2016
ANNUAL REPORT

HKSCAN

TABLE OF CONTENTS

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. We sell, market and produce high-quality, responsibly-produced pork, beef, poultry and lamb products, processed meats and convenience foods under strong brand names.

Our customers are the retail, food service, industrial and export sectors, and our home markets comprise Finland, Sweden, Denmark and the Baltics. We export to close to 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 delivers 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.

Our best known product brands are shown below. Read more about them in the footer.

YEAR 2016 IN BRIEF

NET SALES
1 872.9
EUR MILLION

EBIT
13.2
EUR MILLION
(Comparable)

EBIT MARGIN
0.7
%
(Comparable)

MARKET POSITION
#1-2
IN HOME MARKETS

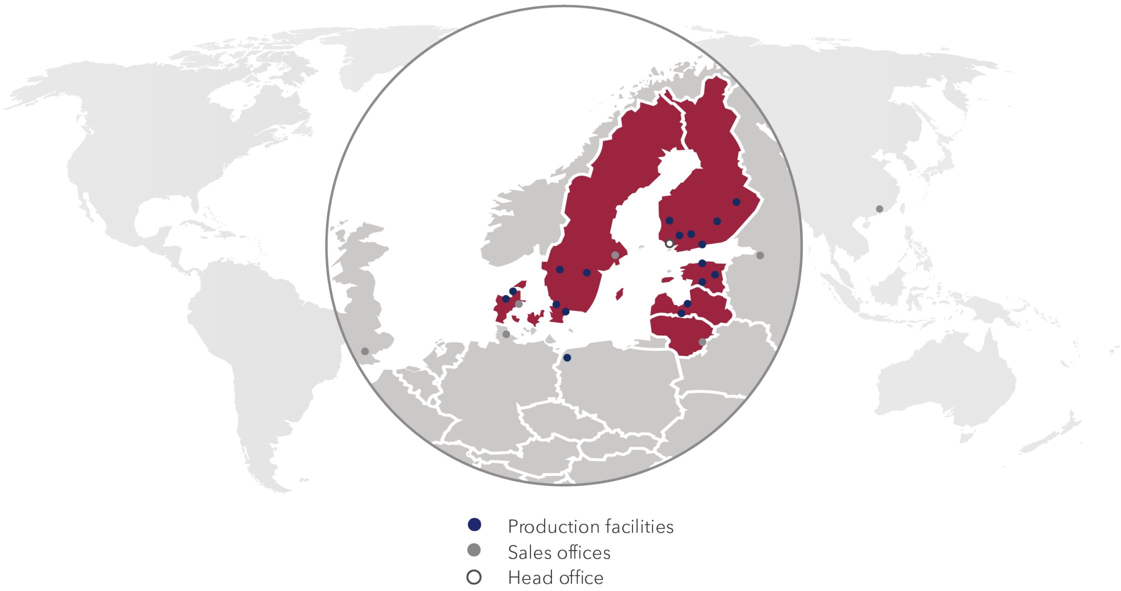
EMPLOYEES
7 319
AVERAGE

KEY FIGURES

	2016	2015
Net sales, EUR million	1 872.9	1 917.1
EBIT, EUR million	9.7	9.6
% of net sales	0.5	0.5
Profit/loss before taxes, EUR million	0.9	2.2
% of net sales	0.0	0.1
Return on capital employed (ROCE) before taxes, %	2.1	2.3
Equity ratio, %	47.9	50.9
Net gearing, %	33.5	33.8
Gross investments, EUR million	97.6	49.6

MARKET AREAS

HKScan's production operations are located around the Baltic Sea, enabling flexible utilization of the assets, and synergies in product offering developments. The Group's customers are situated around the world, from the U.S. to New Zealand, in close to 50 countries altogether.



HKScan's home markets include Finland, Sweden, Denmark and the Baltics. The Group is also present in close-by markets, the most important of which are the U.K. and Germany, where it has sales offices, and Russia, where it has a representation office. Outside Europe, HKScan has a sales office in Hong Kong.

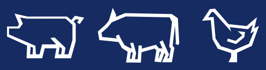
YEAR 2016 BY MARKET AREA

SWEDEN

NET SALES	**804 MEUR**
OPERATING PROFIT *	**14 MEUR**
PERSONNEL	**2 162**
MEAT TYPE	

FINLAND

NET SALES	**807 MEUR**
OPERATING PROFIT *	**15 MEUR**
PERSONNEL	**2 912**
MEAT TYPE	

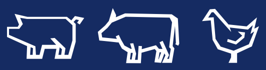


DENMARK

NET SALES	**173 MEUR**
OPERATING PROFIT *	**-9 MEUR**
PERSONNEL	**686**
MEAT TYPE	

BALTICS

NET SALES	**161 MEUR**
OPERATING PROFIT *	**6 MEUR**
PERSONNEL	**1 560**
MEAT TYPE	



*** Comparable**

OPERATING ENVIRONMENT

HKScan's business and operating environment are affected by global megatrends. Both HKScan's own business and that of its customers is directly and indirectly impacted by consumer trends and economic trends. 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 keep a close eye on consumer surveys and market research in order to gain up-to-date insights into the needs of today's and tomorrow's consumers. 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.

Food has become a highly visible topic in the public eye. The rising vegetarian trend and the environmental impact of meat production are among the issues that have gained extensive media coverage and public attention. Also issues related to health and nutrition have been highlighted in the media recently.

HKScan has a long history of working in the meat industry, and we have a long track record of close collaboration with our contract producers. We also wish to engage in continuous, open and transparent dialogue with our customers and consumers. We actively contribute to cultivating new culinary culture in the countries in which our products are sold and consumed, and we justifiably take pride in our know-how of the industry and our locally specialized meat expertise.

MEAT INDUSTRY TRENDS

Meat consumption is showing no sign of change on any of HKScan's home markets. As large a proportion as 96 per cent of the Danish population are reportedly meat eaters, as are 94 per cent of the Finnish population and 90 per cent of the Swedish population. Meat consumption is on the rise worldwide, and this growth is expected to continue for at least another decade. In Europe, meat consumption is growing by a few per cent (3%) per year. The majority of this growth stems from rising poultry consumption, whereas consumption of red meat is expected to decline.

Rather than taking a rigid 'either or' stance, HKScan respects everyone's right to their own personal dietary preferences. We strive to offer products also to consumers who wish to reduce their meat consumption and those who choose a meat-free diet. HKScan has responded to the rising vegetarian trend by launching innovations such as products combining meat and vegetables.

HKScan regards the moderate consumption of meat together with vegetables, wholegrain products and vegetable fats as a valuable part of a healthy, well-balanced diet. Meat is an excellent source of protein and it contains all the essential amino acids that cannot be produced by the human body. In addition, meat is a rich source of vitamin B and an excellent source of minerals such as iron, zinc and selenium.

CONSUMER TRENDS

The following consumer trends hold key significance for the food industry.

HEALTH AND WELLNESS ARE HOT TOPICS, SMALL IS BEAUTIFUL

Today’s consumers are interested in looking after their health and wellness. They want wholesome sources of protein, they are eager 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 expanding rapidly. We are seeing rapid proliferation of small, local producers and specialized niche suppliers, and their presence is expected to expand in the future.

CONSUMERS WANT INSPIRING EXPERIENCES

Today’s consumers want to be surprised by new experiences. On one hand, they want authentic, local products, and on the other hand they are keen to seek out new and inspiring international flavours. Communal dining is also becoming an increasingly important part of our culinary culture. Whenever our busy schedules allow, we enjoy getting together with loved ones to enjoy a stress-free slow dining experience. Social media is also becoming an inspiring platform for sharing new culinary ideas. HKScan is responding to this trend by expanding its premium meat range, its local artisanal offering and its other novelty concepts.

EASIER WEEKDAYS WITH CONVENIENCE MEALS

Many consumers who invest extra effort into their weekend meals want something different from their weekday cooking: ease and convenience – though without compromising on quality or responsibility. High-quality convenience meals and semi-cooked ingredients are making a major breakthrough. For instance HKScan’s precooked products and ready-to-heat meals make food preparation a breeze, freeing up valuable time for other important commitments. We also offer a range of healthy snack options. HKScan plans to continue offering new innovations in the convenience meal category, where we see plenty of potential for expansion.

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.

HKScan has actively engaged in corporate responsibility work for many years. One of our key CR goals is to reduce our environmental footprint. We are working to constantly improve our energy efficiency, for instance by investing in renewable energy, by reducing the volume of industrial raw material waste that we generate, and also by helping customers and consumers to reduce food waste. In addition, we are efficiently harnessing raw material side streams in order to promote the circular economy. HKScan's commitment to corporate responsibility means setting ambitious CR targets, working to achieve them, as well as embracing a policy of open communication.

PACKAGING AND LABELLING

Consumers value environmentally sound packaging and informative labelling. Young consumers in particular pay special attention to packaging and its environmental impacts. Well-chosen packaging highlights the product's quality and pure ingredients. Consumers furthermore appreciate local production and ecologically sustainable materials.

The latest innovations on the market include smart and active packaging. The number of single-person households is on the rise, which is pushing demand for optimized sizing of products and packaging.

Labelling is also acquiring increasing importance; consumes expect clear, explanatory labels that are fully transparent in their informative content.

CUSTOMER TRENDS

International competition and digitalization are posing new challenges for the retail industry. Sluggish economic growth and the recession, too, have intensified price competition and created further headwind for retailers. 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 new opportunities. Digital platforms offer 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.

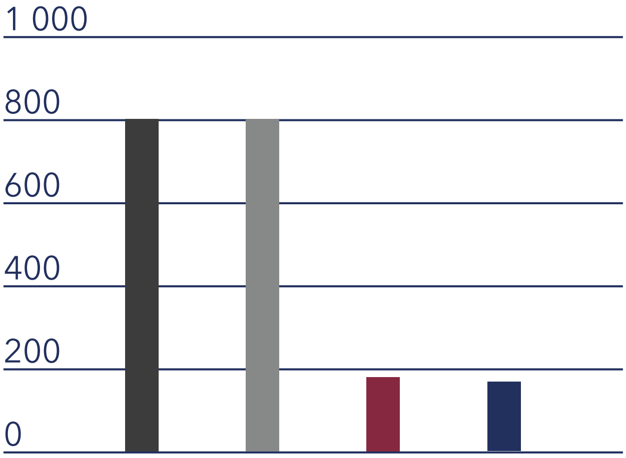
The retail industry is being challenged by low-cost chains and online shopping, both of which have become established forms of commerce. Online retailing in the food segment is still relatively small in scale on HKScan's home markets, however.

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. HKScan aim to remain a key supplier of high-quality, responsibly produced fresh foods sold by food retailers.

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. The number of vegetarians and flexitarians is rising, and demand for organic food has also grown recently.

GRAPHS

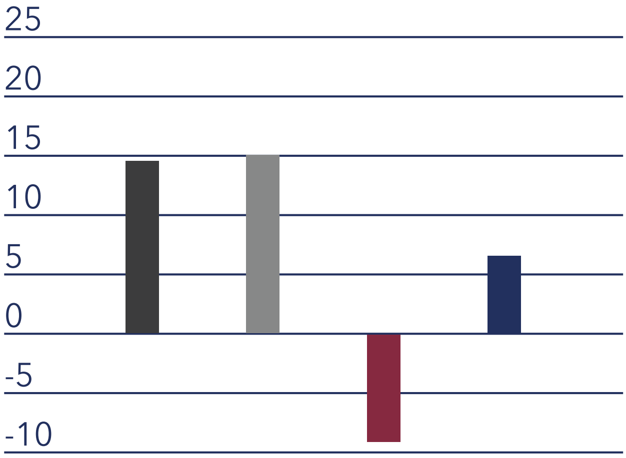
NET SALES IN 2016 BY MARKET AREA*) EUR MILLION



804.4	Sweden
806.5	Finland
173.2	Denmark
161.3	Baltics
1 954.4	Total

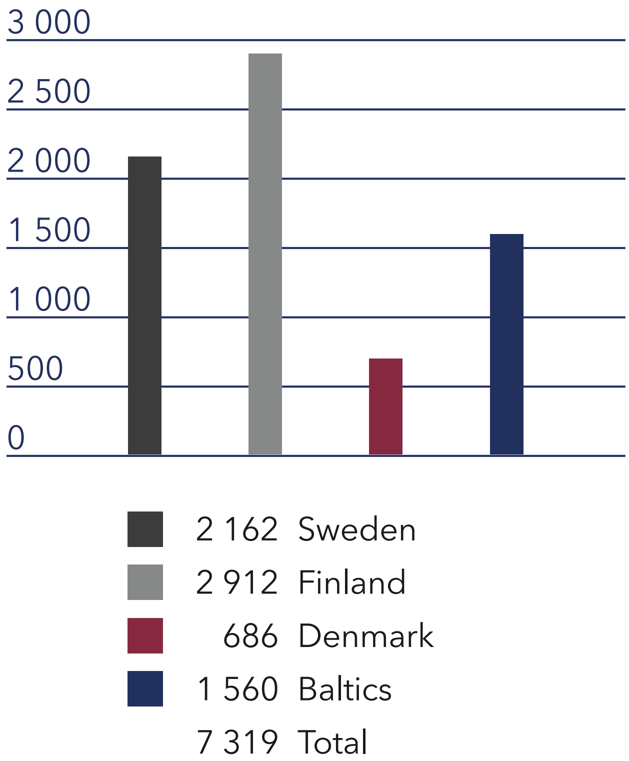
*) Internal net sales included.

OPERATING PROFIT IN 2016 BY MARKET AREA[1)] EUR MILLION

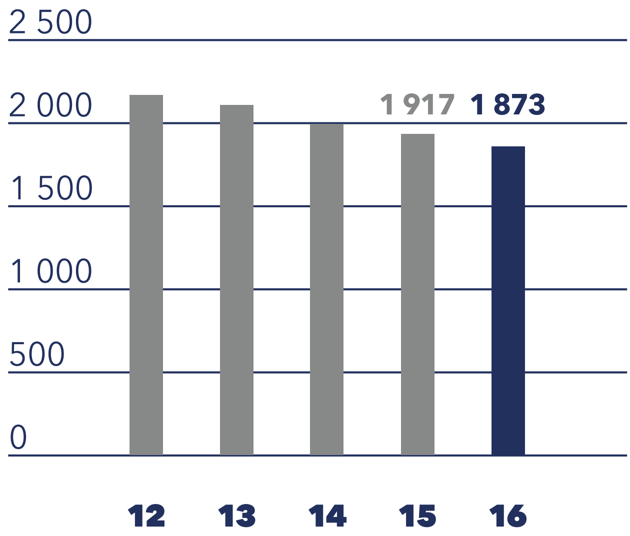


14.5	Sweden
14.8	Finland
-9.1	Denmark
6.4	Baltics
13.2	Total

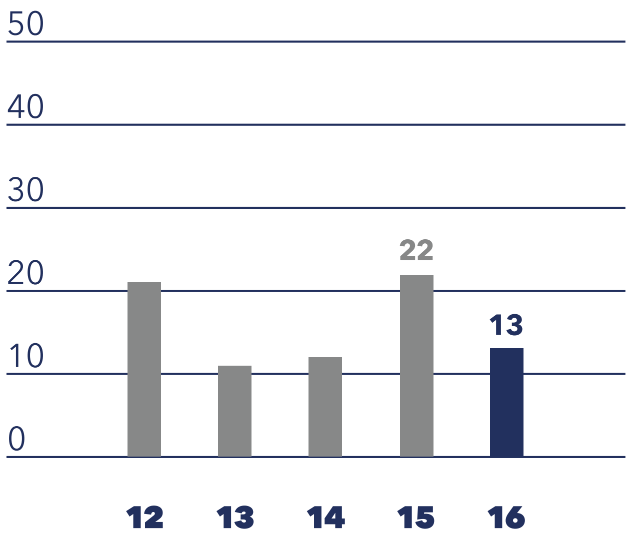
PERSONNEL IN 2016 BY MARKET AREA AVERAGE NUMBER



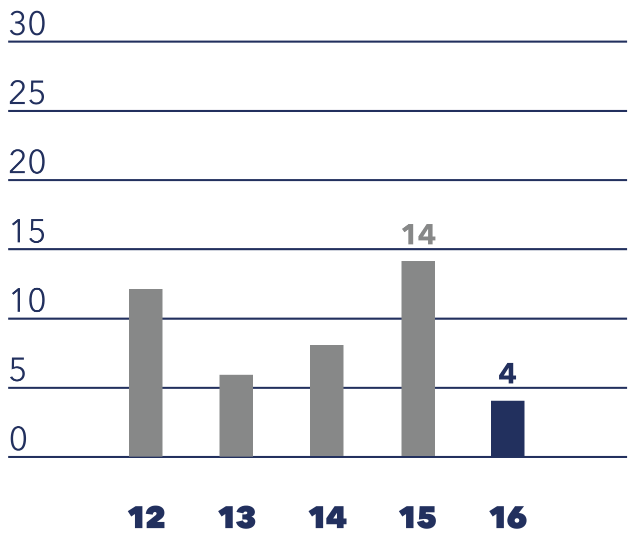
NET SALES MEUR



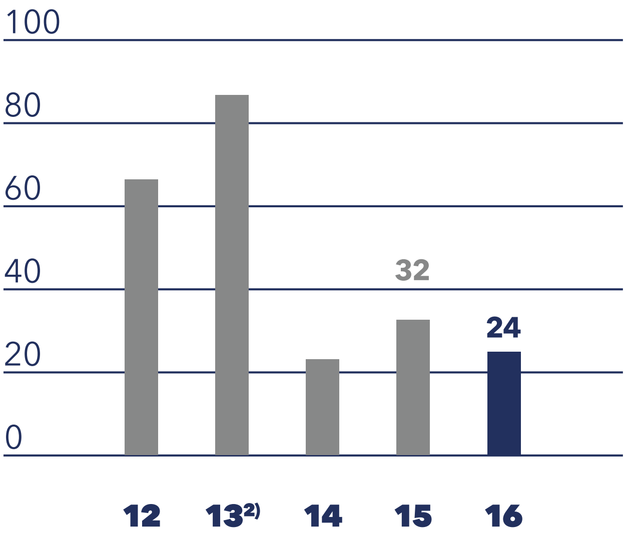
OPERATING PROFIT[1)] EUR MILLION



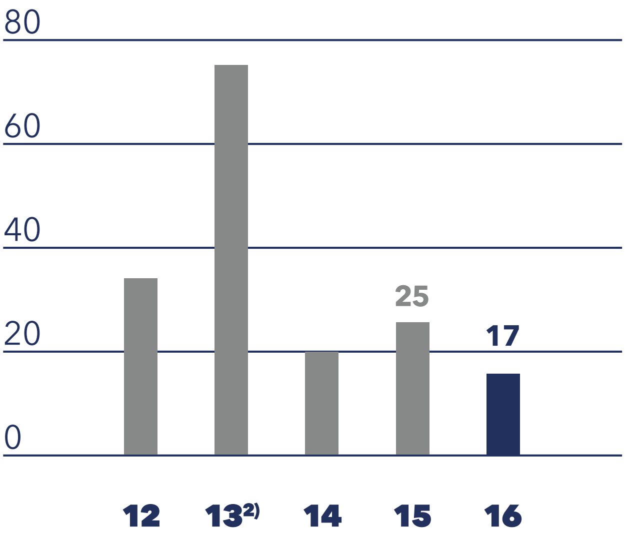
PROFIT BEFORE TAX[1)] EUR MILLION



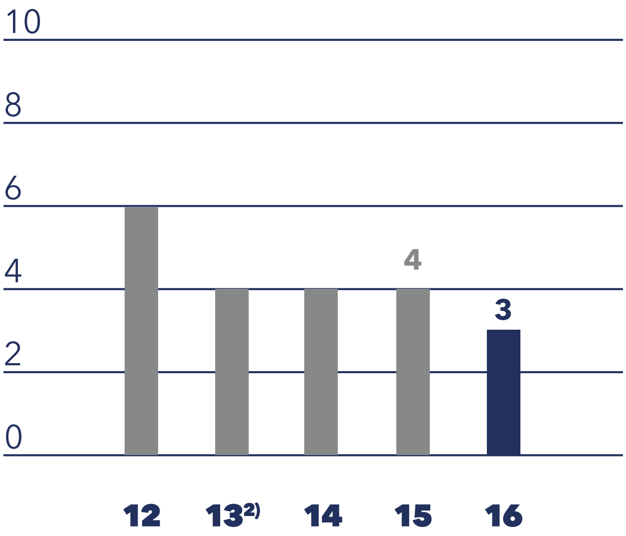
CASH FLOW BEFORE DEBT SERVICE[1)] EUR MILLION



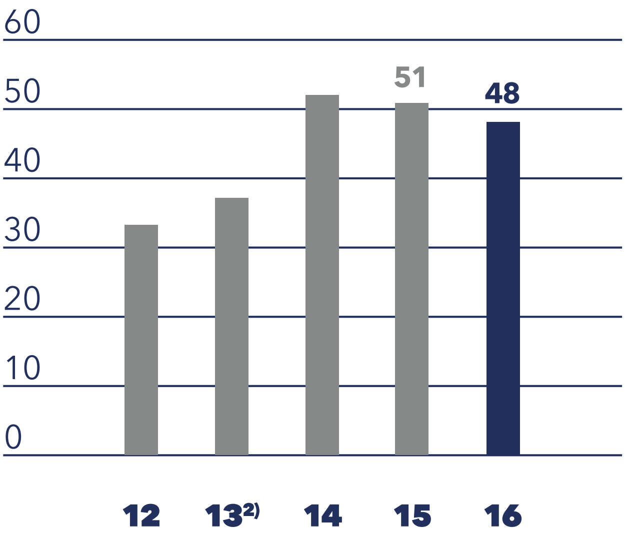
CASH FLOW BEFORE FINANCING ACTIVITIES[1)] EUR MILLION



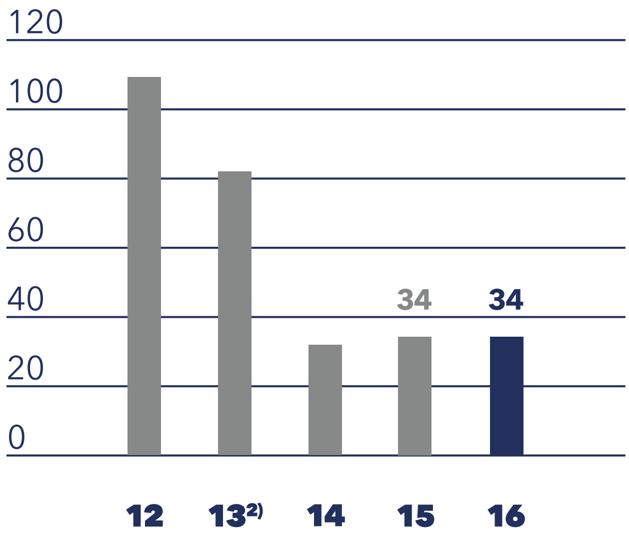
RETURN ON CAPITAL EMPLOYED (ROCE)[1)] %



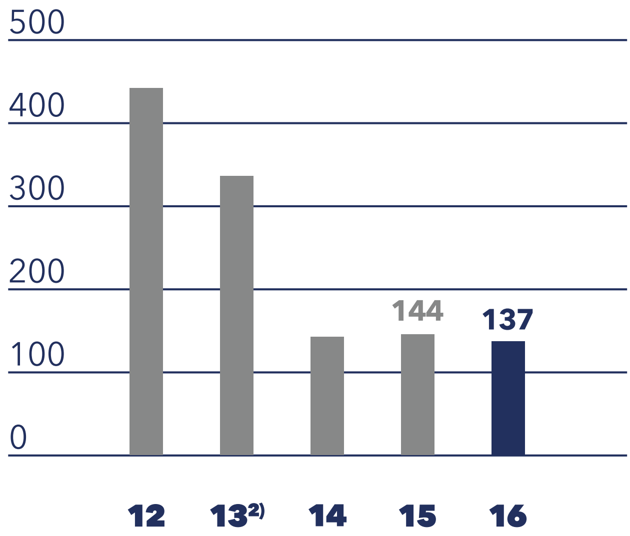
EQUITY RATIO %



NET GEARING %



NET DEBT EUR MILLION



1) Comparable

2) Sokołów's accounting treatment changed in 2013. Comparable figures from 2012 are not available.

CEO'S REVIEW

HKScan's business landscape was challenging in 2016. The EU witnessed ongoing political and economic instability owing to unpredictable developments such as possible impacts of Brexit and the massive influx of asylum-seekers in Europe. After a long period of economic decline, consumer confidence slightly recovered and began to strengthen towards the end of the year. HKScan's home markets will hopefully gain fresh traction from new export opportunities harnessed as a joint effort with the industry, decision-makers and other stakeholders in the food value chain.

Competition grew tougher in the retail as a growing number of international retailers have widened their operations to our markets. This, among other factors, has resulted in fierce price competition. Online commerce and other digital services are shaking up established rules of play in the retail segment, the HoReCa business, and the entire food value chain. Digitalization is challenging the actors in the chain to answer to consumer needs with faster real-time service and greater transparency. The digital revolution is steering the food industry to critical re-evaluate their operating models and efficiency.

Consumers continued to show interest in responsibly produced, healthy food, which strengthened the status of domestic meat. Vegetarianism, veganism and alternative protein sources were highly visible topics in the media and consumer forums. The media has also recently spotlighted the environmental impacts of meat production. Overall, the media, the food industry and consumers alike are showing a growing interest in food and cooking, with emerging food trends providing fresh inspiration for new ideas.

FARM-TO-FORK RESPONSIBILITY AS A COMPETITIVE ASSET

HKScan is responding to the challenges and opportunities of today's business landscape by adopting a more consumer-driven approach, whilst continuing to uphold high standards of quality and corporate responsibility with a zero-compromise mindset. We are also making a dedicated effort to upgrade our efficiency and competitiveness.

We are working hard to stay one step ahead of the game in product development by anticipating new trends in consumer values, attitudes and lifestyles. We are also committed to more transparently sharing information about our products, nutrition and our production methods. We strive to provide customers and consumers with easy access to all the facts about our raw material sourcing by sharing information on the continual improvement efforts undertaken by our contract producers. We are committed to continuous improvement in line with our corporate values – *Inspire, Lead, Care* – and I am confident that our products will retain an established place on consumers' plates as part of a healthy, well-balanced diet.

GOING GLOBAL WITH STRONG LOCAL ROOTS

Despite prevailing economic and political instability, we are confident about the various opportunities and market drivers in our current business environment that are adding positive momentum to our growth and development. Global meat consumption is rising steadily, particularly with emerging markets enjoying a high level of disposable income. Poultry products are in growing demand, as are convenience meals and semi-cooked products making daily life easier for consumers. Our key strengths on all our home markets are our leading, well-known brands and our pure, responsibly produced Nordic ingredients, which are gaining appreciation among consumers worldwide.

BUILDING PROFIT THROUGH INVESTMENT IN RAPIDLY GROWING PRODUCT CATEGORIES

HKScan witnessed a year-on-year decline in net sales in 2016. Our performance on all market areas except Finland fell short of the previous year. The Group's comparable EBIT likewise witnessed a decrease on the previous year. The challenges in performance correlate with common market trends and various other external factors. The overall market in Finland saw a steady decline during the first three quarters, coinciding with a contraction also on the Baltic market. We nevertheless maintained a good inventory balance on those markets. The Swedish and Danish markets witnessed overall growth, but our profit suffered due to the scarcity of beef in Sweden. The Danish team's good performance on the domestic market was overshadowed by challenges in exports.

STRONG BALANCE SHEET

Despite our unsatisfactory result, we maintained our strong financial standing. HKScan's balance sheet is among the strongest in the industry, which will enable us to continue investing resources into improving our competitiveness.

We are currently taking measures on numerous fronts to improve our profitability. First of all we plan to strengthen our market position in Sweden and improve our financial performance by focusing on consumer-driven exports. Meanwhile, we will also invest in rapidly growing product categories and new concepts. We are in the process of building a wholly new production facility specializing in poultry products in Rauma, Finland. Additionally, we are expanding our bacon plant in Swinoujscie, Poland. The investments will improve our product offering and quality, as well as our cost efficiency and streamline our production structure. We will continue to extract synergy gains through closer collaboration and productivity enhancements.

We have identified potential for expansion on our export markets and we plan to push our export business in a more demand-driven direction. We officially launched our Asian business in Hong Kong at the beginning of 2016.

STRATEGIC REVIEW TO BE INITIATED

HKScan will initiate a strategic review in spring 2017. The results of this work will be published later in the year. In future, HKScan will be a more unified, innovative and competitive food company. We are committed to responding to the expectations of consumers and customers with a tasty, responsibly produced offering of products, services and solutions that add joy, inspiration and convenience to everyday dining and special occasions.

THANKS FOR YOUR COOPERATION – LET'S CONTINUE BUILDING OUR STRENGTHS TOGETHER

I would like to express my warmest thanks to our personnel, who have showed exemplary dedication through a year of many changes. You have worked hard to bring multiple projects to a successful outcome and have thus ensured the continuity of our business. I also owe a debt of gratitude to all the consumers, customers, partners, producers and shareholders who have worked by our side and supported our efforts in championing the cause of responsibly produced food.

Let us continue working together to foster our home markets' strengths and to continue bringing joy from food to consumers' tables and prosperity to all stakeholders in the meat value chain throughout the Nordic region and our export markets.

Jari Latvanen
President and CEO

STRATEGY

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 consumers' peace of mind: when they choose HKScan, they can be confident they are making a responsible choice.

As the market leader across the Baltic Sea region, HKScan is in a position to exert a positive impact on the culinary culture and economy of many countries. We uphold the principles of sustainability and adhere to high standards of environmental, social and economic responsibility as well as animal health and welfare.

VALUES

Our business is driven by our Group's mission and values: *Inspire, Lead, Care*.

- Inspire – We generate excitement by offering inspirational new flavours and experiences around the world of food. We regard cooking and dining as an important part of enjoying life and sharing good times with friends and family.
- Lead – We guarantee high standards of quality and responsibility in all our products and actions, all the way from farm to fork. We aim to be meat industry forerunners and contribute to ensuring that the meat value chain continues to thrive in future.
- Care – Our products offer a balanced combination of great flavour, health, safety and responsibility. We disclose information openly, helping consumers make responsible choices with a clear conscience.

GROWTH THROUGH CONSUMER-DRIVEN BRANDED PRODUCTS AND EXPORTS

HKScan actively seeks profitable growth and we strive to continually push our business in a more consumer-centric direction. We want to continually improve our ability to meet consumer needs and expectations, which entails early-stage insight into consumer values, attitudes and lifestyle trends as a basis for innovative product development. To succeed, we continually upgrade our product categories and concepts. We also invest a growing amount of resources into more dynamic innovation, brand marketing and open communications. We pay attention to internal collaboration to ensure that every team is fully committed to our mission of making daily life tastier and more sustainable.

We are in the process of making strategic investments in growing product categories, such as chicken and bacon. HKScan is currently building a wholly new production facility in Finland specializing in poultry products, which is scheduled for completion at the end of 2017. We are also expanding our existing bacon plant in Swinoujscie, Poland, which is expected to be completed in 2018. These projects will enable us to develop wholly new products in a high value-add category as well as improve our cost efficiency.

HKScan recognizes potential for growth on export markets and is committed to develop its exports in a more demand-driven direction. The Group officially launched business in Asia by opening a sales office in Hong Kong early in 2016.

The circular economy is another area offering interesting growth potential for HKScan. Our Biotech business has developed commercially viable and eco-efficient alternatives for the utilization of meat industry side streams in various applications.

STRATEGIC STRENGTHS

HKScan recognizes the inherent challenges in our operating environment and their potential impacts on our strategy implementation. Our short-term growth prospects could potentially be affected by economic and political uncertainty, export barriers and changing consumer values. We are aware of the risks affecting our business and we strive to actively minimize the impact of said risks. We also strive to leverage maximum gain from our competitive strengths.

We attained one of the key targets of our previous strategy period by successfully having solidified our capital structure. The Group’s balance sheet is currently strong, offering a solid foundation for our future growth. Other key strengths supporting our strategy include our well-known brands, our market leadership on all our home markets, our superior professional meat expertise and the synergies offered by our geographical location.

In the wake of internal restructuring completed over the past few years, HKScan is today a more unified company, which was another key goal of our previous strategy period. Going forward, we will continue upgrading our operational efficiency and harmonizing our operational footprint. HKScan has divested a number of its smaller, noncore operations, which has streamlined our corporate structure and enabled us to focus more resources on our core mission.

The growth and evolution of our business is supported by HKScan’s innate strategic strengths, our active efforts to improve our profitability, as well as numerous market drivers on the market.

MARKET DRIVERS SUPPORTING OUR BUSINESS

Megatrends supporting our growth:

- Consumption of meat, especially poultry, is on the rise globally.
- Competition in the meat industry favours larger players such as HKScan.
- Urbanization and various lifestyle trends are driving demand for convenience meals, semi-cooked foods and on-the-go products.
- Consumers appreciate pure, wholesome responsibly produced Nordic meat.

LONG-TERM FINANCIAL TARGETS

HKScan's long-term financial targets are:

- Operating profit : over 4 per cent of net sales
- Return on capital employed: over 12 per cent
- Net gearing: less than 100 per cent
- Distribution of dividends: over 30 per cent of net profit

HKScan will evaluate its long-term strategic focus areas as part of a strategic review to be initiated in spring 2017.

