ANNUAL REPORT 2018

HKSCAN

ABOUT THIS REPORT

Welcome to read HKScan's Annual Report 2018!

HKScan's Annual Report 2018 consists of a business overview, a corporate responsibility section, governance statements, information for investors and financial statements. If you are reading this report as a PDF, you can move between the different sections through an interactive navigation, which can be found at the header section of the report.

In accordance with the Finnish accounting legislation, we publish Non-Financial Reporting as a part of the Report by the Board of Directors.

The corporate responsibility (CR) report is compiled in line with the Global Reporting Initiative GRI standards (2016).

Stories From Farm to Fork
This year, HKScan's annual report highlights the people that bring our From Farm to Fork strategy to life.

In the first two sections of our report, you can find the stories of a producer, a nutrition expert, a veterinarian, a chef and one of our customers, each describing the role they play in helping HKScan lead the food value chain.

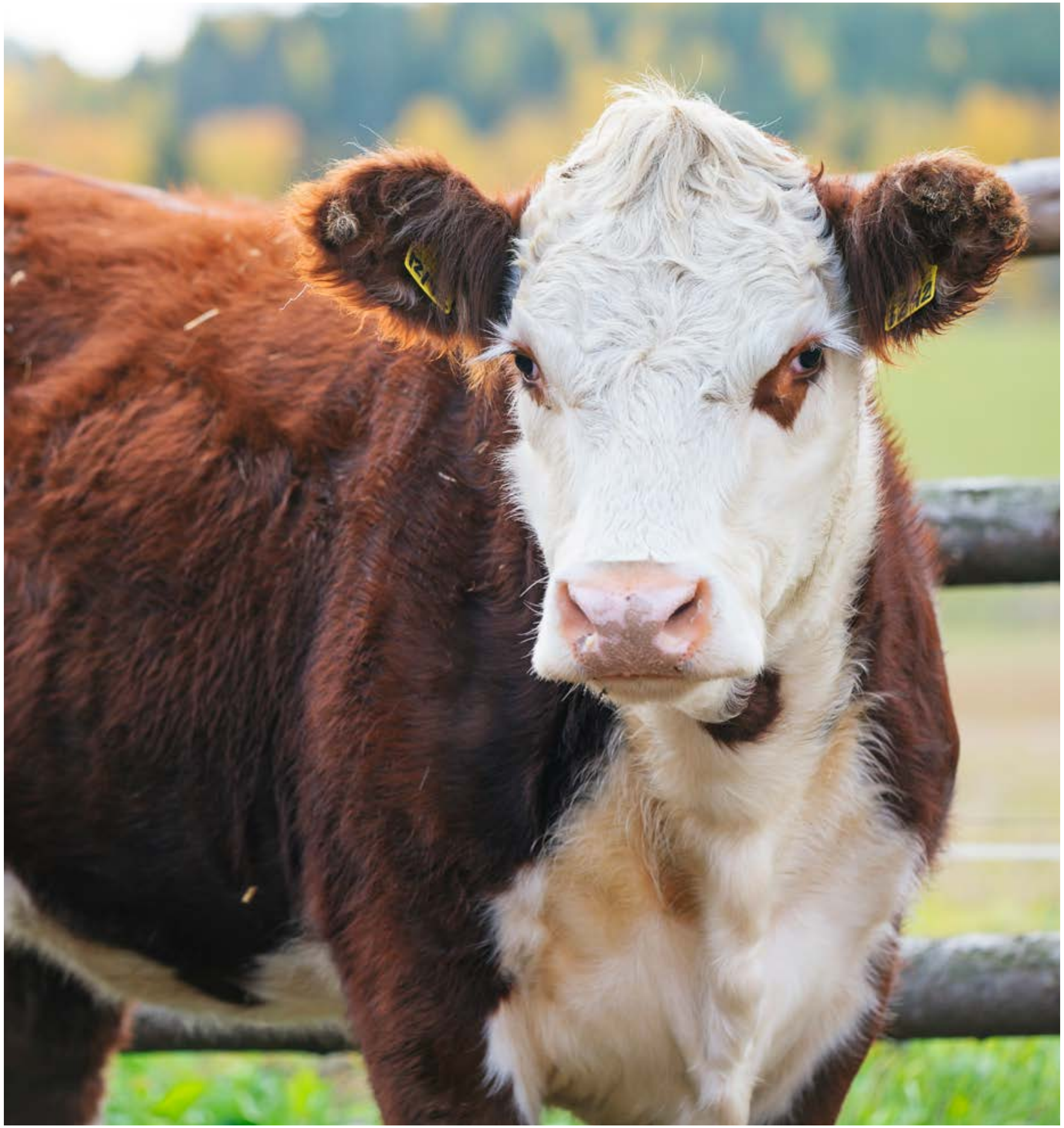


TABLE OF CONTENTS

* More detailed table of contents of Financial statements and a Report of the Board of Directors can be found on page 116

HKSCAN IN BRIEF

HKScan is the leading Nordic food company with over a hundred years' experience in responsible meat production and processing of high-class raw materials.

Our team of approximately 7 200 professionals is committed to serving the world's most demanding consumers and making their daily lives tastier.

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

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

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

KEY FIGURES

NET SALES
1 715.4
EUR MILLION

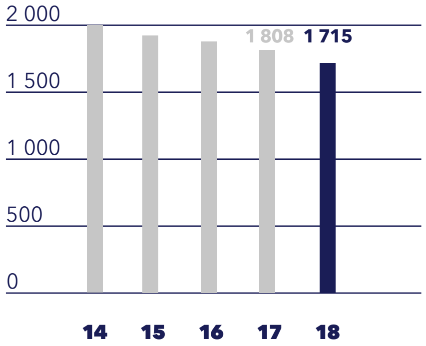
EBIT
-47.5
EUR MILLION (Comparable)

EQUITY RATIO
35.1
%

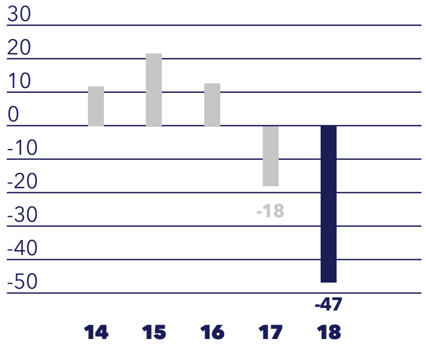
EMPLOYEES
7 179
AVERAGE

	2018	2017
Net sales, EUR million	1 715.4	1 808.1
Operating profit/loss (EBIT), EUR million	-49.5	-40.3
% of net sales	-2.9	-2.2
Profit/loss before taxes, EUR million	-58.3	-45.5
% of net sales	-3.4	-2.5
Return on capital employed (ROCE) before taxes, %	-7.4	-6.3
Equity ratio, %	35.1	36.9
Net gearing ratio, %	88.6	59.3
Gross investments, EUR million	41.0	125.5

NET SALES
EUR MILLION

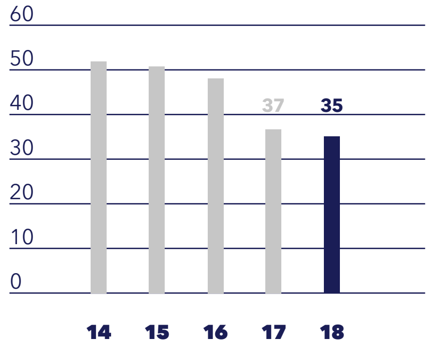


OPERATING PROFIT/LOSS[1] (EBIT)
EUR MILLION

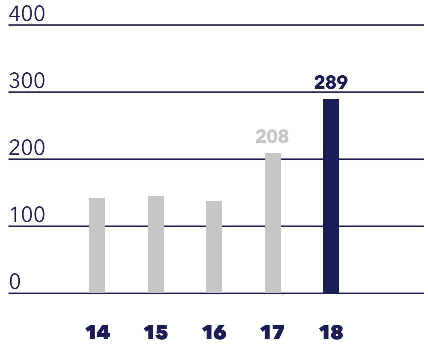


[1] Comparable

EQUITY RATIO
%



NET DEBT
EUR MILLION



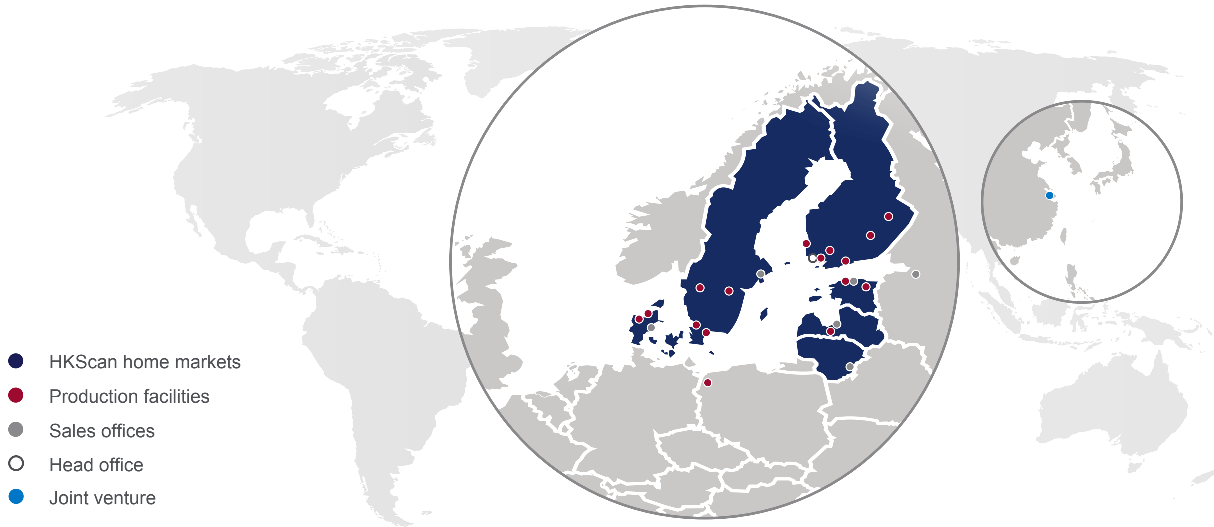
MARKET AREAS

HKScan's home market consists of Finland, Sweden, Denmark and the Baltics. We are headquartered in Turku, Finland.

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

Our production units are located around the Baltic region, which enables synergies and flexible utilisation of our production capacity. We additionally have business operations in Shanghai, China and a representative office in St. Petersburg, Russia.

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



SWEDEN

NET SALES	682.1 EUR MILLION
OPERATING PROFIT*	8.9 EUR MILLION
PERSONNEL	2 123

MEAT TYPE

FINLAND

NET SALES	721.9 EUR MILLION
OPERATING PROFIT*	-36.1 EUR MILLION
PERSONNEL	2 883

MEAT TYPE

DENMARK

NET SALES	149.3 EUR MILLION
OPERATING PROFIT*	-5.9 EUR MILLION
PERSONNEL	636

MEAT TYPE

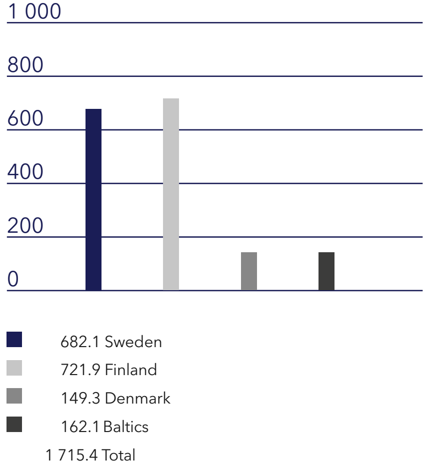
BALTICS

NET SALES	162.1 EUR MILLION
OPERATING PROFIT*	-0.7 EUR MILLION
PERSONNEL	1 538

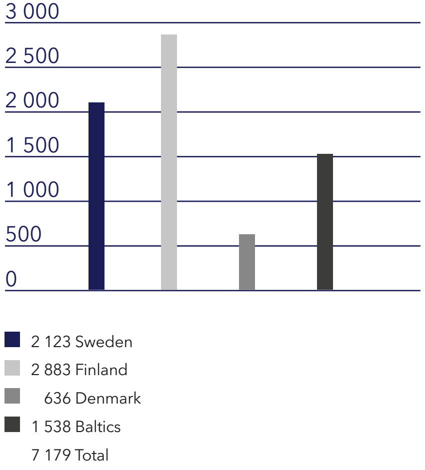
MEAT TYPE

* Comparable

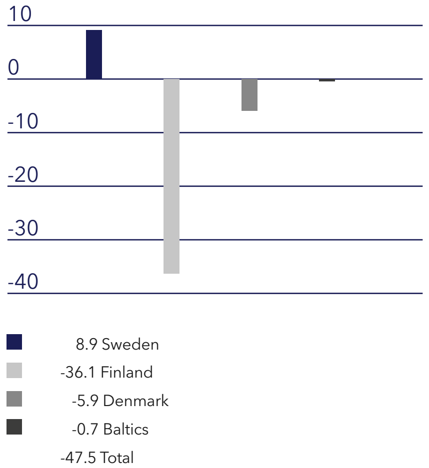
NET SALES IN 2018 BY MARKET AREA EUR MILLION



PERSONNEL IN 2018 BY MARKET AREA AVERAGE NUMBER



OPERATING PROFIT IN 2018 BY MARKET AREA[1)] EUR MILLION



[1)] Comparable

CEO'S REVIEW

In 2018, consumer confidence in their own economy remained strong in HKScan's home markets. Interest in food and cooking has been gaining momentum for several years now. Favourable development in the meat market continued during the past year. Even though consumption growth slowed in some product categories, demand increased strongly in others, e.g. in poultry and meals products.

HKScan's 2018 result was weak. The Group's net sales and operating profit decreased. The main reasons for the decrease in net sales included the weakening of the Swedish krona, the Rauma poultry unit's ramp-up challenges and the decreased sales in red meat in Sweden and Finland. In Denmark, net sales increased slightly from the previous year as a result of higher export volumes. A small increase in net sales was recorded also in the Baltics.

Operating profit decreased in all our other market areas, with the exception of Sweden. The decrease is especially attributed to the ramp-up costs of the Rauma poultry unit, the increase in production costs related to the commissioning, material loss and lost sales. Stabilising the Rauma unit's production operations and achieving the targeted efficiency, as well as commercially strengthening the poultry operations are at the core of our efforts. We will also strengthen the sector expertise needed for this work.

The Group-wide efficiency improvement programme was further specified in July 2018. The programme targets annual savings of EUR 40 million from year 2020 and beyond. The effects of the efficiency improvement programme were not yet visible in the 2018 results.

FROM FARM TO FORK STRATEGY TO BE UPDATED

HKScan's From Farm to Fork strategy provides a relevant framework for our operations. It also emphasises our position as a responsible and sustainability-focused actor. We believe that good comes from good, and that's why quality and responsibility throughout the entire food chain is a prerequisite for success.

For the profitability of all players in the chain, active management of the food chain at the strategic and operative level is essential. Creating demand for our products, matching raw material amounts purchased via our own animal sourcing to market demand, active management of raw material balance, and demand-driven productisation of raw material, marketing and sales is a multivariate game like no other. This is why I firmly believe that special expertise in the meat industry and strengthening it are essential prerequisites for the improvement of HKScan's profitability.

Unfortunately, the implementation of HKScan's strategy has not generated the improvement target set for the company's profitability. That is why resolute actions are needed to correct the negative development. As a part of our annual strategy process, we are updating HKScan's strategy and re-defining our strategic focus areas. The strategy work is currently ongoing and will continue during the first half of 2019.

"We are updating HKScan's strategy and re-defining our strategic focus areas. The work will continue during the first half of 2019."

EXPORTS TO CHINA STARTED AND INVESTMENTS IN GROWING POULTRY AND MEAL PRODUCT GROUPS CONTINUED

The long-term work to develop the quality and responsibility of the entire food chain was rewarded, as exports of pork meat from Finnish family farms to China commenced at our Forssa unit in April. We also established a joint venture in China. The goal is to commercialise, sell and market Finnish premium quality pork products in the Chinese market.

Commissioning of the new Rauma poultry unit has been challenging and has weakened the company's result both in 2017 and 2018. Despite the challenges, the production of poultry products in Finland was centralised to Rauma during the first half of the year, and the Eura unit was closed. During the second half of the year, we succeeded in improving the Rauma poultry unit's delivery capability, but challenges continued to significantly burden the result. There is still plenty of work to be done in order to reach the targeted level of operational efficiency. However, the Kariniemen® brand and its high appreciation among consumers gives HKScan a solid foundation for restoring the company's strong position in the poultry market, as production efficiency and supply reliability are currently developing in the right direction.

One of our strategic goals is to strengthen our position in the attractive and growing meals business. High-quality, convenience meals and meal components are becoming increasingly popular. We are currently investing in boosting our meals production capacity in Rakvere, Estonia, and the work advanced as planned during the year.

