017, HKScan supported the Pink Ribbon campaign to advance breast cancer research in Denmark, and signed a three-year collaboration agreement with the Childrens' Movement in Finland to promote physical activity for school-aged children. Additionally, HKScan donated food aid to low-income families in several of its operating countries and made a Group-wide donation to the Red Cross Disaster Relief Fund. HKScan made charitable contributions in all its operating countries; the above are just a few examples.

In Denmark HKScan continued to hire Syrian refugees in 2017, both temporarily and permanently. In addition, the company participates in social projects and initiatives and the development of its local communities.

RESPONSIBLE PRODUCTS

Healthy products and sustainable lifestyle are increasingly important for consumers. HKScan seeks to meet consumers' needs by offering healthy, safe and responsibly manufactured products that are suitable for balanced diets. Safe and healthy products are key aspects of our sustainability work, as food has an important impact on consumers' health and well-being.

SAFE PRODUCTS

Ensuring product safety and consumers' health lays the foundation for HKScan's operations. Product safety measures are implemented across a long food chain, from farm to fork. Each stage of the chain is important in ensuring product safety and quality. HKScan has compiled information about product safety in a compact Fact Sheet.

The implementation of product safety and quality is guided by HKScan's policies. The Group's Quality Policy determines its quality management principles and the regulations, guidelines and reference documents to be followed in its operations. The quality policy applies to the entire Group and covers the whole of the supply chain related to products and processes.

The HKScan Group's Food Safety Policy determines product safety management and the related responsibilities within the Group, as well as the regulations, standards, guidelines and documents to be followed. Product safety management is based on risk assessments of products and their production processes and on the management system founded on these. All of HKScan's production plants have certified product safety management systems (see Certified Operations 2017 table below), and their functionality is ensured through internal and third-party audits. Training for employees is essential in ensuring product safety, including hygiene and production process management, as well as the management of any deviations in production.

In 2017, HKScan acquired the share capital of Paimio Slaughterhouse and started a new poultry production plant in Rauma. In Paimio Slaughterhouse, a preliminary audit in accordance with the FSSC 22000 product safety standard has been completed, and the certification audit will be carried out in 2018. In Rauma poultry production plant a certification audit has been carried out in 2017.

VP Quality, who reports to EVP Operations is responsible for product safety and quality.

HKScan's product safety management system includes ensuring product traceability. The traceability system ensures timely measures in the event of product recalls, to prevent any risk to consumers' health. HKScan aims to prevent all product recalls. There were 16 product recalls in 2017. Making a product recall in the event of an error is part of responsible actions and the potential factors or costs that affect the company's image or business never prevent the recall. Product recalls were caused by an allergen error, incorrect ingredient or mistake in dosing the ingredient, mistakes on the label information or best before date or suspicious foreign object. Reasons for product recalls have been investigated and corrective measures have been taken.

EXAMPLES

1. HKScan's production plants in Finland have been certified for already 20 years. As a result of external audits carried out in the autumn 2017, updated ISO 9001:2015 and 14001:2015 certificates were issued for HKScan's operations in Finland. The certificates cover the company's locations in Vantaa, Mikkeli, Forssa and Outokumpu and its procurement, slaughter and cutting operations, as well as product development related to meat, meat products and ready meals, along with materials purchases, production, sales, marketing, exports and transportation. In addition, all of the company's production plants in Finland have now certified FSC 22 000 product safety management systems.

2. HKScan cooperates with research institutes and participates in projects to further develop product safety. A cooperation project between HKScan, FoodSafe and the Zealand Institute of Business and Technology was started in Denmark in 2017. A new method for cleaning production facilities and equipment will be tested during this one-year project.

3. HKScan also participates in academic research on product safety. During 2017, HKScan was involved in research projects of the University of Helsinki, for example.

4. In addition, the company participates in the Marie Skłodowska-Curie Actions programme, which is funded by the European Commission and involves eight European university and company laboratories. The programme provides training for 15 promising young researchers for doctoral studies in microbiology for three years.

CERTIFIED OPERATIONS 2017

	Production sites	ISO 9001	ISO 14001	OHSAS 18001	ISO 50001	ISO 22000	FSSC 22000	IFS	BRC	Remarks
Finland	Vantaa	X	X				X			
	Forssa	X	X				X			
	Mellilä	X	X				X			
	Eura	X	X				X			
	Outokumpu	X	X				X			
	Mikkeli	X	X				X			1)
	Paimio						X			2)
	Rauma						X			
Baltics	Tabasalu, Estonia		X	X		X				
	Rakvere, Estonia		X	X		X				
	Viiratsi, Estonia	X	X							
	Jelgava, Latvia		X				X			
Sweden	Kristianstad	X	X		X		X			3)
	Linkoping	X	X		X		X			3)
	Skara	X	X		X		X			3)
	Halmstad	X	X		X		X			3)
Denmark	Vinderup							X	X	
	Skovsgaard							X	X	
Poland	Świnoujście		X			X			X	

1) Organic certificate in Finland

2) Preliminary audits in 2017, certification audits in 2018

3) Krav – Organic certificate in Sweden

HEALTHY PRODUCTS

Nutritional aspects and increased health awareness among consumers are important considerations in HKScan's product development, which is based on an in-depth understanding of consumers needs. Product development at HKScan is also facilitated by the Categories & Concepts function and research carried out in cooperation with several partners.

Nordic and national nutrition recommendations, as well as current trends, are taken into account in product development. According to nutrition recommendations, meat is an element of a balanced diet, along with vegetables, whole-grain products and vegetable oils and fats. Nutrition recommendations guide the general eating habits of the population. HKScan aims to have a positive effect on public health by developing and offering a diverse range of high-nutritional-quality products for consumers. In 2017, around 16 per cent of the products introduced by HKScan were based on an innovation or improvement related to nutritional value.

We have also paid attention to the amount and quality of fat and the amount of salt contained in our products. For example, the amount of unsaturated fats in our Omega 3 Pork products is in line with nutrition recommendations. Around 10 per cent of our product updates are related to reducing the amount of salt. We have adjusted the composition of products by increasing the amount of vegetables. The vegetable content of our products varies from 21 to 50 per cent. We have also introduced ready meals and cold cuts suitable for vegetarians.

HKScan's Health and Nutrition manager is responsible for ensuring the competence necessary for developing a product range of a high nutritional quality, and the head of the Categories & Concepts function is responsible for product concept development and management.

HKScan has products that meet requirements of the national Heart Symbol in Finland and the Keyhole label in Sweden and Denmark. The symbols inform that the products are recommendable from a health perspective.

HKScan has compiled an information package about meat and nutritional aspects. Read more about nutritional facts related to meat.

EXAMPLES

1. Copa Cogeca awarded HKScan's Omega 3 Pork with an innovation award. Omega 3 Pork was lauded for

being a product that creates value across the food chain. Read more here.

2. HKScan participates in Natural Resources Institute Finland's (Luke) (link in Finnish) research project to develop components from food production side streams that can be used to replace some of the salt contained in food products. Salt is a risk factor for arterial hypertension, for example. Replacing salt with peptides could have significant effects on public health.

3. In Sweden, HKScan has produced video material (in Swedish) about meat and nutrition.

4. In Finland, at the beginning of 2017, HKScan introduced HK PoPo® (link in Finnish). Popo is a new type of low-fat (8%) minced meat that contains 75 per cent pork and 25 per cent carrots. As well as HK Sportti® (link in Finnish), minced meat with a fat content of only five per cent.

5. In her blog posts, HKScan's nutrition expert writes about meat as an element of a balanced diet (read more here in Finnish).

6. HKScan has pledged to promote sustainable development through five nutrition commitments within the Commitment 2050 initiative in Finland. HKScan is committed to developing product options to increase the consumption of vegetables and reduce the consumption of salt as well as widen options for smaller packaging sizes.

7. HKScan participates in ScenoProt (link in Finnish), a project coordinated by Natural Resources Institute Finland (Luke) to study the use of insects as human and animal nutrition.

8. Visit the *Kotitilalta* magazine website (in Finnish) for an interview with Heli Arantola, EVP Categories & Concepts at HKScan, about consumer trends and consumer behaviour.

EMPLOYEES

HKScan is a significant employer in all its countries of operation. In 2017, the company had close to 7 300 (7 292) employees, of whom 84.8 per cent were permanent. The company has 2 964 employees in Finland, 2 139 in Sweden, 663 in Denmark and 1 527 in the Baltic countries. In addition, the company has production operations in Poland and sales offices in Hong Kong as well as in other locations. HKScan additionally offers a significant number of seasonal job opportunities. In 2017, HKScan hired over 1 300 summer employees, 750 in Finland and 580 in Sweden. HKScan's diverse workplace communities all adhere to the principle of equality as well as the Group's common values.

HUMAN RESOURCES MANAGEMENT

Human resources and personnel development at HKScan are based on the company's internal policies and principles related to processes such as recruitment, performance management, remuneration, and occupational health and safety at work. The person in charge of human resources is the Executive Vice President of HR, with the Executive Vice President of Operations being responsible for work safety.

The Group's values guide our day-to-day work and team operations. The goal is to create a workplace where well-being prevails and all operations are based on trust, respect and encouragement. Through the development of leadership skills and personnel competencies, HKScan creates favourable conditions for high-quality operations and the achievement of goals.

WELL-BEING AND SAFETY AT WORK

Health and safety management at HKScan is based on Group-wide standards. These standards determine practices for key areas of safety, such as the reporting and investigation of accidents and near misses, as well as safety observations and compliance with general standards and practices concerning particularly dangerous work. HKScan's two production plants in Estonia have OHSAS 18001 certification for their occupational health and safety systems.

In 2017, our Lost Time Injury (LTI) Frequency Rate was 44.3 per million hours worked. It increased slightly from the previous year (40.6). Our absentee rate in 2017 was 6.2 per cent of total working time, remaining the same as the previous year (6.3).

EXAMPLES

1. The Kristianstad unit in Sweden initiated a project to reduce sickness absentee days. The project is being implemented in cooperation with the plant's occupational health service provider. The initial results are promising, with sickness absence days showing a measurable decline. The continues during 2018.

2. HKScan continued to implement occupational safety campaigns in Denmark with a focus on specific safety issues such as falling risks, use of forklifts and use of personal protective equipment. As a result, our safety indicators improved by 28 per cent compared to 2016. The safety campaigns will continue throughout 2018.

3. In Denmark, HKScan also ran an extensive campaign headlined "Together – we create a good working place". The aim of the campaign was to improve employee wellbeing. The work was mainly done in workshops focusing on identifying and mitigating potential inappropriate behaviour such as bullying, discrimination, sexual harassment, and conflicts originating from cultural misunderstandings.

4. HKScan's Forssa unit in Finland conducted a workload survey in cooperation with the Finnish Institute of Occupational Health. The survey aimed to produce reliable quantitative data on the impact of physical stressors. The survey focused on key stressors and the identification of contributing environmental factors in order to produce an estimate of individual workers' combined stress load during an average shift. The survey team used a variety of methods to measure the impact of stressors on the workers' musculoskeletal and cardiovascular systems. The survey provided valuable data for future work wellness planning. The project will continue in 2018.

MEASURING EMPLOYEE ENGAGEMENT

HKScan carried out extensive studies concerning employee engagement, leadership and performance culture in 2014 and 2016. Extensive development measures were implemented based on the results, and the scores improved from 2014 to 2016, particularly for supervisory work. Our People Power Index in 2016 was A+/Satisfactory+.

PERSONNEL AND LEADERSHIP DEVELOPMENT

HKScan renewed its operating model in June and announced its updated strategy in August 2017. In the autumn, the company carried out an extensive competence survey to ensure that it has the expertise and skills required for the implementation of its renewed strategy and operating model. Based on the survey, the company identified measures to strengthen personnel and management development in 2018. HKScan also stresses the importance of the employees' personal responsibility for their learning and professional development.

In 2017, the company carried out an extensive online survey related to values and leadership. The survey aimed for a deeper understanding of future leadership requirements in line with the company's values, management and strategy implementation. The company's values were defined in further detail based on the results. Participation rate was 90 per cent. In addition, definitions were created for value-based leadership behaviours that can be measured and developed. Leadership behaviour is evaluated and measured as part of performance management, recruitment, and career and job rotation. The definitions also guide our leadership development and the related processes.

Biannual performance and development discussions between employees and supervisors are a key element of HKScan's management system. HKScan's strategy, targets and values are reviewed with each employee during the discussions. Based on these, personal goals are set and professional development plans are prepared to support the company's targets. An appraisal of the employee's performance during the previous year helps employees to identify their strengths and development needs.

HKScan's personnel reporting was further developed in 2017 by implementing a new system that better supports supervisors in their day-to-day work. The goal is to continue developing the system in 2018.

EXAMPLE

In autumn 2017, before the start-up of HKScan's new production plant in Rauma, the company provided extensive training (link in Finnish) to the unit's employees. The employees are participating in an extensive training programme that continues in 2018 and leads to vocational qualification or a shorter follow-up programme. A personal training programme was prepared for each trainee, including both classroom theory and practical training. This vocational training programme also has national significance. It is implemented in cooperation with the regional federation of municipalities for vocational education and training in Southwest Häme and its educational institutions, the Forssa Vocational Institute and Faktia.

REMUNERATION

HKScan aims to implement competitive, motivational, fair and transparent remuneration systems, which reward for achieving or exceeding targets. The level of remuneration is evaluated continuously, and its competitiveness is compared to other companies. In addition, the level of remuneration is always based on personal performance and the development of HKScan's performance. In its operations, HKScan also pays extensive attention to the fact that employee motivation is not based solely on remuneration and material benefits.

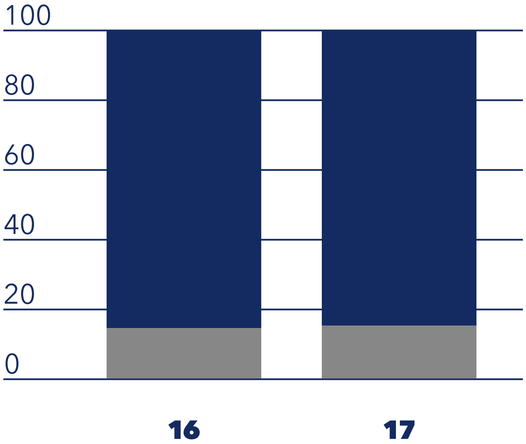
In 2017, HKScan aligned its job grading model and structure with its new organisational model. Based on an extensive analysis of its salary structure and market-specific competitiveness, the company developed a new remuneration model that supports the achievement of its business goals and the development of its corporate culture. The new model will be implemented in 2018.

In Estonia, 27 of the 64 employees of Rakvere Lihakombinaat participated in an illegal one-day strike in October 2017. The strike arose from the employees' dissatisfaction with salaries and workloads.

DEVIATION

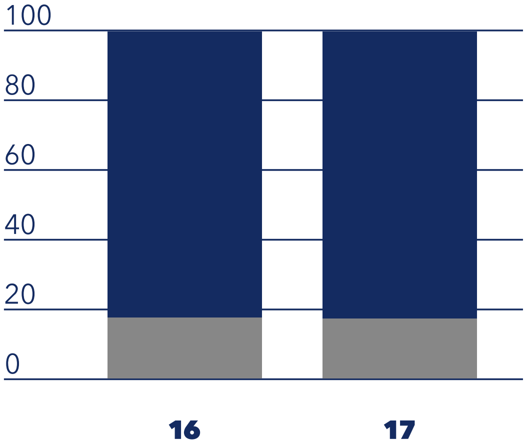
In Sweden, HKScan was corporate fined for insufficient provision of protective equipment, as an employee in the meat cutting room was not wearing a mandatory cut-resistant shirt.

**DIVISION OF EMPLOYEES 2017 (2016)
BY EMPLOYMENT CONTRACT
%**



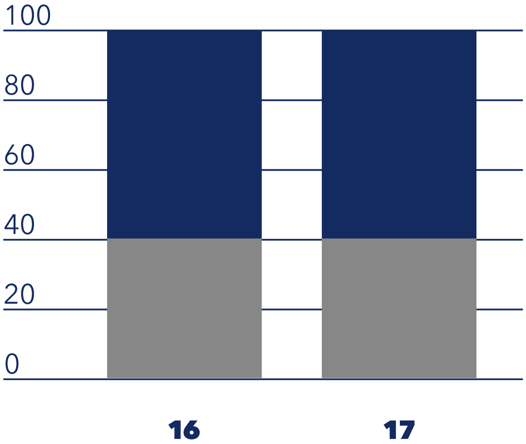
84.8 (85.6)% Permanent
15.2 (14.4)% Temporary

**DIVISION OF EMPLOYEES 2017 (2016)
BY EMPLOYEE SUB GROUPS
%**



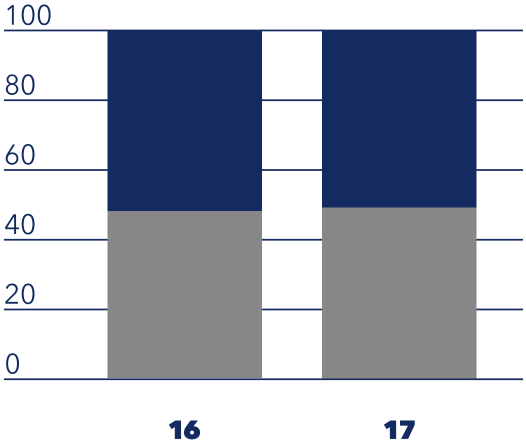
82.8 (82.5)% Blue collars
17.2 (17.5)% White collars

**DIVISION OF EMPLOYEES 2017 (2016)
BY GENDER, BLUE COLLARS
%**



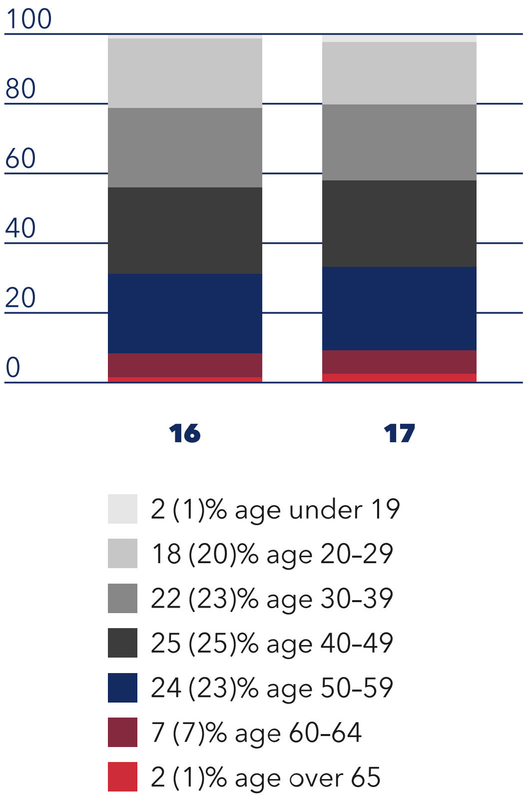
60 (60)% Male
40 (40)% Female

**DIVISION OF EMPLOYEES 2017 (2016)
BY GENDER, WHITE COLLARS
%**

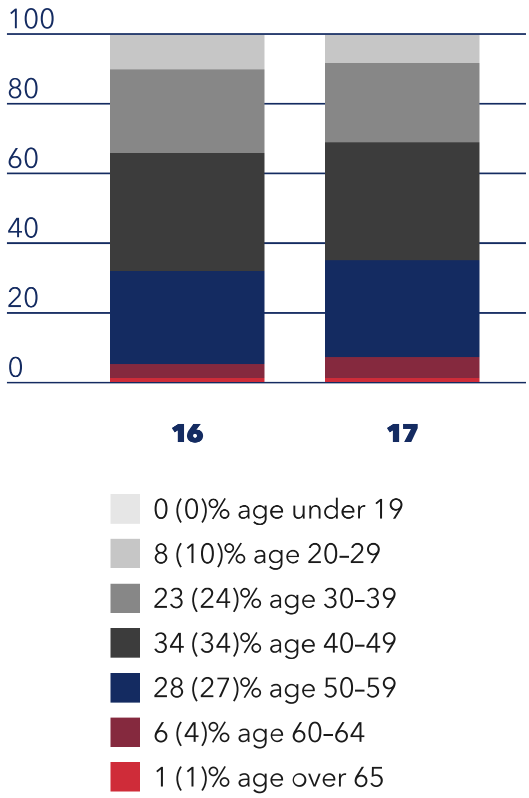


51 (52)% Male
49 (48)% Female

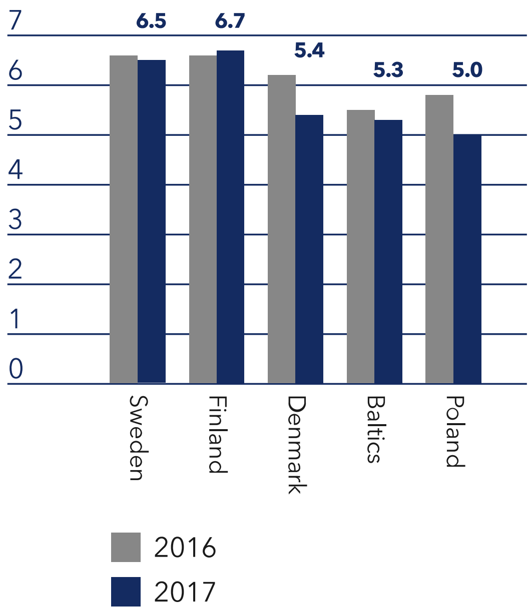
DIVISION OF EMPLOYEES 2017 (2016) BY AGE, BLUE COLLARS
%



DIVISION OF EMPLOYEES 2017 (2016) BY AGE, WHITE COLLARS
%

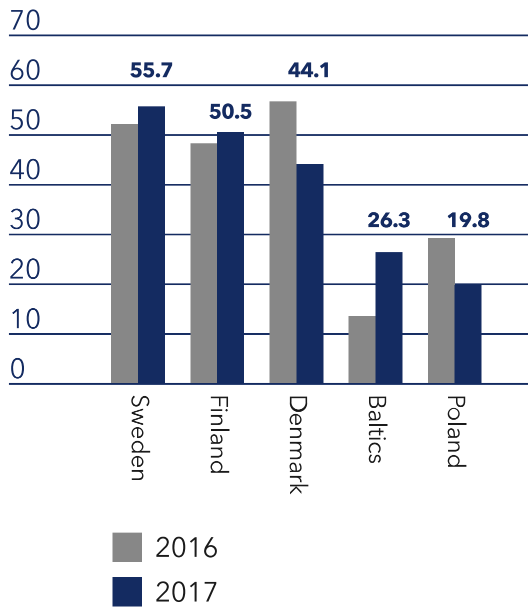


ABSENTEE RATE
%



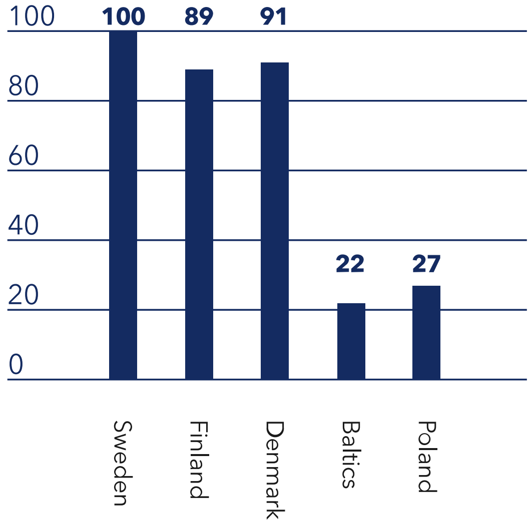
Absence hours due to illness, other incapability and working accidents in relation to scheduled hours. Rented employees excluded.

LOST TIME INJURY FREQUENCY RATE



Working injuries causing min. one (1) absence day per one million (1 000 000) working hours. Rented employees excluded.

COLLECTIVE AGREEMENT COVERAGE OF PERSONNEL
%



Employees covered by a Collective Agreement compared to total employee headcount.

RESPONSIBLE AND ETHICAL SOURCING

HKScan operates openly and maintains the principles of sustainability throughout its supply chain. A well-managed supply chain ensures streamlined, smoothly running cooperation between operators, from the procurement of raw materials and services all the way to the consumer's shopping basket. Transparent, efficient and responsible sourcing is one of the cornerstones of corporate responsibility at HKScan and a result of systematic long-term work. The meat raw material we use for our products is always traceable.

Sourcing at HKScan is guided by the company's internal purchase policy, with the Head of Sourcing being responsible for sourcing operations. The company's suppliers of goods and services are required to sign and comply with its Supplier Guidelines. Sourcing management is also guided by the results of ISO 9001 and ISO 14001 audits.

Animal sourcing at HKScan is guided by the company's animal purchase policy, which provides guidelines for business practices to be followed with animal producers, among other aspects. The policy also determines internal areas of responsibility related to animal sourcing. The person in charge is the Executive Vice President of Animal Sourcing and Primary Production.

The management and responsibility of sourcing are monitored internally. Suppliers are also monitored through audits. Cooperation between HKScan and suppliers is developed at joint meetings that are held to assess operational sustainability, such as environmental effects, and to prepare action plans for further improvement. The sourcing team at HKScan collaborates closely with the Group's quality and corporate responsibility teams.

LOCAL MEAT PRODUCTION

In its production, HKScan uses mainly locally sourced meat from its long-term contract producers or own farms. All products sold under the HK®, Kariniemen® and Scan® brands are made from domestic meat, with the animals having been slaughtered at HKScan's slaughterhouses. HKScan cooperates closely with producers: for example, the company provides its contract producers with advisory services related to animal feeding, animal welfare, the design of farm buildings and facilities as well as the development of business competitiveness and profitability.

HKScan acquires nearly 100 per cent of its live animals from local markets, and all animals are acquired in line with the Group's animal purchase policy. The origin of the meat and the growing conditions of the animals are always known.

The success and productivity of animal sourcing is monitored by means of internal indicators to ensure the continuity and vitality of the local animal production. The achievement of strategic targets and the related indicators are also monitored.

EXAMPLE

In January 2017, HKScan opened its exports to Asia by the launch of Omega 3 pork at retail stores in Hongkong (Read more in Finnish through this link).

SUSTAINABILITY ASSESSMENT OF THE SUPPLY CHAIN

The food industry uses large amounts of meat and other raw materials, as well as energy, water, packaging materials and various services. The sourcing function has a significant effect on the Group’s sustainability, costs and efficiency.

HKScan purchases also a majority of other raw materials, products and services from its local home markets. These local purchases represent approximately 70 per cent of the Group’s total sourcing spend.

Suppliers are assessed with regard to criteria related to product safety, quality, the environment, operating methods and each procurement process. HKScan has a supplier assessment process in place to ensure that the company receives sufficient information about the raw materials, products and services that it purchases. HKScan has categorised its suppliers according to the product or service it purchases, and the suppliers are required to have the relevant certificates to ensure quality. These certificates are checked annually. In addition, HKScan has audited all of the suppliers it has classified in a risk category based on the raw material or material it purchases.

The supplier assessment process also includes the evaluation of suppliers whose operations involve ethical risks. HKScan uses the Business Social Compliance Initiative's (BSCI) risk country classification and has a specific process for assessing products coming from risk countries. The goal is to avoid risks related to ethical principles and human rights in HKScan’s supply chain.

HKScan aims to include its Supplier Guidelines in all of its supplier contracts by 2020. In 2017, suppliers committed to complying with HKScan’s ethical principles and purchasing practices represented 65 per cent of the cost of services, goods and raw materials acquired by HKScan. This proportion will increase as the contracts are updated.

HKScan uses meat purchased from outside its home markets to supplement its offering in product categories in which domestic meat is not sufficiently available. Imported meat represents around one per cent of the Group’s total meat volume used. The origin and quality of imported meat are also monitored closely, and all of the related slaughterhouses are audited to ensure compliance with the quality requirements.

RESPONSIBLE SOURCING OF SOY AND PALM OIL

The production of soy and palm oil may have significant environmental and social effects locally. As one of the largest meat producers in Northern Europe, HKScan is committed to using responsibly produced raw materials. To ensure the sustainability of soy and palm oil, we are a member of the Round Table on Responsible Soy (RTRS) and the Roundtable on Sustainable Palm Oil (RSPO).

Soy is used in animal feed because of its good protein content. In HKScan’s home markets, animal feed contains 0–20 per cent soy, depending on the nutritional needs of the animals. Most of the feed is grown locally, and many farms use food industry side streams in animal feed.

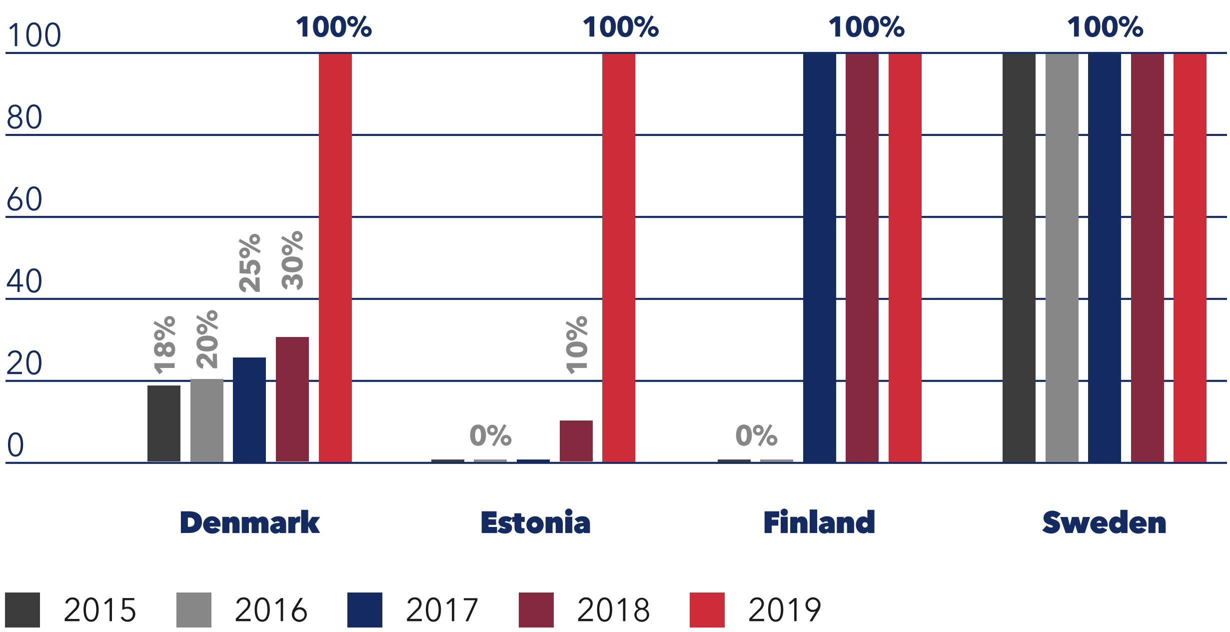
HKScan announced in 2014 that, by the end of 2018, it would only use responsibly produced certified soy in its meat value chain. This goal was achieved in Sweden in 2015 and in Finland in 2017. In Denmark, responsibly produced soy represented 25 per cent of the soy used by HKScan in 2017. Estonia will reach the goal in 2018.

The use of soy in chicken feed has been reduced by replacing soy with high-protein fodder plants growing in northern conditions. Side streams of the food industry, such as barley protein feed and mash from the ethanol and starch industry, are increasingly used in pig feed, as are local sources of protein, such as legumes and rapeseed. HKScan continuously cooperates with its feed partners and promotes the use of new domestic sources of protein in feed.

In 2017, HKScan's indirect soy footprint (animal feed) was 149 000 tonnes, and its direct soy footprint (products) was 0.6 tonnes. Read more from our Fact Sheet.

HKScan only uses small amounts of palm oil in its production. However, it is important for the company to ensure that all of this oil is responsibly produced. HKScan is an affiliate member of the Roundtable on Sustainable Palm Oil (RSPO). During 2016, the company and its suppliers examined the amounts and certification level of the palm oil used in its products. The goal is to only use RSPO-certified palm oil or replace palm oil with other oils, such as rapeseed oil, as far as possible. This issue was further examined in 2017.

USE OF RESPONSIBLY PRODUCED SOY 2015–2019



FARMING COMMUNITY

Animal sourcing at HKScan is based on contract production based on long-term partnerships and close cooperation with producers. In addition, HKScan has farms in Estonia. The development of farming communities is part of HKScan's 'From farm to fork' strategy. The person in charge of producer cooperation and its development is the Executive Vice President of Animal Sourcing and Primary Production. These operations are assessed by means of producer surveys and assessments carried out by joint collaboration groups, in addition to the results of strategy implementation and animal production, for example. Through its operations, HKScan works to ensure the continuity of food production in its home markets, maintain rural vitality and contribute to the national security of supply.

HKScan provides its contract producers with training and advisory services (link in Finnish) related to the rearing of animals, the planning of feeding (link in Swedish), animal healthcare (link in Finnish) and the design of new production facilities (link in Finnish), among other aspects.

Through its producer services, HKScan uses its expertise to support investment projects on farms, for example, in addition to strengthening producers' skills and expertise to promote their business operations. You can read more about the development of services for the producers of poultry, pork and beef in the *Kotitilalta* magazine (in Finnish). HKScan currently provides producer services in Finland, Sweden and Denmark, but is planning to expand the services into Estonia.

Producer well-being often correlates with animal welfare. HKScan organises seminars and well-being events for its producers to provide them with new and current information about the industry and an easy way to network with other producers. In 2017, HKScan organised its second cruise for its Finnish and Swedish meat producers to promote the sharing of best practices and expertise between the two countries.

HKScan traditionally acknowledges Producers of the Year in Finland and Sweden. The candidates are chosen based on their work related to animal welfare, operational development and cooperation with HKScan.

Examples of our cooperation include piggeries of the future in Värmland in Sweden and investment on beef cattle rearing in Kristiinankaupunki in Finland (links in Finnish).

ANIMAL HEALTH AND WELFARE

The good treatment of animals and the welfare of production animals are important to us for many reasons, including our ethical principles, sustainable development in our business operations and profitable growth. Our strategic goal is to be the best company in our industry in terms of animal welfare. We require that animals grow in good conditions in the right type of environment and receive good treatment. In terms of animal health and welfare, sustainability covers genetics, feeding and rearing conditions, as well as animal care on farms, during transport and in slaughterhouse operations.

Animal health and welfare are developed at HKScan in line with the Welfare Quality principles:

- Feeding: No hunger or thirst
- Rearing environment: Thermal comfort, comfort around resting, ease of movement
- Health: No injuries or diseases, no pain induced by management procedures
- Behaviour: Social behaviours and other normal behaviours, good human-animal relationships

With regard to animal health and welfare, HKScan's operations are guided by the HKScan Group's Animal Welfare Policy (link in Finnish). Animal health and welfare are based on compliance with local laws and the EU regulations, and on guidelines and operating methods adopted by the company and the industry that exceed statutory requirements. The Executive Vice President of Animal Sourcing and Primary Production is responsible for operations related to animal health and welfare at HKScan. The Group's VP Quality director is responsible for animal health and welfare with regard to slaughterhouse operations, in cooperation with the employees in charge of animal welfare at the slaughterhouses.

Animal well-being is continuously developed in cooperation with the company's contract producers and other partners. HKScan continued the further development of animal well-being in 2017.

HKScan's species-specific operating principles related to animal health and welfare are presented in the following sections:

- Poultry production
- Pork production
- Beef production
- Lamb production

More information is also available in our Corporate responsibility Fact sheet: poultry, pork and beef.

ANIMAL HEALTH AND MEDICATION

There are growing concerns about antibiotic resistance and the decreased efficiency of antibiotics in treating illnesses. Animal health is ensured through species-specific living conditions, good hygiene practices and other management (e.g. the transfer of animals within production facilities), and a high level of biosecurity. The use of antibiotics to medicate animals in HKScan's production chain is considerably lower than in European countries on average. If a diseased animal has been treated with antibiotics, our compliance with the withdrawal periods ensures that HKScan's products do not contain residues of antibiotics when purchased by consumers.

The most effective way to prevent antibiotic resistance is to only use antibiotics to treat diagnosed illnesses – this applies to people and animals alike. HKScan does not use antibiotics preventively or to promote animal growth on its own farms or its contractual production farms. The use of hormones to facilitate growth is also prohibited. When antibiotics are necessary, they are used under close supervision, only on the order of a veterinarian to treat sick animals. Our goal is to maintain a low level of antibiotic use and achieve even better results – without compromising animal welfare.

More information is available in our Corporate responsibility Fact Sheet package about antibiotics.

A HIGH LEVEL OF BIOSECURITY

We actively monitor the spread of animal diseases and their possible effects on the production chain. Preventing the spread of African swine fever (ASF) into pig farms has played an important role on HKScan's farms in the Baltic countries. We are also prepared to prevent the spread of ASF in Finland in Sweden, both nationally and at the farm level. The avian influenza epidemic at the beginning of 2017 caused us to implement even stricter measures than before on poultry farms, particularly in Denmark and Finland.

ANIMAL WELFARE, FROM THE FARM TO THE SLAUGHTERHOUSE

Training for animal transport drivers is part of the continuous development of our operations. All of our animal transport partners have the required qualifications, and their vehicles have been designed and approved for transporting animals. The authorities and the veterinarians at slaughterhouses regularly monitor the transport of animals. The appropriate and calm treatment of animals during transport is important to ensure animal welfare, safety at work and the high quality of meat.

HKScan has been cooperating with the Australian-Swedish animal behaviour expert Sophie Atkinson since 2015. Atkinson has provided training for producers and the employees of transport companies and slaughterhouses (link in

Finnish) on natural animal behaviours. She has also carried out animal welfare audits at HKScan's slaughterhouses, and the facilities have been further developed based on her recommendations, by improving access passages to increase ease of movement, among many other measures. In 2017, Atkinson carried out an evaluation and provided recommendations related to animal welfare for the sow slaughter line to be built at the Paimio slaughterhouse in Finland. An external animal welfare expert was also consulted in the planning phase of the new poultry slaughterhouse in Rauma, Finland.

HKScan has installed recording surveillance cameras in all of its slaughterhouses in its home markets, most recently in its Swedish units during 2017. The cameras are located in areas that are critical in terms of animal welfare. Camera surveillance increases transparency in the production chain and strengthens consumers' and customers' trust in the sustainability of our operations.

AUDITS AND MONITORING AS PART OF DAY-TO-DAY OPERATIONS

Audits carried out by the authorities, experts and customers are part of day-to-day operations at HKScan. Official veterinarians are present at all slaughterhouses on a daily basis, and operations are continuously monitored through internal and external audits.

EXAMPLES

1. One of HKScan's partners in Finland took into use a modern semi-trailer designed especially for the transport of pigs (link in Finnish).

2. New vehicles (link in Finnish) were also taken into use for the transport of beef cattle and calves.

3. In the summer 2017, HKScan launched Finnish "No Antibiotics Ever" pork products in its export markets. The animals have been healthy throughout their lives and have never been treated with antibiotics.

4. In September 2017, the company launched its Opti-Pekoni pig feeds in Finland. The new feed concept is intended to ensure pig welfare and further improve productivity.

5. As one of the first companies in the world, HKScan has introduced a chicken rearing method (link in Finnish) in Finland that enables chicks to hatch in the henhouse, instead of in separate hatcheries. This further improves animal well-being, because the broilers are not moved to another location after they have hatched.

BROILER CHICKEN MEAT PRODUCTION

HKScan's poultry production farms are located in Finland, Denmark and Estonia. All poultry production at HKScan is carried out as contract farming in close cooperation between HKScan and farmers, or as own production in Estonia. We offer guidance and training to our contract producers, and, in Finland and Estonia, also animal healthcare services. In Finland, our chicken product brand is Kariniemen®, in Denmark Rose® and in Estonia Tallegg®. The number of broiler chicken slaughtered in HKScan's slaughterhouses in 2017 were 93 million birds.

PRACTICES IN ANIMAL HUSBANDRY

The breed used in conventional poultry production is Aviagen Ross 308 in all countries. The breed has its origins in Sweden. In Denmark, the breed used in organic production is CYJA57 (Hubbard).

Birds are reared indoors, in separate chicken houses where the floor is covered with fresh litter, most commonly peat. The housing conditions are carefully monitored and controlled at least twice a day, both based on sensory analysis and meters. Whole grain is added to feed for enrichment and welfare, as it is good for gizzard. The maximum rearing density is 42 kg/m² in Finland and 39 kg/m² in Estonia and Denmark. Rearing is operated with the principle "All in – All out". Thinning* is not practiced in Finland or Estonia and the batch of birds is transported to slaughter as a group. In Denmark, thinning can be practiced occasionally. The used litter is removed and the facilities thoroughly washed, disinfected and dried carefully between every batch. Biosecurity is at a high level at production houses, which among other rearing practices, results in healthy animals and good animal welfare, preventing outside pathogens from entering production houses.

In Denmark, organic broilers are reared according to the regulations for the production of organic slaughter chickens, as described in the Instructions for Organic Farming Production. The birds also have outdoor possibilities.

INITIATIVES TAKEN THAT ENHANCE ANIMAL WELFARE

IN FINLAND

- During hot summer days, the density of birds loaded into transportation crates is decreased to avoid heat stress during the loading and transportation.
- Most of the farmers participate in voluntary animal welfare subsidy programme, which stipulates the use of chick paper, feed analysis and a feeding plan and/or enrichment, such as the use of pecking objects and perches.

- All broiler houses are required to have a fogging system. The foggers are used during the chick period to increase the humidity and during the hot season to lower temperature.

IN DENMARK

- During hot summer days, the density of birds loaded into transportation crates is decreased to avoid heat stress during loading and transportation.
- All farmers participate in a KIK programme, which ensures effective reporting regarding animal welfare.
- Nearly all broiler houses are equipped with a fogging system. The foggers are used during the chick period to increase humidity and during the hot summer season to lower temperature.

IN ESTONIA

- During hot summer days, tunnel-ventilation is used in broiler chicken houses.

Read more about broiler chicken rearing and animal health and welfare practices at HKScan from the Corporate Responsibility Fact sheet.

PHYSICAL ALTERATION PRACTICES

While beak trimming is allowed and practiced commonly in many countries, it is not practiced at HKScan’s production farms in any of the HKScan’s operating countries.

In Finland, beak trimming has been forbidden by national law since 1986. In Estonia, national law allows it in certain conditions, but beak trimming is not practiced at all due to HKScan’s own decision. Denmark’s national law also allows beak trimming in certain conditions, but it is not practiced at HKScan’s broiler breeding farms. However, in Danish hatcheries where parent stock broilers are hatched and delivered to HKScan, some birds can be trimmed immediately after hatching. As HKScan does not view beak trimming as a good practice, the company has started negotiations with the Danish supplier aiming to find such housing conditions and practices that will allow the beak trimming of parent stock to be halted.

ANTIBIOTICS AND HORMONES

The use of antibiotics at farms is strictly controlled and supervised by legalised veterinarians. No hormones or other growth promoting treatments are used in broiler production. In Finland, broiler flocks have been so healthy that no antibiotic treatments have been used since 2010. In Denmark and in Estonia, the use of antibiotics is carefully supervised and followed. In primary production, work is done so that medicines are needed as little as possible.

Read more about antibiotics and HKScan’s practices from the Corporate Responsibility Fact sheet.

USE OF COCCIDIOSTATS AS FEED ADDITIVES

Ionophore coccidiostats are used in poultry feed to prevent the coccidiosis infection in HKScan’s operating countries. In the European Union, coccidiostats are registered as feed additives. Coccidiosis is a protozoan (Eimeria) commonly found in a broiler production house environment and it can cause a vigorous chicken intestinal tract infection. Attempts to eradicate Eimeria-protozoan have been unsuccessful. The disease can lead to intestinal lesions, diarrhoea, poor weight gain, poor feed conversion and, in some cases, death.

DEVIATION IN ESTONIAN HATCHERY OPERATIONS

HKScan takes animal welfare seriously and acts to prevent risks that may endanger animal welfare. In August 2017, HKScan's Estonian hatchery operations showed a serious deviation in the handling of non-viable day-old chicks and unshelled embryos. The case was immediately investigated and corrective measures were taken. In addition, relevant training and guidance was provided to the personnel. The hatchery was audited by an external animal welfare expert.

*More information about the thinning and welfare of broiler chickens can be found from RSPCA's recommendation: A major welfare improvement for chicken linked to safer meat for customers, RSPCA bans 'thinning', which has been linked to higher rates of campylobacter.

EXAMPLES

1. HKScan has pioneered by establishing a new concept for the chicks to be born on the farm they are raised rather than at a separate hatchery. HKScan is among the first companies in the world to carry out this innovation. By eliminating the need for the transportation of chicks from hatchery to farm, the concept marks an improvement in animal welfare. The chicks are provided with water and feed immediately after being born, which contributes to their welfare and development of an immune system.

2. In the autumn 2017, the slaughter of broilers was transferred to a new slaughterhouse in Rauma. In the new slaughterhouse, attention was especially paid to the welfare of broilers. Immediately after their arrival, chickens are moved from the transport vehicle into a separate sealed reception warehouse where the environmental conditions can be strictly monitored and the broilers can rest after transport. From the reception warehouse, carbon dioxide is passed into the transport packages of the broilers, so the birds do not need to be treated before stunning.

BEEF PRODUCTION

At HKScan, beef production is carried out as contract farming, in close cooperation between HKScan and farmers. We provide guidance, training and feeding concepts to our farming community, and, in some countries, also animal healthcare services. Our beef cattle rearing farms are located in Finland and Sweden. In Finland, our beef product brand is HK® and in Sweden, Scan®. In Estonia, all cattle slaughtered by HKScan is purchased from well-known suppliers and products are sold under the brand of Rakvere®. The number of cattle slaughtered in HKScan's slaughterhouses in 2017 were 200 000 animals.