CORPORATE RESPONSIBILITY

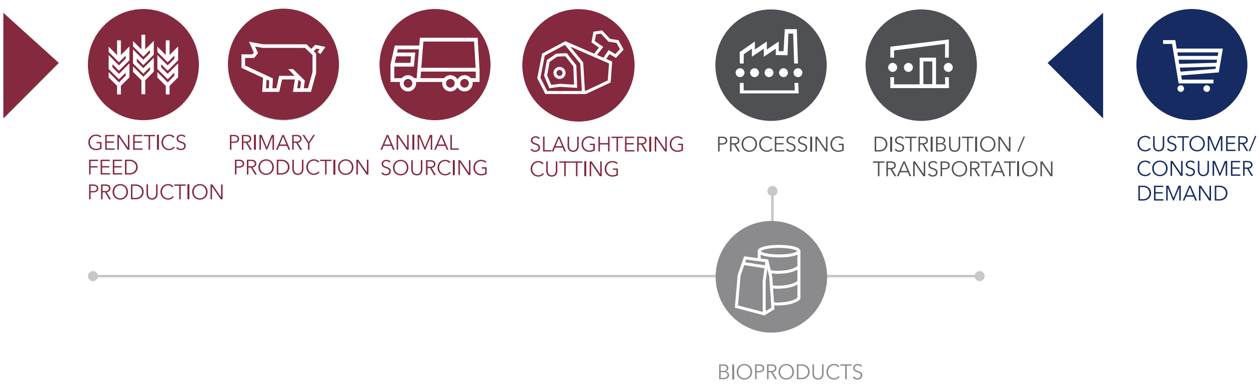
We are the leading Nordic food company. This means producing, selling and marketing meat and meat products in a responsible and ethical way. This covers the entire value chain, starting from feed and the genetics of production animals all the way to the consumer's plate. Sustainable business creates value for all our stakeholders every day.

We are committed to systematically developing the sustainability of our business through our strategy, operations and actions. At HKScan, everyone is urged to contribute to responsible ways of working.

VALUE CHAIN

At HKScan, we have unique know-how on the entire meat value chain, and we are committed to operating responsibly every step of the way. The Group's daily business covers all parts of the value chain from customer and consumer cooperation to feed and primary production.

By continuing to respond effectively to changing needs and expectations in the market, we can improve our profitability and develop our operations sustainably, bringing value to our business as well as to consumers, our partners and other stakeholders.



CORPORATE RESPONSIBILITY AT HKSCAN

Consumers' food choices are increasingly being influenced by factors such as the origin of meat and responsible production practices. A key issue that has emerged recently in public debate – in addition to animal welfare – is the climate impact of meat production. In all these areas, the Nordic countries are frontrunners thanks to our northern location, as well as our soil and natural conditions, which are ideal for growing grain and grass for animal feed. Our other strengths in food production include high standards of hygiene, healthy animals, efficient production, and plentiful clean water resources.

HKScan's corporate responsibility work is divided into four sub-areas: economic responsibility, social responsibility, animal health and welfare and environmental responsibility. Our corporate responsibility programme is divided up accordingly. The goals and actions defined in our corporate responsibility programme are embedded as an integral part of our daily work and leadership.

Economic responsibility: At HKScan, economic responsibility means that we strive to maintain the profitability of our business both on the short and the long term. This extends to our impact on our stakeholders: we for instance ensure that we pay wages to our personnel, pay dividends to our shareholders, and pay taxes to the government.

Social responsibility covers issues such as the quality and safety of our products, the health and wellbeing of our employees, and a responsibly run supply chain.

Animal health and welfare are a key priority to HKScan throughout its entire value chain. We work to continuously improve our performance in this area. Last year we structurally upgraded our slaughter houses and provided personnel with follow-up training in animal handling.

Environmental responsibility: HKScan is committed to continually striving to mitigate the environmental impacts of its production processes, both in the immediate vicinity of its plants and throughout the entire value chain, whether affecting the air, soil or water. HKScan additionally seeks to promote environmental awareness among its employees through good leadership.

The current corporate responsibility programme and its priorities are based on an extensive stakeholder survey conducted in 2014.

HKScan will publish its first corporate responsibility report in compliance with Global Reporting Initiative SRS standards from the reporting year 2017. During 2016 HKScan undertook preparations to initiate GRI reporting.

Economic responsibility

Responsible long-term profitability of the Group and its value chain.

Social responsibility

Responsible products, employee wellbeing and responsible supply chain.

Animal health & welfare

Responsibility in genetics, in operations at farms, during transportation and at slaughterhouses.

Environmental responsibility

Efficient management of energy, water, materials, chemicals and waste. Mitigation of environmental impact on surroundings and climate change.

Sustainable & transparent supply chain

Stakeholder cooperation & communications

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 forms the basis also for our other areas of responsibility, i.e. social and environmental responsibility, and animal health and welfare. The concept of economic responsibility also covers the impacts we have on stakeholders: for instance, we pay wages to personnel, dividends to shareholders, and taxes to the government.

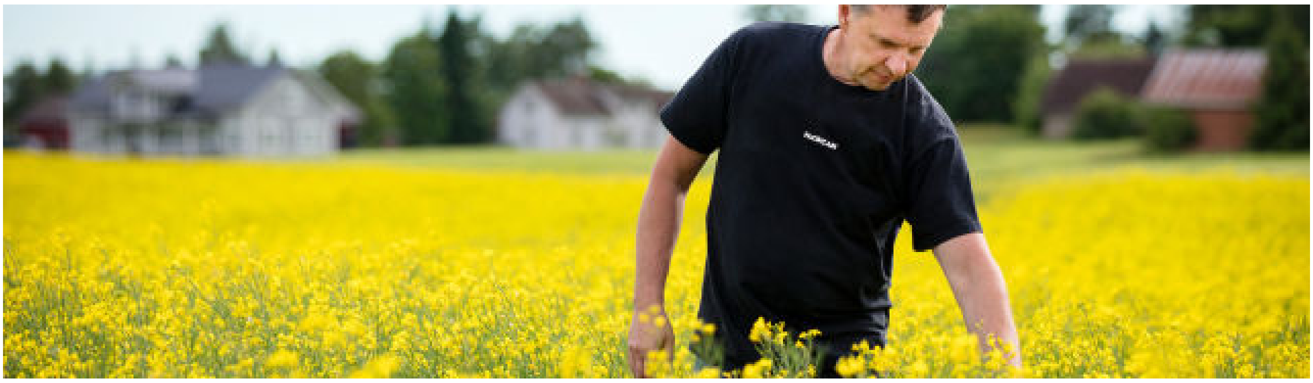
INVESTMENTS AND EXPORTS SUPPORT PROFITABLE GROWTH

HKScan's strategic objective – profitable growth – was the key driver of our work in 2016. HKScan invested in growing product categories for instance by constructing a new production facility in Rauma, Finland, specialising in poultry products and currently under construction, and the expansion of the bacon plant in Swinoujscie, Poland.

Good progress was made with the Rauma investment project. The construction was launched in the first half of 2016, the environmental permit was granted in March, and the cornerstone laying ceremony was celebrated in May. The production facility is expected to be completed at the end of 2017. The project is HKScan's most significant production plant investment to date, and it will help to preserve food industry jobs in western Finland. The new production plant will replace the existing plant in Eura.

In May 2016, HKScan decided to invest in the expansion of the Swinoujscie bacon plant in Poland. Production technology will be upgraded and production capacity increased, with the result that the Swinoujscie unit will be one of the Group's most sophisticated production plants.

These projects will 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 recognizes the opportunities offered by new export markets, in which respect 2016 was a milestone year also in internationalization. In January, HKScan opened a sales office in Hong Kong. In conjunction with the opening, Rypsiporsas® (rape seed fed pork) products were launched on Asian markets. Previously, HKScan has only exported frozen meat to Asia, but now high-quality fresh Finnish meat can be delivered to Asian consumers. The growing demand for Nordic meat products is based specifically on Asia's desire for safe raw materials and increased health awareness. Responsible production and supply chain transparency are also important factors for Asian target groups.

PRODUCERS AND HKSCAN COLLABORATE TO BOOST PRODUCTIVITY

HKScan's animal sourcing is based on long-term contract production and close collaboration with producers. Growing interest among consumers, customers and other stakeholders in issues related to responsibility, such as the origin of meat, product safety, quality, environment, and animal welfare, is a major driver of continuous improvement at HKScan, in which primary production plays a big role.

Intensifying competition also underlines the importance of continually improving the competiveness of HKScan and the entire meat value chain. A responsible, transparent supply chain and efficient and high-quality primary production can only be achieved through seamless collaboration with our producers.

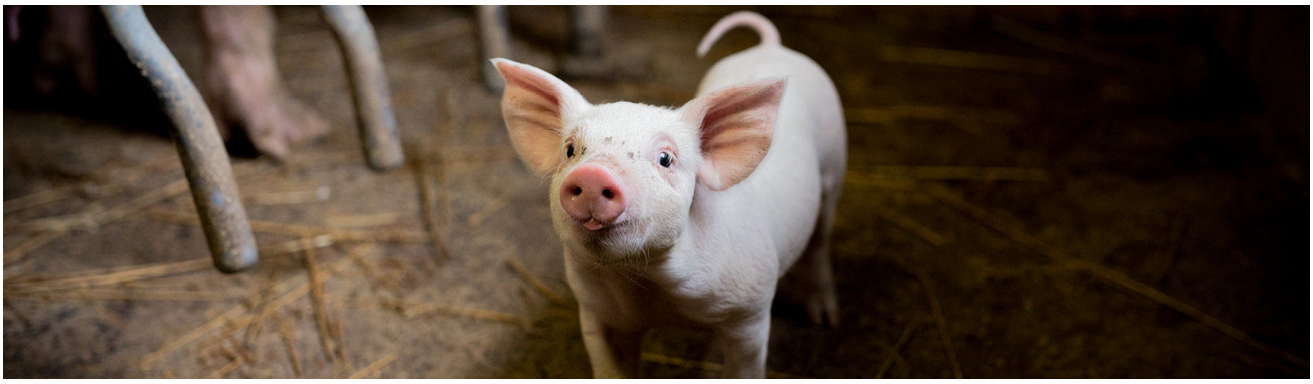
Collaboration is conducted on many levels: our regional animal sourcing teams and producer service specialists work directly with the farms (Read more: HKScan Agri magazine, only in Swedish), while we have special co-operation groups working on issues common to HKScan and our producers. Shared issues are also discussed on a more general level in various producer meetings and seminars. Dialogue between primary producers and the company's top management, marketing and product development is equally important. This dialogue helps HKScan to monitor the opportunities and challenges in our primary production, and utilize this information in the development of our products and operations. At the same time, our contract producers can learn more about HKScan's future targets and can better highlight their strengths and express their ideas about shared development opportunities.

CASES

1. In 2016 a 25-year-old Danish poultry producer invested EUR 1.6 million in new production facilities, increasing the farm's annual production capacity from 250 000 chickens to one million.

2. HKScan engages in collaboration in areas such as feed transports. Transportation costs account for a significant portion of feed costs. Working together, HKScan and its partners have been able to optimize delivery routes, eliminate overlapping functions, decrease transportation fleets, and increase fleet operating hours, which has significantly lowered costs. Measures to boost efficiency improve the sector's competitiveness and also benefit meat producers. A new operating model was adopted during the first quarter of 2016 in Finland.

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 in the design and construction of new facilities (Read more: HKScan Agri magazine, only in Swedish), and in production start-ups, as well as financial advice and financial services.



SOCIAL RESPONSIBILITY

At HKScan, social responsibility covers product-related issues such as quality, safety and health, as well as the wellbeing of our personnel and responsible sourcing.

High-quality, healthy and safe products are the foundation of our business. We promote responsible business practices and adhere to the highest food safety standards in our production. In addition to our dedication to product safety, we are committed to constantly improving the quality and taste of our products, and listen closely to consumer preferences in doing so.

We look after our employees by maintaining a good work atmosphere, offering occupational health services, as well as by emphasizing equality and diversity. We believe that consistent leadership and competence development paired with a supportive work culture encourage our employees to excellent performance. In 2016, the Group paid special attention to workplace safety. Focusing on preventive action, the personnel were encouraged to make safety observations and share their findings to help reduce the incidence of workplace accidents.

HKScan's responsibility efforts cover the entire supply chain, and we aim to uphold high standards of transparency and sustainability at each stage of the chain. A well-managed supply chain ensures smooth and streamlined collaboration, all the way from the purchasing of raw materials and services until consumers' shopping carts.

HKScan engages with society and local communities by taking part in initiatives and decision-making at various levels, from co-operating with the communities immediately surrounding our production facilities to wider Group-level initiatives. In 2016, for example, HKScan Finland participated in an initiative distributing usable food products to the needy. In Sweden, HKScan took part – now for the second year in a row – in a project donating leftover food to a local charity.

As part of its social responsibility efforts, HKScan also provided work to refugees in Denmark. Access to employment is one of the most important steps helping asylum-seekers integrate in a new society. The three-month training period included Danish language studies as well as courses provided by HKScan. The company is also a significant provider of seasonal job opportunities, and in 2016, the company employed around 1 400 summer workers.

RESPONSIBLE PRODUCTS

Consumers are becoming increasingly aware of issues related to health and sustainability. When making food choices, they consider not only price and availability, but also health aspects and sustainable production practices.

HKScan's objective is to meet the needs of modern consumers by providing healthy, safe and responsibly produced products supporting a varied and balanced diet (Read more: HKScan Agri magazine, only in Swedish). HKScan also ensures reliable product labelling as well as traceability of its products at each stage of the value chain.

Product safety is the cornerstone of HKScan's operations. Our production processes comply with strict food safety standards, and all of our production facilities are certified according to international standards (see table). Our product safety standards are based on risk assessments of products and processes and they are written into our management programmes. Hygiene and production process management are addressed in our employee training, which additionally covers the handling of process deviations to ensure product safety.

CASES

HKScan also takes part in product safety related academic research. For example, in 2016, HKScan participated in research projects initiated by the University of Helsinki.

In addition, the company is involved in the Marie Skłodowska-Curie Actions programme, which comprises eight university and corporate laboratories in Europe. The programme will train 15 promising young researchers, whose microbiology doctoral studies will be financed for three years.

Product safety and other standards at HKScan production locations:

CERTIFIED OPERATIONS 2016

	Production sites	ISO 9001	ISO 14001	ISO 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)
Baltics	Tabasalu, Estonia		X	X		X				
	Rakvere, Estonia		X	X		X				
	Viiratsi, Estonia	X	X							
	Jelgava, Latvia		X				X			
Sweden	Kristianstad	X	X				X			2)
	Linkoping	X	X				X			2)
	Skara	X	X		X		X			2)
	Halmstad	X	X		X		X			2)
Denmark	Vinderup							X	X	
	Skovsgaard							X	X	
Poland	Świnoujście		X			X			X	

1) Organic certificate in Finland

2) Krav – Organic certificate in Sweden

BROAD SELECTION FOR INCREASINGLY AWARE CONSUMERS

HKScan's product development is founded on an in-depth understanding of consumer needs and is steered both by nutritional goals and increased health awareness among consumers. Our product development follows the latest food trends and national dietary guidelines, which recognize meat as part of a balanced and varied diet alongside vegetables, wholegrains and unsaturated fats.

CASES

1. HKScan published results of a study made by the Helsinki University. According to it, people who had eaten rape seed fed pork (Rypsiporsas®) meat, got more omega-3 fats from their diets during the study than persons who had eaten same amout of grain-fed pork meat. In addition, the Finnish restaurant chain Kotipizza chose to use Rypsiporsas® pork in their ham pizzas, basing their decision on domestic origin, traceability and sustainability. The Swedish counterpart of the Finnish Rypsiporsas® concept is called Rapsgris®.

2. During 2016, HKScan Finland took part in a research project funded by the Finnish Funding Agency for Technology and Innovation (Tekes). In addition to developing new types of food solutions for conscripts in the field, the project promotes healthy food choices in mass catering. HKScan was also involved in another project aiming to motivate conscripts to make healthy, environmentally sound food choices by optimizing the user-friendliness of food products.

3. In Sweden, HKScan continued to develop the product concept that incorporates 50 per cent vegetables (Järpish, Korvish, Burgish), offering an easy way for consumers to increase vegetables in their diet and also to reduce salt – but not at the expense of great flavour. HKScan also introduced vegetable cold-cuts suitable for vegetarians.

EMPLOYEE WELLBEING

HKScan is a major employer in all the countries in which it operates, and social responsibility is a key focus area of the Group's overall CR work. For HKScan, a socially responsible way of working means that we are able to safeguard and continuously improve the wellbeing, engagement, equality and diversity of our personnel.

HKSCAN CONTRIBUTES TO LOCAL COMMUNITIES BY OFFERING JOB OPPORTUNITIES

HKScan offers job opportunities to a large number of seasonal workers in the communities where its production facilities are located. We give many young people their first job and thereby offer them valuable work experience.

The barbeque season is one of the most important business seasons for HKScan, making spring and summer busy periods in our production. HKScan invests a lot of effort into its spring and summer recruitment in order to ensure a high degree of efficiency and quality in production for the benefit of our customers and consumers, as well as to offer flexible holiday arrangements for our permanent employees. In 2016, HKScan recruited approximately 1 400 summer workers, of whom 700 in Finland and over 400 in Sweden. Many already worked for us during previous summers.

Europe witnessed an unprecedented influx of refugees in 2016. In Denmark, HKScan set a proactive example of diversity promotion by welcoming refugees primarily from Syria to join its poultry production team in Vinderup. The plant's aim was to offer them experience of working for a Danish company and the Danish labour market in general. The plant's intention was to eventually offer permanent employment to those refugees interested in staying with the company. At the end of 2016, half of the refugees continued working at Vinderup. HKScan considers this a win-win situation: The refugees are able to support themselves and their families, and HKScan can broaden the local recruitment base for its future employees.

EMPLOYEE WELLBEING AND WORKPLACE SAFETY – SAFETY IN FOCUS

HKScan's target is to create a culture of proactive wellness promotion and workplace safety management by implementing harmonized processes, training supervisors and management, and by focusing on knowledge-based leadership.

In 2016, the Group's focus was on workplace safety. HKScan aims to develop a Group-wide approach to health and safety management, including Group-wide standards for selected critical safety areas, such as reporting and investigating accidents and near misses, making safety observations, and adhering to common standards and practices for the most hazardous work types. The Group has improved its reporting on safety performance and promotion of common activities through monthly safety communications (letters, blogs and phone meetings), as well as by collecting all safety related information, e.g. on safety incidents, in one place. These efforts have paid off in the form of measurable improvement in our lost-time incident rate, which was down to 40.6 (2015: 45.5). This outcome was achieved mainly as the result of an increased focus on safety at unit level and intensified country-level activity, especially in Finland and Sweden.

Unfortunately one fatal accident occurred in the company in 2016. In January, one maintenance worker in Rakvere, Estonia, lost his life and another was injured in an ammonia-related incident. The incident was investigated thoroughly and measures were taken to improve ammonia handling, especially in maintenance work across the Group.

HKScan will continue promoting a common and harmonized health and safety approach during 2017, focusing especially on selected common activities and the spread of good practices and examples across all units.

An intensified effort was also made to manage and decrease both short and long-term absenteeism. Despite this, the overall absenteeism rate of 6.3% (2015: 6.0%) showed no improvement on the previous year. Significant steps forward were taken, however, in mapping and managing risk cases to reduce the risk of work disability, especially in Finland.

EXAMPLE OF INITIATIVES RELATED TO EMPLOYEE WELLBEING:

The Finnish Institute of Occupational Health took part in the planning of the new poultry production plant in Rauma. The new plant will adopt modern work processes complying with the latest occupational health standards, thereby offering personnel significantly improved safety and ergonomic conditions.

ONE HKSCAN PERFORMANCE CULTURE - EMPLOYEE ENGAGEMENT

Late in 2014, HKScan carried out its first Group-wide employee engagement survey. As a result, 1 300 improvement actions, either at company or team level, were identified and implemented.

During autumn 2016, HKScan carried out its second Group-wide employee engagement survey. The response rate was again high, standing at 83.9 per cent. This showed a gratifying level of interest and commitment to continuously develop and improve our organization. Based on the results, our People Power® index* in 2016 was again A+/Satisfactory +.

Since the 2014 survey, we have placed a special focus on improving communication and team-level involvement. The efforts and actions have clearly paid off, as the 2016 survey now rated these areas as significantly improved. Information flow had improved and the personnel had better opportunities to participate and make suggestions. Our managerial work was also regarded as a positive change driver in the Group.

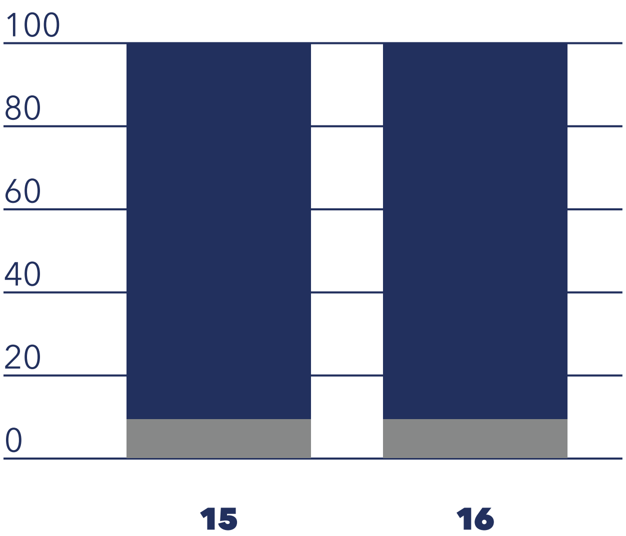
The results were reviewed throughout the organization and further improvement actions are being planned to create an even better HKScan.

*The PeoplePower® rating is an overall metric (0–100) for employee engagement and its main benchmarks are commitment, leadership and performance culture.

INVESTING IN LEADERSHIP

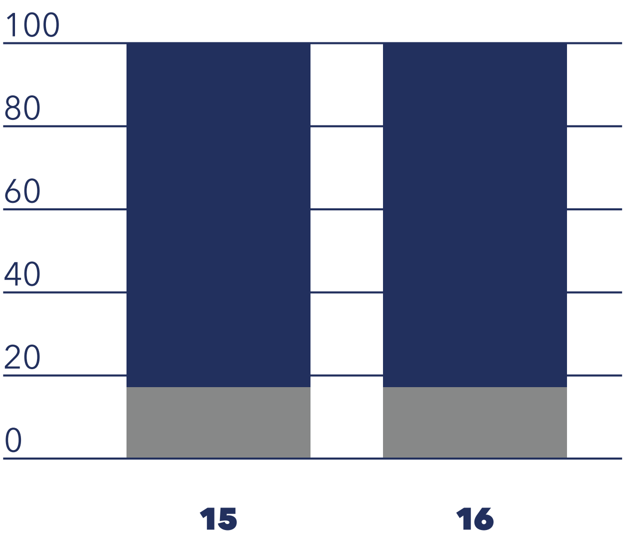
The HKScan Leadership Academy was launched in 2015 and continued during 2016. This Group-wide project aims to strengthen the capabilities and professional expertise of HKScan leaders and specialists.

DIVISION OF EMPLOYEES 2016 (2015) BY EMPLOYMENT CONTRACT %



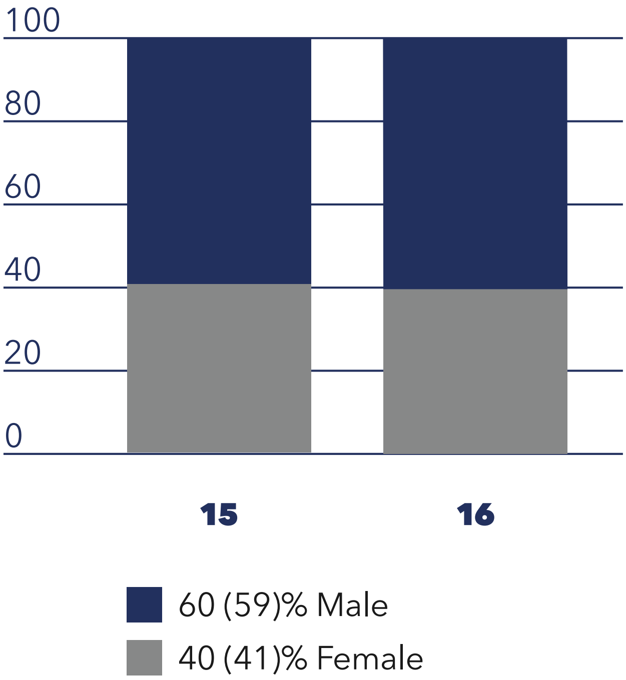
85.6 (86.6)% Permanent
14.4 (13.4)% Temporary

DIVISION OF EMPLOYEES 2016 (2015) BY EMPLOYEE SUB GROUPS %

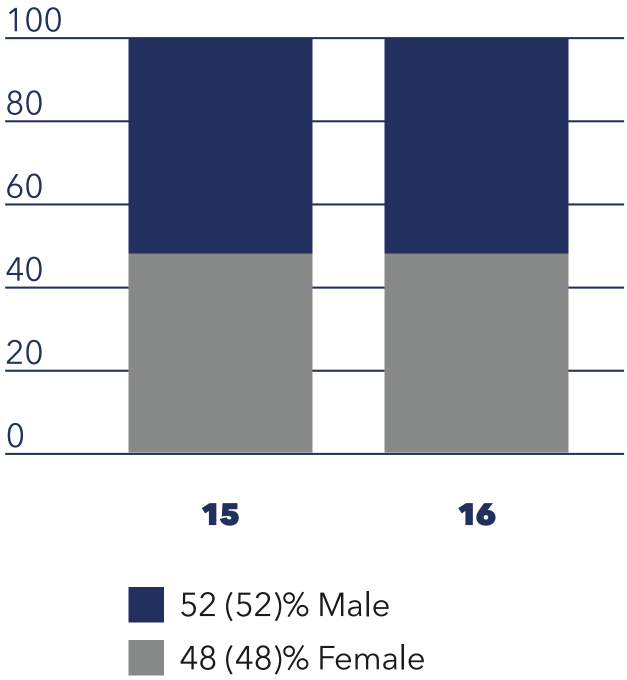


82.5 (83.4)% Blue collars
17.5 (16.6)% White collars

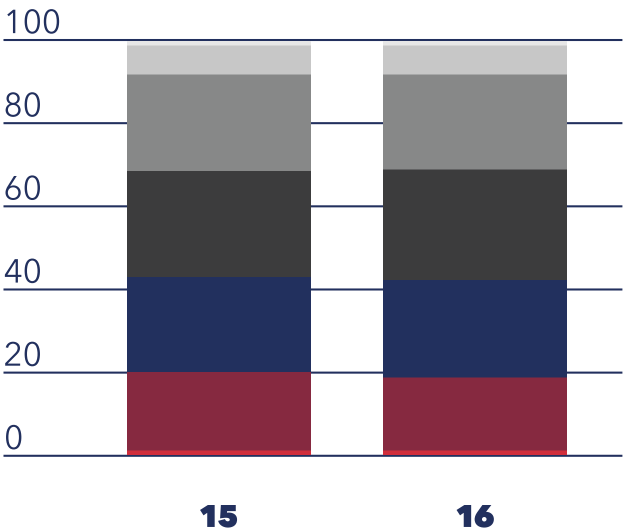
DIVISION OF EMPLOYEES 2016 (2015) BY GENDER, BLUE COLLARS %



DIVISION OF EMPLOYEES 2016 (2015) BY GENDER, WHITE COLLARS %

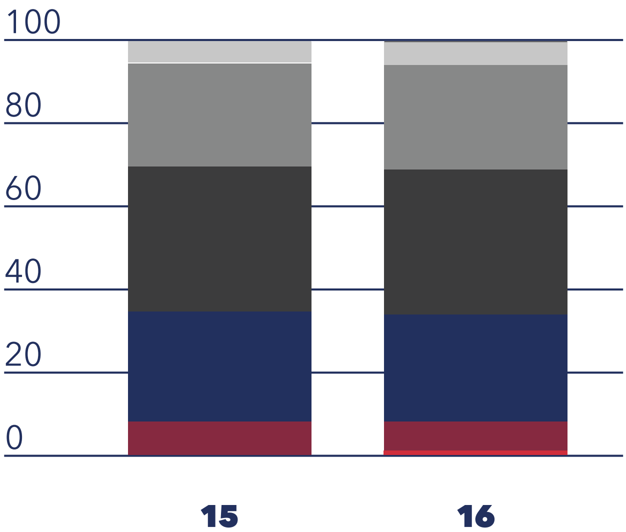


DIVISION OF EMPLOYEES 2016 (2015) BY AGE, BLUE COLLARS %

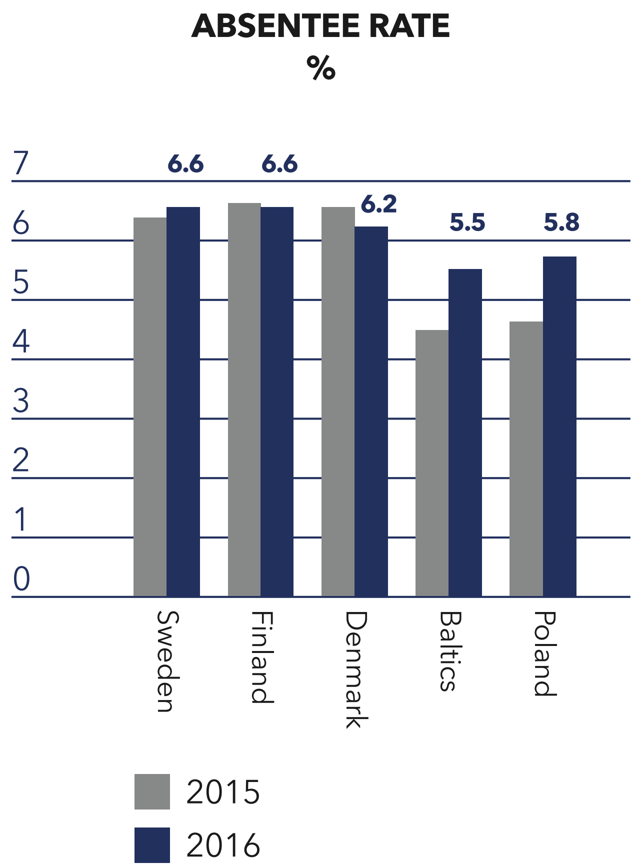


- 1 (1)% age under 19
- 20 (19)% age 20–29
- 23 (23)% age 30–39
- 25 (26)% age 40–49
- 23 (24)% age 50–59
- 7 (6)% age 60–64
- 1 (1)% age over 65

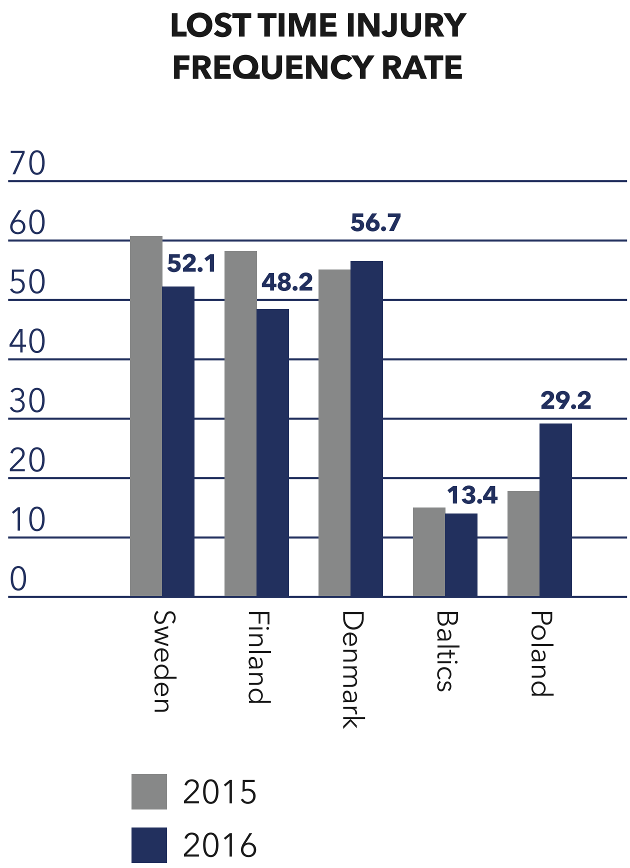
DIVISION OF EMPLOYEES 2016 (2015) BY AGE, WHITE COLLARS %



- 0 (0)% age under 19
- 10 (8)% age 20–29
- 24 (26)% age 30–39
- 34 (35)% age 40–49
- 27 (26)% age 50–59
- 4 (5)% age 60–64
- 1 (0)% age over 65



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



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

RESPONSIBLE SOURCING

Transparent, efficient and responsible sourcing is a cornerstone of HKScan's social responsibility efforts and the result of ongoing, consistent work. We provide consumers with products that can be traced all the way from farm to fork.

LOCAL PRODUCTION SUPPORTS A WELL-MANAGED SUPPLY CHAIN

HKScan primarily uses local meat sourced from long-term contract producers or HKScan's own farms. All products sold under the HK®, Kariniemen® and Scan® brands are produced 100% from domestic meat. HKScan co-operates closely with its producers, who are offered advisory services related to issues such as feeding, animal welfare, production facility planning and business profitability.

CASE

Responsibility is closely monitored among our contract producers. For example, HKScan's Finnish pig contract farms are part of the 'Laatuvastuu' Quality Assurance programme, which is based on a health classification register (Sikava) maintained by Animal Health ETT, and is approved as a national quality system by the Finnish Food Safety Authority Evira. All the quality-assured farms take measures beyond legal requirements to ensure high standards of animal health and safety. The farms are audited by a veterinarian roughly once every quarter. Most of our Finnish cattle farms are already part of a corresponding health classification register ("Naseva").