IMPROVING OUR PROFITABILITY IS OUR NUMBER ONE GOAL

During the year ahead, our goal is to improve the company's cash flow and profitability in the short term. This is how we will create the prerequisites to make HKScan a key food-industry player that rewards its shareholders. We will strengthen our foundation that is based on meat industry expertise and we will focus more sharply on effective management of the value chain. This requires more active management of all parts of the long value chain.

Our goal is also to strengthen our capital structure. Once we have these basic issues in order, we can start shifting our focus towards actions targeting renewal.

To ensure our focus on our customers and consumers, we will put stronger emphasis on market area-level management of our value chain and product portfolio as well as on market area-specific operational management. However, we will maintain the Group-level synergies that we can achieve through good collaboration with the markets. Our aim is to operate dynamically and efficiently, closer to our customers.

HKScan has several significant strengths supporting our profitability improvement efforts. We have skilled personnel, strong consumer brands and a broad selection of excellent products. I firmly believe that our products will continue to be part of the healthy and well-balanced diet of consumers, and that together with our personnel we will succeed in building a competitive advantage in the Nordic home markets and in international markets.

WE WILL DECREASE OUR ENVIRONMENTAL FOOTPRINT

Embracing corporate responsibility is a cornerstone of HKScan's strategy. As a leading food company, HKScan plays an important role in mitigating climate change, promoting the responsible use of natural resources, and advancing social responsibility throughout the value chain.

In this report, we have described our strategic corporate responsibility focus areas and the material CR themes that we regard as holding key importance to our business. Also the goals and achievements related to these topics and the 2018 highlights and challenges have been reported as part of the Annual Report.

Promoting sustainability both nationally and locally is important because our business has a significant impact on the national economies of the countries where we operate. We create value by, e.g., providing jobs and a marketing channel for our producers. At the same time, we support employment in rural areas. Our business partners, including customers and suppliers, benefit from us the most when the collaboration is long-term and in line with principles of sustainable development. HKScan can produce long-term added value for its stakeholders only if it is on financially sound footing. That is why stabilising our financial situation in the near future is the most significant act of responsibility that has big significance throughout the food chain.

During the past year we further defined the Group's shared responsibility targets stretching to 2030. In addition to sound finances, one of our key corporate responsibility targets is to significantly reduce our environmental footprint by 2030. Our targets include reducing greenhouse gas emissions by 90 per cent compared to the 2014 level. We will reduce our energy consumption by 20 per cent compared to the 2016 level and water consumption by 25 per cent compared to 2018.

We also defined measures to reach our responsibility targets. We will also engage in closer dialogue with our stakeholders and will further increase the transparency of our operations.

FOOD JOY IN 2019

I want to warmly thank our personnel, shareholders and producers, as well as consumers, customers and partners for the good collaboration during 2018.

We at HKScan strive to be worthy of the continued trust of consumers, our customers, and all our collaboration partners. We want to remedy HKScan's financial situation and strengthen the company's position as one of the key food-industry companies that rewards its shareholders. We do this work with a big heart so that we can continue sharing the joy of food that is made possible by our uniquely pure and domestic food production.

Tero Hemmilä

CEO
HKScan

BUSINESS ENVIRONMENT

We listen to stakeholders and strive to gain forward-thinking market insights to understand today's and tomorrow's business environment.

Through close co-operation with our customers, suppliers and other stakeholders, such as research institutes, we can anticipate emerging consumer trends as well as sector trends related to our customers' businesses in retail, the food industry and food services.

The world is dynamic and both consumer trends and sector trends evolve over time based on so-called contextual drivers and powerful themes that can also be called megatrends. These themes have the potential to change the consumer's way of thinking and acting.

HKScan has invested time and resources in gaining a deep understanding on the most relevant drivers, themes and trends impacting our business. As a result, we have developed a tool summarising the factors that we take into account in innovation and R&D as well as in product and business development.

CONTEXTUAL DRIVERS

By contextual drivers we mean contextual shifts, such as climate change, pressure on global resources, state of the world economy, digital innovation and demographic changes, that are impacting consumers' lives. In general, consumers cannot control these drivers. They are forces and factors that also have a direct impact on sector trends, e.g. through legislation and regulation, digital development etc.

Contextual drivers can be divided into four groups: How we live, The global world, Urbanism and Environment, and Digital Revolution.

These drivers as well as consumer trends and economic cycles have a direct and indirect impact both on our own business and that of our customers.

THEMES

HKScan has recognised five overarching themes that are so powerful that they have the potential to change the way consumers think and live. They can also be called megatrends. These themes are: Pressured lifestyles, Health consciousness, Self-fulfilment, Food experiences, and Eco & Sustainability.

CONSUMER TRENDS

Consumer trends are quantitatively proven and they define a consumer need, attitude or behaviour. As described above, they derive both from contextual drivers and from the identified themes.

SECTOR TRENDS

Sector trends are a result of how consumer trends are manifested in different aspects of consumers' lives, e.g. in the food and drink industry, in beauty, health, leisure etc.

COLLABORATION WITH STAKEHOLDERS

HKScan aims to actively engage in transparent stakeholder collaboration in all its operations. Open dialogue ensures that we are constantly aware of our stakeholders' expectations and that we also develop our own business operations in a dynamic way.

HKScan's key stakeholder groups were analysed and revisited in conjunction with the renewal of the corporate brand in 2014. The company defined the key stakeholder groups to be consumers, customers, producers, personnel, shareholders, investors and financiers, business partners, authorities, media and opinion leaders. These stakeholder groups were officially recognised and approved by the management team and Board of Directors.

HKScan has well-established practices for conducting dialogue with its stakeholders, making it easy for representatives of various groups to pose questions, make proposals, and give our company feedback.

Various channels of interaction include face to face meetings and country-specific consumer services, through which consumers can contact us by phone, email or social media. HKScan also gains valuable insights through customer satisfaction surveys and brand reputation surveys. We additionally have an internal whistleblowing channel through which both internal and external respondents can report any potentially irregular conduct and violations of the Code of Conduct.

HKScan's long-standing cooperation with its key stakeholders has provided the company with deeper insight into the company's key corporate responsibility themes.

These themes are also present in our daily interaction with stakeholders. Examples of our cooperation with various stakeholder groups in 2018 are presented below.

CONSUMERS

Consumers are one of HKScan's most important stakeholder groups. Their needs and expectations strongly affect the development of our offering. Important sustainability themes for consumers include (among others) product safety and quality, nutritional and health aspects, sustainability and transparency of operations, animal welfare and social responsibility (e.g. employees' working conditions).

Examples of interaction with consumers

- HKScan arranged dinners on a farm for consumers in Sweden and Finland. The guests had an opportunity to learn about farm operations in practice and see animals in their natural environments.

- Finnish students were given an innovation challenge to be solved in 24 hours at an innovation event called Innovate or Die. HKScan was one of the participants of the event and the challenge was targeted towards young adults.

- All HKScan employees in Sweden were given an opportunity to act as Christmas hosts in retail stores, meeting consumers and sharing information about Christmas hams and other products. In 2018, there were over 160 HKScan employees working in Swedish retail stores during the week before Christmas.

- HKScan continued its cooperation with the Finnish Olympic Committee in Children's Movement campaign to support physical activity and sport clubs for children. Read more (in Finnish)

CUSTOMERS

HKScan's customers include retailers and operators in the hotel, restaurant and catering sector, as well as the food industry, mainly in the Nordic countries, Central Europe and Asia. Close cooperation, trend scouting and sounding as well as information sharing and joint development projects are important for HKScan and its customers alike. Important sustainability themes for customers include product safety and quality, nutritional and health aspects, sustainability and transparency of operations, animal welfare, and social and economic responsibility.

Examples of interaction with customers

- In Denmark, HKScan launched a charity campaign together with its business partner Salling Group. For each package of chicken breast sold in Salling Group's stores, one Danish krone was donated to a national charity campaign, supporting vulnerable girls around the world.

- Also in Denmark, there was the first one-day Factory Outlet sales campaign at two of our warehouses. Through a targeted campaign on social media and in local newspapers, consumers were invited to the events. The outlet was a great success and the turnout of consumers exceeded the expectations.

- In Finland, HKScan arranged a customer seminar called "ForkBites". The seminar was targeted at the HoReCa sector customers and it offered insights and information related to relevant trends and drivers as well as HKScan's view on innovation work.

PRODUCERS

The good availability and high quality of HKScan's products depend to a great extent on smoothly running cooperation with meat producers. Producers play a key role in ensuring animal welfare and product safety. HKScan offers its producers a stable market channel, thereby securing their continuous business operations. Important sustainability themes for producers include economic responsibility (e.g. fair pricing, long-term business relationships based on agreements, advisory and other services for producers that support continuity of meat production).

Examples of interaction with producers

- Regular producer letters targeted to producers in Finland and Sweden

- Participation in "Feed Market Place" for producers to ensure feed supply in hot and dry summer. The organiser was "MTK" (Central Union of Agricultural Producers and Forest Owners). Read more (in Finnish)

- The best producers of Finland and Sweden in 2018 were selected and rewarded. Read more in section on Farming community

- Broiler producers: Jouni Tuomola Oy, Finland

- Beef producers: Antti ja Helena Soranta, Finland. Johan Paulsson and Hanna Torgander, Sweden

- Pork producers: Hanna Santakangas-Eskola and Pekka Eskola, Finland. Sven Olof and Ulrika Carlsson, Sweden

- Lamb producers: Jonas and Sandra Ekeblad, Sweden

- Animal transport partner: Kils Djurtransporter AB, Sweden

- Environmental award: Broiler producer Jussi Oittinen, Finland, Pork and plant producers Johan Thuresson och Martin Andersson, Sweden

• Producer events and seminars were organised at all HKScan's home markets.

PERSONNEL

Employees' input, expertise and engagement are essential for HKScan's success. Employee engagement is being supported by, for example, investments in wellbeing and safety, competence development, consistent ways of working and by actions to strengthen corporate culture. Engagement is also strongly influenced by the company's overall performance in all areas of corporate responsibility and leadership practices. Examples of important sustainability themes for personnel include continuity of employment, fair salaries, appreciation of work, fair treatment, personal development opportunities, and safety and wellbeing at work.

Examples of interaction with personnel

• European Work Council (EWC) meetings were held in Stockholm, Sweden in May 2018 and in Jelgava, Latvia in November 2018. The personnel was represented by the representatives who are selected by our employees in each country. In addition to the statutory agenda, the new EWC agreement was also finalised.

• For the second year, HKScan organised a family day for its Estonian employees and their families. This year the event brought together a record number of participants – 1 300 people from our production units, offices, feed factory, poultry and pig farms.

SHAREHOLDERS, INVESTORS, FINANCIERS

Shareholders, investors and financiers ensure the continuity of HKScan's operations. They expect the company to create added value and to generate returns through dividends and share performance. Important sustainability themes for shareholders, investors and financiers include profitability, returns, and continuity of responsible business operations. This stakeholder group also has high interest in the company's overall performance in all areas of corporate responsibility.

Examples of interaction with shareholders, investors and financiers

• Annual General Meeting
• Meetings with investors and financiers

PARTNERS

Long-standing relationships with subcontractors, suppliers, research institutes, educational institutions and local communities offer opportunities to further develop operations of all collaboration parties. Sustainability themes of interest for HKScan's partners vary a lot and depend on their role and relationship with the company. Examples of the interest areas include economic responsibility (i.e. profitability and position of HKScan as an important employer), social responsibility (i.e. public health and nutrition, occupational health and safety, and environmental aspects).

Examples of interaction with partners

• An initiative called "Branschråd Livsmedel" in Sweden started by the "Swedish Public Employment Service" together with the "Swedish Meat Industry Association" and the Community of Skaraborg. The aim of this initiative is to find solutions to secure a long-term resource pool of slaughters and deboners. HKScan is one of the companies that participated in the council.

• Seminars organised in Sweden in cooperation with Swedish Retail Association, Swedish Food Federation and "Gård och Djurhälsan" (Farm and Animal Health), as well as similar initiatives at all HKScan's home markets.

• Cooperation project with "Satafood" organisation to develop animal welfare and broiler production competitiveness in Finland. Satafood is a cooperation network with a goal to develop food entrepreneurship, provide environmental services and improve co-operation between companies, education and research. Read more (in Finnish)

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

• "Social supermarket" project in Sweden: HKScan is part of the initiative to lower food waste.

• The Swedish Soy Dialogue is a board, a voluntary network in Sweden that includes branch organisations, the feed industry, food producers and store chains. The participants have signed an agreement with the target to guarantee that the soy used for production of food in Sweden is produced in a socially and environmentally responsible way.

• In Finland, HKScan, together with other companies, has pledged to use only responsibly produced soy in collaboration with WWF Finland. All the signatories are committed to ensuring that the soy used throughout their production chain will be responsibly produced by 2020. For HKScan Finland, the commitment has been adhered to since 2017.

- HKScan cooperates with research institutes and participates in projects to further develop product safety. In Sweden, HKScan is cooperating continuously with the Danish Meat Research Institute (DRMI) and Swedish University of Agricultural Sciences. In Finland, HKScan cooperates with University of Helsinki and Natural Resources Institute Finland (Luke).

- In 2018, HKScan Denmark intensified dialogue with producers in Denmark. On top of the annual producers' day, the producers were invited to informal Christmas get-togethers in the production units. Nearly all producers in Denmark participated in the events.

AUTHORITIES

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

Examples of interaction with authorities

- The company participated actively in preparation of laws and regulations by commenting on the proposals of laws that relate to HKScan's business and operations.

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

- HKScan's contract farms, slaughterhouses and production plants continued their daily cooperation related to food quality and safety.

- Work was carried out to prevent the spread of African Swine Fever in Estonia, Finland and Sweden.

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

MEDIA AND OPINION LEADERS

The media, political actors, interest groups and non-governmental organisations have a significant impact on the company's prerequisites to run its business in a targeted way as they convey information about the company and its activities to the other stakeholder groups. They may also have a strong impact on the reputation of the company and the entire industry. Open, clear, fact-based and truthful communication is a prerequisite for cooperation. All sustainability themes are of interest for media and opinion leaders. Their interests vary based on their own role and relationship with HKScan.

Examples of interaction with media and opinion leaders

- HKScan cooperates with the media in connection to the launch of important company news related to, for example, investments, other news of strategic operations and important product launches.

- In Sweden, HKScan participated in Almedalen week. The annual one-week event is organised in Gotland, focusing on political and social topics. The event is organised by the Swedish parliamentary groups. Read more (in Swedish)

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

- In Finland, HKScan participated in SuomiAreena in cooperation with the Finnish Food and Drink Industries' Federation.

MEMBERSHIP IN INDUSTRY ORGANISATIONS AND ADVOCACY GROUPS

HKScan participates actively in key industry organisations and advocacy groups within its home markets (i.e. in Sweden, Finland, Denmark and Estonia). These include trade and labour organisations that represent the interest of food industry employers, organisations specialising in animal health and welfare and groups advocating the interests of agricultural producers. HKScan is also a member of the European Meat Network.

In Estonia, HKScan collaborates actively with the Estonian Food Industry organisation and its members. Annual actions have been taken to inform consumers about pork meat, its nutritional values, as well as about different cuttings and related cooking tips. The participants have engaged consumers e.g. via media and social media activities.

Read more in our Story Kitchen articles featuring HKScan's stakeholder dialogue:

- Students to solve future challenges in innovation hackathon
- Ten tips how to make sustainable New Year's resolutions
- The source of collagen - body's own superfood
- Five good reasons to eat domestic food
- Uncompromising artisan expertise results a winning sausage

STRATEGY

HKScan's strategy is to focus on the consumer by leading the food value chain from farm to fork. HKScan's strategy will be updated during the first half of the year 2019. As part of the process the Group's strategic focus areas will also be re-defined.