BETTER WELFARE STANDARDS

HKScan has a Quality Programme for beef cattle rearing farms in Finland. HKScan aims to high level production quality and animal welfare on the farms. The farms committed to the programme are called Quality Farms and in 2017, 66 per cent of young cattle meat used in HKScan's production came from these farms. The Quality Programme Guidelines are set for animal husbandry, animal housing, feeding, herd health and treatment. There are also minimum requirements for space, ventilation, lighting and lying comfort, which are above legislation requirements.

To get the status of a Quality Farm, the farms have to be validated by HKScan. Monitoring is carried out through the National Heard Health Register Naseva, where all data received from regular healthcare visits performed by local veterinarians is recorded. The status of a Quality Farm requires registration with Naseva and all animal care related information has to be saved in the Naseva system. Additionally, HKScan experts visit farms on a regular basis and inspect compliance with animal welfare requirements set for Quality Farms. Producers are paid a quality fee, encouraging to foster higher animal welfare.

CATTLE BREEDS

In Finland, of the total of slaughtered cattle, 82.0 per cent is from dairy breeds and 18.0 per cent from beef breeds. In Sweden, there is no availability of these kinds of statistics at the moment.

Slaughtered cattle	Dairy breeds 82.0%	Slaughtered cattle	Beef breeds 18.0%
Finnish Ayshire	45.5 %	Hereford	31.2%
Holstein	38.7 %	Charolais	20.7%
Crossbreeds	14.2 %	Aberdeen Angus	22.5 %
Original Finnish cattle	1.1%	Limousin	12.1%
Jersey	0.4 %	Simmental	11.3 %
Brown Swiss	0.1%	Blonde d`Aquitaine	2.0 %
Montbeliard	0.0 %	Piemontese	0.1%
		Highland cattle	0.1%

PRACTICES IN ANIMAL HUSBANDRY

HKScan's contract rearing farms in Finland and Sweden are committed to strict instructions with regard to rearing, feeding, healthcare and biosecurity. Beef cattle are reared in cowsheds and cold loose barns, as well as in pens and pastures. Beef breed cattle calves are born on suckler cow farms, where they graze with their mothers up to the age of approximately six months. After this, the calves are relocated to specialized rearing farms or remain at their birth farm. The finishing of beef breed cattle is always performed in cold loose barns with litter. Calves born on dairy farms are relocated to a calf rearing or finishing farm between the age of two weeks and three months. The teenage calves from a calf rearing farm are relocated to the finishing farm at the age of six months.

The pen laying area for young calves under two months has a solid floor, which is soft and well littered. Fattening bulls and heifers are housed in warm barns or in cold loose barns on a solid or partly slatted floor, mostly in groups of 10–30 bulls. In cold loose barns, bedding and peat or straw is used as litter. At the Finnish Quality Farms, beef breed cattle bulls are always housed in cold loose barns with peat or straw littered ground. For other Quality Farms, it is required that there is a soft laying area covered with perforated rubber mat or litter.

There has been a lot of discussion about the lying comfort and welfare of bulls on solid floor housing. HKScan recommends that farmers increase the use of rubber mats as floor coatings. Covering floors with perforated rubber mats enhances the wellbeing of bulls, reducing leg problems. As a result, the use of rubber mats has increased quickly. All new housing building plans now include a laying area with soft bedding. According to Swedish legislation, a slatted floor with no rubber mats is only allowed for calves under 4 months in buildings taken in use before 2010. In all new housing buildings, the floor has to be solid or bedded with mats.

Read more about Cattle and HKScan's practices from the Corporate Responsibility Fact sheet.

PHYSICAL ALTERATION PRACTICES

Many physical alterations that are common to cattle production animals are not in use in Finland or Sweden. The only procedure which is allowed is the disbudding of calves in dairy cattle and at calf rearing farms. Bull calves are normally not castrated and tail docking is forbidden.

If young bulls are castrated, the operation is only allowed to be performed by a legalised veterinarian under proper anaesthesia. Castration might be done to bulls that are used as "teaserbulls" or which are kept on pasture with female animals. Tail docking is not necessary and it has never been used as a preventive measure in Finland or in Sweden. If needed e.g. in case of an injury or inflammation, the tail can be docked by a veterinarian, under anaesthesia and pain relief.

According to the Finnish legislation, disbudding of calves or dehorning is still allowed for calves under 4 weeks if performed by a competent person. Disbudding of calves is common because horns are a safety risk for animals and humans. It is known that the operation is painful to the calves and, therefore, HKScan recommends that it should only be done by a veterinarian and only with the use of sedatives, local anaesthesia and painkillers. This is a mandatory requirement for HKScan's Quality Farms and calf rearing units. According to the Swedish legislation, the operation has to be performed by a veterinarian with the use of sedatives, local anaesthesia and painkillers.

ANTIBIOTICS AND HORMONES

Antibiotics, anti-inflammatory drugs and hormones are only used for veterinary reasons. The use of antibiotics on farms is strictly supervised by legalized veterinarians and no antimicrobial treatments are used to promote the growth of cattle.

Use of prophylactic antimicrobials is forbidden at HKScan's fattening bull and calf rearing contract farms. Use of fluorocinolones and the use of third and fourth generation antibiotics is not allowed on Quality Farms and calf rearing units. The extended spectrum or long acting macrolides can only be used based on microbiological diagnosis or bacterial sensitivity testing, but never as the first line of treatment. The producers of HKScan are committed to following the guidelines of HKScan and national food safety authorities.

Legislation in Finland and Sweden does not allow the use of hormones for the purpose of growth stimulation. Hormones are used by veterinarian's prescription for cows, mostly for dairy cows e.g. as a treatment for fertility problems. Hormones are very seldom used for beef cows, and, if occasionally used, the purpose is to stimulate milk ejection or to treat a uterine inflammation.

Read more about antibiotics and HKScan's practices from the Corporate Responsibility Fact sheet.

ANIMAL WELFARE NON-CONFORMITY

There have not been any illegal offences resulting in a fine or penalty within our own beef cattle production operations in 2017. We strictly follow our methods and practices and, in case of any deviations, take corrective actions immediately.

PORK MEAT PRODUCTION

The majority of HKScan's pork is produced by contract farmers and a part is produced at HKScan's own production facilities in Estonia. HKScan's producer services include various development programs to the farming community of the Group. The focus of the services is to optimize the productivity of the pork chain by providing area guidance (management, feed, genetics, building, veterinary services) and trainings. Another key focus are is animal health and welfare – healthy and satisfied animals are also productive. Within the pork chain, farms specialise themselves in either multiplying farms where the next generation of sows are reared, sow farms where the piglets are reared, finishing farms or even a combination of these.

In Finland, our pork meat product brand is HK®, in Sweden Scan® and in Estonia Rakvere®.

The number of pigs slaughtered at HKScan's slaughterhouses in 2017 was 1.8 million animals.

GENETICS

The sow line genetics used in the HKScan's pork chain is mainly based on the Topigs Norsvin and Danavel sow lines. In Finland, the majority of the sows are hybrids and in Estonia, the sows are both hybrids or rotational crosses (sic-sac). In Sweden, both hybrids and rotational crossings are common. In Finland and Estonia, the Duroc is used as a sire line, and in Sweden, the Hampshire.

PRACTICES IN ANIMAL HUSBANDRY

The pigs are housed in well insulated buildings, which are designed and constructed for pig housing according to strict regulations. These regulations differ by country, and as a result, there exist different housing systems within the HKScan pork chain.

On average, sows give birth for the first at the age of one year. After a gestation period of 115 days, 14–16 piglets are born. On average, a sow has a birth interval of 155 days, which means that she gives birth 2.35 times per year. The piglets stay, on average, four weeks with their mother. After weaning, the piglets are housed in nursery sections, where they remain until they are around 30 kg. Most of the piglets reach this weight at the age of 10–11 weeks. At 30 kg, the piglets are transported to the finishing farms where they stay until they reach 115–120 kg. The finisher pigs gain slaughter weight within 5,5–6 months.

The sows are housed according to local regulations, which are in line with the EU standards. In Finland and Estonia, the sows are housed in individual stalls from weaning until four weeks after insemination and from one week before birth until weaning. After the sows are tested for pregnancy, they are moved to the gestation area, where they can move freely for the remainder of the gestation period. According to the Swedish legislation, the sows can move around freely during the insemination, gestation and farrowing phases.

In free farrowing, the sows are able to move and act according to their natural behaviours. However, piglet mortality might rise and piglets can suffer, for example, from the gangrenes of ears and tails, as the sow can trap them. In contrast, the farrowing pen is often cleaner in the traditional cage housing, where the sow cannot move as much. From the animal welfare point of view, there are pros and cons with both systems. HKScan will continue to further develop animal welfare and find out about the possibility of free farrowing also in other countries than Sweden.

At HKScan's production farms, tail-biting is prevented by offering good living conditions and care, such as sufficient space, enrichment materials, high quality feed and preventive health care.

The nursery and finisher pigs are fed by both dry and liquid feed. Piglets are fed by dry feed automats or by liquid feed in troughs. The majority of the finishers are fed liquid diets in long troughs. Diets consists of local grains and by-products from the ethanol and dairy processing. During the nursery period, the piglets often receive 2–3 different diets so that the nutritional needs of each particular phase are fulfilled. Finishers also often get 2–3 different diets.

Together with its partners, HKScan continuously develops the feeding of the animals. In recent years, focus has been on the use of local protein sources such as beans, meat quality enhancing feeding (rapeseed pork) and gut health supporting feed concepts for sows and piglets. In 2017, HKScan launched a new feed concept for piglets, which creates good conditions for their welfare. In addition, specific feed concepts have been developed for sows and fattening pigs, in cooperation with our feed partners. Pig feed consists of local grains and protein plants, co-products from the food industry and soy. The feed mixture is varied during the different production phases, aiming towards the best growth and welfare for animals.

Read more about pigs and HKScan's practices from the Corporate Responsibility Fact sheet.

PHYSICAL ALTERATION PRACTICES

Tail docking is prohibited in Finland and in Sweden. Tail docking is allowed in Estonia only if animal welfare is under threat by tail biting.

Entire boars produce an unpleasant boar taint into the meat which consumers are not used to. Entire males also fight more often than castrated pigs, which causes them wounds, pain and stress. For this reason, all male piglets are castrated surgically in Finland by the farmer during their first week of life. In Finland, producers of HKScan have been required to use pain medication prior to castration since November 2011. All male pigs are castrated in Estonia on the third day after their birth and pain medication is given.

Since 2016, in Sweden, all castrations of male boars are forbidden without local anaesthesia. Other alternatives include vaccination against boar taint or raising boars to slaughter. Only farmers who have received appropriate training are allowed to perform castrations.

Teeth-grinding is not performed as a routine in Finland. Teeth grinding is only allowed if the piglets' sharp teeth cause the sow problems. The piglets cannot be older than seven days at the time of grinding and it is required by law that the farmers first assess and improve the conditions and management of the pigs. Teeth grinding is not performed in Sweden and Estonia.

ANTIBIOTICS AND HORMONES

In all of the HKScan's pig production countries, the use of antibiotics in the pork chain is strictly supervised by legalised veterinarians and no antimicrobial treatments are used to promote pig growth. The use of antimicrobials is at a low level in comparison with the European and global practices.

Penicillins and Tylosin are the most used groups of antibiotics in both finisher pigs and weaned piglets. The use of third and fourth generation cephalosporins, fluoroquinolones and extended spectrum or long acting macrolides are only allowed based on microbiological diagnosis, bacterial sensitivity testing and, never as the first line treatment.

Read more about antibiotics and HKScan's practices from the Corporate Responsibility Fact sheet.

The use of hormones for the purpose of growth stimulation is forbidden in all HKScan's operating countries. Hormones can be used if prescribed by a veterinarian for the induction of parturition, treatment of uterine inertia, stimulation of milk ejection, estrus synchronization or the treatment of fertility problems.

ANIMAL WELFARE NON-CONFORMITY

There have been no illegal offences resulting in a fine or penalty within HKScan's pig production operations in 2017. We strictly follow our methods and practices and, in any case of any deviations, take corrective actions immediately.

EXAMPLE

High level of animal welfare: 100% "No antibiotics ever" pork production. HKScan launched the "No antibiotics ever" pork meat products from Finland to the company's export markets. The animals have been healthy for their entire life and, hence, there has been no need to treat them with antibiotics.

LAMB MEAT PRODUCTION

The majority of HKScan's lamb production is based on contract farming, as well as close cooperation between HKScan and the family farmers. We provide guidance and training to our contract farms. HKScan has sheep and lamb production only in Sweden, where lamb meat is sold under the Scan brand. HKScan cooperates with approximately 2 500 lamb producers in Sweden and there are around 100 000 animals reared.

LAMB BREEDS

Our lamb breeds in Sweden are most commonly either landraces from Sweden or Finland or meat breeds imported from other countries. Landraces include e.g. Gotland sheep, Fine-wool sheep and Rya-sheep. Meat breeds are e.g. Texel, Leicester, Oxford, Suffolk and Dorset horn down. It is also common to cross different breeds in order to combine their good qualities. All breeds are used for the production of lamb meat. Gotland sheep, after the characteristic curly fur, is the largest of the breed.

PRACTICES IN ANIMAL HUSBANDRY

Housing buildings are not heated and have open space. This ensures that the lambs stay in groups and get enough light and fresh air. Older stables, previously used for dairy production and pig production, are often used. It is not very common to have newly built stables for lamb production.

The lambs live in groups, have straw beds and can move freely. A slatted floor is not allowed for sheep and lambs in Sweden. The practices concerting feeding space, moving area and the ability to get fresh water are defined by law.

The age of lambs at slaughter varies between 3 months and 12 months. Lambs born during the winter stay indoors with more concentrated feeding. As a result, they grow faster than lambs born in the spring and are ready for slaughter only after 3–4 months. Lambs born in the spring always graze outside, as required by the laws and regulations. Grass-fed lambs grow more slowly and are ready for slaughter after 5–12 months. Sheep and lambs perform an important task in grazing and keeping the landscape open. In addition, grass used for feed or grazing is important for the CO_2 binding process. The average weight of a carcass is 18.5–19.5 kilos.

PHYSICAL ALTERATION PRACTICES

Ram lambs are normally not castrated in Sweden, unlike in other prominent lamb and sheep production countries over the world. Tail docking is neither allowed in Sweden.

ANTIBIOTICS AND HORMONES

The use of antibiotics at farms is strictly supervised by legalised veterinarians and no antimicrobial treatments are used to promote the growth of lambs. In Sweden, the level of using antimicrobials for food producing animals is one of the lowest in Europe. The use is restricted by national legislation. The prophylactic or metaphylactic use of antimicrobials is forbidden.

The Swedish legislation forbids the use of hormones for the purpose of growth stimulation. Hormones are only used, if prescribed by a veterinarian, for ewes, mostly for heating synchronisation.

Read more about antibiotics and HKScan's practices from the Corporate Responsibility Fact sheet.

ANIMAL WELFARE NON-CONFORMITY

There have been no illegal offences resulting in a fine or penalty within our lamb production operations in 2017. We follow our methods and practices and, in any case of any deviation, take corrective actions immediately.

EXAMPLE

At Linköping slaughterhouse, HKScan invested in a restrainer technique, which significantly lowers stress when handling lambs before stunning. The system is unique in Sweden.

ENVIRONMENTAL RESPONSIBILITY

HKScan works systematically to reduce its environmental impact and to increase its sustainable use of natural resources. The company is committed to continuous development of its operations. HKScan's environmental impact is mainly local, but the company also has an impact on the global scale by contributing to the state of the planet, for example by reducing greenhouse gas emissions. The company's operations also have indirect environmental effects, for example through meat production and the sourcing of services, products and commodities. Starting with its principle of "From Farm to Fork", the company takes a responsible approach to the environment and sets environmental requirements for its suppliers as well.

At HKScan, we believe that following the principles of the circular economy makes it possible to develop food systems that use resources more efficiently than ever before. Our goal is, wherever possible, to keep the resources we have already used once in a cycle, and to create new business or improve the company's profitability through cost savings. Examples include the recovery and recycling of energy and waste, water and other materials. Making use of the entire carcasses of animals and all their parts is also in line with the principle of the circular economy.

The focus areas of HKScan's environmental work are energy efficiency, greenhouse gas reduction, water and wastewater management, material efficiency, and waste management, recycling and reuse. Environmental impacts are measured regularly, and measurable targets are set for developing operations. With respect to environmental indicators, targets are still being set at the level of the entire group. These will be set in 2018.

HKScan's environmental work is driven by the company's environmental policy (link in Finnish), and by the guideline on committing to reductions in energy use. With the exception of the Danish production facilities, all the company's production facilities have an environmental management system in compliance with the ISO 14001 standard. In addition, all the production plants in Sweden have the ISO 50001 energy management certificate. Development of HKScan's environmental work is the responsibility of the company's EVP Operations. HKScan had no serious environmental legislation violations in 2017.

Read more about environmental impact of our production sites and achievements to mitigate them from our Fact Sheet.

ENERGY EFFICIENCY

HKScan's active approach to ensuring efficient use of energy is aimed at reducing the company's environmental footprint and improving cost-effectiveness over the long term. Improving energy efficiency is also an important part of our commitment to reducing greenhouse gas emissions.

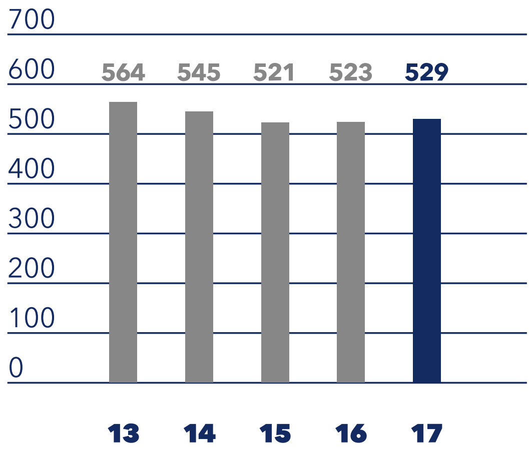
THE ENERGY-EFFICIENCY PROJECT FELL SHORT OF THE TARGET

In 2015, HKScan launched an energy-efficiency project with the aim to reduce energy consumption relative to net sales by 10 per cent over the period 2014–2017. Over the course of the energy-efficiency project, energy consumption in relation to net sales turned out to be -0,29 per cent. The reason for not reaching the target is due to the reduced sales during the period. Total energy consumption measured in GWh decreased by 3 per cent from 2014 to 2017. In 2016, total energy consumption fell by 5 per cent compared to 2014.

Although the energy efficiency target was not reached we have worked actively. In fact over the course of the project, energy efficiency was improved in production facilities through measures aimed at streamlining and rationalising operations. Total energy consumption decreased in HKScan's operations in Sweden, Denmark and Estonia relative to the 2014 baseline. Total energy consumption in Finland increased, affected by some investments that have been made. In 2016, HKScan acquired the Forssa business operations of Pakastamo Oy, and the Rauma poultry production plant, opened in 2017, is operating concurrently with the Eura plant. Production in Rauma will replace the production operations at the Eura plant, which will be shut down in 2018.

A lot of valuable research and reporting have been accomplished and several production facilities developed detailed plans on the basis of this work in 2017. The implementation of the plans will continue in 2018, and the results will be visible over the coming years. These measures will also improve energy efficiency.

ENERGY CONSUMPTION GWH



ENERGY REVIEWS CONTINUED

HKScan continues to systematically carry out energy reviews to find targets for energy-saving measures, and to meet the European Union's Energy Efficiency Directive. The reviews were carried out at HKScan's production facilities in Sweden, Poland and Denmark during 2015 and 2016, and in the Baltic countries and Finland the process has been ongoing in 2017. HKScan's production facilities in Sweden are also certified in accordance with the ISO 50001 standard. Both energy audits and certification processes have helped HKScan to identify several development areas. Development activities have resulted in improving energy efficiency, and further improvements will also be made through future investments.

One aim of projects to improve energy efficiency is to measure energy and water consumption at each specific production plant to identify new savings potential. Meters have been installed in the production plants to transmit the consumption data for energy and water use directly to an electronic system. The system was introduced in 2017. HKScan will increase the number of these meters throughout 2018, enabling more accurate consumption rates and more sophisticated consumption tracking.

EMPLOYEES PARTICIPATE IN IMPROVING ENERGY EFFICIENCY

Each HKScan employee can affect energy consumption in the company. HKScan is committed to the continuous improvement of energy efficiency, and good examples of this are the energy efficiency development teams that operate in production facilities. Ideas and suggestions from employees are collected and assessed, after which the development proposals are selected for implementation. The implementation is monitored and the results are reported to the development teams. In addition, HKScan runs annual energy efficiency training courses for personnel at certified production plants. The courses are based on the ISO 50001 standard.

EXAMPLES

1. In Finland, HKScan renewed its commitment to the food industry's Energy Efficiency Agreements (EEA) for the period 2017–2025. By being part of the Energy Efficiency Agreements in its field, HKScan takes responsibility for meeting the national energy efficiency target. Energy Efficiency Agreements are part of the national energy and climate strategy, and are an important way of promoting energy efficiency voluntarily, without the need for legislation.

2. At HKScan's production facilities in Finland, a number of efforts have been made towards meeting the energy

efficiency targets. The energy reviews in Forssa and Vantaa brought to light several areas for improvement. Several investments were made in 2017 to improve energy efficiency, such as investments in new equipment and energy recovery systems. Design and testing of new and more efficient technologies was initiated in partnership with partners. Efforts were also made at the production plants to find new opportunities for improvement by analysing everyday work practices. In 2017, HKScan opened a new production facility for poultry meat in Rauma, and the winding down of operations at the Eura production facility began. The Eura production facility will operate in parallel with the Rauma facility until April 2018 at the earliest. The new production plant in Rauma is highly energy-efficient, owing to the new equipment and the use of the best available technology.

3. All production plants in Sweden are certified according to the ISO 50001 standard. Several measures were taken in 2017 to improve energy efficiency in the facilities in Sweden, for example by overhauling ventilation systems and installing LED lights. The energy consumption rate at the production plant in Linköping fell by about 500 MWh over the course of 2017, continuing a trend that has been ongoing for the past five years.

4. At the Skara production plant in Sweden, the energy-efficiency review conducted in accordance with the ISO 50001 standard gave rise to six energy efficiency projects. The first of these was completed in autumn 2017, and the second will be completed in spring 2018.

5. An energy efficiency review was carried out at the Rakvere production plant in Estonia, and this has led to several proposals for saving energy. In 2016, energy efficiency was improved at the Rakvere plant by installing a heat pump to recover and store energy from the wastewater treatment process. The benefits of this investment became evident in 2017, when the consumption of natural gas for that year was 10 per cent lower than in the previous year. In addition, a new frequency converter was installed on the 500 kW ammonia compressor, which resulted in a five per cent reduction in total energy consumption at the Rakvere plant. Reverse osmosis equipment was installed in the water boiler, bringing a reduction of three per cent in natural gas consumption. At the Tabasalu facility, a reduction of six per cent in natural gas consumption was achieved through the adoption of air compressors that use recovered heat to heat water.

6. In Denmark HKScan is now using more energy-efficient air compressors and ventilation units.

7. In Poland and Latvia, energy consumption in 2017 was reduced by switching to LED lighting. In Poland, energy efficiency was also improved by cleaning the waste heat recovery exchangers in the hot-smoking tunnels more regularly.

8. Energy consumption could be further reduced in several production plants by testing compressed air and vacuum systems for leakages.

9. In Finland, the Forssa production plant achieved a notable reduction in energy consumption when the usage times of a number of large vacuum pumps were changed on the initiative of a maintenance worker.

10. At the Rakvere pork farm, energy efficiency is improved by adopting a completely new ventilation system. This will come into operation in 2020. HKScan is investing is a cooling system for sludge, with the aim of using the heat recovered by this system for heating. In addition, air quality is improved by removing ammonia from it. The investments are expected to create energy savings of 70 per cent from 2011 levels.

GREENHOUSE GAS (GHG) EMISSIONS

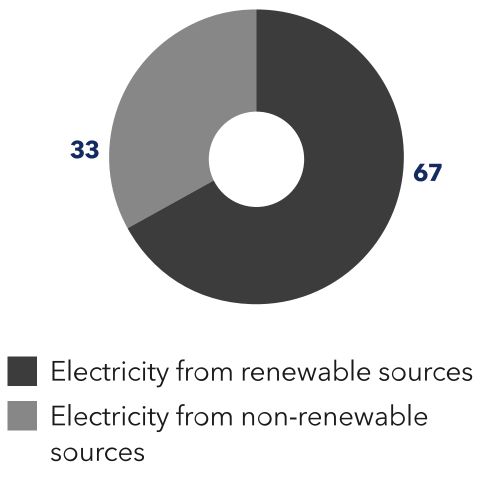
HKScan wants to contribute to combatting climate change, the most serious environmental threat of our time. To this end, we have measured the greenhouse gas emissions produced since the start of 2014, for both direct and indirect emissions (Scope 1 and 2 emissions, respectively). Our success so far in reducing greenhouse gas emissions is due to a number of factors like the switch in the production plants to electricity produced from renewable sources, and the use of other renewable energy sources such as biogas improved energy efficiency. A slight improvement in energy efficiency also contributed to reducing greenhouse gas emissions.

HKScan Group's total greenhouse gas emissions decreased by a total of 46 per cent, or 109 000 tonnes, from 2014 to 2017. In 2017, the group's greenhouse gas emissions were 129 500 tonnes of carbon dioxide equivalent (CO_2e).

The biggest change was in indirect emissions (Scope 2), which decreased by 53 per cent (95 241 tonnes) from 2014 to 2017. The group's operations in both Sweden and Finland each cut their emissions factors by about 40 000 tonnes. This was achieved by switching to electricity supplies generated from renewable sources. Electricity procurement in Poland has also switched to renewable energy sources. Overall, this resulted in a reduction of 82 000 tonnes, or 48 per cent, in indirect CO_2 emissions (Scope 2).

Of the total amount of electricity consumed in HKScan's operations, 67 per cent was generated from renewable and 33 per cent from non-renewable sources.

ELECTRICITY SOURCES IN 2017: RENEWABLE, NON-RENEWABLE %

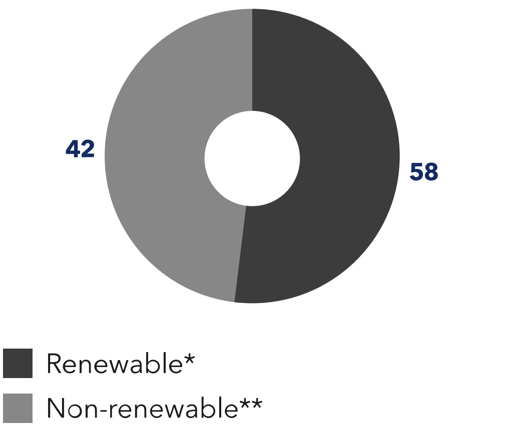


Emissions from heating decreased 9 000 tonnes or 17 per cent compared to 2014. For 2014 and 2015 the emissions for the steam production was defined as scope 1 while they are defined as scope 2 (purchased steam) for 2016 and 2017. In Finland nature gas is used for producing steam.

The emissions from travel are in the same range as in 2014. Emissions from freezing and anesthesia is about 17 per lower than in 2014, and refrigerant GHG emissions are down by 44 per cent. Emissions from transports in total are down by almost a third, 28 per cent, since 2014.

From consumed total energy in HKScan's operations 42 per cent was renewable origin and 58 per cent non-renewable origin.

ENERGY SOURCES IN 2017: RENEWABLE, NON-RENEWABLE %

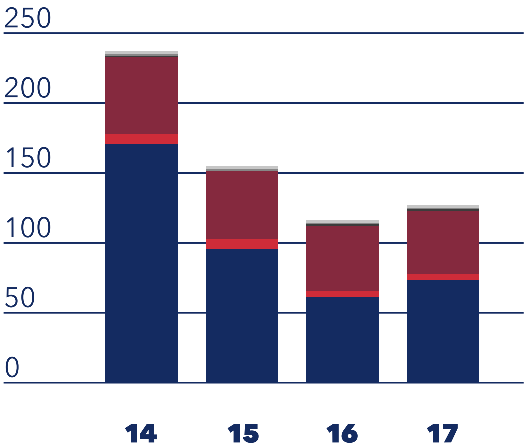


*Electricity from renewable sources, District heating from renewable sources, Biogas, Wood pellets

**Electricity residual mix, District heating from non-renewable sources, Natural gas, LPG, Oil

The emission factor for the residual mix energy production in the Nordic region decreased by 27 per cent between 2014 and 2017. However, the factor increased by 4 per cent between 2016 and 2017. The residual electricity mix emission factor has also changed in non-Nordic countries, such as Latvia, where the emission factor of residual electricity mix has doubled since 2014, and in Estonia, where it has decreased by 15 per cent since 2014.

GREENHOUSE GAS EMISSIONS
2017 (2014)
THOUSAND TONS CO_2e



- Travel 2 (2)
- Transport 1 (1)
- Refrigerants 0.5 (1)
- Heating 46 (56)
- Freezing and anesthesia 6 (7)
- Electricity 74 (172)

Total 129.5 (239)

Direct (Scope 1) and indirect (Scope 2) GHG emissions according to the Greenhouse Gas Protocol.

An error in the reported figures for greenhouse gas emissions in 2016 has been corrected in this report. The total greenhouse gas emissions in 2016 were 117 000 tonnes (reported 112 000 tonnes), and greenhouse gas emissions decreased by 51 per cent (reported 53 per cent).

Direct (in line with Scope 1) and indirect (in line with Scope 2) greenhouse gas emissions account for about 10 per cent of total emissions from meat production in the Farm to Fork chain. Emissions before and after (in line with Scope 3) HKScan's operations are over 90 per cent. Animal production is clearly the largest source of emissions.

Read more about the environmental impacts of animal production and about our work according to the circular economy approach.

EXAMPLES

1. In Finland, HKScan only uses electricity generated using renewable sources. In 2016, the company switched exclusively to renewable electricity at all of its Finnish production plants and offices. In addition to renewable electricity, much of the district heating used in Finland is produced by renewable energy sources. The company continued its work on reducing its carbon dioxide emissions.

2. At the new Rauma plant, heavy and light fuel oil has been replaced with liquid petroleum gas (LPG) and district heating. Over 90 per cent of the district heating used is produced with renewable energy sources.

3. HKScan's production plants in Finland switched to liquefied gas and LPG for running equipment, in place of heavy fuel oil. Among the benefits of this change are reduced emissions. This is a step towards making a switch in the future to biogas made from renewable sources.

4. In Sweden, the Linköping plant became part of the municipality's Linköpings Initiativet. This is a cooperative effort the city's largest electricity consumers to support the municipality by lowering its carbon dioxide emissions to zero by 2025.

5. HKScan is a member of the Haga Initiative climate change programme in Sweden, and participates actively in the activities of the network.

6. HKScan decided to invest in biogas at the Kristianstad production plant in Sweden. This will make it possible to lower emissions by 3,200 tonnes per year compared to the emissions from liquefied natural gas. This is a

reduction of 83 per cent.

7. At the Halmstad cold-smoking plant in Sweden, a project has been launched with the aim of significantly reducing the consumption of natural gas. The new system will come into operation in the second half of 2018.

8. At the Skara plant, the replacement of diesel forklifts with electric trucks is being tested.

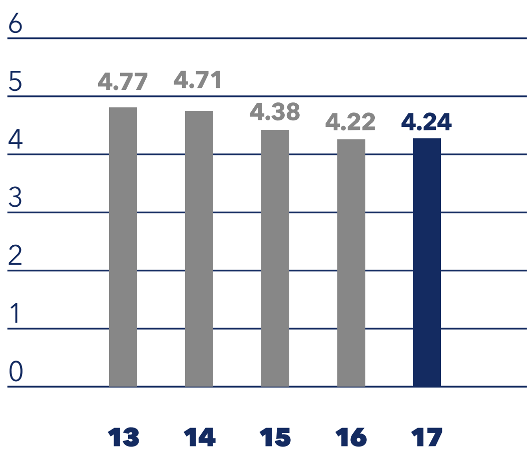
WATER USE AND WASTEWATER

WATER USE

Water plays an essential role in cleaning facilities and equipment in food production plants, and in maintaining production hygiene. Only a small fraction of the total water consumption is used in manufacturing the products. HKScan measures and optimises the consumption of water used at it production plants, without compromising food safety.

HKScan's water consumption increased by 0.4 per cent from 2016 to 2017. Water consumption in Finland increased due to the Rauma production plant coming online, and its partial overlap with the Eura plant. The water consumption of the production plants in Sweden, Denmark and Estonia decreased, and the other Finnish production plants followed the same trend. In Finland, water consumption decreased by six per cent. Over the last five years, HKScan has reduced its overall water consumption by 11 per cent.

WATER CONSUMPTION MILLION M³



WASTEWATER

Wastewater from manufacturing processes in the food industry includes organic substances and detergent residues. Wastewater treatment is carried out by a municipal wastewater treatment plant, the company's own wastewater treatment plant, or through cooperation between the municipality and the company. Environmental permits that are granted to each specific production facility set the limit values for emissions, with the aim of minimising the environmental impact of the business operations. HKScan's goal is to ensure that wastewater treatment levels meet, or even fall below, the limit values required by the environmental permits.

The treatment of wastewater in 2017 was generally good. Thanks to HKScan's self-monitoring, isolated deviations from the requirements of the environmental permits were detected at an early stage. All deviations were investigated, and the necessary improvements have been made.

ENVIRONMENTAL DEVIATION

In June 2017, a human error at the production plant in Vantaa, Finland caused washing water to be released into the rainwater drainage system. As a container was being washed, the cream in it flowed into the storm-water inlet instead of the wastewater drain. The error resulted from incorrect drain installation. The incident was investigated, and the drain in question was shut off immediately. In light of the error, a decision was made to invest in equipment for measuring the quality of storm water at the production plant to prevent similar incidents in future. The event did not endanger the environment or people.

EXAMPLES

1. In Linköping, Sweden water consumption was reduced by about 15 per cent during the year after adopting the new water-cooling and washing process control system.

2. At the Vantaa plant, in Finland, a suggestion by an employee for increasing the efficiency of machine use enabled water consumption to be cut by hundreds of cubic metres a year.

3. At the Rakvere pork production plant in Estonia, a project was set up with the aim of developing a process for thoroughly cleaning production areas between different breeding batches. The goal is to improve hygiene, while at the same time reducing water consumption. The effects on water consumption will be visible during 2018.

4. At the Rakvere unit also a two per cent reduction in water consumption was brought about by changing the water softeners in the steam boiler.

5. At the Tabasalu production plant in Estonia, the adoption of a new cooling water recycling system resulted in a two per cent reduction in water consumption.

6. In Latvia a water treatment plant was installed in 2017. A water softener was installed to the water-refilling unit, which was installed six years ago. The reagent is a salt tablet.

7. At the Linköping production facility in Sweden, the process of handling manure in the slaughterhouse was changed. The new process allows all the wastewater created in the production process to be cleaned in its own purification plant before being transferred to the municipal wastewater treatment plant.

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8. At the Polish production plant, the amount of wastewater generated has been reduced by installing a brine filter.

9. In Finland, a new modern wastewater treatment system was installed in the new Rauma plant. The system is based on continuously controllable, double-line, mechanical-chemical separation of solids. The system has replaced the water treatment system used at the Eura plant.

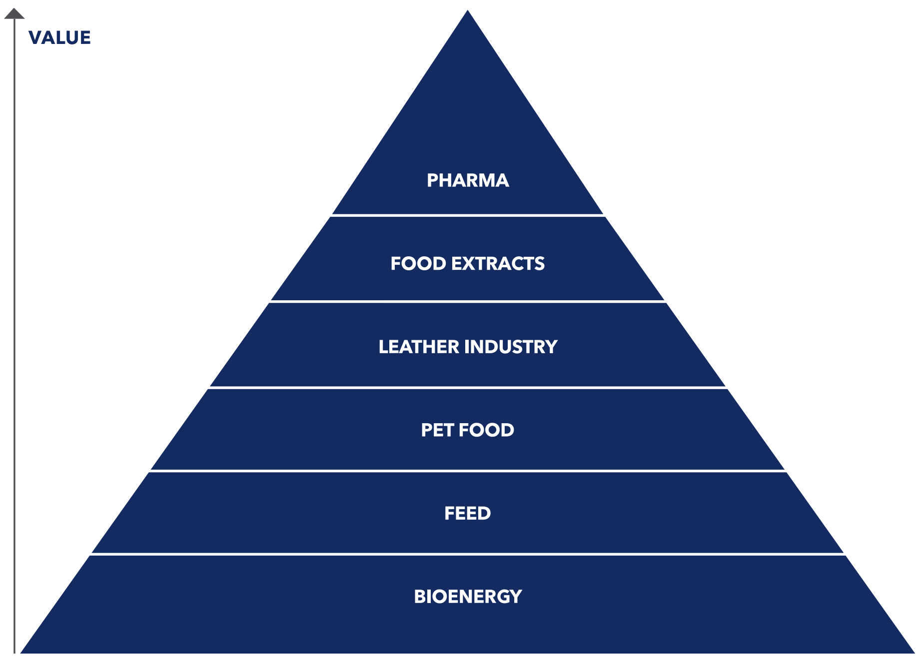
MATERIAL EFFICIENCY AND WASTE

Efficient use of materials have a beneficial effect on the environment. They help to mitigate climate change, reduce energy and water consumption, and maintain biodiversity. Material efficiency at HKScan means, amongst other things, making use of animal raw materials and all parts of the carcasses, and developing packaging by taking into account eco-efficiency of the materials used and the minimisation of food waste. Other examples of material-efficient practices are minimising waste in production and food waste, and waste recovery.

BIOTECH

HKScan’s Biotech business line is responsible for the Group-wide development of business operations related to side streams of products of animal origin. These operations are separate from the food production operations. The goal is to create circular economic business and to direct the side streams as efficiently as possible to other industries, such as leather, animal feed or pet foods. The remaining animal-based matter is used to produce biogas. About 40–50 per cent of the live cattle weight is used directly as food, and as much as 50 per cent of the rest can be used in other ways. The corresponding salvageable amounts for pigs, broilers and lambs are about 40 per cent. Consequently, the environmental impact related to farm animals can be divided into the groups of products produced from by-products as well.

In the value pyramid of the Biotech business operations, the pharmaceutical industry is a good example of an area where high-value-added applications have been developed. For example, gallstones from cattle contain compounds that are used in various medicines for their inflammatory properties. Heparin isolated from the mucous membranes of pig intestines is used in the manufacture of anti-clotting medicines.



EXAMPLES

1. We increased the value added of animal bones by directing larger quantities for use in broths.

2. Due to changes in legislation in Sweden, we made more effective use of category 1 (Animal by-products regulation EU N:O 1069/2009) raw materials in value added use.

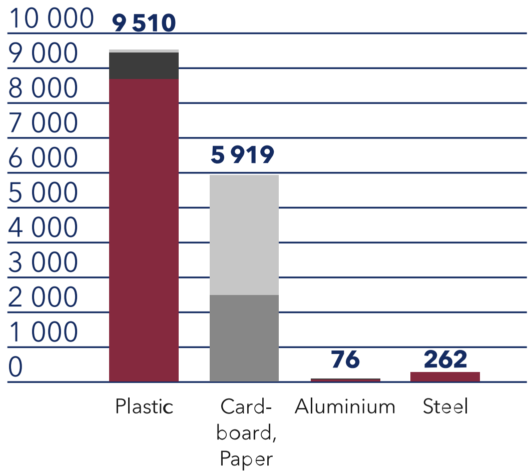
PACKAGING MATERIALS

In 2017, HKScan continued its long-term sustainable development work to develop more eco-friendly packaging and to improve material efficiency. Although packaging materials for meat and meat products and ready-to-eat foods are only a small part of a product’s overall carbon footprint, packaging solutions can also have effects in other ways, e.g. on biowaste generated by consumption. Among the areas for development work in this area are new packaging and packaging line investments in Estonia.

For the first time, HKScan reported the amounts of packaging materials used, and their sources. The amount of virgin material from non-renewable sources used in 2017 was 57 per cent. This covers the use of plastic, aluminium and steel in packages. From renewable sources (cardboard, paper) came 38 per cent of materials. Of these, 16 per cent were of virgin origin and 22 per cent were of recycled origin.

Read more from our Fact Sheet.

PACKAGING MATERIALS TON



Renewable Source, Recycled origin

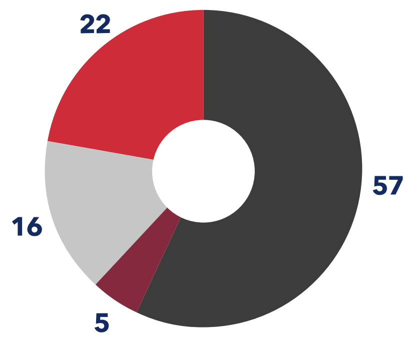
Renewable Source, Virgin origin

Non-Renewable Source, Recycled origin (e.g. rPET)

Non-Renewable Source, Virgin origin

Coverage of spend approx 95%

NON-RENEWABLE AND RENEWABLE SOURCES – VIRGIN OR RECYCLED ORIGIN %



Non-Renewable Source, Virgin origin (tn)

Non-Renewable Source, Recycled origin (e.g. rPET) (tn)

Renewable Source, Virgin origin (tn)

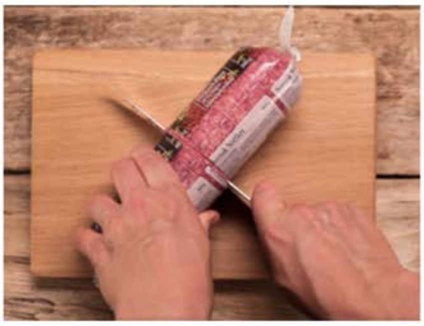
Renewable Source, Recycled origin (tn)

EXAMPLES

1. At the Tabasalu production plant in Estonia, over EUR 500 000 will be invested in the new environmentally friendly packaging line for the Tallegg® branded products. A total of ten Tallegg® products will be packed on the new line. The new packaging has resulted in a reduction of 71 per cent in the amount of material used for the packaging. The packaging also contributes to a reduction in CO_2 emissions from transport, as packages storage space needed is 96 per cent less than with the previous packaging materials. The new packaging technology has also significantly extended the shelf life of products, which also helps to minimise food wastage. Smaller packaging also reduces the amount of household waste. In addition to reducing the environmental burden, the new packaging line is also 50 per cent more efficient.

2. The Scan® branded Gårdfärs minced meat brand was launched in Sweden in a new chub package. Due to the new overall process, the shelf life of the product has been extended from nine days to 16 days. In addition, the environmental impact of the chub package is 39 per cent lower than with standard packaging.

3. In Finland, new packaging was introduced for products sold under the HK® brand. The packaging uses a combination of cardboard and plastic.



FOOD WASTAGE

Reducing food wastage in the production process is important both for preventing the loss of value caused by waste, and from the point of view of the environment and responsible production.

EXAMPLES

1. In Finland HKScan was part of the Ham Trick campaign, the aim of which was to recycle the dripping from 100 000 Christmas hams for refining into renewable diesel. Over 145 000 households participated, way above the target. The amount of ham fat collected, around 44 000 kg, was almost four times the amount collected in 2016. The amount of diesel produced as a result of the 2017 campaign would fuel 14 car trips around the globe. Renewable diesel reduces the amount of greenhouse gas emissions during the fuel life cycle by as much as 90 per cent compared to conventional, fossil diesel. The revenue from the Ham Trick campaign, EUR 25 000, was donated to support low-income families. The joint project was created on the initiative of the Chemical Industry Federation of Finland in 2016.

2. In Finland HKScan participated in the Consumers' Union of Finland's annual Hävikkiviikko ("Wastage Week") campaign against food waste by giving consumers tips to reduce food waste. The goal of the Hävikkiviikko campaign, held every autumn, is to promote greater efficiency in all parts of the food production chain, and to increase people's appreciation of food.

3. The efficiency of the new poultry slaughter line in the Rauma plant enables the bird carcasses to be used efficiently, thereby reducing the number of side streams that are generated.

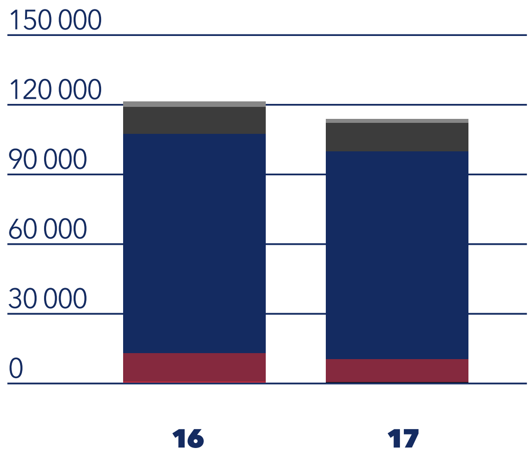
4. At the production facility in Poland, production losses have been reduced, and the amount of food wastage has been reduced with new packaging solutions.

WASTE

HKScan's measures to reduce waste volumes in production facilities are based on a waste hierarchy. In practice, this means preventing the generation of waste, reusing and recycling materials, the use of waste for energy, and landfill placement as the final option.