Our aim is to guarantee consumers the steady, cost-effective flow of products in all our production countries. Close and open communication between sales, the supply chain and animal procurement, as well as efficient utilization of forecasts, are critical factors in balancing supply and demand and maintaining business profitability and delivery security.

SUPPLY CHAIN RESPONSIBILITY CONTINUOUSLY EVALUATED

The food industry uses large amounts of meat and other raw materials, energy, water, packaging materials and a variety of services. The procurement team thus has a significant impact on the sustainability, costs and efficiency of the Group. HKScan's suppliers are evaluated regularly for product safety, quality, environmental performance, ethical business practice and other sourcing process criteria.

HKScan uses a supplier evaluation process to collate information concerning sourced raw materials, products and services. Social responsibility is among the issues charted in this process. Suppliers are additionally required to commit to HKScan's ethical principles by signing the HKScan Supplier Guidelines.

HKScan uses imported meat to supplement its offering in product categories where locally produced meat is not available in sufficient quantities. Imported meat accounts for a few per cent of the Group's needs. The origin and quality of imported meat is closely monitored. We co-operate only with slaughterhouses which have been audited to ensure compliance with quality standards.

RESPONSIBLE SOY AND PALM OIL

The production of soy and palm oil potentially has significant environmental and social impacts in the local production environment. As one of Northern Europe's major meat producers, HKScan's commitment to using responsibly produced raw materials is a token of significant progress in preventing adverse impacts. To support the sustainable use of soy and palm oil, we are a member of the Roundtable on Responsible Soy (RTRS) as well as the Roundtable on Sustainable Palm Oil (RSPO).

Soy is used in animal feed for its good protein composition. HKScan is committed to using 100% responsibly produced soy by the end of 2018. Sweden already achieved this goal in 2015. In Denmark, responsibly produced soy accounted for 20 per cent of soymeal consumption in 2016. Finland will reach the goal in 2017, and Estonia by the end of 2018.

HKScan is reducing the use of soy in its chicken feed, for example, by using alternative high-protein feed grown in Nordic conditions. Moreover, food industry by-products, such as barley protein feed, can be utilized in pig feed, in which we also increasingly utilize local raw materials such as legumes and rapeseed (Read more: HKScan Agri magazine, only in Swedish). HKScan and its feed partners are continuously cooperating to develop and promote the use of domestic protein sources.

In 2016, HKScan's indirect soy footprint (animal feed) was 146 thousand tonnes, and its direct soy footprint (products) was 0.4 thousand tonnes.

WWF conducted a survey on the use of responsibly produced soy in animal feed in 2016. The report covered meat, egg and milk producers in133 European companies, and the results were presented in the WWF Soy Scorecard. HKScan

Sweden achieved the highest score within the meat production group with 22 points, the maximum being 24. HKScan Group took third place with 14 points.

HKScan uses only small amounts of palm oil in its production, but the company endeavours to ensure it is responsibly produced. HKScan is a supply chain associate member of the Roundtable on Sustainable Palm Oil, and its purchase volumes are relatively small. During 2016, the company examined the use of palm oil in its products together with its suppliers in order to define the exact amount of responsibly produced palm oil that is used. Most of the palm oil used in HKScan’s products has already been certified, and the percentage will be increased during 2017. The target is to only use RSPO certified palm oil, the palm oil is also substituted with other oils like rapeseed oil.

ANIMAL HEALTH AND WELFARE

Animal health and welfare are fundamental priorities for HKScan and its contract producers. We rank among Europe's and the world's top performers in related international evaluations. We are proud of our long track record as a responsible operator and we are committed to continually improving our performance. We welcome and participate in all dialogue concerning animal welfare in order to further improve our performance in this field.

ANIMAL WELFARE STARTS WITH GOOD PRODUCTION CONDITIONS AND PRODUCER KNOW-HOW

HKScan's animal sourcing is based on long-term contract production or own production and close collaboration with our producers (Read more: HKScan Agri magazine, only in Swedish). To ensure the best service and responsible production in all our market areas, the structure of the Animal Sourcing and Producer Services organization was renewed in spring 2016. With the new operating model, local and regional know-how and competence can be applied more effectively to improve our producer collaboration and producer services.

We offer our producers training and advice in matters such as animal feed planning, animal health care and the design of new production facilities. Animal welfare is prioritized in all our operations. For example, the open stable models we offer our producers promote healthy living conditions for the animals and good working conditions for farm workers. We also provide consultation services to producers in the design and construction of livestock facilities and in the start-up of production. In Finland, we offer specific models for cattle, pig and poultry production. In Sweden we recently began planning a new standard model for sow pig farms that incorporates the best tried-and-tested solutions applied in Finland and Sweden.

Our policy on tail docking offers a good example of our animal welfare efforts. In Finland and Sweden, for example, pig tails are not docked because tail biting is exceptionally rare thanks to the effort we invest in animal care and the upkeep of favourable living conditions. Our pig pens are more spacious than required by EU regulations and there is plenty of room for pigs to move about in the pens. The pens normally stay clean because the floor heating and ventilation are designed in such a way as to steer the animals to urinate and defecate only in a certain area of the pen. Materials like straw, hay, wood chips, sawdust and peat provide stimuli for the animals, along with various chew toys, such as wood blocks, balls and ropes.

PRODUCER WELLNESS IS ALSO OUR PRIORITY

The wellness of our contract producers is instrumental to good animal welfare. We organize seminars offering our producers new, relevant information and an easy way to network with colleagues. In January 2016, our contract producers from Finland and Sweden convened for the first time on a producer cruise.

In autumn 2016, we launched various wellbeing events for our contract producers. The first was a wellness day for poultry producers. The theme was also highlighted in special wellness clinics offered in conjunction with our producer seminars; at these clinics, HKScan's occupational health nurse and occupational health manager answered questions from producers concerning their health. The participants also had the opportunity to check their blood pressure and blood sugar levels. The wellness clinics were well-attended, indicating that health is a topic of personal interest to our producers.

HKScan upholds a tradition of presenting Producer of the Year awards in Finland, Sweden and Denmark. The nomination criteria include excellence in animal welfare, motivation for continual improvement, and good collaboration with HKScan. The Finnish producers of the year are presented on HKScan Agri's YouTube channel (in Finnish only). The winners in Sweden are featured in the Swedish edition of the HKScan Agri magazine.

FOCUS ON PROPER ANIMAL HANDLING

One of our focus areas in 2016 was the proper handling of livestock. In late 2015, we initiated cooperation with an animal behaviour and handling specialist who audited all HKScan cattle slaughterhouses in Finland and Estonia during 2016.The audits covered pre-slaughter animal handling practices, conditions at the slaughterhouses and their plans for improving animal welfare. Similar audits have been out also at HKScan's other slaughterhouses, which engaged the services of external animal behaviour experts specializing in pigs, cattle, poultry and sheep.

During autumn HKScan's animal transporters and slaughterhouse employees were provided with follow-up training on cattle handling in Finland. The courses were taught by the Australian animal handling expert Sophie Atkinson, who enlightened the participants on low-stress handling of cattle by reinforcing their instinctive behaviour patterns.

Animal transporter training is part of our continuous improvement efforts. Transports are regularly monitored by authorities and veterinarians. The low-stress and correct handling of animals during transportation is important to ensure animal welfare, employee safety and high-quality meat.

The new piglet transport vehicles adopted in Finland early this year are designed to promote good animal welfare and healthy conditions by employing the latest solutions in the industry, which also offer improved biosecurity.

Animal welfare audits are performed regularly by authorities and other experts as an integral part of HKScan's routine. Authorized veterinarians are present at all our production facilities on a daily basis, and our operations are subjected to continuous internal and external audits. In 2016, surveillance cameras were installed at our slaughterhouses in Finland and Estonia, and additional training on animal handling was arranged for the personnel.

ANIMAL HEALTH IS OUR TOP PRIORITY

Resistance to antibiotics and the weakening effectiveness of antibiotics in the treatment of diseases is a global concern. The most effective way to prevent antibiotic resistance is to use antibiotics only in the treatment of diagnosed diseases, both in animals and human beings. In domestic animal production, all measures taken in the different phases of the animal production chain have a direct impact on animal welfare and health.

Farms owned by HKScan or by its contract producers do not use antibiotics preventively or to promote animal growth. All usage of antibiotics is carefully monitored: they are administered only when prescribed by a veterinarian to treat sick animals. The use of hormones is prohibited.

In all of HKScan's production countries, the use of antibiotics in the treatment of animals is at a significantly lower level than in other European countries on average. Our measures to promote animal welfare and prevent animal diseases have yielded good results. Our goal is to maintain the low usage level of antibiotics and to achieve even better results – without endangering the welfare of our animals.

Read more in our Corporate Responsibility Fact Sheets

HIGH BIOSECURITY

We actively monitor the incidence of infectious animal diseases and their potential impacts on the animal production chain. Our producers, production advisors and veterinarians make every possible effort to prevent diseases from spreading. The quality and hygiene practices we apply on our home markets have proven to be very successful in the prevention of salmonella, for example. When African swine fever (ASF) was detected widely in wild boars in Estonia and South Europe, we successfully prevented its spread to pig farms in Estonia (Read more: HKScan Agri magazine, only in Swedish). ASF has not been detected in Finland or Sweden.

High pathogenic avian flu (H5N8) was detected in 2016 in wild birds in HKScan's production countries. Thanks to the effective protective measures undertaken by the authorities in these countries, the spread of avian flu was prevented. Avian flu has not spread to any of HKScan's poultry farms.

ENVIRONMENTAL RESPONSIBILITY

Environmental responsibility is a high priority both for HKScan and its stakeholders. The expectations of stakeholders as well as increasingly stringent environmental regulations require continuous progress and environmental risk management. Our Group-wide environmental policy defines harmonized ways of working for the benefit of the environment.

We continually measure our environmental impacts and work to mitigate them. Our environmental actions focus on energy efficiency, greenhouse gas (GHG) emissions, water consumption, wastewater, material efficiency and waste management.

We also co-operate with our producers to continually improve our environmental performance. The environmental impacts of our farms related to biodiversity and organic production are also discussed in this report.

ENERGY EFFICIENCY

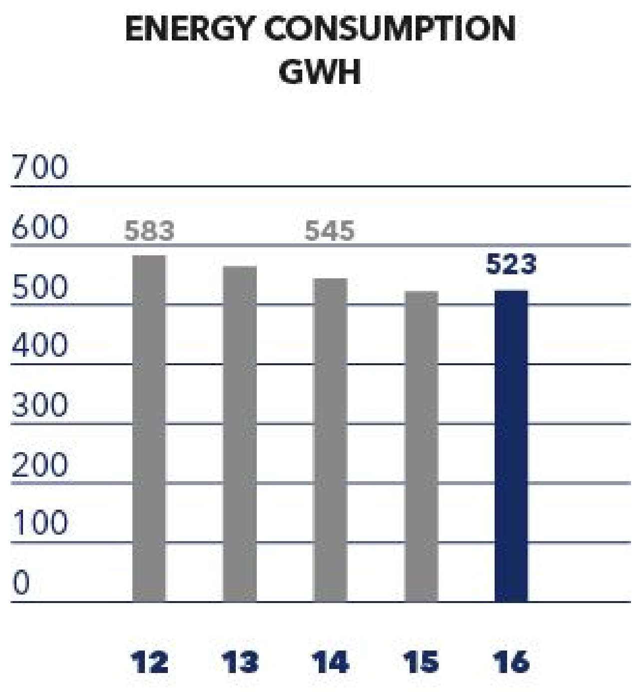
By working actively to increase energy efficiency, HKScan strives to improve its long-term cost efficiency and decrease its environmental footprint. Improved energy efficiency is also an important part of our commitment to reducing GHG emissions.

In 2016, the Group continued its ongoing energy efficiency project launched in 2015 (Read more: HKScan Agri magazine, only in Swedish). The target is to decrease HKScan's energy usage by 10 per cent from the 2014 level by 2017 (indexed to net sales).

TARGET FOLLOW-UP

In 2016 HKScan's overall energy efficiency decreased by 1.2 per cent compared to 2014 due to a reduction in net sales and the acquisition of a freezer and storage company in Forssa, Finland.

Our total energy consumption declined by five per cent from 2014 to 2016, and by ten per cent from 2012 to 2016 (see graph). HKScan's total energy consumption has decreased faster than its energy consumption indexed to net sales due to a decline in Group net sales.



SYSTEMATIC ENERGY EFFICIENCY WORK

In compliance with the EU Energy Efficiency Directive (EED), and in order to identify new energy saving targets, HKScan's plants in Skara, Linköping and Kristianstad in Sweden, Świnoujście in Poland and Forssa in Finland conducted energy reviews in 2016. In total, nine production plants have conducted energy reviews, and they will continue in 2017 at other plants. The reviews yielded many findings that need attention in the future. The Skara plant in Sweden is now ISO 50 001 certified. Together with the two plants in Halmstad, HKScan Group now has three sites certified under ISO 50 001.

One aim of the energy efficiency project is to measure energy and water consumption at plant level so as to track the use of resources and identify any deviations. A web app has been deployed to monitor energy and water consumption, enabling the data to be followed up also at Group-level. The tool will be adopted throughout the Group in 2017.

PERSONNEL ENGAGEMENT

Every employee at HKScan is in a position to influence energy consumption at their workplace. HKScan recently organized an internal competition, *Let's save energy*, urging the personnel to reflect on their personal consumption of energy. Workshops were arranged and ideas collected at each plant. The competition produced an amazing result of over 1 000 energy saving ideas. Team Świnoujście from Poland was chosen as the winner, and were commended by the jury for making an "exemplary effort in providing detailed descriptions of energy-saving ideas and commitment to environmental issues." The best ideas were shared among HKScan plants.

EXAMPLES FROM OUR SITES

1. In Finland, several actions have been taken to attain our energy efficiency targets. In the energy review conducted at the Forssa production plant, several areas of improvement were pinpointed. Various energy reduction investments have been implemented during 2016, including the installation of new ammonia condensers and compressors.

2. HKScan Finland was among the signatories of the national Energy Efficiency Agreements (EEA) in 2011–2016, and has agreed to participate in the new period of agreements covering 2017–2025. The target for 2017–2025 is an 18 per cent reduction compared to 2015. The agreement is part of the Finnish Climate and Energy Strategy and it supports the implementation of the EU Energy Efficiency Directive (EED).

3. A heat pump for wastewater heat recovery and a new water boiler for central heating were installed at the Rakvere plant in Estonia. This modification offers potential for saving around 10 per cent in natural gas consumption starting from 2017.

4. The Vinderup plant in Denmark has achieved a two per cent electricity saving by adding a new compressor to the existing high pressure system. The surplus heat is also used in other applications in the slaughterhouse. The ventilation has been upgraded in the slaughter area, saving approximately 10 000 euros per year. LED lights installed at both the Vinderup and Skovsgaard plants are saving about 224 MWh per year.

5. The transition to LED lights continued at all production plants in Sweden. Environmental and energy training was offered at the Skara and Halmstad plants.

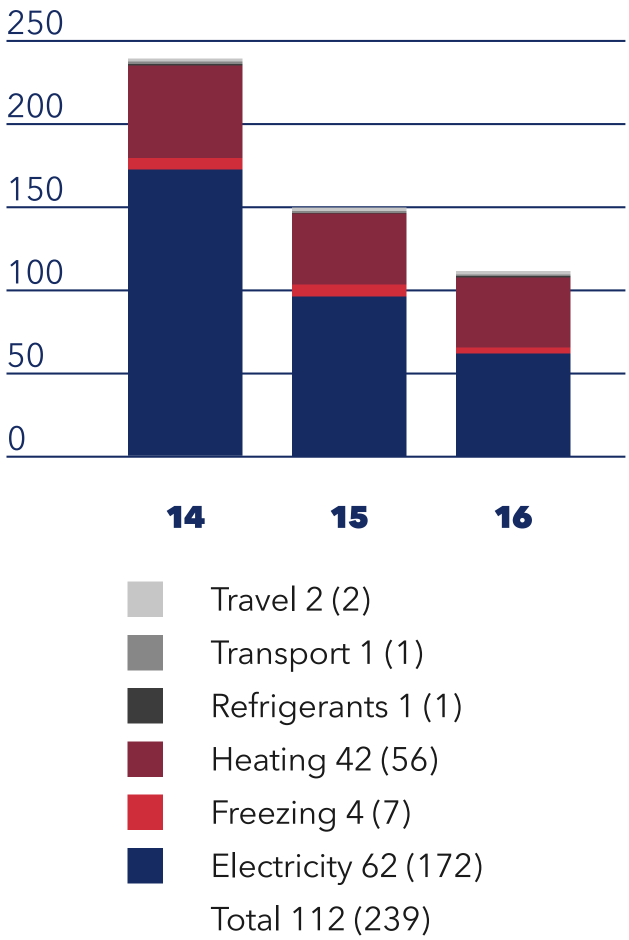
GREENHOUSE GAS (GHG) EMISSIONS

Greenhouse gas emissions contribute to global warming, sea level rise, desertification and increasing incidence of extreme weather conditions, such as storms and heavy rains. HKScan therefore recognizes the importance of contributing to GHG emission reductions and committing to global and national targets as defined under the Paris Agreement.

In order to understand and quantify our emission sources and to monitor our carbon footprint, HKScan is disclosing its greenhouse gas emissions in compliance with scope 1 (direct) and 2 (indirect) emissions of the Greenhouse gas protocol.

HKScan has disclosed its greenhouse gas emissions since 2014. In 2015, emissions were reduced by 37 per cent from the 2014 level and in 2016 further improvements led to a reduction of 53 per cent compared to 2014.

GREENHOUSE GAS EMISSIONS 2016 (2014) THOUSAND TONS CO_2e



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

In total, HKScan's GHG emissions decreased by 53 per cent or 127 thousand tonnes from 2014 to 2016. The total emissions for the entire Group amounted to 112 thousand tonnes of CO_2e in 2016. About half of the decrease is attributable to the switch to hydroelectricity in Sweden and Poland, and the combined use of bio- and hydroelectric power in Finland. Increased energy efficiency and the use of renewable energy sources has contributed to the mitigation of climate impacts, as well as lowered emission factors for the Nordic and Estonian residual electricity mixes.

GHG MITIGATION IN 2016

HKScan Finland has moved over to using 100% renewable electricity at all its production sites and offices in Finland. By choosing fully renewable Finnish bio- and hydropower, HKScan Finland's CO_2 emissions were reduced by 57 per cent compared to the previous year. Overall emissions were reduced by nearly 30 000 tons of CO_2e. HKScan's acquisition of a freezer and storage company in Forssa, Finland increased electricity consumption to a level corresponding to the overall electricity saving achieved at HKScan, resulting in no change to the total volume of electricity consumed from 2015 to 2016.

GHG emissions caused by heating declined by 750 tons of CO_2e. The decline is due to a reduced need for heating. Emissions from transports and travel were of the same order as in 2014, and emissions from freezing were halved.

See our website for more information (to be updated by the end of March).

Scopes 1 and 2 cover less than 10 per cent of the total greenhouse gas emissions of meat production from farm to fork (i.e. HKScan operations). Scope 3 (i.e. activities in the value chain prior to and after HKScan operations) covers more than 90 per cent. Animal primary production is the significantly greatest source of emissions in scope 3. In order to assess its products from a lifecycle perspective (and part of scope 3), HKScan uses Lifecycle analysis (LCA) to measure the various environmental aspects of our products.

CARBON OFFSETTING

HKScan Finland has decided to offset its remaining Scope 1 and Scope 2 CO_2 emissions for 2016 and become one of the first food companies in the Nordic region to offset the emissions of its production sites. Offsetting is done by financing emission reduction projects via carbon credits. These projects reduce the amount of CO_2 emissions from the atmosphere in amounts corresponding to the volume of emissions produced by our plants during 2016. By choosing to compensate for our emissions, HKScan Finland is contributing to climate change mitigation and is taking growing responsibility for promoting sustainability. Offsetting our emissions is a key step in fighting climate change, alongside which we also take a variety of actions to enhance energy efficiency, utilize renewable energy sources as well as mitigate emissions in our value chain.

GHG TARGET REACHED IN SWEDEN

HKScan Sweden reached its climate target already in 2015 by achieving a 72 per cent reduction in GHG emissions. The preliminary target was to reduce emissions by 50 per cent from 2003 to 2020. In order to keep improving, Sweden has set a new target to be reached at the latest by 2030: a reduction of 95 per cent (Scope 1 and 2 emissions and inbound transportation and business travel in Scope 3) compared to 2003.

EXAMPLES FROM OUR SITES

1. The Säkna farm in Estonia covered its slurry tanks with plastic to decrease emissions into ambient air. The plastic cover reduces methane and ammonia emissions as well as odours. All slurry tanks on other farms in Rakvere are covered with LECA (lightweight expanded clay aggregate) floating covers.

2. HKScan Sweden is part of the Haga Initiative and participates actively in the climate network. More information on the network is available at: http://hagainitiativet.se/en/.

3. The Halmstad plant in Sweden conducted a pilot study on flue gas cleaning in spring 2016. It revealed that treatment with activated carbon was the most effective cleaning method, potentially reducing annual consumption of natural gas by 87 per cent and 638 tonnes of CO_2. Activated carbon will be installed during 2017.

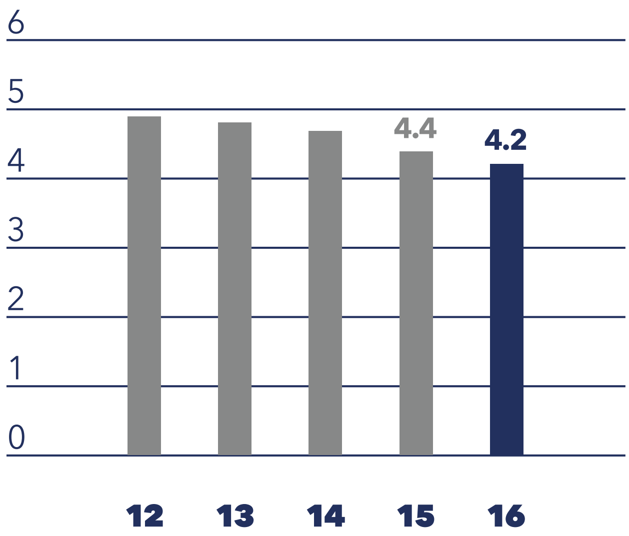
WATER USE AND WASTEWATER

WATER USE

The Nordic countries enjoy fresh water in abundance. Local shortages were noted, however, in parts of Eastern Sweden during 2016, but so far HKScan has not been affected directly. The availability of clean freshwater is a global issue, as the total volume of global water resources is limited. HKScan monitors its consumption of freshwater to be as efficient as possible while mitigating all risks related to food safety.

HKScan has reduced its water consumption by 13 per cent during the last five years. To assess potential for further savings, a Total Plant Assessment (TPA) audit was performed in Linköping, Sweden. The purpose of the TPA is to reduce and optimize water consumption, energy consumption, waste and usage of cleaning chemicals. Several improvement targets were identified for further evaluation and implementation.

WATER CONSUMPTION MILLION M³



EXAMPLES FROM OUR SITES

1. To reduce water consumption, the Mikkeli plant in Finland replaced the spray nozzles in its cooling cabinets with smaller ones. Optimized timing has also reduced water volumes.

2. The Jelgava production plant in Latvia modified the water cooling system linked to its smoking ovens by lowering the temperature and shortening the cooling time, thus reducing water consumption by 10 per cent.

3. The Skovsgaard plant in Denmark has reduced its water consumption by 5-10 per cent. Additionally, HKScan Denmark is participating in the "DRIP" project (*Danish partnership for Resource and water efficient Industrial food Production*), which focuses on optimizing the use of drinking water. Two DRIP sub-projects have been initiated so far, saving 320 m^3 water per day.

4. During the rebuild of the stables at the Kristianstad slaughterhouse, Sweden, new taps for drinking water and new showers for cooling the air temperature were installed to reduce water consumption.

WASTEWATER

In 2016 HKScan's wastewater levels have been relatively stable. Thanks to HKScan's control programme, only a few deviations from environmental permit levels were detected at an early stage. The detected deviations resulted in immediate investigations and improvement measures. HKScan is continuously working to reduce its wastewater emission levels to ensure that they remain clearly below those required under environmental permits.

EXAMPLE FROM OUR SITES

The wastewater treatment process was improved at the Tabasalu plant in Estonia, where a new aeration system was developed for the flotation process.

MATERIAL EFFICIENCY AND WASTE

Material efficiency and waste management cover various issues such as efficient use of animal raw material, reduced usage of packaging materials and minimized production-related food waste and food waste in general. Efficient use of materials has a positive environmental impact in the form of mitigating climate change and reducing energy and water consumption. Moreover, material efficiency contributes to maintaining biodiversity.

BIOTECH

The Group's Biotech business line continued its efforts to optimize the usage of animal-based raw materials by channelling side streams into higher value added applications and by reducing materials going to waste.

EXAMPLES FROM OUR SITES

1. In line with new legislation in Finland, in 2016 the Outokumpu plant began transferring manure, stomach and gut contents for biogas production instead of depositing this waste to landfills. The aim of such improvements is to move towards a circular economy by efficiently harnessing animal-based raw materials and side streams and reducing the amount of waste.

2. The Rakvere plant in Estonia increased the volume of animal by-products delivered for biogas production.

3. The Linköping plant in Sweden introduced a new process for boiling cattle bones. The bones are now sold for food industry use on the export market instead of going to waste.

PACKAGING MATERIAL

HKScan has worked to further prolong the shelf life of its products by launching various new packaging techniques. A prolonged shelf life reduces food waste by increasing the probability of the food being consumed before its expiry date.

EXAMPLE FROM OUR SITES

HKScan's Danish plants are running a project to decrease packaging materials. One of its key aims is to avoid repacking due to underweight portioning, mistakes, overproduction, etc.

FOOD WASTE

Production-related food waste is an important focus area because this 'waste' has potential value. Reducing waste is also crucial for driving environmentally sound and responsible production.

EXAMPLES FROM OUR SITES

1. The Rakvere plant in Estonia decreased production-related food waste by 10 per cent thanks to training, improved production lines and other investments.

2. In Sweden, HKScan's cooperation continues with the "Matmissionen" social supermarket. In 2016, HKScan Sweden's contribution was 8 000 kg of food products.

3. The Vantaa production plant in Finland donated batches of food to a project organized by the City of Vantaa called "A shared table". The aim of the project was to collect surplus food in a central location enabling it to be distributed efficiently as food aid to the needy. HKScan's contributions have been sporadic, however, as the company's ultimate aim is to prevent all waste.

4. In autumn 2016 HKScan Finland participated in "Wastage week" organized by the Consumers' Union of Finland. The aim of the event is to encourage the whole food chain to reduce food waste and increase food appreciation.

WASTE

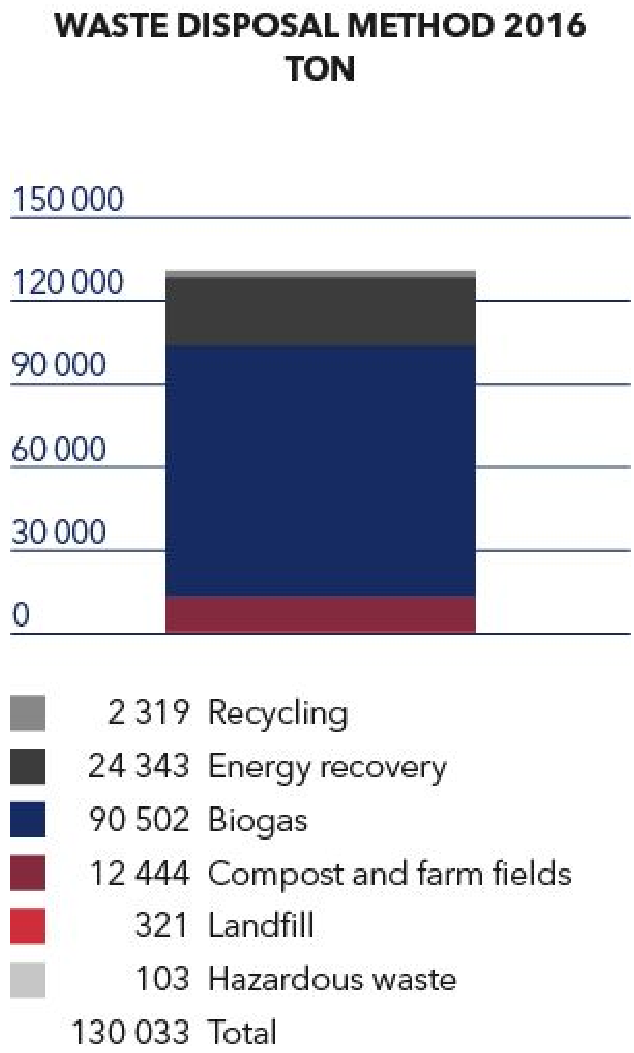
All our production plants adhere to a common waste hierarchy: our top priority is to reduce waste, followed by reuse, recycling, energy recovery and landfill as the last option.

During 2016 HKScan implemented a new waste management system in Finland. Our aim is to improve recycling and increase co-operation between plants – also across national borders – by sharing information on successful improvement actions. With the new set-up, we can more easily follow and manage waste handling at different levels.

EXAMPLES FROM OUR SITES

1. In 2016, HKScan Finland signed a contract with the Rinki Oy service company in order to manage its statutory extendedn producer responsibility (ERP), which stipulates that companies are obligated to manage their product-related packaging waste beyond just their own operations, for example in retail. Over 5 000 companies have signed a contract with Rinki. Under the contract, producer responsibility for packaging is transferred from HKScan to Rinki and other related organizations, which together arrange collection and recycling of the packaging material.

2. A new waste station and new procedures for waste management were implemented at the Linköping plant in Sweden.



HKScan reported all its waste volumes categorized per treatment method for the first time in 2016. No comparison to previous years is therefore available. Landfill waste has been reduced by 94 per cent over the last five years, mainly because organic waste is now either harnessed for biogas production or re-used in new end-use areas identified by the company's Biotech business.

CHEMICAL MANAGEMENT

Cleaning chemicals account for the largest volume of chemicals used at HKScan. We are engaged in an ongoing effort to decrease the amount of chemicals we use and to substitute them with more environmentally sound options. HKScan applies a system which closely registers the chemicals we use and their environmental and health effects.

EXAMPLES FROM OUR SITES

1. Finnish regulation VNA856/2012 was implemented at HKScan Finland during 2016. The regulation introduces tougher safety requirements for chemical handling and storage. The regulation has improved safety both for the personnel and the environment by stipulating risk evaluations and action plans.

2. The chemical storage unit has been rebuilt at the Linköping plant in Sweden. The use of several chemicals has been discontinued. A Total Plant Assessment was conducted at the site, also covering the use of chemicals.

ENVIRONMENTAL WORK AT FARMS

A meat product's overall environmental impact traces back, for the most part, to farm level. We at HKScan have therefore started evaluating how we as a purchaser can contribute to the sustainability of animal primary production. Our commitment to responsible soy is a good example. During 2016 HKScan highlighted environmental issues and best practices in its communications with its contract producers, for instance in producer magazines and newsletters. An environmental prize for primary producers was launched in Sweden at the end of 2016 to encourage producers to share their environmental success stories.

HKScan's advisory services for producers focused on feed efficiency and optimal use of feed resources at farm level, with the goal of reducing environmental impacts. We have recently improved the efficiency of our liquid by-product transports by interlinking transports, which has reduced truck transport distances by 140 000 km per year (which equals 3.5 times the globe's circumference).

BIODIVERSITY

Agriculture and animal production have a major impact on biodiversity, the extent varying between different regions and agricultural practices.

Grazing cattle and sheep play a key role in the ecosystems of the semi-natural pastures that we have in Sweden and Finland, which are rich in biodiversity. Cattle and sheep have contributed to shaping our open landscapes for hundreds of years. Approximately 40 different plant and insect species can be found on one square meter of semi-natural pasture. Most of the pastures in Sweden and Finland are not semi-natural, however: these lower-biodiversity or cultivated pastures nevertheless contribute to carbon sequestration.

To save biodiversity and mitigate adverse environmental and social impacts, HKScan is committed to using responsible produced soy throughout its production chain, in animal feed and food products by year 2018.

ORGANIC PRODUCTION

The guiding principles of organic production include the sustainable usage of natural resources such as energy, land and water, as well as biodiversity and high standards of animal welfare. Organic production is driven by consumer demand, and this is the strongest driver for increasing volumes of organic products throughout the value chain.

In Sweden, demand for organic products has witnessed extraordinary growth in recent years. We at HKScan are constantly working to evolve with market demand. HKScan purchases a considerable amount of organic meat in Sweden. We anticipate that interest in organic pork will increase slightly in coming years.

HKScan has significantly increased sales of EU organic poultry in Denmark during 2016. Consumers especially appreciate the animal welfare criteria fulfilled by organic poultry, including factors such as larger space and outdoor access.