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

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

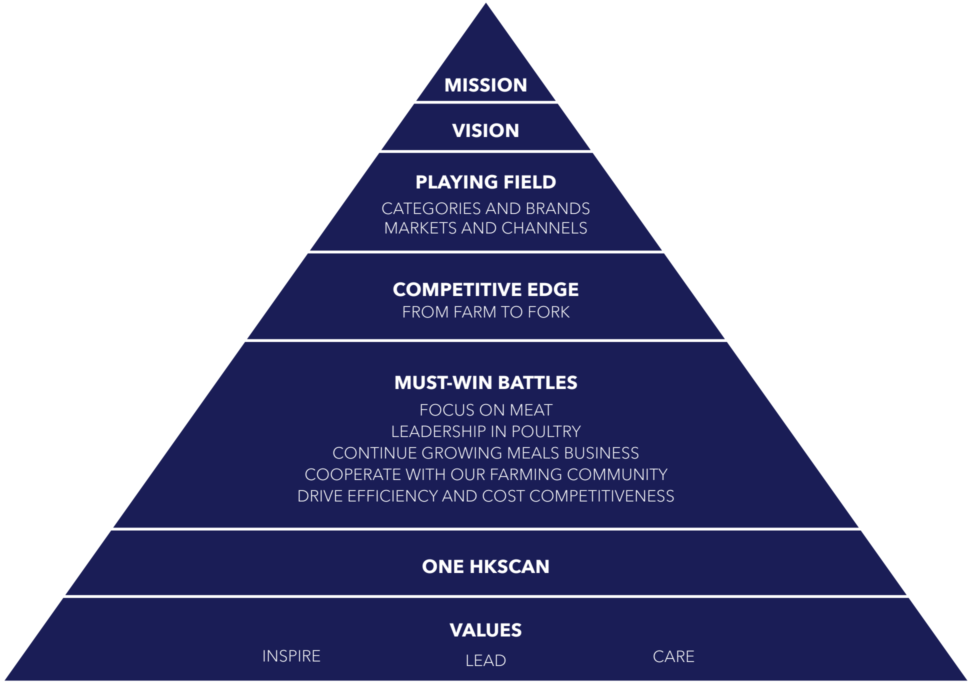
SUSTAINABILITY AND QUALITY OFFER GROWTH OPPORTUNITIES

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

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

MISSION

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



VISION

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

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

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

STRATEGIC FOCUS AREAS

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

Our core business is meat and meals. We will be present in all price segments.

Our strategic focus areas are the following:

- Focus on meat
- Leadership in poultry
- Continue growing meals business
- Cooperate with our farming community
- Drive efficiency and cost-competitiveness

VALUES

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

LONG-TERM FINANCIAL TARGETS

HKScan's long-term financial targets remain unchanged:

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

OUR VALUES

INSPIRE

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

LEAD

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

CARE

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

HKSCAN'S WAY OF CREATING VALUE

RESOURCES

Personnel
- 7 200 employees in Finland, Sweden, Denmark, Poland and Baltics
- Over 1 400 seasonal employees

Financial recourses
- Balance sheet 932 EUR million
- Equity 327 EUR million
- Total investments 41 EUR million

Production
- 16 production plants in 6 countries

Raw materials and materials
- Meat: poultry, pork, beef, lamb
- Other raw materials
- Packages and other materials

Natural resources
- Energy consumption 526 GWH
  - Electricity from renewable sources 71% and from non-renewable sources 29%
- Water consumption 4,17 million m^3

Intangible assets
- Know-how
- Brands, concepts
- Patents

Partner networks
- Customers
- Producers
- Other material and service suppliers
- Feed and genetics suppliers
- Local communities
- Professional networks

BUSINESS MODEL

MISSION We enable consumers and customers to live tastier lives both today and tomorrow.

VISION We serve the most demanding fork in the world.

VALUES: INSPIRE. LEAD. CARE.
Our values guide us and our family farmers all the way from farm to fork.

OUR STRATEGY is to focus on the consumer by leading the food value chain from farm to fork.

FEED GENETICS → FARMERS → PRODUCTION SOURCING → BRANDS CONCEPTS → CUSTOMER CHANNELS → CONSUMERS

REGULATIONS AND OPERATING PRINCIPLES
National and EU legislation, Industry regulations, Code of Conduct, Policies

OPERATING ENVIRONMENT
Mega trends, Consumer and Industry trends

VALUE AND IMPACTS

Customers and consumers
- High quality, safe and responsibly produced food products to enhance positive impacts on nutrition and public health.

Personnel
- Salaries and social costs 317 EUR million

Producers and suppliers
- Purchases from producers and suppliers 1 455 EUR million

Society
- Income taxes 2 EUR million
- Maintain rural vitality
- Contribute to the national food security of supply

Shareholders and financiers
- Dividend 6 EUR million
- Net financial expences 10 EUR million

Local communities
- Maintain rural vitality
- Strengthen producers' skills and expertise
- Support through charitable projects in small scale

Other industries – added value through circular economy
- Efficient use of animal raw material, side streams directed to other industries

Environmental impacts
- GHG emissions 124 000 tons CO_2e
- Cleaned waste water
- Waste (recycling, energy recovery, biogas & biodiesel, compost and farm fields, landfill and hazardous waste) 116 471 tons

STORIES FROM FARM TO FORK: PRODUCER

ENVIRONMENTALLY SOUND PRODUCTION

Dairy and meat producer Fredrik Lindeberg considers producers to be important for the entire food chain. Producers deliver sustainably produced raw materials for the manufacture of sustainable, high-quality food products.

Fredrik Lindeberg owns a dairy and meat farm near Tvååker in Sweden together with his brother Mattias.

Olof Lars Gård is a farm located near Tvååker in Sweden, a short distance from the centre of the municipality of Varberg in the province of Halland. The dairy and meat farm is owned by two brothers, **Fredrik** and **Mattias Lindeberg**, who also grow maize, broad beans, grains and grass. The farm is self-sufficient in terms of feed and grain.

The family bought the farm in 1912, and the two brothers represent the fifth generation.

"I grew up here and got used to working on the farm at a young age. I have been a farmer here since 1985, when I started with 50 dairy cows. My younger brother, Mattias, started working at the farm and became a partner in 2000, after returning from Australia," says Fredrik.

Since then, the brothers have further developed the farm and expanded its operations systematically. In late 2003, they had 250 dairy cows. By autumn 2009, the number of dairy cows had increased to 500. In addition to investing in cowshed operations, the two brothers have acquired more land by purchasing nearby farms. This was to ensure sufficient nutrition for their growing livestock.

Today, the farm has more than 800 dairy cows, in addition to heifers. The cultivated area is 1 150 hectares, and the farm has around 25 employees. The farm is a true success story and a source of pride for the two brothers.

OPEN DIALOGUE WITH HKSCAN IS IMPORTANT

The farm sells all of its slaughter animals to HKScan. The brothers have been co-operating with HKScan for around 30 years, with excellent results.

"Our interaction with HKScan has always been open and easy," says Fredrik.

When purchasing calves from HKScan's chain, the Lindebergs have made use of the company's short-term financing services.

"We wanted to grow rapidly, and partners with the ability to make quick decisions have been important for us. Things have worked well with HKScan."

ENVIRONMENTALLY SOUND OPERATIONS

The farm takes the environment into account in all of its operations.

"In my opinion, the environment and good financial and operational management go hand in hand. Things that are good for the environment are also financially beneficial. A tidy, well-organised farm is an efficient farm," says Lindeberg.

The farm has adopted energy-saving solutions, such as recovering heat from the cooling of milk, as well as timers and motion detectors for lighting. Fuel consumption has been reduced by acquiring fuel-efficient tractors. In addition, all transport is optimised, and all waste is recycled.

"Our interaction with HKScan has always been open and easy."

"We are currently exploring opportunities to use solar energy."

Animal welfare is very important. The farm has modern cowsheds that offer good living conditions for dairy cows and heifers. The animals are monitored at all times.

"We believe that a farm should always be ready for visitors. We welcome all visitors – business, pleasure and research."

In plant cultivation, the two brothers make use of a new technology to control nitrogen and phosphorus fertilisation and reduce the risk of excessive fertilisation. This ensures that only the absolutely necessary amount of plant protection products are used. Thanks to the latest technology, the accuracy of fertilisation is excellent, and the risk of overlaps is small. Sludge is pumped into satellite wells to reduce tractor transport and fuel consumption.

"In my opinion, producers play an important role in the entire food product chain. High quality and sustainability begin here at the farm."

STRONG CONFIDENCE IN THE FUTURE

"My work has always been fun and inspiring. It's rewarding and exciting to continuously develop and expand operations and create favourable conditions for future success. There are challenges, of course, which we must overcome one way or another. But that makes our work even more interesting," says Fredrik.

The global demand for food products keeps growing steadily, which is why the two brothers are confident about the future.

"In my opinion, producers play an important role in the entire food product chain. High quality and sustainability begin here at the farm. We are responsible for delivering sustainable raw materials that have been produced with a focus on the environment, animal welfare, a good working environment and economy. This makes it possible to manufacture sustainable food products – products that customers and consumers appreciate and that contribute to their well-being."

CORPORATE RESPONSIBILITY

In this section, you will find information on our corporate responsibility work, which focuses on four areas: economic responsibility, social responsibility, animal health and welfare, and environmental responsibility.

More information can be found on our website:
www.hkscan.com/en/responsibility/

CORPORATE RESPONSIBILITY AT HKSCAN

HKScan is committed to the highest standards of corporate responsibility. We want to fulfil our responsibilities towards all our stakeholders and want to create long-term value on a sustainable basis.

We see that corporate responsibility (CR) work is a journey of continuous improvements where we want to make a change to enable everyone to live tastier lives today and tomorrow. This concerns all our stakeholders including consumers and customers.

We want that with HKScan, people can feel good about good food. Our employees are the greatest assets we have. We are also committed to being the world leader in animal health and welfare, reducing our environmental impact and helping consumers to make healthier choices. Role of economically sustainable operations is important as it enables systematic work in all the other areas of corporate responsibility.

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

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

CORPORATE RESPONSIBILITY FOCUS AREAS AND MATERIAL THEMES

HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare and Environment. By focusing on development of the areas relevant to the Group's stakeholders, HKScan creates value for its stakeholders along the entire value chain.

ECONOMIC RESPONSIBILITY

SOCIAL RESPONSIBILITY

ANIMAL HEALTH & WELFARE

ENVIRONMENTAL RESPONSIBILITY

SUSTAINABLE & TRANSPARENT SUPPLY CHAIN

STAKEHOLDER COOPERATION & COMMUNICATIONS

MATERIALITY ANALYSIS

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

HKSCAN AND UN SUSTAINABLE DEVELOPMENT GOALS

HKScan is committed to promote and work towards UN Sustainable Development Goals (SDGs). We have identified the following five goals as the most material for HKScan and its business operations: SDGs 3, 8, 12, 13 and 15. We work towards these goals through our CR themes and follow the progress with help of our CR goals and targets. The UN Sustainable Development Goals related to HKScan's CR themes are presented in the GRI Index.

SDG 3: Good health and wellbeing – ensure healthy lives and promote wellbeing for all at all ages. HKScan promotes this goal by actions related to the following CR themes: safe and healthy products, animal health and welfare, employees, farming community.

SDG 8: Decent work and economic growth – promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. HKScan promotes this goal by actions related to the following CR themes: employees, responsible and ethical sourcing

SDG 12: Responsible consumption and production – ensure sustainable consumption and production patterns. HKScan promotes this goal by actions related to the following CR theme: environment.

SDG 13: Climate action – take urgent action to combat climate change and its impacts. HKScan promotes this goal by actions related to the following CR theme: environment.

SDG 15: Life on land – protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. HKScan promotes this goal by actions related to the following CR themes: environment, responsible and ethical sourcing.

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

HIGHLIGHTS AND CHALLENGES IN 2018

HIGHLIGHTS

We succeeded in reducing product recalls by **56 per cent** compared to 2017.

We launched a new group-wide trainee program called "Inspired". All HKScan's home markets were represented by **12 talented participants**.

We introduced a **great number of packaging innovations** that increase recyclability or significantly reduce the use of plastics.

We continued our work for mitigating climate change and succeeded in reducing our GHG emissions by **48 per cent** from 2014 to 2018.

Our systematic work for reducing landfill waste resulted in a reduction of **99 per cent** from 2012 to 2018.

We are proud of the fact that **all our production sites** have food safety management certifications.

CHALLENGES

- Weak financial performance may temporarily slow down the company's investment capability and thereby delay some investments with a positive environmental impact.
- We decided to postpone the use of responsible soy in Denmark and the Baltics due to weak or no market demand in combination with the weak financial performance of the company. HKScan continues to monitor the market development and will make decisions accordingly.

VALUE CHAIN

HKScan has unique expertise in the food production, and we are committed to operating responsibly throughout the value chain – from farm to fork.

All stages of the value chain, from cooperation with customers and consumers to animal and feed production, are part of the Group's day-to-day operations.

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

ORGANISATION OF THE RESPONSIBILITY WORK

At HKScan, Corporate Responsibility (CR) is seamlessly integrated into HKScan's business and it is a fundament of the Group's From Farm to Fork strategy.

Responsibility work is guided by our Code of Conduct and topic-specific policies and principles. Steering of the responsibility work at HKScan is organized as follows:

BOARD OF DIRECTORS

Board of Directors approves and supports the Group's strategy, vision, mission and values. The BoD is responsible for the administration and the proper organisation of the operations of the Company. The duties and accountability of the Board are determined primarily under the Articles of Association and the Finnish Limited Liability Companies Act. More detailed description of the role is described in the Corporate Governance Statement 2018.

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

GROUP LEADERSHIP TEAM

HKScan's Group Leadership Team provides oversight and executional leadership for the implementation of the Group's From Farm to Fork strategy. The Group Leadership Team is led by the CEO, and includes 10 Executive Vice Presidents representing a variety of disciplines, including Markets (Finland, Sweden, Baltics, Denmark & International), Categories & Concepts, Finance, Human Resources, Operations, Animal Sourcing & Primary Production, Communications and Corporate Responsibility. EVP Communications and Corporate Responsibility is responsible for target setting and reporting related to corporate responsibility.

The Group Leadership Team of HKScan assists the CEO in the management of the Group, in the preparation of matters such as business plans, strategy, policies and other matters of importance, as well as in the implementation of the strategic and operative targets also within the area of corporate responsibility.

CORPORATE RESPONSIBILITY TEAM

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

HKSCAN'S VALUES AND OPERATING PRINCIPLES

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

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

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

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

ANTI-CORRUPTION, ANTI-COMPETITION AND HUMAN RIGHTS

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

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

HKScan has renewed its Code of Conduct in 2018. The objective was to provide a more detailed description of HKScan's commitment to anti-corruption and an enhanced guidance to employees that no corruptive actions are tolerated. The renewed Code of Conduct also contains more specifically described commitment to human rights. HKScan's renewed Code of Conduct has been communicated to the employees in all HKScan's operating countries. Additional trainings will be given in 2019.

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

During the reporting period, HKScan has not identified any confirmed incidents regarding corruption by either employees or business partners. Neither have any public legal cases regarding corruption or human rights been brought against the organisation. During the reporting period, none of HKScan Group's companies have been subject to legal actions regarding anti-competitive behaviour or violations of anti-trust legislation. HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities related to HKScan's operations.
Read more in NFI

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

ECONOMIC RESPONSIBILITY

At HKScan, being economically responsible means that we aim to safeguard the profitability and competitiveness of our business, both in the short and long term.

A sound economic foundation also forms the basis for our other areas of responsibility (i.e. social and environmental responsibility, and animal health and welfare). It also allows us to invest in developing the value chain on a long-term basis. Through our operations, we create financial value directly and indirectly to a broad range of stakeholder groups.

HKScan follows EU and national legislation in its business and operations. The Group's economic responsibility is led by the following internal Group policies: treasury policy, governance policy, finance policy and risk policy as well as externally communicated disclosure policy. The Group CEO and the Board of Directors share the responsibilities, as legally stipulated. The Group Leadership Team is responsible for the financial result and for the work contributing to it.

LONG-TERM FINANCIAL TARGETS

HKScan has set the following long-term financial targets:

- Operating profit: more than 4 per cent of net sales
- Return on capital employed (ROCE): more than 12 per cent
- Net gearing: less than 100 per cent
- Dividends: more than 30 per cent of net profit

In 2018, HKScan's operating profit was -2.8 per cent of net sales, ROCE was -7.1 per cent and net gearing was 88.6 per cent. The company paid dividends amounting to a total of EUR 5.5 million for the 2017 financial period.

FINANCIAL VALUE CREATED FOR STAKEHOLDERS

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

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

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

NET SALES
1 715 EUR MILLION

SUPPLIERS AND PRODUCTION:
raw materials, energy and service suppliers; depreciations
1 455 EUR MILLION

PERSONNEL:
wages, salaries and social costs
317 EUR MILLION

CREDITORS:
net financial expenses
10 EUR MILLION

SHAREHOLDERS:
dividends
6 EUR MILLION

INVESTMENTS:
41 EUR MILLION

PUBLIC SECTOR:
income taxes
2 EUR MILLION

Examples of activities in 2018

- On top of permanent job opportunities, HKScan offers seasonal work in all of its operating countries. During 2018, the company employed over 1 400 seasonal workers. For job seekers that are often starting their working career, this is an opportunity to gain an understanding of the industry. Seasonal workers help to guarantee uninterrupted product deliveries and services during peak demand seasons. A seasonal position also offers a useful introduction to the skills required in various food-related occupations. It can serve as a stepping stone to permanent employment.

TAXES ARE PART OF ECONOMIC RESPONSIBILITY

The most significant tax items for HKScan are withholding tax from salaries paid to employees, VAT and income taxes. HKScan is committed to complying with the tax laws and practices in our countries of operation. The location of group entities is driven by business reasons, such as the location of customers, suppliers, raw material and know-how.