Around 80 per cent of the waste material produced by HKScan is of animal origin, and is directed to biogas or diesel production. Energy is recovered from the fractions that cannot be recycled or directed to the production of biogas or diesel. Such fractions include those parts of the carcass that are covered by Category 1 of EU regulation 1069/2009. The remaining solid matter is directed to fertiliser use. About 2 per cent of the waste produced by operations is recyclable waste, such as plastics, metals, cardboard or paper. Landfill waste accounts for 0.1 per cent of the material reported. The amount of landfill waste decreased by 98 per cent from 2012 to 2017.

**WASTE DISPOSAL METHOD 2017
TON**



- Recycling 1 747 (2 319)
- Energy recovery 12 454 (11 643*)
- Biogas & biodiesel 90228 (95 502*)
- Compost and farm fields 10 099 (12 444)
- Landfill 105 (321)
- Hazardous waste 52 (103)

Total 114 684 (122 333*)

* Calculation error with 2016 reporting, figures have been revised in 2017.

EXAMPLE

At the Linköping production plant in Sweden, a project called "sausage hunt" was launched, with the aim of reducing the amount of raw material and products generated on the floor. Projects aimed at reducing the amount of product waste are also underway.

CHEMICALS

HKScan has a system in place for monitoring the amounts of chemicals used, and their environmental and health impacts. Reducing the amount of chemicals that are used and replacing them with more environmentally friendly options is an ongoing effort. More chemicals are used in cleaning than for any other purpose.

EXAMPLES

1. At the new Rauma plant in Finland, the acidification of feed material was discontinued. This meant that formic acid and potassium sorbate are no longer used. The combined amount of these used at the Eura production plant, which is in the process of being closed, is about 64 tonnes per month.

2. At the Skara production plant in Sweden, the amount of chemicals used was reduced. This was done using PRIO, a web-based tool developed by the Swedish Chemicals Agency to help in preventively reducing health and environmental risks from chemical substances. Investments in chemical storage facilities were also made at Skara.

3. In Latvia, the use of chemicals has been reduced to 7 per cent of the earlier total volume.

4. All the chemicals used in the Linköping production facility are risk-rated, and the number of different chemicals used has been reduced. In addition, the staff who are responsible for hygiene were trained in chemicals and their use.

ENVIRONMENTAL DEVIATIONS

In August 2017, a diesel fuel leak occurred at the Halmstad production plant in Sweden. The leak was caused by a vehicle. Fuel spilled into a nearby ditch. The rescue service removed the diesel fuel from the ditch and cleaned the soil. The event was reported to the local authority.

At the Kristianstad production plant in Sweden in December 2017, a leak of ammonia occurred, due to a malfunctioning heat pump control device. The malfunction resulted in the ammonia gas pressure rising so high that the safety device was activated, discharging the overpressure into the open air. This discharge set off a gas leak alarm. The equipment was shut down immediately. The fault was investigated, and after the necessary precautions had been taken, the equipment was restarted.

ENVIRONMENTAL WORK AT FARMS

A considerable part of the environmental impact of meat products comes from farms. HKScan's contract producers and their own production facilities are already carrying out significant environmental work, and best practices are actively shared with the company's primary production chain. HKScan has begun a study to find ways to further reduce the environmental impact of primary production. An example of this work is the commitment made by HKScan in 2014 to use responsibly produced soy throughout its production chain by the end of 2018.

Read more about the environmental impacts of animal production in our fact sheet.

At the end of 2016, an environmental prize was launched for Swedish meat producers. The competition is a way for HKScan to encourage its producers to continue to work in environmentally responsible ways, and to share success stories about environmental work on farms. The 2017 environmental prize was won by lamb producers Anna and Tomas Olsson in Sweden. Their goal is to produce high-quality lamb from healthy and well-bred animals, reducing the climate impact of production. Among the ways this is done is by reducing the use of soy in fodder by cultivating protein crops such as lupin and broad beans, and by growing clover as part of the pasture. Clover binds nitrogen in the soil and improves the soil structure.

BIODIVERSITY

Agriculture and livestock production have major impacts on biodiversity. These impacts vary between different regions of the world and with the predominant agricultural practices in each area.

Grazing cattle and lambs and sheep are important to biodiversity in Sweden and Finland: they have kept the landscape open for hundreds of years. In natural pasture at its best, as many as 40 different kinds of plant or insect species can be found per square metre. Many pastures in Sweden and Finland are farmed pastures. These are not as diverse as natural pastures, but they do bind carbon.

HKScan is committed to using responsibly produced soy throughout its production chain, including in animal feed and in foods. The aim is to preserve biodiversity and reduce other environmental and social impacts in the areas where soy is grown.

REPORTING PRINCIPLES

This is HKScan's first corporate responsibility (CR) report that has been prepared in line with the Global Reporting Initiative (GRI) framework. The report has been prepared in accordance with the GRI SRS Core level. The reporting period is 1 January to 31 December 2017. In the future, the company will prepare a CR report in line with the GRI Standards annually.

The corporate responsibility report provides information on HKScan's operations in Finland, Sweden, Denmark and the Baltics. The company reports on its responsibility based on the results of a materiality analysis, in terms of economic responsibility, social responsibility, environmental responsibility and animal health and welfare. Corporate responsibility themes are discussed in section Corporate Responsibility at HKScan. As a rule, HKScan's CR report covers all of its operations across the Group.

The work to create consistent indicators for corporate responsibility is still in progress, due to challenges arising from national differences between market areas. The indicators to be included in the CR report will be developed further, and their number will increase in the future.

Corporate governance is discussed in the annual report. This report has not been independently verified. It is published in Finnish and English as part of HKScan's online annual report.

More information about CR reporting at HKScan is available from communications@hkscan.com.

GRI INDEX

GRI STANDARDS

			LOCATION	COMMENTS
GRI 102: General disclosures				
Organizational profile				
Core	Disclosure 102-1	Name of the organization	HKScan in brief	
Core	Disclosure 102-2	Activities, brands, products, and services	HKScan in brief	
			Market areas	
Core	Disclosure 102-3	Location of headquarters	Market areas	
Core	Disclosure 102-4	Location of operations	Market areas	
Core	Disclosure 102-5	Ownership and legal form	Shares and shareholders	
Core	Disclosure 102-6	Markets served	HKScan in brief	
			Market areas	
Core	Disclosure 102-7	Scale of the organization	Employees	
			Market areas	
			Key figures	
			Shares and Shareholders	
Core	Disclosure 102-8	Information on employees and other workers	CR/Social responsibility/ Employees	
Core	Disclosure 102-9	Supply chain	CR/Social resonsibility/ Responsible and ethical sourcing	
Core	Disclosure 102-10	Significant changes to the organization and its supply chain	Report of the Board of Directors	
Core	Disclosure 102-11	Precautionary Principle or approach	CR/Environment	
Core	Disclosure 102-12	External initiatives	CR/Corporate Responsibility at HKScan/	

			Collaboration with stakeholders
			CR/Social/ Responsible and ethical sourcing
			CR/Environment
Core	Disclosure 102-13	Membership of associations	Collaboration with stakeholders
Strategy			
Core	Disclosure 102-14	Statement from senior decision-maker	CEO's Review
Ethics and integrity			
Core	Disclosure 102-16	Values, principles, standards, and norms of behavior	HKScan's values and operating principles
			Strategy
			Employees
Governance structure			
Core	Disclosure 102-18	Governance structure	Corporate Governance Stament
			CR/Organisation of the resbonsibility work
Stakeholder engagement			
Core	Disclosure 102-40	List of stakeholder groups	CR/Corporate Responsibility at HKScan/ Collaboration with stakeholders
Core	Disclosure 102-41	Collective bargaining agreements	CR/Social responsibility/ Employees
Core	Disclosure 102-42	Identifying and selecting stakeholders	CR/Corporate Responsibility at HKScan/ Collaboration with stakeholders
Core	Disclosure 102-43	Approach to stakeholder engagement	CR/Corporate Responsibility at HKScan/ Collaboration with stakeholders
			CR/Social responsibility/

			Employees	
Core	Disclosure 102-44	Key topics and concerns raised	CR/Corporate Responsibility at HKScan/ Collaboration with stakeholders	
Reporting practice				
Core	Disclosure 102-45	Entities included in the consolidated financial statements	Notes to the Financial Statements for 2017, Related party transactions	
Core	Disclosure 102-46	Defining report content and topic Boundaries	CR/Corporate Responsibility at HKScan/ Materiality analysis	
Core	Disclosure 102-47	List of material topics	CR/Corporate Responsibility at HKScan/ Materiality analysis	
Core	Disclosure 102-48	Restatements of information	CR/Reporting principles	N/A - First GRI report
Core	Disclosure 102-49	Changes in reporting	CR/Reporting principles	N/A - First GRI report
Core	Disclosure 102-50	Reporting period	CR/Reporting principles	
Core	Disclosure 102-51	Date of most recent report	CR/Reporting principles	
Core	Disclosure 102-52	Reporting cycle	CR/Reporting principles	
Core	Disclosure 102-53	Contact point for questions regarding the report	CR/Reporting principles	
Core	Disclosure 102-54	Claims of reporting in accordance with the GRI Standards	CR/Reporting principles	This report has been prepared in accordance with the GRI Standards: Core option
Core	Disclosure 102-55	GRI content index	CR/Reporting principles/GRI	
Core	Disclosure 102-56	External assurance	CR/Reporting principles	No external assurance
GRI 103: Management approach				
	Disclosure 103-1	Explanation of the material topic and its Boundary	CR/Economic responsibility	
			CR/Social responsibility	

		CR/Animal health and welfare	
		CR/Environment	
Disclosure 103-2	The management approach and its components	CR/Economic responsibility	
		CR/Social responsibility	
		CR/Animal health and welfare	
		CR/Environment	
Disclosure 103-3	Evaluation of the management approach	CR/Economic responsibility	
		CR/Social responsibility	
		CR/Animal health and welfare	
		CR/Environment	

ECONOMIC STANDARDS

GRI 201: Economic performance			
Disclosure 201-1	Direct economic value generated and distributed	Financial statement, Income statement and related notes	Payments to government by country not listed in the financial statement Community investments not material: Voluntary donations plus investment of funds in the broader community where the target beneficiaries are external to the organization and not business related, not reported.
		Segment reporting revenue and EBIT	Segment reporting revenue and EBIT level: Criteria used is based on segment reporting (management reporting detail level)
Disclosure 201-3	Defined benefit plan obligations and other retirement plans	Finacial statement pension note	Percentage of salary contributed by employee or employer: Not presented but employer's contribution is visible in the income statement and related notes
Disclosure 201-4	Financial assistance received from government	Financial statement note 2: subsidies	
		Annual report shareholder information: government presentation in the shareholding structure	Reported partly

GRI 204: Procurement practices			
Disclosure 204-1	Proportion of spending on local suppliers	CR/Social/ Responsible sourcing	
G4 Food Processing Sector Disclosure 1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	CR/Social/ Responsible sourcing	Reported as relevance for HKScan : - Animal sourcing (live): % of purchasing according to animal sourcing practices - Percentage of purchased volume from suppliers compliant with HKScan's Supplier Guidelines
G4 Food Processing Sector Disclosure 2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard	CR/Social/ Responsible sourcing	Reported as relevance for HKScan - sourcing principles in: - Resposibible produced soy in value chain (animal feed, food product incredient) - Repsonsible produced palm oil
GRI 205: Anti-corruption		**CR/Corporate Responsibility at HKScan/Values and operating principles**	
Disclosure 205-2	Communication and training about anti-corruption policies and procedures	CR/Corporate Responsibility at HKScan/Values and operating principles	
Disclosure 205-3	Confirmed incidents of corruption and actions taken	CR/Corporate Responsibility at HKScan/Values and operating principles	
GRI 206: Anti-competitive behavior		**CR/Corporate Responsibility at HKScan/Values and operating principles**	

ENVIRONMENTAL STANDARDS

GRI 301: Materials			
Disclosure 301-1	Materials used by weight or volume	CR/Environment/ Material efficiency and waste/Packaging materials	
Disclosure 301-2	Recycled input materials used	CR/Environment/ Material efficiency and waste/Packaging materials	
GRI 302: Energy			
Disclosure 302-1	Energy consumption within the organization	CR/Environment/ Greenhouse gas emissions	Used calculation unit MWh
Disclosure	Reduction of energy consumption	CR/Environment/	

	302-4		Energy efficiency	
GRI 303: Water				
	Disclosure 303-1	Water withdrawal by source	CR/Environment/ Water use and wastewater	Reported fresh water from municipal water supplies, water from other sources not used
GRI 304: Biodiversity		**Overall approach**	CR/Environment/ Environmental work at farms	Reported as relevance for HKScan: Cattle and sheep grazing at semi-natural pastures
GRI 305: Emissions				
	Disclosure 305-1	Direct (Scope 1) GHG emissions	CR/Environment/ Greenhouse gas emissions	
	Disclosure 305-2	Energy indirect (Scope 2) GHG emissions	CR/Environment/ Greenhouse gas emissions	
	Disclosure 305-5	Reduction of GHG emissions	CR/Environment/ Greenhouse gas emissions	
GRI 306: Effluents and waste			**Energy efficiency**	
	Disclosure 306-2	Waste by type and disposal method	CR/Environment/ Material efficiency and waste	
GRI 307: Environmental compliance				
	Disclosure 307-1	Non-compliance with environmental laws and regulations	CR/Environment	

SOCIAL STANDARDS

GRI 403: Occupational health and safety				
	Disclosure 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	CR/Social Responsibility/ Employees	
GRI 405-412: Human rights, principles			**CR/Corporate Responsibility at HKScan/Values and operating principles**	
GRI 413: Local communities			**CR/Social/Farming community**	
GRI 414: Supplier social assessment				
	Disclosure 414-2	Negative social impacts in the supply chain and actions taken	CR/Social/ Responsible and ethical sourcing	Sourcing volymes from risk countries very low, process created to mitigate negative impacts
GRI 416: Customer health and safety				
	Disclosure 416-1	Assessment of the health and safety impacts of product and service categories	CR/Social/Social responsibility products/	

		Responsible products	
G4 Food Processing Sector Disclosure 6	Percentage of total sales volume of consumer products, by product category, that are lowered saturated fat, trans fats, sodium and added sugar	CR/Social/Social responsibility products/ Responsible products	Reported: percentage of total product development
Disclosure 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	CR/Social/Social responsibility products/ Responsible products	Product recalls reported
G4 Food Processing Sector Disclosure 5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards	CR/Social/Social responsibility products/ Responsible products	Reported: FSSC 22 000, IFS, BRC, ISO 22 000
HKScan special: Animal health and welfare			
G4 Food Processing Sector Disclosure 9	Percentage and total of animals raised and/or processes, by species and breed type	CR/Animal health and welfare/ Animal rearing descriptions by animal specie	
G4 Food Processing Sector Disclosure 10	Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic	CR/Animal health and welfare/ Animal rearing descriptions by animal specie	
G4 Food Processing Sector Disclosure 11	Percentage and total of animals raised and/or processed, by species and breed type, per housing type	CR/Animal health and welfare/ Animal rearing descriptions by animal specie	
G4 Food Processing Sector Disclosure 12	Policies and practices on antibiotic, anti-inflammatory, hormone, and/or growth promotion treatments, by species and breed type	CR/Animal health and welfare/ Animal rearing descriptions by animal specie	
G4 Food Processing Sector Disclosure 13	Total number of incidents of significant non-compliance with laws and regulations, and adherence with voluntary standards related to transportation, handling, and slaughter practices	CR/Animal health and welfare/ Animal rearing descriptions by animal specie	

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2017

- Net sales were EUR 1 808.1 (1 872.9) million
- EBIT was EUR -40.3 (9.7) million. Comparable EBIT was EUR -17.6 (13.2) million, and the corresponding EBIT margin was -1.0 (0.7) per cent
- Cash flow before debt service was EUR -49.6 (23.7) million.
- Comparable profit before taxes was EUR -26.5 (4.4) million.
- EPS was EUR -0.84 (-0.10).
- Net financial expenses were EUR -10.6 (-8.7) million.
- Net debt was EUR 208.2 (137.2) million and net gearing 59.3 (33.5) per cent.
- Outlook for 2018: Global meat consumption is projected to increase 1.6 per cent per annum during the coming years. Consumption growth is estimated to be led by poultry. There are also several value related consumption trends, which support HKScan's strategy implementation. In 2018, HKScan expects its strategy implementation to start recording results in terms of value growth in sales and operational efficiency in production. The company will emphasize the implementation of its From Farm to Fork strategy through the five focus areas, which are: Focus on meat, Leadership in poultry, Continue growing the meals business, Cooperate with our farming community, and Drive efficiency and cost-competitiveness. *HKScan has changed its guidance policy to be in line with general international practice and discontinued giving numerical financial guidance.*
- The Board's proposal for dividend is EUR 0.09 (0.16) per share.

GROUP OVERVIEW

In 2017 the Group's net sales decreased compared to 2016. Decline primarily affected Finland, mainly due to the ramp up of the Rauma poultry unit. The Group's comparable EBIT fell short of that in 2016. All market areas except Denmark lagged behind the previous year. Mainly thanks to the improvement in operational efficiency, Denmark decreased the previous year's loss by nearly half. In addition, business consulting, including strategy work and market studies, as well as the launch of the operational excellence programme, increased the cost of external services from the previous year.

Market Area Baltics fell short of the previous year's level due to a primary production-related EU grant no longer issued to the Group in 2017 (EUR 0.9 million in 2016) and the cost increase in production. Market Area Finland was clearly behind last year as comparable EBIT was burdened by the Rauma ramp-up, which amounted to some EUR 25 million. Ramp-up activities also weakened poultry delivery capability during quarters three and four, which caused a EUR 9 million loss due to lost sales and market share. A cost of EUR 16 million related to increased production costs and material loss.

Cash flow before investments was EUR 45.7 million and lagged behind the year 2016 (70.9). The main driver of the poor cash flow was the Rauma ramp-up, but the cash flow performance was also very modest in other market areas. As a result, cash flow before financing activities was significantly lower than in the previous year.

In the red meat category, HKScan suffered from a beef shortage throughout out the year, keeping the costs of raw material high in Finland and Sweden. Beef availability improved towards the end of the year in Sweden, however, and margins also recovered. Finland has successfully also improved its margins, despite a decline in volume.

As for pork, volumes decreased both in Sweden and in Finland in 2017. Sweden showed a volume recovery in the third and fourth quarters and improved the margins. As Finland suffered from a pork overcapacity in 2016, the volume decrease in 2017 improved the meat balance and improved pork sales margins. Thanks to the systematic actions to mitigate the oversupply, pork inventories in Finland continued to improve from 2016 and are on a good level. The pork category showed improvement in the Baltics where exports increased and new export channels were launched. Towards the end of the year, there was a shortage of raw material in the Baltics. Several actions to strengthen the market position in animal sourcing, and availability of the animal raw material, were initiated in collaboration with the farming community in all market areas.

In the poultry category, profitability in Finland was seriously hit by the ramp-up related challenges of the new Rauma unit. The ramp-up process, including the parallel run of the old Eura unit, and the use of subcontracting, caused a temporary increase in costs. The challenges also decreased delivery capability in the latter part of the third quarter and in the fourth quarter. In Denmark, efforts to improve operational efficiency paid off, and production efficiency improved significantly for the whole year. The achievements in export markets offset the challenges in the domestic market in Denmark. In the Baltics, margins in the poultry category have improved as a result of greater cost efficiency in primary production, but also thanks to recovered sales prices.

As for the processed food category, the market situation remained challenging in all market areas. This was due to fierce competition in sausages and cold cuts, where both sales prices and volume decreased for the full year, but turned somewhat into positive growth primarily in Sweden and also in Finland during the fourth quarter. By contrast, the meal component category, including bacon, showed strong growth and stable margins throughout the year.

In 2017, several actions were taken to support a turnaround and long-term profitability. The Group's operating model was reviewed and assessed in Group-wide statutory negotiations, which were completed in May and resulted in a headcount reduction of 160 employees. The Group's operating model was renewed and was valid as of 1 June. The Group Leadership Team also was renewed during the year.

In August 2017, HKScan announced its From Farm to Fork strategy and the strategic focus areas through which the strategy is being implemented. HKScan focuses on the consumer by leading the food value chain. The five focus areas are: Focus on meat, Leadership in poultry, Continue growing the meals business, Cooperate with our farming community, and Drive efficiency and cost-competitiveness.

In the third quarter of 2017 HKScan initiated various operational excellence actions as part of a programme to improve productivity and cost-competitiveness in line with its long-term strategic targets. The programme is being rolled out across all operations in Finland, Sweden, Denmark and the Baltics.

The most significant step in implementing the strategy in 2017 was the Rauma poultry unit investment. The investment proceeded on schedule, but the ramp-up faced challenges and resulted in a delay of the start of full-scale production. The new unit will significantly improve HKScan's competitiveness and will enable new innovative products in the poultry category.

In November 2017, HKScan launched another important step towards the strategic target of becoming the leader in the poultry category: a new, unique hatching concept enabling chickens to be born at the farm where they are grown and improving animal welfare. The first new products, based on this breeding method, will be launched during the second quarter of 2018.

A significant milestone was achieved when HKScan received confirmation of an agreement between Finnish and Chinese food authorities allowing HKScan's Forssa plant in Finland to launch exports of pork to China. The exports are scheduled to commence during the first half of 2018. HKScan's long-term goal is to initiate the export of poultry and other meat and to launch exports to China from HKScan's other home markets as well.

The reported EBIT for the full year includes a remarkable amount of the cost items affecting comparability. The total sum of the items amounts to EUR 22.6 million, of which EUR 5.8 million are terminations of employment and EUR 14.3 million are impairment of assets.

The total capital expenditure for 2017 amounted to EUR 125.5 million, of which the biggest single investment – approximately EUR 117.5 million in total in years 2015-2017 – was the Rauma poultry unit.

REVIEW BY MARKET AREA

NET SALES AND EBIT BY MARKET AREA

(EUR million)

NET SALES	2017	2016
Sweden	759.4	790.8
Finland	742.2	774.9
Denmark	147.8	149.5
Baltics	158.7	157.7
Between segments	0.0	0.0
Group total	**1 808.1**	**1 872.9**
EBIT		
Sweden	5.4	9.5
Finland	-16.5	15.3
Denmark	-13.9	-6.6
Baltics	4.4	6.2
Between segments	-	-
Segments total	**-20.6**	**24.3**
Group administration costs	-19.7	-14.7
Group total	**-40.3**	**9.7**

ITEMS AFFECTING COMPARABILITY

	2017	2016
Comparable EBIT	**-17.6**	**13.2**
Personnel costs, Group Management [2)]	-	-1.2
Termination of employment, Denmark [2)]	-0.6	-0.5
Termination of employment, Finland [2)]	-0.5	-0.3
Environmental provision, Sweden [3)]	-	-1.5
Termination of employment, Group Management [2)]	-1.6	-
Termination of employment, Sweden [2)]	-3.2	-

Impairment of assets, Finland [1]	-4.2	-
Environmental provision, Finland [3]	-2.5	-
Impairment of assets, Denmark [1]	-10.1	-
EBIT	**-40.3**	**9.7**

[1] Included in the Income Statement in the item "Depreciation and amortization"

[2] Included in the Income Statement in the item "Employee benefits expenses"

[3] Included in the Income Statement in the item "Other operating expenses"

The division of segments is based on the Group's organisation and the reporting to the Board of Directors and Management. Management monitors the profitability of business operations by market area. The Group's primary segments are geographical segments: Sweden, Finland, Denmark and the Baltics.

MARKET AREA SWEDEN

In Sweden, net sales were EUR 759.4 (790.8) million. Comparable EBIT totalled EUR 8.6 (11.1) million.

The product net sales turned to growth in the third and fourth quarters and also showed growth for the full year; however, net sales in total decreased due to the greater decline in animal trading. HKScan's market share in value terms showed a slight upturn during the full year, thanks to a turn during the third and fourth quarters. Full-year net sales of pork and sausages remained unchanged, whereas cold cuts declined – although the decline slowed at the end of the year. The growth in net sales of meal components, including bacon, continued. Beef sales improved from the previous year's low level.

Margins fell short of the previous year even though they showed improvement for pork. The growth categories of beef and meal components maintained their margins. The supply of pork and beef improved towards the end of the year, and animal raw material prices were approximately at the previous year's level in the third and fourth quarters but above the previous year's level for the full year. Nevertheless, margins were negatively affected by cost increases in operations.

MARKET AREA FINLAND

In Finland, net sales were EUR 742.2 (774.9) million. Comparable EBIT totalled EUR -9.3 (15.5) million.

Net sales declined due to delivery issues in poultry in the Rauma unit, a shortage of beef, and as a result of fierce competition in the processed product category. Sales of meal components, however, continued to increase. HKScan lost its market share in value terms.

The total margin clearly decreased, mainly due to the poor delivery capability in poultry, but also due to the highly competitive processed product category. As a result of the systematic actions to mitigate oversupply, pork inventories continued to improve from 2016 and are on a good level. The margin in red meat improved from the previous year, thanks to the balanced pork supply. In beef, however, the scarcity of raw material continued and resulted in reduced volumes, which had a negative impact on EBIT in 2017 – in spite of the fact that relative profitability improved. Operating costs decreased from the previous year, excluding the ramp-up costs of the new Rauma plant. The total ramp-up impact on profit amounted to 25 million euros. This includes the impact of lost sales and market share of EUR 9 million and a cost of EUR 16 million related to increased production costs and material loss.

The new Rauma poultry unit was inaugurated in August 2017. The efficient new unit will enable the development of innovative Kariniemen® novelties, as well as improve the competitiveness and the overall profitability of the farm-to-fork chain. It will also give a boost to domestic poultry farming and local employment. The main target during the first quarter of 2018 is to ensure our delivery capability in Rauma.

In November 2017 HKScan launched its new, unique hatching concept enabling chickens to be born at the farm where they are grown. This will minimize the handling of chicks and eliminate the need for transporting them from hatchery to farm, marking an improvement in animal welfare. The first new Kariniemen® products based on this breeding method will be launched during the second quarter of 2018.

The demand for high-quality beef is increasing in Finland. In October HKScan announced the launch of a long-term beef development programme, called ROTUKARJA 2025, aimed at increasing beef farming in Finland.

HKScan continued development of its product range based on totally antibiotic-free breeding and launched a new, special edition ham for the Christmas season. HKScan’s totally antibiotic-free grown Omega 3 Pork earned honourable mention in Lidl’s export competition, and in November it won an international innovation award in the Fourth European Award for Cooperative Innovation (EACI) organized by the joint organization Copa Cogeca (the Committee of Professional Agricultural Organizations and the General Confederation of Agricultural Cooperatives).

The Finnish and Chinese food authorities signed an agreement in November allowing 2017 HKScan’s Forssa plant in Finland to prepare for the launch of exports of high-quality pork grown at family farms in Finland to China. The exports are scheduled to begin during the first half of 2018.

MARKET AREA DENMARK

In Denmark, net sales were EUR 147.8 (149.5) million. Comparable EBIT was EUR -3.2 (-6.2) million.

Net sales were close to the previous year's level. Export sales remained higher than the previous year, thanks to a good demand in certain markets, e.g., South Africa and Korea. The domestic retail sales weakened and the stock levels of the organic chicken category increased compared to the previous year. However, the inventories decreased in total.

Lower costs in animal raw materials offset the decrease in sales prices; as a result, the margin after raw materials remained unchanged. The production efficiency improved significantly throughout the year, reducing the comparable EBIT loss to half from the previous year.

An impairment loss amounting to EUR 6.7 million has been recorded in Denmark at the end of the year 2017 as result of impairment testing based on the IFRS accounting regulations due to historical financial performance. Impairment had no impact on cash flow.

MARKET AREA BALTICS

Net sales in the Baltics were EUR 158.7 (157.7) million. Comparable EBIT was EUR 4.4 (6.2) million.

The Baltic market recovered and net sales were slightly above the previous year. Sales price levels of both pork and poultry improved from the low level of the previous year. The shortage in pork raw material increased towards year-end. The demand for branded products picked up and exports showed positive growth with the launch of new export channels. Margins in poultry and pork recovered in step with positive sales price development.

A considerable proportion of Baltic pig farms remained in the protection zone for African Swine Fever, i.e., there are limitations on handling and selling meat. Operational costs increased from the previous year. The EU subsidy for primary production wasn’t issued in 2017, which affects comparability to the previous year (EUR 0.9 million in 2016). The change in the fair value of biological assets amounted to EUR 0.1 (0.8) million.

In November 2016 HKScan communicated its decision to start an internal inquiry investigating the practices of its Baltic business. The aim was to ensure that the local management was complying with the principles of good governance and the company's Code of Conduct. During 2017 HKScan requested the Estonian authorities to investigate the malpractice allegations and whether a violation of the law had taken place. The Group thereby ended its own internal inquiry. On November 2017 the Estonian Public Prosecutor announced an investigation related to the criminal allegations.

HKScan announced in December that it will strengthen its meals offering and will invest in the Group's Rakvere unit in Estonia. The 8-million-euro investment will go towards modernizing the unit's frying department, including an expansion of the building and installation of new cooking and packaging lines that will enable implementation of new technologies and packaging solutions. Construction is to commence in May 2018.

INVESTMENTS

The Group's gross investments in 2017 came to EUR 125.5 (97.6) million.

Their breakdown by market area was as follows:

(EUR million)

	2017	2016
Sweden	13.7	19.8
Finland	100.4	64.0
Denmark	1.3	3.1
Baltics	10.0	10.8
Total	**125.5**	**97.6**

FINANCING

The Group's interest-bearing debt at year-end increased to EUR 259.2 (144.1) million, due to a decreased cash flow and the Rauma poultry plant investment. Net debt was EUR 208.3 (137.2) million and the net gearing ratio was 59.3 (33.5) per cent.

The Group's liquidity was good. Committed credit facilities by 31 December 2017 stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme was also entirely unused by the end of the year (7.0 million). Cash reserves were EUR 50.9 (6.6) million at year-end.

During the year the Group widened the funding profile and lengthened the maturity structure with several long-term financial agreements and transactions.

During the first quarter of 2017 the Group signed new 8.5-year loan arrangements for approximately EUR 30 million in total. The loan was withdrawn in the last quarter and it is guaranteed by a group of foreign export credit agencies. In addition, the Group signed a new bilateral 4-year term loan (bullet) of EUR 40 million, which will be withdrawn at the beginning of 2018. Simultaneously, the Group rearranged a bilateral committed credit facility of EUR 35 million that was maturing in 2018. The new arrangement is for three years and also has an option for an extension.

During the second quarter of 2017 the Group rearranged a bilateral committed credit facility of EUR 25 million maturing in 2018. The new arrangement will mature in 2021 and also has an option for an extension.

During the third quarter of 2017 the Group issued a new EUR 135 million senior unsecured bond and redeemed EUR

67 million of its existing corresponding EUR 100 million bond maturing in 2019. The new bond matures in 2022 and carries a fixed annual interest of 2.625 per cent.

Net financial expenses were EUR -10.6 (-8.7) million in 2017. Expenses include a recognition of interest rate hedging inefficiency of EUR -0.5 million.

RESEARCH AND DEVELOPMENT

A total of EUR 6.5 (6.6) million was spent on R&D in 2017, equal to 0.4 (0.4) per cent of net sales.

HKScan research and development activities aim to develop the Group’s offering to customers and consumers by leveraging consumer insights and foresight, capabilities, resources and investments in innovation and concept development across all markets.

Product development is part of HKScan’s Culinary Competence Centre, where teams of R&D, nutrition expertise, chefs and product developers meet. The R&D team cooperates with universities in Sweden and Finland, and HKScan personnel also engage in academic research, e.g. in the field of veterinary sciences. The Group also offers trainee positions for students completing their studies in food and business sciences.

CORPORATE RESPONSIBILITY

Corporate responsibility is an integral part of HKScan’s ‘From Farm to Fork’ strategy. HKScan’s corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare, and Environment. Corporate Responsibility at HKScan is described in the Group’s Report of Non-financial Information, which is a separate report. It complements the Group’s 2017 Annual Report. Both reports will be published during week 11 in 2018.

ANNUAL GENERAL MEETING AND BOARD OF DIRECTORS’ AUTHORIZATIONS

The Annual General Meeting (AGM) of HKScan Corporation held on 6 April 2017 in Turku, Finland, adopted the parent company’s and consolidated financial statements and discharged the members of the Board of Directors and the CEO from liability for 2016.

The AGM resolved that a dividend of EUR 0.16 be paid for 2016.

The AGM also resolved on the annual remuneration of the Board’s members, deputy members and the chairs of the committees. Of the current Board members, Mikko Nikula and Pirjo Väliaho were re-elected, and Per Olof Nyman, Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi were elected as new members until the end of the Annual General Meeting 2018. In addition, Veikko Kemppi and Carl-Peter Thorwid were elected as deputy Board members until the end of the Annual General Meeting 2018.

At the organisational meeting after the AGM, the Board re-elected Mikko Nikula as Chair and elected Marko Onnela as the new Vice Chair.

PricewaterhouseCoopers Oy, authorized public accountants, with Markku Katajisto, APA, as the responsible auditor, was elected as the auditor until the close of the next AGM.

The AGM authorized the Board to decide on share issues, option rights as well as other special rights entitling to shares, and on the purchase of the company’s own Series A shares and/or on the acceptance the company's own Series A shares as pledges. The authorizations will be effective until 30 June 2018, revoking the authorizations given by the AGM 2016.

The resolutions of the Annual General Meeting have been published in full in the stock exchange release of 6 April 2017, and they are also available on the company's website at www.hkscan.com.

CHANGES IN THE SENIOR MANAGEMENT

On 28 December 2017 HKScan announced that Mikko Forsell had been appointed as HKScan's CFO and a member of the Group Leadership Team. Forsell joined HKScan on 1 January 2018. His predecessor Tuomo Valkonen will pursue new challenges outside HKScan as of 1 March 2018.

On 8 November HKScan announced that Sami Sivuranta was appointed as HKScan's new EVP Operations and a member the Group Leadership Team. He joined HKScan on 1 January 2018. His predecessor Aki Laiho left the Company. Pia Nybäck was appointed EVP, Animal Sourcing & Primary Production and a member of the Group Leadership Team. Nybäck has worked for HKScan since 2013.

On 4 October HKScan announced that Jukka Nikkinen, EVP Market Area International & Biotech, will also head Market Area Denmark. His predecessor Svend Schou Borch left HKScan.

On 27 September HKScan announced that Olli Huuskonen had been appointed as HKScan Corporation's new Head of Legal as of 1 October 2017. Huuskonen reports to the Group President and CEO. His predecessor Markku Suvanto left the Company.

On 24 May HKScan announced that Mikko Saariaho had been appointed as EVP, Communications and Corporate Resbonsibility and a member of the Group Leadership Team. This was a new position in the Group Leadership Team.

On 8 February HKScan announced that Sofia Hyléen Toresson had been appointed EVP Market Area Sweden, effective 2 May. Göran Holm, who previously held the position, left the company. It was also announced on 8 February that Heli Arantola had been appointed EVP Categories and Concepts, effective 2 May. This was a new position in the Group Leadership Team.

GROUP LEADERSHIP TEAM

On 7 February 2018, HKScan's Group Leadership Team comprises the following members: Jari Latvanen, President and CEO; Sofia Hyléen Toresson, EVP Market Area Sweden; Jyrki Karlsson, EVP Market Area Finland (until 31 March 2018; as of 2 May 2018 at the latest Kati Rajala); Jukka Nikkinen, EVP Market Area International & Biotech; Anne Mere, EVP Market Area Baltics; Heli Arantola, EVP Categories and Concepts; Sami Sivuranta, EVP Operations; Anu Mankki, EVP HR; Mikko Forsell, CFO; Mikko Saariaho, EVP Communications and Corporate Responsibility; and Pia Nybäck, EVP Animal Sourcing & Primary Production.

SHARES AND SHAREHOLDERS

SHARES

At the end of December 2017, HKScan Corporation's share capital stood at EUR 66 820 528. The Corporation's total number of shares issued, 55 026 522, were divided into two share series as follows: A Shares, 49 626 522 (90.19% of the total number of shares) and K Shares, 5 400 000 (9.81%). The A Shares are quoted on the Nasdaq Helsinki. The K Shares are held by LSO Osuuskunta (4 735 000 shares) and Lantmännen ek.för. (665 000 shares) and are not listed. There were no changes in the number of shares and in holdings of LSO Osuuskunta and Lantmännen ek.för.

According to the Articles of Association, each A Share conveys one vote, and each K Share 20 votes. Each share gives equal entitlement to a dividend. The shares have no nominal value.

HKScan's calculational capitalization at the end of December 2017 stood at EUR 169.1 (172.3) million, breaking down as follows: Series A shares had a market value of EUR 152.2 (155.1) million, and the unlisted Series K shares a calculational value of EUR 16.9 (17.2) million.

In January-December, a total of 10 426 342 (13 313 324) of the company's shares with a total value of EUR 33 784 168 (42 427 708) were traded. The highest price quoted in the period under review was EUR 3.60 (3.89), and the lowest was EUR 2.96 (2.89). The average price was EUR 3.24 (3.18). At the end of December 2017, the closing price was EUR 3.13 (3.19).

SHAREHOLDERS

At the end of 2017, the shareholders maintained by Euroclear Finland Ltd included 12 212 (13 226) shareholders. Nominee-registered foreign shareholders held 18.1 (12.6) per cent of the company's shares.

NOTIFICATIONS OF CHANGES IN HOLDINGS

On 20 November 2017, HKScan Corporation received a notification that the total amount of HKScan Corporation shares owned by Sveriges Djurbönder ek. för. had decreased below the threshold of five (5) per cent. According to the notification, the reason for the decrease was the disposal of shares and voting rights resulting from the voluntary liquidation and distribution of assets of Sveriges Djurbönder ek. för.

TREASURY SHARES

At the end of December 2017, the company held 1 008 849 (1 008 849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

SHARE-BASED INCENTIVE SCHEME

On 10 April 2017, HKScan announced that the Board of Directors of HKScan Corporation approved a share-based long-term incentive plan for the Group's top management and selected key employees for 2017–2019.

The new share-based incentive plan comprises a one-year performance period, 2017, followed by a restriction period extending to 2018–2019. The potential rewards payable based on the plan will be based on HKScan Group's return on capital employed (ROCE) and earnings per share (EPS) in the performance period.

Those eligible to participate in the new share-based incentive plan are 28 members of HKScan's top management and other selected key employees.

SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2017, members of the Board of Directors and the company's President and CEO and his deputy, as well as their related parties, owned a total of 32 878 A Shares, corresponding to 0.06 per cent of the total number of shares and 0.01 per cent of the votes.

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARE ON 31 DECEMBER 2017

Number of shares held	Shareholders	Shareholders, %	Shares	Shares, %	Votes	Votes,%
1–100	3 267	26.75	161 796	0.29	161 796	0.10
101–500	4 550	37.26	1 295 872	2.36	1 295 872	0.82
501–1 000	1 965	16.09	1 538 258	2.80	1 538 258	0.98
1 001–5 000	1 987	16.27	4 443 622	8.06	4 443 622	2.82
5 001–10 000	230	1.88	1 653 551	3.01	1 653 551	1.05
10 001–50 000	160	1.31	3 219 058	5.85	3 219 058	2.04
50 001–100 000	23	0.19	1 625 635	2.95	1 625 635	1.03
100 001–500 000	15	0.12	3 354 442	6.10	3 354 442	2.13
500 001–	15	0.12	36 938 948	67.13	126 903 948	80.51
Total	**12 212**	**100.00**	**54 231 182**	**98.56**	**144 196 182**	**91.48**
of which nominee registered	8		9 303 431	16.91	9 303 431	5.90
Waiting list	1		665 000	1.21	13 300 000	8.44
General account			130 340	0.24	130 340	0.08
Number of shares issued			55 026 522	100	157 626 522	100

SHARE CAPITAL BY SHARE SERIES ON 31 DECEMBER 2017

Share series	Shares	Share of equity, %	Share of votes, %
A shares	49 626 522	90.19	31.48
K shares	5 400 000	9.81	68.52
Total	**55 026 522**	**100**	**100**

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DECEMBER 2017

	Share of owners, %	**Share of shares, %**	**Share of votes, %**
Corporates	3.46	45.81	73.07
Finance and insurance companies	0.15	1.49	6.32
Public entities	0.05	7.52	2.63
Households	95.58	22.93	8.01
Non-profit organizations	0.55	3.42	1.19
Domestic sectors, total	99.78	81.16	91.21
Abroad	0.22	0.49	0.27
All sectors, total	**100.00**	**81.65**	**91.48**
General account		0.24	0.08

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2017

		A shares	K shares	Of total shares, %	Of total votes, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Lantmännen ek. För	2 619 750	665 000	5.97	10.10
3	Tiiviste-Group Oy	1 250 000	0	2.27	0.79
4	Keskinäinen työeläkevakuutusyhtiö Varma	1 192 806	0	2.17	0.76
5	Keskinäinen työeläkevakuutusyhtiö Elo	1 142 830	0	2.08	0.73
6	Apteekkien Eläkekassa	1 081 889	0	1.97	0.69
7	HKScan Oyj	1 008 849	0	1.83	0.64
8	Maa- ja metsätaloustuottajain Keskusliitto MTK ry	836 414	0	1.52	0.53
9	Petter ja Margit Forsströmin säätiö Karl ja Olivia Forsströmin muistolle	670 500	0	1.22	0.43
10	Suhonen Jyrki	567 003	0	1.03	0.36
11	Hisinger-Jägerskiöld Eva	560 000	0	1.02	0.36
12	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550 000	0	1.00	0.35
13	Valtion Eläkerahasto	500 000	0	0.91	0.32
14	Hallqvist AB	405 000	0	0.74	0.26
15	J & K Hämäläinen Oy	257 000	0	0.47	0.16
16	Nordea Henkivakuutus Suomi Oy	250 000	0	0.45	0.16
17	Mandatum Life	226 164	0	0.41	0.14
18	Keskinäinen eläkevakuutusyhtiö Ilmarinen	218 298	0	0.40	0.14
19	Gripenberg Jarl kuolinpesä	215 000	0	0.39	0.14
20	Sveriges Djurbönder Ek. För.	202 460	0	0.37	0.13

PERSONNEL

In 2017, HKScan had an average of 7 292 (7 319) personnel.
The average number of employees in each market area was as follows:

	2017	2016
Sweden	2 139	2 162
Finland	2 964	2 912
Denmark	663	686
Baltics	1 527	1 560
Total	**7 292**	**7 319**

SHORT-TERM RISKS AND UNCERTAINTY FACTORS

The most significant uncertainty factors in the HKScan Group's business are related to sales and raw material prices, as well as management of global and local meat balances. Breaches of business principles and the Group's Code of Conduct are also recognized as operational risks. HKScan is in the process of renewing its Code of Conduct, and the related implementation of it will take place from 2018 onwards.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increase of taxes or other fees. HKScan is also involved in some juridical proceedings in its home markets.

In the food industry's raw material supply, the risks of animal diseases, such as the African Swine Fever (ASF), or any international or regional food scandals impacting the overall consumption outlook cannot be fully excluded.

Securing the completion of the Rauma unit's ongoing ramp-up process and thereby minimizing the risks related to it, is considered as the highest of the Group Management's priorities in 2018.

HKScan's risks are reported in more detail in the risk management section of the Annual Report 2017.

CORPORATE GOVERNANCE

HKScan has issued a separate Corporate Governance Statement for the Group. The Audit Committee has reviewed the statement in its meeting on 1 February 2018. The statement will be published as part of the online Annual Report 2017 on the company's web site www.hkscan.com in week 11/2018.

EVENTS AFTER THE REPORTING PERIOD

On 23 January 2018, HKScan announced that Kati Rajala, M.Sc. (Tech.), had been appointed as Executive Vice President, Market Area Finland and a member of the Group Leadership Team. Rajala will join HKScan on 2 May 2018 at the latest and she will report to the President and CEO. Jyrki Karlsson, currently Executive Vice President, Market Area Finland, will leave HKScan at the end of March 2018.

On 18 January, HKScan announced preliminary unaudited information on the Corporation's 2017 result: HKScan estimated its net sales to be approximately EUR 1 808 million and comparable operating profit (EBIT) approximately

EUR -18 million. The estimated ramp-up cost of the new Rauma unit and the related negative impact of the lost poultry sales due to the lowered delivery capability in Finland were estimated to amount to some EUR 25 million in total.

OUTLOOK FOR 2018

Global meat consumption is projected to increase 1.6 per cent per annum during the coming years. Consumption growth is estimated to be led by poultry. There are also several value related consumption trends, which support HKScan's strategy implementation.

In 2018, HKScan expects its strategy implementation to start recording results in terms of value growth in sales and operational efficiency in production.

The company will emphasize the implementation of its From Farm to Fork strategy through the five focus areas, which are: Focus on meat, Leadership in poultry, Continue growing the meals business, Cooperate with our farming community, and Drive efficiency and cost-competitiveness.

HKScan has changed its guidance policy to be in line with general international practice and discontinued giving numerical financial guidance.

These statements are based on current expectations and assumptions regarding anticipated developments of HKScan Group's market environment.

BOARD OF DIRECTORS' PROPOSAL ON DISTRIBUTION OF PROFIT

The parent company's distributable equity stands at EUR 235.5 (307.9) million including the reserve for invested unrestricted equity, which holds EUR 143.2 (143.2) million. The Board of Directors recommends that the company pay a dividend of EUR 0.09 (0.16) per share for 2017, i.e., a total of approximately EUR 4.9 (8.6) million.