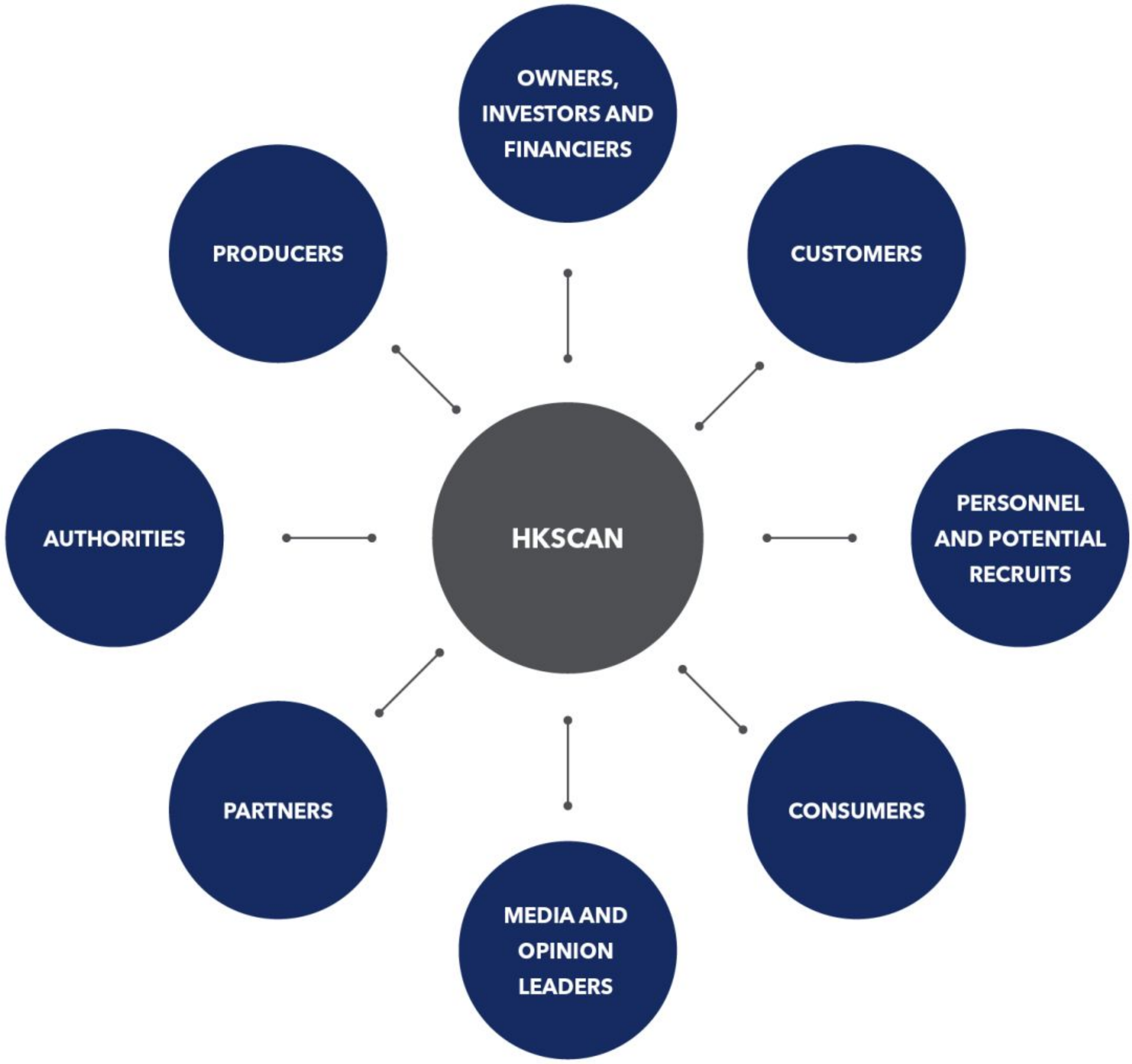
GOALS AND IMPROVEMENTS

GOALS	IMPROVEMENTS IN THE LONG TERM
Economic responsibility	
• Achievement of financial targets for HKScan and its stakeholders • Investments, production management and employment security • Significant direct and indirect tax footprint • Improved sourcing of production animals, materials and services • Improved profitability, cash flow and productivity of primary production	• Strong balance sheet and improved net gearing • New poultry production plant investment in Rauma, Finland • Progress of cross-border primary production collaboration groups targeting systematic improvement of best practices and economic performance • Ongoing work to provide producer services supporting primary producers' competitiveness
Social responsibility	
Responsible products	
• Continuous improvement of Food safety and quality systems (ISO/FSSC 22000, BRC, IFS, ISO 9001) • Control of microbiological, chemical and physical risks, maintenance and control of salmonella-free status • Production of safe, tasty and nutritionally balanced products • Brand promises of selected brands: only domestic meat used • Traceability from farm to fork: HKScan's own farms and contract producers, imported meat originating from audited slaughterhouses • Clear and transparent product information	• All production plants are third-party certified according to international food safety management standards • First harmonized Group-wide food safety guidelines • HKScan's meat supplier approval process in use • Wide assortment of products supporting cardiac health: "Sydänmerkki" (Heart label) products in Finland and "Nyckelhål" (Key hole) products in Sweden • Combined products with vegetables and meat • Special concepts: rapeseed-fed pork (Rypsiporsas® in Finland, Rapsgris® in Sweden, Omega-3 pork for export), corn-fed chicken (Majs Plus kylling in Denmark) and organic products throughout the Group • Iodized salt in use from the beginning of 2016 (Finland) • Continuous reduction of salt, phosphate, nitrite

GOALS	IMPROVEMENTS IN THE LONG TERM
	• HK®, Kariniemen®, Scan®: meat of domestic origin • Meat raw material from HKScan's home market (contract producers or own farms)
Personnel	
• Continuous improvement and harmonization of employee wellbeing and workplace safety processes • Promotion of equality and diversity • Competence development	• Lost time incident rate down by nearly 18 per cent from 2015 • Performance Dialogue rate improved significantly especially among blue collar employees • Group-wide Employee Engagement Survey conducted with improved response rate of 83.9 per cent • Common Group-wide people master data solution project started and on-going • HKScan Leadership Academy programme 2 deployed
Responsible supply chain	
• Primary production based on long-term contract production or on HKScan's own farms • Extended supplier and subcontractor evaluation and assessment process • All meat-supplying slaughterhouses are audited; meat sourced only from audited slaughterhouses • Management of ethical risks	• Collaboration and advising services provided to contract producers • Group-wide supplier and sub-contractor evaluation and approval process update • All sub-contractors and meat suppliers evaluated and audited • All meat sourcing only from audited meat slaughterhouses • HKScan Group's Supplier Guidelines • Evaluation of suppliers from CSR (Corporate Social Responsibility) perspective ongoing • Development of national plans for responsible soy, high scores in WWF soy scorecard • Mapping of palm oil content in food products • Membership in the Roundtable on Responsible Soy (RTRS) and responsible soy commitment • Membership in the Roundtable on Sustainable Palm Oil (RSPO)
Animal health and welfare	
• Common indicators and measures in use, as well as sharing of best practices across the Group	• Animal health and welfare improvements throughout the value chain

GOALS	IMPROVEMENTS IN THE LONG TERM
• Retain very low usage of antibiotics and other medication, which is to be subject to continuous monitoring and strict control • Proactive assessment and management of animal disease risks	• Ensuring compliance in our own operations through audits of animal welfare in slaughtering operations • Raised employee skills in low stress animal handling • Investment in slaughterhouses: improved animal welfare • Video surveillance installation in slaughterhouses in Finland and Estonia • Use of antibiotics in primary production registered and controlled • Cross-border collaboration to assess and mitigate risks related to animal diseases at HKScan's home markets • African swine fever (ASF) risk management in Estonia • ASF not detected in Finland and Sweden
Environment	
• Improved energy efficiency (reducing energy usage by 10 per cent in relation to net sales from 2014 to 2017) and reduction of GHG emissions • Reduced water use, wastewater effluents levels always below environmental permit levels • Improved waste management and recycling • Reduction of wastage in production and food waste through packaging solutions • Efficient use of raw materials by using the whole carcass • Reduced and fully controlled use of chemicals • Assess environmental impact in animal supply chain	• Energy efficiency project: energy efficiency decreased 1.2 per cent in 2014-2016 in relation to net sales, energy reviews, improved measuring, efficiency investments and increased use of renewable energy • GHG emission disclosure (GHG protocol, Scope 1 and 2) 53 per cent reduction since 2014 • Reduced water use by 13 per cent 2012–2016 • Wastewater effluent treatment was relatively stable and improved compared to 2015 • New measurement of waste disposal method and improved recycling, more material to biogas • Production-related wastage reduction through process improvements, and food waste reduction by packaging solutions and the Social Supermarket in Sweden • Further optimized utilization of by-products and biomass (in the Biotech business line) • Improved risk management of chemicals • Environmental communication to contract producers • Environmental prize to primary producer in Sweden

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.

Our long-term collaboration with our key stakeholders – consumers, customers, producers, business partners, authorities, and research institutes – has deepened HKScan's view of the company's most important sustainability themes.

These themes are present in our daily interactions with various stakeholders. Examples of our stakeholder interactions in 2016 are listed in the following:

STAKEHOLDER ENGAGEMENT 2016

CONSUMERS

Consumers are among HKScan's most important stakeholders – they are the ones who ultimately decide which products end up in their shopping basket. Consumer needs also have the biggest impact on our product offering and R&D.

Important sustainability themes

Quality and sustainability of products, product offering, nutrition and health aspects, vegetarian trends

Engagement examples 2016

- Increased transparency with Chicken Patrol, Finland
  - To increase openness and transparency, Kariniemen continued its Chicken Patrol project in cooperation with consumers.
  - New Chicken Patrol videos were published on Kariniemen's YouTube channel and its website
- OKRA agricultural exhibition, Finland
  - The origin of meat and the HK® Meat School were the main topics of interest at HKScan's stand at the OKRA agricultural exhibition. The chefs in attendance also shared tips on how to barbecue a perfect steak and plan a summer menu.
- Domestic meat week in schools, Finland
  - HKScan participated in a communication project focusing on the origin of meat as well as promoting sustainably produced domestic meat in public food debate
  - During this theme week dedicated to domestic meat, HKScan distributed related teaching materials to schools in Finland. The theme week took place in November 2016, giving schoolchildren a chance to learn about the production and journey of domestic meat from farm to fork.
- Blogs, social media
  - facebook.dk/rosepoultry
  - http://www.hkscanagri.fi/kotitilalta-blogi/
  - http://www.hkscanagri.se/
  - https://www.facebook.com/hkscansweden/
  - https://www.facebook.com/RakvereLK/
  - https://www.instagram.com/Rakvere_lk/
  - https://www.facebook.com/tallegg/
- Farmer's Dinner, Sweden (Read more: HKScan Agri magazine, only in Swedish)
  - Around 100 people participated in HKScan's Farmer's Dinner in Sweden. The event was organized on a farm where delicious meals were prepared from high-quality ingredients. The guests had the opportunity to view the farm's operations first-hand and see the animals in their natural environment.
- "Meat of the future", Sweden
  - Framtidens kött, "Meat of the future" is HKScan Sweden's digital communication channel. Framtidenskott.se offers an opportunity for all to learn about and share themes and discussions around and about meat.
  - Introduction: https://www.youtube.com/watch?v=dfWRoAEoTSI
  - Meat and health: https://www.youtube.com/watch?v=4awdz_tGOF0
  - Climate: https://www.youtube.com/watch?v=JeSu5gqjaQA

- Traditional Christmas trade in grocery stores, Sweden
    - HKScan employees and management attended in person to sell HKScan products in grocery stores during the Christmas season.

CUSTOMERS

HKScan's customers include retailers, food services and the food industry in the Nordic countries, Central Europe, and Asia. Close cooperation, knowledge sharing, and joint development projects are important for the growth of both HKScan and its customers.

Important sustainability themes

Product assortment, product safety, supply chain and its transparency, common development projects, price

Engagement examples 2016

- HKScan meat producers were involved in the retailer Kesko's campaign, Tuottajille kiitos or "Thanks to producers", Finland
    - One of Finland's major retailers, K-group, paid an extra commission directly to meat producers. The commission was included in the product price. The campaign started in 2015 with Christmas hams.
    - The campaign aimed to increase recognition of Finnish food production and the Finnish food industry.
- Collaboration with Restaurant AG, Sweden
    - HKScan continued its long-term, extensive collaboration with the Restaurant AG by supplying high-quality Swedish beef.
- Collaboration established with Kotipizza, Finland
    - HKScan Finland initiated collaboration with the Kotipizza chain. Kotipizza now uses HK Rypsiporsas® ham chips on its ham pizzas. The product has been developed in line with Kotipizza's wishes.
- "Pork Academy", Sweden (Read more: HKScan Agri magazine, only in Swedish)
    - HKScan Sweden promoted the pork production chain among its AfH customers by offering them training as part of the 'Gris academy'.

PRODUCERS

HKScan depends on seamless cooperation with our contract producers to ensure the availability and quality of meat raw material for our products. Producers also play an important role in ensuring the wellbeing of animals and product safety.

Important sustainability themes

Long-lasting contractual business relationships, producer advisory services as well as other services, fair prices, continuity of meat production.

Engagement examples 2016

- Networking cruise for Finnish and Swedish contract producers
    - The first ever networking cruise was organized for HKScan contract producers in January 2016. The cruise offered participants a chance to network with producers from neighbouring countries.
- Producer awards, Finland, Sweden and Denmark
    - HKScan selected and awarded the best producers of 2016
        - Finland: Poultry producer: https://www.youtube.com/watch?v=ZKI8BCfLyi4
        - Finland: Beef producer: https://www.youtube.com/watch?v=ifBsYbQRAlk
        - Finland: Pork producer: https://www.youtube.com/watch?v=isx6q-phwL4
        - Sweden: Lamm producer: HKScan Agri magazine, only in Swedish
        - Sweden: Beef producer: HKScan Agri magazine, only in Swedish

        - Sweden: Pork producer: HKScan Agri magazine, only in Swedish
- Kotitilalta producer magazine, Finland
    - https://www.hkscanagri.fi/tuottajalehti/
- HKScan Agri producer magazine Sweden
    - http://www.hkscanagri.se/aktuellt/hkscan-agri-tidning/
- OKRA agricultural exhibition, Finland
    - HKScan met its producers at the agricultural exhibition
    - https://www.youtube.com/watch?v=Frr-8SdgGWA
- Bull auction, Finland
    - https://www.youtube.com/watch?v=ZqNB4yVuEC0

EMPLOYEES

The know-how and commitment of our employees is crucial to HKScan's success. Personal development opportunities, unified ways of working and a strong business culture will ensure good employee engagement into the future.

Important sustainability themes

Continuity of employment, fair compensation, appreciation of work and equality, personal development opportunities, occupational safety

Engagement examples 2016

- 'Let's save energy', energy saving campaign for the personnel
- Employee survey
    - HKScan organized an employee engagement survey in the autumn of 2016.
- The continuous improvement programme ongoing
- Open house for families of personnel in Denmark
    - The families of HKScan's employees were invited to the Skovsgaard production facility in Denmark. They were introduced to the production, packaging and warehousing of Rose® branded products.

OWNERS, INVESTORS, FINANCIERS

To ensure the continuity of its operations, HKScan relies on its owners, investors and financiers, who in turn expect profitable, value-adding business operations and return on investment (dividends).

Important sustainability themes

Profitability, profit, success and continuity of responsible operations, dividend

Engagement examples 2016

- General meeting
- Investor and financier meetings

PARTNERS

HKScan develops its operations through shared expertise and long-term cooperation with subcontractors and suppliers, partners, local communities, as well as research and educational institutions.

Important sustainability themes

Animal health and wellbeing, public health and nutrition, engaging youth, occupational health and safety, environmental questions

Engagement examples 2016

- Collaboration project on animal feed with Hankkija and Schothorst Feed Research Institute, Finland
    - A new pig feed concept was launched as a result of collaboration between HKScan, Hankkija, and the Schothorst Feed Research Institute. The feeding solution (Opti-Pekoni) ensures animal wellbeing while facilitating everyday farm operations and reducing expenses.
- Innokampus collaboration and the world's biggest mass innovation day, Finland
    - http://www2.hkscan.com/portal/english/hkscan/news_releases/?id=2083
    - http://www2.hkscan.com/portal/english/hkscan/news_releases/?id=2096
- Tekes research collaboration on healthy nutrition of army conscripts, Finland
    - HKScan participated in a research project funded by Tekes (Finnish Funding Agency for Innovation). The project aimed at developing new nutrition solutions for army conscripts as well as ways to promote healthy food choices in the military.
- Haga Initiativet, Sweden
    - The Haga Initiative is a network of companies that works to reduce carbon emissions. It highlights climate issues by showing that ambitious climate strategies create business advantages and improve profitability.
- Almedalen, Sweden
    - Almedalen week in July is an annual event on the isle of Gotland, Sweden (Read more: HKScan Agri magazine, only in Swedish). During the event, topical political and social issues are discussed. It is organized by the Swedish parliamentary parties. In 2016, HKScan organized a seminar and event under the theme "Cattle and climate".
- Veterinary students were introduced to poultry production, Finland
    - The Finnish poultry associations (Siipikarjaliitto, Broileryhdistys) together with HKScan Finland offered all veterinary students at the Helsinki University a chance to visit a poultry farm and a slaughterhouse. The three-day visits were organized in November and December.
- Gård och djur collaboration, Sweden
    - Collaboration focusing on animal health and wellbeing (Read more: HKScan Agri magazine, only in Swedish)
- ELLO i Lammhult collaboration, Sweden
    - The objective of this collaboration is to offer local slaughterhouse services to beef farms (Read more: HKScan Agri magazine, only in Swedish).
- Collaboration with the National Institute for Health and Welfare in designing the Rauma production plant, Finland
    - http://www2.hkscan.com/portal/english/hkscan/news_releases/?id=2147
- Collaboration with stakeholders: Soy commitment, Finland
    - http://www2.hkscan.com/portal/english/hkscan/news_releases/?id=2047
- Collaboration with animal behaviour expert Sophie Atkinson, Finland
    - http://www2.hkscan.com/portal/english/hkscan/news_releases/?id=2045

AUTHORITIES

Close collaboration with national governments and local authorities ensures uninterrupted operations and smooth processing of licences.

Important sustainability themes

Animal health and wellbeing, public health and nutrition, product safety, environmental topics

Engagement examples 2016

- Environmental permit for Rauma's production plant, Finland
    - http://www2.hkscan.com/portal/english/hkscan/news_releases/?id=2057
- Collaboration with authorities

  - Everyday collaboration at HKScan's contract farms, slaughterhouses, and production plants
  - Work preventing the spread of African swine fever in Estonia, Finland, and Sweden
  - Work preventing the spread of avian flu in Denmark, Finland, and Sweden

MEDIA AND OPINION LEADERS

Media, politicians, interest groups, and non-governmental organizations have a significant impact on the development, regulations, and image of the industry – also internationally. Open and honest communication is crucial for maintaining good relationships.

Important sustainability themes

Animal health and wellbeing, public health and nutrition, environmental topics

Engagement examples 2016

- Almedalen, Sweden (see above)
- Haga Initiativet, Sweden (see above)
- "About meat" (Lihasta) project, Finland
  - http://www.lihasta.fi/
- Professional PR work throughout the Group, for example a press event about investments in the Outokumpu production plant, Finland:
  - HKScan has expanded the barn at its beef slaughterhouse, upgraded its pre-slaughter animal handling facilities, and fully renewed the beef cutting unit. The wastewater treatment system and carcass chilling facilities have also been modernized. Recording video surveillance cameras have been installed in all areas critical to the animal welfare.

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2016

- Net sales were EUR 1 872.9 (1 917.1) million
- EBIT was EUR 9.7 (9.6) million. Comparable EBIT was EUR 13.2 (21.5) million, and the corresponding EBIT margin was 0.7 (1.1) per cent.
- Cash flow before debt service was EUR 23.7 (32.2) million.
- Comparable profit before taxes was EUR 4.4 (14.1) million.
- EPS was EUR -0.10 (0.01).
- Net financial expenses were EUR -8.7 (-9.1) million.
- Net debt was EUR 137.2 (144.0) million.
- Outlook for 2017: HKScan aims to reach the comparable operating profit (EBIT) of the year 2016.
- The Board’s proposal for dividend is EUR 0.16 (0.14) per share.

GROUP OVERVIEW

In 2016, the Group’s net sales decreased compared to 2015 and all the other market areas, except Finland, were behind the previous year. The Group’s comparable EBIT was lower than in the previous year. The biggest decline in EBIT was in market area Sweden, due to weak sales performance, especially in the processed category. Performance in Sweden was also impacted by the higher purchase prices and the scarcity of beef on the market. In Finland, full-year EBIT remained behind the previous year due to the weak first half of the year. EBIT in the Baltics showed a slight improvement. Market area Denmark made still loss, but it continued performing well on the domestic retail market, and challenges in exports continued.

Animal raw material prices in Finland and the Baltics were at a level slightly below 2015. In Sweden, the prices of animal raw material, beef in particular, continued increasing. A shortage of beef continued in Sweden and also in Finland to some extent throughout the whole reporting period. An oversupply of pork posed challenges on the Finnish market. Thanks to successful actions to mitigate the pig oversupply in the Finnish meat value chain, pork inventories were successfully lowered towards the end of the year to a level below the previous year. Vegetarian and vegan food were discussed widely in 2016, but the overall level of meat consumption remained stable throughout the year.

The total market in Sweden and Denmark grew in value. In Finland, where the total market in value had declined throughout the first three quarters of the year, yet showed growth in the fourth quarter. The Baltic market declined in value. Fierce price competition continued on all markets, especially in retail. Despite the market decline in Finland and the Baltics, inventories were successfully kept in balance. In Denmark, the domestic market grew and HKScan increased its market share in value.

During 2016, Finland successfully maintained or increased its market share in value, depending on category. Away from home sales grew in Finland at a faster pace than the market in value, but in Sweden the growth rate was slower. In export, price levels improved from the previous year. HKScan opened a sales office in Hong Kong in January.

The Group’s investment in a new poultry production facility in Rauma, Finland, proceeded well in 2016. Related to the launch of the new production facility, HKScan initiated statutory negotiations at its Eura plant, Finland in December. The expansion investment of the Group’s Polish bacon plant was also making good headway.

In December, HKScan announced the results of its internal investigation into its Baltic business. The proven violations of Code of Conduct and the principles of good governance led to the termination of the managerial and employment contracts of four persons from the local management.

REVIEW BY MARKET AREA

NET SALES AND EBIT BY MARKET AREA

(EUR million)

NET SALES	2016	2015
Sweden	804.4	841.9
Finland	806.5	801.6
Denmark	173.2	175.9
Baltics	161.3	173.6
Between segments	-72.4	-76.0
Group total	**1 872.9**	**1 917.1**
EBIT		
Sweden	12.9	21.1
Finland	14.6	4.9
Denmark	-9.5	-9.3
Baltics	6.4	5.4
Between segments	-	-
Segments total	**24.4**	**22.1**
Group administration costs	-14.7	-12.5
Group total	**9.7**	**9.6**

The division of segments is based on the Group’s organization 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 804.4 (841.9) million and comparable EBIT was EUR 14.5 (21.6) million.

Net sales in 2016 declined from 2015, mainly due to the shortage of beef raw material and declined sales of processed food, including cold cuts. In the fourth quarter, both net sales and comparable EBIT decreased.

A shortage of Swedish pork and beef during spring and summer resulted in increased animal raw material prices. As a result of that HKScan succeeded to increase sales prices. However, they did not fully compensate for higher raw material prices and sales volume decline on a full year basis. The amount of imported meat increased on the market and private label growth continued in all categories in Sweden. The total market grew in value, but HKScan lost some of its market share.

Consumer demand for food increased in general with a focus on organic products, as well as on health, wellbeing and vegetarian trends. HKScan responded to this by launching several Scan®-branded novelties containing both meat and vegetables. Sustainability related communications activities under the "Framtidens Kött" (Meat of the Future) concept were successfully undertaken according to targets.

MARKET AREA FINLAND

In Finland, net sales were EUR 806.5 (801.6) million and comparable EBIT was EUR 14.8 (16.3) million.

Net sales increased slightly from 2015, but comparable EBIT decreased. Sales prices declined in Finland, but thanks to the improved product mix and volumes, the year-on-year increase seen in comparable EBIT in the third quarter continued also in the fourth quarter. HKScan successfully increased its market share towards the end of the year. Christmas season sales were better than in the previous year.

The total market grew in value in the fourth quarter after a long decline that began back in early 2015. The improved situation was supported by slowly strengthened consumer confidence. The convenience food and poultry categories in particular showed positive development, with both volume and value improving during the whole of 2016. Pork inventories were successfully lowered to a level below the previous year. Animal purchase prices in the fourth quarter were somewhat higher than in the previous quarters. For the whole year 2016, the prices were slightly below the level of 2015.

HK Maakarit® artisan sausages gained loyal consumers and new variants were launched under the concept. Also the launch of new bacon variants had a positive start, expanding the product range from classical products to new areas. In poultry, the Kariniemen KanaSet® products were the best-selling novelty during 2016.

The Group's investment project in the new poultry production plant in Rauma proceeded according to schedule.

MARKET AREA DENMARK

In Denmark, net sales were EUR 173.2 (175.9) million and comparable EBIT was EUR -9.1 (-9.3) million.

On the Danish market, overall consumer demand for poultry remained positive. The sales trend in fresh products was positive, leading to higher volumes, improved margins, and gained market shares.

The market situation in exports was fierce throughout the year, and Denmark's performance in these markets was negatively affected both as regards price and volumes. Towards the year-end, its performance was further impacted by the closure of key Asian markets due to an outbreak of avian flu in Denmark during November.

HKScan's investments in the Rose® brand have brought positive results, i.e. improved market share and brand awareness.

MARKET AREA BALTICS

In the Baltics, net sales were EUR 161.3 (173.6) million and comparable EBIT was EUR 6.4 (5.4) million.

Net sales decreased in 2016, but comparable EBIT improved from the previous year throughout 2016. For January–December the change in the fair value of biological assets amounted to EUR 0.8 (0.0) million.

New trends in meat consumption negatively affected traditional processed meat categories such as sausages. In market area Baltics, sales prices and volumes declined, but primary production related costs as well as other costs decreased and compensated for the impact of declined net sales.

For the Baltic business, 2016 marked a year of recovery after the negative impacts caused by African Swine Fever (ASF) from 2015 onwards. Disease-related risks prevailed, but actions to mitigate the spread to HKScan farms were managed successfully. The pork business started showing signs of recovery, and reduced zoning in November enabled HKScan to regain its previous sales and meat balance. Poultry consumption kept growing, but sales prices were very low. In the fourth quarter, the export business picked up thanks to a more favourable product mix and improved pork prices.

HKScan continued to harness the synergies of its brand and product portfolio between the Baltic markets. Strong branded sales were to a large extent a consequence of successful concept launches during the autumn. Particularly the new Rakvere® 50/50 meatballs, containing both meat and vegetables, and Tallegg® chicken product novelties were well received by consumers.

INVESTMENTS

The Group's net investments in 2016 came to EUR 97.6 (49.6) million. Their breakdown by market area was as follows:

(EUR million)

	2016	**2015**
Sweden	19.8	13.7
Finland	64.0	19.9
Denmark	3.1	5.4
Baltics	10.8	10.6
Total	**97.6**	**49.6**

FINANCING

The Group's interest-bearing debt at the year-end stood at EUR 144.1 (153.8) million. Net debt was EUR 137.2 (144.0) million and the net gearing ratio 33.5 (33.8) per cent.

The Group's liquidity was good. Committed credit facilities at 31 December stood at EUR 100.0 (100.0) million, and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 7.0 (27.0) million.

Net financial expenses were EUR -2.2 (-2.2) million in the last quarter and EUR -8.7 (-9.1) million in 2016.

RESEARCH AND DEVELOPMENT

Research and development in HKScan Group is targeted at developing new products and concepts and making improvements to products that are already on the market. A total of EUR 6.6 (5.1) million was spent on R&D in 2016, equal to 0.4 (0.3) per cent of net sales.

The development of common innovation platforms and processes continued in 2016, and synergistic cross-border opportunities received increased attention. Creating new growth areas is the Group's key priority going forward.

HKScan is continuously building its R&D network in order to support the implementation of the Group strategy. During 2016, several new partnerships and joint projects were established with collaborators such as universities, research organizations, suppliers and other private organizations.

CORPORATE RESPONSIBILITY

HKScan has defined its priority areas in corporate responsibility as economic responsibility, social responsibility, animal welfare and the environment.

In 2016, HKScan carried out its second employee engagement survey. The results confirmed that the improvement actions taken on the basis of the previous survey (in 2014) have brought results in terms of better information flow and increased opportunities for involvement and taking initiative. Overall awareness of values and targets have strengthened. Towards the end of the year, new improvement plans were made, and the actions will be initiated during 2017. These include workplace/personnel safety improvements, which were in focus across the Group during 2016.

The construction of HKScan's new poultry production facility in Rauma started in Finland. The plant is scheduled for completion at the end of 2017. From the very earliest stages of planning the project, special attention has been addressed to securing animal welfare, biosecurity related to animal diseases, food safety and product quality, as well as employee wellbeing and safety aspects. The investment will also improve environmental efficiency overall, and enable utilization of side-streams for biotech products. Additionally, the new facility will have a significant direct and indirect employment impact.

In Finland, investment in the Outokumpu beef slaughterhouse and production facility marked a significant improvement in operational efficiency, ergonomics, environmental efficiency and animal welfare. Also the renewal of barn facilities at the Kristianstad slaughterhouse in Sweden brought improvements in animal welfare.

The Group worked in cooperation with animal behaviour experts, and all slaughterhouses were audited for animal welfare. The audits kicked off many improvements at the slaughterhouses premises, starting with improved conditions for the free movement of animals. Additionally, in Finland, training of the slaughterhouse personnel, drivers and producers was organized to enhance their understanding of natural cattle behaviour and to help them take this into account in their animal handling procedures.

The Group retained its good status regarding animal diseases both in its contract production and in its own primary production. In all HKScan countries, the use of antibiotics in the treatment of animals is significantly lower than in other European countries on average. Neither farms owned by HKScan nor its contract farmers use antibiotics preventively or to promote animal growth. In addition, the use of hormones as growth promoters is fully prohibited. Good animal care and control of animal diseases has led to good results in preventing outbreaks. Prevention of the spread of African Swine Fever (ASF) on pig farms was one of the main measures undertaken at HKScan farms in the Baltics. In Finland and Sweden, HKScan has also worked diligently to prevent the spread of the disease. A new animal disease threat that has emerged recently is high pathogenic avian flu (H5N8), which has been found in wild birds in countries in which the Group operates.

A clinical study undertaken by Helsinki University showed that Rypsiporsas® meat (rape seed pork) contains four times more polyunsaturated omega 3 fats than normal pork meat. Healthy lifestyles and responsibly produced, pure food are emerging trends also in Asia, which is the world's largest pork market. HKScan answered to this trend by launching exports of Rypsiporsas® meat to Hong Kong.

HKScan is a member of the Round Table on Responsible Soy (RTRS) and the Roundtable on Sustainable Palm Oil (RSPO). The Group is committed to using only 100 per cent responsible soy in animal feed and as an ingredient by the end of 2018. In Sweden, this commitment was already fulfilled in 2015. HKScan finalized its survey of the Group's palm oil usage in 2016. Palm oil is used only in very small amounts in the Group's products and subcontracting. The target is to ensure that all palm oil used by HKScan is responsibly produced. The Group is also looking into the option of using alternative vegetable oils instead of palm oil.

HKScan is making on ongoing effort to monitor and reduce the environmental impacts of its operations. These impacts are currently associated with energy efficiency and greenhouse gas emissions, wastewater, use of water, use of chemicals and treatment of waste. The Group launched an energy efficiency project in 2015, which continued in 2016 on multiple fronts. The target is to decrease the Group's overall consumption of energy by 10 per cent from the 2014 level by 2017 (indexed to net sales). These efforts included an energy saving competition among personnel, which yielded over 1 000 energy-saving ideas.

HKScan operates in countries where responsible practices are widely embraced, automatically bringing us a number of valuable strengths in global comparison. These include high standards of hygiene, healthy animals, clean soil, as well as rich and clean water reserves. In 2016, HKScan participated in a number of cooperation projects and studies focusing on the environmental impacts of meat production and their mitigation.

ANNUAL GENERAL MEETING AND BOARD OF DIRECTORS' AUTHORIZATIONS

The Annual General Meeting of HKScan Corporation was held on 13 April 2016 in Helsinki. The resolutions of the AGM, including authorizations given to the Board, are reported in full in a stock release the same day.

The AGM resolved that a dividend of EUR 0.14 be paid for 2015. All the Board members: Teija Andersen, Niels Borup, Tero Hemmilä, Mikko Nikula, Henrik Treschow and Pirjo Väliaho, as well as both deputy Board members: Per Nilsson and Marko Onnela were re-elected for a further term of office. At the organizational meeting, the Board re-elected Mikko Nikula as Chairman and Niels Borup as Vice Chairman. Tero Hemmilä resigned from the Company's Board on 11 May 2016.

PricewaterhouseCoopers Oy, an audit firm chartered by the Central Chamber of Commerce, with APA Jouko Malinen as the main auditor, was elected as the actual auditor until the close of the next Annual General Meeting.

In April 2016, the Board exercised the authorizations given by the AGM in conjunction to the directed share issue according to the Group's share based incentive plan 2013, payment of the rewards for the performance period 2013–2015.

CHANGES IN THE SENIOR MANAGEMENT

On 27 May, HKScan announced that Jari Latvanen had been appointed as HKScan's new President and CEO. He began in the position on 31 October 2016. His predecessor, Mr Hannu Kottonen, had left the company on 20 January 2016. During the interim period, Aki Laiho, deputy CEO and COO, assumed the position of CEO.

In June, Anders Jeppesen Jensen, General Manager at HKScan Denmark left the company and Göran Holm was named acting General Manager of HKScan Denmark on top of his duties as EVP Consumer Business, Scandinavia.