Every transaction must have a solid business rationale without compromising tax compliance principles. Given the scale of our business and volume of tax obligations, risks will inevitably arise from time to time in relation to the interpretation of complex tax law. We actively seek to identify, evaluate, monitor and manage these risks to ensure they remain in line with our objectives.

Management of tax risks, as with any other financial risk, is the responsibility of the group CFO and it is identified, assessed, managed and monitored under HKScan enterprise risk management. We emphasise transparency in all of our activities, including our relationship with tax authorities. We collaborate with local tax authorities according to local laws and practices.

INVESTMENTS AND EXPORTS CONTRIBUTE TO VALUE CREATION

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

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

Examples of activities in 2018

- HKScan aims to establish a strong footprint in the rapidly growing meals segment. Demand for ready meals is growing at an annual rate of 10 per cent across Europe, offering interesting business potential. In 2018, HKScan started expanding its production facility in Rakvere, Estonia. The investment project proceeded well over the course of the year and the modernised facilities will become operational during the first half of 2019. The latest technology enables HKScan to launch new ready-to-eat products that make use of innovative, eco-friendly packaging solutions. These products are attracting growing interest among consumers. As a result of the investment, the company is also committed to increasing its meals product exports from Estonia.

- In April 2018, HKScan launched pork exports from Finland to China from its Forssa production unit. The Chinese pork market is the world's largest and opens up new earnings opportunities for HKScan and the entire value chain. Within the first year of the launch, HKScan aims to ship roughly 3 million kilograms of pork to China and, subsequently, to triple that volume by 2020. Relative to the volume of pork currently produced annually in Finland, this would mean that at least 5 per cent of all Finnish-reared pigs would end up on Chinese dining tables through HKScan.

PRODUCERS AND HKSCAN COLLABORATE TO BOOST PRODUCTIVITY

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

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

Examples of activities in 2018

- In 2018, HKScan launched an investment programme that aimed to increase the volume of high-quality domestic beef production both among the company's existing producers and new contract farmers. The aim was to encourage contract farmers to boost their output volumes in order to secure the long-term availability of domestic beef. HKScan aims to increase the number of suckler cows in Finland by 3 200 by the end of 2025. This represents a 15 per cent increase and a corresponding nationwide increase of 5 per cent. The target was met by the end of 2018 and contracts for the target number of suckler cows had been signed. Farms signing up for the programme receive an investment bonus for all new cows. HKScan offers also cost-effective cowshed models as well as support from a building engineering specialist during project. The expanding suckler cow farm also provided by other HKScan services such as feed planning, veterinary health services and other advisory services. The programme provides valuable support to start-up farmers and farms looking to invest in new suckler cows.

Read more in related articles in our Story Kitchen: Naked pork and healthy fat

STORIES FROM FARM TO FORK: HEALTH AND NUTRITION MANAGER

AMBASSADOR FOR THE JOY OF FOOD

HKScan's nutrition expert Soile Käkönen considers meat – rich in nutrients – to be an important part of a balanced diet. For her, the increased interest in food and eating is positive.

Health and Nutrition Manager Soile Käkönen has worked at HKScan for over a decade.

Soile Käkönen sees her own role at HKScan as multifunctional, liaising between product development and experts in responsible production, for instance, or between the communication and marketing teams. She also feels that acting as an advocate for eating meat as part of a healthy diet in the public domain is a key part of her job.

"I think it's important for food companies to have their own expertise in health and well-being, especially since health is one of the strongest consumer trends right now", says Käkönen, who joined HKScan more than a decade ago after working in the field of sports nutrition and health care.

According to Käkönen, the Nordic Nutrition Recommendations provide good guidelines: they do not mandate the "right" way to eat; rather, they allow people to take a variety of approaches to a healthy diet.

"In addition to the limits imposed by the recommendations for things like fat and salt, consumers attach images such as 'natural' and 'pure' to the idea of 'healthy' – and there are no clear-cut criteria for those," she explains.

"HKScan's position as a major player in the industry brings with it the responsibility and obligation to offer healthy choices to consumers. The large volumes the company produces mean that even small changes in the composition of the food become significant."

FOOD CHOICES REFLECT VALUES

Käkönen thinks that HKScan's position as a major player in the industry brings with it the responsibility and obligation to offer healthy choices to consumers. The large volumes the company produces mean that even small changes in the composition of the food become significant.

"My aim is to ensure that all of our product categories have healthy options. Not everything needs to be super-healthy, though – there's room for some indulgence as well."

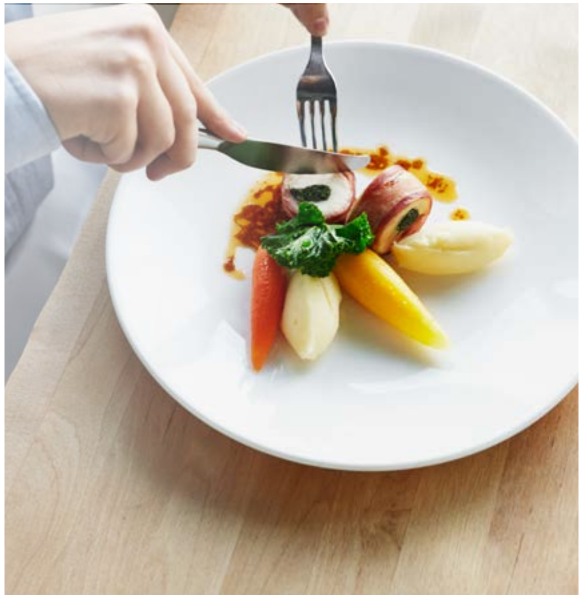
Käkönen says that people's increased interest in the food they eat and the perception that this food reflects their own values and choices is a positive thing.

"I think it's always good when people take more of an interest in food and what they are eating. It's also interesting that people these days are increasingly looking for products that address them as an individual and fit their values. The emphasis on the individual also provides a new avenue for communication about the products."

CONTACT THROUGHOUT THE ENTIRE PRODUCTION CHAIN

According to Käkönen, meat has unfairly taken the blame in recent public debate, as it is so nutritious that even a small amount is enough to make a meal balanced. People can do fine without meat as well, but in such cases, creating a healthy diet requires resourcefulness and knowledge. In any case, well-being comes from your entire lifestyle, and food is only one aspect of that.

"I think it's always good when people take more of an interest about food, its impact and origin."



"The discussion around food often focuses on issues that consumers worry about, like the carbon footprint or additives in food. I always try point out the pleasure and joy of eating as well. After all, that's one of the most important aspects of food", she says.

Communicating the joy of food is part of HKScan's aim to provide customers and consumers with responsible, high-quality products for a tastier everyday life and shared moments, in line with the company's "From Farm to Fork" strategy. Käkönen sees her own role as having strong links to the entire chain, starting from primary production.

"I've taken part in research collaboration and projects in primary production. In the Omega-3 Pork project (Rypsiporsas®-projekti), for example, I was involved in developing the rapeseed feed for the animals to make the meat even more nutritious. On the other hand, product development has given me the chance to think about consumer preferences and how we can meet them."

Käkönen finds the varied nature of her work and the possibility to cooperate with different parties particularly rewarding. She can also see the results of her work in a very concrete way on the shelves of grocery stores.

"I feel that people listen to me, and that I can influence how responsible our company's operations are."

Read more in related articles in our Story Kitchen: How to train your taste

SOCIAL RESPONSIBILITY

Social responsibility plays an important role as part of HKScan's responsible ways of working.

Aspects related to social responsibility include product safety and quality, personnel related aspects such as occupational health, well-being at work, as well as responsible sourcing and local farming communities among others.

HKScan's operations are based on a promise of safe, healthy, high-quality products. Our products are manufactured in line with strict product safety standards and responsible operating methods. We listen closely to consumers and take their preferences and expectations into account in the development of innovative products and taste experiences. Nordic and national nutrition recommendations, as well as current trends, are important aspects that we take into account in product development and communications.

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

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

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

HKScan also supports local communities through charitable projects. In its home markets, HKScan supports primarily projects that are related to the everyday life of families with children or promote the quality of life and sustainability. In 2018, HKScan supported the Pink Ribbon campaign to advance breast cancer research in Denmark. In Finland HKScan signed in 2017 a two-year collaboration agreement with the Childrens' Movement in Finland to promote physical activity for school-aged children. Additionally, HKScan donated food aid to low-income families in several of its operating countries. HKScan made charitable contributions in all its operating countries; the above are just a few examples.

RESPONSIBLE PRODUCTS

Our innovative products are the result of close cooperation with our customers. A deep understanding of consumer and customer needs guide our development work. Everything is based on the high-quality standards of our products, from the point of view of product quality, safety and nutrition. Ensuring product safety and consumer health lays the foundation for HKScan's operations.

SAFE PRODUCTS

Key performance indicator	Corporate targets	Progress 2018
Certified sites	100% certified sites, food safety management systems	100% certified sites
Number of recalls	Zero recalls	7 recalls, -56% compared to 2017

Product safety is managed through certified food safety management systems based on the risk assessment of products and their manufacturing processes. All HKScan's production plants have certified food safety management systems (read more in Certified operations 2018), which are monitored via internal and third-party external audits. During 2018, we received official certifications for our new plants in Finland and changed the certification system in Estonia to GFSI-recognised (Global Food Safety Initiative) certification.

HKScan's food safety management system aims to reduce food safety risks in the entire production and delivery chain, and product traceability is one part of the system. The traceability system ensures timely measures in the event of product recalls, to prevent any risk to consumer health. HKScan aims to prevent all product recalls by efficient in-house control procedures. Making a product recall in the event of an error is part of HKScan´s responsible actions. Potential impacts on the company's reputation or additional costs may never prevent the recall.

The number of recalls decreased by 56 per cent compared to the previous year. During 2018 HKScan made 7 product recalls (16 in 2017). The reduction is a result of good collaboration and well-functioning procedures, group-wide systematic product quality work and consistent practices such as pathogen prevention and allergen management programs. Mapping of labelling processes have also contributed to positive development. In 2018 HKScan's product recalls were made due to errors in allergen handling, labelling or foreign objects.

HKScan monitors the microbiological and chemical quality of raw materials and products through various analyses on a daily basis. HKScan has accredited laboratories in three countries and performs more than a million analyses per year. Additionally, HKScan uses external laboratory partners.

Examples of activities in 2018

- New or upgraded certificates at production sites:
  - ISO 9001: Rauma unit in Finland (new)
  - ISO 14001: Rauma unit in Finland (new), Paimio unit in Finland (new)
  - FSSC 22000: Paimio unit in Finland (new), Rakvere and Tabasalu production units in Estonia (upgraded from ISO 22000)
- Root cause analyses became a general tool to decrease deviation which resulted in a 17 per cent reduction of consumer complaints in Sweden.
- Between 2017 and 2018, HKScan created and implemented a group-wide system for preventing of the vulnerabilities of food fraud and threats of food defense incidents. The target is to systematically

evaluate, control and prevent threats and vulnerabilities in the whole farm-to-fork value chain. To raise awareness and detect problems in time, internal eLearning material was launched on food fraud and food defence.

- A harmonised group-wide HKScan allergen management standard was introduced and implementation was started.

- A group-wide project for improving labelling processes was started.

- A cross-border food safety development team was established in order to share and develop best practices between all production sites.

- Sensory evaluation training was completed for more than 50 employees in order to establish a company standard to monitor product quality, including the development of company guidelines and processes.

- "Clean slaughter" training was carried out in all HKScan's beef slaughterhouses to ensure food safety by preventing and minimising carcass faecal contamination in slaughter process. The tool has been in use for several years and has a proven positive effect on carcass cleanliness when used systematically.

- The Forssa production unit (pork meat) in Finland and Tabasalu production unit (poultry meat) was approved for export to China, fulfilling the strict quality and food safety criteria.

ACTIVE COOPERATION FOR DEVELOPING PRODUCT SAFETY

HKScan cooperates with research institutes and participates in projects to further develop product safety. Researchers have been invited to HKScan and workshops have been held, both in Finland and Sweden with the aim to establish cooperation between HKScan, universities and research institutes.

Examples of activities in 2018

- In Sweden, HKScan is cooperating continuously with the Danish Meat Research Institute (DMRI). Several projects are ongoing and they cover animal welfare, food safety, technology development as well as new processing knowledge. Some examples of completed projects together with DMRI are CCP (critical control points) validation on minced meat products and updating a general risk analysis. Several projects regarding facility cleaning, cleaning methods and chemicals have also been implemented. Continued work to minimise faecal contamination through participation in a DMRI project of a vision-based aid tool for the cattle slaughterhouses, which can streamline and elevate the quality of control and removal of contaminants.

- In Finland, HKScan was involved in three research projects with the University of Helsinki, one of them focusing on the prevalence and stability of viruses in the food production chain and food processing. Another project focused on safety of sous vide products, focusing on prevalence, growth and control of Clostridium Botulinum.

- HKScan participated in Marie Skłodowska-Curie Actions programme that lasted for three years and ended during the summer of 2018. Funded by the European Commission and involving eight European university and company laboratories, the programme provided training for 15 promising young researchers for doctoral studies in microbiology.

Plans for 2019

- 100 per cent GFSI certified sites
- Completed implementation of corporate allergen management standard
- Implementation of corporate sensory evaluation guideline
- Further reduce recalls by 40 per cent compared to the year 2018
- To further enhance the food fraud standard throughout the chain

HEALTHY PRODUCTS

Key performance indicator	Corporate targets	Progress 2018
Percentage of product launches with health aspect	Enhance positive impacts on nutrition and public health	13% of product launches offered health aspects, e.g. reduced fat or salt content, increased share of vegetables, smaller meal size, or nitrite-free products

Nutritional aspects and increased health awareness among consumers are important considerations in HKScan's product development and communications. Our work is guided by Nordic and national nutrition recommendations, as well as current trends. According to nutrition recommendations, meat is an element of a balanced diet, along with vegetables, wholegrain products, milk and milk products, vegetable oils and fats. Nutrition recommendations guide the general eating habits of the population. HKScan aims to have a positive effect on public health by developing and offering a diverse range of highly nutritious quality products for consumers.

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

Examples of activities in 2018

- HKScan advanced its goal of enhancing positive impacts on population nutrition and public health by launching products with health aspects. Of all product launches in 2018, 13 per cent fell into this category.

The company has been taking part in nutrition discussions and the ongoing lively debate on the connections between meat and health. HKScan has increased its output of nutrition information, promoting meat as an excellent source of protein and essential nutrients enjoyed according to nutritional recommendations. In her blog posts, HKScan's nutrition expert writes about healthy food choices (read more here in Finnish).

Plans for 2019

HKScan will continue to develop and launch products that have health aspects, such as reduced fat or salt content. We have pledged to promote sustainable development through five nutrition commitments within the Commitment 2050 initiative in Finland. HKScan is committed to developing product options to increase the consumption of vegetables and reduce the consumption of salt, as well as widen options for smaller portion sizes.

HKScan aims to further communicate the important role of meat as part of a varied diet, combined with a healthy lifestyle. We view eating and enjoying food together with close ones and friends as an important element for wellbeing and health.

HEALTHY AND CONVENIENT FOOD

Previously often seen as unhealthy options, high-quality convenience foods have become a natural part of modern cooking. Products such as HKScan's Via® range of meals have been carefully developed by food product development professionals to answer the consumers' need of getting better food in an effortless way.

The demand for convenience food has grown rapidly. Over the past decade, the purchases of ready-to-eat food in Finland have grown by nearly 35 per cent. New packaging innovations and production methods have enabled a long shelf life also for convenience foods, without preservatives. When developing products, HKScan considers nutritional recommendations, with the aim of creating tasty and healthy, easy-to-use food made from pure raw materials. Our Micvac® cooking method keeps the vegetables in meals fresh, and the fast steam cooking process conserves the meal's vitamins better than traditional cooking methods.

EMPLOYEES

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

Through the development of leadership skills and employees' competencies, HKScan strives to create favourable conditions for high-quality operations and the achievement of strategic goals through the entire value chain - From Farm to Fork. HKScan sees that leadership of people-related issues and organisational capabilities play a key role in our competitiveness. We share best practices across all of our operating countries and the company values - Inspire, Lead, Care - guide our day-to-day work.

HKSCAN AS AN EMPLOYER

HKScan is a significant employer in all its countries of operation. In 2018, the company had 7 179 (7 292) employees, of whom 86 per cent were permanent. The company has 2 883 employees in Finland, 2 123 in Sweden, 636 in Denmark and 1 538 in the Baltic countries (Estonia, Latvia, Lithuania). In addition, the company has a production unit in Poland.

On top of permanent job opportunities, HKScan offers seasonal work at all of its operating countries. For job seekers that are often starting their working career, this is an opportunity to gain an understanding of the industry. Seasonal workers help to guarantee uninterrupted product deliveries and services during peak demand seasons. A seasonal position also offers a useful introduction to the skills required in various food-related occupations. It can serve as a stepping stone to permanent employment.