There have been no material changes in the company's financial standing since the end of the year under review. The company maintains good liquidity, and the recommended distribution of dividend will not, in the Board's estimation, compromise the company's solvency.

ANNUAL GENERAL MEETING 2018

HKScan's Annual General Meeting will be held on Thursday 12 April 2018 at 10.00 in Turku, Finland.

To be eligible to attend the Annual General Meeting, shareholders should register by 29 March 2018 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd. A notice to the Annual General Meeting will be published at a later date.

KEY FIGURES

Financial indicators	**2017**	**2016**	**2015**	**2014**	**2013**
Net sales, EUR million	1 808.1	1 872.9	1 917.1	1 988.7	2 113.2
Operating profit/loss (EBIT), EUR million	-40.3	9.7	9.6	55.5	11.7
% of net sales	-2.2	0.5	0.5	2.8	0.6
Operating profit/loss excluding non-recurring items, EUR million	-17.6	13.2	21.5	12.4	11.2
% of net sales	-1.0	0.7	1.1	0.6	0.5
Profit/loss before taxes, EUR million	-49.2	0.9	2.2	51.2	6.7
% of net sales	-2.7	0.0	0.1	2.6	0.3
Return on equity (ROE), %	-11.2	-0.9	0.4	13.4	2.4
Return on capital employed before taxes (ROCE), %	-6.3	2.1	2.3	9.7	4.0
Equity ratio, %	36.9	47.9	50.9	51.5	37.1
Net gearing ratio , %	59.3	33.5	33.8	31.8	82.0
Gross investments, EUR million	125.5	97.6	49.6	48.7	42.2
% of net sales	6.9	5.2	2.6	2.4	2.0
R&D expenses, EUR million	6.5	6.6	5.1	3.7	3.2
% of net sales	0.4	0.4	0.3	0.2	0.2
Employees, average	7 292	7 319	7 437	7 662	7 774

Per share data	**2017**	**2016**	**2015**	**2014**	**2013**
Earnings per share (EPS), undiluted, EUR	-0.84	-0.10	0.01	1.05	0.16
Earnings per share (EPS), diluted, EUR	-0.84	-0.10	0.01	1.05	0.16
Equity per share, EUR	6.23	7.31	7.63	8.09	7.41
Dividend paid per share, EUR	0.09*	0.16	0.14	0.49	0.10
Dividend payout ratio, undiluted, %	-10.7*	-160.4	2 378.9	46.7	62.1
Dividend payout ratio, diluted, %	-10.7*	-160.4	2 378.9	46.7	62.1
Effective dividend yield, %	2.9*	5.0	3.7	15.0	2.7
Price-to-earnings ratio (P/E)					
undiluted	-3.7	-32.0	647.4	3.1	23.3
diluted	-3.7	-32.0	647.4	3.1	23.3
Lowest trading price, EUR	2.96	2.89	3.24	3.12	3.29
Highest trading price, EUR	3.60	3.89	6.26	4.49	4.28
Middle price during the period, EUR	3.24	3.19	5.07	3.74	3.70
Share price at the end of the year, EUR	3.13	3.19	3.81	3.27	3.76
Market capitalisation, EUR million	169.1	172.3	205.6	202.9	195.9

Trading volume (1 000)	10 426	13 313	17 321	13 990	7 670
% of the average volume	19.3	24.7	32.1	25.9	14.2
Adjusted number of outstanding shares (1 000)					
average during financial period	54 018	54 006	53 973	53 973	53 973
at the end of financial period	54 018	54 018	53 973	53 973	53 973
fully diluted	54 018	54 018	53 973	53 973	53 973

* Based on the Board of Directors' proposal.

CALCULATION OF FINANCIAL INDICATORS

HKScan discloses alternative performance measures (APM) to give relevant information to stakeholders. Disclosed APMs are also used in steering the company. Items affecting comparability and related APMs are disclosed to better reflect the operational business performance and to enhance comparability between periods.

Return on equity (%)

$$\frac{\text{Profit}}{\text{Total equity (average)}} \times 100$$

Return on capital employed (ROCE) before tax (%)

$$\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Balance sheet total – non-interest-bearing liabilities (average)}} \times 100$$

Equity ratio (%)

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Gearing ratio (%)

$$\frac{\text{Interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Net gearing ratio (%)

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Earnings per share

$$\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares during period}}$$

$$\text{Equity per share} = \frac{\text{Equity attributable to holders of the parent}}{\text{Number of outstanding shares at end of period}}$$

$$\text{Dividend per share} = \frac{\text{Dividend distribution}}{\text{Number of outstanding shares at end of period}}$$

$$\text{Dividend payout ratio (\%)} = \frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

$$\text{Effective dividend yield (\%)} = \frac{\text{Dividend per share}}{\text{Closing price on the last trading day of the financial year}} \times 100$$

$$\text{P/E ratio} = \frac{\text{Closing price on the last trading day of the financial year}}{\text{Earnings per share}}$$

Market capitalization	The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year
Cash flow before debt service	Cash flow before financing activities and financial items
Employee numbers	Average of workforce figures calculated at the end of calendar months
Items affecting comparability	One-time charges, which are not related to the normal continuing operations and materially affect company's finance. Examples of such expenses are: capacity adjustment (restructuring), redundancy, legal costs relating to restructuring or similar, one-time expenses related to efficiency / reorganization programmes, significant compensations or penalties paid out due to legal verdict or settlement, transaction fees / expenses related to business acquisitions (consultation, advisory, legal, due diligence, registration etc.) and gains/losses of business disposals.
Comparable EBIT	Operating profit – items affecting comparability
Comparable profit before taxes	Profit before taxes – items affecting comparability
Net debt	Interest-bearing debt – cash and bank

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR 1 JANUARY – 31 DECEMBER

(EUR million)

	Note	2017	2016
Net sales	1.	1 808.1	1 872.9
Other operating income	2.	8.5	11.4
Materials and services	3.	-1 271.3	-1 305.7
Employee benefits expenses	4.	-328.4	-326.6
Depreciation and amortisation	5.	-69.5	-55.0
Other operating expenses	6.	-187.7	-187.5
EBIT		**-40.3**	**9.7**
Financial income	7.	2.0	2.3
Financial expenses	7.	-12.6	-11.1
Share of associates' and joint ventures' results		1.7	-0.1
Profit/loss before taxes		**-49.2**	**0.9**
Income tax	8.	6.8	-4.4
Profit/loss for the period		**-42.4**	**-3.6**
Profit/loss for the period attributable to:			
Equity holders of the parent		-45.5	-5.4
Non-controlling interests		3.0	1.8
Total		**-42.4**	**-3.6**

Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-0.84	-0.10
EPS, diluted, continuing operations, EUR/share	9.	-0.84	-0.10

The notes 1–28 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY – 31 DECEMBER

(EUR million)

	2017	2016
Profit/loss for the period	-42.4	-3.6
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	-2.7	-4.1
Cash flow hedging	3.1	2.5
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-3.1	-2.9
Total other comprehensive income	**-2.7**	**-4.4**
Total comprehensive income for the period	**-45.1**	**-8.0**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	-48.1	-9.8
Non-controlling interests	3.0	1.8
Total	**-45.1**	**-8.0**

The notes 1–28 form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET ON 31 DECEMBER

(EUR million)

	Note	31 Dec. 2017	31 Dec. 2016
Intangible assets	10.	64.8	66.0
Goodwill	11.	72.4	77.0
Tangible assets	12.	458.2	401.7
Shares in associates and joint ventures	13.	22.5	22.2
Trade and other receivables	14.	2.8	4.7
Available-for-sale investments	14.	12.4	12.8
Deferred tax asset	15.	33.2	23.8
Non-current assets		**666.3**	**608.1**
Inventories	16.	111.8	116.1
Trade and other receivables	17.	123.5	123.7
Income tax receivable	17.	0.2	0.2
Cash and bank	18.	50.9	6.6
Current assets		**286.4**	**246.6**
Assets		**952.7**	**854.8**
Share capital	19.	66.8	66.8
Share premium reserve	19.	72.9	72.9
Treasury shares	19.	-0.0	-0.0
Fair value reserve and other reserves	19.	147.0	143.9
Translation differences	19.	-7.9	-5.3
Retained earnings	19.	57.9	116.5
Equity attributable to equity holders of the parent		336.6	394.8
Non-controlling interests		14.4	14.9
Equity		**351.0**	**409.7**

Deferred tax liability	15.	17.4	17.0
Non-current interest-bearing liabilities	22.	245.1	126.9
Non-current non-interest-bearing liabilities	22.	6.7	0.1
Non-current provisions	21.	7.1	0.1
Pension obligations	20.	27.5	22.7
Non-current liabilities		**303.8**	**166.7**
Current interest-bearing liabilities	22.	14.1	17.2
Trade and other payables	22.	281.0	259.2
Income tax liability	22.	0.7	0.3
Current provisions	21.	2.1	1.6
Current liabilities		**297.8**	**278.4**
Equity and liabilities		**952.7**	**854.8**

The notes 1–28 form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(EUR million)

	2017	2016
Profit/Loss for the period	-42.4	-3.6
Adjustments	72.4	62.0
Cash flow before change in net working capital	30.0	58.4
Change in net working capital	23.9	26.9
Other changes	3.9	-5.6
Interest paid	-11.1	-9.8
Other financial expenses paid	-5.1	-4.7
Interest received	1.8	2.0
Other financial income received	3.2	4.4
Dividends received	0.6	1.3
Income taxes paid	-1.5	-2.0
Cash flow from operating activities (A)	**45.7**	**70.9**
Total investments	-108.7	-56.6
Total sales of assets	2.8	2.4
Disposal of subsidiary, net of cash	-	0.1
Loan receivables, borrowings and repayments	1.9	0.2
Cash flow from investing activities (B)	**-104.0**	**-53.9**
Increase in other reserves	0.0	0.0
Proceeds from external borrowings	256.8	57.6
Repayment of external borrowings	-140.6	-69.1
Payment of finance lease liabilities	-0.7	-0.7
Dividends paid	-9.0	-8.2
Transactions with non-controlling interests	-4.5	-
Cash flow from financing activities (C)	**101.9**	**-20.6**
Net cash flow (A+B+C)	**43.6**	**-3.5**

Cash and cash equivalents, end balance	**50.9**	**6.6**
Cash and cash equivalents, opening balance	6.6	9.5
Effect of changes in exchange rates	0.6	0.7
Change	**43.6**	**-3.5**

The notes 1–28 form an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(EUR million)

	Share capital	Share premium reserve	Revaluation reserve	Reserve for invested unrestricted equity (RIUE)	Other reserves	Translation differences	Treasury shares	Retained earnings	Equity holders of the parent	Non-controlling interests	Total
EQUITY ON 1 Jan. 2017	66.8	72.9	-9.9	143.5	10.3	-5.3	-0.0	116.5	394.8	14.9	409.7
Result for the financial period	-	-	-	-	-	-	-	-45.5	-45.5	3.0	-42.4
Other comprehensive income (+) / expense (–)											
Translation differences	-	-	-	-	-	-2.7	-	-	-2.7	-	-2.7
Cash flow hedging	-	-	3.1	-	-	-	-	-	3.1	-	3.1
Actuarial gains or losses	-	-	-	-	-	-	-	-3.1	-3.1	-	-3.1
Total comprehensive income for the period	-	-	3.1	-	-	-2.7	-	-48.6	-48.1	3.0	-45.1
Direct recognitions	-	-	-	-	0.0	-	-	-0.1	-0.0	-	-0.0
Transactions with non-controlling interests	-	-	-	-	-	-	-	-1.3	-1.3	-3.2	-4.5
Dividend distribution	-	-	-	-	-	-	-	-8.6	-8.6	-0.4	-9.0
EQUITY ON 31 Dec. 2017	66.8	72.9	-6.8	143.5	10.3	-7.9	-0.0	57.9	336.6	14.4	351.0

EQUITY ON 1 Jan. 2016	66.8	72.9	-12.4	143.5	10.2	-3.7	-0.0	134.7	412.0	13.8	425.8
Result for the financial period	-	-	-	-	-	-	-	-5.4	-5.4	1.8	-3.6
Other comprehensive income (+) / expense (–)											
Translation differences	-	-	-	-	-	-4.1	-	-	-4.1	-	-4.1
Cash flow hedging	-	-	2.5	-	-	-	-	-	2.5	-	2.5
Actuarial gains or losses	-	-	-	-	-	-	-	-2.9	-2.9	-	-2.9
Total comprehensive income for the period	-	-	2.5	-	-	-4.1	-	-8.3	-9.8	1.8	-8.0
Direct recognitions	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Transfers between items	-	-	-	-	0.0	2.5	-	-2.5	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-7.6	-7.6	-0.7	-8.2
EQUITY ON 31 Dec. 2016	66.8	72.9	-9.9	143.5	10.3	-5.3	-0.0	116.5	394.8	14.9	409.7

The notes 1–28 form an integral part of the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR 2017

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 and its subsidiaries (together 'the Group') produce, sell and market high-quality and responsibly-produced pork, beef, poultry and lamb products, processed meats and convenience foods under strong brand names. Its customers are the retail, away-from-home and export sectors.

The Group is active in Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark, England, Russia, Germany and China. HKScan Corporation's A share has been quoted on 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.

The Board of Directors of HKScan Corporation approved the publication of these financial statements at its meeting on 6 February 2018. Under the Finnish Companies Act, shareholders may approve or reject the financial statements at the Annual General Meeting held subsequent to their publication. The Annual General Meeting can also modify the financial statements.

A copy of the HKScan Group's consolidated financial statements is available on the company's website at www.hkscan.com or in the parent company's head office at Lemminkäisenkatu 48, FI-20520 Turku, Finland. The LSO Osuuskunta Group's consolidated financial statements are also available at the same address.

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have consistently been applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the IAS standards and SIC and IFRIC interpretations effective on 31 December 2017. 'International Financial Reporting Standards' refers, in the Finnish Accounting Act and in the provisions given thereupon, to the standards approved for application within the EU according to the procedure as established in EU Regulation (EC) No. 1606/2002 and the interpretations thereof. The notes to the financial statements also conform to Finnish accounting and corporate legislation supplementing IFRS requirements.

The consolidated financial statements have been prepared under the historical cost convention except for some financial instruments and biological assets, which have been measured at fair value.

The accounting policies in respect of subsidiaries have been changed to correspond to those of the parent company if required.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates.

It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the accounting policies under critical accounting estimates and judgements.

Unless otherwise stated, the information in the consolidated financial statements is given in millions of euros. Consequently, some totals may not agree with the sum of their constituent parts.

The consolidated financial statements have been prepared in compliance with the same accounting policies as in 2016.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

There have been no new standards, amendments or interpretations, which are effective for the financial year beginning on 1 January 2017 that affect Group's accounting policies or any of the disclosures.

COMPARABILITY WITH PREVIOUS YEARS

The years 2017 and 2016 are comparable with each other.

CONSOLIDATION SUBSIDIARIES

The consolidated financial statements include the accounts of the parent company HKScan Corporation and its subsidiaries. Subsidiaries are entities over which the Group exercises control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value, or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Recorded goodwill is originally the sum of consideration transferred, interest of non-controlling shareholders in the acquiree and previously held interest in the acquiree minus the fair value of the acquired net assets. If the consideration is smaller than the fair value of the subsidiary's acquired net assets, the difference is recognised through profit or loss.

Subsidiaries acquired are consolidated from the date the Group acquires a controlling interest in them. All intragroup transactions, receivables and liabilities, and intragroup profit distribution, have been eliminated upon preparation of the consolidated financial statements.

A previous shareholding in a staggered acquisition is measured at the fair value and any profit or loss derived from this is recorded in the income statement as either profit or loss. When the Group loses control in a subsidiary, the remaining investment is measured at the fair value of the date of the expiry of control and the difference derived from this is recognised through profit and loss.

Distribution of profit for the period between holders of the parent and non-controlling interests is presented in the separate income statement, and the distribution of comprehensive income between holders of the parent and non-controlling interests is presented in the statement of comprehensive income. Comprehensive income is allocated to the parent company shareholders and non-controlling interests, even if this should mean that the share held by non-controlling interests becomes negative. The share of equity owing to non-controlling interests is presented as a separate item on the balance sheet under equity. Changes in the parent company's shareholding in a subsidiary, which do not lead to loss of control, are treated as equity-related transactions. The difference between fair value of any consideration paid, and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequed accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

ASSOCIATES

Associates are companies over which the Group exercises a significant influence which usually arises when the Group holds 20-50 per cent of a company's voting rights. Associates have been consolidated using the equity method. Under the equity method, the investment is initially recognised as cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. If the Group's share of the losses of an associate exceeds the investment's carrying amount, the investment is recognised as having no value and, unless the Group is committed to meeting the obligations of associates, no losses exceeding the carrying amount are consolidated. Investments in associates include the goodwill arising on their acquisition. Dividends received from associates have been eliminated in the consolidated financial statements. The associates mentioned below in Note 27, 'Related Party Transactions' have been consolidated into the consolidated financial statements. Share of associates' results is presented below EBIT.

The Group's share in associates' changes recognised in other items of comprehensive income are recognised in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2016 – 2017 financial periods.

JOINT VENTURES

A joint venture is a company in which the Group exercises joint control with another party. Joint ventures are consolidated using the equity method.

More detailed information about holdings in Group companies and associates and joint ventures is presented in Note 27, 'Related party transactions'.

FOREIGN CURRENCY TRANSLATION

The items included in the financial statements of the Group companies are valued in the currency of the main operating environment for that company (functional currency). The consolidated financial statements are presented in euros, the parent company's functional and reporting currency.

The assets and liabilities of foreign subsidiaries, and the foreign joint venture, are translated into euros at the closing exchange rates confirmed by the European Central Bank on the balance sheet date. The income statements are translated into euros using the average rate for the period. A translation difference arises from translating the result for the period and the comprehensive result at different rates in the income statement and comprehensive income statement and the balance sheet. The difference is recognised under equity. The change in the translation difference is recognised in other comprehensive income. The translation differences arising from eliminating the acquisition cost of foreign subsidiaries, and the joint venture, and from the translation of equity items accrued after the acquisition, are recognised in translation differences in the Group's equity, and the change is recognised in items of comprehensive income.

Group companies recognise transactions in foreign currencies at the rate prevailing on the day of the transaction. Trade receivables, trade payables, and loan receivables denoted in foreign currencies, and foreign currency bank accounts, have been translated into the operational currency at the exchange rates quoted on the balance sheet date. Exchange rate gains and losses on loans denoted in foreign currencies are included in financial income and expenses below EBIT. As a rule, exchange rate gains and losses related to business operations are included in the corresponding items above EBIT.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment have been measured at cost less accumulated depreciation and any impairment. Depreciation of assets is made on a straight-line basis over the expected useful life. No depreciation is made on land.

The expected useful lives are as follows:

Buildings and structures	25–50 years
Building machinery and equipment	8–12.5 years
Machinery and equipment	2–10 years

The residual value and useful life of assets are reviewed in each financial statement and if necessary adjusted to reflect changes taking place in expected useful life.

Depreciation on property, plant and equipment ends when an item is classified as being for sale. Gains and losses arising on the disposal and discontinuation and assignment of property, plant and equipment are included either in other operating income or expenses.

Maintenance and repair costs arising from normal wear and tear are recognised as an expense when they occur. Major refurbishment and improvement investments are capitalised and depreciated over the remaining useful life of the main asset to which they relate.

GOVERNMENT GRANTS

Government grants, such as grants from the State or the EU relating to PPE acquisitions, have been recognised as deductions in the carrying amounts of PPE when receipt of the grants and the Group’s eligibility for them is reasonably certain. The grants are recognised as income in the form of lower depreciations over the useful life of the item. Grants received in reimbursement of expenses incurred are recognised as income in the income statement at the same time as the costs relating to the object of the grant are recognised as an expense. Grants of this kind are reported under other operating income.

INTANGIBLE ASSETS

GOODWILL

Goodwill arises on the acquisition of subsidiaries or business operations, and represents the excess of the consideration transferred over the Group’s interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree, and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the segment level.

Goodwill impairment reviews are undertaken annually, or more frequently, if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill and other intangible items that have an unlimited useful life are not subject to regular depreciation, being instead tested yearly for impairment. For this reason, goodwill is allocated to CGUs or, in the case of an associate, included in the acquisition cost of the associate concerned. Goodwill is measured according to the historical cost convention less impairments. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of goodwill are not reversed. See, 'Impairment' and 'Impairment testing'.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged as incurred and are included in other operating expenses in the income statement.

OTHER INTANGIBLE RIGHTS AND ASSETS

An intangible asset is recognised on the balance sheet only if its acquisition cost can be reliably determined and it is likely that the company will reap the expected economic benefit of the asset. Intangible rights include trademarks and patents, while items such as software licenses are included in other intangible assets. Patents and software licenses are recognised on the balance sheet as cost and are depreciated on a straight-line basis during their useful life, which varies from five to 10 years. No depreciation is made on intangible assets with an unlimited useful life.

Brands have been estimated to have an unlimited useful life. The good recognition of the brands and analyses performed support the view of management that the brands will affect cash flow generation for an indeterminate period of time.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life, or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

See 'Critical accounting estimates and judgements' and 'Goodwill'.

INVENTORIES

Raw materials are measured at weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labor costs, other direct costs and a systematically allocated proportion of variable and fixed production overheads. In determining the acquisition cost, standard cost accounting is applied and standard costs are reviewed regularly and changed if necessary. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Inventories are shown net of a reserve for obsolete and slow-moving inventories. A reserve is established and a corresponding charge is taken to profit and loss in the period in which the loss occurs based upon an assessment of obsolescence and related factors.

BIOLOGICAL ASSETS

Biological assets, which in the case of the HKScan Group means living animals, are recognised on the balance sheet at fair values less estimated sales-related expenses. The Group's live slaughter animals are measured at market price. Animals producing slaughter animals (sows, boars, breeding hens) have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

Biological assets are included in inventories on the balance sheet and changes in the fair value are included in material costs in the income statement.

LEASES

THE GROUP AS LESSEE

Leases applying to property, plant and equipment where the Group assumes a substantial part of the risks and benefits of ownership are classified as finance leases. Items acquired under finance leasing are recognised on the balance sheet at the fair value of the asset leased at the commencement of the lease or at the present value of minimum lease payments, whichever is the lower. Assets acquired under finance leasing are subject to depreciation within the useful life of the asset or the lease period, whichever is the shorter. Lease payments are divided into finance expenses and debt amortisation during the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Variable rents are recognised as expenses in the period during which they are generated. Leasing commitments are included in financial liabilities.

Leases where the lessor retains a substantial part of the risks and benefit of ownership are treated as other leases. Other operating lease payments are treated as rentals and charged to the income statement on a straight-line basis over the lease term.

When a lease includes land and building elements, the classification of each element as a finance lease or an operating lease is assessed separately. When it is necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum up front payments) are allocated in proportion to the relative fair values of the leasehold interests in the land element, and building element of the lease at the inception of the lease.

THE GROUP AS LESSOR

The Group's leased assets whose risks and rewards of ownership have essentially been transferred to the lessee are treated as finance leases and recognised as receivables on the balance sheet. Receivables are initially recognised at their present value. Financing income from finance leases is recognised during the term of the lease so as to achieve a constant rate of return on the outstanding net investment over the term of lease.

Other assets leased under other operating leasing agreements are included in property, plant and equipment on the balance sheet. They are depreciated over their useful lives in the same way as corresponding property, plant and equipment in the company's own use are. Rental income is recognised in the income statement on a straight-line basis over the lease term.

ARRANGEMENTS THAT MAY INCLUDE A LEASE AGREEMENT

When an arrangement enters into force, the Group uses its factual content to determine whether the arrangement is a lease agreement or whether it includes one. A lease agreement exists if the following conditions are met: the fulfilment of the arrangement depends on the use of a specific asset or assets, and, the arrangement produces a right to use that asset.

If the arrangement includes a lease agreement, the agreement will be governed by the provisions of IAS 17. Other factors in the arrangement will be governed by the provisions of regulating IFRS standards.

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

Pension plans are classified as defined benefit plans and defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate entity. The Group is under no legal or actual obligation to make additional payments in the event that the entity collecting pension payments is unable to meet its obligations to pay the pension benefits in question. Any pension plan that does not meet these criteria is a defined benefit plan.

Statutory pension cover for Finnish Group companies has been arranged through pension insurance. Pension plans in respect of companies outside Finland have been made in accordance with local practice.

In defined contribution plans, such as the Finnish employment pension scheme (TyEL) and the Swedish ITP-plan, pension plan contributions are recognised in the income statement during the financial period in which they are incurred.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, curtailments and settlements.

Past-service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are charged or credited to equity in other comprehensive income in the period in which they arise.

SHARE-BASED PAYMENTS

Based on IFRS2, the fair value of share based incentives is determined at the grant date and the fair value is expensed until vesting. If the share reward is paid as a combination of shares and cash, the fair value determination is divided into equity-settled and cash-settled portions. The equity-settled portion is booked into equity and cash-settled into liabilities. The fair value of equity-settled portion is the fair value of Company share at the grant date deducted with expected dividends to be paid before the reward payment. Furthermore, the share purchase and ownership requirement in the performance period is taken into account by deducting the estimated financing costs of the share purchases from the fair value. The fair value of the cash-settled portion is recalculated on each reporting date until the reward payment.

PROVISIONS

A provision is recognised when the Group has a legal or actual obligation as the result of a past event. It is likely that the payment obligation will be realised and the magnitude of the obligation can be reliably estimated.

A restructuring provision is made when the Group has compiled a detailed restructuring plan and launched its implementation or announced the plan. No provision is made for expenses relating to the Group's continuing operations.

A provision for environmental obligations is made when the Group has an obligation, based on environmental legislation and the Group's environmental responsibility policies, which relates to site decommissioning, repairing environmental damage or moving equipment from one place to another.

TAXES AND DEFERRED TAXES BASED ON TAXABLE INCOME FOR THE PERIOD

The income tax expense in the income statement consists of tax based on taxable income and deferred tax. Taxes are recognised in the income statement, except when related to items recognised directly in equity, or the statement of comprehensive income, in which event the tax is also recognised in the said items. Tax based on taxable income in the financial period is calculated from taxable income on the basis of the tax law of the domicile of each company. Taxes are adjusted with any taxes relating to previous financial periods.

Deferred tax assets and liabilities are calculated on all temporary differences in bookkeeping and taxation using the tax rate valid at the balance sheet date or expected date the tax is paid. The most significant temporary differences arise from measurement to fair value of derivative instruments, defined benefit pension plans, unclaimed tax losses and measurements to fair value in connection with acquisitions. No deferred tax is recognised on non-deductible goodwill.

Deferred taxes are calculated using the tax rates which have been enacted or which in practice have been adopted by the reporting date.

The deferred tax liability relating to the retained earnings of the Baltic Group companies has not been recognised, as the assets are used to safeguard the foreign companies' own investment needs. The parent company has control over the dividend distribution policy of the Baltic subsidiaries, and there are no plans to distribute said earnings within the foreseeable future.

RECOGNITION POLICIES

Net sales is presented as revenue from the sales of products and services measured at fair value and adjusted for indirect taxes, discounts and translation differences resulting from sales in foreign currencies.

GOODS SOLD AND SERVICES PROVIDED

Revenue from the sale of goods is recognised when the significant risks and benefits of ownership have been transferred to the buyer. Revenue from service provision is recognised in the financial period in which the service is performed.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operation is a material part of the Group that has been disposed of or classified as held for sale. Profit from discontinued operations is disclosed as a separate item in the other comprehensive income statement.

FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

The Group's financial assets are classified into the following categories: financial assets recognised at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets. The classification is based on the purpose of the acquisition of the financial asset and takes place in conjunction with the original acquisition. Transaction costs are included in the original carrying amount of financial assets in the case of items not measured at fair value through profit or loss. Purchases and sales of financial assets are recognised on the settlement date, except for derivatives and spot transactions, which are recognised according to the transaction date. The transaction date is the date on which the Group commits itself to purchase or sell a financial instrument. The settlement date is the date on which a financial asset is delivered to another party or correspondingly when a financial asset is received. Financial assets are derecognised from the balance sheet when the Group's contractual right to the cash flows has expired or when the risks and rewards of ownership have to a significant degree been transferred outside the Group.

The category of financial assets recognised at fair value through profit or loss, comprises financial assets acquired to be held for trading or designated as such at inception (application of fair value option). The category can be changed only in rare special circumstances. The latter group includes financial assets that are administered on the basis of fair value or financial asset items involving one or more embedded derivatives that significantly change the cash flows of the contract, in which case the whole compound instrument is measured at fair value. Financial assets held for trading purposes have mainly been acquired to obtain a gain from short term changes in market prices. Derivatives that do not satisfy hedge accounting are classified as financial assets or liabilities held for trading. Derivatives held for trading as well as financial assets maturing within 12 months are included in current assets.

The items in the category of financial assets recognised at fair value through profit of loss are measured at fair value, which is based on the market price quoted on the reporting date. In assessing the fair values of non-traded derivatives and other financial instruments, the Group uses generally adopted valuation methods and estimated discounted values of future cash flows. Gains and losses arising from changes in fair value, whether realised or unrealised, are recognised through profit or loss in the financial period in which they arise.

Loans and other receivables are non-derivative assets that have fixed or measurable payments, are not quoted on active markets, and not held for trading by the Group or specifically classified as being available for sale at inception. These are, for example, trade receivables and some other receivables the Group has. They are measured on the basis of amortised cost using the effective interest method and are included on the balance sheet under current or non-current assets as determined by their nature, under the latter if maturing in more than 12 months.

Available-for-sale financial assets consist of assets not belonging to derivative assets, which have been specifically classified in this category or which have not been classified in another category. They are included in non-current assets, except if they are to be held for less than 12 months from the reporting date, in which case they are recorded under current assets. Available-for-sale financial assets can consist of shares and interest-bearing investments. They are measured at fair value or, when the fair value cannot be reliably determined, at cost. The fair value of an investment is determined on the basis of the bid price of the investment. If quoted prices are not available for available-for-sale financial assets, the Group applies various valuation techniques to measure them. These include, for example, recent transactions between independent parties, discounted cash flows or other similar instrument valuations. Information obtained from the market in general, and minimal elements determined by the Group itself, are utilised.

Changes in the fair value of available-for-sale financial assets are recorded in other comprehensive income and reported in the fair value reserve included in equity, Other reserves, take into consideration the tax impact. Changes in fair value are transferred from equity to the income statement when the investment is sold or if it is subjected to impairment and an impairment loss must be recognised on the investment. Interest income on available-for-sale investments are recognised in financial income using the effective interest method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, demand deposits and other highly liquid short-term investments which are easily exchangeable for a previously known amount of cash assets, and whose risk of a change in value is minimal. Items classified in cash and cash equivalents have a maturity of less than three months from the date of acquisition. Credit accounts relating to the Group accounts are included in current financial liabilities, and they are recognized as setoffs, as the Group has an agreement-based legal right to settle or otherwise eliminate the amount to be paid to the creditor in full or in part.

IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date, the Group assesses whether there is any objective evidence of the impairment of a financial asset or a group of financial assets.

The Group recognises an impairment loss for trade receivables if evidence exists that the receivable cannot be collected in full. Significant financial difficulties on the part of a debtor, the likelihood of bankruptcy, payment default or a payment delay exceeding 90 days, constitute evidence of the impairment of trade receivables. The impairment loss recognised in the income statement is the difference measured between the carrying amount and the present value of estimated future cash flows of a receivable. If the amount of the impairment loss decreases in a later period, and the decrease can be objectively related to an event subsequent to impairment recognition, the recognised loss is reversed through profit or loss.

FINANCIAL LIABILITIES

The Group's financial liabilities are classified into the following categories: financial liabilities recognised at fair value through profit or loss, and other financial liabilities at amortised cost.

Financial liabilities recognised at fair value through profit or loss are initially and subsequently measured at fair value with the same principles as corresponding financial assets. Derivative financial liabilities are included in this category. Other financial liabilities are initially recognised at fair value and transaction costs are included in the original carrying amount. Financial liabilities, except for derivative contract liabilities, are subsequently measured at amortised cost using the effective interest method. Financial liabilities are included in current and non-current liabilities. Financial liabilities are classified as current unless the Group has an unconditional right to defer payment for at least 12 months from the reporting date.

Borrowing costs directly attributable to the acquisition, construction or manufacture of a qualifying asset are capitalised as a part of the cost of the said asset when it is likely that these will generate future economic benefits, and when the costs can be measured reliably. During the financial years presented, the Group did not have any qualifying investments.

Other borrowing costs are recognised as an expense in the period in which they are incurred. Credit fees related to loan commitments are recognised as transaction costs in proportion to the extent that it is probable that the total loan commitment or a part of it will be raised. Credit fees are recognised on the balance sheet until the loan is raised. In connection with the drawdown, the credit fee related to loan commitments is recognised as part of the transaction costs. To the extent that it is probable that the loan commitment will not be raised, the credit fee is recognised as a prepaid expense in respect of the liquidity-related services and is accrued for the period of the loan commitment.

DERIVATIVES AND HEDGE ACCOUNTING

Derivative contracts are initially accounted for at fair value on the date on which the Group becomes a party to the contract and subsequently continue to be measured at fair value. Gains and losses arising from the measurement at fair value are treated in the income statement in the manner determined by the purpose of the derivative. The impacts on profit or loss arising from changes in the value of derivative contracts to which hedge accounting applies and which are effective hedges, are presented in a manner consistent with the hedged item. When derivative contracts are entered into, the Group treats the derivatives, as in the case of interest rate risk, as cash flow hedges, cash flow hedges of a highly probable forecast transaction, or derivatives that do not satisfy the criteria for applying hedge accounting. The Group documents the hedge accounting at the beginning of the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management and the hedging strategy applied. When initiating the hedge and thereafter when publishing all financial statements, the Group documents and assesses the effectiveness of the hedging relationships by examining the ability of the hedging instrument to nullify changes in the fair value of the hedged item or changes in cash flows.

CASH FLOW HEDGING

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised under other comprehensive income and reported in the hedging reserve (included in Fair value reserve and other reserves). Gains and losses accrued from the hedging instrument are transferred to the income statement when the hedged item affects profit or loss. The ineffective portion of the hedging instrument's profit or loss is recognised as financial income or expenses (interest rate derivatives) or other operating expenses (commodity derivatives).

When a hedging instrument acquired to hedge cash flow matures or is sold, or when the criteria for hedge accounting are no longer satisfied, the profit or loss accrued from the hedging instrument remains in equity until the forecast transaction is carried out. Nevertheless, if the forecast hedged transaction is no longer expected to be realised, the profit or loss accrued in equity is recognised immediately in the income statement.

OTHER HEDGING INSTRUMENTS WHERE HEDGE ACCOUNTING IS NOT APPLIED

Despite the fact that some hedging relationships satisfy the Group's risk management hedging criteria, hedge accounting is not applied to them. Derivatives hedging against currency risk fall into this category. In accordance with the Group's recognition policy, changes in the fair value of foreign exchange contracts hedging commercial flows are recognised in other operating income and expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations. On the balance sheet, derivatives relating to currency-denominated trade receivables or trade payables are presented in other current receivables or liabilities.

Changes in the hedging reserve are presented in Note 19. 'Notes relating to equity' under 'Revaluation reserve'.

EMBEDDED DERIVATIVES

Embedded derivatives are included in such binding commercial agreements that are denominated in a currency which is not the operating currency of neither contracting party and which is not generally used in the financial environment in which the business transaction is carried out. Such derivatives are usually forward exchange contracts. During the financial years presented, the Group did not have any embedded derivatives.

EQUITY

All company shares are reported as share capital. Any repurchase of its own shares by the company is deducted from equity.

DIVIDEND

The dividend proposed to the Annual General Meeting by the Board of Directors is not deducted from distributable equity until approved by the AGM.

EBIT

The concept of EBIT is not defined in IAS 1: Presentation of Financial Statements. The Group employs the following definition: EBIT is the net sum arrived at by adding other operating income to net sales, deducting from this purchase costs as well employee benefit expenses, depreciation and impairment losses, if any, and other operating expenses. All other income statement items are presented below EBIT.

Where necessary, major gains and losses on disposal, impairment and recognitions of discontinuations, reorganisations of operations or significant compensations or penalties paid out due to the legal verdict or settlement, recorded as items affecting comparability, as well as comparable EBIT may be presented separately in interim reports and financial statement bulletins.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make estimates and assumptions affecting the content and to exercise judgement in applying the accounting policies. The most important of these estimates affect the possible impairment of goodwill and other assets as well as provisions. Actual results may differ from these estimates.

The estimates made in preparation of the financial statements are based on the best judgement of management on the reporting date. The estimates are based on historical experience and assumptions regarding the future seen as most likely on the balance sheet date. Such assumptions are related to the expected development of the Group’s financial operating environment in terms of sales and cost levels. The estimations and judgements are reviewed regularly.

The most important areas in which the estimations and judgement have been used are presented below.

The assumptions made by the management regarding the taxable income of the Group companies in the coming reporting periods are taken into account when estimating the amount of recognised deferred tax assets.

MEASUREMENT TO FAIR VALUE OF ASSETS ACQUIRED IN BUSINESS COMBINATIONS

Where possible, Management has used available market values as the basis of determining the fair value of the net assets acquired in a business combination. When this is not possible, measurement is principally based on the historic return from the asset item and its intended use in business operations. Measuring the intangible right at fair value has required the Management to make estimations on the future cash flows. Valuations are based on discounted cash flows as well as estimated disposal and repurchase prices and require Management`s estimates and assumptions about the future use of assets and the effect on the company’s financial position. Changes in the emphasis and direction of business operations may result in changes to the original measurement in the future.

In addition, both intangible and tangible assets are reviewed for any indications of impairment on each reporting date at the least.

IMPAIRMENT TESTING

The Group tests goodwill annually for possible impairment. The recoverable amounts of cash generating units are determined in calculations based on value in use. The preparation of these calculations requires the use of estimates. Although the assumptions used are appropriate according to the Management, the estimated recoverable amounts may differ substantially from those realised in future.

The assumptions used in the impairment calculation involve judgement that the Management has used in estimating the development of different factors. The sensitivity analysis emphasises that the factors related to revenue growth are the most central sources of uncertainty in the methods, assumptions and estimates used in the calculations. This sensitivity derives from the challenging estimation of the future development of the previously mentioned factors.

VALUATION OF INVENTORIES

Management's principle is to recognise an impairment loss for slowly moving and outdated inventories based on the management's best possible estimate of possibly unusable inventories in the Group's possession at the reporting date. The Group has valuation policy for inventories which is approved by the Management. Management bases its estimates on systematic and continuous monitoring and evaluations. Also, biological assets' fair value includes Management's judgement.

APPLICATION OF NEW AND REVISED IFRS NORMS

IASB has published the following new or revised standards and interpretations that the Group has not yet adopted. The Group will adopt these standards as of the effective date of each of the standards, or if the effective date is not the first day of the reporting period, as of the beginning of the next reporting period following the effective date.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI, and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard has been endorsed for application in the EU. According to IFRS 9, bond modification costs from 2017 that have been treated with effective interest rate method will be recorded as expense. This will result in EUR 1.0 million deduction of retained earnings, EUR 1.2 million increase of interest bearing liabilities and EUR 0.2 million deduction of deferred tax liability in the opening balance sheet 1.1.2018. New credit loss impairment model does not have material impact.

IFRS 15, 'Revenue from contracts with customers' deals, with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The new standard will not have a material effect on the Group's financial statements. The standard has been endorsed for application in the EU. Regarding IFRS 15, sales contracts with customers have been reviewed according to the 5 step model. Based on review there is no material impact to current revenue recognition.

IFRS 16, Leases will replace current IAS 17 guidance regarding lease agreements. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019 and Group will adopt it then. According to IFRS 16 lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. The new standard is expected to have no significant impact on profit before taxes. Assets and interest bearing liabilities are expected to grow by EUR 30-40 million with current lease agreements. Changes in lease agreements may change this amount. The standard has been endorsed for application in the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTES TO THE INCOME STATEMENT

1. BUSINESS SEGMENTS

The Group’s operational activities are the responsibility of the Group’s CEO assisted by the Group Management Team. The division into business segments is based on the reports used by the Group Management Team for the allocation of resources and assessment of performance.

The Group Management Team monitors business performance by geographical area. The geographical segments monitored are Sweden, Finland, Denmark and the Baltics.

All the geographical segments manufacture, sell and market meat products, processed meat products and convenience foods.

The net sales and EBIT for specific segments do not include intercompany sales and margins. Segments report external sales and cost of the external sales.

The assets and liabilities of the segments are items that are either directly or fairly allocated to the business of the relevant segment. Segment assets include tangible and intangible assets, shares in associates, inventories and non-interest bearing receivables. Segment liabilities include current non-interest bearing liabilities. Unallocated items include financial and tax items and items common to the entire Group.

Year 2017	**Swedish operations**	**Finnish operations**	**Danish operations**	**Baltic operations**	**Business segments, total**	**Group adminis-tration**	**Elimina-tions**	**Un-allocated**	**Group total**
INCOME STATEMENT INFORMATION									
Net sales	759.4	742.2	147.8	158.7	1 808.1	-	-	-	1 808.1
EBIT	5.4	-16.5	-13.9	4.4	-20.6	-19.7	-	-	-40.3
Share of associates' results	-0.2	2.4	-0.5	-	1.7	-	-	-	1.7
Financial income and expenses								-10.6	-10.6
Income taxes								6.8	6.8
Result for the period, continuing operations									**-42.4**

BALANCE SHEET INFORMATION									
Segment assets	239.4	404.4	66.7	141.2	851.7	62.4	-32.5	-	881.6
Shares in associates	3.8	15.5	3.2	-	22.5	-	-	-	22.5
Unallocated assets	-	-	-	-	-	-	-	48.6	48.6
Total assets	**243.1**	**420.0**	**69.9**	**141.2**	**874.2**	**62.4**	**-32.5**	**48.6**	**952.7**
Segment liabilities	106.8	154.8	17.6	20.8	300.0	13.5	-7.1	-	306.3
Unallocated liabilities	-	-	-	-	-	-	-	295.3	295.3
Total liabilities	**106.8**	**154.8**	**17.6**	**20.8**	**300.0**	**13.5**	**-7.1**	**295.3**	**601.6**
OTHER INFORMATION									
Sales, goods	759.0	740.8	147.8	158.6	1 806.2	-	-	-	1 806.2
Sales, services	0.3	1.4	-	0.1	1.8	-	-	-	1.8
Investments	13.7	96.9	1.3	10.0	122.0	3.5	-	-	125.5
Depreciation and amortisation	-11.2	-24.8	-8.9	-9.4	-54.3	-0.9	-	-	-55.2
Impairment	-	-4.2	-10.1	-	-14.3	-	-	-	-14.3
Goodwill	30.4	19.8	0.0	22.2	72.4	-	-	-	72.4
Cash flow before debt service	18.1	-56.0	0.8	4.4	-32.6	-17.0	-	-	-49.6

Cash flow before debt service reconciliation Group total	
Cash flow from operating activities	45.7
Financial items (-)	10.6
Cash flow from investing activities	-104.0
Loan receivables Borrowings and repayments (-)	-1.9
Cash flow before debt service	**-49.6**

Year 2016	**Swedish operations**	**Finnish operations**	**Danish operations**	**Baltic operations**	**Business segments, total**	**Group adminis-tration**	**Elimina-tions**	**Un-allocated**	**Group total**
INCOME STATEMENT INFORMATION									
Net sales	790.8	774.9	149.5	157.7	1872.9	-	-	-	1 872.9
EBIT	9.5	15.3	-6.6	6.2	24.3	-14.7	-	-	9.7
Share of associates' results	-0.5	0.4	-	-	-0.1	-	-	-	-0.1
Financial income and expenses								-8.7	-8.7
Income taxes								-4.4	-4.4
Result for the period, continuing operations									**-3.6**
BALANCE SHEET INFORMATION									
Segment assets	240.5	346.0	84.2	137.2	807.9	47.9	-64.7	-	791.1
Shares in associates	4.3	14.0	3.7	-	22.0	0.1	-	-	22.2
Unallocated assets	-	-	-	-	-	-	-	41.5	41.5
Total assets	**244.8**	**360.1**	**87.9**	**137.2**	**830.0**	**48.0**	**-64.7**	**41.5**	**854.8**
Segment liabilities	100.0	155.3	17.9	19.7	293.0	10.2	-33.7	-	269.4
Unallocated liabilities	-	-	-	-	-	-	-	175.7	175.7
Total liabilities	**100.0**	**155.3**	**17.9**	**19.7**	**293.0**	**10.2**	**-33.7**	**175.7**	**445.1**

OTHER INFORMATION									
Sales, goods	790.2	770.2	149.5	157.5	1 867.4	-	-	-	1 867.4
Sales, services	0.7	4.7	-	0.2	5.6	-	-	-	5.6
Investments	19.8	60.3	3.1	10.8	94.0	3.6	-	-	97.6
Depreciation and amortisation	-11.3	-24.6	-9.4	-8.9	-54.1	-0.4	-	-	-54.6
Impairment	-0.4	-	-	-	-0.4	-	-	-	-0.4
Goodwill	31.4	19.8	3.6	22.2	77.0	-	-	-	77.0
Cash flow before debt service	8.2	25.9	-0.8	6.7	40.1	-16.4	-	-	23.7

Cash flow before debt service reconciliation to Group total	
Cash flow from operating activities	70.9
Financial items (-)	6.9
Cash flow from investing activities	-53.9
Loan receivables Borrowings and repayments (-)	-0.2
Cash flow before debt service	**23.7**

2. OTHER OPERATING INCOME

	2017	2016
Rental income	1.3	1.3
Gain on disposal of non-current assets	0.5	1.0
Exchange rate gains related to foreign exchange derivatives	1.4	1.4
Insurance compensation	0.0	0.1
Government grants	0.0	1.0
Other operating income	5.2	6.7
Other operating income	**8.5**	**11.4**

3. MATERIALS AND SERVICES

	2017	**2016**
Purchases during the financial period	-1 114.8	-1 148.2
Increase/decrease in inventories	-3.2	-4.2
Work performed for own use and capitalised	0.0	0.0
Materials and supplies	**-1 118.0**	**-1 152.4**
External services	-153.3	-153.2
Materials and services	**-1 271.3**	**-1 305.7**

4. EMPLOYEE BENEFIT EXPENSES

	2017	**2016**
Salaries and fees	-254.8	-254.8
Share-based payments	0.0	-0.0
Pension expenses, defined contribution plans	-28.4	-28.6
Pension expenses, defined benefit plans	-2.2	-1.7
Total pension expenses	-30.5	-30.3
Other social expenses	-43.1	-41.4
Employee benefit expenses	**-328.4**	**-326.6**
Key management personnel compensation:		
Short-term employee benefits	-3.1	-2.7
Post-employment benefits	-0.4	-0.4
Termination benefits	-0.7	-1.6
Share-based payments	0.0	-0.0
Key management salaries, fees and benefits	**-4.2**	**-4.7**
Average number of employees during financial year		
Clerical employees	1 226	1 269
Workers	6 066	6 050
Total	**7 292**	**7 319**

Members of Board of Directors:	Salaries and fees	Post-employment benefits
Mikko Nikula, Chairman	0.071	-
Marko Onnela, Debuty Chairman	0.030	-
Pirjo Väliaho	0.043	-
Per Olof Nyman, starting from 6.4.2017	0.020	-
Riitta Palomäki, starting from 6.4.2017	0.030	-
Tuomas Salusjärvi, starting from 6.4.2017	0.024	-
Henrik Treschow, until 6.4.2017	0.014	-
Teija Andersen, until 6.4.2017	0.013	-
Per Nilsson, until 6.4.2017	0.006	-
Veikko Kemppi, starting from 6.4.2017	0.016	-
Carl-Peter Thorwid, starting from 6.4.2017	0.019	-
Total	**0.287**	**0**
CEO		
Jari Latvanen	0.677	0.130

The Finnish members of the Group Leadership Team are covered by a contribution-based additional pension insurance. The contribution is 20 per cent of the insured person's annual pay. The retirement age according to the pension agreements is 63 years.