On 2 November, HKScan announced that Jyrki Karlsson had been appointed as the new Executive Vice President, Consumer Business, Finland and Baltics. Samuli Eskola, his predecessor, left the company on 1 November.

On 2 November, HKScan announced that Anu Mankki had been appointed as the new EVP, HR. Her predecessor Sari Suono left the company in the end of September. Ms Mankki assumed her position on 2 January 2017.

Effective as of 19 December 2016, Anne Mere, Chief Marketing Officer (CMO) of HKScan, took over as the new EVP Consumer Business Baltics. She also retained her role as Group CMO. Consequently, Jyrki Karlsson was appointed as EVP responsible for Consumer Business Finland.

After the reporting period, on 8 February 2017, HKScan informed on renewing its Group Leadership Team.

GROUP LEADERSHIP TEAM

As of 8 February 2017, HKScan's Group Leadership Team comprises the following members: Jari Latvanen, President and CEO; Sofia Hyléen Toresson, EVP Market Area Sweden (assuming her post on 2 May 2017); Jyrki Karlsson, EVP for Market Area Finland; Svend Schou Borch, EVP Market Area Denmark; Anne Mere, EVP Market Area Baltics; Jukka Nikkinen, EVP Market Area International & Biotech; Heli Arantola, EVP Categories and Concepts (assuming her post on 2 May 2017); Aki Laiho, EVP Operations; Anu Mankki, EVP HR; Tuomo Valkonen, CFO; and Markku Suvanto, EVP Legal.

SHARES AND SHAREHOLDERS

SHARES

HKScan Group's registered and fully paid-up share capital at the beginning and end of 2016 was EUR 66 820 528. The total number of shares issued was 55 026 522, and it was 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 Ltd. The K Shares are held by LSO Osuuskunta (4 735 000 shares) and Lantmännen ek.för. (665 000 shares) and are not listed.

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 market capitalization at the end of the year stood at EUR 172.3 (205.6) million based on the closing price of the last trading day of the period. The Series A shares had a market value of EUR 155.1 (185.1) million, and the unlisted Series K shares EUR 17.2 (20.6) million correspondingly.

In 2016, a total of 13 313 324 of the company's shares, with a total value of EUR 42 427 708, were traded. The highest price quoted was EUR 3.89 and the lowest EUR 2.89. The average price was EUR 3.18. At the end of 2016, the closing price was EUR 3.19.

SHAREHOLDERS

At the end of 2016, the shareholder register maintained by Euroclear Finland Ltd included 13 226 (12 558) shareholders. Nominee-registered and foreign shareholders held 12.6 (24.9) per cent of the company's shares.

NOTIFICATIONS OF CHANGES IN HOLDINGS

On 21 December 2016, Sveriges Djurbönder ek. för notified that the total amount of HKScan Corporation shares owned by them had decreased below the threshold of ten (10) per cent and the share of voting rights had decreased below five (5) per cent. On 21 December 2016, Sveriges Djurbönder owned 3 615 000 HKScan A-shares and 0 K-shares, and 3 615 000 voting rights.

On 21 December 2016, Lantmännen ek.för notified that the total amount of HKScan Corporation shares owned by them had exceeded the threshold of five (5) per cent and the share of voting rights had exceeded the threshold of ten (10) per cent. On 21 December 2016, Lantmännen owned 2 619 750 HKScan A-shares and 665 000 K-shares, and in total 15 919 750 voting rights.

TREASURY SHARES

At the beginning the financial year 2016, HKScan held 1 053 734 treasury A shares. On 8 April 2016, in total 44 885 treasury shares were gratuitous transferred to the participants of the share based incentive plan 2013 according to its terms.

At the end of 2016 the Group had 1 008 849 treasury A shares, and they had a market value of EUR 3.2 million and accounted for 1.83% of all shares and 0.64% of all votes.

SHARE-BASED INCENTIVE SCHEME

Incentive plan 2016 for the Group key personnel was published the stock exchange release dated on 18 December 2015. The 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 was preliminary 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.

SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2016, 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 49 144 A Shares, corresponding to 0.09 per cent of the total number of shares and 0.03 per cent of the votes.

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARES ON 31 DECEMBER 2016

Number of shares held	Shareholders	Shareholders, %	Shares	Shares, %	Votes	Votes,%
1–100	3 262	24.66	166 575	0.30	166 575	0.11
101–500	5 054	38.21	1 450 446	2.64	1 450 446	0.92
501–1 000	2 228	16.85	1 740 216	3.16	1 740 216	1.10
1 001–5 000	2 225	16.82	4 970 254	9.03	4 970 254	3.15
5 001–10 000	254	1.92	1 805 497	3.28	1 805 497	1.15
10 001–50 000	154	1.16	3 152 874	5.73	3 152 874	2.00
50 001–100 000	23	0.17	1 606 935	2.92	1 606 935	1.02
100 001–500 000	13	0.10	3 234 071	5.88	3 234 071	2.05
500 001–	13	0.10	36 102 144	65.61	126 067 144	79.98
Total	**13 226**	**100.00**	**54 229 012**	**98.55**	**144 194 012**	**91.48**
of which nominee registered	8		6 819 442	12.39	6 819 442	4.33
Waiting list	1		665 000	1.21	13 300 000	8.44
General account			132 510	0.24	132 510	0.08
Number of shares issued			55 026 522	100.00	157 626 522	100.00

SHARE CAPITAL BY SHARE SERIES ON 31 DECEMBER 2016

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 2016

	Share of owners, %	**Share of shares, %**	**Share of votes, %**
Corporates	3.69	44.32	72.55
Finance and insurance companies	0.14	1.41	4.75
Public entities	0.05	6.97	2.44
Households	95.34	23.68	8.27
Non-profit organizations	0.54	3.06	1.07
Domestic sectors, total	99.77	79.44	89.07
Abroad	0.23	6.71	2.41
All sectors, total	**100.00**	**86.16**	**91.48**
General account		0.24	0.08

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2016

		A shares	K shares	Of total shares, %	Of total votes, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Sveriges Djurbönder Ek. För.	3 615 000	0	6.57	2.29
3	Varma Mutual Pension Insurance Company	1 192 806	0	2.17	0.76
4	Elo Pension Company	1 142 830	0	2.08	0.73
5	HKScan Corporation	1 008 849	0	1.83	0.64
6	Tiiviste-Group OY	1 000 000	0	1.82	0.63
7	The Central Union of Agricultural Producers and Forest Owners (MTK)	836 414	0	1.52	0.53
8	Apteekkien Eläkekassa	752 500	0	1.37	0.48
9	Hisinger-Jägerskiöld Eva	560 000	0	1.02	0.36
10	Petter and Margit Forsström´s Foundation	510 500	0	0.93	0.32
11	The State Pension Fund	500 000	0	0.91	0.32
12	Hallqvist AB	405 000	0	0.74	0.26
13	Nordea Life Assurance Finland Ltd.	400 000	0	0.73	0.25
14	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	350 000	0	0.64	0.22
15	Suhonen Jyrki	220 312	0	0.40	0.14
16	Ilmarinen Mutual Pension Insurance Company	218 298	0	0.40	0.14
17	Gripenberg Jarl Estate	169 000	0	0.31	0.11
18	K. Hartwall Invest Oy Ab	163 300	0	0.30	0.10
19	Ollikainen Pekka	122 000	0	0.22	0.08
20	Ab 2011 Fruitgum Company Oy	120 000	0	0.22	0.08
	Other shareholders, total	**21 880 829**	**0**	**40.94**	**22.31**
	All shares, total	**49 626 522**	**5 400 000**	**100.00**	**100.00**

Source: Euroclear Finland

PERSONNEL

In 2016, HKScan had an average of 7 319 (7 437) personnel.
The average number of employees in each market area was as follows:

	2016	2015
Sweden	2 162	2 176
Finland	2 912	2 840
Denmark	686	726
Baltics	1 560	1 696
Total	**7 319**	**7 437**

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.

The risks include various unexpected actions potentially taken by authorities or pressure groups, which may cause restrictions to the business or volatility in demand.

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

CORPORATE GOVERNANCE

HKScan's Audit Committee has compiled a separate Corporate Governance Statement for the Group. The statement will be published as part of the online Annual Report 2016 on the company's web site www.hkscan.com on week 10/ 2017.

EVENTS AFTER THE REPORTING PERIOD

On 13 January 2017, HKScan lowered its outlook for 2016.

On 19 January 2017, HKScan announced that it had acquired the remaining 50% of Paimion Teurastamo (Paimio Slaughterhouse). HKScan Finland had acquired a 50% holding in the company in summer 2015.

On 8 February 2017, HKScan informed on renewing its Group Leadership Team and simultaneously initiating a review of its operating model.

On 8 February 2017, HKScan informed about plans to embark on a partial re-organization of its operations as part of the review of its operating model. The potential impacts on personnel of the planned operating model renewal and planned efficiency upgrades will be assessed in Group-wide statutory negotiations.

OUTLOOK FOR 2017

HKScan aims to reach the comparable operating profit (EBIT) of the year 2016.

BOARD OF DIRECTORS' PROPOSAL ON DISTRIBUTION OF PROFIT

The parent company's distributable equity stands at EUR 307.9 million including the reserve for invested unrestricted equity, which holds EUR 143.2 million. The Board of Directors recommends that the company pay a dividend of EUR 0.16 per share for 2016, i.e. a total of approximately EUR 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 2017

HKScan Corporation's Annual General Meeting 2017 will be held starting at 10 am on 6 April 2017 at Logomo, Turku. To be eligible to attend the Annual General Meeting, shareholders should register by 27 March 2017 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd. Notice to the Annual General Meeting will be published at a later date.

KEY FIGURES

Financial indicators	2016	2015	2014	2013	2012
Net sales, EUR million	1 872.9	1 917.1	1 988.7	2 113.2	2 159.4
Operating profit/loss (EBIT), EUR million	9.7	9.6	55.5	11.7	27.3
% of net sales	0.5	0.5	2.8	0.6	1.3
Operating profit/loss excluding non-recurring items, EUR million	13.2	21.5	12.4	11.2	20.9
% of net sales	0.7	1.1	0.6	0.5	1.0
Profit/loss before taxes, EUR million	0.9	2.2	51.2	6.7	12.4
% of net sales	0.0	0.1	2.6	0.3	0.6
Return on equity (ROE), %*	-0.9	0.4	13.4	2.4	4.3
Return on capital employed before taxes (ROCE), %*	2.1	2.3	9.7	4.0	5.8
Equity ratio, %*	47.9	50.9	51.5	37.1	33.1
Net gearing ratio , %*	33.5	33.8	31.8	82.0	109.2
Gross investments, EUR million*	97.6	49.6	48.7	42.2	76.6
% of net sales*	5.2	2.6	2.4	2.0	3.5
R&D expenses, EUR million*	6.6	5.1	3.7	3.2	10.5
% of net sales*	0.4	0.3	0.2	0.2	0.5
Employees, average	7 319	7 437	7 662	7 774	7 836

Per share data	2016	2015	2014	2013	2012
Earnings per share (EPS), undiluted, EUR	-0.10	0.01	1.05	0.16	0.30
Earnings per share (EPS), diluted, EUR	-0.10	0.01	1.05	0.16	0.30
Equity per share, EUR	7.31	7.63	8.09	7.41	7.31
Dividend paid per share, EUR	0.16**	0.14	0.49	0.10	0.10
Dividend payout ratio, undiluted, %	-160.4**	2 378.9	46.7	62.1	33.2
Dividend payout ratio, diluted, %	-160.4**	2 378.9	46.7	62.1	33.2
Effective dividend yield, %	5.0**	3.7	15.0	2.7	2.8
Price-to-earnings ratio (P/E)					
undiluted	-32.0	647.4	3.1	23.3	12.1
diluted	-32.0	647.4	3.1	23.3	12.1
Lowest trading price, EUR	2.89	3.24	3.12	3.29	3.17
Highest trading price, EUR	3.89	6.26	4.49	4.28	6.40
Middle price during the period, EUR	3.19	5.07	3.74	3.70	4.34

Share price at the end of the year, EUR	3.19	3.81	3.27	3.76	3.63
Market capitalisation, EUR million	172.3	205.6	176.5	202.9	195.9
Trading volume (1 000)	13 313	17 321	13 990	7 670	9 084
% of the average volume	24.7	32.1	25.9	14.2	16.7
Adjusted number of outstanding shares (1 000)					
average during financial period	54 006	53 973	53 973	53 973	54 556
at the end of financial period	54 018	53 973	53 973	53 973	53 973
fully diluted	54 018	53 973	53 973	53 973	53 973

* Sokołów's accounting treatment changed in 2013. Comparable figures from 2012 are not available.

** Based on the Board of Directors' proposal.

CALCULATION OF FINANCIAL INDICATORS

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

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

Equity per share	$\frac{\text{Equity attributable to holders of the parent}}{\text{Number of outstanding shares at end of period}}$
Dividend per share	$\frac{\text{Dividend distribution}}{\text{Number of outstanding shares at end of period}}$
Dividend payout ratio (%)	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Effective dividend yield (%)	$\frac{\text{Dividend per share}}{\text{Closing price on the last trading day of the financial year}} \times 100$
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

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR 1 JANUARY – 31 DECEMBER

(EUR million)

	Note	2016	2015
Net sales	1.	1 872.9	1 917.1
Other operating income	2.	11.4	15.1
Materials and services	3.	-1 305.7	-1 344.8
Employee benefits expenses	4.	-326.6	-319.3
Depreciation and amortization	5.	-55.0	-64.7
Other operating expenses	6.	-187.5	-193.9
EBIT	10.	**9.7**	**9.6**
Financial income	7.	2.3	2.1
Financial expenses	7.	-11.1	-11.2
Share of associates' and joint ventures' results		-0.1	1.7
Profit/loss before taxes		**0.9**	**2.2**
Income tax	8.	-4.4	-0.3
Profit/loss for the period		**-3.6**	**1.9**
Profit/loss for the period attributable to:			
Equity holders of the parent		-5.4	0.3
Non-controlling interests		1.8	1.6
Total		**-3.6**	**1.9**

Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-0.10	0.01
EPS, diluted, continuing operations, EUR/share	9.	-0.10	0.01

The notes 1–30 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY – 31 DECEMBER

(EUR million)

	2016	**2015**
Profit/loss for the period	-3.6	1.9
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	-4.1	2.6
Cash flow hedging	2.5	0.3
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-2.9	-1.5
Total other comprehensive income	**-4.4**	**1.4**
Total comprehensive income for the period	**-8.0**	**3.3**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	-9.8	1.7
Non-controlling interests	1.8	1.6
Total	**-8.0**	**3.3**

The notes 1–30 form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(EUR million)

	Note	31 Dec. 2016	31 Dec. 2015
Intangible assets	11.	66.0	69.1
Goodwill	12., 14.	77.0	78.2
Tangible assets	13.	401.7	361.8
Shares in associates and joint ventures	15.	22.2	23.3
Trade and other receivables	16.	4.7	5.3
Available-for-sale investments	16.	12.8	13.3
Deferred tax asset	17.	23.8	29.7
Non-current assets		**608.1**	**580.7**
Inventories	18.	116.1	124.2
Trade and other receivables	19.	123.7	122.9
Income tax receivable	19.	0.2	0.0
Cash and bank	20.	6.6	9.5
Current assets		**246.6**	**256.6**
Assets		**854.8**	**837.3**
Share capital	21.	66.8	66.8
Share premium reserve	21.	72.9	72.9
Treasury shares	21.	-0.0	-0.0
Fair value reserve and other reserves	21.	143.9	141.3
Translation differences	21.	-5.3	-3.7
Retained earnings	21.	116.5	134.7
Equity attributable to equity holders of the parent		394.8	412.0
Non-controlling interests		14.9	13.8
Equity		**409.7**	**425.8**

Deferred tax liability	17.	17.0	20.2
Non-current interest-bearing liabilities	24.	126.9	117.2
Non-current non-interest-bearing liabilities	24.	0.1	0.3
Non-current provisions	23.	0.1	0.1
Pension obligations	22.	22.7	18.8
Non-current liabilities		**166.7**	**156.6**
Current interest-bearing liabilities	24.	17.2	36.6
Trade and other payables	24.	259.2	217.1
Income tax liability	24.	0.3	0.9
Current provisions	23.	1.6	0.4
Current liabilities		**278.4**	**255.0**
Equity and liabilities		**854.8**	**837.3**

The notes 1–30 form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(EUR million)

	2016	**2015**
Profit/Loss for the period	-3.6	1.8
Adjustments	62.0	76.3
Cash flow before change in net working capital	58.4	78.1
Change in net working capital	26.9	0.8
Other changes	-5.6	-3.0
Interest paid	-9.8	-10.0
Other financial expenses paid	-4.7	-8.4
Interest received	2.0	2.1
Other financial income received	4.4	6.8
Dividends received	1.3	1.0
Income taxes paid	-2.0	-0.6
Cash flow from operating activities (A)	**70.9**	**66.8**
Total investments	-56.6	-51.2
Total sales of assets	2.4	13.5
Acquisition of subsidiary, net of cash acquired	-	-5.4
Disposal of subsidiary, net of cash	0.1	0.0
Loan receivables, borrowings and repayments	0.2	1.3
Cash flow from investing activities (B)	**-53.9**	**-41.8**
Increase in other reserves	0.0	0.1
Proceed from external borrowings	57.6	62.8
Repayment of external borrowings	-69.1	-67.2
Payment of finance lease liabilities	-0.7	-
Dividends paid	-8.2	-26.7
Cash flow from financing activities (C)	**-20.6**	**-31.0**
Net cash flow (A+B+C)	**-3.5**	**-6.0**

Cash and cash equivalents, end balance	6.6	9.5
Cash and cash equivalents, opening balance	9.5	16.4
Effect of changes in exchange rates	0.7	-1.0
Change	**-3.5**	**-6.0**

The notes 1–30 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-con-trolling interests	Total
EQUITY AT 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
Acquisition of subsidiary	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Direct recognitions	-	-	-	-	0.0	2.5	-	-2.5	0.0	-	0.0
Transfers between items	-	-	-	-	-	-	-	-7.6	-7.6	-0.7	-8.2
Dividend distribution	66.8	72.9	-9.9	143.5	10.3	-5.3	-0.0	116.5	394.8	14.9	409.7
EQUITY AT 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

EQUITY AT 1 Jan. 2015	66.8	72.9	-12.7	143.5	10.1	-6.3	-0.0	162.2	436.5	8.7	445.2
Result for the financial period	-	-	-	-	-	-	-	0.3	0.3	1.6	1.9
Other comprehensive income (+) / expense (–)											
Translation differences	-	-	-	-	-	2.6	-	-	2.6	-	2.6
Cash flow hedging	-	-	0.3	-	-	-	-	-	0.3	-	0.3
Actuarial gains or losses	-	-	-	-	-	-	-	-1.5	-1.5	-	-1.5
Total comprehensive income for the period	-	-	0.3	-	-	2.6	-	-1.2	1.7	1.6	3.3
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	3.8	3.8
Direct recognitions	-	-	-	-	0.1	-	-	0.2	0.3	-	0.3
Transfers between items	0.0	-	-	-	-0.0	-	-	-0.0	-0.0	-	-0.0
Dividend distribution	-	-	-	-	-	-	-	-26.4	-26.4	-0.3	-26.7
EQUITY AT 31 Dec. 2015	66.8	72.9	-12.4	143.5	10.2	-3.7	-0.0	134.7	412.0	13.8	425.8

The notes 1–30 form an integral part of the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR 2016

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, the UK, 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 27 February 2017. 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 2016. '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 2015.

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 2016 that affect Group's accounting policies or any of the disclosures.

COMPARABILITY WITH PREVIOUS YEARS

The years 2016 and 2015 are comparable with each other. Group's joint venture company in Poland (Sokołów) has been consolidated proportionately in accordance with the ownership interest line by line until 31.12.2012 and after that with the equity method. Some figures in five-year historical data are not available due to change in accounting treatment.

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 recognizes 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized 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 recognized 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 recognized at cost, and the carrying amount is increased or decreased to recognize 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 recognized 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 29, '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 recognized in other items of comprehensive income are recognized in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2015–2016 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 29, '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 recognized under equity. The change in the translation difference is recognized 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 recognized in translation differences in the Group's equity and the change is recognized in items of comprehensive income.

Group companies recognize 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, except for gains and losses arising from loans designated as hedges for net investments made in foreign units and which perform effectively. These gains and losses are recognized under translation differences in equity. 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 recognized 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 recognized 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 recognized as income in the form of lower depreciations over the useful life of the item. Grants received in reimbursement of expenses incurred are recognized as income in the income statement at the same time as the costs relating to the object of the grant are recognized 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 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 recognized 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 recognized in the income statement. Impairment losses recognized 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 recognized 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 recognized on the balance sheet at 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 recognized 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 technological obsolescence and related factors.

BIOLOGICAL ASSETS

Biological assets, which in the case of the HKScan Group mean living animals, are recognized 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 recognized 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 recognized 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 recognized as receivables on the balance sheet. Receivables are initially recognized at their present value. Financing income from finance leases is recognized 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 recognized 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 recognized 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 recognized 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, recognized 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 recognized immediately in 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 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 grant date deducted with expected dividends to be paid before reward payment. Furthermore, the share purchase and ownership requirement in performance period is taken into account by deducting the estimated financing costs of the share purchases from the fair value. The fair value of cash settled portion is recalculated on each reporting date until reward payment.

PROVISIONS

A provision is recognized 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 recognized in the income statement, except when related to items recognized directly in equity or the statement of comprehensive income, in which event the tax is also recognized 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 recognized 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 recognized, 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 recognized when the significant risks and benefits of ownership have been transferred to the buyer. Revenue from service provision is recognized 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 recognized at fair value through profit or loss, held-to-maturity investments, 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 recognized on the settlement date, except for derivatives and spot transactions, which are recognized 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 derecognized 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 recognized 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 recognized 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 recognized through profit or loss in the financial period in which they arise.

Investments held to maturity are non-derivative financial assets that have fixed or determinable payments, that mature on a given date and that the Group positively intends to and is able to hold until maturity. They are measured at amortised cost using the effective interest method and are included in non-current assets. The Group did not have any financial assets of this category during the financial period.

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 utilized.

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, taking 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 recognized on the investment. Interest income on available-for-sale investments are recognized 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 financial asset or a group of financial assets.

The Group recognizes 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 recognized 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 recognized loss is reversed through profit or loss.

FINANCIAL LIABILITIES

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

Financial liabilities recognized 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 recognized 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 recognized as an expense in the period in which they are incurred. Credit fees related to loan commitments are recognized 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 recognized on the balance sheet until the loan is raised. In connection with the drawdown, the credit fee related to loan commitments is recognized 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 recognized 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 either fair value hedges for receivables, liabilities or fixed commitments or, in the case of interest rate risk, as cash flow hedges, cash flow hedges of a highly probable forecast transaction, hedges of net investment in a foreign unit 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 recognized 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 recognized 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 realized the profit or loss accrued in equity is recognized 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 these instruments are recognized in other operating income and expenses. 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 21. '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 recognized 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 realized 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 emphasizes 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 recognize 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. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. 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 new standard will not have a material effect on the Group's financial statements. The standard has been endorsed for application in the EU.

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.

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. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15. According to IFRS 16 lessee is required to recognize 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 not yet 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 Finland, Sweden, Denmark and the Baltics.

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

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 2016	**Swedish operations**	**Finnish operations**	**Danish operations**	**Baltic operations**	**Business segments, total**	**Group adminis-tration**	**Elimina-tions**	**Un-allocated**	**Group total**
INCOME STATEMENT INFORMATION									
External sales	778.2	790.7	149.5	154.5	1 872.9	-	-	-	1 872.9
Internal sales	26.1	15.8	23.7	6.8	72.4	-	-72.4	-	0.0
Net sales	**804.4**	**806.5**	**173.2**	**161.3**	**1 945.3**	**-**	**-72.4**	**-**	**1 872.9**
Segment EBIT	12.9	14.6	-9.5	6.4	24.4	-14.7	-	-	9.7
Unallocated items	-	-	-	-	-	-	-	-	-
EBIT	**12.9**	**14.6**	**-9.5**	**6.4**	**24.4**	**-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	777.5	786.0	149.5	154.3	1 867.3	-	-	-	1 867.3
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 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**

Year 2015	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group adminis-tration	Elimina-tions	Un-allocated	Group total
INCOME STATEMENT INFORMATION									
External sales	813.5	792.4	145.0	166.3	1 917.1	-	-	-	1 917.1
Internal sales	28.4	9.2	30.9	7.4	76.0	-	-76.0	-	0.0
Net sales	**841.9**	**801.6**	**175.9**	**173.6**	**1 993.1**	**-**	**-76.0**	**-**	**1 917.1**
Segment EBIT	21.1	4.9	-9.3	5.4	22.1	-12.5	-	-	9.6
Unallocated items	-	-	-	-	-	-	-	-	-
EBIT	**21.1**	**4.9**	**-9.3**	**5.4**	**22.1**	**-12.5**	**-**	**-**	**9.6**
Share of associates' results	0.1	0.4	1.2	-	1.7	-	-	-	1.7
Financial income and expenses								-9.1	-9.1
Income taxes								-0.3	-0.3
Result for the period, continuing operations									**1.9**
BALANCE SHEET INFORMATION									
Segment assets	244.0	324.0	93.3	142.2	803.5	18.1	-55.9	-	765.7
Shares in associates	4.9	13.7	4.5	-	23.2	0.1	-	-	23.3
Unallocated assets	-	-	-	-	-	-	-	48.3	48.3
Total assets	**248.9**	**337.7**	**97.8**	**142.2**	**826.6**	**18.3**	**-55.9**	**48.3**	**837.3**
Segment liabilities	93.5	87.7	18.4	19.2	218.8	7.9	-7.6	-	219.2
Unallocated liabilities	-	-	-	-	-	-	-	192.4	192.4
Total liabilities	**93.5**	**87.7**	**18.4**	**19.2**	**218.8**	**7.9**	**-7.6**	**192.4**	**411.5**

OTHER INFORMATION									
Sales, goods	812.8	786.0	145.0	166.0	1 909.7	-	-	-	1 909.7
Sales, services	0.7	6.4	-	0.2	7.3	-	-	-	7.3
Investments	13.7	18.2	5.4	10.6	47.9	1.7	-	-	49.6
Depreciation and amortisation	-12.2	-22.3	-9.5	-8.9	-52.9	-0.4	-	-	-53.3
Impairment	-	-11.4	-	-	-11.4	-	-	-	-11.4
Goodwill	32.6	19.8	3.6	22.2	78.2	-	-	-	78.2
Cash flow before debt service	20.4	16.0	-2.1	8.0	42.2	-10.0	-	-	32.2

Cash flow before debt service reconciliation to Group total	
Cash flow from operating activities	66.8
Financial items (-)	8.5
Cash flow from investing activities	-41.8
Loan receivables Borrowings and repayments (-)	-1.3
Cash flow before debt service	**32.2**

2. OTHER OPERATING INCOME

	2016	**2015**
Rental income	1.3	2.5
Gain on disposal of non-current assets	1.0	1.4
Gains on sales of holdings	-	1.1
Exchange rate gains related to foreign exchange derivatives	1.4	1.2
Insurance compensation	0.1	0.9
Government grants	0.1	0.1
Other operating income	7.6	8.0
Other operating income	**11.4**	**15.1**

3. MATERIALS AND SERVICES

	2016	2015
Purchases during the financial period	-1 148.2	-1 184.2
Increase/decrease in inventories	-4.2	0.9
Work performed for own use and capitalized	0.0	0.0
Materials and supplies	**-1 152.4**	**-1 183.2**
External services	-153.2	-161.5
Materials and services	**-1 305.7**	**-1 344.8**

4. EMPLOYEE BENEFIT EXPENSES

	2016	2015
Salaries and fees	-254.8	-249.2
Share-based payments	-0.0	-0.2
Pension expenses, defined contribution plans	-28.6	-26.9
Pension expenses, defined benefit plans	-1.7	-1.7
Total pension expenses	-30.3	-28.6
Other social expenses	-41.4	-41.3
Employee benefit expenses	**-326.6**	**-319.3**
Managing directors and their deputies	-4.0	-2.7
Members of the Board of Directors	-0.3	-0.3
Management salaries, fees and benefits	**-4.3**	**-3.0**
Average number of employees during financial year		
Clerical employees	1 269	1 234
Workers	6 050	6 203
Total	**7 319**	**7 437**

SHARE-BASED PAYMENTS

The Board of Directors of HKScan Corporation approved on 19 December 2012 a share based incentive plan, Performance Share Plan 2013, as a part of the incentive and commitment programme for the Group's key employees. The Plan includes three one-year performance periods, the 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 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.

From performance period 2013–2015 a total of 44 885 shares were delivered to 17 participants in spring 2016. In addition a cash portion was paid to cover taxes.

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.

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

SHARE BASED INCENTIVES DURING THE REPORTING PERIOD 1 JAN. 2016 – 31 DEC. 2016

Plan	**LTI Bridge Plan 2016**		**Performance Share Plan 2013**		**TOTAL**
Instrument	**Plan 2016–2018, 2017 delivery**	**Plan 2016–2018, 2018 delivery**	**Restricted Stock 2013–2015**	**Performance Period 2015**	**TOT/WA**
Initial amount, pcs	366 000	366 000	121 000	451 000	1 304 000
Initial allocation date	16 June 2016	16 June 2016	1 Feb. 2013	10 Feb. 2015	-
Vesting date / payment approximately	31 Aug. 2017	31 March 2018	30 Apr. 2016	30 Apr. 2018	-
Maximum contractual life, yrs	1.2	1.8	3.2	3.2	2.2
Remaining contractual life, yrs	0.7	1.3	-	1.3	1.2
Vesting conditions	EBITDA (70%), EPS (30%), Employment precondition	EPS (70%), ROCE-% (30%), Employment precondition	Share purchase and ownership requirement, Employment precondition	EPS (70%), ROCE-% (30%), Employment precondition	
Number of persons at the end of the reporting year	28	28	-	20	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	

Changes during the period 2016	Plan 2016–2018, 2017 delivery	Plan 2016–2018, 2018 delivery	Restricted Stock 2013–2015	Performance Period 2015	Total
1 Jan. 2016					
Outstanding at the beginning of the reporting period, pcs	0	0	92 500	442 000	534 500
Changes during the period					
Granted	273 000	273 000	0	0	546 000
Forfeited	12 000	12 000	0	20 268	32 268
Excercised	0	0	92 500	0	92 500
Expired	0	0	0	367 962	367 962
31 Dec. 2016					
Outstanding at the end of the period	261 000	261 000	0	53 770	575 770

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	3.10
Share price at reporting period end, euros	3.19
Maturity, years	1.5
Expected dividends (unless they are compensated), euros	0.00
Fair value at grant, euros	1 692 600
Fair value 31 Dec. 2016, 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	35 260
Expenses for the financial year, share-based payments, equity-settled, euros	24 646
Liabilities arising from share-based payments 31 Dec. 2016, euros	62 696

5. DEPRECIATION AND IMPAIRMENT

	2016	2015
Depreciation according to plan	-54.6	-53.3
Impairment	-0.4	-11.4
Total	**-55.0**	**-64.7**

Group announced in October 2015 of a forthcoming green-field investment in a new poultry production facility to be built in Rauma, Finland. The investment will amount to EUR 80 million. The investment resulted in an impairment of assets at the current Eura facility amounting to EUR 11.4 million.

6. OTHER OPERATING EXPENSES

	2016	2015
Rents/leases	-13.2	-16.1
Losses on disposal of non-current assets	-0.2	-1.1
R&D costs	-6.6	-5.1
Non-statutory staff costs	-11.7	-12.3
Energy	-35.4	-37.0
Maintenance	-38.1	-39.6
Advertising, marketing and entertainment costs	-23.2	-21.5
Service, information management and office costs	-25.5	-25.5
Other expenses	-33.7	-35.8
Total other operating expenses	**-187.5**	**-193.9**

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.