In 2018, HKScan employed close to 1 430 summer employees; 640 in Finland, 600 in Sweden, 120 in Denmark, 50 in Baltic countries and 20 in Poland.

ORGANISATION DEVELOPMENT AND CHANGE MANAGEMENT

In 2018, HKScan continued its transformation. During the year, an extensive Change Pulse survey was carried out. The aim was to gain an even better understanding of the employees' views on the operating model and organisation changes that were implemented in 2017. The online survey was conducted among 400 employees and the response rate was 73 per cent.

In 2018, HKScan also carried out some 120 workshops to enhance the discussion and commitment to the company values – *Inspire, Lead, Care* – launched in 2017. The value workshops were held in each site during the spring and autumn of 2018. The workshops included a pre-survey, discussion and small team assignments around the values as well as their importance in our everyday work. As part of the workshop, teams also agreed how to improve their own workplace in relation to values.

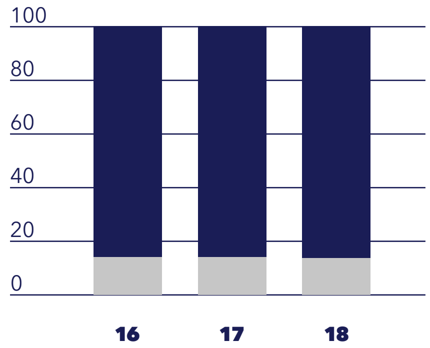
RESOURCE AND TALENT MANAGEMENT

For HKScan, the management of a competitive food value chain from farm to fork also means management of a wide range of competences. The company sees proactive and strategically-aligned resource planning as a critical success factor for the future. HKScan's well-known consumer brands and strong heritage as a food company create a solid basis for building up employer brand and attracting the best talent.

HKScan finds it extremely important, both from the motivation, performance and retention point of view, to integrate new employees to the company as quickly and as properly as possible. For this purpose, the company renewed its recruitment and onboarding principles and processes in 2018. An integral part of the new onboarding process is the New Team Members' Days in each country.

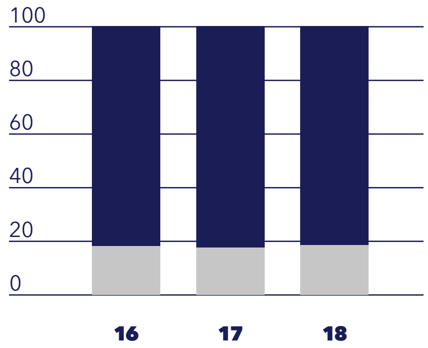
In 2018 HKScan also introduced a new recruitment system that supports the company leaders in recruitment process as well as allows the candidates a better experience when viewing open positions and when applying for a job.

DIVISION OF EMPLOYEES 2018 (2017) BY EMPLOYMENT CONTRACT %



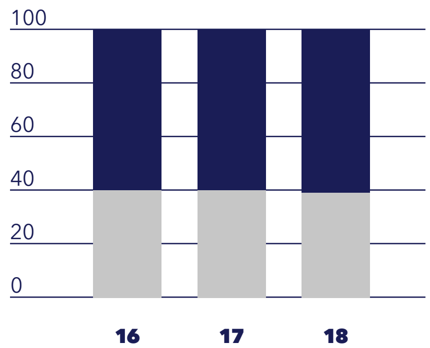
86.0 (84.8)% Permanent
14.0 (15.2)% Temporary

DIVISION OF EMPLOYEES 2018 (2017) BY EMPLOYEE SUB GROUPS %



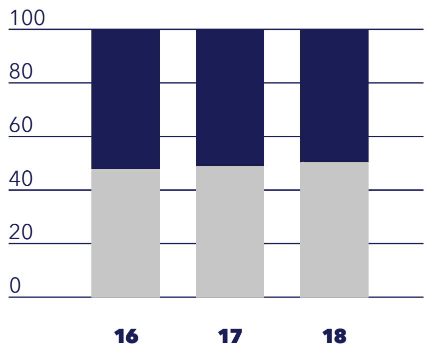
81.8 (82.8)% Blue collars
18.2 (17.2)% White collars

DIVISION OF EMPLOYEES 2018 (2017) BY GENDER, BLUE COLLARS %



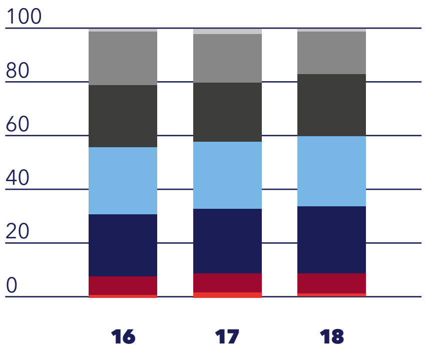
60.8 (60)% Male
39.2 (40)% Female

DIVISION OF EMPLOYEES 2018 (2017) BY GENDER, WHITE COLLARS %



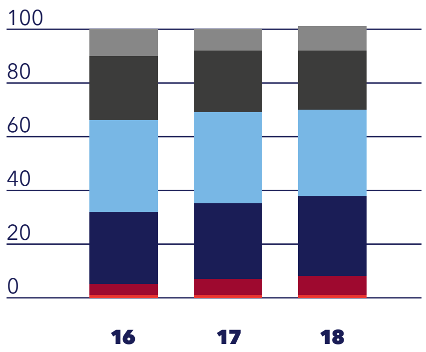
49.7 (51)% Male
50.3 (49)% Female

DIVISION OF EMPLOYEES 2018 (2017) BY AGE, BLUE COLLARS
%



- 1 (2)% age under 19
- 16 (18)% age 20-29
- 23 (22)% age 30-39
- 26 (25)% age 40-49
- 25 (24)% age 50-59
- 8 (7)% age 60-64
- 1 (2)% age over 65

DIVISION OF EMPLOYEES 2018 (2017) BY AGE, WHITE COLLARS
%



- 0 (0)% age under 19
- 9 (8)% age 20-29
- 22 (23)% age 30-39
- 32 (34)% age 40-49
- 30 (28)% age 50-59
- 7 (6)% age 60-64
- 1 (1)% age over 65

INSPIRED TRAINEE PROGRAMME

To support the company aims to ensure future talent, HKScan launched an international trainee programme called 'Inspired' in 2018. The objective of the programme is to attract university students to HKScan and to retain them by offering a challenging summer job and an opportunity to do a master's or final thesis as an integral part of the programme as well as to work part-time during the studies. In addition, the programme includes a potential traineeship abroad, some training as well as mentoring sessions by the company's senior leaders. In 2018, 12 trainees from all of HKScan's home markets participated in the training programme.

In the future, HKScan aims to further enhance cooperation with universities, schools and research institutes.

COMPETENCE AND LEADERSHIP DEVELOPMENT

In today's diverse workplaces, the leaders' capabilities are challenged in many ways every day. The importance of high-standard everyday management practices and capabilities is increasing all the time. To build a sustainable and strategically-aligned basis for development, HKScan defined its desired leadership behaviours in 2018:

- "Communicate and apply the vision" (Inspire)
- "Set the direction and expectations" (Lead)
- "Follow through and support" (Care)

These behaviours are also evaluated and measured as part of the performance management, recruitment, and career and job rotation. In addition, they guide the future leadership development.

In 2018, the company continued to develop and implement a portfolio of management and leadership programmes and processes. For example, a business and management development programme for around 25 key leaders was launched to strengthen a shared understanding of HKScan's strategic aims, values and desired behaviours as well as to inspire and to develop the needed skills and competences.

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

HKScan also stresses the importance of the employees' personal responsibility for their learning and professional development.

Examples of activities in 2018

- In Finland, a pilot programme for management team development was carried out among the Market Area Finland's management team members.

- In Sweden, the survey conducted in conjunction with the value workshops showed that a majority of the Swedish employees feel that the employer is helping them in their career development. An example of concrete actions in this field in 2018 was the opportunity given to blue-collar workers to meet an external career advisor. Also in 2018, HKScan continued to improve the job rotation at its sites in Sweden. Job rotation leads to both personal development as well as to better operational flexibility for the employer.

- During 2018, an employee training programme was carried out at Rauma production unit in Finland. Nearly 100 of its employees have completed or are currently completing basic examinations, qualifications or special qualifications in their fields. Individual study paths ensure the meaningfulness and effectiveness of studies for all. Training began in 2017 and its goal has been to ensure that the new employees of the Rauma unit have the know-how in the management and use of new machines, equipment and processes of the latest technology. By the end of 2018, 35 people completed a qualification in meat inspection. 11 other degrees are in progress. 72 employees participate in other training programmes. The apprenticeship training includes both contact lessons, distance assignments and practical training in the workplace.

- Furthermore, HKScan runs a successful internal trainee programme in Sweden to develop future production supervisors, called "Aspirantprogrammet".

PERFORMANCE AND COMPENSATION

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

In 2018, HKScan renewed its performance management and compensation principles, processes and practices based on the results of an extensive remuneration analysis conducted in 2017. This entails the launch of re-designed short- and long-term incentive programmes, as well as a more systematic salary management process across the organisation.

In Estonia, HKScan re-designed the salary structure of blue-collar employees to better take into account the job duties in different positions and to ensure alignment with local market conditions. The work on improving performance-based compensation structures is ongoing.

In general, special focus has been placed on enhancing performance management at HKScan through communication and cascading of main KPIs that support the achievement of business goals. For example, a new tool was launched in 2018 to support the performance and development discussion process.

EMPLOYEE RELATIONS

HKScan respects and values its employees' right to freedom of association and collective bargaining. The company has put efforts on good employee-employer cooperation practices and encourages continuous dialogue.

In the spring of 2018, out of close to 790 employees, some 20 slaughter line employees at the Rakvere production unit in Estonia participated in a strike, which arose from the employees' dissatisfaction with salaries. The strike lasted two months. After the strike, a cooperation committee was established in Estonia to further enhance the dialogue and sharing of information on people management initiatives. The committee consists of employee representatives from all production units in Estonia, members of European Works Council, as well as a representative of the slaughter line employees.

In the summer of 2018, all employees at our slaughterhouse in Paimio (Paimion Teurastamo Oy) in Finland went on strike to demand salary increases. More than 200 employees at Forssa production unit participated in illegal union meetings to support the demands of the employees of Paimion Teurastamo Oy. Both incidents were brought to Finnish labour court where the actions were deemed in violation of industrial peace and the Finnish Food Workers' Union was ordered to pay a compensatory fine.

Additionally, in the autumn of 2018 the employee organisations organized political strikes in Finland to protest government's plan to change the grounds based on which the employments could be terminated in small enterprises. The meat industry was included in the strike (excluding poultry) and therefore, blue-collar and white-collar employees in production units other than Rauma were on strike.

HEALTH AND SAFETY

Key performance indicator	Corporate targets	Progress 2018
LTI rate	10 (2021) 3 (2030)	34.7 per million hours worked

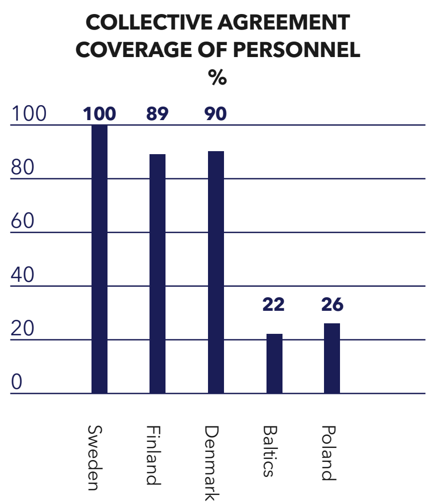
HKScan's key responsibilities as an employer include ensuring employee health and safety at work. The company's Lost Time Injury rate (LTI) has been at a reasonably high level during the past years. Analysis of past year's injuries show that many of those were caused by wrong behaviour, wrong tools or wrong use of tools.

In 2018, HKScan took important steps towards improved safety by strengthening the work safety organisation by clarifying site safety roles and responsibilities, as well as improving the work accident reporting process and its reliability. HKScan's Work Safety roadmap 2019–2021, communication plan and LTI targets were approved.

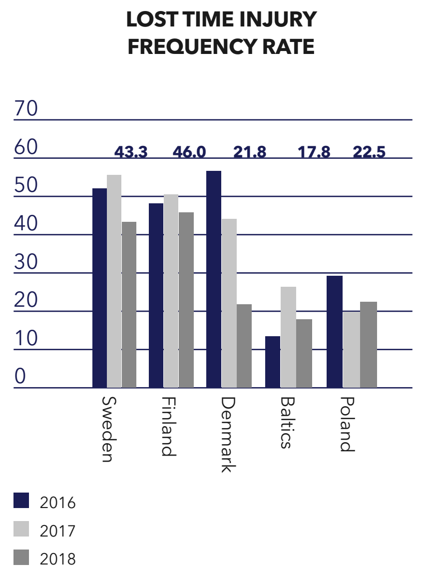
This positive development can also be seen in the safety figures. In 2018, our Lost Time Injury (LTI) Frequency Rate was 34.7 per million hours worked. It decreased from the previous year (44.3 per million hours worked). Compared to the previous year, especially HKScan in Denmark successfully managed to lower the LTI rate as well as to prevent work related incidents.

In the coming years, the further strengthening of HKScan's safety culture will be a key focus area in all countries, sites and departments.

HKScan's two production plants in Estonia have the OHSAS 18001 certification for their occupational health and safety management systems.



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



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

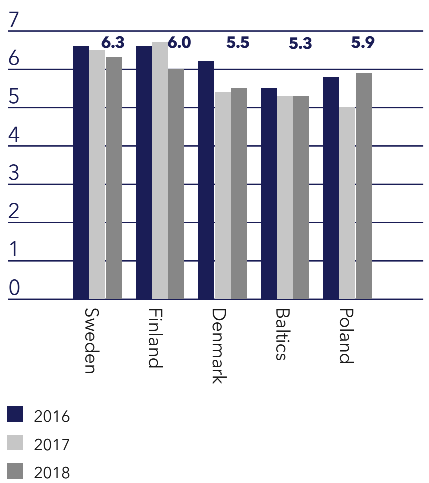
WELLBEING

Key performance indicator	Corporate targets	Progress 2018
Absentee rate %	5.8 (2018)	5.9

HKScan views the wellbeing of its employees as having a positive impact on motivation, labour productivity, customer satisfaction, innovation and ultimately on company performance. By continuously improving its employees' wellbeing, the company also aims to reduce the instances of sick leave, and of early retirement.

In 2018 the absentee rate was 5.9 per cent, which is slightly lower than the previous year (6.2 per cent).

ABSENTEE RATE
%



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

Examples of activities in 2018

- In 2018, HKScan in Finland developed its processes for workability management. These included for example an early support model and the monitoring of sick leaves. The supervisors and HR cooperated to analyse both the cause and the instances of sick leave. Based on this analysis, multiple challenges could be solved in the workplace to prevent further absences. Ideally, supporting the workability is a cooperative project between the company and external partners such as the occupational health care provider and the insurance company. At HKScan, this cooperation was intensified during 2018 and the work will be continued. Good workability management provides a shortcut to an efficient workplace.
- HKScan's work around zero tolerance for inappropriate behaviour continued in 2018. In Demark, the results of the "Together – we create a good working place" campaign, which started in 2017, were clearly visible. The percentage of employees that had experienced inappropriate behaviour decreased significantly when comparing the survey results from 2018 and in 2016 among the employees in HKScan Denmark. The aim of the campaign was to improve employee wellbeing in general with a special focus on cultures, on how to create a good tone of voice at work, and how to prevent bullying, discrimination and sexual harassment in the work place.
- In 2018, HKScan renewed its occupational health care model in Finland and partnered with an external health care provider. The aim was to create a unified operating model for Finland in terms of occupational health and to ensure fair and high-quality, preventive health care services for all employees in Finland. In the future, the availability of harmonised health data and more effective monitoring can better target preventive health measures.

At HKScan, taking care of the wellbeing of employees is important and will be actively developed in cooperation with the employees. Every employee plays a significant role in maintaining his/her own workability and skills. HKScan encourages its employees to take care of their wellbeing in their leisure time, with own choices everyone can influence their own physical and mental wellbeing and health. This is part of workability management.

Good health and workability are in the interest of both the individual employee and the company. Early intervention benefits both parties in situations when the employer recognises workability-related risks. At the same time, the company strives to enhance strengths that sustain workability. The personnel has also an opportunity to participate in various welfare programmes under the guidance of occupational health care. This type of guidance can comprise of both coach-supported care or coaching supported by digital tools. The process targets to motivate employees to maintain healthy lifestyle by paying attention to nutrition, sleep, recovery and to support one's own ability to work.

NON-COMPLIANCES

There have been two misdemeanour procedures related to work accidents in HKScan Estonia. The fines were EUR 400 and EUR 700.