SHARE-BASED PAYMENTS

Performance Share Plan 2013

The Board of Directors of HKScan Corporation has on 19 December 2012 approved a new share based incentive plan, Performance Share Plan 2013, as a part of the incentive and commitment program for the Group key employees. The new Plan includes three one-year performance periods, calendar years 2013, 2014 and 2015, from which the key employees can earn HKScan series A shares based on achieving the set targets. The Board of Directors of the Company will decide on the performance criteria and their targets for a performance period at the beginning of each performance period. Furthermore, the new Plan includes one three-year performance period, calendar years 2013-2015. The prerequisite for receiving reward on the basis of this performance period is that a key employee previously owns or acquires the Company´s series A shares up to the number determined by the Board of Directors.

The potential reward from the performance period 2015 will be based on the HKScan Group´s Earnings per Share (EPS) and Return on Capital Employed (ROCE).

The possible rewards from the performance 2015 will be paid in 2018 partly in the HKScan series A shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. In general, no reward will be paid, if the key employee's employment or service ends before reward payment.

LTI Brigde Plan 2016

On 18 December 2015, HKScan announced that the Board of Directors had approved a share based incentive plan for the Group's key personnel for the year 2016. The new plan covers one performance period, year 2016. The potential reward from the performance period will be based on the HKScan Group´s Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Earnings per Share (EPS).

Rewards from the performance period will be paid partly in the Company’s A series shares and partly in cash as follows: 50 per cent pay-out in 2017 and 50 per cent pay-out in 2018. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee’s employment or service ends before reward payment.

The plan is directed to 37 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 366 000 HKScan Corporation series A shares and cash payment corresponding to the value of such shares.

No rewards will be paid from performance period 2016 since the performance criteria targets were not achieved.

LTI Bridge Plan 2017-2019

On 10 April 2017, HKScan announced that the Board of Directors had approved a share based incentive plan for the Group's key personnel for the year 2017. The new plan covers one performance period, year 2017. The potential reward from the performance period will be based on the HKScan Group´s Return on Capital Employed (ROCE) and Earnings per Share (EPS).

Rewards from the performance period will be paid partly in the Company’s A series shares and partly in cash as follows: 50 per cent pay-out in 2018 and 50 per cent pay-out in 2019. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee’s employment or service ends before reward payment.

The plan is directed to 28 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 743 000 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs.

More specific information of the performance share plan grants are presented in the tables below.

SHARE BASED INCENTIVES DURING THE REPORTING PERIOD 1 JAN. 2017 – 31 DEC. 2017

Plan

Instrument	Plan 2017–2019, 2018 delivery	Plan 2017–2019, 2019 delivery	Plan 2016–2018, 2017 delivery	Plan 2016–2018, 2018 delivery	Performance Period 2015	TOT/WA
Initial amount, pcs	371 500	371 500	366 000	366 000	451 000	1 926 000
Initial allocation date	8 June 2017	8 June 2017	16 June 2016	16 June 2016	10 Feb. 2015	
Vesting date / payment approximately	30 June 2018	31 March 2019	31 Aug. 2017	31 March 2018	30 Apr. 2018	
Maximum contractual life, yrs	1.0	1.8	1.2	1.8	3.2	2.2
Remaining contractual life, yrs	0.5	1.3	0.0	0.0	0.3	1.2
Vesting conditions	ROCE (70%), EPS (30%), Employment precondition	ROCE (70%), EPS (30%), Employment precondition	EBITDA (70%), EPS (30%), Employment precondition	EBITDA (70%), EPS (30%), Employment precondition	EPS (70%), ROCE-% (30%), Employment precondition	
Number of persons at the end of the reporting year	23	23	0	0	10	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	

Changes during the period 2017	Plan 2017–2019, 2018 delivery	Plan 2017–2019, 2019 delivery	Plan 2016–2018, 2017 delivery	Plan 2016–2018, 2018 delivery	Performance Period 2015	Total
1 Jan. 2017						
Outstanding at the beginning of the reporting period, pcs	0	0	261 000	261 000	53 770	575 770
Changes during the period						
Granted	331 500	331 500	0	0	0	663 000
Forfeited	53 000	53 000	0	0	28 979	134 979
Excercised	0	0	0	0	0	0
Expired	0	0	261 000	261 000	0	522 000
31 Dec. 2017						
Outstanding at the end of the period	278 500	278 500	0	0	24 971	581 971

The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

Valuation parameters for instruments granted during period	
Share price at grant, euros	3.21
Share price at reporting period end, euros	3.13
Maturity, years	1.5
Expected dividends (unless they are compensated), euros	0.00
Fair value at grant, euros	2 128 230
Fair value 31 Dec. 2017, euros	0

Effect of share-based incentives on the result and financial position during the period	
Expenses for the financial year, share-based payments, euros	-35 242
Expenses for the financial year, share-based payments, equity-settled, euros	-11 922
Liabilities arising from share-based payments 31 Dec. 2017, euros	39 377

5. DEPRECIATION AND IMPAIRMENT

	2017	**2016**
Depreciation according to plan	-55.2	-54.6
Impairment	-14.3	-0.4
Total	**-69.5**	**-55.0**

Impairment amounting to EUR 0.7 million was recorded related to closing Mellilä facility in Finland.

Impairment amounting to EUR 3.4 million was recorded related to closing Eura facility in Finland.

Impairment amounting to EUR 10.1 million was recorded related to assets in Denmark to match book value with estimated future profit.

6. OTHER OPERATING EXPENSES

	2017	2016
Rents/leases	-13.9	-13.2
Losses on disposal of non-current assets	-0.1	-0.2
R&D costs	-6.5	-6.6
Non-statutory staff costs	-8.9	-11.7
Energy	-37.7	-35.4
Maintenance	-39.4	-38.1
Advertising, marketing and entertainment costs	-20.6	-23.2
Service, information management and office costs	-29.0	-25.5
Exchange rate losses related to foreign exchange derivatives	-0.7	-1.1
Other expenses	-31.0	-32.6
Total other operating expenses	**-187.7**	**-187.5**

AUDIT FEES

The Group's audit fees paid to independent auditors are presented in the table below. The audit 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.

	2017	2016
Audit fees	-0.5	-0.6
Tax consultation	-0.0	-0.0
Other fees	-0.8	-0.4
Audit fees, total	**-1.3**	**-1.0**

PricewaterhouseCoopers Oy was paid from non-audit services to entities of HKScan in total 17 thousand euros during the financial year 2017. These services comprised of assurance services 6 thousand euros, tax services 5 thousand euros and other services 6 thousand euros.

7. FINANCIAL INCOME AND EXPENSES

Financial income	**2017**	**2016**
Dividend income	0.1	0.4
Interest income		
Interest income from loans and receivables	1.8	1.9
Interest income from interest derivatives	-	-
Other financial income	0.0	0.1
Total	**2.0**	**2.3**
Financial expenses		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-6.4	-5.9
Interest expenses from interest derivatives	-3.4	-3.9
Other financial expenses		
Ineffective portion of interest rate risk hedge	-0.5	0.0
Impairment losses on loan receivables	-	-
Other financial expenses	-1.8	-1.2
Exchange gains and losses from loans and other receivables	-0.3	-1.4
Exchange gains and losses from derivative instruments	-0.1	1.3
Total	**-12.6**	**-11.1**
Total financial income and expenses	**-10.6**	**-8.7**

8. INCOME TAXES

Income taxes	2017	2016
Income tax on ordinary operations	-1.9	-1.4
Tax for previous financial periods	-0.0	0.1
Change in deferred tax liabilities and assets	8.6	-3.1
Income tax on ordinary operations	**6.8**	**-4.4**
Cumulative tax rate reconciliation		
Accounting profit/loss before taxes	-49.2	0.9
Deferred tax at parent company's tax rate	9.8	-0.2
Effect of different tax rates applied to foreign subsidiaries	0.7	0.7
Share of associates' results	0.3	-0.2
Tax-exempt income	0.0	0.2
Non-deductible expenses	-1.2	-0.0
Use of tax losses not recognised earlier	-	-
Unrecognised tax on the losses for the financial period	-3.3	-2.7
Tax for previous financial periods	-0.0	0.1
Adjustments concerning previous financial periods	-0.0	-2.2
Effect of change in tax rate	0.4	-0.0
Tax expenses in the income statement	**6.8**	**-4.4**

9. EARNINGS PER SHARE

	2017	2016
Profit for the period attributable to equity holders of the parent	-45.5	-5.4
Total	**-45.5**	**-5.4**
Weighted average number of outstanding shares in thousands	54 018	54 006
Weighted average number of outstanding shares adjusted for dilution effect	54 018	54 006
Undiluted earnings per share (EUR/share)	-0.84	-0.10
Earnings per share adjusted for dilution effect (EUR/share)	-0.84	-0.10

NOTES TO THE BALANCE SHEET

10. INTANGIBLE ASSETS

	2017	2016
Opening balance, cumulative acq cost	94.0	95.1
Translation differences	-1.9	-2.5
Additions	1.7	0.9
Disposals	-0.0	-0.0
Reclassification between items	2.8	0.4
Closing balance, cumulative acq cost	96.5	94.0
Opening balance, cumulative depreciations	-28.0	-26.1
Translation differences	0.2	0.2
Accumulated depreciation on disposals and reclassifications	0.0	0.0
Depreciation for the financial period	-2.3	-2.1
Impairment losses	-1.7	-
Closing balance, cumulative depreciations	-31.8	-28.0
Intangible assets on 31 Dec.	**64.8**	**66.0**

The trademarks included in the Swedish business operations, carrying amount EUR 55.4 (57.1) million, are tested for impairment each year. The Group has estimated that their useful life is unlimited. These are well known trademarks with a long history, high business and profitability impact and it is expected to be so also in the future. Impairment test is made on the segment level and it covers all the segment's assets, see detailed description in note 11. Remaining balance includes IT-software, other trademarks and connection fees. Impairment loss amounting to EUR 1.7 million was recorded in Denmark, see detailed information in note 11.

11. GOODWILL

	2017	2016
Opening balance	77.0	78.2
Translation differences	-0.9	-1.2
Depreciation and impairment	-3.6	-
Closing balance	**72.4**	**77.0**

ALLOCATION OF GOODWILL

All acquisitions resulting in the Group recognising goodwill have concerned the acquisition of net assets or business by an individual CGU and goodwill has been allocated to said CGU separately in respect of each acquisition. Goodwill has been allocated to a total of four CGUs.

Specification of goodwill	2017	2016
Finland	19.8	19.8
Sweden	30.4	31.4
Denmark	-	3.6
Baltics	22.2	22.2
Total	**72.4**	**77.0**

ALLOCATION AND RECOGNITION OF IMPAIRMENT LOSS

An impairment loss amounting to EUR 6.7 million has been recorded in the Danish segment based on impairment testing. The impairment loss was allocated to goodwill at EUR 3.6 million, intangible assets EUR 1.7 million and machinery and equipment EUR 1.4 million. The impairment loss is included in row depreciation and amortization in the income statement. The impairment had no cash flow impact. After the impairment loss, the Danish segment does not have any remaining goodwill value. The impairment loss has been recorded because the segment has not reached the planned profitability.

IMPAIRMENT TESTING

The company tests for impairment each year. The key assumptions in testing are the growth prospects of the business, cost trends, and the discount rate employed.

Management reviews the business performance based on business segments and it has identified Finland, Sweden, Denmark and the Baltics as the main segments. Goodwill is monitored by the Management at the business segment level.

In impairment testing all the segment's assets are tested against the recoverable amounts in the future. The recoverable amounts of the cash generating units are based on value-in-use calculations. The cash flow estimates employed are based on financial plans adopted by Management and the Board of Directors and spanning three years. The plans are based on moderate and cautious net sales growth under the assumption that Group EBIT percent will improve in the forecast period. The cash flow after the forecast period is extrapolated using a cautious growth factor (1.0 per cent). The growth factors of the CGUs for the period following the forecast period do not exceed the long-term historical growth of the CGUs.

The interest rate has been defined as the weighted average cost of capital (WACC). Calculation of the interest rate is based on market information on companies operating in the same field (control group). In addition, the risks in each market area have been taken into account in the calculation. The interest rates used are 4.7 (4.7) per cent in Sweden, 4.4 (4.7) per cent in Finland, 4.3 (4.7) per cent in Denmark and 4.7 (4.8) per cent in the Baltic countries.

The sensitivity of each CGU to impairment is tested by varying the discount rate, future cash flow before debt service, and the growth factor reflecting profitability development. Based on the sensitivity analyses conducted, a reasonable change in variables would not result in impairment in Sweden, Finland or the Baltics. Following discount rate increases in percentage points would not cause any impairment, provided that other factors remained unchanged: Sweden 7.3, Finland 7.3, the Baltics 4.8.

The following table presents terminal cash flow before debt service that would result in asset values to equal recoverable amounts of the CGUs all other variables unchanged.

	2016 CFBDS	**2017 CFBDS**	**breakeven terminal CFBDS**
Sweden	8.2	18.1	6.7
Finland	25.9	-56.0	11.6
Baltics	6.7	4.4	4.8

Due to impairment loss, Denmark’s recoverable amount corresponds to the book value. As a result, any adverse change in the assumptions would generate more impairment loss. If the cash flow in testing would be 10 % smaller, additional impairment loss amounting to EUR 5 million would have to be booked. If the discount rate in testing would be 1 percentage point higher, additional impairment loss amounting to EUR 12 million would have to be booked.

As far as Management is aware, reasonable changes in assumptions used in respect of other factors do not necessitate impairment for the goodwill of Sweden, Finland or the Baltics. Sudden, and other than reasonably possible changes in the business environment of cash generating units, may result in an increase in capital costs or in a situation where a cash generating unit is forced to assess clearly lower cash flows. Recognition of an impairment loss is likely in such situations.

The annual impairment testing performed in 2017 resulted in recognition of impairment loss. The annual impairment testing performed in 2016 did not result in recognition of impairment loss.

12. TANGIBLE ASSETS

Tangible assets 2017	Land and water	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Pre-payments and work in progress	Total
Opening balance, cumulative acq cost	10.8	466.4	627.3	16.8	74.3	1 195.6
Translation differences	-0.1	-1.8	-4.6	-0.0	-0.3	-6.7
Additions	0.0	31.3	56.0	1.8	34.7	123.9
Disposals	-0.2	-0.1	-2.9	-0.8	-0.0	-4.0
Reclassification between items	0.0	28.5	47.0	0.4	-78.8	-3.0
Closing balance, cumulative acq cost	10.6	524.3	722.8	18.2	29.9	1 305.8
Opening balance, cumulative depreciations	-0.0	-289.5	-490.5	-14.0	-	-793.9
Translation differences	-	1.9	3.5	0.0	-	5.4
Accumulated depreciation on disposals and reclassifications	-	0.1	2.5	0.1	-	2.8
Depreciation for the financial period	-	-15.1	-36.7	-1.0	-	-52.9
Impairment losses	-	-1.6	-7.3	-	-	-9.0
Closing balance, cumulative depreciations	-0.0	-304.2	-528.5	-14.9	-	-847.6
Tangible assets on 31 Dec. 2017	**10.6**	**220.1**	**194.2**	**3.3**	**29.9**	**458.2**

Tangible assets 2016	**Land and water**	**Buildings and structures**	**Machinery and equipment**	**Other property, plant and equipment**	**Pre-payments and work in progress**	**Total**
Opening balance, cumulative acq cost	11.3	463.3	619.1	15.8	18.6	1 128.1
Translation differences	-0.1	-3.2	-6.3	0.0	-0.2	-9.8
Additions	-	3.1	11.4	1.3	81.0	96.9
Disposals	-0.4	-2.2	-10.1	-0.9	-0.2	-13.7
Disposals, business disposals	-	-	-5.6	-	-	-5.6
Other changes	0.0	-	-	-	0.0	0.0
Reclassification between items	-0.0	5.3	18.8	0.5	-24.8	-0.2
Closing balance, cumulative acq cost	10.8	466.4	627.3	16.8	74.3	1 195.6
Opening balance, cumulative depreciations	-0.0	-278.9	-474.3	-13.1	-	-766.3
Translation differences	-	2.6	5.0	-0.0	-	7.6
Accumulated depreciation on disposals and reclassifications	-	2.0	9.9	0.1	-	11.9
Accumulated depreciation on business disposals	-	-	5.2	-	-	5.2
Depreciation for the financial period	-	-15.1	-36.3	-1.0	-	-52.4
Impairment losses	-	-	-0.0	-	-	-0.0
Closing balance, cumulative depreciations	-0.0	-289.5	-490.5	-14.0	-	-793.9
Tangible assets on 31 Dec. 2016	**10.8**	**176.9**	**136.8**	**2.8**	**74.3**	**401.7**

Other property, plant and equipment include 1.3 (1.2) million euros biological assets. These are animals producing slaughter animals and they have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

13. SHARES IN ASSOCIATES AND JOINT VENTURES

	2017	2016
Opening balance	22.2	23.3
Translation differences	-0.1	-0.2
Disposals, business disposals	-0.7	-
Closing balance	21.3	23.1
Share of associates' and joint ventures' results	1.7	-0.1
Dividend from associates and joint ventures	-0.5	-0.9
Shares in associates on 31 Dec.	**22.5**	**22.2**
Effect on the Group's earnings:		
Associates	0.3	-0.6
Joint ventures	1.4	0.5
Total	**1.7**	**-0.1**
Book value in the Group's balance sheet:		
Associates	11.7	12.2
Joint ventures	10.8	9.9
Total	**22.5**	**22.2**

Associated companies and joint ventures consolidated in the Group’s financial statements are listed in note 27. The Group has no single material associated companies or joint ventures. The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services.

There are no contingent liabilities relating to the Group’s interest in the associates and joint ventures.

14. FINANCIAL ASSETS AND LIABILITIES

FINANCIAL INSTRUMENTS BY CATEGORY 2017

	Assets and liabilities at fair value through profit and loss: classified as held for trading	Loans and receivables	Available-for-sale	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
Assets as per balance sheet								
Non-current trade and other receivables	-	2.8	-	-	-	2.8	-	-
Available-for-sale investments	-	-	12.4	-	-	12.4	-	-
Trade and other receivables *	-	111.7	-	-	-	111.7	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	50.9	-	-	-	50.9	-	-
Total	**0.1**	**165.4**	**12.4**	**0.0**	**0.0**	**177.9**	**-**	**-**

* Trade and other receivables balance sheet amount of EUR 123.5 million euros includes derivative financial instruments amounting to EUR 0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 11.7 million euros.

Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	245.1	245.1	-	-
Non-current non-interest bearing liabilities	-	-	-	-	0.0	0.0	-	-
Current interest-bearing liabilities	-	-	-	-	14.1	14.1	-	-
Derivative financial instruments *	0.3	-	-	9.7	-	10.0	10.0	2
Trade and other payables *	-	-	-	-	277.4	277.4	-	-
Total	**0.3**	**0.0**	**0.0**	**9.7**	**536.6**	**546.6**	**-**	**-**

* Trade and other payables balance sheet amount of EUR 280.9 million euros includes derivative financial instruments amounting to EUR 3.3 million euros and advance payments that are not financial instruments amounting to EUR 0.3 million euros.

FINANCIAL INSTRUMENTS BY CATEGORY 2016

	Assets and liabilities at fair value through profit and loss: classified as held for trading	Loans and receivables	Available-for-sale	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
Assets as per balance sheet								
Non-current trade and other receivables	-	4.7	-	-	-	4.7	-	-
Available-for-sale investments	-	-	12.8	-	-	12.8	-	-
Trade and other receivables *	-	113.1	-	-	-	113.1	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	6.6	-	-	-	6.6	-	-
Total	**0.1**	**124.4**	**12.8**	**0.0**	**0.0**	**137.3**	**-**	**-**

* Trade and other receivables balance sheet amount of EUR 123.7 million euros includes derivative financial instruments amounting to EUR 0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 10.5 million euros.

Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	126.9	126.9	-	-
Non-current non-interest bearing liabilities	-	-	-	-	0.1	0.1	-	-
Current interest-bearing liabilities	-	-	-	-	17.2	17.2	-	-
Derivative financial instruments *	0.4	-	-	13.3	-	13.7	13.7	2
Trade and other payables *	-	-	-	-	245.3	245.3	-	-
Total	**0.4**	**0.0**	**0.0**	**13.3**	**389.5**	**403.2**	**-**	**-**

* Trade and other payables balance sheet amount of EUR 259.2 million euros includes derivative financial instruments amounting to EUR 13.7 million euros and advance payments that are not financial instruments amounting to EUR 0.2 million euros.

The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments. Fair value of financial instruments, other than those recorded at fair value, is close to the balance sheet value and therefore they are not separately disclosed. EUR 168.5 million bonds that have a balance sheet value of EUR 163.7 million have a market value of EUR 171.5 million in the end of 2017.

15. DEFERRED TAX ASSETS AND LIABILITIES

Specification of deferred tax assets

	1 Jan. 2017	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2017
Pension benefits	4.7	-0.1	0.3	0.9	5.7
Other timing differences	3.2	-0.0	4.7	-0.0	7.8
Adopted losses	12.9	-0.0	4.6	-	17.6
Arising from hedge accounting	3.1	-0.0	-0.2	-0.8	2.0
Total	**23.8**	**-0.1**	**9.4**	**0.1**	**33.2**

Specification of deferred tax liabilities

	1 Jan. 2017	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2017
Depreciation difference	2.1	-0.0	0.3	-	2.4
Other timing differences	0.8	-0.0	1.0	-	1.7
Arising from consolidation	14.2	-0.4	-0.5	-	13.3
Arising from hedge accounting	0.0	-	-	-	0.0
Total	**17.0**	**-0.4**	**0.8**	-	**17.4**

Specification of deferred tax assets

	1 Jan. 2016	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2016
Pension benefits	3.6	-0.1	-0.0	1.2	4.7
Other timing differences	2.4	-0.0	0.8	-0.0	3.2
Adopted losses	19.6	-0.0	-6.2	-0.4	12.9
Arising from hedge accounting	4.1	-0.0	-0.4	-0.6	3.1
Total	**29.7**	**-0.2**	**-5.8**	**0.2**	**23.8**

Specification of deferred tax liabilities

	1 Jan. 2016	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2016
Depreciation difference	4.3	-0.0	-2.2	-0.0	2.1
Other timing differences	0.8	-0.0	-0.0	-	0.8
Arising from consolidation	14.8	-0.5	-0.1	-	14.2
Arising from hedge accounting	0.3	-	-0.3	-	0.0
Total	**20.2**	**-0.5**	**-2.7**	**-0.0**	**17.0**

Deferred tax asset from adopted losses comes from Group's operations in Finland. Utilisation of this deferred tax asset is based on the same assumptions that are used in goodwill impairment testing in note 11.

Deferred tax liability has not been recognised in respect of retained profits of subsidiaries, amounting to EUR 25.4 (23.5) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2017, the Group had EUR 38.0 (29.8) million of losses, on which no deferred tax receivable has been recognised.

16. INVENTORIES

	2017	2016
Materials and supplies	62.9	61.5
Unfinished products	4.3	4.7
Finished products	36.8	42.0
Other inventories	0.3	0.3
Prepayments for inventories	0.7	0.9
Biological assets	6.8	6.7
Total inventories	**111.8**	**116.1**

Fair value hierarchy level of the biological assets is 2. There were no transfers between any levels during the year. Fair value of live animals is derived from the quoted market price for slaughtered animals by using historical yield.

17. TRADE AND OTHER CURRENT RECEIVABLES

	2017	2016
Trade receivables from associates	2.0	2.1
Loan receivables from associates	0.2	0.2
Other receivables from associates	0.0	0.0
Current receivables from associates	2.2	2.3
Trade receivables	98.1	99.6
Loan receivables	0.0	0.0
Other receivables	9.2	10.9
Current receivables from others	107.3	110.6
Current derivative receivables	0.1	0.1
Interest receivables	2.3	0.3
Other prepayments and accrued income	11.7	10.5
Current prepayments and accrued income	14.0	10.8
Trade and other receivables	123.5	123.7
Tax receivables (income taxes)	0.2	0.2
Total current receivables	**123.7**	**123.9**

AGE BREAKDOWN OF TRADE RECEIVABLES AND ITEMS RECOGNISED AS IMPAIRMENT LOSSES

	2017	Impairment losses	Net 2017	2016	Impairment losses	Net 2016
Unmatured	90.0	-	90.0	94.1	-	94.1
Matured:						
Under 30 days	9.7	-	9.7	6.9	-	6.9
30–60 days	0.4	-	0.4	0.7	-	0.7
61–90 days	0.1	-	0.1	0.0	-	0.0
over 90 days*	0.6	-0.7	-0.0	1.0	-1.0	0.0
Total	**100.7**	**-0.7**	**100.1**	**102.7**	**-1.0**	**101.7**

* Comprise among other receivables to be set off against payments for animals

18. CASH AND CASH EQUIVALENTS

The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Cash and cash equivalents according to the cash flow statement are as follows:

	2017	2016
Cash and bank	50.9	6.6
Short-term money market investments	-	-
Other financial instruments	-	-
Total cash and cash equivalents	**50.9**	**6.6**

There are no significant concentrations of credit risk associated with cash and cash equivalents.

19. NOTES RELATING TO EQUITY

The effects of changes in the number of outstanding shares are presented below.

	Number of outstanding shares (1 000)	Share capital (EUR million)	Share premium reserve (EUR million)	RIUE (EUR million)	Treasury shares (EUR million)	Total (EUR million)
1 Jan. 2016	53 973	66.8	72.9	143.5	-0.0	283.1
31 Dec. 2016	54 018	66.8	72.9	143.5	-0.0	283.1
1 Jan. 2017	54 018	66.8	72.9	143.5	-0.0	283.1
31 Dec. 2017	54 018	66.8	72.9	143.5	-0.0	283.1

The shares have no nominal value. All issued shares have been paid up in full. The company's stock is divided into Series A and K shares, which differ from each other in the manner set out in the Articles of Association. Each share gives equal entitlement to a dividend. K Shares produce 20 votes and A Shares 1 vote each. A Shares are numbered 49 626 522 and K Shares 5 400 000.

The equity reserves are described below:

SHARE PREMIUM RESERVE

In share issues, decided while the earlier Finnish Companies Act (29.9.1978/734) was in force, payments in cash or kind obtained on share subscription, less transaction costs, were recognised under equity and the share premium reserve in accordance with the terms of the arrangements.

RESERVE FOR INVESTED UNRESTRICTED EQUITY

The reserve for invested unrestricted equity (RIUE) contains other investments of an equity nature and share issue price inasmuch as this is not recognised under equity pursuant to an express decision to that effect.

TREASURY SHARES

At the beginning and at the end of the financial year 2017, HKScan held 1 008 849 treasury A Shares. At the end of the year, they had a market value of EUR 3.2 million and accounted for 1.83 per cent of all shares and 0.64 per cent of all votes. The acquisition cost is presented in the balance sheet as a deduction from equity.

TRANSLATION DIFFERENCES

The translation differences reserve includes exchange differences arising on the translation of foreign units' financial statements, as well as gains and losses arising on the hedging of net investments in foreign units, when hedge accounting requirements are satisfied.

REVALUATION RESERVE AND OTHER RESERVES

These reserves are for changes in the value of available-for-sale financial assets and changes in the fair value of derivative instruments used in cash flow hedging. The revaluation reserve includes EUR 0.6 million (EUR 0.6 million) other than hedging instrument related items. The following is an itemisation of events in the hedging instruments reserve during the financial period.

Hedging instruments reserve	**2017**	**2016**
Fair value reserve and hedging instruments reserve on 1 Jan.	-10.5	-13.0
Amount recognised in equity in the financial period (effective portion), interest rate derivatives	3.7	0.6
Amount recognised in equity in the financial period (effective portion), commodity derivatives	0.3	2.5
Share of deferred tax asset of changes in period	-0.8	-0.6
Fair value reserve and hedging instruments reserve on 31 Dec.	-7.3	-10.5

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR -3.4 (-3.9) million from interest rate derivatives and EUR -0.1 (-1.2) million from commodity derivatives.

DIVIDENDS

Dividend of EUR 0.16 (0.14) per share, totaling EUR 8.6 (7.6) million, was distributed in 2017. Since the reporting date, the Board of Directors has proposed that dividend of EUR 0.09 per share, totaling EUR 4.9 million, be declared.

20. PENSION OBLIGATIONS

	2017	2016
Pension liability/receivable in balance sheet		
Defined benefit plans	26.4	21.6
Other long-term employee benefits	1.1	1.1
Pension liability (+)/receivable (-) in balance sheet	27.5	22.7

The Group's defined benefit plans consist of the pension liability for the former CEO of the parent company which is unfunded and the Swedish pension programme which is funded. The company's pension commitment in respect of the defined benefit relating to the former CEO was EUR 2.8 million on 31 December 2017. The remaining pension liability relates to the Swedish pension programme. Through its defined benefit plans the Group is exposed to a number of risks such as changes in discount rate, salary increases, inflation and life expectancy.

The defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. HKScan has a pension foundation in Sweden to secure obligations relating to retirement pensions for white-collar workers in accordance with the ITP2 plan. Only new white-collar employees born before, or in 1979 have the possibility to choose the ITP2 solution. Pension foundation has employer and employee representatives in the board. The plan assets are invested in various funds in accordance with a distribution that is determined by the foundation's Board of Directors. Swedish companies can secure new pension obligations through pension insurance, balance-sheet provisions or pension-fund contributions. A credit insurance policy must be taken out for the value of the obligations. Special pension tax is applicable for the pension plan in Sweden.

Summary of provision for post-employment benefits, defined benefit plans	**2017**	**2016**
Obligations	-103.5	-104.5
Fair value of plan assets	84.6	89.4
Special pension tax	-4.6	-3.7
Net provision for funded post-employment benefits	**-23.6**	**-18.7**
Provision for unfunded post-employment benefits	-2.8	-2.8
Total provision for post-employment benefits, defined benefit plans	**-26.4**	**-21.5**

Pension costs in the income statement	**2017**	**2016**
Current year service costs	-1.2	-1.0
Interest costs	-2.6	-3.2
Interest income	2.0	2.8
Special pension tax	-0.4	-0.3
Pension costs for defined benefit plans	**-2.2**	**-1.7**
Pension costs for defined contribution plans	-28.4	-28.6
Total pension costs for the period	**-30.5**	**-30.3**

Pension costs in other comprehensive income	**2017**	**2016**
Changes in actuarial assumptions	-3.2	-2.9
Special pension tax	-0.8	-0.7
Income tax effect	0.9	0.8
Total pension costs in other comprehensive income after taxes	**-3.1**	**-2.9**

The following information is about the funded defined benefit plan the Group has in Sweden:

Obligations	**2017**	**2016**
Obligations opening balance	-104.5	-108.7
Current year service costs	-1.2	-1.0
Interest costs	-2.6	-3.2
Remeasurements:		
Effect of changes in financial assumptions	-1.3	-1.2
Effect of experience adjustments	-3.0	-0.2
Exchange rate translation	3.4	4.1
Benefits paid	5.6	5.7
Obligations closing balance	**-103.5**	**-104.5**

Fair value of plan assets	**2017**	**2016**
Plan assets opening balance	89.4	97.0
Interest income	2.0	2.8
Remeasurements (experience adjustments)	1.0	-1.4
Exchange rate translation	-2.6	-3.7
Settlement paid	-5.1	-5.1
Plan assets closing balance	**84.6**	**89.4**

Assumptions applied for actuarial calculations, %	**2017**	**2016**
Discount rate	2.30	2.25
Expected salary increase	2.25	2.25
Inflation	1.8	1.5
Personnel turnover rate	4	4
Life expentancy	DUS 14	DUS 14

Plan assets by category %	**2017**	**2016**
Interest funds	65	69
Equity instrument funds	35	30

Private equity funds	-	1

Sensitivity analysis 2017, effect on obligation (+decrease/-increase), EUR million	**Change**	**Used value**	**Change**
Discount rate	-0.25%	2.30%	0.25%
	-3.7	-103.5	3.5
Salary increase	-0.25%	2.25%	0.25%
	0.6	-103.5	-0.6
Inflation	-0.25%	1.80%	0.25%
	3.0	-103.5	-3.2
Life expectancy	-1 year	DUS 14	1 year
	4.4	-103.5	-4.5

Average duration of the obligation is 14 years.

21. PROVISIONS

	1 Jan. 2017	Translation difference	Increase in provisions	Exercised in financial period(-)	31 Dec. 2017
Non-current provisions	0.1	-	7.0	-	7.1
Current provisions	1.6	-0.1	3.7	-3.1	2.1
Total	**1.7**	**-0.1**	**10.7**	**-3.1**	**9.2**

	1 Jan. 2016	Translation difference	Increase in provisions	Exercised in financial period (-)	31 Dec. 2016
Non-current provisions	0.1	-	-	-	0.1
Current provisions	0.4	0.0	1.5	-0.3	1.6
Total	**0.4**	**0.0**	**1.5**	**-0.3**	**1.7**

A provision amounting to EUR 2.5 million regarding the Eura facility has been recorded for the expected costs in the future when there is no more income from the facility.

A lot restoration provision amounting to EUR 5.0 million has been recorded as part of the acquisition cost of Rauma facility. The amount is based on an estimate. Provision has been capitalized as part of the building's value and it is depreciated during the lot rental agreement.

Legal matters

A number of Group companies are, and will likely continue to be subject to various legal proceedings and investigations that arise from time to time. As a result, the Group may incur substantial costs that may not be covered by insurance and could affect business and reputation. While Management does not expect any of these legal proceedings to have a material adverse effect on the Group’s financial position, litigation is inherently unpredictable and the Group may in the future incur judgments, or enter into settlements, that could have a material adverse effect on the results of operations and cash flows.

22. LIABILITIES

	2017	2016
NON-CURRENT LIABILITIES		
Interest-bearing		
Bond	163.7	99.7
Bank loans	62.4	15.7
Pension loans	15.7	7.9
Other liabilities	3.4	3.7
Non-current interest-bearing liabilities	**245.1**	**126.9**
Non-interest-bearing		
Other liabilities	0.0	0.1
Derivatives	6.7	-
Non-current non-interest-bearing liabilities	**6.7**	**0.1**
Non-current provisions	7.1	0.1
Deferred tax liability	17.4	17.0
Pension obligations	27.5	22.7
Non-current liabilities	**303.8**	**166.7**
CURRENT INTEREST-BEARING LIABILITIES		
Commercial paper	-	7.0
Pension loans	7.1	7.1
Bank loans	3.6	-
Other liabilities	3.3	3.0
Current interest-bearing liabilities	**14.1**	**17.2**

TRADE AND OTHER PAYABLES		
Advances received	0.3	0.2
Trade payables	188.7	158.7
Accruals and deferred income		
- Short-term interest payable	1.7	0.9
- Matched staff costs	54.6	55.8
- Other short-term accruals and deferred income	24.2	22.1
Derivatives	3.3	13.7
Other liabilities	8.2	7.9
Trade and other payables	**281.0**	**259.2**
Income tax liability	0.7	0.3
Current provisions	2.1	1.6
Current liabilities	**297.8**	**278.4**
Liabilities	**601.6**	**445.1**

Amounts of the Group’s interest-bearing liabilities and their contractual re-pricing periods are as follows:

	31 Dec. 2017	**31 Dec. 2016**
Under 6 months	37.5	29.2
6–12 months	-	8.8
1–5 years	221.7	106.1
Over 5 years	-	-
Total	**259.2**	**144.1**

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

31 Dec. 2017		Gross amount of recognised financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets				
	Derivatives	0.1	-0.1	0.0
	Trade receivables	-	-	-
Financial liabilities				
	Derivatives	10.0	-0.1	9.9
	Trade payables	-	-	-

31 Dec. 2016		Gross amount of recognised financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets				
	Derivatives	0.1	-0.1	0.0
	Trade receivables	-	-	-
Financial liabilities				
	Derivatives	13.7	-0.1	13.6
	Trade payables	-	-	-

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

23. FINANCIAL RISK MANAGEMENT

The duty of Group Treasury in the HKScan Group is to ensure cost-effective funding and financial risk management for Group companies and to attend to relations with financiers. The treasury policy approved by the Board provides the principles for financial risk management in the Group. The policy is supplemented by separate guidelines and instructions, as well as approval practices.

Financial risks mean unfavourable movements taking place in the financial markets that may erode accrual of the company's result or reduce cash flows. Financial risk management aims to use financial means to hedge the company's intended earnings performance and equity, and to safeguard the Group's liquidity in all circumstances and market conditions.

External funding of the Group's operations and financial risk management is centralised to the Group Treasury operating under the Group Treasurer. Group Treasury identifies and assesses the risks and acquires the instruments required for hedging against the risks, in close co-operation with the operational units.

Risk management may employ various instruments, such as currency forwards and options, interest-rate or currency swaps, foreign currency loans and commodity derivatives. Derivatives are used for the sole purpose of hedging, not for speculation. Funding of the Group's subsidiaries is managed mainly through the parent company. The subsidiaries may not accept new external funding, nor may they give guarantees or pledges without the permission of the Group Treasury in the parent company.

FOREIGN EXCHANGE RISK

The Group's domestic market consists of Finland, Sweden, Denmark and the Baltic countries. The company produces, sells and markets pork, beef, poultry and lamb products, processed meats and convenience foods to retail, food service, industry and export sectors. Meat products are mainly produced for domestic markets which reduces the overall currency risk in the Group.

Transaction risk arises when the Group companies engage in foreign currency denominated import and export both outside and within the Group. The aim of transaction risk management is to hedge the Group's business against foreign exchange rate movements and allow the business units time to react and adapt to fluctuations in exchange rates. Foreign exchange risk exposures, which include sales, purchases (balance sheet items and committed cash flows), financing related contractual cash flows, and highly probable forecasted cash flows, are hedged through forward contracts made with the parent company. The business units report their balance sheet risk exposures, forecasted foreign currency sales and purchases and hedging levels to the Group Treasury on a regular basis.

According to Treasury Policy, subsidiaries must hedge balance sheet items in full amount and committed cash flows from 50 to 100 per cent. In addition, forecasted, highly probable cash flows are hedged at 0 - 50 per cent for up to 12 months into the future. Group Treasury can use currency forwards, options and swaps as hedging instruments. Treasury targets to hedge fully its significant foreign exchange risk exposures. Those include commercial exposures, external financing and internal financing which is given in the subsidiary's home currency. All the forward contracts mature within one year. Hedge accounting is not applied currently. Nevertheless, all hedging instruments are done for hedging purposes.

Translation risk arises from the consolidation of equity into the basic currency in subsidiaries whose operational currency is not the euro. The largest foreign currency denominated equities of the Group companies are in Swedish krona and Danish krone. Fluctuations of exchange rates affect the amount of consolidated equity, and translation differences are generated in connection with the consolidation of equity in accounting. Group Treasury identifies and manages foreign exchange translation risks according to Treasury Policy. HKScan Group is not hedging translation risk currently.

The equities of the Group’s non-euro-denominated subsidiaries and associates are presented in the following table in million euros.

	2017	**2016**
Currency	Exposure	Exposure
SEK	95.9	104.6
PLN	6.5	5.1
DKK	19.2	9.5

The parent company's functional currency is the euro. The following net position includes sales receivables, payables, interest bearing loans and receivables, cash reserves and committed commercial flows in the most significant foreign currencies. The reported amounts are translated into euros at the exchange rates of the reporting date:

	2017				2016			
	USD	**NZD**	**SEK**	**GBP**	**USD**	**NZD**	**SEK**	**GBP**
Net position before hedging	4.9	1.6	8.0	2.0	4.4	2.2	11.8	2.2
Hedging	-5.3	-1.5	-7.5	-1.9	-2.1	-2.7	-10.4	-1.8
Open position	-0.3	0.1	0.4	0.1	2.4	-0.5	1.4	0.4

The following table analyses the strengthening or weakening of the euro against the US dollar, New Zealand dollar, Swedish krona and British pound sterling, all other factors remaining unchanged. The movements represent average volatility over the past 12 months. Sensitivity analysis is based on assets, liabilities and committed cash flows denominated in foreign currencies at the reporting date. The effects of currency derivatives, which offset the effects of changes in exchange rates, are also taken into account in sensitivity analysis. Net investments in foreign units and the instruments used to hedge these have been excluded from sensitivity analysis.

In respect of the foreign currencies, the effect would mainly be due to changes in the exchange rates applicable to foreign currency denominated trade receivables and payables.

	2017				2016			
	USD	**NZD**	**SEK**	**GBP**	**USD**	**NZD**	**SEK**	**GBP**
Movement (+/-), %	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Effect on profit before taxes	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.0

The following assumptions were used in calculating sensitivity to currency risks:

Forecast future cash flows have not been taken into account in the calculation except for committed cash flows. Financial instruments such as forward contracts used to cover these positions are included in the analysis.

The calculation and estimates of reasonably possible changes in exchange rates are based on the assumption of ordinary market and business conditions.

INTEREST RATE RISK

The Group's main exposure to interest rate risk arises through interest-bearing liabilities. The goal of interest rate risk management is to reduce the fluctuation of interest expenses in the income statement, minimize debt servicing costs and improve the predictability. The Group's short-term money market investments expose it to cash flow interest rate risk, but the impact is not significant as these investments are targeted to keep in minimum. Group revenues and operative cash flows are mainly independent of fluctuations in market rates.

Interest rate risk is measured by the effect of interest rate movements on the total forecasted debt portfolio. The relevant measurement horizons are selected in accordance with the rolling business strategy planning and possible major investment programmes.

To manage interest rate risks, Group borrowings are spread across fixed and variable interest instruments. The company may borrow at fixed or variable interest rates and use interest rate derivatives to achieve a result that is in line with the Treasury policy. The goal of the policy is to keep the fixed interest term of the loans between 12 and 48 months. On the balance sheet date the fixed interest term was 37 months.

The Group monitors and analyses its interest rate risk position on a regular basis. The Group has determined sensitivity limits for interest rate movements. The sensitivity of net financial expenses on the balance sheet date to an increase/decrease of one per cent in interest rates, all other things being equal, was approximately EUR 1.1 (0.7) million before taxes over the next 12 months. The sensitivity analysis was prepared based on the amounts and maturities of interest-bearing liabilities and interest rate derivatives on the balance sheet date.

COUNTERPARTY RISK

Financial counterparty risk refers to the risk that counterparty may fail to fulfill its contractual obligations. The risks are mostly related to investment activities and counterparty risks in derivative contracts. Banks that finance the Group are used as counterparties whenever possible, as well as a few other specified counterparties. Cash may be invested in bank deposits, certificates of deposit, municipal papers and the commercial paper programmes of certain specified companies listed on the main list of the Nasdaq Helsinki and to certain state-owned companies. Because of the limited extent of the investment activities, the resulting counterparty and price risks are not significant.

COMMODITY RISK

The Group is exposed to commodity risks that are related to the availability and price fluctuations of commodities. In addition to meat raw materials, physical electricity consumption is one of the most significant commodity risks in the Group companies. The subsidiaries can hedge against fluctuation in market prices for electricity and other commodities by procuring fixed-price products or through derivative contracts with the Group Treasury. The companies may use external parties to assist them in commodity risk management.