	2016	2015
Audit fees	-0.6	-0.4
Tax consultation	-0.0	0.0
Other fees	-0.4	-0.1
Audit fees, total	**-1.0**	**-0.5**

7. FINANCIAL INCOME AND EXPENSES

Financial income	**2016**	**2015**
Dividend income	0.4	0.1
Interest income		
Interest income from loans and receivables	1.9	2.0
Interest income from interest derivatives	-	-
Other financial income	0.1	0.0
Total	**2.3**	**2.1**
Financial expenses		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-5.9	-5.8
Interest expenses from interest derivatives	-3.9	-3.7
Other financial expenses		
Ineffective portion of interest rate risk hedge	-	-0.0
Impairment losses on loan receivables	-	-
Other financial expenses	-1.2	-1.3
Exchange gains and losses from loans and other receivables	-0.1	-0.4
Total	**-11.1**	**-11.2**
Total financial income and expenses	**-8.7**	**-9.1**

8. INCOME TAXES

Income taxes	**2016**	**2015**
Income tax on ordinary operations	-1.4	-1.4
Tax for previous financial periods	0.1	-0.1
Change in deferred tax liabilities and assets	-3.1	1.2
Income tax on ordinary operations	**-4.4**	**-0.3**
Cumulative tax rate reconciliation		
Accounting profit/loss before taxes	0.9	2.2
Deferred tax at parent company's tax rate	-0.2	-0.4
Effect of different tax rates applied to foreign subsidiaries	0.7	-0.1
Share of associates' results	-0.2	0.6
Tax-exempt income	0.2	-0.0
Non-deductible expenses	-0.0	-0.3
Use of tax losses not recognised earlier	-	0.1
Unrecognised tax on the losses for the financial period	-2.7	0.0
Tax for previous financial periods	0.1	-0.1
Adjustments concerning previous financial periods	-2.2	-0.0
Effect of change in tax rate	-0.0	-0.0
Tax expenses in the income statement	**-4.4**	**-0.3**

9. EARNINGS PER SHARE

	2016	2015
Profit for the period attributable to equity holders of the parent	-5.4	0.3
Total	**-5.4**	**0.3**
Weighted average number of shares in thousands	54 006	53 973
Weighted average number of shares adjusted for dilution effect	54 006	53 973
Undiluted earnings per share (EUR/share)	-0.10	0.01
Earnings per share adjusted for dilution effect (EUR/share)	-0.10	0.01

NOTES TO THE BALANCE SHEET

10. ITEMS AFFECTING COMPARABILITY

	2016	2015
Comparable EBIT	**13.2**	**21.5**
Impairment of assets, Finland*	-	-11.4
Termination of employment, Sweden**	-	-0.5
Termination of employment, Group Management**	-1.2	-
Termination of employment, Denmark**	-0.5	-
Termination of employment, Finland**	-0.3	-
Environmental provision, Sweden***	-1.5	-
EBIT	**9.7**	**9.6**

* Included in the Income Statement in the item "Depreciation and amortization"

** Included in the Income Statement in the item "Employee benefits expenses"

*** Included in the Income Statement in the item "Other operating expenses"

11. INTANGIBLE ASSETS

	2016	**2015**
Opening balance, cumulative acq cost	95.1	94.4
Translation differences	-2.5	1.4
Additions	0.9	0.9
Additions, business acquisitions	-	0.1
Disposals	-0.0	-2.3
Reclassification between items	0.4	0.5
Closing balance, cumulative acq cost	94.0	95.1
Opening balance, cumulative depreciations	-26.1	-25.6
Translation differences	0.2	-0.1
Accumulated depreciation on disposals and reclassifications	0.0	2.2
Depreciation for the financial period	-2.1	-2.6
Closing balance, cumulative depreciations	-28.0	-26.1
Intangible assets on 31 Dec.	**66.0**	**69.1**

The trademarks included in the Swedish business operations, carrying amount EUR 57.1 (59.4) million, are tested for impairment each year. The Group has estimated that their useful life is unlimited. These are well known trademarks with long history and high business and profitability impact and it is expected to be so also in the future. Impairment test is made on segment level and it covers all segment's assets, see detailed description in note 12. Remaining balance includes IT-software, other trademarks and connection fees.

12. GOODWILL

	2016	2015
Opening balance	78.2	75.4
Translation differences	-1.2	0.7
Additions, business acquisitions	-	2.1
Disposals	-	-
Depreciation and impairment	-	-
Closing balance	**77.0**	**78.2**

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	2016	2015
Finland	19.8	19.8
Sweden	31.4	32.6
Denmark	3.6	3.6
Baltics	22.2	22.2
Total	**77.0**	**78.2**

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 Baltics as the main segments. Goodwill is monitored by the management at the business segment level.

In impairment testing all 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 five years. The plans are based on moderate and cautious net sales growth under the assumption that Group EBIT percent of four will be achieved 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 (5.2) per cent in Finland, 4.7 (5.1) per cent in Sweden, 4.7 (5.3) per cent in Denmark and 4.8 (5.5) per cent in the Baltic countries. The WACC interest rates changed compared to prior year mainly due to the decrease in risk free interest.

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 reasonably possible change in variables would not result in impairment in any of the CGUs.

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.

	2015 CFBDS	**2016 CFBDS**	**breakeven terminal CFBDS**
Sweden	20.4	8.2	7.2
Finland	16.0	25.9	10.0
Denmark	-2.1	-0.8	2.7
Baltics	8.0	6.7	4.5

As far as management is aware, reasonable changes in assumptions used in respect of other factors do not necessitate impairment for the goodwill of any cash-generating unit. 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 did not result in the recognition of impairment charges in 2016 or 2015.

13. TANGIBLE ASSETS

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
Additions, business acquisitions	-	-	-	-	-	-
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	-	0.0	5.2	0.0	-	5.2
Depreciation for the financial period	-	-15.1	-36.3	-1.0	-	-52.4
Impairment losses	-	-	-0.0	-	-	-0.0
Impairment charge reversals	-	-	-	-	-	0.0
Other changes	-	-	-	-	-	-
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**

Tangible assets 2015	**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	10.0	441.4	595.0	14.6	20.7	1 081.6
Translation differences	0.1	1.6	3.3	-0.0	0.2	5.1
Additions	1.1	8.7	9.1	1.6	28.2	48.7
Additions, business acquisitions	0.3	5.3	2.2	-	-	7.8
Disposals	-0.1	-5.2	-5.7	-0.6	-0.6	-12.1
Disposals, business disposals	-	-	-11.8	-0.0	-	-11.8
Other changes	0.0	4.9	4.3	0.1	0.1	9.3
Reclassification between items	-0.1	6.6	22.7	0.2	-30.0	-0.6
Closing balance, cumulative acq cost	11.3	463.3	619.1	15.8	18.6	1 128.1
Opening balance, cumulative depreciations	-0.1	-253.2	-447.0	-11.6	-	-711.9
Translation differences	-0.0	-1.4	-2.7	0.0	-	-4.1
Accumulated depreciation on disposals and reclassifications	0.1	2.0	4.7	-0.4	-	6.4
Accumulated depreciation on business disposals	-	0.0	8.8	0.0	-	8.8
Depreciation for the financial period	-	-12.8	-36.9	-1.0	-	-50.7
Impairment losses	-	-11.4	0.0	-	-	-11.4
Impairment charge reversals	-	-	-	-	-	-
Other changes	-	-2.1	-1.2	-0.0	-	-3.4
Closing balance, cumulative depreciations	0.0	-278.9	-474.3	-13.1	-	-766.3
Tangible assets on 31 Dec. 2015	**11.3**	**184.4**	**144.8**	**2.8**	**18.6**	**361.8**

Other property, plant and equipment include 1.2 (1.4) 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.

14. BUSINESS COMBINATIONS

There were no business combinations in 2016.

On 2 July 2015 HKScan Finland Oy acquired a 50 per cent stake in Paimion Teurastamo Oy as part of its strategy to boost profitable growth. Following the deal Paimion Teurastamo Oy became a subsidiary of HKScan. Purchase consideration was EUR 5.9 million and it was paid in cash.

Specializing in beef slaughtering, Paimion Teurastamo operates in a Paimio-based facility commissioned in 2012. The company is profitable, accruing EUR 13.8 million in net sales in 2014. The company has roughly 40 employees.

The deal supports the Group's strategic beef project aiming to promote innovation and a consumer-driven offering development of beef in all its home markets. HKScan additionally has a beef slaughtering facility based in Outokumpu. With two specialized beef slaughterhouses, livestock transport distances are minimized, offering contract producers greater speed and flexibility in pick-up schedules.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Note	Fair value
Intangible assets	11.	0.1
Tangible assets	13.	7.8
Inventories		0.1
Trade receivables and other receivables		1.3
Cash		0.5
Total assets		**9.7**
Deferred tax liability	17.	1.0
Trade payables and other liabilities		1.2
Total liabilities		**2.1**
Net assets acquired		**7.5**

Goodwill from the acquisition:

Purchase consideration	5.9
Non-controlling interest's proportionate share of the acquired entity's net identifiable assets	3.8
Acquired entity's net identifiable assets	-7.5
Goodwill	**2.1**

Goodwill amounting to EUR 2.1 million was recorded from the acquisition, and it is based on the expected synergies. Goodwill will not be deductible for tax purposes.

There are no material acquisition-related costs in other operating expenses.

The acquired business contributed revenues of EUR 7.7 million and EUR -0.1 million net profit to the Group's financial year 2015. If the acquisition had occurred on 1 January 2015, the Group's revenue would have been EUR 7.2 million and net profit EUR 0.1 million higher.

15. SHARES IN ASSOCIATES AND JOINT VENTURES

	2016	2015
Opening balance	23.3	22.7
Translation differences	-0.2	0.1
Additions, business acquisitions	-	0.8
Disposals, business disposals	-	-1.0
Other changes	-	-0.1
Closing balance	23.1	22.5
Share of associates' and joint ventures' results	-0.1	1.7
Dividend from associates and joint ventures	-0.9	-0.9
Shares in associates on 31 Dec.	**22.2**	**23.3**
Effect on the Group's earnings:		
Associates	-0.4	-3.6
Joint ventures	0.3	5.3
Total	**-0.1**	**1.7**
Book value in the Group's balance sheet:		
Associates	12.7	13.6
Joint ventures	9.5	9.7
Total	**22.2**	**23.3**

Associated companies and joint ventures consolidated in the Group financial statements are listed in note 29. 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.

16. FINANCIAL ASSETS AND LIABILITIES

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	-	0.0	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**	**0.1**	**2**

* 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**	**13.7**	**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.

FINANCIAL INSTRUMENTS BY CATEGORY 2015

	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	-	5.3	-	-	-	5.3	-	-
Available-for-sale investments	-	-	13.3	-	-	13.3	-	-
Trade and other receivables *	-	113.6	-	-	-	113.6	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	9.5	-	-	-	9.5	-	-
Total	**0.1**	**128.5**	**13.3**	**0.0**	**0.0**	**141.8**	**0.1**	**2**

* Trade and other receivables balance sheet amount of EUR 122.9 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 9.2 million euros.

Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	117.2	117.2	-	-
Non-current non-interest bearing liabilities	-	-	-	-	0.3	0.3	-	-
Current interest-bearing liabilities	-	-	-	-	36.6	36.6	-	-
Derivative financial instruments *	0.5	-	-	16.9	-	17.4	17.4	2
Trade and other payables *	-	-	-	-	199.3	199.3	-	-
Total	**0.5**	**0.0**	**0.0**	**16.9**	**353.4**	**370.8**	**17.4**	**2**

* Trade and other payables balance sheet amount of EUR 217.1 million euros includes derivative financial instruments amounting to EUR 17.4 million euros and advance payments that are not financial instruments amounting to EUR 0.5 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 balance sheet value and therefore they are not separately disclosed.

17. DEFERRED TAX ASSETS AND LIABILITIES

Specification of deferred tax assets

	1 Jan. 2016	Translation difference	Recognized in income statement	Recognized in equity	Business acquisition/ disposal	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	Recognized in income statement	Recognized in equity	Business acquisition/ disposal	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**

Specification of deferred tax assets

	1 Jan. 2015	Translation difference	Recognized in income statement	Recognized in equity	Business acquisition/ disposal	31 Dec. 2015
Pension benefits	3.1	0.0	-0.0	0.4	-	3.6
Other timing differences	3.1	0.0	-0.4	-0.4	-	2.4
Adopted losses	23.2	0.1	-0.8	-2.9	-	19.6
Arising from hedge accounting	4.1	-	0.0	-0.1	-	4.1
Total	**33.6**	**0.1**	**-1.2**	**-2.9**	-	**29.7**

Specification of deferred tax liabilities

	1 Jan. 2015	Translation difference	Recognized in income statement	Recognized in equity	Business acquisition/ disposal	31 Dec. 2015
Depreciation difference	10.0	-0.0	-2.2	-3.5	0.0	4.3
Other timing differences	0.9	0.0	-0.1	-	-	0.8
Arising from consolidation	13.7	0.3	-0.2	-	0.9	14.8
Arising from hedge accounting	0.3	-	-	-	-	0.3
Total	**24.9**	**0.3**	**-2.4**	**-3.5**	**1.0**	**20.2**

Deferred tax liability has not been recognized in respect of retained profits of subsidiaries, amounting to EUR 23.5 (20.6) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2016, the Group had EUR 29.8 million of losses, on which no deferred tax receivable has been recognized.

18. INVENTORIES

	2016	2015
Materials and supplies	61.5	71.5
Unfinished products	4.7	5.0
Finished products	42.0	40.1
Other inventories	0.3	0.4
Prepayments for inventories	0.9	1.1
Biological assets	6.7	6.2
Total inventories	**116.1**	**124.2**

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 quoted market price for slaughtered animals by using historical yield.

19. TRADE AND OTHER CURRENT RECEIVABLES

	2016	2015
Trade receivables from associates	2.1	1.3
Loan receivables from associates	0.2	0.2
Other receivables from associates	0.0	0.0
Current receivables from associates	2.3	1.5
Trade receivables	99.6	103.5
Loan receivables	0.0	0.1
Other receivables	10.9	8.2
Current receivables from others	110.6	111.8
Current derivative receivables	0.1	0.1
Interest receivables	0.3	0.3
Other prepayments and accrued income	10.5	9.1
Current prepayments and accrued income	10.8	9.5
Trade and other receivables	123.7	122.9
Tax receivables (income taxes)	0.2	0.0
Total current receivables	**123.9**	**122.9**

AGE BREAKDOWN OF TRADE RECEIVABLES AND ITEMS RECOGNISED AS IMPAIRMENT LOSSES

	2016	Impairment losses	Net 2016	2015	Impairment losses	Net 2015
Unmatured	94.1	0.0	94.1	98.2	0.0	98.2
Matured:						
Under 30 days	6.9	0.0	6.9	6.6	0.0	6.6
30–60 days	0.7	0.0	0.7	0.3	0.0	0.3
61–90 days	0.0	0.0	0.0	0.1	0.0	0.1
over 90 days*	1.0	-0.9	0.1	0.7	-1.1	-0.4
Total	**102.7**	**-0.9**	**101.8**	**105.9**	**-1.1**	**104.8**

* Comprise among other receivables to be set off against payments for animals

20. 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:

	2016	2015
Cash and bank	6.6	9.5
Short-term money market investments	-	-
Other financial instruments	-	-
Total cash and cash equivalents	**6.6**	**9.5**

There are no significant concentrations of credit risk associated with cash and cash equivalents.

21. 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. 2015	53 973	66.8	72.9	143.5	-0.0	283.1
31 Dec. 2015	53 973	66.8	72.9	143.5	-0.0	283.1
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

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 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 recognized 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 recognized under equity pursuant to an express decision to that effect.

TREASURY SHARES

At the beginning of the financial year 2016, HKScan held 1 053 734 treasury A Shares. During the year 44 885 HKScan Corporation's A shares owned by the Group were gratuitously transferred to the participants of the incentive plan. After the transfer, HKScan holds a total of 1 008 849 own 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	**2016**	**2015**
Fair value reserve and hedging instruments reserve on 1 Jan.	-13.0	-13.3
Amount recognized in equity in the financial period (effective portion), interest rate derivatives	0.6	1.5
Amount recognized in equity in the financial period (effective portion), commodity derivatives	2.5	-1.1
Share of deferred tax asset of changes in period	-0.6	-0.1
Fair value reserve and hedging instruments reserve on 31 Dec.	-10.5	-13.0

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR -3.9 (-3.8) million from interest rate derivatives and EUR -1.2 (-0.6) million from commodity derivatives.

DIVIDENDS

Dividend of EUR 0.14 (0.49) per share, totaling EUR 7.6 (26.4) million, was distributed in 2016. Since the reporting date, the Board of Directors has proposed that dividend of EUR 0.16 per share, totaling EUR 8.6 million, be declared.

22. PENSION OBLIGATIONS

	2016	2015
Pension liability/receivable in balance sheet		
Defined benefit plans	21.6	17.6
Other long-term employee benefits	1.1	1.1
Pension liability (+)/receivable(-) in balance sheet	22.7	18.8

The Group’s defined benefit plans consist of the pension liability for the former CEO of the parent company and Swedish pension program. The company’s pension commitment in respect of the defined benefit relating to former CEO was EUR 2.8 million on 31 December 2016. The remaining pension liability relates to Swedish pension programme.

The defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. HKScan has 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 acoordance 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 pension plan in Sweden.

Summary of provision for post-employment benefits, defined benefit plans	**2016**	**2015**
Obligations	-104.5	-108.7
Fair value of plan assets	89.4	97.0
Special pension tax	-3.7	-2.9
Net provision for funded post-employment benefits	**-18.8**	**-14.6**
Provision for unfunded post-employment benefits	-2.8	-2.9
Total provision for post-employment benefits, defined benefit plans	**-21.6**	**-17.6**

Pension costs in the income statement	**2016**	**2015**
Current year service costs	-1.0	-1.0
Interest costs	-3.2	-3.4
Interest income	2.8	3.0
Special pension tax	-0.3	-0.3
Pension costs for defined benefit plans	**-1.7**	**-1.7**
Pension costs for defined contribution plans	-26.1	-24.3
Total pension costs for the period	**-27.8**	**-26.0**

Pension cost in other comprehensive income	**2016**	**2015**
Changes in actuarial assumptions	-2.9	-1.6
Special pension tax	-0.7	-0.4
Income tax effect	0.8	0.4
Total pension cost in other comprehensive income after taxes	**-2.9**	**-1.5**

The following information is about the funded defined benefit plan the Group has in Sweden:

Obligations	**2016**	**2015**
Obligations opening balance	-108.7	-109.9
Current year service costs	-1.0	-1.0
Interest costs	-3.2	-3.4
Remeasurements:		
Effect of changes in financial assumptions	-1.2	-0.1
Effect of experience adjustments	-0.2	2.0
Exchange rate translation	4.1	-2.4
Benefits paid	5.7	5.9
Obligations closing balance	**-104.5**	**-108.7**

Fair value of plan assets	**2016**	**2015**
Plan assets opening balance	97.0	100.7
Interest income	2.8	3.0
Remeasurements (experience adjustments)	-1.4	-3.5
Exchange rate translation	-3.7	2.2
Settlement paid	-5.1	-5.3
Plan assets closing balance	**89.4**	**97.0**

Assumptions applied for actuarial calculations, %	**2016**	**2015**
Discount rate	2.25	3
Expected salary increase	2.25	2.25
Inflation	1.5	1.5
Personnel turnover rate	4	4
Life expentancy	DUS 14	-

Plan assets by category %	**2016**	**2015**
Interest funds	69	64
Equity instrument funds	30	35
Private equity funds	1	1

Sensitivity analysis 2016, effect on obligation (+decrease/-increase), EUR million	**Change**	**Used value**	**Change**
Discount rate	-0.50%	2.25%	0.50%
	-7.6	-104.5	6.7
Salary increase	-0.50%	2.25%	0.50%
	1.1	-104.5	-1.3
Inflation	-0.50%	1.50%	0.50%
	6.0	-104.5	-6.6
Life expectancy	-1 year	DUS 14	1 year
	4.3	-104.5	-4.4

Average duration of the obligation is 14 years.

23. PROVISIONS

	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**

	1 Jan. 2015	**Translation difference**	**Increase in provisions**	**Exercised in financial period (-)**	**31 Dec. 2015**
Non-current provisions	0.1	-	-	-	0.1
Current provisions	3.1	0.0	-	-2.7	0.4
Total	**3.1**	**0.0**	**0.0**	**-2.7**	**0.4**

24. LIABILITIES

	2016	2015
NON-CURRENT LIABILITIES		
Interest-bearing		
Bond	99.7	99.5
Bank loans	15.7	0.2
Pension loans	7.9	15.0
Other liabilities	3.7	2.5
Non-current interest-bearing liabilities	**126.9**	**117.2**
Non-interest-bearing		
Other liabilities	0.1	0.3
Non-current non-interest-bearing liabilities	**0.1**	**0.3**
Non-current provisions	0.1	0.1
Deferred tax liability	17.0	20.2
Pension obligations	22.7	18.8
Non-current liabilities	**166.7**	**156.6**
CURRENT INTEREST-BEARING LIABILITIES		
Commercial paper	7.0	27.0
Pension loans	7.1	7.1
Other liabilities	3.0	2.5
Current interest-bearing liabilities	**17.2**	**36.6**

TRADE AND OTHER PAYABLES		
Advances received	0.2	0.5
Trade payables	158.7	108.7
Accruals and deferred income		
- Short-term interest payable	0.9	0.9
- Matched staff costs	55.8	53.9
- Other short-term accruals and deferred income	22.1	27.6
Derivatives	13.7	17.4
Other liabilities	7.9	8.1
Trade and other payables	**259.2**	**217.1**
Income tax liability	0.3	0.9
Current provisions	1.6	0.4
Current liabilities	**278.4**	**255.0**
Liabilities	**445.1**	**411.5**

Amounts of the Group’s interest-bearing liabilities and their contractual re-pricing periods are as follows:

	31 Dec. 2016	**31 Dec. 2015**
Under 6 months	29.2	31.9
6–12 months	8.8	11.4
1–5 years	106.1	110.5
Over 5 years	0.0	0.0
Total	**144.1**	**153.8**

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(A) FINANCIAL ASSETS

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

				Related amounts not set off in the balance sheet		
As at 31 Dec. 2016	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**	**Financial instruments**	**Cash collateral received**	**Net amount**
Interest rate derivatives	-	-	-	-	-	-
Foreign exchange derivatives	17.1	17.0	0.1	-	-	-
Electricity derivatives	3.7	3.1	0.6	-	-	-
Trade receivables	0.6	-	0.6	-	0.2	0.4
Total	**21.4**	**20.1**	**1.3**	**-**	**0.2**	**0.4**

				Related amounts not set off in the balance sheet		
As at 31 Dec. 2015	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**	**Financial instruments**	**Cash collateral received**	**Net amount**
Interest rate derivatives	-	-	-	-	-	-
Foreign exchange derivatives	22.5	22.5	0.1	-	-	-
Electricity derivatives	-	-	-	-	-	-
Trade receivables	0.5	-	0.5	-	0.2	0.3
Total	**23.0**	**22.5**	**0.6**	**-**	**0.2**	**0.3**

(B) FINANCIAL LIABILITIES

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

				Related amounts not set off in the balance sheet		
As at 31 Dec. 2016	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**	**Financial instruments**	**Cash collateral received**	**Net amount**
Interest rate derivatives	139.8	126.3	13.4	-	-	-
Foreign exchange derivatives	20.7	20.4	0.3	-	-	-
Electricity derivatives	3.2	2.7	0.5	-	-	-
Total	**163.7**	**149.4**	**14.2**	**-**	**-**	**-**

				Related amounts not set off in the balance sheet		
As at 31 Dec. 2015	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities set off in the balance sheet**	**Net amounts of financial assets presented in the balance sheet**	**Financial instruments**	**Cash collateral received**	**Net amount**
Interest rate derivatives	142.6	128.5	14.0	-	-	-
Foreign exchange derivatives	16.2	15.9	0.3	-	-	-
Electricity derivatives	8.1	5.2	2.9	-	-	-
Total	**166.9**	**149.6**	**17.2**	**-**	**-**	**-**

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.

25. 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 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 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.

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 and financing related contractual cash flows (balance sheet items and committed cash flows), as well as highly probable forecasted cash flows, are hedged through forward contracts made with the parent company. The business units report their risk exposures and hedging levels to Group Treasury on a regular basis.

The 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 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.

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.

	2016	2015
Currency	Exposure	Exposure
SEK	104.6	121.7
PLN	5.1	4.3
DKK	9.5	23.8

The parent company's functional currency is euro. Net position of assets and liabilities denominated in the most significant foreign currencies translated into euro at the exchange rates of the reporting date:

	2016				2015			
	USD	JPY	SEK	GBP	USD	JPY	SEK	GBP
Net position before hedging	4.4	1.8	11.8	2.2	2.2	1.1	21.9	2.8
Hedging	-2.1	-1.1	-10.4	-1.8	-1.6	-1.0	-26.6	-1.4
Open position	2.4	0.7	1.4	0.4	0.6	0.0	-4.7	1.4

The following table analyses the strengthening or weakening of the euro against the US dollar, Japanese yen, 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 and liabilities 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.

	2016				2015			
	USD	JPY	SEK	GBP	USD	JPY	SEK	GBP
Movement (+/-), %	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Effect on profit before taxes	0.2	0.1	0.1	0.0	0.1	0.0	0.4	0.1

The following assumptions were used in calculating sensitivity to currency risks:

Forecast future cash flows have not been taken into account in the calculation but 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 32 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 0.7 (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 Group Treasury. The companies may use external parties to assist them in commodity risk management.

The Group uses electricity derivatives in Finland and Sweden 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	2016	2015
Electricity – effect in income statement	+/- 0.0	+/- 0.2
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 organizations 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 recognized through profit or loss in the financial period was EUR 0.0 (-0.4) 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 19.

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 keep in 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 remained good in 2016. Undrawn committed credit facilities on 31 December 2016 stood at EUR 100.0 (100.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 20.1 (20.4) million. The overdraft facility agreements are in force until further notice. At year end, the company's EUR 200 million commercial paper programme had been drawn in the amount of EUR 7.0 (27.0) million. The credit available from the loan facilities is subject to variable rates and the related interest rate risk is managed through derivative instruments.

The average rate of interest (including commitment fees) paid by the Group was 3.5 (3.1) 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

2016

Credit type	**Size**	**In use**	**Available**
Overdraft facility	20.2	0.1	20.1
Credit limit	100.0	0.0	100.0
Total	**120.2**	**0.1**	**120.1**

2015

Credit type	**Size**	**In use**	**Available**
Overdraft facility	20.4	0.0	20.4
Credit limit	100.0	0.0	100.0
Total	**120.4**	**0.0**	**120.4**

The following table analyses the Group’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. Except for interest rate derivatives, 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. 2016

MATURITY OF FINANCIAL LIABILITIES

Credit type	Balance sheet 31 Dec. 2016	Cashflows sum	Cashflows 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**

31 DEC. 2015

MATURITY OF FINANCIAL LIABILITIES

Credit type	Balance sheet 31 Dec. 2015	Cashflows sum	Cashflows 2016	2017	2018	2019	2020	>2020
Bond	99.5	114.7	3.7	3.7	3.7	103.7	-	-
Bank loans	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.1
Pension loans	22.1	23.7	7.8	7.6	5.3	3.0	-	-
Commercial paper programme	27.0	27.0	27.0	-	-	-	-	-
Other borrowing	4.9	4.9	4.9	0.0	0.0	0.0	0.0	0.0
Trade and other payables	199.3	199.3	199.3	-	-	-	-	-
Total	**353.1**	**369.9**	**242.8**	**11.3**	**9.0**	**106.7**	**0.0**	**0.1**

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 is presented separately.

	2016 Positive fair value	2016 Negative fair value	2016 Fair value net	2015 Fair value net	2016 Nominal value	2015 Nominal value
Interest rate derivatives	-	-13.4	-13.4	-14.0	126.9	128.5
matured in 2016				-		-
matures in 2017	-	-0.3	-0.3	-0.4	5.2	5.4
matures in 2018	-	-0.8	-0.8	-1.1	15.7	16.3
matuers in 2019	-	-1.6	-1.6	-1.6	25.2	25.4
matures in 2020	-	-2.7	-2.7	-2.9	25.5	25.9
matures in >2020	-	-8.0	-8.0	-8.1	55.2	55.4
of which defined as cash flow hedging instruments	-	-13.4	-13.4	-14.0	126.9	128.5
Foreign exhange derivatives	0.1	-0.3	-0.2	-0.2	43.6	57.7
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	0.6	-0.5	0.1	-2.9	7.2	8.1
matured in 2016				-1.6		3.6
matures in 2017	0.3	-0.3	-0.0	-0.9	3.8	2.8
matures in 2018	0.2	-0.1	0.1	-0.3	1.9	1.2
matuers in 2019	0.1	-0.1	0.1	-0.1	1.1	0.5
matures in 2020	0.0	0.0	0.0	-	0.4	-
of which defined as cash flow hedging instruments	0.6	-0.5	0.1	-2.9	7.2	8.1

DERIVATIVES TO WHICH HEDGE ACCOUNTING APPLIES

Changes in the fair values after taxes of interest rate swaps designated as hedges of cash flow amounting to EUR 0.5 (1.2) million are recognized under other comprehensive income. All interest rate derivatives are designated as hedging instruments of cash flow to which hedging accounting is applied.

Changes in the fair values of the effective portions after taxes of commodity derivatives designated as hedges of cash flow amounting to EUR 2.0 (-0.9) million are recognized 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 0.5 (-0.1) million are recognized 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 47.9 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 33.5 per cent.

NET GEARING RATIO

	2016	2015
Interest-bearing liabilities	144.1	153.8
Interest-bearing short-term receivables	0.2	0.2
Cash and bank	6.6	9.5
Interest-bearing net liabilities	137.2	144.0
Equity	409.7	425.8
Net gearing ratio	33.5 %	33.8 %

26. 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.

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. 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	0.0	0.1	0.0
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	0.0	-13.4	0.0
of which subject to cash flow hedging	-13.4	0.0	-13.4	0.0
Foreign exchange derivatives	-0.3	0.0	-0.3	0.0
Commodity derivatives	-0.5	0.0	-0.5	0.0
of which subject to cash flow hedging	-0.5	0.0	-0.5	0.0
Total	**-14.2**	**0.0**	**-14.2**	**0.0**

	31 Dec. 2015	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	0.0	0.1	0.0
Commodity derivatives	-	-	-	-
Total	**0.1**	**0.0**	**0.1**	**0.0**

Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-14.0	0.0	-14.0	0.0
of which subject to cash flow hedging	-14.0	0.0	-14.0	0.0
Foreign exchange derivatives	-0.3	0.0	-0.3	0.0
Commodity derivatives	-2.9	0.0	-2.9	0.0
of which subject to cash flow hedging	-2.9	0.0	-2.9	0.0
Total	**-17.2**	**0.0**	**-17.2**	**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.

27. 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	**2016**	**2015**
Maturing in less than a year	6.5	6.7
Maturing in 1–5 years	14.5	16.4
Maturing in over 5 years	10.7	13.4
Other rent commitments, total	**31.7**	**36.5**
Rent receivables on other irrevocable lease agreements		
Maturing in less than a year	0.0	0.1
Maturing in 1–5 years	0.0	0.1
Maturing in over 5 years	0.0	0.0
Rent receivables, total	**0.0**	**0.1**

28. CONDITIONAL ASSETS AND LIABILITIES AND PURCHASE COMMITMENTS

Commitments and contingent liabilities	**2016**	**2015**
Loans secured by mortgages	-	0.2
On own behalf		
Mortgages given	-	0.4
Assets pledged	3.2	3.2
On behalf of others		
Guarantees	5.6	5.9
Other commitments	7.4	7.5
Leasing commitments		
Leasing commitments maturing in less than a year	3.5	4.6
Leasing commitments maturing in 1–5 years	4.0	6.3
Leasing commitments maturing in over 5 years	0.0	0.1
Total	**23.7**	**24.7**

Eura facility will be closed after Rauma facility has been completed in 2017. Procedures related to Eura facility after the production has ended are still being investigated. Alternatives are selling, renting, renovation and demolition. Because future use is open, potential renovation or demolition obligation cannot be measured yet with sufficient reliability. Due to this no provision has been recorded.

29. 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 Group Management Team. The Group strives to treat all parties equally in its business.

HKScan Corporation's principal owner, LSO Osuuskunta, is a cooperative of 1 300 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.

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 13.8 (13.5) million. Said persons purchased animals from the Group with EUR 4.3 (4.4) million.

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 2016, 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	25	50,00*

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
Samfood 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.

Shares and holdings in associated companies	**Number of shares**	**Owner-%**
Owned by the Group's parent company		
Lihateollisuuden Tutkimuskeskus, Finland**	2 600	5.2*
Owned by HKScan Finland Oy		
Länsi-Kalkkuna Oy, Finland	250	50.00
Pakastamo Oy, Finland	660	50.00
Lihateollisuuden Tutkimuskeskus, Finland**	22 400	44.80*
Honkajoki Oy, Finland	900	50.00
Envor Biotech Oy, Finland	128	24.62
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

* The Group has a total of 50 per cent ownership in Lihateollisuuden Tutkimuskeskus.

** Joint venture

The Group conducts business through the associates. 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

	2016	**2015**
Product sales to associates	46.9	70.1
Sales of animals to related parties	4.3	4.4
Product purchases from associates	39.2	46.6
Purchases of animals from related parties	13.8	13.5

Open balances on 31 December	**2016**	**2015**
Trade receivables from associates	2.2	1.4
Trade payables to associates	5.1	5.3

30. EVENTS AFTER THE REPORTING DATE

On 13 January 2017, HKScan lowered its outlook for 2016.

On 19 January 2017, HKScan announced that it had acquired the remaining 50% of Paimion Teurastamo (Paimio Slaughterhouse). HKScan Finland had acquired a 50% holding in the company in summer 2015.

On 8 February 2017, HKScan informed on renewing its Group Leadership Team and simultaneously initiating a review of its operating model.