Read more in related articles in our Story Kitchen: Inspiring summer turns to autumn.

RESPONSIBLE AND ETHICAL SOURCING

Transparent, efficient and responsible sourcing is one of the cornerstones of corporate responsibility at HKScan and a result of systematic long-term work. HKScan operates openly and maintains the principles of sustainability throughout its supply chain.

A well-managed supply chain ensures streamlined, smooth cooperation between operators, from the procurement of raw materials and services all the way to the consumer's shopping basket. The meat we use as raw material for our products is always traceable.

LOCAL MEAT PRODUCTION

Key performance indicator	Corporate targets	Progress 2018
Purchases from local markets: % of live animals	• 100% Denmark, Finland, Sweden • 100% Estonia: Poultry, cattle • Pigs: Estonia according to supply demand balance	• 100% Denmark, Finland, Sweden • 100% Estonia: Poultry, cattle • 95% Estonia: pigs
Purchases from suppliers that comply with HKScan's requirements: % of live animals	100% of animal purchases according to animal sourcing practices	100%

In its production, HKScan mainly uses locally sourced meat from its long-term contract producers or own farms. All the products sold under the HK®, Kariniemen® and Scan® brands are made from domestic meat, with animals slaughtered at HKScan's slaughterhouses. In Sweden HKScan has also subcontracting slaughterhouses.

HKScan cooperates closely with producers: for example, the company provides its contract producers with advisory services related to management, animal feeding, animal welfare, the design of farm buildings and facilities, as well as the development of business competitiveness and profitability.

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

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

Examples of activities in 2018

HKScan developed an animal feed innovation, which enables HKScan Kariniemen® chicken farms to be the first in Finland to entirely replace soy-based protein with domestic pulses, such as broad beans, in animal feed. This dietary innovation will further increase domestic self-sufficiency in the Finnish food production chain. In addition to raising chicks, Kariniemen farms also grow grain crops such as wheat and oats for their feed. Until now, these domestic grains have been supplemented with soymeal in animal feed due to the high protein content of soy. HKScan has worked systematically for many years to find a domestic replacement for soymeal in collaboration with animal feed experts, contract farmers and our feed producer partners. Read more

HKScan launched pork exports from Finland to China, the world's largest pork market. Rather than focusing on bulk volume, our key strengths in China are great flavour and the world-class expertise of Finnish family farms including production according to the "no antibiotics ever" principle. Pork quality requirements in China are among the world's strictest. Read more

- Export of pork products from Estonia to Hong Kong was launched.

SUSTAINABILITY OF THE SUPPLY CHAIN

Key performance indicator	Corporate targets	Progress 2018
Purchases from local markets: % of other materials and services	Positive local economy impact	About 70%
Purchases from suppliers that comply with HKScan's requirements: % of other materials and services	• Supplier guidelines signed by 100% of suppliers by 2020 • Avoid ethical risks	About 70% of the cost of services, goods and raw materials acquired by HKScan. This proportion increases as the contracts are updated.

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

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

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

HKScan uses meat purchased from outside its home markets to supplement its offering in product categories in which domestic meat is not sufficiently available. Imported meat represents around 1 per cent of the Group's total meat volume used. The origin and quality of imported meat is monitored and slaughterhouses are audited to ensure compliance with HKScan's requirements.

RESPONSIBLE SOURCING OF SOY AND PALM OIL

Key performance indicator	Corporate targets	Progress 2018
Purchase of responsible soy	• 100% responsible soy in Finland and Sweden	• 100% responsible soy in Finland and Sweden • Denmark and Estonia will start to use responsible produced soy when market demand exists

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

Soy is used in animal feed because of its good protein content. In HKScan's home markets, animal feed contains 0–25 per cent soy, depending on the nutritional needs of the animals. Most of the feed is grown locally, and many farms use food industry side streams in animal feed.

In 2014, HKScan announced in that by the end of 2018, it would only use responsibly produced, certified soy in its meat value chain. This goal was achieved in Sweden in 2015 and in Finland in 2017. In 2018, HKScan decided to postpone the use of responsible soy in Denmark and the Baltics due to weak or no market demand in combination with the weak financial performance of the company. HKScan will continue to monitor the market demand and will make decisions accordingly.

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

In 2018, HKScan's indirect soy footprint (animal feed) was 163 000 tonnes, and its direct soy footprint (products) was 475 tonnes. Read more: Fact Sheet on Responsible Soy

HKScan only uses small amounts of palm oil in its production. However, it is important for the company to ensure that all of this oil is responsibly produced. HKScan is an affiliate member of the Roundtable on Sustainable Palm Oil (RSPO). During 2016, the company and its suppliers examined the amounts and certification level of the palm oil used in its products. The goal is to only use RSPO certified palm oil or replace palm oil with other oils, such as rapeseed oil, as far as possible. This work progressed in 2018.

Read more in related articles in our Story Kitchen: Congratulations to the Finnish nature

FARMING COMMUNITY

Animal sourcing at HKScan is based on contract production in Finland, Sweden and Denmark. HKScan has long-term partnerships and close cooperation with local meat producers. In Estonia, HKScan has both its own farms and contract production. The development of farming communities is part of HKScan's From Farm to Fork strategy. HKScan supports farming communities through producer services.

Key performance indicator	Corporate targets	Progress 2018
Actions/projects	• High level of producer welfare and competence – profitable business • Contribution to national food supply in possible national emergency situations • Maintaining the vitality of the local countryside	• Advisory services provided by producer services team in Finland, Sweden and Denmark • Company measures to minimise problems caused by drought and safeguard meat production in Finland and in Sweden • Planning and preparation of the Next Generation training programme, starting in 2019 in Finland • Animal species specific trainings organised

HKScan provides its contract producers with training, wellbeing events and advisory services related to the rearing of animals, management, the planning of feeding, animal healthcare and the design of new production facilities. Through producer services, HKScan uses its expertise to support farming communities and strengthen producers' skills and expertise to promote their business operations. HKScan currently provides producer services in Finland, Sweden and Denmark. In Estonia, selected producer services are also offered, including slaughter animal reports, farm advisory and veterinary support for farms. Find out more through this video

HKScan develops its operations with producer collaboration groups. The goal is to support the implementation of HKScan's strategy and to secure the competitiveness and continuity of primary production. Through its operations, HKScan aims to ensure the continuity of food production in its home markets, maintain rural vitality and contribute to the national security of supply.

HKScan traditionally acknowledges Producers of the Year in Finland and Sweden. The candidates are chosen based on their work related to animal welfare, operational development, environmental performance and cooperation. The best producers in Finland and Sweden were selected and rewarded also in 2018. Read more in the section on Stakeholder collaboration and on page 74.

EXAMPLES OF ACTIVITIES IN 2018

In Finland and Sweden, a historically hot and dry summer caused problems for agricultural production in 2018. HKScan took several actions to ease the acute situation of meat production, mainly caused by the lack of animal feed raw material. Read more: Five facts about drought

The measures were aimed at helping producers find solutions not to reduce production and the number of animals due to the lack or high cost of feed. Alternative solutions were also discussed with retail partners. Support measures included, for example, the following:

- HKScan launched a rough feed exchange service and a related logistics exchange that improved the organisation of feed transport and the purchases and sales of feed for cattle farms.
- Being a co-founder of the Electronic Grain Marketplace, HKScan offered livestock farmers a possibility to sell their crops in the desired batches easily and reliably. without any middlemen.
- HKScan prepared a plan for potential cases where the lack of feed would have caused urgent slaughter transports needs from the farms.
- HKScan maintained an advisory blog for cattle farmers to encourage and advise producers on feed production.
- Farm-specific advice included alternative feeding solutions, such as maximising the use of other food by-products from the food industry and the optimisation of feed recipes based on the available feed components on farms.
- In Sweden HKScan launched a campaign supporting domestic primary production. The campaign called "Your meal - My future" targeted consumers and highlighted the challenging situation at farms, caused by the draught.

- In addition, HKScan's Feed Funding was offered to producers at a competitive interest rate.

HKScan published a training programme for young producers in Finland, called 'Next Generation'. Participants were selected in 2018. The goal is to maintain the vitality of meat production by strengthening the professional skills and expertise of our contract producers. The programme provides participants with tools for developing and managing an innovative and successful farm.

PLANS FOR 2019

- In Finland and Sweden, HKScan started a pork production project aimed at improving the quality and profitability – "From More To Better".
- Implementation of the Next Generation programme in Finland and its design in Sweden.
- Further strengthening of producer cooperation.

Read more in related articles in our Story Kitchen: More talk about good work done on the farms.

ANIMAL HEALTH AND WELFARE

Our strategic goal is to be the best company in our industry in terms of animal welfare. We require that animals grow in good conditions in the right type of environment and receive good treatment. In terms of animal health and welfare, sustainability covers genetics, feeding and rearing conditions, as well as animal care on farms, during transport and in slaughterhouse operations.

Animal welfare is continuously developed in cooperation with the company's contract producers and other partners. HKScan continued the further development of animal welfare in 2018. Development work is based on the monitoring of HKScan's internal animal (broiler, pig, cattle, lamb) health and welfare indicators.

Key performance indicator	Corporate targets	Progress 2018
Actions/Projects Internal animal health and welfare KPIs for pigs, broilers, cattle, lamb	Best in class: Well-bred and healthy animals – high meat quality • Natural behaviour enabled • Unnecessary stress avoided by housing and handling practices • Biosecurity at an excellent level • Mitigation of painful procedures • No or minimal use of antibiotics	• Maintain good level and continuously develop animal health and welfare in cooperation with producers • Good level of biosecurity and low-level antibiotics use • Farm-born chicken animal welfare concept piloted in Finland • Animal welfare improvements in slaughterhouses

EXAMPLES OF ACTIVITIES IN 2018

- In 2018 HKScan was piloting as one of the first companies in the world to introduce a chicken rearing method in Finland that enables chicks to hatch in a henhouse instead of in separate hatcheries. During 2018, new producers were trained in the concept. One benefit of this method is that the broilers do not move to another location after their eggs have hatched; this eliminates the stress caused during transport. Immediately after being hatched in henhouses, chicks can enter at their own pace to eat and drink.

- HKScan's slaughterhouses have further been developed in line with the recommendations of animal welfare audits and improvements facilitating the natural movement of animals. These improvements include structural changes in animal passageways and their materials and lighting. For example, at the Outokumpu slaughterhouse in Finland, the natural movement of animals was improved by a curved passageway. The stunning method was also renewed, which improved both animal welfare and work safety.

- In the new Rauma poultry unit in Finland, animal welfare was taken into account in the factory planning phase with the help of international animal welfare experts. Immediately after a transportation truck arrives at the site, bird transportation crates are moved into the calm and noise-free waiting area. The waiting area has blue light, appropriate temperature and efficient climate control, enabling the birds to relax before going to the controlled atmosphere CO_2-stunning. The birds are not relocated from the crates or handled in any way before stunning. Before leaving for the next transportation round, both the crates and the truck are carefully washed and disinfected.

A HEALTHY ANIMAL IS A PREREQUISITE FOR SUSTAINABLE AND PROFITABLE OPERATIONS

Good animal care, proper breeding conditions and the ability to meet essential behavioural needs are the basis for animal health and welfare. HKScan's contract farmers are committed to the best practices.

Feed quality and composition have a significant impact on animal growth and health. The grains used for animal feed are in most cases grown on nearby farms and the quality control of animal nutrition is proficient. HKScan's producer services calculate the nutritional quality of feed per farm and optimise feed recipes accordingly. For example, in the production of pork, there are nine different feed compounds for sows, and six for fattening pigs, that are used to ensure the best growth during animal raising.

WELFARE STANDARDS ABOVE LEGISLATION REQUIREMENTS

HKScan has a Quality Programme for beef cattle rearing farms in Finland, where the aim is high levels of production quality and animal welfare. In 2018, 71 per cent of beef used in HKScan's production came from farms committed to the programme, called Quality Farms. The Quality Programme Guidelines are set for animal husbandry, animal housing, feeding, herd health and treatment. There are also minimum requirements for space, ventilation, lighting and lying comfort, which are all above legislation requirements. In order to be granted the status of a Quality Farm, the farms have to be validated by HKScan.

PREVENTIVE ACTION AND HIGH BIOSECURITY ENABLE LOW ANTIBIOTIC USE

Strict hygiene practices and daily monitoring of animal health and welfare are the basis for animal disease prevention. In this work, producers, HKScan advisors and veterinarians all have important roles. In the case of illness, animals will be treated according to the instructions given by a veterinarian. At HKScan, antibiotics are only used when ordered by a veterinarian for a diagnosed need, and their use is closely monitored. The use of hormones is not permitted as a preventive measure or to promote growth. More information is available in our Fact Sheet on Antibiotics

In Finland, the health status of chicken flocks has been good, with no need to treat flocks with antibiotics after 2009. This is an example of high-quality disease prevention and animal welfare. Learn more about growing broilers indoors on our website

We actively monitor the spread of animal diseases and their possible effects on the production chain. Preventing the spread of African swine fever (ASF) to pig farms has played an important role at HKScan's farms in the Baltic countries. We are also prepared to prevent the spread of ASF in Finland in Sweden, both nationally and at the farm level.

ANIMAL WELFARE DURING TRANSPORTATION AND AT THE SLAUGHTERHOUSE

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

Official veterinarians are present at all slaughterhouses and follow the unloading of the animals following the movement, ensuring that the animals are healthy and fit for slaughter. Slaughtering operations are continuously monitored through internal and external audits and audits carried out by customers.

HKScan has installed recording surveillance cameras in all of its slaughterhouses in its home markets. The cameras are located in areas that are critical in terms of animal welfare like unloading areas where animals move inside from transportation to a slaughterhouse. Camera surveillance increases transparency in the production chain and strengthens consumers' and customers' trust in the sustainability of our operations.

HKScan's species-specific operating principles related to animal health and welfare can be found on the following pages.

PIGS WITH FULL TAILS

While tail docking is forbidden in the EU, it still takes place in European countries other than Finland and Sweden for certain reasons. Tail docking is performed when pigs bite each other's tails. In Finland and Sweden, tail docking is forbidden and there is no need to do so: when animals are not stressed and have a good environment, they do not fight or harm each other. A suitable environment is the sum of many factors: pigs should have loose barns, no queue in feeding area, the air should be cool, and enrichments should be available. This is a good example of our producers' skills in raising animals.

BROILER PRODUCTION

HKScan's poultry production farms are located in Finland, Denmark and Estonia. All poultry production at HKScan is carried out as contract farming in close cooperation between HKScan and farmers, or as own production in Estonia.

We offer guidance, training and animal healthcare services to our contract producers. In Finland, our chicken product brand is Kariniemen®, in Denmark it is Rose® and in Estonia it is Tallegg®. The number of broilers slaughtered in HKScan's slaughterhouses in 2018 was 93 million.

PRACTICES IN ANIMAL HUSBANDRY

The breed used in conventional poultry production is Aviagen Ross 308 in all countries. The breed has its origins in Sweden.

Birds are reared indoors, in separate chicken houses where the floor is covered with fresh litter, most commonly peat. The housing conditions are carefully monitored and controlled at least twice a day, both based on sensory analysis and meters. Whole grain is generally added to feed for enrichment and welfare, as it is good for development of the gizzard. The maximum rearing density in Finland and Denmark is 42 kg/m² and in Estonia it is 39 kg/m². Rearing is operated with the principle, "all in, all out". Thinning[1] is not practiced in Finland or Estonia and the batch of birds is transported to slaughter as one group. In Denmark, thinning can be practiced occasionally. The used litter is removed, and the facilities are thoroughly washed, disinfected and dried carefully between every batch. Biosecurity is at a high level at production houses, which among other rearing practices, results in healthy animals and good animal welfare, preventing outside pathogens from entering production houses and markedly decreasing the need of antibiotic treatments.

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

PHYSICAL ALTERATION PRACTICES

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

In Finland, beak trimming has been forbidden by national law since 1986. In Estonia, national law allows it in certain conditions, but beak trimming is not practiced at all, by HKScan's own decision. Denmark's national law prohibits the beak trimming of broilers. However, under certain conditions, Danish parent birds may be trimmed shortly after hatching. As HKScan does not view beak trimming as a good practice, the company has started negotiations with the Danish supplier, aiming to find such housing conditions and practices that will allow the beak trimming of parent stock to be halted.

ANTIBIOTICS AND HORMONES

The use of antibiotics at farms is strictly controlled and supervised by authorized veterinarians. No hormones or other growth promoting treatments are used in broiler production. In Finland, broiler flocks have been so healthy that no antibiotic treatments have been used since 2009. In Denmark and in Estonia, the use of antibiotics is carefully supervised and followed. In primary production, work is done so that medicines are needed as little as possible.