The Group uses electricity derivatives in Finland, Sweden and Estonia to level out energy costs. The electricity price risk is evaluated for five-year periods. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases.

A sensitivity analysis for electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity changed by +/-10 percentage points from the balance sheet date, the impact would be as follow, calculated before tax:

EUR million	**2017**	**2016**
Electricity – effect in income statement	+/- 0,8	+/- 0,0
Electricity – effect in equity	+/- 0,3	+/- 0,3

CREDIT RISK

The Group’s Treasury Policy and related guidelines specify the credit quality requirements and investment principles applied to customers and counterparties to investment transactions and derivative contracts. The Group Treasury is responsible for defining the principles for credit management within the Group and updating the Credit Policy as well as instructing the Group’s subsidiaries in credit management.

Credit risk results from a customer’s possible failure to fulfil its payment obligations. The Group’s trade receivables are spread among a wide customer base, the most important customers being central retail organisations in the various market areas. The creditworthiness, payment behaviour and credit limits of the clients are monitored systematically. As a main principle some type of securing is needed for all credit granted. The security can be credit insurance, a bank guarantee, or a security deposit. In addition, the Group is exposed to minor credit risk in remaining financing investments of primary production contract producers.

The amount of impairment losses recognised through profit or loss in the financial period was EUR 0.0 (0.0) million. The Group’s maximum exposure to credit risk equals the carrying amount of financial assets at year-end. The age breakdown of trade receivables is presented in Note 17.

LIQUIDITY AND REFINANCING RISK

The Group constantly assesses and monitors the amount of funding required for operations by means such as preparation and analysis of cash flow forecasts. The Group maintains adequate liquidity under all circumstances to cover its business and financing needs in the foreseeable future.

The availability of funding is ensured by spreading the maturity of the borrowing portfolio, financing sources and instruments. In general, cash and cash equivalents are targeted to be kept at a minimum. The Group also has revolving credit facilities with banks, bank borrowings, current accounts with overdraft facilities and the short-term EUR 200 million Finnish commercial paper programme. Liquidity risk is managed by retaining long-term liquidity reserves and by exceeding short-term liquidity requirements. The Group’s liquidity reserve includes cash and cash equivalents, money market investments and long-term unused committed credit facilities. Short-term liquidity requirements include the repayments of short- and long-term debt within the next 12 months, expected dividends as well as a specifically defined strategic liquidity requirement, which covers the operative funding needs.

The Group’s liquidity together with funding profile and maturity structure remained good in 2017. Undrawn committed credit facilities on 31 December 2017 stood at EUR 100.0 (100.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 20.1 (20.1) million. The overdraft facility agreements are in force until further notice. At year end, the company’s EUR 200 million commercial paper programme was entirely unused (EUR 7.0 million). In addition, cash and cash equivalents were above the normal level amounting EUR 50.9 (6.6) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 3.0 (3.5) per cent at the balance sheet date.

The company’s current loan agreements are subject to the net gearing ratio financial covenant. Financiers are provided with quarterly reports on the observance of the financial loan covenant. If the Group is in breach of the covenant, the creditor may demand accelerated loan repayment. Management monitors the fulfillment of the loan covenant on a regular basis. On 31 December, the financial covenant was well below the covenant level.

Group Management has identified no significant concentrations of liquidity risk in financial assets or sources of funding.

THE NUMBER OF THE GROUP'S COMMITMENTS ON THE BALANCE SHEET DATE BY TYPE OF CREDIT

2017

Credit type	Size	In use	Available
Overdraft facility	20.1	-	20.1
Credit limit	100.0	-	100.0
Total	**120.1**	**-**	**120.1**

2016

Credit type	Size	In use	Available
Overdraft facility	20.2	0.1	20.1
Credit limit	100.0	-	100.0
Total	**120.2**	**0.1**	**120.1**

The following table analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity analysis only applies to financial instruments and statutory liabilities are therefore excluded. The amounts also include interest on financial liabilities and margin on loan.

31 DEC. 2017

MATURITY OF FINANCIAL LIABILITIES

			Cashflows					
Credit type	**Balance sheet 31 Dec. 2017**	**Cashflows sum**	**2018**	**2019**	**2020**	**2021**	**2022**	**>2022**
Bond	163.7	188.6	4.8	38.2	3.5	3.5	138.5	-
Bank loans	66.0	68.5	4.4	4.4	39.3	3.8	3.8	12.9
Pension loans	22.9	23.3	7.3	5.1	2.2	2.2	2.2	4.3
Commercial paper programme	-	-	-	-	-	-	-	-
Other borrowing	6.7	6.8	3.4	2.8	0.7	-	-	-
Trade and other payables	277.4	277.4	277.4	-	-	-	-	-
Total	**536.6**	**564.6**	**297.3**	**50.4**	**45.7**	**9.5**	**144.5**	**17.2**

31 DEC. 2016

MATURITY OF FINANCIAL LIABILITIES

			Cashflows					
Credit type	**Balance sheet 31 Dec. 2016**	**Cashflows sum**	**2017**	**2018**	**2019**	**2020**	**2021**	**>2021**
Bond	99.7	111.0	3.7	3.7	103.7	-	-	-
Bank loans	15.7	16.5	0.3	0.3	0.3	15.7	-	-
Pension loans	15.0	15.9	7.6	5.3	3.0	0.0	-	-
Commercial paper programme	7.0	7.7	7.7	-	-	-	-	-
Other borrowing	6.7	6.8	5.4	0.7	0.7	-	-	-
Trade and other payables	245.3	245.3	245.3	-	-	-	-	-
Total	**389.4**	**403.2**	**269.9**	**9.9**	**107.6**	**15.8**	**0.0**	**0.0**

The following table presents the nominal value and fair values (EUR million) of derivative instruments. The derivatives mature within the next 12 months except for interest rate derivatives and commodity derivatives, the maturity of which are presented separately.

	2017 Positive fair value	2017 Negative fair value	2017 Fair value net	2016 Fair value net	2017 Nominal value	2016 Nominal value
Interest rate derivatives	-	-10.2	-10.2	-13.4	120.6	126.9
matured in 2017				-0.3		5.2
matures in 2018	-	-	-	-0.8	-	15.7
matures in 2019	-	-0.7	-0.7	-1.6	20.0	25.2
matuers in 2020	-	-	-	-2.7	-	25.5
matures in 2021	-	-2.8	-2.8	-4.4	25.0	30.2
matures in >2021	-	-6.7	-6.7	-3.8	75.6	25.0
of which defined as cash flow hedging instruments	-	-10.2	-10.2	-13.4	120.6	126.9
Foreign exhange derivatives	0.1	-0.2	-0.1	-0.2	41.4	43.6
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	0.7	-0.2	0.5	0.1	7.4	7.2
matured in 2017				0.0		3.8
matures in 2018	0.3	-0.1	0.2	0.1	4.5	1.9
matures in 2019	0.3	0.0	0.2	0.1	2.3	1.1
matuers in 2020	0.1	0.0	0.1	0.0	0.6	0.4
matures in 2021	-	-	-	-	-	-
of which defined as cash flow hedging instruments	0.7	-0.2	0.5	0.1	7.4	7.2

DERIVATIVES TO WHICH HEDGE ACCOUNTING APPLIES

Changes in the fair values of the effective portions after taxes of interest rate swaps, designated as hedges of cash flow amounting to EUR 2.9 (0.5) million, are recognised under other comprehensive income. All interest rate derivatives are designated as hedging instruments of cash flow to which hedge accounting is applied. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of interest rate risk hedge amounting to EUR -0.5 (0.0) million are recognised under financial income or financial expenses in the income statement.

Changes in the fair values of the effective portions after taxes of commodity derivatives, designated as hedges of cash flow amounting to EUR 0.2 (2.0) million, are recognised under other comprehensive income. The hedged highly probable transactions are estimated to occur at various dates during the next 60 months. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of commodity risk hedge amounting to EUR 0.1 (0.5) million are recognised under other operating expenses in the income statement.

CAPITAL MANAGEMENT

The purpose of capital management in the Group is to support business through an optimal capital structure by safeguarding a normal operating environment and enabling organic and structural growth. An optimal capital structure also generates lower costs of capital.

Capital structure is influenced by controlling the amount of working capital tied up in the business and through reported profit/loss, distribution of dividend and share issues. The Group may also decide on the disposal of assets to reduce liabilities.

The tools to monitor the development of the Group's capital structure are the equity ratio and net gearing ratio. Equity ratio refers to the ratio of equity to total assets. Net gearing ratio is measured as net liabilities divided by equity. Net liabilities include interest-bearing liabilities less interest-bearing short term receivables and cash and cash equivalents.

On the balance sheet date the equity ratio is 36.9 per cent. The target in respect of net gearing ratio is below 100 per cent. On the balance sheet date, the net gearing ratio was 59.3 per cent.

NET GEARING RATIO

	2017	**2016**
Interest-bearing liabilities	259.2	144.1
Interest-bearing short-term receivables	0.2	0.2
Cash and bank	50.9	6.6
Interest-bearing net liabilities	208.2	137.2
Equity	351.0	409.7
Net gearing ratio	59.3 %	33.5 %

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

THE FAIR VALUE DETERMINATION PRINCIPLES APPLIED BY THE GROUP ON ALL FINANCIAL INSTRUMENTS

When determining the fair values of the financial assets and liabilities, the following price quotations, assumptions and measurement models have been used.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Unlisted investments in shares were measured at acquisition cost because it was not possible to measure them at fair value using the methods of measurement, or their amount was low.

DERIVATIVES

The fair values of currency forward contracts are determined by using the market prices for contracts of equal duration at the reporting date. The fair values of interest rate swaps are determined using the net present value method supported by the market interest rate or other market information at the reporting date. If the market value given by a counterparty is used, the Group also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the Group would have to pay or would obtain if it were to terminate a derivative instrument.

BANK LOANS

The fair values of liabilities are based on the discounted cash flows. The rate used for measurement is the rate at which the Group could obtain corresponding credit from a third party on the reporting date. The overall rate consists of a risk free rate and a risk premium (margin on loan) for the company.

BONDS

The fair values of bonds are based on the quoted market prices.

FINANCE LEASE LIABILITIES

The fair value is measured by discounting future cash flows by an interest rate which corresponds to the interest rate of future leases.

TRADE AND OTHER RECEIVABLES

The original carrying amounts of non-derivative based receivables are equal to their fair values, as discounting has no material effect taking into account the maturity of the receivables.

TRADE AND OTHER PAYABLES

The original carrying amounts of trade and other payables are equal to their fair values, as discounting has no material effect taking into account the maturity of the payables.

Fair value hierarchy for financial assets and liabilities measured at fair value. Fair values at end of reporting period.

Fair value hierarchy for financial assets and liabilities measured at fair value. Fair values at end of reporting period.

	31 Dec. 2017	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	0.7	-	0.7	-
of which subject to cash flow hedging	0.7	-	0.7	-
Total	**0.8**	**0.0**	**0.8**	**0.0**

Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-10.2	-	-10.2	-
of which subject to cash flow hedging	-10.2	-	-10.2	-
Foreign exchange derivatives	-0.2	-	-0.2	-
Commodity derivatives	-0.2	-	-0.2	-
of which subject to cash flow hedging	-0.2	-	-0.2	-
Total	**-10.6**	**0.0**	**-10.6**	**0.0**

	31 Dec. 2016	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	0.6	-	0.6	-
of which subject to cash flow hedging	0.6	-	0.6	-
Total	**0.7**	**0.0**	**0.7**	**0.0**

Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-13.4	-	-13.4	-
of which subject to cash flow hedging	-13.4	-	-13.4	-
Foreign exchange derivatives	-0.3	-	-0.3	-
Commodity derivatives	-0.5	-	-0.5	-
of which subject to cash flow hedging	-0.5	-	-0.5	-
Total	**-14.2**	**0.0**	**-14.2**	**0.0**

The quoted prices of Level 1 foreign exchange and commodity derivatives are based on prices quoted on the market. The fair values of Level 2 instruments are to a significant degree based on inputs other than the quoted prices included in Level 1 but nonetheless observable for the relevant asset or liability either directly or indirectly (derived from prices). In determining the fair value of these instruments, the Group uses generally accepted measurement models, the inputs of which are nonetheless to a considerable degree based on observable market information. The fair values of Level 3 instruments are based on inputs which are not based on observable market information; rather to a significant degree on the Management estimates and measurement models generally acceptable for their use.

25. OTHER LEASES

THE GROUP AS LESSEE

The Group leases many of its premises. The leases have usually been made until further notice and normally include the possibility to continue the agreement after the original date of termination. Leases generally include an index clause. In addition, other rent commitments include various machinery and equipment. The lengths of these leases are from three to five years on average.

Minimum rents payable on the basis of irrevocable lease agreements:

Other rent commitments	**2017**	**2016**
Maturing in less than a year	6.4	6.5
Maturing in 1–5 years	17.0	14.5
Maturing in over 5 years	9.0	10.7
Other rent commitments, total	**32.4**	**31.7**
Rent receivables on other irrevocable lease agreements		
Maturing in less than a year	-	0.0
Maturing in 1–5 years	-	0.0
Maturing in over 5 years	-	0.0
Rent receivables, total	**0.0**	**0.0**

26. CONDITIONAL ASSETS AND LIABILITIES AND PURCHASE COMMITMENTS

Commitments and contingent liabilities	**2017**	**2016**
Loans secured by mortgages	-	-
On own behalf		
Mortgages given	-	-
Assets pledged	-	-
On behalf of others		
Guarantees	8.5	8.8
Other commitments	8.7	7.4
Leasing commitments		
Leasing commitments maturing in less than a year	3.3	3.5
Leasing commitments maturing in 1–5 years	4.0	4.0
Leasing commitments maturing in over 5 years	0.2	0.0
Total	**24.7**	**23.7**

27. RELATED PARTY TRANSACTIONS

Parties are considered related parties if one of the parties is able to exercise control, or a significant influence, over the other in decisions affecting its finances and business. The Group's related parties include the associates and joint ventures. Related parties also include the Supervisory Board and Board of Directors of the Group parent's parent entity (LSO Osuuskunta), the members of the Group's Board of Directors, the Group's CEO, the deputy CEO and their immediate family members, as well as the members of the Goup Management Team. The Group strives to treat all parties equally in its business.

HKScan Corporation's principal owner, LSO Osuuskunta, is a cooperative of 1 200 Finnish meat producers. The cooperative fosters its members' meat production and marketing by exercising its power of ownership in HKScan. Today, LSO Osuuskunta has no actual business, but receives an income in the form of dividend paid by HKScan and, to a lesser extent, income in the form of other investments and rents. The HKScan Group applies pure market price principles to the acquisition of raw meat material.

Lot lease amounting to EUR 1.2 million in 2017 (EUR 1.2 million in 2016) has been paid by the Group to LSO. The sale of animals to the Group by members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta totalled EUR 9.5 million in 2017 (EUR 13.8 million in 2016). Said persons purchased animals from the Group with EUR 3.5 million in 2017 (EUR 4.3 million in 2016).

Information on employee benefits of the Management are presented in Note 4. More information on fees of the Board of Directors and the Management is available in the remuneration statement for 2017, which can be found on the Group's website.

Related party individuals are not otherwise in a material business relationship with the company.

Shares in subsidiaries	**Number of shares**	**Owner-%**
Owned by the Group's parent company		
HKScan Finland Oy, Finland	1 000	100.00
HKScan Sweden AB, Sweden	500 000	100.00
HKScan Denmark A/S, Denmark	102 002	100.00
AS HKScan Estonia, Estonia	37 721 700	100.00
UAB HKScan Lietuva, Lithuania	2 000	100.00
AS HKScan Latvia, Latvia	155 920	99.52
HKScan UK Ltd, the UK	999	100.00
HKScan Asia Limited, Hong Kong	10 000	100.00
OOO HKScan, Russia	1	100.00

Owned by HKScan Finland Oy		
Kivikylän Kotipalvaamo Oy, Finland	49	49.00*
Lihatukku Harri Tamminen Oy, Finland	49	49.00*
Paimion Teurastamo Oy, Finland	50	100.00

Owned by AS HKScan Estonia		
Rakvere Farmid AS, Estonia	6 984	100.00

Owned by HKScan Sweden AB		
HKScan Real Estate AB, Sweden	80 000	100.00
Nordic Genetics AB, Sweden**	1 000	100.00
HKScan International AB, Sweden**	10	100.00
HKScan Poland Sp.zo.o, Poland	5 000	100.00
Samfod S.A., Belgium**	24 999	100.00

Owned by HKScan Real Estate AB		
HKScan Real Estate Halmstad AB, Sweden	3 900	100.00

Owned by HKScan Denmark A/S		
Kreatina A/S, Denmark**	30 000	100.00

* Control is based on shareholders' agreement / board selection.

** Dormant

Shares and holdings in associated companies	Number of shares	Owner-%
Owned by HKScan Finland Oy		
Länsi-Kalkkuna Oy, Finland*	250	50.00
Pakastamo Oy, Finland	660	50.00
Honkajoki Oy, Finland*	900	50.00
Finnpig Oy, Finland	40	50.00
Oy LHP Bio-Carbon LTD, Finland	32	24.24
DanHatch Finland Oy, Finland	250	20.00

Owned by HKScan Sweden AB		
Industrislakt Syd AB, Sweden	50 000	50.00
Siljans Chark AB, Sweden	3 680	39.30
AB Tillväxt for svensk animalieproduktion, Sweden	135 500	50.00

Svenska Köttforetagen Holding AB, Sweden	48 000	24.00

Owned by HKScan Denmark A/S		
Tican-Rose GmbH, Germany	1	50.00
HRP Kyllingefarme I/S, Denmark**	752	50.00
Farmfood A/S, Denmark	10 000	33.30

* Joint venture

** Dormant

The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services. All commercial contracts are negotiated on market terms.

The following transactions were carried out with related parties

	2017	**2016**
Sales to associates	17.7	46.9
Sales of animals to related parties	3.5	4.3
Purchases from associates	33.0	39.2
Purchases of animals from related parties	9.5	13.8

Open balances on 31 December	**2017**	**2016**
Trade and other receivables from associates	2.3	2.3
Trade and other payables to associates	5.8	5.5

28. EVENTS AFTER THE REPORTING DATE

On 23 January 2018, HKScan announced that Kati Rajala, M.Sc. (Tech.), had been appointed as Executive Vice President, Market Area Finland and a member of the Group Leadership Team. Rajala will join HKScan on 2 May 2018 at the latest and she will report to the President and CEO. Jyrki Karlsson, currently Executive Vice President, Market Area Finland, will leave HKScan at the end of March 2018.

On 18 January, HKScan announced preliminary unaudited information on the Corporation’s 2017 result: HKScan estimated its net sales to be approximately EUR 1 808 million and comparable operating profit (EBIT) approximately EUR -18 million. The estimated ramp-up cost of the new Rauma unit and the related negative impact of the lost poultry sales due to the lowered delivery capability in Finland were estimated to amount to some EUR 25 million in total.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT FOR 1 JANUARY - 31 DECEMBER

(EUR)

	Note	2017	2016
Net sales		-	-
Other operating income	1.	17 875 688.79	15 588 679.33
Materials and services		-	-
Employee costs	2.	-13 691 603.28	-12 375 388.66
Depreciation and impairment	3.	-879 204.09	-440 787.30
Other operating expenses	4.	-23 015 103.16	-17 866 571.89
EBIT		**-19 710 221.74**	**-15 094 068.52**
Financial income and expenses	5.	-47 903 359.48	19 878 367.40
Profit/loss before appropriations and taxes		**-67 613 581.22**	**4 784 298.88**
Appropriations	6.	115 830.00	27 043 868.00
Income taxes	7.	3 776 562.85	-3 184 475.97
Profit/loss for the period		**-63 721 188.37**	**28 643 690.91**

PARENT COMPANY BALANCE SHEET 31 DECEMBER

(EUR)

	Note	2017	2016
ASSETS			
Intangible assets	8.	646 063.00	947 533.00
Tangible assets	8.	5 831 275.90	5 285 476.38
Financial assets	8.	347 745 032.22	290 902 232.22
Non-current assets		**354 222 371.12**	**297 135 241.60**
Non-current receivables	9.	253 002 860.94	280 427 953.28
Deferred tax asset	9.	10 484 929.27	7 146 667.32
Current receivables	10.	11 588 512.62	37 889 826.62
Cash and cash equivalents		44 387 128.72	3 739 752.69
Current assets		**319 463 431.55**	**329 204 199.91**
Assets		**673 685 802.67**	**626 339 441.51**
EQUITY AND LIABILITIES			
Share capital	11.	66 820 528.10	66 820 528.10
Share premium reserve	11.	73 420 363.20	73 420 363.20
Treasury shares	11.	-38 612.12	-38 612.12
Fair value reserve	11.	-4 905 548.62	-6 785 666.27
RIUE	11.	143 202 868.19	143 202 868.19
Other reserves	11.	4 818 596.94	4 805 464.95
Retained earnings	11.	155 541 132.11	135 540 268.88
Profit/loss for the period	11.	-63 721 188.37	28 643 690.91
Equity		**375 138 139.43**	**445 608 905.84**
Accumulated appropriations	12.	83 964.00	199 794.00
Provisions	13.	2 780 459.00	2 771 403.00

Deferred tax liability	14.	-	-
Non-current interest-bearing liabilities	14.	248 638 657.70	125 154 844.63
Non-current non-interest-bearing liabilities	14.	4 563 120.29	124 669.00
Current interest-bearing liabilities	15.	28 170 554.60	35 567 942.50
Current non-interest-bearing liabilities	15.	14 310 907.65	16 911 882.54
Liabilities		**295 683 240.24**	**177 759 338.67**
Equity and liabilities		**673 685 802.67**	**626 339 441.51**

PARENT COMPANY CASH FLOW STATEMENT

(EUR 1 000)

	2017	**2016**
EBIT	-19 710	-15 094
Adjustments to EBIT	1 862	1 245
Depreciation and impairment	879	441
Change in provisions	9	-87
Change in net working capital	1 325	961
Interest income and expenses	4 791	7 113
Dividends received	6 170	16 153
Taxes	-32	-30
Cash flow from operating activities	**-4 706**	**10 702**
Purchases of shares in subsidiary	-81 941	-
Purchase of other fixed assets	-3 541	-3 636
Disposals of other fixed assets	2 478	-
Repayments of loans receivable	-3 245	30 844
Cash flow from investing activities	**-86 249**	**27 208**
Cash flow before financing activities	**-90 955**	**37 910**
Proceed from external borrowings	256 762	57 613
Repayment of external borrowings	-116 524	-91 036
Dividends paid	-8 636	-7 562
Cash flow from financing activities	**131 602**	**-40 985**
Change in cash and cash equivalents	**40 647**	**-3 075**
Cash and cash equivalents on 1 Jan.	3 740	6 815
Cash and cash equivalents on 31 Dec.	**44 387**	**3 740**

CHANGE IN WORKING CAPITAL:		
Increase (-) / decrease (+) in current operating receivables	-165	-376
Increase (+) / decrease (-) in current non-interest-bearing liabilities	1 491	1 337
Total	**1 325**	**961**

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 2017.

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 recognised 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 recognised in financial income and expenses in the income statement.

DERIVATIVE CONTRACTS

HKScan Oyj makes all external derivative contracts for the Group. Derivatives that are made for subsidiaries are handled with intercompany derivative contracts. Because of this HKScan Oyj has all the external derivatives of the Group and these are partly for the parent company and partly for subsidiaries.

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 recognised through profit or loss in other operating income or expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations.

Commodity derivatives all relate to subsidiaries and intercompany derivatives have been made. There is no income statement effect as the cash flows from the derivatives are eliminated by the intercompany derivative contracts with subsidiaries. Hedge accounting is not applied. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

Hedge accounting is applied on interest rate swaps for the part that they hedge parent company’s interest risk. The fair values of the derivatives are recorded in the balance sheet and changes in the fair values are recorded in the equity. Realised gains or losses on interest rate swaps hedging variable-interest loans are presented under financial items in the income statement. Hedge accounting is not applied on external interest rate swaps that relate to subsidiaries and intercompany derivatives. Income statement effect is eliminated by the intercompany derivative contract with subsidiaries. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

The fair values of currency forward contracts are determined by using the market prices for contracts of equal duration at the reporting date. The fair values of interest rate swaps are determined using the net present value method supported by the market interest rate or other market information at the reporting date. If the market value given by a counterparty is used, the company also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the company would have to pay, or would obtain, if it were to terminate a derivative instrument.

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 2017, CEO Jari Latvanen was paid a total salary and supplementary pension benefits of EUR 0.8 million.

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 change 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 in the balance sheet as accumulated appropriations.

NOTES TO THE PARENT COMPANY'S INCOME STATEMENT

(EUR 1 000)

1. OTHER OPERATING INCOME, TOTAL

	2017	2016
Rental income	-	-
Other operating income	17 861	15 589
Gain on disposal of non-current assets	15	-
Other operating income, total	**17 876**	**15 589**
Employees, average	125	106

2. STAFF COSTS

	2017	2016
Salaries and fees	-10 355	-10 273
Pension expenses	-1 851	-1 664
Other social expenses	-1 486	-438
Staff costs	**-13 692**	**-12 375**
Managing directors and their deputies	807	1 979
Members of the Board of Directors	353	316
Management salaries, fees and benefits	**1 160**	**2 295**

3. DEPRECIATION AND IMPAIRMENT

	2017	2016
Depreciation according to plan on non-current assets and goodwill	-879	-441
Total depreciation and impairment	**-879**	**-441**

4. OTHER OPERATING EXPENSES

	2017	2016
Rents/leases	-1 431	-1 380
Losses on disposal of fixed assets, tangible assets total	-103	-
Losses on disposal of non-current assets	**-103**	**0**
Audit fees, ordinary audit	-134	-224
Audit fees, other expert services	-17	-385
Audit fees	**-151**	**-609**
Non-statutory staff costs	-2 026	-2 166
Energy	-92	-93
Maintenance	-35	-39
Advertising, marketing and entertainment costs	-1 358	-985
Service, information management and office costs	-14 966	-9 523
Other expenses	-2 853	-3 072
Total other operating expenses	**-23 015**	**-17 867**

5. FINANCIAL INCOME AND EXPENSES

	2017	2016
Financial income		
Dividends from Group companies	6 170	16 145
Dividends from participating interests	-	8
Income from units	**6 170**	**16 153**
Interest income from Group companies	14 660	14 994
Interest income from participating interests	3	3
Interest income from others	88	20
Interest income from other non-current financial assets	**14 751**	**15 017**
Other financial income from others	3 613	4 062
Other financial income	**3 613**	**4 062**
Total financial income	**24 534**	**35 232**
Financial expenses		
Interest expenses payable to Group companies	-	-1
Interest expenses payable to others	-8 285	-8 283
Total other interest and financial expenses	**-8 285**	**-8 284**
Unrealised losses on fair value assessment	**1 021**	**-1 696**

Impairment in holdings in Group companies	-24 950	-
Other financial expense from Group companies	-30 000	-
Other financial expense from others	-10 223	-5 374
Other financial expense	**-65 173**	**-5 374**
Total financial expenses	**-72 437**	**-15 354**
Financial income and expenses, total	**-47 903**	**19 878**

An impairment amounting to EUR 25 million has been recorded to the Danish subsidiary, so that balance sheet value corresponds recoverable amounts in the future.

Other financial expense from Group companies amounting to EUR 30 million in year 2017 is debt forgiveness to Danish subsidiary to strengthen subsidiary's balance sheet.

6. APPROPRIATIONS

	2017	2016
Increase (-) or decrease (+) in depreciation difference	116	44
Group contribution income	-	27 000
Total appropriations	**116**	**27 044**

7. DIRECT TAXES

	2017	2016
Tax for previous financial periods	-	-
Change in deferred tax liabilities and assets	3 808	-3 154
Other direct taxes	-32	-30
Income tax on ordinary operations	**3 776**	**-3 184**

NOTES TO THE PARENT COMPANY'S BALANCE SHEET

8. NON-CURRENT ASSETS

Intangible assets 2017	**Intellectual property rights**	**Other long-term expenditure**	**Total**
Acquisition cost on 1 Jan.	2 690	661	3 351
Increase	425	-	425
Decrease	-2 653	-	-2 653
Transfers between items	2 245	-	2 245
Acquisition cost on 31 Dec.	**2 707**	**661**	**3 368**
Accumulated depreciation on 1 Jan.	-1 999	-405	-2 404
Accumulated depreciation on disposals	106	-	106
Depreciation for the financial period	-333	-91	-424
Accumulated depreciation on 31 Dec.	**-2 226**	**-496**	**-2 722**
Carrying amount on 31 Dec.	**481**	**165**	**646**

Intangible assets 2016	**Intellectual property rights**	**Other long-term expenditure**	**Total**
Acquisition cost on 1 Jan.	2 275	661	2 936
Increase	91	-	91
Transfers between items	324	-	324
Acquisition cost on 31 Dec.	**2 690**	**661**	**3 351**
Accumulated depreciation on 1 Jan.	-1 830	-272	-2 102
Depreciation for the financial period	-169	-133	-302
Accumulated depreciation on 31 Dec.	**-1 999**	**-405**	**-2 404**
Carrying amount on 31 Dec.	**691**	**256**	**947**

Tangible assets 2017	**Machinery and equipment**	**Other tangible assets**	**Pre-payments**	**Total**
Acquisition cost on 1 Jan.	1 204	380	4 896	6 480
Increase	6	1	2 943	2 950
Decrease	-66	-	-	-66
Transfers between items	22	-	-2 267	22
Acquisition cost on 31 Dec.	**1 166**	**381**	**5 572**	**9 386**
Accumulated depreciation on 1 Jan.	-826	-367	0	-1 193
Accumulated depreciation of disposals and reclassifications	46	-	-	46
Depreciation for the financial period	-140	-	-	-140
Accumulated depreciation on 31 Dec.	**-920**	**-367**	**0**	**-1 287**
Carrying amount on 31 Dec.	**246**	**14**	**5 572**	**8 005**

Tangible assets 2016	**Machinery and equipment**	**Other tangible assets**	**Pre-payments**	**Total**
Acquisition cost on 1 Jan.	1 204	380	1 675	3 259
Increase	-	-	3 545	3 545
Decrease	-	-	-324	-324
Acquisition cost on 31 Dec.	**1 204**	**380**	**4 896**	**6 480**
Accumulated depreciation on 1 Jan.	-686	-367	0	-1 053
Depreciation for the financial period	-140	-	-	-140
Accumulated depreciation on 31 Dec.	**-826**	**-367**	**0**	**-1 193**
Carrying amount on 31 Dec.	**378**	**13**	**4 896**	**5 287**

Financial assets 2017	**Holdings in Group companies**	**Holdings in associates**	**Receivables from associates**	**Other shares and holdings**	**Total**
Acquisition cost on 1 Jan.	290 738	148	0	16	290 902
Increase	81 941	-	-	-	81 941
Decrease	-	-148	-	-	-148
Impairment	-24 950	-	-	-	-24 950
Acquisition cost on 31 Dec.	**347 729**	**0**	**0**	**16**	**347 745**
Carrying amount on 31 Dec.	**347 729**	**0**	**0**	**16**	**347 745**

Increase in 2017 amounting to EUR 81.9 million is an equity investment (RIUE) to a Finnish subsidiary.

Financial assets 2016	**Holdings in Group companies**	**Holdings in associates**	**Receivables from associates**	**Other shares and holdings**	**Total**
Acquisition cost on 1 Jan.	290 738	148	47	16	290 949
Increase	-	-	-	-	-
Decrease	-	-	-47	-	-47
Acquisition cost on 31 Dec.	**290 738**	**148**	**0**	**16**	**290 902**
Carrying amount on 31 Dec.	**290 738**	**148**	**0**	**16**	**290 902**

Intangible assets	**2017**	**2016**
Intellectual property rights	481	691
Other long-term expenditure	165	256
Intangible assets	**646**	**947**
Tangible assets		
Machinery and equipment	246	378
Other tangible assets	14	13
Payments on account and tangible assets in the course of construction	5 572	4 896
Tangible assets	**5 832**	**5 287**
Financial assets		
Holdings in Group companies	347 729	290 738
Holdings in associates	-	148
Other shares and holdings	16	16
Financial assets	**347 745**	**290 902**
Total non-current assets	**354 223**	**297 136**

9. NON-CURRENT RECEIVABLES

	2017	**2016**
Non-current loan receivables	817	834
Deferred tax assets	10 485	7 147
Other receivables	72	347
Prepayments and accrued income	245	150
Total	**11 619**	**8 478**
RECEIVABLES FROM GROUP COMPANIES		
Non-current Group loan receivables	251 868	279 096
Non-current receivables from Group companies	**251 868**	**279 096**
Total non-current receivables	**263 487**	**287 574**

10. CURRENT RECEIVABLES

	2017	2016
Trade receivables	-	-
Short-term receivables (from others)	7	5
Short-term prepayments from accrued income (from others)	2 775	605
Total	**2 782**	**610**
RECEIVABLES FROM GROUP COMPANIES		
Trade receivables	568	403
Loan receivables	8 011	9 521
Other receivables	76	205
Group contribution receivables	-	27 000
Total	**8 655**	**37 129**
RECEIVABLES FROM PARTICIPATING INTERESTS		
Loan receivables	150	150
Other receivables	1	-
Short-term receivables from participating interests	**151**	**150**
Total current receivables	**11 588**	**37 889**
MAIN ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME		
Accrued financial items	97	117
Accrued interest receivables	2 049	-
Accrued staff costs	29	13
Other prepayments and accrued income	600	475
Total	**2 775**	**605**

11. EQUITY

Equity in 2017	Share capital	Share premium reserve	Treasury shares	Fair value reserve	RIUE	Other reserves	Retained earnings	Total
Equity on 1 Jan.	66 820	73 420	-38	-6 786	143 203	4 805	164 186	445 609
Increase	-	-	-	-	-	13	-	13
Decrease	-	-	-	1 880	-	-	-	1 880
Dividend distribution	-	-	-	-	-	-	-8 643	-8 643
Profit for the period	-	-	-	-	-	-	-63 721	-63 721
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**-4 906**	**143 203**	**4 818**	**91 822**	**375 138**

Equity in 2016	Share capital	Share premium reserve	Treasury shares	Fair value reserve	RIUE	Other reserves	Retained earnings	Total
Equity on 1 Jan.	66 820	73 420	-38	-1 538	143 076	4 792	143 153	429 684
Increase	-	-	-	-6 786	127	13	-	-6 646
Decrease	-	-	-	1 538	-	-	-	1 538
Dividend distribution	-	-	-	-	-	-	-7 562	-7 562
Direct recognition in retained earnings	-	-	-	-	-	-	-49	-49
Profit for the period	-	-	-	-	-	-	28 644	28 644
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**-6 786**	**143 203**	**4 805**	**164 186**	**445 609**

Distributable equity	2017	2016
Contingency reserve	540	527
Treasury shares	-38	-38
Reserve for invested unrestricted equity	143 203	143 203
Retained earnings	155 541	135 540
Profit/loss for the period	-63 721	28 644
Distributable equity	**235 525**	**307 876**

12. ACCUMULATED APPROPRIATIONS

	2017	2016
Depreciation difference	84	200
Total appropriations	**84**	**246**

The unrecognised deferred tax liability on depreciation difference is EUR 17 000.

13. STATUTORY PROVISIONS

	2017	2016
Provisions for pensions	2 780	2 771
Statutory provisions, total	**2 780**	**2 771**

14. NON-CURRENT LIABILITIES

	2017	2016
Deferred tax liability	-	-
Bond	168 495	100 000
Loans from financial institutions	78 079	23 560
Other liabilities	6 628	1 720
Total	**253 202**	**125 280**
Total non-current liabilities	**253 202**	**125 280**
Interest-bearing		
Amounts owed to others	248 639	125 155
Non-current interest-bearing liabilities	**248 639**	**125 155**
Non-interest-bearing		
Amounts owed to others	4 563	125
Non-current non-interest-bearing liabilities	**4 563**	**125**
Total non-current liabilities	**253 202**	**125 280**

15. CURRENT LIABILITIES

	2017	2016
Loans from financial institutions	10 759	14 140
Trade payables	3 794	2 282
Accruals and deferred income	8 202	12 907
Other liabilities	2 099	1 479
Total	**24 854**	**30 808**
AMOUNTS OWED TO GROUP COMPANIES		
Trade payables	128	149
Accruals and deferred income	88	95
Other liabilities	17 411	21 428
Total	**17 627**	**21 672**
Total current liabilities	**42 481**	**52 480**
Interest-bearing		
Current amounts owed to Group companies	17 411	21 428
Amounts owed to others	10 759	14 140
Current interest-bearing liabilities	**28 170**	**35 568**
Non-interest-bearing		
Current amounts owed to Group companies	216	244
Amounts owed to others	14 095	16 668
Current non-interest-bearing liabilities	**14 311**	**16 912**
Total current liabilities	**42 481**	**52 480**

MAIN ITEMS (NON-CURRENT AND CURRENT) INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Accrued staff costs	3 177	2 367
Accrued interest expenses	1 445	634
Accrued changes in value of derivatives	2 215	8 913
Other accruals and deferred income	1 365	952
Total	**8 202**	**12 866**

LIABILITIES DUE IN FIVE YEARS OR MORE		
Loans from financial institutions	12 659	-
Pension loans	4 286	-
Other long-term liabilities	-	-
Liabilities due in more than five years	**16 945**	**-**

16. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities	**2017**	**2016**
DEBTS SECURED BY MORTGAGES AND SHARES		
Loans from financial institutions	-	-
Total	**0**	**0**
Real estate mortgages	-	-
Total	**0**	**0**
SECURITY FOR DEBTS OF SUBSIDIARIES AND OTHER GROUP COMPANIES		
Guarantees	19 364	20 163
Total	**19 364**	**20 163**
SECURITY FOR DEBTS OF PARTICIPATING INTERESTS		
Guarantees	-	489
Total	**0**	**489**
SECURITY FOR DEBTS OF OTHERS		
Guarantees	1 895	1 703
Total	**1 895**	**1 703**
OTHER CONTINGENCIES		
Leasing commitments		
Maturing in less than a year	276	215
Maturing in 1–5 years	347	209
Total	**623**	**424**
OTHER RENT COMMITMENTS		
Maturing in less than a year	871	871
Maturing in 1–5 years	3 482	3 482
Maturing in more than five years	3 482	4 353
Total	**7 835**	**8 706**

Other commitments	4	4
Total other contingencies	**8 462**	**9 134**

17. DERIVATIVE INSTRUMENTS

	2017	**2017**	**2017**	**2016**	**2017**	**2016**
	Positive fair value	**Negative fair value**	**Fair value net**	**Fair value net**	**Nominal value**	**Nominal value**
Interest rate derivatives	3 816	-10 222	-6 406	-8 543	65 238	70 937
matured in 2016	-	-	-	-251	-	5 234
matures in 2017	-	-	-	-754	-	15 703
matures in 2018	672	-672	-	-	-	-
matuers in 2019	-	-	-	-	-	-
matures in 2020	-	-2 840	-2 840	-	25 000	-
matures in >2020	3 144	-6 710	-3 566	-7 539	40 238	50 000
of which defined as cash flow hedging instruments	-	-6 406	-6 406	-8 543	65 238	70 937
Foreign exhange derivatives	125	-231	-107	-59	29 318	30 398
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	859	-859	-	-	-	-
matured in 2016	-	-	-	-	-	-
matures in 2017	401	-401	-	-	-	-
matures in 2018	333	-333	-	-	-	-
matuers in 2019	126	-126	-	-	-	-
matures in 2020	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-

Nominal values of external derivatives that are eliminated due to intercompany derivatives are netted to zero in the table above. The nominal values are EUR 12 131 (13 162) thousand foreign exchange derivatives, EUR 7 355 (7 271) thousand commodity derivatives, EUR 55 317 (55 937) thousand interest rate derivatives.

Fair value hierarchy

	31 Dec. 2017	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	3 816	-	3 816	-
Foreign exchange derivatives	125	-	125	-
Commodity derivatives	859	-	859	-
Total	**4 800**	**-**	**4 800**	**-**

Derivatives, negative fair value				
Interest rate swaps	-10 222	-	-10 222	-
Foreign exchange derivatives	-231	-	-231	-
Commodity derivatives	-859	-	-859	-
Total	**-11 313**	**-**	**-11 313**	**-**

	31 Dec. 2016	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	4 891	-	4 891	-
Foreign exchange derivatives	304	-	304	-
Commodity derivatives	1 135	-	1 135	-
Total	**6 330**	**-**	**6 330**	**-**

Derivatives, negative fair value				
Interest rate swaps	-13 434	-	-13 434	-
Foreign exchange derivatives	-363	-	-363	-
Commodity derivatives	-1 135	-	-1 135	-
Total	**-14 933**	**-**	**-14 933**	**-**

The fair values of Level 1 instruments are based on prices quoted on the market. The fair values of Level 2 instruments are, to a significant degree, based on inputs other than the quoted prices included in Level 1 but nonetheless observable for the relevant asset or liability either directly or indirectly (derived from prices). In determining the fair value of these instruments, the company uses generally accepted measurement models, the inputs of which are nonetheless to a considerable degree based on observable market information. The fair values of Level 3 instruments are based on inputs which are not based on observable market information; rather to a significant degree on Management estimates and measurement models generally acceptable for their use.

SIGNATURES TO THE FINANCIAL STATEMENT AND REPORT OF THE BOARD OF DIRECTORS

Vantaa, 6 February 2018

Mikko Nikula
Chair of the Board

Marko Onnela
Deputy chair of the Board

Pirjo Väliaho
Member of the Board

Per Olof Nyman
Member of the Board

Riitta Palomäki
Member of the Board

Tuomas Salusjärvi
Member of the Board

Jari Latvanen
CEO

AUDITOR’S NOTE

A report on the audit carried out has been submitted today.

Vantaa, 7 February 2018

PricewaterhouseCoopers Oy

Authorized Public Accountants

Markku Katajisto

APA

AUDITOR’S REPORT

(Translation from the Finnish Original)

To the Annual General Meeting of HKScan Oyj

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion

- the consolidated financial statements give a true and fair view of the group’s financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Board of directors and Audit Committee.

WHAT WE HAVE AUDITED

We have audited the financial statements of HKScan Oyj (business identity code 0111425-3) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company’s balance sheet, income statement, statement of cash flows and notes.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

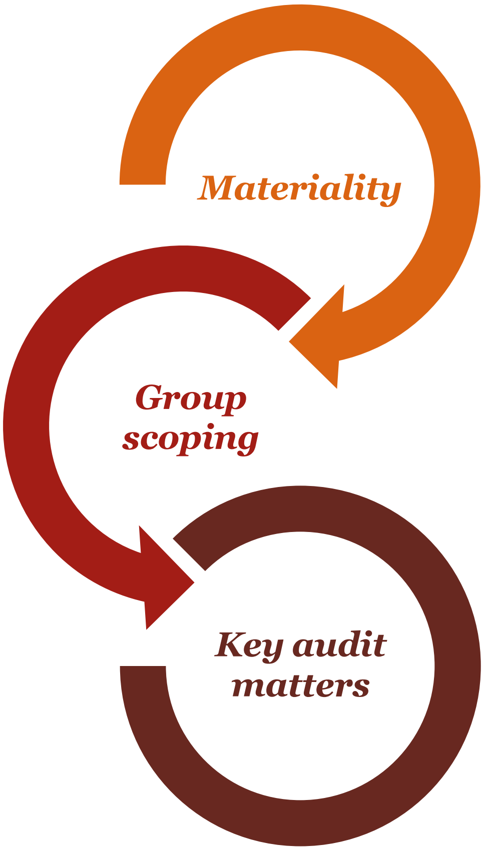
INDEPENDENCE

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 6 to the Consolidated Financial Statements.

OUR AUDIT APPROACH

Overview



Overall Materiality

We determined that overall group materiality is EUR 4 million, by using a combination of profit before tax and net sales.

Audit scope

We performed an audit in HKScan Group companies that are most significant from the group`s financial position and result point of view. Our audit scope included parent company of the Group and companies that have significant operations in Finland, Sweden, Denmark and Estonia.

Key audit matters

- The accounting treatment for the investment in the Rauma poultry unit
- Valuation of goodwill and non-current assets
- Inventories
- Net sales recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	EUR 4 million
How we determined it	We determined materiality by using a combination of profit before tax from continuing operations and net sales.
Rationale for the materiality benchmark applied	We chose a combination of net sales and profit before tax as the benchmark because in our view it represents a relevant basis for readers of the financial statements when they consider the performance of the group. We chose 0.5% of net sales and 5.0% of profit before taxes, which are within the range of acceptable quantitative materiality thresholds in auditing standards.

GROUP AUDIT SCOPE

HKScan Group had substantial operations in Finland, Sweden, Denmark and the Baltics during the financial period. We tailored the scope of our audit, taking into account the structure of the HKScan Group and the accounting processes and controls.

We performed an audit in HKScan Group companies that are most significant based on the financial position and result. Our audit scope included Group’s parent company and companies that have significant operations in Finland, Sweden, Denmark and Estonia. We considered that the remaining other Group companies do not present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures were limited mainly to analytical procedures.