On 8 February 2017, HKScan informed about plans to embark on a partial re-organization of its operations as part of the review of its operating model. The potential impacts on personnel of the planned operating model renewal and planned efficiency upgrades will be assessed in Group-wide statutory negotiations.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT FOR 1 JANUARY - 31 DECEMBER

(EUR)

	Note	2016	2015
Net sales		-	-
Other operating income	1.	15 588 679.33	12 645 817.13
Materials and services		-	-
Employee costs	2.	-12 375 388.66	-10 457 922.74
Depreciation and impairment	3.	-440 787.30	-428 732.42
Other operating expenses	4.	-17 866 571.89	-13 874 006.22
EBIT		**-15 094 068.52**	**-12 114 844.25**
Financial income and expenses	5.	19 878 367.40	21 841 420.92
Profit/loss before appropriations and taxes		**4 784 298.88**	**9 726 576.67**
Appropriations	6.	27 043 868.00	2 225.00
Income taxes	7.	-3 184 475.97	973 883.04
Profit/loss for the period		**28 643 690.91**	**10 702 684.71**

PARENT COMPANY BALANCE SHEET 31 DECEMBER

(EUR)

	Note	2016	2015
ASSETS			
Intangible assets	8.	947 533.00	833 393.00
Tangible assets	8.	5 285 476.38	2 204 453.24
Financial assets	8.	290 902 232.22	290 949 324.83
Non-current assets		**297 135 241.60**	**293 987 171.07**
Non-current receivables	9.	280 427 953.28	312 706 893.63
Deferred tax asset	9.	7 146 667.32	9 311 035.52
Current receivables	10.	37 889 826.62	8 287 845.59
Cash and cash equivalents		3 739 752.69	6 814 821.73
Current assets		**329 204 199.91**	**337 120 596.47**
Assets		**626 339 441.51**	**631 107 767.54**
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.	-6 785 666.27	-1 538 202.49
RIUE	11.	143 202 868.19	143 075 845.19
Other reserves	11.	4 805 464.95	4 792 003.12
Retained earnings	11.	135 540 268.88	132 448 994.52
Profit/loss for the period	11.	28 643 690.91	10 702 684.71
Equity		**445 608 905.84**	**429 683 604.23**
Accumulated appropriations	12.	199 794.00	243 662.00
Provisions	13.	2 771 403.00	2 857 979.00

Deferred tax liability	14.	-	329 308.75
Non-current interest-bearing liabilities	14.	125 154 844.63	117 500 005.00
Non-current non-interest-bearing liabilities	14.	124 669.00	-
Current interest-bearing liabilities	15.	35 567 942.50	74 635 632.23
Current non-interest-bearing liabilities	15.	16 911 882.54	5 857 576.33
Liabilities		**177 759 338.67**	**198 322 522.31**
Equity and liabilities		**626 339 441.51**	**631 107 767.54**

PARENT COMPANY CASH FLOW STATEMENT

(EUR 1 000)

	2016	2015
EBIT	-15 094	-12 115
Adjustments to EBIT	1 245	1 320
Depreciation and impairment	441	429
Change in provisions	-87	-103
Change in net working capital	961	2 023
Interest income and expenses	7 113	6 046
Dividends received	16 153	15 210
Taxes	-30	-132
Cash flow from operating activities	**10 702**	**12 678**
Purchases of shares in subsidiary	-	-1
Purchase of other fixed assets	-3 636	-1 655
Disposals of other fixed assets	-	98
Repayments of loans receivable	30 844	2 364
Cash flow from investing activities	**27 208**	**805**
Cash flow before financing activities	**37 910**	**13 483**
Proceed from external borrowings	57 613	62 769
Repayment of external borrowings	-91 036	-54 230
Dividends paid	-7 562	-26 447
Cash flow from financing activities	**-40 985**	**-17 908**
Change in cash and cash equivalents	**-3 075**	**-4 425**
Cash and cash equivalents on 1 Jan.	6 815	11 240
Cash and cash equivalents on 31 Dec.	**3 740**	**6 815**

CHANGE IN WORKING CAPITAL:		
Increase (-) / decrease (+) in current operating receivables	-376	2 239
Increase (+) / decrease (-) in current non-interest-bearing liabilities	1 337	-215
Total	**961**	**2 023**

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 2016.

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

TRANSACTIONS IN FOREIGN CURRENCY

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

DERIVATIVE CONTRACTS

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 recognized through profit or loss in other operating income or expenses, and changes in the value of foreign exchange contracts hedging financial items are recognized in the income statement in foreign exchange gains and losses from financing operations.

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.

On 20 January 2016, HKScan announced that Hannu Kottonen will discontinue his duties as CEO of HKScan as of that day. In 2016, CEO Hannu Kottonen was paid a total salary and supplementary pension benefits of EUR 1.3 million.

In the interim, Aki Laiho, deputy CEO and COO, temporarily assumed the position of CEO. In 2016, deputy CEO and COO Aki Laiho was paid a total salary and supplementary pension benefits of EUR 0.5 million.

Jari Latvanen started as the new President and CEO of HKScan on 31 October. In 2016, CEO Jari Latvanen was paid a total salary and supplementary pension benefits of EUR 0.4 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

	2016	2015
Rental income	-	1
Other operating income	15 589	12 628
Gain on disposal of non-current assets	-	17
Other operating income, total	**15 589**	**12 646**
Employees, average	106	99

2. STAFF COSTS

	2016	2015
Salaries and fees	-10 273	-8 475
Pension expenses	-1 664	-1 400
Other social expenses	-438	-583
Staff costs	**-12 375**	**-10 458**
Managing directors and their deputies	1 979	997
Members of the Board of Directors	316	297
Management salaries, fees and benefits	**2 295**	**1 294**

3. DEPRECIATION AND IMPAIRMENT

	2016	2015
Depreciation according to plan on non-current assets and goodwill	-441	-429
Total depreciation and impairment	**-441**	**-429**

4. OTHER OPERATING EXPENSES

	2016	2015
Rents/leases	-1 380	-1 381
Losses on disposal of fixed assets, tangible assets total	0	-1
Losses on disposal of non-current assets	**0**	**-1**
Audit fees, ordinary audit	-224	-95
Audit fees, other expert services	-385	-23
Audit fees	**-609**	**-118**
Non-statutory staff costs	-2 166	-2 076
Energy	-93	-84
Maintenance	-39	-39
Advertising, marketing and entertainment costs	-985	-770
Service, information management and office costs	-9 523	-5 783
Other expenses	-3 072	-3 622
Total other operating expenses	**-17 867**	**-13 874**

5. FINANCIAL INCOME AND EXPENSES

	2016	2015
Financial income		
Dividends from Group companies	16 145	15 208
Dividends from participating interests	8	-
Income from units	**16 153**	**15 208**
Interest income from Group companies	14 994	16 247
Interest income from participating interests	3	2
Interest income from others	20	26
Interest income from other non-current financial assets	**15 017**	**16 275**
Other financial income from others	4 062	7 246
Other financial income	**4 062**	**7 246**
Total financial income	**35 232**	**38 730**
Financial expenses		
Interest expenses payable to Group companies	-1	-36
Interest expenses payable to others	-8 283	-8 329
Total other interest and financial expenses	**-8 284**	**-8 365**
Unrealised losses on fair value assessment	**-1 696**	**-487**
Other financial expense from others	-5 374	-8 036
Other financial expense	**-5 374**	**-8 036**
Total financial expenses	**-15 354**	**-16 888**
Financial income and expenses, total	**19 878**	**21 841**

6. APPROPRIATIONS

	2016	2015
Increase (-) or decrease (+) in depreciation difference	44	2
Group contribution income	27 000	-
Total appropriations	**27 044**	**2**

7. DIRECT TAXES

	2016	2015
Tax for previous financial periods	-	-91
Change in deferred tax liabilities and assets	-3 154	1 105
Other direct taxes	-30	-40
Income tax on ordinary operations	**-3 184**	**974**

NOTES TO THE PARENT COMPANY'S BALANCE SHEET

8. NON-CURRENT ASSETS

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**

Intangible assets 2015	**Intellectual property rights**	**Other long-term expenditure**	**Total**
Acquisition cost on 1 Jan.	2 155	352	2 507
Increase	120	32	152
Transfers between items	-	277	277
Acquisition cost on 31 Dec.	**2 275**	**661**	**2 936**
Accumulated depreciation on 1 Jan.	-1 677	-181	-1 859
Depreciation for the financial period	-153	-91	-244
Accumulated depreciation on 31 Dec.	**-1 830**	**-272**	**-2 103**
Carrying amount on 31 Dec.	**445**	**388**	**833**

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
Accumulated depreciation of disposals and reclassifications	-	-	-	-
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**

Tangible assets 2015	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan.	1 209	380	606	2 195
Increase	65	-	1 438	1 503
Decrease	-162	-	0	-162
Transfers between items	92	-	-369	-277
Acquisition cost on 31 Dec.	**1 204**	**380**	**1 675**	**3 259**
Accumulated depreciation on 1 Jan.	-600	-349	0	-949
Accumulated depreciation of disposals and reclassifications	81	-	-	81
Depreciation for the financial period	-167	-18	-	-185
Accumulated depreciation on 31 Dec.	**-686**	**-367**	**0**	**-1 053**
Carrying amount on 31 Dec.	**518**	**13**	**1 675**	**2 206**

Financial assets 2016	Holdings in Group associates	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**

Financial assets 2015	Holdings in Group associates	Holdings in associates	Receivables from associates	Other shares and holdings	Total
Acquisition cost on 1 Jan.	290 737	148	47	16	290 948
Increase	1	-	-	-	1
Acquisition cost on 31 Dec.	**290 738**	**148**	**47**	**16**	**290 949**
Carrying amount on 31 Dec.	**290 738**	**148**	**47**	**16**	**290 949**

Intangible assets	**2016**	**2015**
Intellectual property rights	691	445
Other long-term expenditure	256	388
Intangible assets	**947**	**833**
Tangible assets		
Machinery and equipment	378	518
Other tangible assets	13	13
Payments on account and tangible assets in the course of construction	4 896	1 675
Tangible assets	**5 287**	**2 206**
Financial assets		
Holdings in Group companies	290 738	290 738
Holdings in associates	148	148
Receivables from participating interests	-	47
Other shares and holdings	16	16
Financial assets	**290 902**	**290 949**
Total non-current assets	**297 136**	**293 988**

9. NON-CURRENT RECEIVABLES

	2016	2015
Non-current loan receivables	834	1 007
Deferred tax assets	7 147	9 311
Other receivables	347	459
Prepayments and accrued income	150	-
Total	**8 478**	**10 777**
RECEIVABLES FROM GROUP COMPANIES		
Non-current Group loan receivables	279 096	311 241
Non-current receivables from Group companies	**279 096**	**311 241**
Total non-current receivables	**287 574**	**322 018**

10. CURRENT RECEIVABLES

	2016	2015
Trade receivables	-	5
Short-term receivables (from others)	5	65
Short-term prepayments from accrued income (from others)	605	345
Total	**610**	**415**
RECEIVABLES FROM GROUP COMPANIES		
Trade receivables	403	22
Loan receivables	9 521	7 168
Other receivables	205	522
Group contribution receivables	27 000	-
Total	**37 129**	**7 712**
RECEIVABLES FROM PARTICIPATING INTERESTS		
Loan receivables	150	150
Other receivables	-	11
Short-term receivables from participating interests	**150**	**161**
Total current receivables	**37 889**	**8 288**
MAIN ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME		
Accrued financial items	117	106
Accrued staff costs	13	17
Other prepayments and accrued income	475	222
Total	**605**	**345**

11. EQUITY

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**

Equity in 2015	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	4 709	158 970	445 419
Increase	-	-	-	-	-	83	-	83
Dividend distribution	-	-	-	-	-	-	-26 447	-26 447
Direct recognition in retained earnings	-	-	-	-	-	-	-73	-73
Profit for the period	-	-	-	-	-	-	10 703	10 703
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**-1 538**	**143 076**	**4 792**	**143 153**	**429 684**

Distributable equity	2016	2015
Contingency reserve	527	513
Treasury shares	-38	-38
Reserve for invested unrestricted equity	143 203	143 076
Retained earnings	135 540	132 449
Profit/loss for the period	28 644	10 703
Distributable equity	**307 876**	**286 703**

12. ACCUMULATED APPROPRIATIONS

	2016	2015
Depreciation difference	200	244
Total appropriations	**200**	**244**

The unrecognized deferred tax liability on depreciation difference is EUR 49 000.

13. STATUTORY PROVISIONS

	2016	2015
Provisions for pensions	2 771	2 858
Statutory provisions, total	**2 771**	**2 858**

14. NON-CURRENT LIABILITIES

	2016	2015
Deferred tax liability	-	329
Bond	100 000	100 000
Loans from financial institutions	23 560	15 000
Other liabilities	1 720	2 500
Total	**125 280**	**117 829**
Total non-current liabilities	**125 280**	**117 829**
Interest-bearing		
Amounts owed to others	125 155	117 500
Non-current interest-bearing liabilities	**125 155**	**117 500**
Non-interest-bearing		
Amounts owed to others	125	329
Non-current non-interest-bearing liabilities	**125**	**329**
Total non-current liabilities	**125 280**	**117 829**

15. CURRENT LIABILITIES

	2016	2015
Loans from financial institutions	14 140	34 131
Trade payables	2 282	876
Accruals and deferred income	12 907	3 625
Other liabilities	1 479	1 098
Total	**30 808**	**39 730**
AMOUNTS OWED TO GROUP COMPANIES		
Trade payables	149	218
Accruals and deferred income	95	41
Other liabilities	21 428	40 504
Total	**21 672**	**40 763**
Total current liabilities	**52 480**	**80 493**
Interest-bearing		
Current amounts owed to Group companies	21 428	40 504
Amounts owed to others	14 140	34 131
Current interest-bearing liabilities	**35 568**	**74 635**
Non-interest-bearing		
Current amounts owed to Group companies	244	259
Amounts owed to others	16 668	5 599
Current non-interest-bearing liabilities	**16 912**	**5 858**
Total current liabilities	**52 480**	**80 493**

MAIN ITEMS (NON-CURRENT AND CURRENT) INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Accrued staff costs	2 367	1 991
Accrued interest expenses	634	681
Accrued changes in value of derivatives	8 913	429
Other accruals and deferred income	952	524
Total	**12 866**	**3 625**

LIABILITIES DUE IN FIVE YEARS OR MORE		
Loans from financial institutions	-	-
Pension loans	-	-
Other long-term liabilities	-	-
Liabilities due in more than five years	**-**	**-**

16. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities	**2016**	**2015**
DEBTS SECURED BY MORTGAGES AND SHARES		
Loans from financial institutions	0	0
Total	**0**	**0**
Real estate mortgages	0	0
Total	**0**	**0**
SECURITY FOR DEBTS OF SUBSIDIARIES AND OTHER GROUP COMPANIES		
Guarantees	20 163	29 710
Total	**20 163**	**29 710**
SECURITY FOR DEBTS OF PARTICIPATING INTERESTS		
Guarantees	489	607
Total	**489**	**607**
SECURITY FOR DEBTS OF OTHERS		
Guarantees	1 703	1 878
Total	**1 703**	**1 878**
OTHER CONTINGENCIES		
Leasing commitments		
Maturing in less than a year	215	222
Maturing in 1–5 years	209	198
Total	**424**	**420**
OTHER RENT COMMITMENTS		
Maturing in less than a year	871	867
Maturing in 1–5 years	3 482	3 468
Maturing in more than five years	4 353	5 202
Total	**8 706**	**9 537**

Other commitments	4	4
Total other contingencies	**9 134**	**9 961**

17. DERIVATIVE INSTRUMENTS

	2016	2016	2016	2015	2016	2015
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
Interest rate derivatives	4 890.8	-13 434.1	-8 543.3	-8 907.7	70 936.9	71 764.0
matured in 2016	0.0	0.0	0.0	0.0	0.0	0.0
matures in 2017	0.0	-251.2	-251.2	-366.2	5 234.2	5 441.0
matures in 2018	0.0	-753.5	-753.5	-1 098.7	15 702.7	16 323.0
matuers in 2019	1 620.5	-1 620.5	0.0	0.0	0.0	0.0
matures in 2020	2 681.5	-2 681.5	0.0	0.0	0.0	0.0
matures in >2020	588.8	-8 127.4	-7 538.6	-7 442.7	50 000.0	50 000.0
of which defined as cash flow hedging instruments	0.0	-8 543.3	-8 543.3	-8 907.7	70 936.9	71 764.0
Foreign exhange derivatives	304.2	-363.4	-59.2	-74.0	30 398.2	40 969.0
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	1 135.1	-1 135.1	0.0	0.0	0.0	0.0
matured in 2016	0.0	0.0	0.0	0.0	0.0	0.0
matures in 2017	622.4	-622.4	0.0	0.0	0.0	0.0
matures in 2018	282.6	-282.6	0.0	0.0	0.0	0.0
matuers in 2019	212.8	-212.8	0.0	0.0	0.0	0.0
matures in 2020	17.3	-17.3	0.0	0.0	0.0	0.0
of which defined as cash flow hedging instruments	0.0	0.0	0.0	0.0	0.0	0.0

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 13 162 (16 745) thousand foreign exchange derivatives, EUR 7 271 (8 083) thousand commodity derivatives, EUR 55 937 (56 764) thousand interest rate derivatives.

Fair value hierarchy

	31 Dec. 2016	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	4 890.8	-	4 890.8	-
Foreign exchange derivatives	304.2	-	304.2	-
Commodity derivatives	1 135.1	-	1 135.1	-
Total	**6 330.1**	**-**	**6 330.1**	**-**
Derivatives, negative fair value				
Interest rate swaps	-13 434.1	-	-13 434.1	-
Foreign exchange derivatives	-363.4	-	-363.4	-
Commodity derivatives	-1 135.1	-	-1 135.1	-
Total	**-14 932.6**	**-**	**-14 932.6**	**-**

	31 Dec. 2015	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	5 132.9	-	5 132.9	-
Foreign exchange derivatives	296.0	-	296.0	-
Commodity derivatives	2 900.9	-	2 900.9	-
Total	**8 329.8**	**-**	**8 329.8**	**-**
Derivatives, negative fair value				
Interest rate swaps	-14 040.6	-	-14 040.6	-
Foreign exchange derivatives	-370.0	-	-370.0	-
Commodity derivatives	-2 900.9	-	-2 900.9	-
Total	**-17 311.5**	**-**	**-17 311.5**	**-**

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, 27 February 2017

Mikko Nikula
Chairman of the Board

Niels Borup
Deputy chairman of the Board

Henrik Treschow
Member of the Board

Pirjo Väliaho
Member of the Board

Teija Andersen
Member of the Board

Jari Latvanen
CEO

AUDITOR’S NOTE

A report on the audit carried out has been submitted today.

Vantaa, 1 March 2017

PricewaterhouseCoopers Oy

Authorized Public Accountants

Jouko Malinen
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 financial position, financial performance, and cash flows of the group 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.

What we have audited

We have audited the financial statements of HKScan Oyj (Business ID: 1951458-9) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the parent company’s balance sheet, income statement, cash flow statement and notes to the financial statements

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.

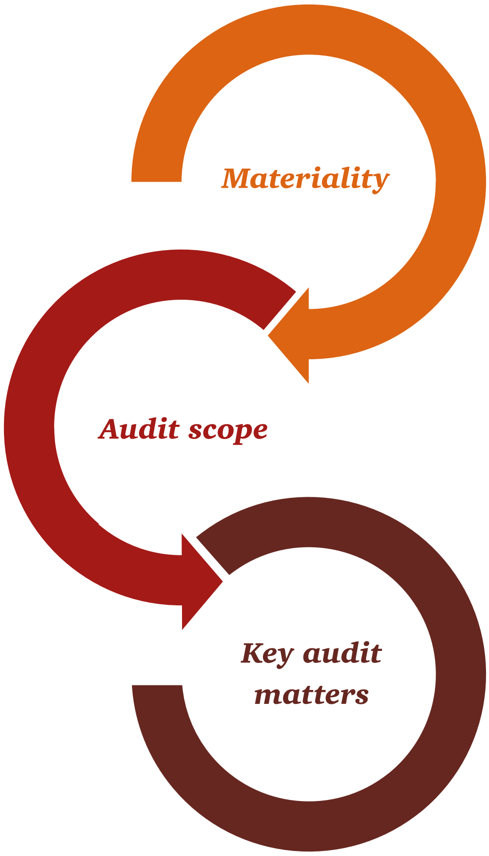
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Finland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

- Valuation of goodwill and other 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 don't 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 the 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	**How our audit addressed the Key audit matter**
Valuation of goodwill and other assets	
Refer to Accounting Policies, Note 12 (Goodwill) and Note 5 (Depreciation and impairment)	We evaluated the Group's impairment testing principles and compared these with applicable accounting standards.

Key audit matter	**How our audit addressed the Key audit matter**
At 31 December 2016 the group's goodwill balance is valued at EUR 77.0 million. 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 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 also assessed adequacy of the disclosures.
Inventories	
Refer to Accounting policies and Note 18 (Inventories) At 31 December 2016 the Group's inventories balance is valued at EUR 116.1 million. The inventories consist mainly of materials and supplies, as well as unfinished and finished products. We focused on unfinished and finished products because the inventory cost accounting in meat production and evaluation of inventories is a complex area and it involves judgment.	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 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.	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.

Key audit matter	How our audit addressed the Key audit matter
	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, as well as for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of the 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 Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have 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 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 in a manner that achieves fair presentation.
- 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

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the annual report, but does not include the financial statements and our auditor's report thereon. We 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 the date of this auditor's report.

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 Board of Directors has been prepared in accordance with the applicable legal requirements.

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 legal requirements.

If, based on the work we have performed on the information included in the report of the Board of Directors, 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, 01 March 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

CORPORATE GOVERNANCE STATEMENT 2016

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 force on 1 October 2015 and with Chapter 7:7 of the Finnish Securities Markets Act. The corporate governance statement is issued separately from the Board's Review 2016.

HKScan Corporation observes the Code subject to the following exceptions:

- Recommendation 18a: 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.

AVAILABILITY OF CORPORATE GOVERNANCE CODE

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 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 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 chairman and deputy chairman from among its number.

The Board conducts an annual evaluation of the independence of its members in accordance with recommendation 15. 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 13 April 2016 *)

Mikko Nikula (b.1972)
Chairman of the Board since 2015
M.Sc. (Physics)
Farm entrepreneur, broiler meat producer, Rusko, Finland
Shareholding at HKScan on 31.12.2016: 4 220 (direct ownership)
and 2 733 (through Myllymäen broiler Oy)

Niels Borup (b. 1964)
Deputy Chairman of the Board since 2011
M.Sc. (Econ. & Bus. Admin.)
Farm entrepreneur, pork and milk producer, Lapinjärvi, South Finland
Shareholding at HKScan on 31.12.2016: 10 105

Henrik Treschow (b. 1946)
Member of the Board since 2011
MBA, Sweden
Shareholding at HKScan on 31.12.2016: 4 925 (nominee-reg.)

Teija Andersen (b.1957)
Member of the Board since 2012
M.Sc. (Agr. & For.), eMBA
Etelä-Hämeen Lomat Oy, CEO, 2013–2015
Shareholding at HKScan on 31.12.2016: 1 725

Pirjo Väliaho (b. 1954)
Member of the Board since 2015
Bachelor of Economic Sciences
Shareholding at HKScan on 31.12.2016: 1 725

Per Nilsson (b. 1973)
Deputy member of the Board since 2013
Lantmästare, Swedish University of Agricultural Sciences (SLU),
Master programme at Agriculture University of St. Paul/Minnesota, USA
Farm entrepreneur and pork and beef producer, Esplunda, Central Sweden
Shareholding at HKScan on 31.12.2016: 570 (nominee-reg.)

Marko Onnela (b. 1974)
Deputy member of the Board since 2015
M.Sc. Agriculture
Farm entrepreneur, pork producer, Loimaa, Finland
Shareholding at HKScan on 31.12.2016: 9 000

*) Tero Hemmilä, who also was re-elected as member of the Board in the AGM 2016, resigned from the Board on 11 May 2016.

All actual and deputy members of the Board of Directors are independent of the Company and of the Company's major shareholders.

During 2016, the Board held 18 meetings. The average attendance rate of Board members was 94 per cent (92 per cent incl. deputy members). The Board constitutes a quorum when more than half of its members are present.

Besides the members, the Group's CEO, the deputy CEO, the CFO and the Legal and Administrative Director 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 Group companies and senior management
- Group management's and personnel's incentive schemes and bonus criteria
- Group and organization structure, commencement of new business, changes and discontinuation of central business
- Group strategy, business plan and performance targets for the following year, and related underlying assumptions
- 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 Group
- dividend policy and division proposal to the Annual General Meeting
- principles of risk management and communication related to 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 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 chairman 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 chairmen 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.

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 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 Corporate Governance 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 review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement;
- to monitor the statutory audit;
- to evaluate the independence of auditors and the provision of related services to the Company in particular; and
- to prepare the proposal for resolution 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 CEO of the Company or other senior executives may not be elected to the Audit Committee.

The Audit Committee is chaired by Henrik Treschow, and its other members are Pirjo Väliaho, Per Nilsson and Marko Onnela.

The Audit Committee held 5 meetings during 2016. The average attendance rate of Committee members was 95 per cent. Committee meetings were also regularly attended by the Company's CEO, the CFO, the internal auditor and by the external auditors. The chairman 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 planning 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 which benefits the business of the company, experience of international tasks, and they should represent varied age range.

The members of the Nomination Committee are Jari Mäkilä (Chair), Lena Åsheim and Mikko Nikula.

The Nomination Committee held 3 meetings during 2016. The average attendance rate of Committee members was 89 per cent.

Introductions:

Jari Mäkilä (b. 1970)
Chairman of the supervisory board of LSO Osuuskunta
Agricultural technician, pork producer, Oripää, Finland

Lena Åsheim (b.1958)
Chairman of the Board of Sveriges Djurbönder r.f.
M Sc.(Agr. Econ.), 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. 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 Niels Borup and its other members are Teija Andersen and Pirjo Väliaho.

The Compensation Committee held 6 meetings during 2016. 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.

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 Corporation.

All members and deputy members of the Board are members of the Working committee. The Chairman of the Board, Mikko Nikula, acts as the Committee's Chairman. The Working Committee held 8 meetings during 2016. The average attendance rate of Committee members was 92 per cent.

MEETING ATTENDANCE OF THE BOARD AND ITS COMMITTEES

	Attendance				
	Board of Directors	Audit Committee	Nomination Committee	Compensation Committee	Working Committee
Mikko Nikula	18/18		2/3		8/8
Niels Borup	17/18			6/6	7/8
Tero Hemmilä 1) 2)	4/7	2/2			2/3
Henrik Treschow	17/18	4/5			7/8
Teija Andersen	18/18			6/6	8/8
Pirjo Väliaho 3)	17/18	3/3		6/6	8/8
Per Nilsson (deputy)	16/18	5/5			7/8
Marko Onnela (deputy)	16/18	5/5			8/8
Lars Gustafsson 4)			2/2		
Jari Mäkilä			3/3		
Lena Åsheim 5)			1/1		

1) Resigned from the Board 11 May. Between 1.1.–11.5.2016 the Board had 7 meetings.

2) Member of the Audit Committee and Working Committee until 11 May. Between 1.1.–11.5.2016 the Audit Committee had 2 meetings and the Working Committee 3 meetings.

3) Member of the Audit Committee as of 12 May. Between 12.5.–31.12.2016 the Audit Committee had 3 meetings.

4) Member of the Nomination Commitee until 13 April. Between 1.1–13.4.2016 the Nomination Committee had 2 meetings.

5) Member of the Nomination Commitee as of 13 April. Between 13.4.–31.12.2016 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 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 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 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.

Hannu Kottonen served as the CEO until 20 January 2016. After that, Aki Laiho, COO, worked as the deputy CEO between 21 January - 30 October 2016. MBA Jari Latvanen (b. 1964) started as HKScan’s President and CEO on 31 October 2016.

GROUP LEADERSHIP TEAM

The Group Leadership Team (GLT) 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. The members of the GLT are appointed by the Board.

The Group Leadership Team on 31 December 2016:

Jari Latvanen (b.1964)
President and CEO as of 31 October 2016
MBA
Shareholding at HKScan on 31.12.2016: -

Aki Laiho (b. 1972)
COO as of 2012
CEO's deputy
Doctor of Science (Technology), CSCP
Shareholding at HKScan on 31.12.2016: 14 711

Tuomo Valkonen (b. 1967)
CFO of HKScan as of 2012
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2016: 7 855

Jyrki Karlsson (b. 1969)
EVP of HKScan's Consumer business, Finland as of 19 December 2016
M.Sc. (Eng)
Shareholding at HKScan on 31.12.2016: 2 500

Jukka Nikkinen (b. 1962)
EVP of HKScan's Away from Home (AfH) Business as of 2012
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2016: 10 711

Göran Holm (b. 1958)
EVP of HKScan's Consumer business, Scandinavia as of 2012
DIMH diploma in marketing, Stockholm IHM Business School
Shareholding at HKScan on 31.12.2016: 10 600

Anne Mere (born 1971)
EVP of HKScan’s Consumer business, Baltics as of 19 December 2016 and
Chief Marketing Officer (CMO) of HKScan Group as of 2013
MBA
Shareholding at HKScan on 31.12.2016: 14 720

Markku Suvanto (b. 1966)
EVP, Legal and Administration of HKScan as of 2011
LL.M. trained on the bench
Shareholding at HKScan on 31.12.2016: 7 855

Anu Mankki (b. 1963)
EVP, HR of HKScan as of 2 January 2017
MA
Shareholding at HKScan on 31.12.2016: 0

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 HKScan Corporation's Board of Directors. Group 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 Group's values and internal policies and guidelines. The internal control system has the further objective of supporting activities in line with the Group'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

The Group's values and policies form the basis for the internal control environment at HKScan.

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 its duty by means including adoption of the Group's risk management policy and determination of the objectives and principles of internal control. The Group's 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 EVP, Administrative and 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 function 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 the Group are by nature strategic (e.g. acquisitions), operative (e.g. animal diseases), financial (e.g. currency exchange rates and interest rates) 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 achievement of the Group's strategic intents. Operative risks are the responsibility of the managers of the respective Business and Group functions. The CFO is responsible for the management of financial risks and the Group's insurance policies.

The Company uses a systematic Enterprise Risk Management (ERM) process, which comprises 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 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 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 the Group'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.

The Group's financial administration has determined, via risk assessment, the controls central to financial reporting. These cover the financial reporting process. The implementation and effectiveness of the controls is the responsibility of financial administration in the segments. The Group has in place a self-evaluation process, which seeks to ensure the function and effectiveness of controls relating to financial reporting. The Group's major subsidiaries provide the Group's financial administration with an annual report on the effectiveness of key controls. In addition to ensuring control effectiveness, self-evaluation also seeks to locate possible gaps and areas for further development in the controls.

MONITORING

The Group's earnings performance is monitored in meetings of the Board and the Group Management 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 statutory 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 2016, the development of the internal control framework continued. It includes updating of internal policies and guidelines, specification of the Group processes and preparation of charters for the various bodies.

RELATED PARTY TRANSACTIONS

The company has identified its related parties and it is occasionally engaged in transactions with some of these parties. In addition, the company has defined preconditions when the transaction is considered as essential from company's perspective. 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 terms and practices. The principle is that the internal auditor regularly monitors the transactions concluded between the company and its related parties defined according to IAS 24.9 act, and reports to the Board's Audit Committee. The Audit Committee presents, if necessary, transactions that are essential and deviate from the company's normal business operations to the Board of Directors for decision in accordance with the standard decision making process.

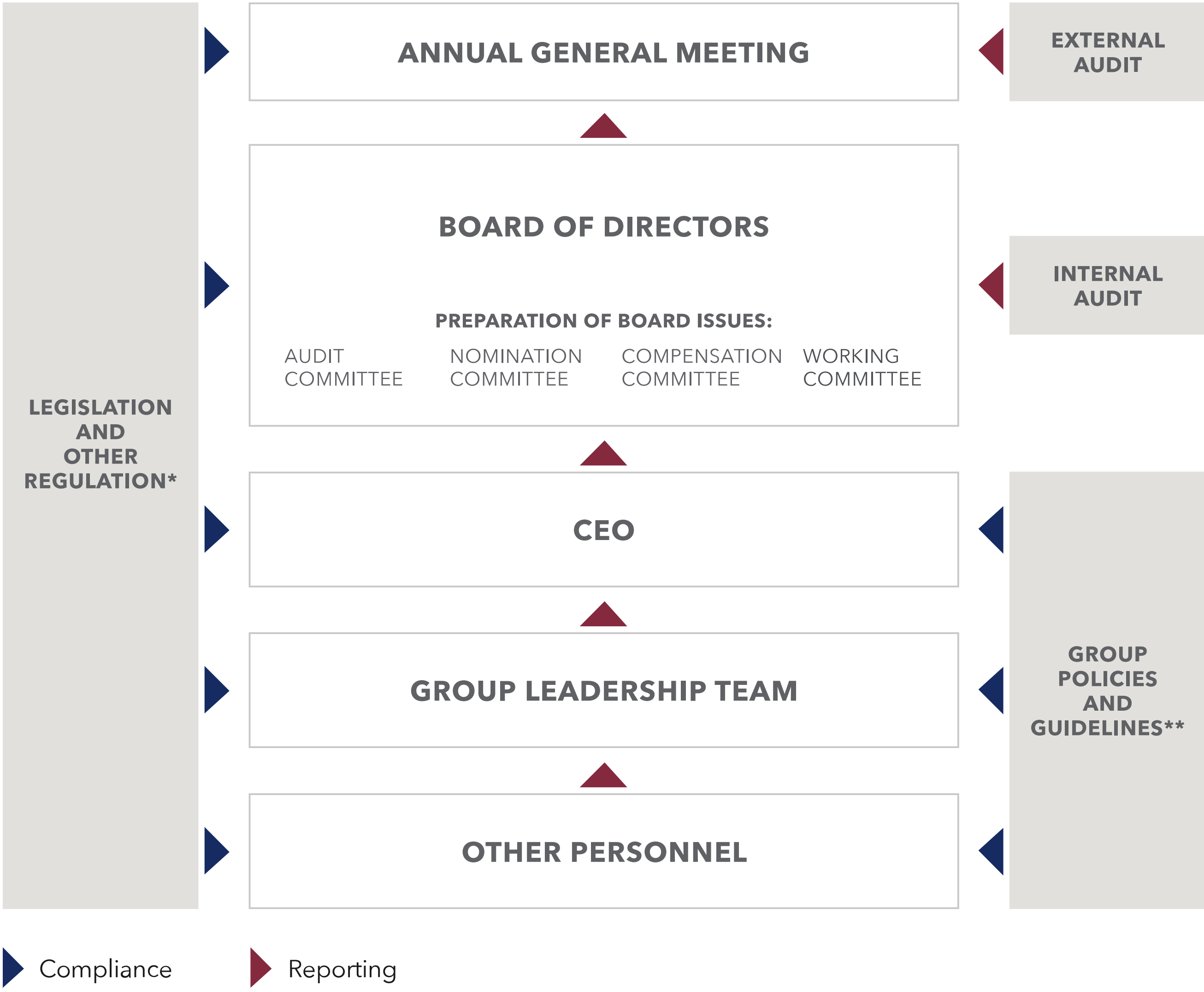
AUDITORS

The external auditors are nominated annually by the Annual General Meeting. The AGM 2016 elected PricewaterhouseCoopers Oy, the firm of authorized public accountants, with APA Jouko Malinen as responsible auditor of HKScan until the close of the next Annual General Meeting.