Read more about antibiotics and HKScan's practices from our Fact Sheet on Antibiotics

USE OF COCCIDIOSTATS AS FEED ADDITIVES

Coccidiosis is caused by a protozoa (Eimeria) found in poultry production worldwide. The microscopic parasites cause intestinal tract infection, that can lead to intestinal lesions, diarrhoea, poor weight gain, poor feed conversion and, in some cases, death. Attempts to eradicate coccidia have been unsuccessful. In the European Union, coccidiostats are registered as feed additives.

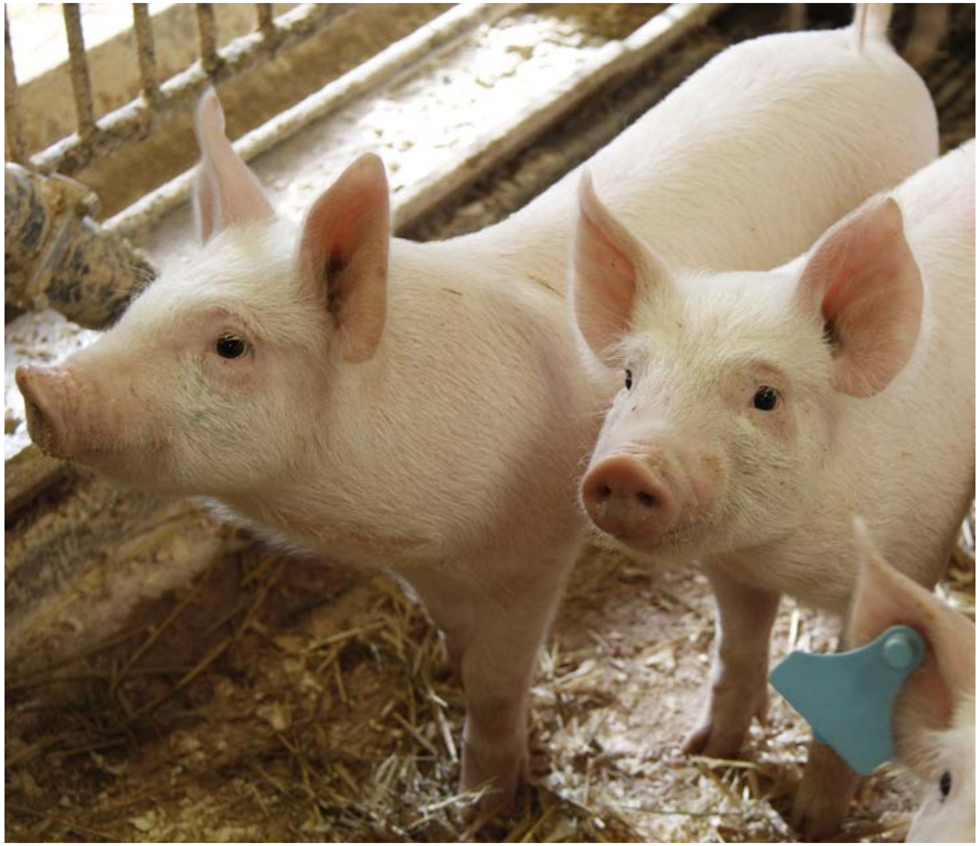
ANIMAL WELFARE NON-CONFORMITY

There were no illegal offences resulting in a fine or penalty within our broiler meat production operations in 2018. We follow our methods and practices and, in any case of any deviation, take corrective actions immediately.

More information related to broiler health and welfare is available on our Fact Sheet on Poultry

Read more in related articles in our Story Kitchen: It is totally okay to be a chicken and stay indoors

PORK MEAT PRODUCTION



HKScan's pork is mainly produced by contract farmers, and partly produced at HKScan's own production facilities in Estonia. HKScan's producer services include various development programs for the farming community of the Group.

The focus of the services is to optimize the productivity of the pork chain by providing area guidance (management, feed, genetics, building, veterinary services) and trainings. Another key focus is animal health and welfare – healthy and satisfied animals are also productive. Within the pork chain, farms specialize in either multiplying farms in which the next generation of sows are reared, sow farms where the piglets are reared, finishing farms, or even a combination of these. The number of pigs slaughtered at HKScan's slaughterhouses in 2018 was more than 1.8 million.

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

GENETICS

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

PRACTICES IN ANIMAL HUSBANDRY

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

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

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

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

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

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

Together with its partners, HKScan continuously develops the feeding of animals. In recent years, focus has been on the use of local protein sources such as beans, meat quality enhancing feeding (rapeseed pork) and gut health supporting feed concepts for sows and piglets. Pig feed consists of local grains and protein plants, co-products from the food industry, and soy. The feed mixture is varied during the different production phases, aiming towards the best growth and welfare for animals.

PHYSICAL ALTERATION PRACTICES

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

Entire boars produce an unpleasant boar taint within meat that consumers are not accustomed to. Entire males also fight more often than castrated pigs, which causes them to get wounds, pain and stress. For this reason, all male piglets are castrated surgically in Finland by the farmer during their first week of life. In Finland, producers of HKScan have been required to use pain medication prior to castration since November 2011. All male pigs are castrated in Estonia on the third day after birth, and pain medication is given. In Sweden, all castrations of male boars have been forbidden without local anaesthesia since 2016. Other alternatives include vaccination against boar taint or raising boars to slaughter. Only farmers who have received appropriate training are allowed to perform castrations.

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

ANTIBIOTICS AND HORMONES

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

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

Read more about antibiotics and HKScan's practices from our Fact Sheet on Antibiotics

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

ANIMAL WELFARE NON-CONFORMITY

There have been no illegal offences resulting in a fine or penalty within HKScan's pig production operations in 2018. We strictly follow our methods and practices and, in any case of any deviations, take corrective actions immediately.

More information related to pig health and welfare is available on our Fact Sheet on Pork

BEEF PRODUCTION

At HKScan, beef production is carried out as contract farming, in close cooperation between HKScan and producers. We provide guidance, training and feeding concepts to our farming community, and, in some countries, animal healthcare services.

Our contracted beef cattle rearing farms are located in Finland and Sweden. In Finland, our beef product brand is HK® and in Sweden it is Scan®. In Estonia, all cattle slaughtered by HKScan are purchased from well-known suppliers, and products are sold under the brand Rakvere®. The number of cattle slaughtered in HKScan's slaughter-houses in 2018 was more than 200 000.

CATTLE BREEDS

In Finland, of the total of slaughtered cattle, 81.8 per cent is from dairy breeds and 18.2 per cent is from beef breeds. In Sweden, there is no availability for these kinds of statistics at the moment.

CATTLE BREEDS	DAIRY BREEDS , 81.8%	CATTLE BREEDS	BEEF BREEDS, 18.2%
Finnish Ayshire	40.2	Hereford	31.9
Holstein	38.0	Aberdeen Angus	22,4
Crossbreeds	20.1	Charolais	17,3
Original Finnish cattle	1.3	Limousin	13.4
Jersey	0.2	Simmental	10.8
Brown Swiss	0.1	Blonde d`Aquitaine	3.9
Montbeliard	0.1	Piemontese	0
		Highland cattle	0.2
		Galloway	0.2

PRACTICES IN ANIMAL HUSBANDRY

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

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

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

PHYSICAL ALTERATION PRACTICES

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

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

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

ANTIBIOTICS AND HORMONES

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

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

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

Read more about antibiotics and HKScan's practices from the Fact Sheet on Antibiotics

ANIMAL WELFARE NON-CONFORMITY

There were no illegal offences resulting in a fine or penalty within our own beef cattle production operations in 2018. We strictly follow our methods and practices and, in case of any deviations, take corrective action immediately.

Read more about cattle and HKScan's practices from our Fact Sheet on Beef

Read more in related articles in our Story Kitchen: Busting meatmyths: Is beef production really a major threat to the environment?

LAMB MEAT PRODUCTION

The majority of HKScan's lamb production is based on contract farming, as well as close cooperation between HKScan and family farmers. We provide guidance and training to our contract farms.

HKScan has sheep and lamb production in Sweden only, where lamb meat is sold under the Scan® brand. HKScan cooperates with approximately 2 500 lamb producers in Sweden, and there are more than 100 000 animals reared.

LAMB BREEDS

Our lamb breeds in Sweden are most commonly either landraces from Sweden or Finland or meat breeds imported from other countries. Landraces include Gotland sheep, fine-wool sheep and rya sheep, while meat breeds include Texel, Leicester, Oxford, Suffolk and Dorset Horn. It is also common to cross different breeds in order to combine their good qualities. All breeds are used to produce lamb meat. Gotland sheep, after the characteristic curly fur, is the largest of the breed.

PRACTICES IN ANIMAL HUSBANDRY

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

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

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

PHYSICAL ALTERATION PRACTICES

Ram lambs are normally not castrated in Sweden, unlike in other prominent lamb and sheep production countries in the world. Tail docking is not allowed in Sweden, either.

ANTIBIOTICS AND HORMONES

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

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

Read more about antibiotics and HKScan's practices from our Fact Sheet on Antibiotics

ANIMAL WELFARE NON-CONFORMITY

There were no illegal offences resulting in a fine or penalty within our lamb production operations in 2018. We follow our methods and practices and, in any case of any deviation, take corrective actions immediately.

STORIES FROM FARM TO FORK: VETERINARIAN

EXPERT IN POULTRY

Daily work to maintain hygiene and proper protection from diseases is crucial for food safety, says veterinarian Leena Pohjola from HKScan.

Leena Pohjola is a poultry specialist, with a doctoral thesis on the subject.

A specialist in poultry, with a doctoral thesis on the subject, **Leena Pohjola** has always been interested in working with farm animals. She believes that HKScan having an in-house vet is highly significant in the successful coordination and transparency of operations.

"I visit our contract farms on almost a daily basis, and I know our producers well. I feel responsible for ensuring that their farms follow HKScan's practices and agree with our values", she says.

In practice, Pohjola engages in preventive animal health care. She works together with the veterinarians who inspect meat quality, as well as the Regional State Administrative Agencies and municipal veterinarians who oversee the farms. Other members of the primary production team are her closest colleagues.

"I get great help from our production and feed experts, and really wouldn't be able to succeed without them. Vets often work alone, but I enjoy being able to tackle problems together with other specialists in this great team."

NORDIC TRADITIONS

According to Pohjola, Nordic poultry vets cooperate closely with each other. The neighbouring countries have similar breeding methods, and they share challenges and best practices.

"For example, the Nordic countries have good animal health and a low need for

"I visit our contract farms a daily basis, and I know our producers well."

medication. This is the result of decades of collaborative work. Credit for this goes to the farmers, who have done excellent work with the aim of completely eradicating diseases that affect food safety, such as salmonella or avian diseases that require antibiotics. Unfortunately, we often think this is a given, although you only need to go to Central Europe to see a very different situation", Pohjola says.

Pohjola believes that in the future, diseases similar to avian influenza will be increasingly common among wild birds. The risks are highest when migratory birds arrive in the north to nest. Climate change may also result in milder temperatures, and less of the frost that helps to slow down the spread of diseases.

"Therefore, it's very important to keep a close eye on protection against disease and the hygiene chain. We need to further develop these all the way from feed supply and hatcheries to keep pathogens away from the farms."

ATTENTION TO ANIMAL WELFARE

In addition to good health and protection from disease, HKScan has also been focusing its development efforts on improving animal wellbeing by giving them the opportunity to behave in ways that are natural for their species. A good example of this is the unique "Farmborn" method piloted by HKScan, which lets the chicks hatch at their home farms instead of in a separate hatchery. The idea is to give the chicks a strong and stress-free start to life.

"I think we already have a good basic level of animal welfare in our production, but of course we are striving to continuously improve it further. For example, henhouses today have many things to stimulate the chickens, such as roosts to sit on and litter to bathe in and scratch", Pohjola says.

Pohjola places great importance on the close cooperation with producers as one of the focus areas of HKScan's From Farm to Fork strategy.

"I think that the emphasis on farms also proves that we value producers' work highly. Mistakes made in primary production are difficult to fix later in the chain. We must always make sure that we actually do the things we say we want to do. I'm very proud of the work we do at the farms, and I think we could find it worthwhile to be even more transparent about it", she concludes.

"We must always make sure that we actually do the things we say we want to do. I'm very proud of the work we do at the farms, and I think we could find it worthwhile to be even more transparent about it."

ENVIRONMENT

Environmental work at HKScan aims to minimise the environmental effects of the company's own production sites and throughout its value chain. This includes environmental performance from animal primary production to packaging material solutions and food waste mitigation.

Energy and material efficiency, as part of greenhouse emission reduction, are important priorities for environmental work at HKScan. Improvements in these areas have direct mitigating effects on climate change.

From primary production to consumption, food production has an impact on the environment through greenhouse gas emissions, freshwater use, land use, pesticide use, eutrophication and biodiversity. The effects from meat production vary substantially between different production systems globally as well as by local conditions. The Nordic countries have good and developed agricultural practices and good conditions for more sustainable animal primary production. Nevertheless, it's important that the production practices continue to improve in order to secure even more sustainable meat production of tomorrow. For this purpose, HKScan actively contributes to the development of the value chain and cooperates with research institutes.

CIRCULAR ECONOMY

HKScan operates in a circular economy. The company aims to maintain the value of the resources used in the production and value chain for as long as possible. Such resources include raw materials, water and energy.

Energy sources are gradually converted to renewable options like renewable electricity and district heating, biogas, wood chips and wood pellets. HKScan also aims to create new business opportunities and support existing businesses in different parts of the chain.

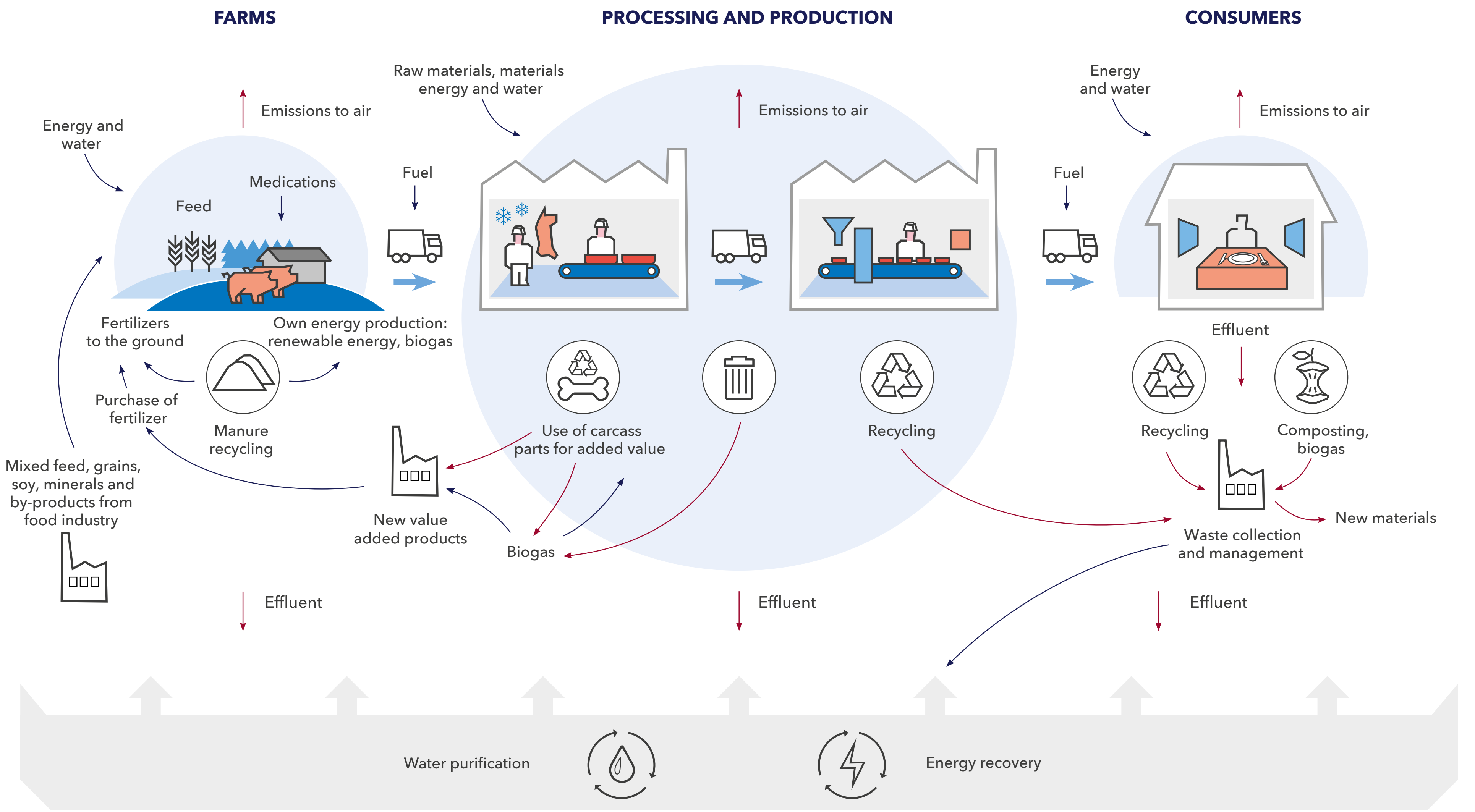
HKScan works to make use of all parts of the animal carcass, primarily for food production. Side streams are efficiently directed to other industry sectors, such as the leather, feed and pet food industries. The remaining animal-based material is used to produce, for example, biogas and fertilisers.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

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

HKScan set the following environmental targets:

Key performance indicator	Corporate targets	Progress 2018
	Mitigation of environmental impacts	
• GHG emissions - HKScan's own facilities	• 90% reduction by 2030 compared to 2014	• GHG emission reduction 48% compared to 2014
• Total energy use	• 20% energy use reduction by 2030 compared to 2016	• Energy use remained at the same level as in 2016
• Total water use	• 25% water use reduction by 2030 compared to 2018	• Water usage reduced 11% over the last five years
• Material efficiency - Packaging	• Development towards more sustainable packaging materials and solutions	• See actions in section: Packaging materials • Remove black packaging material in Finland and Sweden by end of 2019
- Waste	• Follow waste hierarchy principles	• Waste to landfill reduced by 99% over the last five years
- Whole carcass use	• Efficient use of animal raw material (carcass) – circular economy approach	• See actions in section: Utilising side streams

OUR ROAD TO CIRCULAR ECONOMY



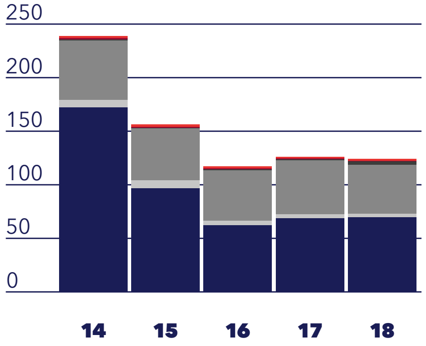
GREENHOUSE GAS (GHG) EMISSIONS

Greenhouse gas emissions contribute to global warming leading to sea level rise, desertification and increasing incidence of extreme weather conditions, such as storms and heavy rains.