By performing the procedures above, we have obtained sufficient and appropriate evidence regarding the financial information of HKScan Group as a whole to provide a basis for our opinion on the consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the Key audit matter
The accounting treatment for the investment in the Rauma poultry unit	
Refer to Accounting policies and Note 12 (Tangible assets). The company is the process of investing in a new	We evaluated the Group's property, plant and equipment accounting principles and compared these with applicable accounting standards.

poultry unit in Rauma. At 31 December 2017 the book value of the investment in Rauma was EUR 117.5 million. The investment in Rauma is significant to the company due to the magnitude of the investment. The estimated economic useful life of the investment and the accounting for the asset retirement obligation, require management judgement. We identified the Rauma investment as an area of focus in the audit as there is a risk related to the application of the appropriate accounting treatment of the investment and its valuation.	We obtained an understanding of the company's investment process and applied accounting treatment for investments, including how management determines which costs are to be expensed and which capitalised. We tested a sample of capitalized transactions. We evaluated the key assumptions applied by management to ensure that they were compliant with the Group's accounting policies.
Valuation of goodwill and non-current assets	
Refer to Accounting Policies, Note 11 (Goodwill), Note 10 (Intangible assets), Note 12 (Tangible Assets) and Note 5 (Depreciation and impairment). At 31 December 2017 the group's goodwill balance was EUR 72.4 million (2016: 77.0), intangible assets EUR 64.8 million (2016: 66.0) and tangible assets EUR 458.2 million (2016: 401.7). Impairment losses aggregating to EUR 10,1 million were recognized during the year 2017 relating to the market area Denmark. The company is required to, at least annually, test goodwill for impairment. This area was important to our audit because impairment testing result is based on several assumptions including estimated growth rate, future cash flows and applied discount rate. Also, impairment test result may reveal the need for impairment of the other assets, most significant of which are production facilities.	We evaluated the Group's impairment testing principles and compared these with applicable accounting standards. We evaluated the key assumptions, the growth rate, cash flow forecasts and applied discount rate, used in goodwill impairment calculations and traced these to the latest financial plans approved by the Board of Directors. While evaluating key assumptions, including weighted average cost of capital, we involved also our valuation experts. We performed back testing comparing cash flow forecasts used in previous years' testing to actual results to assess accuracy of the forecasts. We tested the mathematical accuracy of the company's calculations and verified that the impairment losses had been appropriately accounted for. We also assessed adequacy of the relevant disclosures.
Inventories	
Refer to Accounting policies and Note 16 (Inventories). At 31 December 2017 the Group's inventories balance is valued at EUR 111.8 million (2016: 116.1). The inventories consist mainly of materials and supplies, as well as unfinished and finished products. We focused on unfinished and finished products	We evaluated the Group's accounting policies on inventories cost accounting and net realizable value determination and compared these with applicable accounting standards. We gained understanding of Group's processes and controls over unfinished and finished products cost accounting and determination of net realizable value. We tested relevant calculations and bookings by sample

because the inventory cost accounting in meat production and evaluation of inventories is a complex area and it involves judgment.	to ensure these are in compliance with the Group's accounting policies.
Net sales recognition	
Refer to Accounting policies and Note 1 (Business segments). The sales contracts include various types of sales price components such as discounts and rebates based on sales volumes and marketing support. We focused on this area because the recognition of net sales requires judgment from the management, for example estimates with respect to sales volumes to support net sales recognition. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	We evaluated the Group's accounting policies on net sales recognition and compared these with applicable accounting standards. We gained understanding of Group's processes and controls over revenue recognition. We tested a sample of calculations of discounts, sales volume based rebates, correct timing of revenue recognition and traced the terms and conditions to the agreements made with the customers. We assessed on a sample basis sales transactions and credit notes taking place close to the reporting date to assess whether that revenue has been recognized in the correct period.
We have no key audit matters to report with respect to our audit of the parent company financial statement	

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

APPOINTMENT

We were first appointed as auditors by the annual general meeting on 23 August 1988. Our appointment represents a total period of uninterrupted engagement of 30 years. HKScan Oyj became a publicly listed company on 6 February 1997.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 7 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant (KHT)

NON-FINANCIAL REPORTING

INTRODUCTION

HKScan's Report on non-financial information is compiled in accordance with the Finnish Accounting Act. HKScan's Board of Directors is responsible for the report and has approved the information in it on 6 February 2017, HKScan reported on its corporate responsibility for the first time based on the Global Reporting Initiative reference framework and as part of its Annual Report 2017.

HKScan has selected the themes, which are relevant for measuring the Group's corporate responsibility related performance. Some of the indicator results will be will be available during February because of the manual collection of them. Those results will be published as part of the Annual Report 2017 in March 2018. This report (HKScan's Report on non-financial information) presents the responsibility indicator results that have been completed prior to the signing of the report.

The most relevant Corporate Responsibility themes, related key performance indicators and goals are described in the table below. The table also indicates whether the information is reported as part of this report or in HKScan's Annual Report 2017.

1. BUSINESS MODEL

HKScan is the leading Nordic food company. The Group sells, markets and produces high-quality, responsibly-produced pork, beef, poultry and lamb products, processed meat products and meals. The company's home markets are Finland, Sweden, Denmark and the Baltics, and its products are exported to nearly 50 countries. The company's best known product brands are HK, Scan, Rakvere, Pärsons, Kariniemen, Rose and Tallegg. In 2017, the company employed nearly 7 300 people. HKScan is listed on the Nasdaq Helsinki Oy.

HKScan's operations are based on responsible and efficient management of the entire, long value chain and on value creation throughout the Farm to Fork chain. The company's sourcing of meat raw material in Finland, Sweden and Denmark is based on close partnership and collaboration with HKScan's contract producers. In Estonia, the company has its own farms and contract producer partners.

With production units in all its home markets, HKScan has a significant direct and indirect impact on employment. Some of the production units are specialized in slaughtering and cutting operations, and some are focused on processing. In the biggest units, these operations are integrated. Efficient management of the supply chain plays a key role when the value chain is long and the company's end products are fast-moving perishables. Distribution and transportation is also critical to the business.

HKScan's customers include the retail, HoReCa, food industry and export sectors. HKScan engages in collaboration with its customers in sounding out trends, forecasting demand, product development, marketing, corporate responsibility development, and other business development. HKScan includes consumers in its product development work and engages in a dialogue with consumers through, e.g., social media channels and its country-specific consumer service functions.

Collaboration with stakeholders at all phases of the value chain, from feed and primary production to the consumer interface, is an integral part of HKScan's daily business operations.

HKScan's value chain

VALUE CREATION FOR STAKEHOLDERS

HKScan creates both economic and intangible added value widely to its various stakeholders throughout the value chain in all countries where it operates. Examples of stakeholders include primary producers, own personnel, customers, shareholders, goods and services providers, and the surrounding society.

The company's net sales in 2017 were EUR 1 808.1 million with investments accounting for 6.9 per cent i.e. EUR 125.5 million. Dividends of EUR 9.0 million were paid to shareholders. Wages and salaries paid to personnel including social costs amounted to EUR 328.4 million. Raw material, energy and service suppliers were paid EUR 1 520 million and creditors EUR 11 million. The public sector was paid EUR 2 million as income taxes.

CORPORATE RESPONSIBILITY IN THE COMPANY'S STRATEGY

Corporate responsibility is an integral part of HKScan's 'From Farm to Fork' strategy. The company has committed to systematic development of responsible business in its strategy and operations. Consumers are at the core of the strategy, and the company actively manages the food value chain to serve them.

HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare, and Environment. The focus areas and relevant themes of the corporate responsibility work are based on the extensive stakeholder survey conducted in 2014. The relevant themes are evaluated regularly, most recently in 2017. HKScan's responsibility themes are presented in the figure below. By focusing on development of the areas relevant to stakeholders, HKScan creates value for its stakeholders at the different stages of the value chain.

Focus areas of HKScan's corporate responsibility work

Relevant themes of HKScan's corporate responsibility work

KEY PERFORMANCE INDICATORS (KPIS) KPI RESULTS DOCUMENTED IN THIS REPORT ARE PRESENTED AND NUMBERED BELOW.	GOALS	QUALITATIVE /QUANTATIVE	REPORTED IN REPORT ON NON-FINANCIAL INFORMATION / ANNUAL REPORT
SAFE AND HEALTHY PRODUCTS			
• Certified sites[1] • Number of recalls[2] • Number of products with aspects launched[3]	• All sites certified • Zero recalls • Enhance positive impact on nutrition and public health	Qualitative Quantitative	Report of non-financial information (later NFI) and Annual Report
ANIMAL HEALTH AND WELFARE			
• Optimal animal welfare in general and compliance with Welfare Quality Principles targeting good animal health and welfare at farms, during transportation and in slaughter[4]	• Compliance to laws and regulations • Become the best in animal care • Enhance positive impacts on animal health and welfare through proper animal handling and conditions at farms, during transportation and in slaughter • Maintain low use of antibiotics and achieve even better results – without endangering animal welfare	Qualitative	NFI and Annual Report
EMPLOYEES			
• Absentee rate (%)[5] • Lost Time Injury (LTI) frequency rate[6]	• General goal: healthy employees, safe working environment, employee satisfaction • Numeric Group targets for LTI and absentee rate to be set	Qualitative Quantitative	NFI and Annual Report
ENVIRONMENT			
• Total energy use • Greenhouse gas emissions • Total water use • Waste tons by type and disposal method • Material efficiency	• Mitigation of environmental impacts • Energy use -10% decrease by 2017 vs 2014 indexed to net sales • Numeric Group KPI targets to be set • Development towards more sustainable packaging materials and solutions	Quantitative	Annual Report

	• Efficient use of animal raw material – circular economy approach		
FARMING COMMUNITY			
• HKScan's actions to promote businesses and living at countryside, local investments, competence and professional development, wellbeing of farmers[7]	• To enhance positive impact: farm economy, animal health and welfare • Contribution to national food supply in possible national emergency situations • Keep local countryside alive	Qualitative	NFI and Annual Report
RESPONSIBLE AND ETHICAL SOURCING			
• Purchase of responsible soy[8] • Purchases from local markets (%) • Purchases from suppliers that comply with HKScan's requirements	• 100% responsible soy by the end of 2018 • Avoid ethical risks • Supplier Guidelines signed by 100% of suppliers	Quantitative	Soy: NFI and Annual Rreport Purchases: Annual Report
ECONOMIC VIABILITY OF VALUE CHAIN			
• HKScan's four long-term financial targets • No special Corporate Responsibility KPI's	• Enhance positive impacts in value chain • Operating profit (EBIT): >4% of net sales • Return on capital employed (ROCE): >12% • Net gearing: <100% • Dividends: >30% of net profit	Quantitative	Annual Report
COMPLIANCE			
• No non-compliance in Corporate Responsibility-themes[9]	• Compliance with laws and regulations	Qualitative	NFI and Annual Report

2. MANAGEMENT OF ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL POLICY GUIDES OPERATIONS

HKScan assumes responsibility for the environment throughout the value chain and continuously decreases the environmental impacts of its processes. HKScan manages its operations so that guidelines, regulations and requirements for environmental permits are fulfilled. HKScan's aim is for its environmental work to align also with the goals of society. This is ensured, e.g., through collaboration with authorities. The company sets environment-related requirements also for its suppliers as part of HKScan's Supplier Guidelines.

The management of environmental issues is based on the Group-wide Environmental policy, which defines the Group's environmental commitments. The efficiency and success of environmental responsibility is assessed by measuring environmental impacts and by monitoring the results in the Management Team as well as through internal and external ISO 14001 audits. All HKScan production facilities, except those in Denmark, have ISO 14001 certification. HKScan had no serious environmental legislation violations in 2017.[9]

TARGETS AND INDICATORS OF ENVIRONMENTAL RESPONSIBILITY FOCUS AREAS

The focus areas of HKScan's environmental work are energy efficiency, reduction of greenhouse gas emissions, good management of water consumption and wastewater, material efficiency, and environmentally efficient management, recycling and utilization of waste. The company measures its environmental impacts continuously and has set numerical targets for its environmental responsibility.

2.1. ENERGY EFFICIENCY

The long-term goal of HKScan's active energy efficiency work is to decrease the Group's environmental footprint while improving cost efficiency. Improving energy efficiency is an important area also in reducing greenhouse gas emissions.

In order to identify energy saving targets and to comply with the EU Energy Efficiency Directive (EED), HKScan continued its energy reviews in 2017. Energy reviews were conducted at HKScan's production plants in 2015 and 2016 in Sweden, Poland and Denmark. In 2017, energy reviews were initiated in the Baltics and Finland. The reviews identified several development targets that HKScan will pay special attention to in the future. All HKScan's production plants in Sweden are now ISO 50001 certified.

In 2017, the production plants continued the Group's internal energy efficiency project aiming for a 10 per cent reduction in HKScan's energy consumption from the 2014 level by 2017 (indexed to net sales). The 2017 figures will be available in early February 2018. The concrete measures implemented to improve energy efficiency at production plants are described in the corporate responsibility section of the Annual Report 2017 in chapter Environmental responsibility/Energy efficiency.

2.2. GREENHOUSE GAS EMISSIONS

HKScan has disclosed its greenhouse gas emissions since 2014. In total, HKScan's GHG emissions decreased by 53 per cent (127 000 tonnes) from 2014 to 2016. The 2017 data will be available at the end of February 2018 and will be reported in HKScan's Annual Report 2017 in chapter Environmental responsibility/Greenhouse gas emissions.

Improvements in energy efficiency and the use of renewable energy sources contribute to the reduction of emissions. This development work has been actively conducted in all Group countries also during 2017 and is described in the corporate responsibility section of the Annual Report 2017 in chapter Environmental responsibility/Energy efficiency.

HKScan is one of the first Nordic food companies to offset the carbon dioxide emissions of its production plants located in Finland. The offsets were made in 2016. In Sweden, HKScan is continuing to pursue the targets set in 2016. The goal is for a 95 per cent reduction in carbon dioxide emissions generated by HKScan's Swedish operations by 2030 compared to 2003 (Scope 1 and 2 emissions and Scope 3 purchased transportation and business travel).

In 2018, the Group will set its greenhouse gas emissions target for 2030.

2.3. WATER USE AND WASTEWATER

HKScan measures and optimizes the water consumption at production plants without jeopardizing food safety. Development targets for water use have been identified through reviews and audits, and through ideas generated by personnel. The improvement actions taken in 2017 at the Vantaa production plant are a good example of this.

Wastewater treatment in 2017 has functioned well in general. Some isolated and minor deviations from the environmental permit levels have been detected, but they have not been significant in terms of environmental impacts. The detections were made in HKScan's own monitoring in an early stage, the deviations have been investigated and improvement actions have been implemented.

2.4. MATERIAL EFFICIENCY AND WASTE

At HKScan material efficiency means the efficient use of animal raw material and all carcass parts, as well as the development of packaging in terms of the eco-efficiency of the materials used and the minimization of food waste. Material efficiency also aims to reduce production loss, minimize the generation of food waste throughout the value chain, and maximize the utilization of waste materials.

HKScan first reported on the waste generated by the company's production in 2016. The reporting was done on the basis of sorted categories. The relevant information for 2017 will be completed in the first part of February and will be reported in HKScan's Annual Report 2017 in chapter Environment/Material efficiency and waste.

2.5. ENVIRONMENTAL WORK AT FARMS

Some environmental impacts of meat products originate at farms. HKScan's contract producers already engage in significant environmental work, and best practices are actively shared in the company's primary production chain. HKScan has launched a study to explore ways to further decrease the environmental impacts of primary production. An example of the work is HKScan's commitment announced in 2014 to use responsibly produced soy throughout its production chain by the end of 2018.

ENVIRONMENTAL RESPONSIBILITY-RELATED RISKS AND THEIR MANAGEMENT

Environmental risks have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. The use of soy in the production chain has been identified as a global environmental risk as well as a social risk. This risk is being managed with a commitment to move to the use of responsibly produced soy throughout the Group by the end of 2018. Other environmental risks identified include, e.g., risks related to wastewater and chemical leaks; these risks are being managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

3. MANAGEMENT OF SOCIAL AND PERSONNEL ISSUES

Social responsibility at HKScan covers product quality and safety, the promotion of healthy products, responsible and ethical sourcing, and safeguarding and promoting the health and wellbeing of personnel.

3.1. PRODUCT QUALITY, FOOD SAFETY AND HEALTHY PRODUCTS

HKScan has policies that are implemented throughout the Group to ensure product quality and safety. HKScan Group's Quality Policy identifies the quality management principles and the regulations, rules and reference documents that are to be followed throughout the Group.

HKScan Group's Food Safety Policy identifies the Group's food safety management and responsibilities as well as the regulations, rules and documents that are to be followed. All HKScan production plants have certified food safety management systems, and their functionality is verified by internal audits and by external audits performed by a third party.[1]

Included in HKScan's product safety management system is the ensuring of product traceability. The traceability system is used to ensure timely measures in possible recall situations so as to not jeopardize consumer health. HKScan has set a goal of zero recalls. When a mistake has happened, a recall is part of responsible operations. The impacts of a recall on the company's reputation or the costs incurred from it never prohibit a recall from being implemented. HKScan implemented 16 recalls in 2017.[2] The reasons for the recalls were investigated and corrective actions were taken.

HKScan aims to have a positive impact on public health by developing and offering consumers a variety of products with good nutritional content. In about 16 per cent of HKScan's product launches in 2017, the innovation or product improvement was related to nutritional development.[3]

There has been a focus on the amount and type of fat and the sodium content in products. For example, the unsaturated fat contained in Rypsiporsas® (rapeseed-fed) pork products is compliant with nutritional recommendations.[3] Sodium content has been reduced by about 10 per cent in product renewals. Product composition has been modified with the addition of vegetables.[3] In meals, for instance, the share of vegetables ranges between 21–50 per cent.[3] Meals and cold cuts that are suitable for a vegetarian diet have also been introduced to the markets.[3]

PRODUCT-RELATED RISKS AND THEIR MANAGEMENT

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalization of the food chain, food fraud and deliberate sabotage have emerged as central themes alongside other food safety risks. To identify and prevent the risks related to them, HKScan Group has created a separate risk assessment model covering the entire chain.

To control risks, we require all players in our value chain to have a comprehensive food safety management system, and we monitor its implementation with regular audits both in our own facilities and in other production plants in our value chain.

3.2. RESPONSIBLE AND ETHICAL SOURCING

HKScan assumes responsibility for its entire supply chain. The Group's sourcing is guided by an internal sourcing policy defining responsible management of Group purchases, as well as responsibilities, regulations, guidelines and documents. Animal sourcing is based on a separate animal purchasing policy. HKScan's Animal purchasing policy includes guidelines for sourcing the best animal stock and the business practices with HKScan's animal producers. It offers guidelines also for guiding and managing HKScan's producer community, and outlines the Group's internal responsibility areas related to animal sourcing.

Suppliers commit to operate in accordance with HKScan's sourcing principles by signing the company's ethical Supplier Guidelines.

LOCAL MEAT PRODUCTION

HKScan primarily uses local meat sourced from long-term contract producers or HKScan's own farms. Animals are slaughtered at HKScan's own slaughterhouses. Sourcing meat locally has a significant economical and social impact on local communities and, more broadly, also on the surrounding society. Nearly 100 per cent of HKScan's live animal sourcing is from local markets. The origin of the meat is known, without any gaps, and the living conditions of the animals are known because of the tight collaboration with the producer, and, in Estonia, because of our own farms.

EVALUATING SUPPLY CHAIN RESPONSIBILITY

Suppliers are evaluated for product safety, quality, environmental performance, business practices and sourcing process-related criteria. HKScan uses a systematic supplier evaluation process to acquire adequate information for sourcing decisions related to meat, other raw materials, products and services. It also includes the evaluation of the supplier's social responsibility and ethical risks.

RESPONSIBLE SOURCING OF SOY[8]

HKScan is committed to using only responsibly produced soy in all of the Group's home markets by the end of 2018. HKScan reached the goal in Finland in 2017 and in Sweden in 2015. HKScan and its animal feed collaboration partners are actively developing the use of local protein crops. The goal is to reduce the use of soy in animal feed.

SOURCING-RELATED RISKS AND THEIR MANAGEMENT

In HKScan's risk management, sourcing-related risks involve fluctuations in the availability and prices of raw materials. The decrease in domestic meat production is considered a risk because of the domestic origin promise of HKScan's most significant brands (HK®, Kariniemen® and Scan®). Risks related to raw materials or products sourced from suppliers are managed with strict standards that suppliers must meet. Social risks in the supply chain are managed in the risk evaluations of the sourcing process.

3.3. PERSONNEL

HKScan provides a large number of jobs in the communities in which it is active. In 2017, the company had nearly 7 300 (7 292) employees on its payroll, 84.8 per cent of whom were permanent employees. Of this figure, 82.8 per cent were blue-collar workers and 17.2 were white-collar employees. Women account for 40.0 per cent of the blue-collar staff and 49.0 per cent of white-collar personnel, with men correspondingly making up 60.0 per cent of blue-collar staff and 51.0 per cent of white-collar personnel. HKScan's heterogeneous personnel uniformly observes common principles of equality, non-discrimination and shared corporate values.

HKScan's HR management and personnel development practices are based on the Group's internal policies and shared principles on recruitment, performance management, remuneration, and occupational health and safety. The Group's daily teamwork is governed by HKScan's shared Group values, with the aim of fostering a safe, healthy work community honouring principles of mutual respect and positive reinforcement. By continually working to improve our leadership skills and competencies, HKScan does its utmost to maximize quality and facilitate the attainment of Group objectives.

OCCUPATIONAL HEALTH AND SAFETY

HKScan's OH management practices are based on Group-wide standards defining common safety procedures such as reporting and investigation of near-misses, sharing of safety observations, and commitment to universal standards and regulations related to dangerous tasks and occupational risks. Two of HKScan's Estonian production plants are OHSAS 180001-certified.

HKScan's LTI rate in 2017 was 44.3 (lost-time incidents per million hours worked), marking a slight increase on the previous year (2016: 40.6).[6] The absentee rate in 2017 was largely the same as it was the previous year: 6.2 per cent (2016: 6.3 per cent).[5]

EMPLOYEE ENGAGEMENT SURVEYS

HKScan conducted Group-wide surveys of its personnel engagement, leadership and performance culture in 2014 and 2016. Extensive improvement actions were undertaken on the basis on the results, which in the 2016 survey yielded a measurable improvement, especially in managerial work. HKScan's rating in the 2016 People Power Index was A+/Satisfactory+.

PERSONNEL DEVELOPMENT AND IMPROVEMENT OF LEADERSHIP SKILLS

HKScan renewed its operating model in June 2017. Throughout autumn, the company conducted an extensive survey of its strategic competencies to ensure that it has adequate skills in place to implement the new strategy and operating model. Based on the results of the survey, the management formulated a plan of action for improving HR competencies and leadership skills within the company. HKScan additionally expects its personnel to independently take responsibility for their ongoing self-improvement and professional development.

In order to ensure the successful implementation of the new strategy and values-based leadership system, the management conducted an extensive online survey related to the Group's values and leadership practices. The Group's values were defined in more specific detail based on the survey results, which also provided a foundation for formulating a quantifiable definition of HKScan's values-based leadership performance and its ongoing improvement. HKScan's internal leadership skills are monitored and measured as part of its performance appraisal, recruitment and job rotation schemes. The newly formulated definition of "values-based leadership" steers the ongoing development of leadership skills and related processes.

Biannual performance reviews between managers and employees form the backbone of HKScan's leadership system. In these talks, managers and employees together discuss HKScan's strategy, goals and values, on the basis of which they together formulate individual targets for each employee as well
as an action plan for their professional development. Each employee's performance is reviewed against the previous year's targets in order to identify their strengths and improvement needs.

REWARDS AND REMUNERATION

HKScan aims to offer a remuneration system that is competitive, motivational, fair and transparent, including bonus rewards to employees who attain or exceed their personal targets. Salaries are reviewed regularly and benchmarked against similar employers to ensure our competitiveness. The remuneration paid to each employee is contingent on their individual performance and HKScan's overall financial result. HKScan is mindful of the fact that employee motivation is not guaranteed solely through pay and other material incentives.

HR-RELATED RISKS AND THEIR MANAGEMENT

HKScan's risk management policy states that the company's success is critically dependent upon the professional competence and expertise of its senior executive management and other personnel as well as the organization's ability to continually improve its existing leadership skills and professional competencies, its ability to secure employee loyalty and commitment, and its success in recruiting skilled workers in the future. HKScan is also vulnerable to risks associated with legal and illegal strikes, both in its value chain and among its own production staff. These risks are mitigated by fostering close collaboration with employees, by facilitating teamwork within the company, and by working to improve employee wellbeing. Risks can also be mitigated by using alternative supply chain structures and processes.

3.4. FARMING COMMUNITY – LOCAL PRODUCER COMMUNITIES[7]

HKScan's animal sourcing is based on long-term contract production or own production and on close collaboration with producers. HKScan offers its contract producers training and consulting in planning animal feeding, animal healthcare, and in planning new production facilities, among other things. Producer services enable and promote the business of producers and wellbeing in rural areas, local investments, the professional expertise of producers and knowledge.

Producer wellbeing has an impact on animal welfare. HKScan arranges seminars and wellbeing events for its contract producers, and it presents Producer of the Year awards in Finland, Sweden and Denmark.

3.5 DONATIONS, SPONSORSHIPS AND CHARITY

In its home markets, HKScan supports primarily projects that are related to the everyday life of families with children or promote the quality of life and sustainability. In 2017, HKScan supported the Pink Ribbon campaign to advance breast cancer research in Denmark, e.g., and signed a three-year collaboration agreement with 'the Lasten liike programme' in Finland to promote physical activity for school- aged children. Additionally, HKScan donated food aid to low-income families in several of its operating countries and made a Group-wide donation to the Red Cross Disaster Relief Fund. HKScan made charitable contributions in all its operating countries; the above are just a few examples.

4. RESPECT FOR HUMAN RIGHTS

The purpose of HKScan's Code of Conduct is to ensure that common ethical working principles are applied throughout the HKScan Group. The principles provide a general framework for guiding the Group in what constitutes appropriate business conduct and working behaviour. The Group expects each employee of the HKScan Group, including management at all levels, to comply with these principles in their work. The Code of Conduct will be updated during 2018.

The Code of Conduct states the following regarding respect for human rights: HKScan does not accept any form of forced or compulsory labour or the use of child labour. Employees are treated equally regardless of e.g. age, race, religion or gender. Employees' rights are respected.

HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities in HKScan's operations. This pertains to suspected violations of laws and regulations as well as non-conformance with HKScan's Code of Conduct and other policies.[9] In 2017, three (3) reports related to suspected human rights violations were made via Fair Way or other channels. The internal investigations of these suspected violations are still under way.[9]

RISKS RELATED TO RESPECT FOR HUMAN RIGHTS AND THEIR MANAGEMENT

HKScan's risk management has identified risks related to human rights in occupational safety management and in inappropriate treatment of employees. Occupational safety risks are managed through occupational safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the risk evaluation of the sourcing process.

5. PREVENTION OF CORRUPTION, BRIBERY AND ACTIVITIES VIOLATING COMPETITION LAWS

HKScan's Code of Conduct includes statements aiming to prevent corruption, as well as activities that violate competition laws and are fraudulent. Some examples include:

- Giving and receiving bribes is strictly forbidden. HKScan or its employees do not pay bribes or make any illegal actions to promote or secure our business. Employees may only give and receive personal gifts or hospitality of nominal value.
- HKScan competes within the framework of applicable competition laws. HKScan employees must not take part in any illegal practises that restrict competition. All fraudulent behaviour or activities are prohibited in HKScan. Such violations are evaluated internally and will be reported to the authorities if the matter so requires.

In 2017, two (2) reports related to suspicions of corruption and bribery were made via Fair Way or other channels. These suspicions were investigated but did not lead to any actions.[9]

In November 2016, HKScan announced its decision to initiate an internal inquiry investigating the practices of the Group's Baltic business to ensure that the business area is complying with the principles of good governance and the company's Code of Conduct.[9] The decision to launch the internal inquiry was based on information received by the company management that indicated inappropriate activity. In 2017, HKScan requested the Estonian authorities to investigate whether any crimes had been committed in HKScan's Baltic operations, and simultaneously it ended its own investigation. In November 2017, the Estonian Public Prosecutor published a press release related to the criminal allegations.

RISKS AND THEIR MANAGEMENT

HKScan's risk management has not identified any risks related to corruption or bribery. The Code of Conduct describes the company's policy on corruption and bribery and their monitoring in internal audits. Corruption-related risks in the supply chain are managed in the risk evaluation of the sourcing process.

6. ANIMAL HEALTH AND WELFARE

HKScan's strategic objective is to be the best company in the sector in issues related to animal welfare. HKScan's animal health and welfare policy applies to the entire HKScan Group and its supply chain. The foundation for animal health and welfare is compliance with EU and local legislation, and guidelines and practices that are stricter than legislated requirements. Improving animal welfare is an ongoing activity in collaboration with the company's contract producers and other collaboration partners.

HKSCAN IS A FRONTRUNNER IN ANIMAL HEALTH AND WELFARE

In HKScan's production countries, the use of antibiotics is low compared to other European countries. In fact. Sweden and Finland have the lowest usage of antibiotics in the EU. Healthy animals do not need antibiotics. Farms owned by HKScan or by its contract producers do not treat animals preventively for growth promotion. The possible use of antibiotics is carefully monitored. Medications are administered only when prescribed by a veterinarian to treat sick animals. In summer 2017, HKScan launched the "No antibiotics ever" pork meat products from Finland to the company's export markets.[4] The animals have been healthy their entire life and hence there has been no need to treat them with antibiotics.

In pork meat production, the new Opti-Pekoni feed concept was launched in 2017; it promotes animal welfare and the raising of pigs without antibiotics.[4]

In 2017, HKScan was among the first in the world to use a new method for raising chicks.[4] The eggs are hatched at the farm house where the chicks will be raised, rather than in a separate hatchery. This way, the chicks don't have to be transported to another farm after hatching; this reduces handling and improves animal welfare. Also, water and food are immediately available as soon as the chicks are born.

HKScan has installed recording video surveillance cameras in all of its slaughterhouses in all its home markets. Cameras were installed most recently in the Swedish units in 2017. Training of the slaughterhouse employees was postponed to 2018 due to technical problems with the telecommunications. HKScan takes animal welfare seriously and acts with determination to prevent risks that can endanger animal welfare.

In August 2017, evidence of a serious deviation was found in the handling of unviable chicks and unhatched embryos in HKScan's Estonian hatchery operations.[9] The incident was immediately investigated and corrective actions were implemented. Additionally, training and guidance about the issue was arranged for the personnel. The hatchery was audited also by an external expert.

HIGH BIOSECURITY

Infectious animal diseases and their potential impacts on the production chain are actively monitored. Preventing the spread of African swine fever (ASF) to pig farms has played a very important role at HKScan's farms in the Baltics. Also in Finland preparations have been made to prevent the spreading of ASF both nationally and at the farm level. The avian flu epidemic in early 2017 tightened farm-level measures.

ANIMAL HEALTH AND WELFARE-RELATED RISKS AND THEIR MANAGEMENT

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes and also part of ensuring farm-level biosecurity. Risks are managed through the collaboration of authorities and HKScan's producer services and primary production facilities, and through compliance with biosecurity guidelines.

SIGNATURES TO THE REPORT ON NON-FINANCIAL STATEMENT

Vantaa, 6 February 2018

Mikko Nikula
Chair of the Board

Marko Onnela
Deputy chair of the Board

Pirjo Väliaho
Member of the Board

Per Olof Nyman
Member of the Board

Riitta Palomäki
Member of the Board

Tuomas Salusjärvi
Member of the Board

Jari Latvanen
CEO

CORPORATE GOVERNANCE STATEMENT 2017

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 Board's Review 2017.

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 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 organization 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 2017 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 6 April 2017:

Mikko Nikula (b. 1972)
Chair of the Board since 2015
M.Sc. (Physics)
Farm entrepreneur, broiler meat producer, Rusko, Finland
Shareholding at HKScan on 31.12.2017: 8 598 (direct ownership)
and 2 733 (through Myllymäen broiler Oy)

Marko Onnela (b. 1974)
Deputy chair of the Board since 2017
M.Sc. Agriculture
Farm entrepreneur, pork producer, Loimaa, Finland
Shareholding at HKScan on 31.12.2017: 11 190

Pirjo Väliaho (b. 1954)
Member of the Board since 2015
Bachelor of Economic Sciences
Shareholding at HKScan on 31.12.2017: 3 508

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 31.12.2017: 3 283 (nominee-reg.)

Riitta Palomäki (b. 1957)
Member of the Board since 2017
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2017: 1 783

Tuomas Salusjärvi (b. 1973)
Member of the Board since 2017
PhD Biochemistry
Valio Oy, Executive Vice President
Shareholding at HKScan on 31.12.2017: 1 783

Veikko Kemppi (b. 1965)
Deputy member of the Board since 2017
M.Sc. (Agriculture), Agronomist
LSO Cooperative, Managing Director
Shareholding at HKScan on 31.12.2017: -

Carl-Peter Thorwid (b. 1964)
Deputy member of the Board since 2017
M.Sc. (Industrial Engineering and Management)
CEO Lantmännen Cerealia AB
Shareholding at HKScan on 31.12.2017: -

One actual member of the Board, Per Olof Nyman and one deputy member Carl-Peter Thorwid are not independent of the Company and of the Company's major shareholders. Further, deputy member Veikko Kemppi is not independent of the Company's major shareholder. Other actual members of the Board are independent of the Company and its major shareholders.

During 2017, the Board held 18 meetings. The average attendance rate of Board members and deputy members was 95.7 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.

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 organization 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 is chaired by Riitta Palomäki, and its other members are Pirjo Väliaho, Carl-Peter Thorwid and Mikko Nikula.

The Audit Committee held 6 meetings during 2017. The average attendance rate of Committee members was 91.7 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), Bengt-Olov Gunnarsson and Mikko Nikula.

The Nomination Committee held 2 meetings during 2017. The average attendance rate of Committee members was 83.3 per cent.

Introductions:

Jari Mäkilä (b. 1970)
Chair of the supervisory board of LSO Osuuskunta
Agricultural technician, pork producer, Oripää, Finland

Bengt-Olov Gunnarsson (b. 1951)
Past Chair of the Board of Lantmännen
Agricultural technologist, farmer, Klockrike, 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 Pirjo Väliaho and its other members are Riitta Palomäki and Tuomas Salusjärvi.

The Compensation Committee held 10 meetings during 2017. 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, acts as the Committee's Chair. The Working Committee held 6 meetings during 2017. The average attendance rate of Committee members was 95.6 per cent.

MEETING ATTENDANCE OF THE BOARD AND ITS COMMITTEES

	Attendance				
	Board of Directors	**Audit Committee**	**Nomination Committee**	**Compensation Committee**	**Working Committee**
Mikko Nikula 4)	18/18	5/5	1/2		6/6
Marko Onnela 3)	17/18	1/1			6/6
Riitta Palomäki 2)4)6)	14/14	5/5		8/8	3/3
Pirjo Väliaho	18/18	5/6		10/10	6/6
Tuomas Salusjärvi 2)6)	12/14			8/8	3/3
Per Olof Nyman 2)	14/14				3/3
Teija Andersen 1)5)	4/4			2/2	2/3
Niels Borup 1)5)	4/4			2/2	3/3
Henrik Treschow 1)3)	4/4	1/1			3/3
Veikko Kemppi (deputy)2)	14/14				3/3
Carl-Peter Thorwid (deputy) 2)4)	14/14	5/5			3/3
Per Nilsson (deputy) 1)3)	1/4	0/1			2/3
Lena Åsheim 7)			1/1		
Jari Mäkilä			2/2		
Bengt-Olov Gunnarson 8)			1/1		

1) Member of the Board until 6 April. Between 1.1.- 6.4.2017 the Board had 4 meetings and the Working Committee 3 meetings.

2) Member of the Board as of 6 April. Between 6.4.- 31.12.2017 the Board had 14 meetings and the Working Committee 3 meetings

3) Member of the Audit Committee until 6 April. Between 1.1.– 6.4.2017 the Audit Committee had 1 meeting.

4) Member of the Audit Committee as of 6 April. Between 6.4.- 31.12.2017 the Audit Committee had 5 meetings.

5) Member of the Compensation Committee until 6 April. Between 1.1.- 6.4.2017 the Compensation Committee had 2 meetings

6) Member of the Compensation Committee as of 6 April. Between 6.4.- 31.12.2017 the Compensation Committee had 8 meetings.

7) Member of the Nomination Committee until 6 April. Between 1.1.- 6.4.2017 the Nomination Committee had 1 meeting.

8) Member of the Nomination Committee as of 6 April. Between 6.4.- 31.12.2017 the Nomination Committee had 1 meeting.

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.

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 2017:

Jari Latvanen (b. 1964)
President and CEO
MBA
Shareholding at HKScan on 31.12.2017: -

Tuomo Valkonen (b. 1967)
CFO of HKScan
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2017: 7 855

Jyrki Karlsson (b. 1969)
EVP Market area Finland
M.Sc. (Eng)
Shareholding at HKScan on 31.12.2017: 2 500

Jukka Nikkinen (b. 1962)
EVP Market Area Denmark and Market Area International & Biotech
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2016: 10 711

Anne Mere (b. 1971)
EVP Market area Baltics
MBA
Shareholding at HKScan on 31.12.2017: 14 720

Heli Arantola (b. 1969)

EVP Categories and Concepts
D.Sc. (Economics)
Shareholding at HKScan on 31.12.2017:-

Sofia Hyléen Toresson (b. 1977)
EVP Market Area Sweden
M.Sc. (Economics)
Shareholding at HKScan on 31.12.2017:-

Anu Mankki (b. 1963)
EVP, HR of HKScan
MA
Shareholding at HKScan on 31.12.2017: -

Mikko Saariaho (b. 1977)
EVP Communications and Corporate Responsibility
M.Sc. (Business Administration)
Shareholding at HKScan on 31.12.2017: 300

Pia Nybäck (b. 1969)
EVP Animal Sourcing & Primary Production
M.Sc. (Engineering), eMBA
Shareholding at HKScan on 31.12.2017: -

During the year 2017 also the following persons have been members of the Group Leadership Team: Aki Laiho, EVP Operations until 8 November 2017, Göran Holm, EVP Consumer business in Scandinavia until 1 June 2017, Markku Suvanto, EVP Legal until 5 June 2017, Svend Schou Borch, EVP Market area Denmark until 4 October 2017.

In 8 November 2017, Sami Sivuranta was named EVP Operations starting from 1 January 2018. In 28 December 2017, Mikko Forsell was named CFO starting from 1 January 2018.

Sami Sivuranta (b. 1975)
EVP Operations as of January 2018
M.Sc. (Tech.)
Shareholding at HKScan on 31.12.2017:-

Mikko Forsell (b. 1974)
CFO as of January 2018
M.Sc. (Tech.) and M. Sc. (Econ.)
Shareholding at HKScan on 31.12.2017:-

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 internal 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’svalues 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 principles 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 HKScanare 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.

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

In 2017, the development of the internal control framework continued among others by introducing new HKScan policies and guidelines, updating the HKScan Group's approval framework and starting and executing a governance training project. The governance training project was directed to the management teams of all HKScan's operational entities and countries. The governance training has consisted of reviewing HKScan Code of Conduct, policy and guideline structure, competition and insider rules, related party transactions, information classification as well as upcoming EU-wide personal data protection rules. Altogether 128 employees will participate to the trainings, and the trainings are estimated to be completed by the end of Q1 in 2018. In addition, during year 2017 work has been started to update and renew the Company's Code of Conduct.

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 occasionally engaged in transactions with some of 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 and they are in 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.

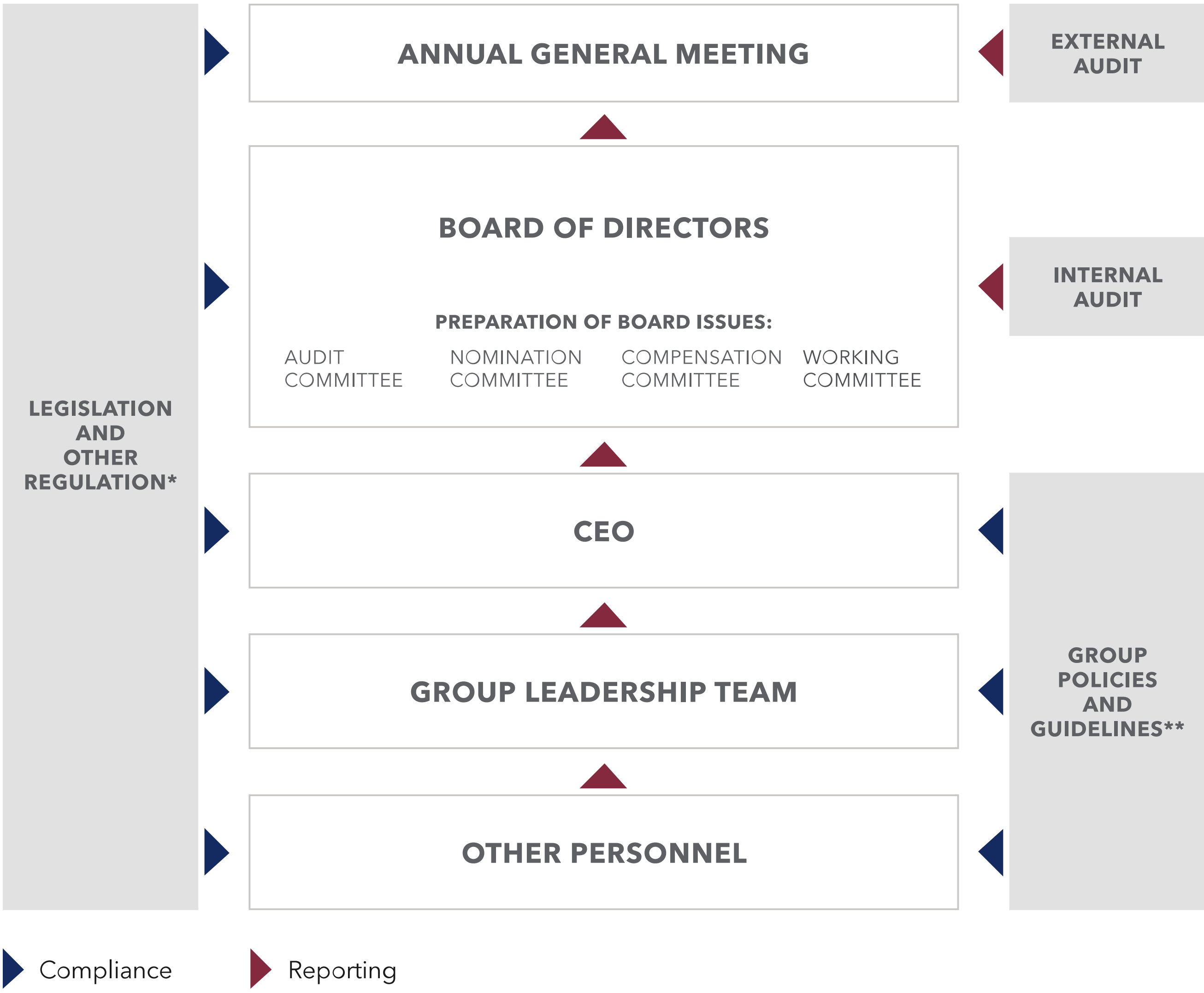
The principle defined in the Company's internal guidelines is that the Internal Auditor regularly monitors transactions concluded between the Company and its related parties and reports to the Board's Audit Committee.

AUDITORS

The external auditors are nominated annually by the Annual General Meeting. The AGM 2017 elected PricewaterhouseCoopers Oy, the firm of authorized public accountants, with APA Markku Katajisto 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.

	2017	2016
Audit fees	-498	-599
Tax consultation	-15	-13
Other fees	-767	-379
Audit fees, total	**-1280**	**-991**



* 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

** Articles of Association, other internal policies, guidelines and operating procedures

REMUNERATION STATEMENT 2017

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 members of the Board of Directors (Board), the President & 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 President & 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 President & 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 authorizations 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 President & 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 6 April 2017 resolved the annual remuneration payable to the members of the Board as follows:

Annual fee in EUR	
Chair of the Board	67 750
Vice Chair of the Board	33 875
Board member	27 625
Deputy member of the Board	13 810
Chair 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.

President and CEO

The principles of the President and CEO's remuneration are described below:

Remuneration element	**Description**
Base salary	Fixed salary which includes taxable fringe benefits (car and telephone). President & CEO's salary is EUR 54 166 per month (unchanged since 31.10.2016).
Insurances	To support and protect the President & 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 President & 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 per cent of annual salary. If the President & CEO's contract ends before retirement age, he is entitled to retain the accrued savings.
Short-term incentive (STI)	The President & 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 Chair of the Board. Maximum award value is 60 per cent of annual base salary.
Long-term incentive (LTI)	The President & 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 per cent of annual salary. Final award value is depended on performance and share price

	appreciation.
Share ownership guidelines	The Board recommends that the President & CEO would hold 50 per cent 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.
Termination	The agreement can be terminated by both parties. Notice period for the President & CEO is 6 months. In the event that HKScan terminates the agreement, the President & 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 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 President & CEO. Maximum award value is 50 per cent 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 per cent 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 per cent 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 President & CEO and other executives (GLT) during the previous financial period, i.e. 2017. The remuneration paid during the financial period preceding the reported financial period, i.e. 2016, is presented for comparison.

Board of Directors

Remuneration paid to the members of the Board in 2017 and 2016 are set forth in the table below.