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.

	2015	**2016**
Audit fees	-0.5	-0.3
Tax consultation	0.0	-
Other fees	-0.4	-0.1
Audit fees, total	**-0.9**	**-0.5**

HKSCAN GROUP GOVERNANCE AND CONTROL SYSTEM



* 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

** Articles of Association, other internal policies, guidelines and operating procedures

REMUNERATION STATEMENT

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

1. DECISION MAKING IN RELATION TO REMUNERATION

Remuneration at HKScan Group is based on the Group's remuneration guidelines and principles, as well as compensation and benefits practices.

The Annual General meeting of Shareholders (AGM), the Board of Directors and its Compensation Committee are all involved in the preparations and decision-making regarding remuneration at HKScan Group. The decision on the remuneration of the members of the Board of the Directors is made in the AGM.

The Board of the Directors decides, based on the proposals made by the Compensation Committee, on the remuneration principles and remuneration for senior management (President and CEO, and other members of HKScan Group Leadership Team). The Board of Directors approves all Group-wide incentive plans for senior management and key personnel.

2. REMUNERATION OF BOARD MEMBERS

The remuneration and other benefits of the Board of Directors are decided annually by the Annual General Meeting. The AGM on 13 April 2016 resolved the annual remuneration payable to the members of the Board of Directors as follows:

- EUR 27 625 to Board member,
- EUR 33 875 to Vice Chairman of the Board, and
- EUR 67 750 to Chairman of the Board.

The annual remuneration would be paid in Company shares and cash so that 20 per cent of the remuneration would be in the Company shares acquired on the market on the Board members' behalf, and the rest would be paid in cash. The shares were acquired within two weeks after the publication of HKScan Corporation's interim report 1 January–30 June 2016. Additionally, the Company paid all costs related to the transfer of the Company shares.

An annual remuneration of EUR 13 810 was paid to deputy member of the Board of Directors. To Chairmen of the Board committees (Audit, Nomination, Compensation and Working Committee) was paid an annual remuneration of EUR 5 000. In addition, a compensation of EUR 550 per a meeting was paid for all the Board members for each attended Board and Board committee meeting. Travel expenses of the members of the Board of Directors were compensated according to the Company's travel policy.

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 per diems as outlined in the company's travel policy for travel within and outside Finland. Normal travel expenses are also covered. Board members receive no separate meeting attendance fees for serving on the Boards of Directors of the Group's subsidiaries or associated companies.

FEES OF THE BOARD OF DIRECTORS AND COMMITTEES IN 2016

	Board	Committees					Total in euros	Paid in shares *)
	Annual fee	Attendance fee	Audit	Nomin.	Compens.	Working	2016	2016
Mikko Nikula	63 250	5 500		1 100		9 400	79 250	4 220
Niels Borup	31 617	4 950			8 300	3 850	48 717	2 105
Tero Hemmilä 1)	9 210	1 100	3 185			1 100	14 595	
Henrik Treschow	25 783	4 950	5 115			3 850	39 698	1 725
Teija Andersen	25 783	5 500			3 300	4 400	38 983	1 725
Pirjo Väliaho 2)	25 783	5 500	1 650		3 300	4 400	40 633	1 725
Per Nilsson	11 690	4 950	2 750			3 850	23 240	
Marko Onnela	11 690	4 950	2 750			3 850	23 240	
Lars Gustafsson				1 100			1 100	
Jari Mäkilä 3)				6 650			6 650	
Lena Åsheim 4)				550			550	
Total	**204 806**	**37 400**	**15 450**	**9 400**	**14 900**	**34 700**	**318 672**	**11 500**

1) Resigned from the Board, the Audit Committee and the Working Commitee on 11 May 2016.

2) Member of the Audit Committee as of 12 May 2016.

3) Member of the Nomination Committtee until 13 April 2016.

4) Member of the Nomination Committtee as of 13 April 2016.

*) According to the resolution of the AGM on 13 April 2016, the Board of Directors' annual remuneration was 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 interim report 1 January - 30 June 2016.

3. PRINCIPLES OF REMUNERATION OF THE CEO AND THE GROUP LEADERSHIP TEAM

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. Matters pertaining to remuneration are prepared by the Compensation Committee of the Board. The principles of the remuneration schemes are decided by the Board of Directors on the basis of the Compensation Committee's proposal.

The remuneration and terms of employment of the CEO are decided by the Board of Directors. The remuneration and terms of employment of the Group Leadership Team are decided by the Board of Directors on the basis of a proposal from the CEO. HKScan Corporation's remuneration scheme consists of a base salary, benefits, as well as short-term and long-term incentive schemes.

SHORT-TERM INCENTIVE SCHEME

In 2016, the Group had in place an extensive short-term incentive scheme. It covered the Group's CEO, the other members of the Group Leadership Team, as well as upper and middle management. Awards are based on a combination of Group, business unit, functional and individual targets. Possible fees earned on the basis of the scheme are paid solely in cash.

The earning criteria of the incentive scheme and the possible performance fees are set for each year by the Board of Directors on the proposal of the Compensation Committee.

LONG-TERM INCENTIVE SCHEMES

1) The Board of Directors of HKScan Corporation approved a new share based incentive plan for the Group key personnel in The aim of the Plan is to combine the objectives of the shareholders and the key personnel in order to develop the value of the Company, to commit the key personnel to the Company, to increase their share ownership in the Company, and to offer them a competitive reward plan based on earning and holding the Company's shares.

The Plan includes three one-year performance periods, calendar years 2013, 2014 and 2015. The Board of Directors of the Company decides on the performance criteria and their targets for a performance period at the beginning of each performance period. The potential reward from 2015 is based on the HKScan Group´s Earnings per Share (EPS) and Return on Capital Employed (ROCE).

Furthermore, the Plan includes one three-year performance period, calendar years 2013–2015. The prerequisite for receiving reward on basis of this performance period is, among other things, that a key employee previously owns or acquires the Company´s series A shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of employment or service upon reward payment.

Rewards from performance periods 2013 and 2013–2015 will be paid partly in the Company's A series shares and partly in cash in 2016. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will mainly be paid, if the key employee's employment or service ends before reward payment.

The rewards to be paid are a maximum approximate total of 300 000 HKScan Corporation series A shares and cash payment corresponding to the value of such shares. The Plan can include new shares as well as the Company's own shares. At the end of 2015, 23 people were included in the Plan.

The Board of Directors recommends that the members of the Leadership Team would hold 50 per cent of all of the shares received on the basis of the Plan until the value of their share ownerships correspond to their gross annual salaries. This share ownership should be held during the validity of employment or service.

In accordance with the above, the Board of Directors of HKScan Corporation resolved on a directed share issue without consideration according to the Group's share based incentive plan 2013, payment of the rewards for the performance period 2013–2015.

On 8 April 2016, in total 44 885 HKScan Corporation's A shares owned by the Group were gratuitous been transferred to the participants of the share based incentive plan according to its terms.

2) The Board of Directors of HKScan Corporation approved a share based incentive plan for the Group key personnel for the year 2016 on 18 December The 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 was initially 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. After the relevant taxes and other employment-related expenses have been deducted, the participants are paid the net balance in the form of shares.

ADDITIONAL PENSION BENEFITS

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.

REMUNERATION OF THE CEO JARI LATVANEN

The remuneration and terms of employment of the CEO are decided by the Board of Directors.

CEO Jari Latvanen's remuneration consists of a fixed base salary, benefits, supplementary pension benefits and possible incentive awards under the Group's short- and long-term incentive schemes. Under the terms of the CEO's executive agreement Jari Latvanen can retire at the age of 63.

Under the terms of the CEO's executive agreement, the agreement can be terminated by both the Group and the CEO. The period of notice for the CEO is six months. In the event that HKScan terminates the agreement, the CEO will be paid a sum corresponding to his 12 months' salary. In addition he will be paid the salary for the termination period. In 2016, Jari Latvanen was paid a total salary of EUR 0.36 million.

REMUNERATION OF THE CEO AND THE GROUP LEADERSHIP TEAM

	Jari Latvanen, CEO	Aki Laiho, Deputy CEO	Hannu Kottonen, CEO			
	31 Oct–31 Dec 2016	21 Jan–30 Oct 2016	1 Jan–20 Jan 2016		Other Group Leadership Team	
(EUR thousand)	**2016**	**2016**	**2016**	**2015**	**2016**	**2015**
Salaries	361*)	303	1 053	639	2 048	1 958
Short-term incentives		n/a	54	100	137	109
Long-term incentives		n/a	77**)	-	157**)	-
Supplementary pensions	22	n/a	67		281	-
Total	**383**	**303**	**1 251**	**739**	**2 466**	**2 067**

*) Includes a signing fee of 250 000 euros

**) In 2016, payment partly in Company´s A series shares and partly in cash as follows: Hannu Kottonen: 23 000 gross shares and 9 847 in net shares, and the other Group Leadership Team 47 500 gross shares and 24 235 in net shares.

RISK MANAGEMENT

The aim of risk management within HKScan Group is to enable uninterrupted business operations and to safeguard conditions for achieving its 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 functions. 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 module 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.

Dependence on production plants and the uninterrupted operation of distribution chain

HKScan is dependent on the uninterrupted operation of its production plants and distribution centres. 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 behaviour. Likewise, the reliability of logistics systems and other technological systems is extremely important. If distribution centres are damaged, destroyed or decommissioned for any reason, or if the products held in the distribution centres suffer significant damage, HKScan must come up with an alternative method of delivering products to customers until such time as the damaged distribution centre is made available again.

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 realization 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 centralized 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, US dollar and Japanese yen. 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.

GROUP LEADERSHIP TEAM

JARI LATVANEN

PRESIDENT AND CEO OF HKSCAN

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 undertaken: Finnish Food and Drink Industries' Federation, member of the Board 2017-

AKI LAIHO

EVP OPERATIONS, CEO'S DEPUTY

Doctor of Science (Technology), CSCP, Finnish national, born 1972

Key employment history: Aalto University, BIT Research Centre, Researcher and Project Manager 2008–2012; SunKumppani Oy, Partner 2009–2012; Sauer-Danfoss ApS, Director, Global Supply Chain 2005–2008; Nokia Corporation, Head of Mobility Office 2004–2005; Nokia Corporation, Head of DSN Strategy and Advanced Development 2002–2004; Nokia Corporation, other duties 1997–2001

Main Board memberships and public duties currently undertaken: Rolan Oy, Chairman of the Board 2010-; in addition, board positions in Group companies

HELI ARANTOLA

EVP OF HKSCAN'S 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 2012–2016; 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 membership and public duties: 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-

SVEND SCHOU BORCH

EVP OF HKSCAN'S MARKET AREA DENMARK

MBA, Danish national, born 1970

Key employment history: HKScan, Denmark, VP Sales 10/ 2015–2017; Tican Fresh Meat, Commercial Director 2013–2015; Tican Foods, Business Unit Director 2009–2013; Tican Process, Business Development Director 2008–2009; Carlsberg Vietnam, Commercial Director 2005–2008; Carlsberg Breweries, Snr. Channel Marketing Manager 2001–2005; Michelin Denmark, various management positions

SOFIA HYLÉEN TORESSON

EVP OF HKSCAN'S 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 OF HKSCAN'S 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, Chairman 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

JUKKA NIKKINEN

EVP OF HKSCAN'S MARKET AREA INTERNATIONAL & BIOTECH

M. Sc. (Econ.), Finnish national, born 1962

Key employment history: EVP of HKScan's Away from Home 2012–01/2017; 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 OF HKSCAN

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 OF HKSCAN'S MARKET AREA BALTICS

MBA, Estonian national, born 1971

Key employment history: 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

MARKKU SUVANTO

EVP LEGAL OF HKSCAN

LL.M. trained on the bench, Finnish national, born 1966

Key employment history:

HKScan Corporation, Group Lawyer 2009–2011; KPMG Oy Ab, Senior Legal Counsel 2006–2009; Lakitoimisto Suomi & Suvanto Oy, Partner 2004-; KLegal Oy, corporate law 2002–2003; Sampo Bank, asset management for personal and business customers, including tax planning 1998–2002

Main Board memberships and public duties currently undertaken: board positions in Group companies

TUOMO VALKONEN

CFO OF HKSCAN

M.Sc. (Econ.), Finnish national, born 1967

Key employment history: CPS Color, CFO 2010–2012; Rautaruukki, Vice President, Corporate Finance and Control 2004–2010; Savcor, General Manager, Beijing, China 2002–2004; Kyrö, Business Controller, Tianjin, China 2001–2002; Metsäliitto, Finforest, various managerial positions in finance, sawn timber division 1995–2001

BOARD OF DIRECTORS

MIKKO NIKULA

CHAIRMAN OF THE BOARD SINCE 2015

M.Sc. (Physics), Finnish national, born 1972; Deputy member of HKScan Board 2013–2014; 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: 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 Chairman 2010–2011

Independent of the Company and major shareholders

NIELS BORUP

DEPUTY CHAIRMAN OF THE BOARD SINCE 2011

M.Sc. (Econ. & Bus. Admin.), Finnish national, born 1964; Farm entrepreneur, pork and milk producer, Lapinjärvi, Southern Finland

Main Board memberships and public duties: Maito Farmarit Oy, Member of the Board 2016-; Finnpig Oy, Member of the Board 2014-; The Federation of Employers in Agriculture, Member of the Board 2008-; Finlands Svenska Jordägarförbunds stiftelse (Finland's Swedish Landowners' Federation Foundation), Member of the Board 2008-; Lapinjärven Farmarit osk, Chairman of the Board 2008-; Amerikan porsas Oy, Chairman of the Board 2001-

Public duties previously undertaken: Scan AB, Member of the Board 2011–2012; LSO Osuuskunta, Member of the Board 2008–2011

Independent of the Company and major shareholders

HENRIK TRESCHOW

MEMBER OF THE BOARD SINCE 2011

MBA, Swedish national, born 1946

Main Board memberships and public duties: Abacus Sportswear AB, Chairman of the Board 2010-; Sperlingsholms Gods AB, Chairman of the Board 2000-; Wanås Gods AB, Chairman of the Board 2000-

Public duties previously undertaken: Ingleby Farms and Forests, Vice Chairman of the Board 2005–2016; Skabernäs HB, Member of the Board 2007–09/2015; Federation of Swedish Landowners, Chairman of the Board; Treschow-Fritzöe Industries, Member of the Board

Independent of the Company and major shareholders

TEIJA ANDERSEN

MEMBER OF THE BOARD SINCE 2012

M.Sc. (Agr .and For.), eMBA; Finnish national, born 1957

Key employment history: Etelä-Hämeen Lomat Oy, CEO 2013–2015; Adviso TMA Oy, CEO 2012–2014; Oy Karl Fazer Ab, SVP, Strategic Marketing, Brands and R&D 2009–2011; Fazer Amica Oy, Managing Director 2003–2007, Deputy Managing Director, marketing and sales 2003; Fazer Amica, Managing Director 2005–2008; Candyking Finland Oy (Fazer Group), Managing Director 2000–2002; Fazer Suklaa Oy, Sales Director 1997–2000

Main Board memberships and public duties: Unicef Finland, Member of the Board 2014- and Deputy Chair 2015-; Paletti Oy, Member of the Board 2009- and Chair 2014-; Are Oy, Member of the Board 2012-

Public duties previously undertaken: Diacor Oy, Member of the Board 2009–2014; Technopolis Plc, Member of the Board 2009–2013; Sampo Bank, Member of the Board 2006–2009; HAUS – Finnish Institute of Public Management Ltd, Member of the Board, 2007–2009; Turvatiimi, Member of the Board 2007–2009; Association of Finnish Advertisers, vice chair, Member of the Board 2007–2011

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: 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

PER NILSSON

DEPUTY MEMBER OF THE BOARD SINCE 2013

Lantmästare, Swedish University of Agricultural Sciences (SLU), Master programme at Agriculture University of St. Paul/ Minnesota, USA; Swedish national, born 1973; Farm entrepreneur and pork and beef producer, Esplunda, Central Sweden

Key employment history: Salesman of Swedish Lantmännen 1998–1999; Work on different farm companies 1980–1998

Main Board memberships and public duties: Various board memberships locally, Sweden 1999-

Public duties previously undertaken: Swedish Meats ek. för. 2006–2008; The head board of the Swedish Federation of Farmers Union, LRF 2004–2006; Local marketing board of Swedish Lantmännen 2002–2004; Swedish Federation of Young Farmers 2000–2003; The student organization of SLU Alnarp, Chairman 1997–1998

Independent of the Company and major shareholders

MARKO ONNELA

DEPUTY MEMBER OF THE BOARD SINCE 2015

M.Sc. (Agriculture); Finnish national, born 1974; 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, Chairman 2013–2014; LSO Osuuskunta, Member of the Representative Board 2004–2011

Independent of the Company and major shareholders

HKSCAN AS AN INVESTMENT

HKScan is the leading food company with strong a Nordic heritage and over 100 years' 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 2016, HKScan's net sales totalled nearly EUR 1.9 billion with some 7 300 employees. We are #1 in total sales in our industry in the region of the Baltic Sea. HKScan has been listed on Nasdaq Helsinki Ltd since 1997.

HKScan's strengths are strong brands and a leading market position in all home markets, an excellent geographical location for operational synergies, and strong balance sheet.

Market drivers that support our business:

- Global growth in meat demand, especially in poultry
- Meat industry competition favouring larger players
- Urban lifestyles increase the demand for convenience food
- Pure and sustainable Nordic meat is being valued by consumers

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

HKScan Group’s registered and fully paid-up share capital at the beginning and end of 2016 was EUR 66 820 528. The total number of shares issued was 55 026 522, and it was 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 Ltd. The K Shares are held by LSO Osuuskunta (4 735 000 shares) and Lantmännen ek.för. (665 000 shares) and are not listed.

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 market capitalization at the end of the year stood at EUR 172.3 (205.6) million based on the closing price of the last trading day of the period. The Series A shares had a market value of EUR 155.1 (185.1) million, and the unlisted Series K shares EUR 17.2 (20.6) million correspondingly.

In 2016, a total of 13 313 324 of the company’s shares, with a total value of EUR 42 427 708, were traded. The highest price quoted was EUR 3.89 and the lowest EUR 2.89. The average price was EUR 3.18. At the end of 2016, the closing price was EUR 3.19.

SHAREHOLDERS

At the end of 2016, the shareholder register maintained by Euroclear Finland Ltd included 13 226 (12 558) shareholders. Nominee-registered and foreign shareholders held 12.6 (24.9) per cent of the company's shares.

NOTIFICATIONS OF CHANGES IN HOLDINGS

On 21 December 2016, Sveriges Djurbönder ek. för notified that the total amount of HKScan Corporation shares owned by them had decreased below the threshold of ten (10) per cent and the share of voting rights had decreased below five (5) per cent. On 21 December 2016, Sveriges Djurbönder owned 3 615 000 HKScan A-shares and 0 K-shares, and 3 615 000 voting rights.

On 21 December 2016, Lantmännen ek. för notified that the total amount of HKScan Corporation shares owned by them had exceeded the threshold of five (5) per cent and the share of voting rights had exceeded the threshold of ten (10) per cent. On 21 December 2016, Lantmännen owned 2 619 750 HKScan A-shares and 665 000 K-shares, and in total 15 919 750 voting rights.

TREASURY SHARES

At the beginning the financial year 2016, HKScan held 1 053 734 treasury A shares. On 8 April 2016, in total 44 885 treasury shares were gratuitous transferred to the participants of the share based incentive plan 2013 according to its terms.

At the end of 2016 the Group had 1 008 849 treasury A shares, and they had a market value of EUR 3.2 million and accounted for 1.83% of all shares and 0.64% of all votes.

SHARE-BASED INCENTIVE SCHEME

Incentive plan 2016 for the Group key personnel was published the stock exchange release dated on 18 December 2015. The 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 was preliminary 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.

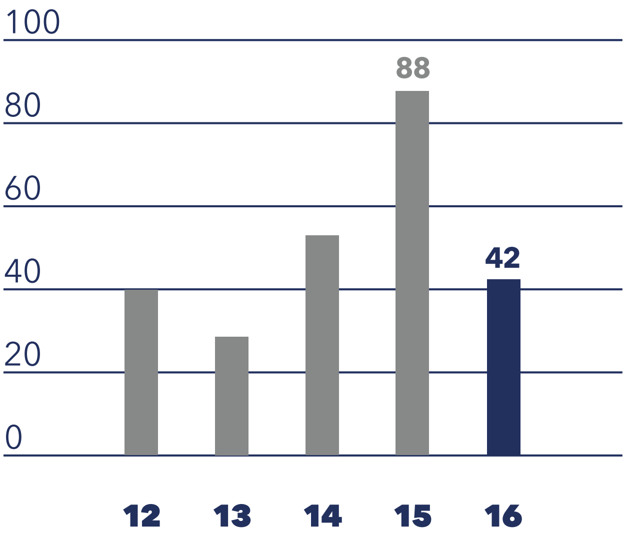
SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2016, 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 49 144 A Shares, corresponding to 0.09 per cent of the total number of shares and 0.03 per cent of the votes.

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DECEMBER 2016

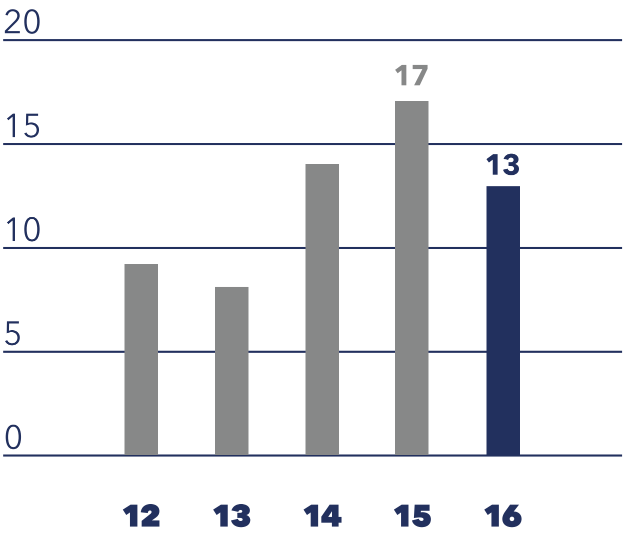
	Share of owners, %	Share of shares, %	Share of votes, %
Corporates	3.69	44.32	72.55
Finance and insurance companies	0.14	1.41	4.75
Public entities	0.05	6.97	2.44
Households	95.34	23.68	8.27
Non-profit organizations	0.54	3.06	1.07
Domestic sectors, total	99.77	79.44	89.07
Abroad	0.23	6.71	2.41
All sectors, total	**100.00**	**86.16**	**91.48**
General account		0.24	0.08

SHARES TRADED EUR MILLION



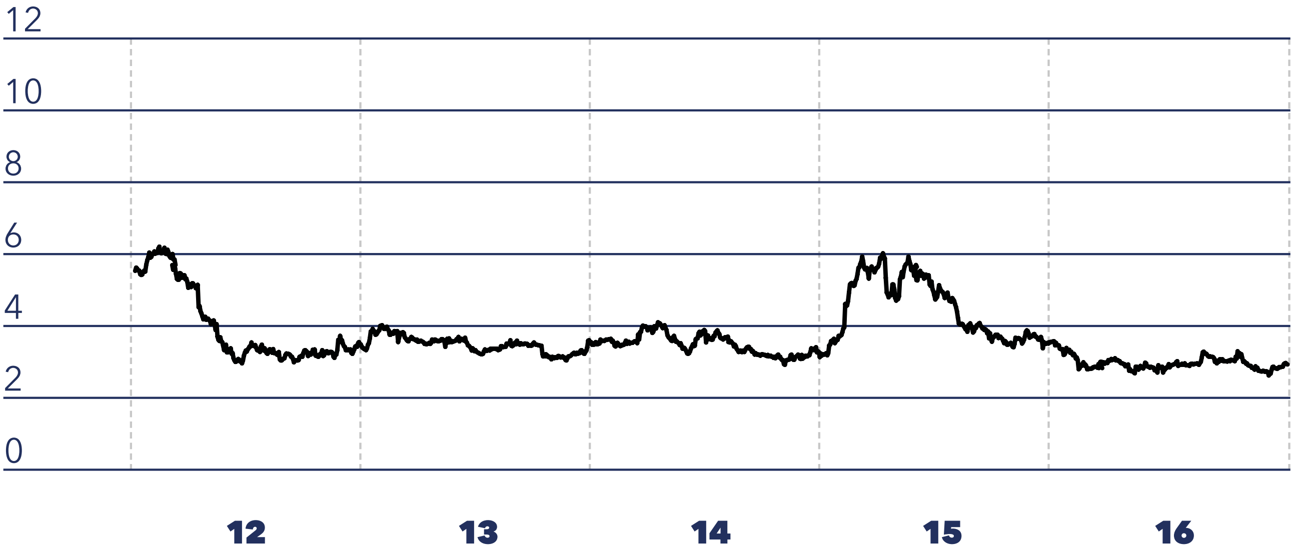
Source: Nasdaq Helsinki

SHARES TRADED IN MILLIONS

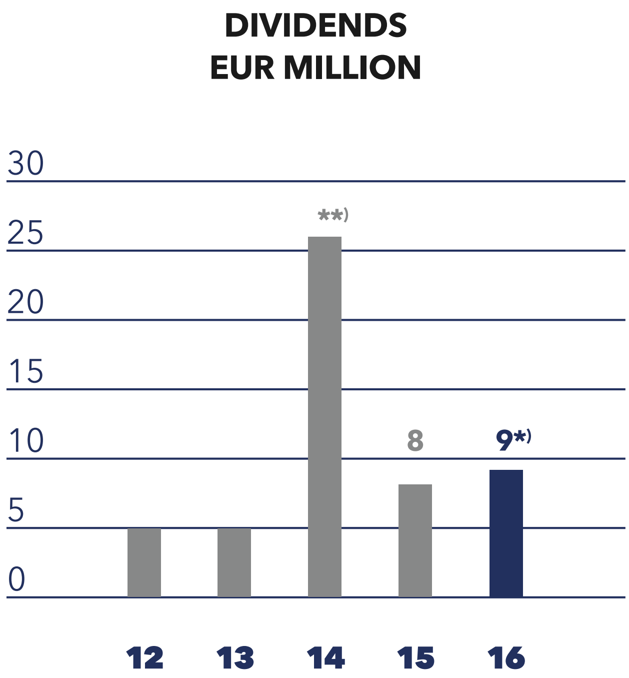


Source: Nasdaq Helsinki

SHARE PRICE DEVELOPMENT EUROS

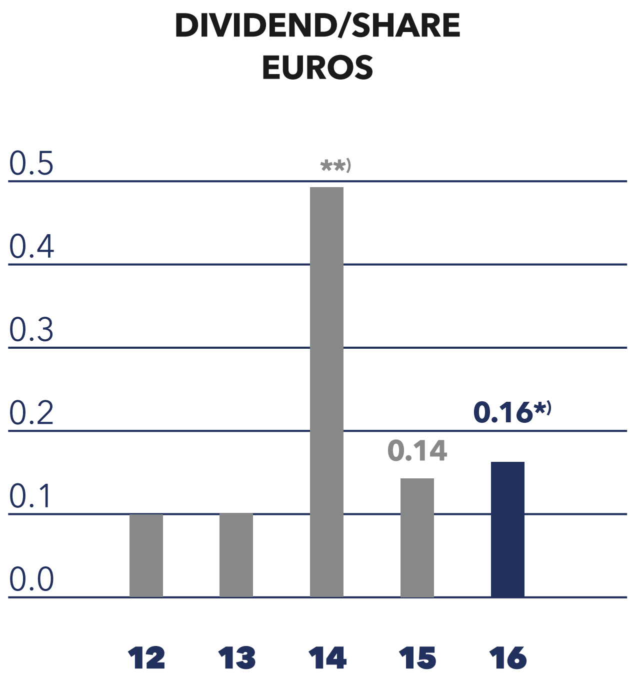


Source: Nasdaq Helsinki



*) Board's proposal to AGM.

**) Includes EUR 21 million extra dividend.



*) Board's proposal to AGM.

**) Dividend 0.10 euros/share + extra dividend 0.39 euros/share.

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARES ON 31 DECEMBER 2016

Number of shares held	Shareholders	Shareholders, %	Shares	Shares, %	Votes	Votes,%
1–100	3 262	24.66	166 575	0.30	166 575	0.11
101–500	5 054	38.21	1 450 446	2.64	1 450 446	0.92
501–1 000	2 228	16.85	1 740 216	3.16	1 740 216	1.10
1 001–5 000	2 225	16.82	4 970 254	9.03	4 970 254	3.15
5 001–10 000	254	1.92	1 805 497	3.28	1 805 497	1.15
10 001–50 000	154	1.16	3 152 874	5.73	3 152 874	2.00
50 001–100 000	23	0.17	1 606 935	2.92	1 606 935	1.02
100 001–500 000	13	0.10	3 234 071	5.88	3 234 071	2.05
500 001–	13	0.10	36 102 144	65.61	126 067 144	79.98
Total	**13 226**	**100.00**	**54 229 012**	**98.55**	**144 194 012**	**91.48**
of which nominee registered	8		6 819 442	12.39	6 819 442	4.33
Waiting list	1		665 000	1.21	13 300 000	8.44
General account			132 510	0.24	132 510	0.08
Number of shares issued			55 026 522	100.00	157 626 522	100.00

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2016

		A shares	K shares	Of total shares, %	Of total votes, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Sveriges Djurbönder Ek. För.	3 615 000	0	6.57	2.29
3	Varma Mutual Pension Insurance Company	1 192 806	0	2.17	0.76
4	Elo Pension Company	1 142 830	0	2.08	0.73
5	HKScan Corporation	1 008 849	0	1.83	0.64
6	Tiiviste-Group OY	1 000 000	0	1.82	0.63
7	The Central Union of Agricultural Producers and Forest Owners (MTK)	836 414	0	1.52	0.53
8	Apteekkien Eläkekassa	752 500	0	1.37	0.48
9	Hisinger-Jägerskiöld Eva	560 000	0	1.02	0.36
10	Petter and Margit Forsström´s Foundation	510 500	0	0.93	0.32
11	The State Pension Fund	500 000	0	0.91	0.32
12	Hallqvist AB	405 000	0	0.74	0.26
13	Nordea Life Assurance Finland Ltd.	400 000	0	0.73	0.25
14	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	350 000	0	0.64	0.22
15	Suhonen Jyrki	220 312	0	0.40	0.14
16	Ilmarinen Mutual Pension Insurance Company	218 298	0	0.40	0.14
17	Gripenberg Jarl Estate	169 000	0	0.31	0.11
18	K. Hartwall Invest Oy Ab	163 300	0	0.30	0.10
19	Ollikainen Pekka	122 000	0	0.22	0.08
20	Ab 2011 Fruitgum Company Oy	120 000	0	0.22	0.08
	Other shareholders, total	**21 880 829**	**0**	**40.94**	**22.31**
	All shares, total	**49 626 522**	**5 400 000**	**100.00**	**100.00**

Source: Euroclear Finland

INFORMATION FOR THE SHAREHOLDERS

ANNUAL GENERAL MEETING

HKScan Corporation's Annual General Meeting will be held on Thursday, 6 April 2017, 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 3 April 2017 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 27 March 2017 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 0.16 per share be distributed for the financial period 2016. 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 10 April 2017. The proposed payment date for the dividend is 19 April 2017.

Shareholders whose shares are not registered in the book-entry securities system at the record date, 10 April 2017, 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 2017, HKScan publishes interim reports as follows:

- January-March on Wednesday, 3 May 2017
- January-June on Wednesday, 19 July 2017
- January-September on Wednesday, 8 November 2017

The interim reports are published as stock exchange releases in Finnish and English. Copies of the interim report will be sent by mail or as an attachment to email upon request.

ANNUAL REPORT

The annual report 2016 is published in Finnish and English as an online web report on week 10/2017. The report is available at the address: annualreport2016.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.

BANKS AND STOCKBROKERS ANALYZING HKSCAN AS AN INVESTMENT

HKScan Corporation is not liable for any evaluations presented in the analyses.

CARNEGIE INVESTMENT BANK AB, FINLAND BRANCH
Iiris Theman
tel: +358 9 6187 1241
firstname.surname@carnegie.fi

DANSKE BANK MARKETS
Kalle Karppinen
tel: +358 10 236 4794
firstname.surname@danskebank.com

EVLI BANK PLC
Joonas Häyhä
tel: +358 9 4766 9662
firstname.surname@evli.com

INDERES OY
Sauli Vilén
tel: +358 440 258 908
firstname.surname@inderes.com

NORDEA MARKETS
Rauli Juva
tel: +358 9 1655 9944
firstname.surname@nordea.com

POHJOLA MARKETS
Niclas Catani
tel: +358 10 252 8780
firstname.surname@pohjola.com

HKSCAN

hkscan.com