	Annual fees (EUR)		Meeting attendance fees (EUR)		Paid in shares* (number of shares)	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Mikko Nikula 4)	59 222	68 250	12 100	11 000	4 378	4 220
Marko Onnela 3)	20 420	11 690	9 900	11 550	2 190	
Per Olof Nyman 2)	12 906		7 150		1 783	
Riitta Palomäki 2) 4) 6)	16 242		13 750		1 783	
Tuomas Salusjärvi 2) 6)	12 906		11 000		1 783	
Pirjo Väliaho	25 452	25 783	17 600	14 850	1 783	1 725
Veikko Kemppi 2)	9 232		7 150			
Carl-Peter Thorvid 2) 4)	9 232		9 350			
Niels Borup 1) 5)	12 958	36 617	3 850	12 100		2 105
Henrik Treschow 1) 3)	10 878	28 698	3 300	11 000		1 725
Teija Andersen 1) 5)	9 210	25 783	3 300	13 200		1 725
Per Nilsson 1) 3)	4 604	11 690	1 650	11 550		
Jari Mäkilä	5 000	5 000	1 100	1 650		
Bengt-Olov Gunnarsson 8)			550			
Lena Åsheim 7)			550	550		
Yhteensä	**208 260**	**37 400**	**102 300**	**87 450**	**13 700**	**11 500**

1) Board member until 6 April 2017.

2) Board member from 6 April 2017.

3) Member of the Audit Committee until 6 April 2017.

4) Member of the Audit Committee from 6 April 2017.

5) Member of the Compensation Committee until 6 April 2017.

6) Member of the Compensation Committee from 6 April 2017.

7) Member of the Nomination Committee until 6 April 2017.

8) Member of the Nomination Committee from 6 April 2017.

*) According to the resolution of the AGM in 2016 and 2017, 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.

President & CEO and other GLT members

Remuneration paid to the President & CEO and the other members of GLT in 2017 and 2016 are set forth in the table below.

	President & CEO		**GLT members (in aggregate)****	
EUR (thousand)	**2017**	**2016***	**2017**	**2016**
Base salary and benefits	677	1 717	2 810	2 048
Short-term incentives	0	54	73	137
Long-term incentives	0	77	0	157
Supplementary pension	130	89	260	281
Total remuneration	**807**	1 937	**3 143**	**2 623**

*) Remuneration of President & CEO in 2016 is an aggregate of payments to Hannu Kottonen (1–20 Jan), Aki Laiho (21 Jan–30 Oct) and Jari Latvanen (31Oct–31 Dec).

**) Remuneration of GLT members is show as aggregate and is not fully comparable from year to year due to changes in GLT members.

Short-term incentives (STI)

HKScan operated in 2017 an annual STI plan for the President & 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 2017 financial performance did not reach the minimum STI target level and the incentive payout (payable in 2018) will remain at similar level as in previous year.

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 payout, and the awards for 2015 performance period will be 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 payout.

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 President & 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:

	LTI 2013–2015				**LTI 2016**	**LTI 2017**
Type of plan	Restricted share plan	Performance share plan	Performance share plan	Performance share plan	Performance share plan	Performance share plan
Earning period	2013–2015	2013	2014	2015	2016	2017
Number of participants at grant	21	22	22	25	31	26
Earnings criteria	Share ownership	70% ROCE & 30% EPS	70% ROCE & 30% EPS	70% ROCE & 30% EPS	70% EBITDA & 30% EPS	70% ROCE & 30% EPS
Extent to which criteria achieved	100%	0%	0%	17%	0%	0%
Number of shares delivered after tax						
President & CEO	9847	0	0		0	0
GLT	24235	0	0		0	0
Year of vesting	2016	2016	2017	2018	50 % in 2017 and 50 % in 2018	50 % in 2018 and 50 % in 2019

Authorizations of the Board concerning remuneration

The AGM on 6 April 2017 authorized the Board to decide on share issue as well as issue of option rights and other special rights entitling to shares. The Board has not exercised this right during 2017.

RISK MANAGEMENT

The aim of risk management within HKScan Group is to enable uninterrupted business operations and to safeguard conditions for achieving business objectives.

Risk management is embedded in the HKScan management system and is based on the consistent identification, assessment and reporting of risks throughout the Group. The company's Enterprise Risk Management (ERM) process aims to promote risk awareness and effective, proactive risk management throughout the Group, and to ensure that management and the Board of Directors are in possession of sufficient information on risks to support their decision-making. The risk policy approved by the Board is applied in all operative HKScan Group companies.

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 Group's strategic intents. Operative risks are the responsibility of the managers of the respective Business and Group entities. The CFO is responsible for managing financial risks and Group insurance policies.

At HKScan, risks are divided into four main categories: strategic risks, operative risks, economic risks and risks of damage. At Group level, the company strives to identify and regularly assess all significant risks inherent in the material balance sheet and income statement items and to determine key controls for risk prevention.

Strategic risks are assessed as a part of the annual strategy process and also in connection with major business decisions.

Operative risks are assessed not only in connection with the annual plans, but also as part of day-to-day business operations.

Economic risks and risks of damage are minimized as far as possible by applying policies and guidelines drafted for this purpose.

HKSCAN'S MOST SIGNIFICANT RISKS

STRATEGIC RISKS

Fluctuation in the availability and prices of raw materials

There is variability in the prices and availability of raw materials needed for the production of HKScan products, such as feed, pork, poultry and beef. Global overproduction of feed and raw materials decreases the prices of raw materials and increases their availability, while underproduction leads to lower availability and rising raw material prices. Economic cycles, the EU's Common Agricultural Policy, trade barriers and subsidy changes affect the balance of supply and demand in the long term.

Factors rapidly affecting supply, such as animal disease epidemics, may occasionally distort the balance of supply and demand. The prices of products sold to retail are agreed months in advance in Finland, Sweden, Denmark and the Baltics, and under these circumstances, unforeseen increases in raw material prices cannot be carried over into product prices quickly enough. This may also be difficult even in situations where prices have not been agreed in advance.

HKScan has delivered a promise of 100 per cent domestic meat content in its main brands, HK®, Kariniemen® and Scan®. Although this gives HKScan a competitive edge over imported brands, it also makes HKScan vulnerable if domestic meat production declines.

HKScan has established a special procedure for monitoring key cost drivers of raw material prices, such as oil, electricity and grain. Based on the data it collects, HKScan makes projections of the future price and availability of raw materials.

HKScan is facing growing competition in all market areas not only from other industrial producers, but also from retail chains, which are increasingly competing on the food market with their own products and brands. This local competition is intensified by multinational operators and competitors based in lower-cost countries.

The company is responding to this increased competition by strengthening its brands and innovation, improving the efficiency of its core processes, investing in high-quality products and supply reliability, forming closer ties with its producers, and more efficiently leveraging Group synergies.

Adaptation of operations to possible changes in legislation or regulation and dependence on the authorities

HKScan's operations are regulated by the legislation of the respective countries in which the company operates. Regional and supranational regulation, such as EU legislation, also affects the company. The management affirms that HKScan operates in full compliance with all relevant legislation and other regulations. Legislation and other regulations and the interpretations thereof may change, however, and the company cannot guarantee compliance with altered requirements unless the required material actions are taken. The company is also dependent on the authorities in the countries in which it operates. Official procedures may also vary considerably in the company's various sectors of business. In addition, various unexpected actions potentially taken by pressure groups may cause restrictions to the business or volatility in demand.

Acquisitions and integration of acquired businesses

HKScan may acquire, either in its current market areas or in new geographical areas, companies that enhance its competitive position. Risks relating to acquisitions include potentially unknown liabilities, potential inability to integrate and manage the business and personnel of an acquired company, and the risk of benefits or synergies not materializing as planned. In addition, exclusion from industry consolidation might have an adverse effect on HKScan's strategic competitive position. Expansion into new geographical areas might also cause problems relating to exchange rate fluctuations, unexpected changes in statutory requirements, changes in and compliance with local legislation and regulations, as well as political risks.

OPERATIVE RISKS

Animal diseases

An outbreak of animal disease such as African swine fever, avian influenza, Newcastle disease or foot-and-mouth disease may affect the company's business and demand for its products. Animal diseases may have a long-term impact on consumer behaviour, although HKScan's management believes that consumption usually normalizes within a reasonable period of time after the discovery of an outbreak. The animal disease risk is evened out to some extent by consumption shifting to the company's other meat product groups. In a fully integrated value chain, such as is the case with most of the company's Baltic operations, the discovery of an animal disease may in the worst case scenario temporarily sever the supply of raw materials if no substitute raw material source exists. Animal disease risks are mitigated by continuous follow-up of animal disease situation, collaboration with authorities and veterinaries and by putting high focus on biosecurity and hygiene standards and procedures.

Dependence on production plants and the uninterrupted operation of distribution chain

HKScan is dependent on the uninterrupted operation of its production plants and distribution centers. If a key production plant is destroyed or closed for any reason, if equipment is damaged in a significant manner, or other disruptions occur in production, this is likely to cause delays in HKScan's ability to produce and distribute its products as scheduled. Depending on the product, it may be possible for HKScan to transfer production to other locations, thus avoiding any significant interruptions to its operations. Changes in production of this kind may, however, be more difficult to implement in some product groups and may lead to significant delays in the deliveries of products and to lost sales, giving rise to additional expenditure before insurance coverage.

Very short lead times on delivery of orders are characteristic of the meat industry. Short lead times double the importance of an effective and dependable supply chain, underscoring the need to be able to anticipate consumer behavior. Likewise, the reliability of logistics systems and other technological systems is extremely important. If distribution centers are damaged, destroyed or decommissioned for any reason, or if the products held in the distribution centers suffer significant damage, HKScan must come up with an alternative method of delivering products to customers until such time as the damaged distribution center is made available again.

HKScan mitigates these risks among others by conducting business continuity assessments (what if analyses) and planning and implementing preventive maintenance at critical operational locations.

Possible product quality issues

Food safety risks concern the purity of raw materials (residues, foreign substances), the healthiness of products, packaging materials that come into contact with food, and microbiological safety. Particular attention is paid to the prevention and control of bacteria that cause food poisoning. HKScan runs rigorous in-house controls, and the facilities of all operators in the value chain are subject to strict scrutiny by the authorities as well as certified food safety management systems.

HKScan's high standard of requirements and rigorous internal control notwithstanding, the company cannot have absolute assurance of the risk-free management of the entire value chain. The realisation of a risk relating to product safety or product liability may have an adverse material effect on the demand for the company's products among customers and consumers.

Reliance on skilled management and employees

HKScan's success is materially dependent on the professional expertise of the company's management and other personnel, as well as on the company's ability to foster the commitment of current management and other personnel and recruit new, skilled employees in the future.

HKScan is also vulnerable to potential legal or illegal strikes in the value chain or in its own operations. The risks are mitigated by developing wellbeing at work and alternative supply structures and processes.

ECONOMIC RISKS

Financial risks

Financial risks refer to unfavourable movements taking place in financial markets that may erode accrual of the company's result or reduce cash flows. The company's financial risk management aims to harness financial means to hedge the company's intended earnings performance and equity and to safeguard the Group's liquidity in all circumstances.

Financial risk management, including external and internal funding of the Group, is centralised in the Group Treasury function. HKScan's funding is obtained through the parent company, while funding to subsidiaries is arranged by the Group Treasury through intra-Group loans in the local currency of each subsidiary. Part of the Group's profits and costs are denominated in foreign currencies. Additionally, some investments and earnings are denominated in foreign currencies. The most significant exchange risks in the company's business arise from the euro, Swedish krona and US dollar. The largest equities of HKScan companies are in euros, Swedish krona, and Danish krone. The Group's financial risks are presented in more detail in Note 25 to the financial statement.

RISKS OF DAMAGE

Unforeseeable factors

Natural disasters, fires, bioterrorism, sabotage, pandemics, exceptional weather conditions or other factors beyond the company’s control may have an adverse effect on the health and growth of production animals or hamper the company’s operations due to power outages, damage to production and property, disruptions in distribution chains, or other reasons. Damage risks caused by unforeseeable factors are mitigated through insurances, if possible and considered applicable.

GROUP LEADERSHIP TEAM OF HKSCAN

Information as of 31 December 2017, unless stated otherwise. The CVs of members of the Group Leadership Team can be viewed at the Group's website.

JARI LATVANEN

PRESIDENT AND CEO

MBA, Finnish national, born 1964

Key employment history: Stora Enso Oyj, EVP, Consumer Board division 2015–10/2016; Findus Group, CEO, Findus Nordic 2010–2014; Nestlé Cesko, Market Head 2008–2010; Nestlé Zone Europe, Assistant Vice President 2007–2008; Nestlé Sverige Ltd, Country Manager Sweden 2003–2007; Zoegas Coffee Ltd , Managing Director 2003–2007; Nestlé Norden, Nordic Marketing Director 2001–2003; Suomen Nestlé Oy, Sales Director 2000–2001; HK Ruokatalo Oy, Commercial and Sales Management positions 1995–2000; Fazer Leipomot Oy, Sales Management positions 1989–1995

Main Board memberships and public duties currently undertaken: Finnish Food and Drink Industries' Federation, member of the Board 2017–, Chair of the Board 2018–; Varma Mutual Pension Insurance Company, member of the Supervisory Board 2017–; TT Foundation, member of the Board 2018–

HELI ARANTOLA

EVP CATEGORIES AND CONCEPTS (AS OF 2 MAY 2017)

D.Sc. (Econ.), Finnish national,
born 1969

Key employment history: Fazer Group, SVP, Strategy and Renewal and Managing Director, Fazer Mills Business Unit 2012–2017; Fazer Group, Marketing, Branding and Business Development 2010–2012; Vectia Ltd, partner and management consultant 2000–2010; Sonera Corporation, Business Development and Marketing 1990–1999

Main Board memberships and public duties currently undertaken: S-Bank Ltd, Member of the Board of Directors 2014–; Tobii AB, Member of the Board of Directors, 2016–; Confederation of Finnish Industries (EK), Business Transformation committee, Chair 2017– , Member 2012–

SOFIA HYLÉEN TORESSON

EVP MARKET AREA SWEDEN (AS OF 2 MAY 2017)

M.Sc. (Econ.), Swedish national, born 1977

Key employment history: Findus Sverige AB, Sales Director Retail, Head of Marketing and Category Development retail, Head of Portfolio & Category Development retail 2013–2017; HKScan, Sweden, Head of Category 2013; Pärsons Sverige AB, Marketing Manager, Category Manager 2009–2013; Nestlé Sverige AB, Key Account Manager, Marketing Manager, Category Sales Development Manager (Zoégas Kaffe), Assistant Brand Manager 2001–2009

JYRKI KARLSSON

EVP MARKET AREA FINLAND

M.Sc. (Eng), Finnish national, born 1969

Key employment history: EVP of HKScan's consumer business in Finland and the Baltics 2 November–19 December 2016; Kesko Food Oy, Sourcing Director of fresh goods 2015–10/2016; Kespro Oy, Sourcing and Supply chain Director 2013–2015; Unilever Finland and Norway, Managing Director Unilever Food solutions 2009–2013; Unilever Baltic, Chair 2007–2010; Unilever Finland, National Supply Chain and Customer Marketing Director 2005–2007; Several management positions within Unilever's Business processes, Supply chain and IT functions in Sweden, Belgium and UK 1995–2005; Sales and customer service roles in Unilever Finland 1992–1994

Main Board memberships and public duties undertaken: Kaslink Foods Oy, member of the Board 10/2017–; Lihatukku Harri Tamminen Oy, Chair of the Board 2017–; Kivikylän kotipalvaamo Oy, Chair of the Board 2017–

JUKKA NIKKINEN

EVP MARKET AREA DENMARK, INTERNATIONAL & BIOTECH

M. Sc. (Econ.), Finnish national,
born 1962

Key employment history: EVP of HKScan's Away from Home 2012–05/2017; EVP of HKScan's International and Biotech businesses 6/2017–10/2017; Rautakirja Oy, Senior Vice President, Business development and strategy, member of Rautakirja Group's management team 2004–2012 and Kiosk trade, director, international business, member of Kiosk trade business' management team 2002–2004; Leaf Suomi and Leaf Group, various duties 1988–2001, latest as Export Director 1999–2001

ANU MANKKI

EVP HR

MA , Finnish national, born 1963

Key employment history: JFP Executive Search Oy, Senior Consultant 2016; Componenta Corporation, SVP, Human resources and internal communication 2005–2016; Metso Corporation, VP, HRD and other senior/executive HR positions in Finland and abroad 1999–2005; Valmet Paper Machines, various HR managerial positions in Finland and abroad 1987–1999

ANNE MERE

EVP MARKET AREA BALTICS

MBA, Estonian national, born 1971

Key employment history: HKScan CMO 2013–11/2016; EVP of HKScan's business segments of Finland and the Baltics 2012–2013; AS Rakvere Lihakombinaat, Managing Director 2008–2012 and Marketing Director 2003–2008; Austria Tabak Eesti OÜ, Marketing Manager 2000–2003; Unilever Eesti OÜ, Key Account Manager 1997–2000; Suomen Unilever Oy, Van den Bergh Foods, Representative for Estonia 1994–1997

Main Board memberships and public duties undertaken: Board positions in Group companies

MIKKO SAARIAHO

EVP COMMUNICATIONS AND CORPORATE RESPONSIBILITY (AS OF 2 OCTOBER 2017)

M. Sc. (Business Administration), Finnish national, born 1977

Key employment history: Finavia Group, Helsinki Airport & regional airports, SVP, Corporate Communications 8/2011–9/2017; Lassila & Tikanoja, Head of Communications 5/2007–7/2011; Yle News, Economic Correspondent, Deputy Managing Editor, 2000–5/2007

PIA NYBÄCK

EVP ANIMAL SOURCING & PRIMARY PRODUCTION

M.Sc (Eng), eMBA, Finnish national, born 1969

Key employment history: VP Animal sourcing & Primary production, 06/2017–11/2017; SVP Animal sourcing & Producer services, HKScan Oyj, 03/2016–06/2017; SVP Quality & Corporate Responsibility, HKScan Oyj, 02/2013–03/2016; Operations Director, ITAB Shop Concept Finland Oy, 2011–2013; Director of Arabia and Hackman factories, Iittala Group / Fiskars Oyj 2006–2011; Production Director, Development Director, Sako Oy / Beretta Group, 2003–2006; During 1994–2002 several managerial positions within Quality Management in biotech and medical device business and Senior Inspector in National Agency for Medicines

Main Board memberships and public duties currently undertaken: Finnpig Oy, Deputy Chair of the Board; DanHatch Finland Oy, member of the Board; Helsinki Region Chamber of Commerce, Industry Committee, Deputy Chair; Finnish Food and Drink Industries´ Federation (ETL), Poultry Processing Industries' Association, deputy member; Central Union of Agricultural Producers and Forest Owners (MTK), Meat producers, deputy member; Finnish Paralympic Committee, Deputy Chair

CHANGES AFTER THE REPORTING PERIOD

MIKKO FORSELL

CFO (AS OF 1 JANUARY 2018)

M.Sc (Tech.) and M.Sc (Econ.), Finnish national, born 1974

Key employment history: Metsä Tissue Corporation, CFO, 2014–2017; Metsä Tissue Corporation, Vice President, Purchasing, 2012–2013; Metsä Tissue Corporation, Vice President, Finance Projects, 2009–2012; Metsä Tissue Corporation, Group Controller, 2005–2009; UPM Kymmene Corporation / Loparex UK Ltd, Development Manager, 2003–2005

SAMI SIVURANTA

EVP OPERATIONS (AS OF 1 JANUARY 2018)

M.Sc. (Tech.), Finnish national,
born 1975

Key employment history: Rajaville Oy – Parma Oy/Consolis, Managing Director, 11/2016–2017; Parma Oy – Consolis, Business Development Director, 8/2016–10/2016; Componenta Oyj, SVP, Development, 3/2016–7/2016; Herleen Foundries, Componenta BV, VP, 2015–6/2016; Componenta Oyj, VP, Internal Sourcing, 11/2012–2014; Componenta Oyj, Sales Director, 6/2010–2012; Componenta Oyj. Internal Sourcing Manager, 4/2009–5/2010; Componenta Karkkila Oy, Production Manager, 10/2006–3/2009; Componenta Karkkila Oy, Quality and Environmental Manager, 8/2005–9/2006

Main Board membership and public duties: Valkon metalli Oy, Member of the Board, 2017–; Kankaanpää Works Oy, Member of the Board, 2017–

MEMBERSHIP IN THE GROUP LEADERSHIP TEAM ENDED DURING OR AFTER THE REPORTING PERIOD

Aki Laiho
EVP Operations, CEO's deputy until 8 November 2017

Markku Suvanto
EVP Legal until 5 June 2017

Svend Schou Borch
EVP Market Area Denmark until 4 October 2017

Göran Holm
EVP Market Area Sweden until 1 June 2017

Tuomo Valkonen
CFO (Employment ends 1 March 2018)

BOARD OF DIRECTORS

Information as of 31 December 2017, unless stated otherwise. The CVs of members of the Board of Directors can be viewed at the Group's website.

MIKKO NIKULA

CHAIR OF THE BOARD

M.Sc. (Physics), Finnish national, born 1972; Deputy member of HKScan Board 2013–2014; Member of the Nomination, Audit and Working committees; Farm entrepreneur, broiler meat producer, Rusko, Finland

Key employment history: Privanet Securities, operative director 2012; TUTO Hockey Oy, general manager 2011; Nokia Corporation 1998–2009: several managerial positions in global sales and R&D

Main Board memberships and public duties currently undertaken: Suomen Purjelaivaosakeyhtiö (Sailing ships of Finland Ltd.), Member of the Board 2012–

Public duties previously undertaken: LSO Osuuskunta, Member of the Board 2012–2013; General Assembly of Suomen Siipikarjaliitto ry (Finnish Poultry Association), Vice Chair 2010–2011

Independent of the Company and major shareholders

PIRJO VÄLIAHO

MEMBER OF THE BOARD SINCE 2015

Bachelor of Economic Sciences, Finnish national, born 1954

Key employment history: Procter & Gamble 2005–2014: Procter & Gamble Germany, Austria, Switzerland MDO, VP & GM, and P&G Germany, Austria and Switzerland, Chair of the Management Board, based in Germany 2008–2014; P&G Germany, Austria, Switzerland MDO, VP & GM, based in Germany, 2007–2008; P&G Nordic, VP & GM, based in Sweden 2005–2007. The Gillette Company 1982–2005, Several VP & GM and Director positions, latest: Gillette Central Europe West (Germany, Austria and Switzerland), VP & GM, based in Germany 2002–2005; Turkama & Kumppanit (Advertising Agency) 1980–1982; Mainosyhtymä (Advertising Agency) 1978–1980

Main Board memberships and public duties currently undertaken: Veho Group Oy, Member of the Board 2013–; Oras Group Oy, Member of the Board 2014–; P&G Germany, Member of the Supervisory Board 2015–

Public duties previously undertaken: Amer Sports, Member of the Board, 2007–2012; The German Brands Association, 2011–2014; The German Cosmetic, Toiletry, Perfumery and Detergent Association, 2012–2014

Independent of the Company and major shareholders

MARKO ONNELA

DEPUTY CHAIR OF THE BOARD

M.Sc. (Agriculture), Finnish national, born 1974; Deputy member of the Board 2015–2016, Member and Deputy chair of the Board since 2017; Member of the Working committee; Farm entrepreneur and pork producer, Loimaa, Southwestern Finland

Public duties previously undertaken: LSO Osuuskunta, Member of the Supervisory Board 2011–2015; HKScan, primary production cooperation group, Chair 2013–2014; LSO Osuuskunta, Member of the Representative Board 2004–2011

Independent of the Company and major shareholders

RIITTA PALOMÄKI

MEMBER OF THE BOARD SINCE 2017

M.Sc. (Econ.), Finnish national, born 1957; Chair of the Audit committee, member of the Remuneration and Working committee

Key employment history: Uponor Corporation, CFO, Member of the Executive Committee 2009–2017; Kuusakoski Group Oy, CFO, Member of the Executive Committee 2003–2009; ABB, Vice President, Controlling (Automation and Power Technologies), Member of the Board at ABB Pension Fund and Investment Committee 2001–2003; KCI Konecranes, Financial Director, BA Standard Lifting Equipment 1997–2001; ABB Service, CFO 1991–1997; ABB Industry, IT Manager 1988–1991; Additional IT positions with the following corporations: ABB Industry, Sisu-Auto, Kymi-Strömberg (ABB) 1983–1988; Turku School of Economics, researcher and lecturer, information technology 1979–1983

Main Board memberships and public duties currently undertaken: OP Cooperative, Supervisory Board member and Deputy Chair of the Audit Committee, 2017–; Nordic Waterproofing Holding A/S, Member of the Board 2016–; Finnish Auditor Oversight Board, Deputy Member 2016–

Public duties previously undertaken: Componenta Oyj, Member of the Board, 2012–2017

Independent of the Company and major shareholders

TUOMAS SALUSJÄRVI

MEMBER OF THE BOARD SINCE 2017

PhD Biochemistry, Finnish national, born 1973; Member of the Remuneration and Working committee

Key employment history: Valio Oy 2007–: EVP, Product Groups and Marketing 2014–2016, SVP, Beverages Business Unit 2013–2014, VP, Categories and Brands, Beverages 03/2013–08/2013, VP, R&D, Fresh Products 2012–2013, VP, Product Development 2011–2012, R&D Manager 2010–2011, Research Manager, microbiology and fermented products 2007–2010, Research Manager, microbiology 2007; Danisco AS 1998–2007 (Cultor Oy 1998–1999): Scientist, Health and Nutrition 2005–2007, Research Scientist, genetic technology 1998–2005; University of Helsinki, research intern 1997; University of Sussex, UK, research intern 1997

Main Board memberships and public duties currently undertaken: The Nutrition Research Foundation, Chair of the board, 2017–; LUKE, Innovative Food System council, Chair 2016–; Pro Luomu ry, Board Member, 2015–; National defence course 222, 2017

Independent of the Company and major shareholders

VEIKKO KEMPPI

DEPUTY MEMBER OF THE BOARD SINCE 2017

M.Sc. (Agriculture), Agronomist, Finnish national, born 1965; Member of the Working committee; LSO Cooperative, Managing Director 2010–

Key employment history: Lounaisfarmi Oy, Managing Director 2009–2010; LSO Foods Oy, Managing Director 2009–2010; HK Ruokatalo Oy, Director, Poultry Primary Production 2002–2010; MTK, Secretary for Livestock Production 1998–2002; Satakunnan 4H-piiri, Director 1992–1998; UNIFIF Lebanon, Platoon leader 1996–1998; University of Helsinki, Teaching assistant in crop science 1990, 1991–1992

Main Board memberships and public duties currently undertaken: The Central Union of Agricultural Producers and Forest Owners (MTK), Meat producers 2010–; Steering group for domestic livestock, Brussels 2010–

Independent of the Company

PER OLOF NYMAN

MEMBER OF THE BOARD SINCE 2017

M.Sc. (Industrial & Management Engineering), Swedish national, born 1956; Member of the Working committee; President & CEO, Lantmännen ek. 2012–

Key employment history: Lantmännen ek 2008- Executive Vice President, Senior Vice President & CFO; WHIRLPOOL Europe, (Italy, Switzerland) 1991–2008: VP Finance & CFO, VP Strategy Deployment, VP Customer Service & Innovation, VP Consumer Service Whirlpool Europe, Controller & Director, Financial Planning & Analysis, Technology & Procurement, Comerio, Director Group Planning, Analysis & Control, Director, European Treasury, Marketing Controller, Whirlpool Brand; WHIRLPOOL Sweden, 1986–1991:
Factory & Legal Entity Controller, Mega Project Leader, New Range of Microwave Ovens, Manager Organisation & Efficiency, Project Controller; Gränges Metallverken, Sweden, Financial Analyst & Assistant Controller 1982–1986; JOHNSON METALL, Sweden 1980–1982; IS System Analyst, Production Planning & Material Manager

Main Board memberships and public duties currently undertaken: Svensk Kooperation Ekonomisk Förening; Lantmännen DLG International AB; Hauptgenossenschaft Kiel AB; Lantmännen Internal Boards

CARL-PETER THORWID

DEPUTY MEMBER OF THE BOARD SINCE 2017

M.Sc. (Industrial Engineering and Management), Swedish national, born 1964; Member of the Audit and Working committee; CEO Lantmännen Cerealia AB

Key employment history: Lantmännen Unibake, Group Business Lead Fresh Bread, Head of Integration 2016–2017; Ackot AB/Lantmännen, Integration Lead for the Vaasan acquisition at Lantmännen 2014–2016; Accenture AB, 1992–2014; CMD/CEO Accenture AB, 2011–2014; Co-lead and Lead for Accenture Products Market Unit, 2001–2011; Client Account Lead roles for Skanska, Lantmännen, Elecctrolux, Volvo Cars, Volvo Trucks and Volvo Powertrain, Alfa Laval and Swedish Police; Various Engagement Lead roles for clients within Automotive, Industrial Equipment and Consumer Goods & Services, Management Consultant; Teli AB, Production Planning of AXE-switches 1991–1992; Hälsinge Regemente I14, Officer 1991; Hälsinge Regemente I14, Officer 1986–1987

MEMBERSHIP IN THE BOARD OF DIRECTORS ENDED DURING THE REPORTING PERIOD

Henrik Treschow
Member of the Board of Directors until 6 April 2017

Niels Borup
Member of the Board of Directors until 6 April 2017

Teija Andersen
Member of the Board of Directors until 6 April 2017

Per Nilsson
Deputy member of the Board of Directors until 6 April 2017

HKSCAN AS AN INVESTMENT

HKScan is the leading food company with a strong Nordic heritage and over 100 years of experience in selling, marketing and producing high-quality, responsibly-produced meat products. Our home markets include Finland, Sweden, Denmark and the Baltics, and we export to close to 50 countries. In 2017, HKScan's net sales totalled EUR 1.8 billion with some 7 300 employees. The company is number one in total sales in its industry in the region of the Baltic Sea. HKScan has been listed on Nasdaq Helsinki since 1997.

The purpose of HKScan's investor communications is to provide capital markets with open and reliable information on the company and its operating environment in order to give market participants a factual overview of HKScan as an investment. HKScan aims to ensure that all stakeholders in the markets have equal access to sufficient and correct information concerning HKScan, and to ensure that information is disclosed consistently and without delay. HKScan Oyj complies with the laws of Finland and the regulations of Nasdaq Helsinki, European Securities and Market Authority (ESMA), and Finland's Financial Supervisory Authority.

Listed in: Nasdaq Helsinki
Trading code: HKSAV
ISIN code: FI0009006308
Sector: Food & Beverage
Number of shares: 49 626 522 (A shares, quoted) 5 400 000 (K shares, not quoted)
Listing date: 6.2.1997

LONG-TERM FINANCIAL TARGETS

- Operating profit (EBIT): over 4 per cent of net sales
- Return on capital employed: over 12 per cent
- Net gearing: under 100 per cent
- Dividends: over 30 per cent of net profit

SHARES AND SHAREHOLDERS

SHARES

At the end of December 2017, HKScan Corporation's share capital stood at EUR 66 820 528. The Corporation's total number of shares issued, 55 026 522, were divided into two share series as follows: A Shares, 49 626 522 (90.19% of the total number of shares) and K Shares, 5 400 000 (9.81%). The A Shares are quoted on the Nasdaq Helsinki. The K Shares are held by LSO Osuuskunta (4 735 000 shares) and Lantmännen ek.för. (665 000 shares) and are not listed. There were no changes in number of shares and in holdings of LSO Osuuskunta and Lantmännen ek.för in 2017.

At the end of December 2017, the company held 1 008 849 (1 008 849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

HKScan's calculational capitalization at the end of December 2017 stood at EUR 169.1 (172.3) million, breaking down as follows: Series A shares had a market value of EUR 152.2 (155.1) million, and the unlisted Series K shares a calculational value of EUR 16.9 (17.2) million.

In January-December 2017, a total of 10 426 342 (1 3313 324) of the company's shares with a total value of EUR 33 784 168 (42 427 708) were traded. The highest price quoted in the period under review was EUR 3.60 (3.89), and the lowest was EUR 2.96 (2.89). The average price was EUR 3.24 (3.18). At the end of December 2017, the closing price was EUR 3.13 (3.19).

SHAREHOLDERS

At the end of 2017, the shareholders maintained by Euroclear Finland Ltd included 12 212 (13 226) shareholders. Nominee-registered foreign shareholders held 18.1 (12.6) per cent of the company's shares.

NOTIFICATIONS OF CHANGES IN HOLDINGS

On 20 November 2017 HKScan Corporation received a notification that the total amount of HKScan Corporaton shares owned by Sveriges Djurbönder ek. för. Had decreased below the threshold of five (5) per cent. According to the notification, the reason for the decrease was the disposal of shares and voting rights resulting from the voluntary liquidation and distribution of assets of Sveriges Djurbönder ek. för.

SHARE-BASED INCENTIVE PLAN

On 10 April 2017 HKScan announced that the Board of Directors of HKScan Corporation approved a share-based long-term incentive plan for the Group's top management and selected key employees for 2017–2019.

The new share-based incentive plan comprises a one-year performance period, 2017, followed by a restriction period extending to 2018–2019. The potential rewards payable based on the plan will be based on HKScan Group's return on capital employed (ROCE) and earnings per share (EPS) in the performance period.

Those eligible to participate in the new share-based incentive plan are 28 members of HKScan's top management and other selected key employees.

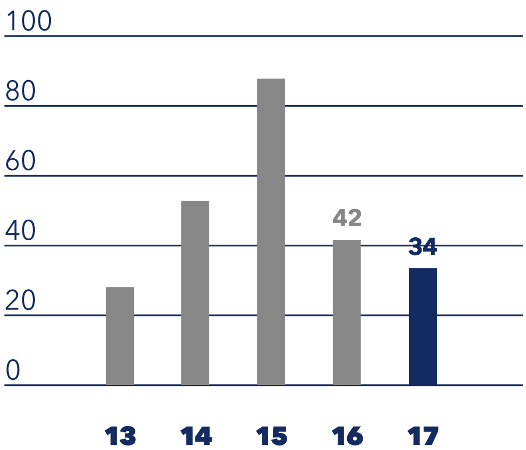
SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2017, members of the Board of Directors and the company's President and CEO and his deputy, as well as their related parties owned a total of 32 878 A Shares, corresponding to 0.06 per cent of the total number of shares and 0.01 per cent of the votes.

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DECEMBER 2017

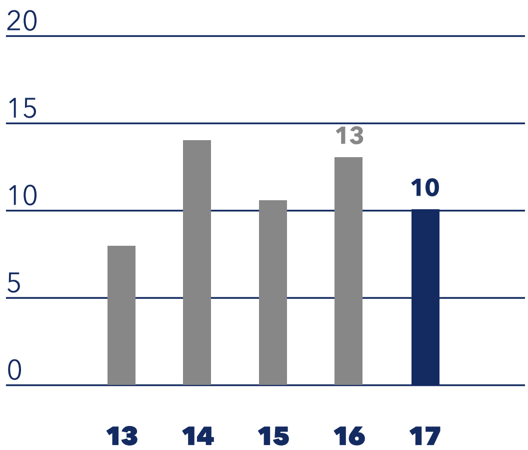
	Share of owners, %	Share of shares, %	Share of votes, %
Corporates	3.46	45.81	73.07
Finance and insurance companies	0.15	1.49	6.32
Public entities	0.05	7.52	2.63
Households	95.58	22.93	8.01
Non-profit organizations	0.55	3.42	1.19
Domestic sectors, total	99.78	81.16	91.21
Abroad	0.22	0.49	0.27
All sectors, total	**100.00**	**81.65**	**91.48**
General account		0.24	0.08

SHARES TRADED EUR MILLION



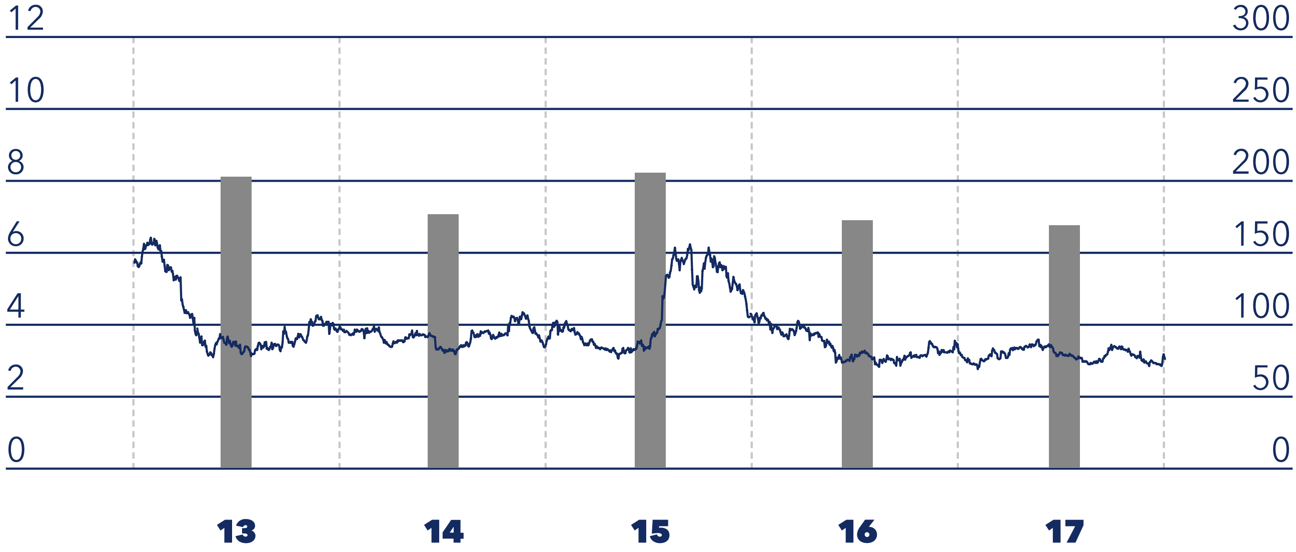
Source: Nasdaq Helsinki

SHARES TRADED IN MILLIONS



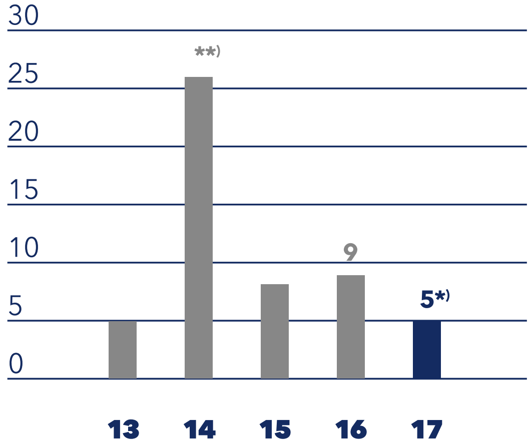
Source: Nasdaq Helsinki

SHARE PRICE DEVELOPMENT AND MARKET CAPITALIZATION EUROS/MILLION EUROS



Source: Nasdaq Helsinki

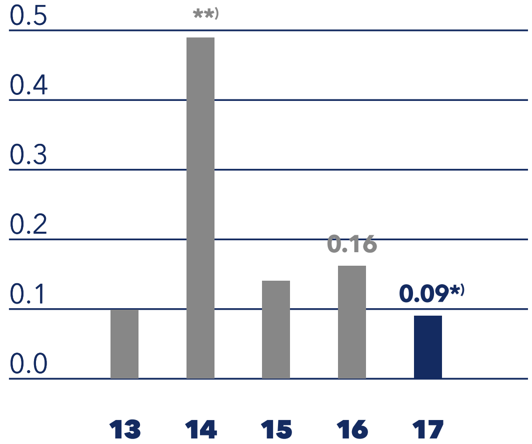
DIVIDENDS EUR MILLION



*) Board's proposal to AGM.

**) Includes EUR 21 million extra dividend.

DIVIDEND/SHARE EUROS



*) Board's proposal to AGM.

**) Dividend 0.10 euros/share + extra dividend 0.39 euros/share.

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARE ON 31 DECEMBER 2017

Number of shares held	Shareholders	Shareholders, %	Shares	Shares, %	Votes	Votes,%
1–100	3 267	26.75	161 796	0.29	161 796	0.10
101–500	4 550	37.26	1 295 872	2.36	1 295 872	0.82
501–1 000	1 965	16.09	1 538 258	2.80	1 538 258	0.98
1 001–5 000	1 987	16.27	4 443 622	8.06	4 443 622	2.82
5 001–10 000	230	1.88	1 653 551	3.01	1 653 551	1.05
10 001–50 000	160	1.31	3 219 058	5.85	3 219 058	2.04
50 001–100 000	23	0.19	1 625 635	2.95	1 625 635	1.03
100 001–500 000	15	0.12	3 354 442	6.10	3 354 442	2.13
500 001–	15	0.12	36 938 948	67.13	126 903 948	80.51
Total	**12 212**	**100.00**	**54 231 182**	**98.56**	**144 196 182**	**91.48**
of which nominee registered	8		9 303 431	16.91	9 303 431	5.90
Waiting list	1		665 000	1.21	13 300 000	8.44
General account			130 340	0.24	130 340	0.08
Number of shares issued			55 026 522	100	157 626 522	100

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2017

		A shares	K shares	Of total shares, %	Of total votes, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Lantmännen ek. För	2 619 750	665 000	5.97	10.10
3	Tiiviste-Group Oy	1 250 000	0	2.27	0.79
4	Keskinäinen työeläkevakuutusyhtiö Varma	1 192 806	0	2.17	0.76
5	Keskinäinen työeläkevakuutusyhtiö Elo	1 142 830	0	2.08	0.73
6	Apteekkien Eläkekassa	1 081 889	0	1.97	0.69
7	HKScan Oyj	1 008 849	0	1.83	0.64
8	Maa- ja metsätaloustuottajain Keskusliitto MTK ry	836 414	0	1.52	0.53
9	Petter ja Margit Forsströmin säätiö Karl ja Olivia Forsströmin muistolle	670 500	0	1.22	0.43
10	Suhonen Jyrki	567 003	0	1.03	0.36
11	Hisinger-Jägerskiöld Eva	560 000	0	1.02	0.36

12	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550 000	0	1.00	0.35
13	Valtion Eläkerahasto	500 000	0	0.91	0.32
14	Hallqvist AB	405 000	0	0.74	0.26
15	J & K Hämäläinen Oy	257 000	0	0.47	0.16
16	Nordea Henkivakuutus Suomi Oy	250 000	0	0.45	0.16
17	Mandatum Life	226 164	0	0.41	0.14
18	Keskinäinen eläkevakuutusyhtiö Ilmarinen	218 298	0	0.40	0.14
19	Gripenberg Jarl kuolinpesä	215 000	0	0.39	0.14
20	Sveriges Djurbönder Ek. För.	202 460	0	0.37	0.13

INFORMATION FOR THE SHAREHOLDERS

ANNUAL GENERAL MEETING

HKScan Corporation's Annual General Meeting will be held on Thursday, 12 April 2018, starting at 10 am at Logomo in Turku (address: Köydenpunojankatu 14). Registration of the shareholders, who have notified the company of their intention of attending the meeting will commence at 9 am.

Shareholders wishing to attend the Annual General Meeting should notify the company of their intention to do so by 4 pm Finnish time on 9 April 2018 either through HKScan's website www.hkscan.com or by phone +358 (0)10 570 6100 (on weekdays 9 am–4 pm) or in writing to HKScan Corporation, Annual General Meeting, PO Box 50, FI-20521 Turku, Finland.

ELIGIBILITY TO ATTEND THE GENERAL MEETING

To be eligible to attend the Annual General Meeting, shareholders should be registered by 29 March 2018 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd.

DIVIDEND

The Board of Directors is to recommend to the Annual General Meeting that a dividend of EUR 0.09 per share be distributed for the financial period 2017. The dividend decided by the Annual General Meeting will be paid to those shareholders entitled to a dividend who are registered in the share register at 16 April 2018. The proposed payment date for the dividend is 23 April 2018.

Shareholders whose shares are not registered in the book-entry securities system at the record date, 16 April 2018, will duly receive their dividend once they have transferred their shares to the book-entry securities system.

SHAREHOLDER REGISTER

The register of HKScan Corporation's shareholders is maintained by Euroclear Finland Ltd, PO Box 1110, FI-00101 Helsinki, Finland (visiting address Urho Kekkosen katu 5 C, 00100 Helsinki), telephone +358 (0)20 770 6000 and email info.finland@euroclear.eu.

Shareholders should notify any changes of name and address in the book-entry securities register where their book-entry account is registered.

FINANCIAL INFORMATION

In 2018, HKScan publishes interim reports as follows:

- January–March on Thursday, 3 May 2018
- January–June on Thursday, 19 July 2018
- January–September on Wednesday, 7 November 2018

The interim reports are published as stock exchange releases in Finnish and English. They are also available at the HKScan's website at www.hkscan.com after being published.

ANNUAL REPORT

The annual report 2017 was published in Finnish and English as an online web report on week 11/2018. The report is available at the address: annualreport2017.hkscan.en. There are no printed copies of the annual report.

Annual reports, interim reports and other stock releases are available on the company's website www.hkscan.com.

SILENT PERIOD

HKScan observes a silent period of three weeks prior to the release of its interim reports and financial statements bulletin. During this time, the company will not comment on its financial standing.

IR CONTACTS

Mikko Forsell, CFO

Keijo Keränen, VP Treasury and IR

Mikko Saariaho, EVP Communications and Corporate Responsibility

Marja-Leena Dahlskog, VP Corporate Communications

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ANALYSTS

HKScan Corporation's performance has been monitored by at least the following analysts.

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Annual report 2017

Quality and responsibility from farm to fork.

Read a full overview of our year:

annualreport2017.hkscan.com

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