The effects of climate change are visible in the Nordic countries – the exceptionally hot and dry summer of 2018 severely affected the animal feed production. HKScan recognises the importance of mitigating climate change and committing to global and national targets as defined under the Paris Agreement and UN Sustainable Development Goals. Therefore, HKScan has set a target to lower its GHG emissions by 90 per cent by 2030, compared to the level in 2014. The targets include both direct and indirect emissions (Scope 1 and 2 of the greenhouse gas protocol).

HKScan Group's total greenhouse gas emissions decreased by a total of 48 (47[1]) per cent, or 115 (113) thousand tons, from 2014 to 2018. In 2018, the Group's greenhouse gas emissions were 124 (126) thousand tons of carbon dioxide equivalent (CO_2e).

GREENHOUSE GAS EMISSIONS 2018 (2014) THOUSAND TONS CO_2e



Travel 2 (2)
Transport 1 (1)
Refrigerants 3 (1)
Heating 46 (56)
Freezing and anaesthesia 3 (7)
Electricity 69 (172)
Total 124 (239)

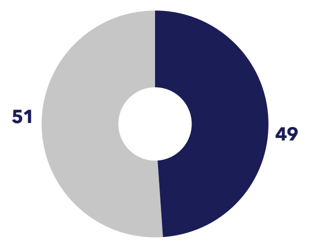
Direct (Scope 1) and indirect (Scope 2) GHG emissions according to the Greenhouse Gas Protocol.

[1] In the 2017 annual report, HKScan disclosed a 46 per cent reduction of GHG emissions compared to 2014. The reduction in 2017 was actually 47 per cent as HKScan Poland had used renewable electricity which was not accounted for.

The largest reduction in GHG emissions since 2014 is due to sourcing of renewable electricity in Finland, Poland and Sweden. This accounts for 64 thousand tonnes CO_2e. Other reductions in Scope 2 are due to a decline in the emission factor of the Nordic residual mix electricity used in Denmark as well as the electricity emission factor in Estonia. In Latvia, the electricity emission factor has increased during the same time period.

Renewable electricity covers the operations in Sweden, Finland and Poland. Renewable electricity is obtained by the sourcing of guarantees of origin (GO). In 2018, the GOs originated from bioenergy, hydropower and wind power.

ENERGY SOURCES IN 2018: RENEWABLE, NON-RENEWABLE %



Renewable[1)]
Non-renewable[2)]

[1)] Pile of: Electricity from renewable sources, District heating from renewable sources, Biogas, Wood pellets

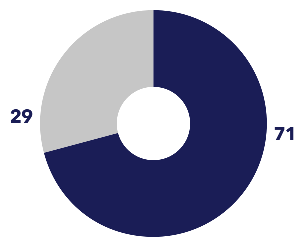
[2)] Pile of: Electricity from non-renewable sources, District heating from non-renewable sources, Natural gas, LPG, Oil

The emissions from heating have declined by 10 thousand tonnes (or 18 per cent) compared to 2014. The reason for this is a combination of energy efficiency actions and the increased use of renewable energy sources.

From the total energy use in HKScan's operations, 49 per cent was from renewable origins and 51 per cent was from non-renewable origins. The main renewable energy sources in use are renewable electricity and district heating, biogas and wood pellets.

The emissions from travel are in the same range as in 2014. Emissions from freezing and anaesthesia are about 40 per cent lower than in 2014, but for refrigerants, the GHG emissions have increased by 206 per cent. Emissions from transports have declined by more than a third (37 per cent) since 2014.

ELECTRICITY SOURCES IN 2018: RENEWABLE, NON-RENEWABLE %



Electricity from renewable sources
Electricity from non-renewable sources

EXAMPLES OF ACTIVITIES IN 2018

- HKScan's production unit in Rauma, Finland, joined in the carbon neutral work run by the city of Rauma. Using renewable district heating and heat recovery at the site has contributed to the city's goal of reaching a carbon neutral status.
- In Finland, almost a fifth (18.6 per cent) of animal truck chassis have been replaced with low emission models.
- HKScan is participating in The Big Deal campaign, organised and administered by S Group, a Finnish network of companies operating in the retail and service sectors. The goal of the campaign is to mitigate climate change by reducing carbon emissions by one million tonnes by 2030.

PLANS FOR 2019

- New investment: by installing a new smoke gas purification plant in 2019, gas purification is likely to reduce CO_2 emissions by 75–80 per cent at the Halmstad unit, producing cold smoked products in Sweden.
- In the Vinderup unit in Denmark a heat pump will be installed in 2019 that will reduce the use of natural gas substantially.

HKScan's target to reduce GHG emissions 90 per cent by 2030 requires further energy efficiency improvements in production plants and increased use of renewable energy for heating. The company has drawn up an action plan for achieving the target.

Direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions account for about 10 per cent of total emissions from meat production in the farm-to-fork chain. Emissions before and after HKScan's operations (Scope 3) are over 90 per cent. Animal production is clearly the largest source of emissions. To assess its products from a lifecycle perspective (and part of scope 3), HKScan has used lifecycle analysis (LCA) to measure the various environmental aspects of some of its products. HKScan also takes part of research studies to learn the latest scientific results of the impact from meat production on climate change.

Read more:
- Fact Shee on Production Facilities and Environment
- Fact Sheet on Animal Primary Production

ENERGY EFFICIENCY

Improving energy efficiency at our production facilities is continuous work.

HKScan aims to reduce its environmental footprint by decreasing the use of energy and improving cost-effectiveness. This is also an important part of our commitment to reducing greenhouse gas emissions. HKScan has set a Group-wide target to decrease the use of energy by 20 per cent from 2016 to 2030.

Total energy use decreased by 4 per cent from 2014 to 2018. The total energy use has been stable and even increased slightly during the last four years. Energy use has reduced in all markets except Finland. The energy use in Finland has been affected by the acquisition of the Forssa freezer and Paimio site as well as keeping two facilities open in the transition from the Eura to the Rauma site. In 2018, the cold winter and hot summer increased the energy need for heating and cooling.

Total energy use in Finland remained at the same level compared to the previous year. However, when looking at energy consumption figures, excluding the Eura plant (closed in June 2018), the level has decreased by 4 per cent. Following the start-up of the Rauma production unit, the energy consumption level has been higher than expected. Work is underway to develop processes related to decreasing energy consumption. The results will be visible in 2019.

In Finland, HKScan is committed to the food industry's energy efficiency agreements (EEA) for the period 2017-2025. The EEA target is an 18 per cent energy use reduction compared to 2015. By being part of the energy efficiency agreements in its field, HKScan takes responsibility for meeting the national energy efficiency target. Energy efficiency agreements are part of the national energy and climate strategy.

EXAMPLES OF ACTIVITIES IN 2018

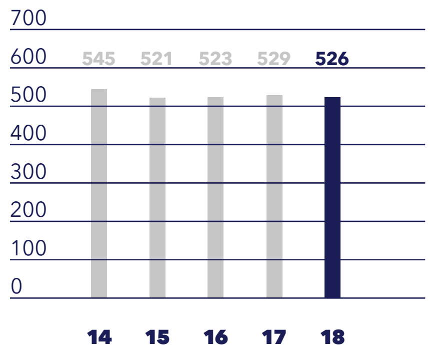
- All Swedish production units are certified according to the ISO 50001 standard. Monthly consumption reviews are carried out with the aim of controlling energy consumption and monitoring deviations of +/- 10 per cent. Analysis and corrective actions are done when consumption differs from the predicted level. In 2018, all units met with the requirements of ISO 50001 audits without any deviations.

- Compared to the previous year, the slicing plant in Halmstad, Sweden, reduced its energy consumption level by approximately 10 per cent, due to the installation of an air source heat pump.

- Energy and water consumption meters enabled more accurate consumption rates in all production units.

- The installation of a heat pump at the Forssa unit in Finland helps to decrease energy consumption by 4 000 MWh annually. A heat pump has also been installed at the Rauma unit, which will be fully taken into use in 2019, whereas the Vantaa unit invested in a pressured air compressor with a heat recovery system.

ENERGY CONSUMPTION GWH



- In Latvia, electricity usage has decreased, while the volume of production has increased by 5 000 tons.

- Various options have been discovered for increasing energy efficiency at HKScan, and they are awaiting investment decisions.

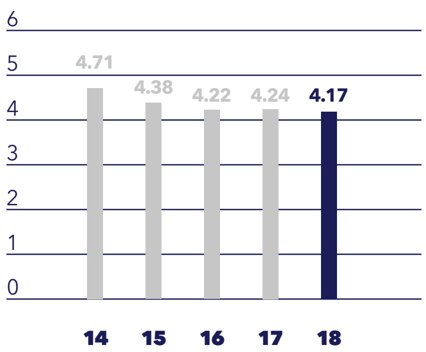
Read more: Fact Sheet on Production Facilities and Environment

WATER USE AND WASTE WATER TREATMENT

HKScan measures and optimises the consumption of water used at production units, without compromising food safety. HKScan has set a Group-wide target to decrease the use of water by 25 per cent from 2018 to 2030.

HKScan's water consumption declined by 11 per cent from 2014 to 2018. Water use has reduced in all markets except Finland. The use of multiple sites is one of the reasons, as well as higher use of water at the Rauma facility. Improvements will be made during coming years. In Poland the warm summer led to additional use of water for cooling of roof and coolers.

WATER CONSUMPTION MILLION M³



WATER USE – EXAMPLES OF ACTIVITIES IN 2018

- At the production plant in Poland, water usage was decreased by switching to automatic washing of boxes and smoke trolleys.
- The Halmstad slicing plant in Sweden reduced its water usage by about 10 per cent. At the Kristianstad unit, water usage was reduced by 3 per cent compared to 2017.
- The Mikkeli unit in Finland implemented a water consumption follow-up system for washers.
- In Denmark, water usage has reduced by 52 per cent during the last five years.

Wastewater from manufacturing processes in the food industry includes organic substances and detergent residues. Environmental permits granted to each specific production facility set the limit values for emissions, with the aim of minimising the environmental impact. HKScan's goal is to ensure that wastewater treatment levels meet, or even fall below, the limit values required by the environmental permits.

Wastewater treatment is carried out by a municipal wastewater treatment plant, the company's own wastewater treatment plant, or through cooperation between the municipality and the company.

WASTE WATER TREATMENT – EXAMPLES OF ACTIVITIES IN 2018

The treatment of wastewater in 2018 was generally at a good level. Grease separation from wastewater in Finland caused some problems at the Mikkeli and Vantaa units. At the Rauma unit, modifications to wastewater treatment systems will start in 2019. The aim is to secure continued waste water treatment for targeted production volumes. Reduction of wastewater related odours is also one of the targets. Due to HKScan's self-monitoring, isolated deviations from the requirements of the environmental permits were detected at an early stage. All deviations were investigated, and improvements have been carried out accordingly.

- At the Tabasalu unit in Estonia, a wastewater grease separator was installed in December 2018.
- The Vantaa unit in Finland has a continuous wastewater measurement system at urban runoff lines.

Read more: Fact Sheet on Production Facilities and Environment

MATERIAL EFFICIENCY AND WASTE

Efficient use of materials has a beneficial effect on the environment. It helps to mitigate climate change, reduce energy and water consumption, and maintain biodiversity.

Material efficiency at HKScan means, amongst other things, making use of animal raw materials and all parts of the carcasses, and developing packaging by considering eco-efficiency of the materials used and the minimisation of food waste. Other examples of material-efficient practices are minimising waste in production and food waste, as well as recycling of waste.

UTILISING SIDE STREAMS

HKScan's Biotech business line is responsible for the Group-wide development of business operations related to the side streams of products of animal origin. In July 2018, the Biotech organisation was transferred to be part of the Industrial sales of Finland, Sweden, Denmark and Estonia.

The cross-border sales and cooperation between the countries has continued. The goal is to further develop business related to the circular economy and to direct the side streams towards added value use in industries such as biopharmaceuticals, leather, animal feed and pet foods. The remaining animal-based matter is used to produce biogas. HKScan's R&D is constantly seeking new and improved ways to make use of side streams, which not only improve the overall profitability but also help us to reduce the carbon footprint of animal production. Read more: Fact Sheet on Animal Primary Production

Examples of activities in 2018

- At the poultry production plant in Rauma, Finland, broiler chicken food-grade organs and feet are collected and exported to be utilised as human food, rather than directed to animal protein production. Also, the use of beef and chicken bones as raw material for high-quality meat-based broth production is a good example of adding value to side streams of our animal production. As part-owner of Honkajoki Oy, a significant amount of HKScan's side streams are turned into valuable proteins at the Honkajoki plant for use in pet food and animal feed production.
- Honkajoki, a Finnish company that is the most significant utiliser of food industry side streams in Finland, has done ambitious work for promoting circular economy. Honkajoki organised its CIRCWASTE Challenge competition to find innovation partners for streamlining its production processes. HKScan's proposal was among the winning entries, due to its feasibility and cost-effectiveness.
- The material sent to the biogas production facility in Kristianstad, Sweden, has improved in dry matter content from 6–8 per cent to the current level of 14–15 per cent. This requires less transportation and offers an improved level of raw materials, better suited for biogas production.
- Side streams have found added-value use in Denmark as biopharmaceutical raw material. Food-grade chicken internal organs and feet are exported and used in human nutrition as much as possible, and the rest is directed to pet food production. As co-owners of Farmfood A/S, a significant amount of HKScan's side streams is turned into valuable proteins for use in pet food and animal feed production.

PACKAGING MATERIALS

Eco-efficient packaging solutions, recyclability and packaging attributes that have an impact on product quality and product safety are essential in food industry. HKScan has continued actively to develop packaging solutions. Although packaging materials for meat, meat products and ready-to-eat foods are only a small part of a product's overall carbon footprint, packaging solutions can also have effects in other ways (e.g. on food waste). The most important function of a package is to preserve the food. The right packaging ensures high product quality and safety.

In Sweden, our customers and interest organisations are starting initiatives and collaborating to diminish the use of plastic materials in retail. For example, the Swedish Food Retailers Federation, as well as the trade association DLF Sweden, have declared that all plastic packaging shall be recyclable by 2022 and all plastic packages are to be produced from renewable or recycled raw materials by 2030. HKScan Sweden has committed to these targets.

Read more: Fact sheet on Packaging

HKSCAN'S PRINCIPLES FOR DEVELOPMENT OF PACKAGING SOLUTIONS

- IMPROVING RECYCLABILITY
- EXPLORE NEW SUSTAINABLE PACKAGING MATERIALS AND SOLUTIONS
- DESIGN PACKAGING FOR REDUCED FOOD WASTE
- DOWNGAUGING OF PACKAGING MATERIALS

WE ENCOURAGE CONSUMERS TO SORT AND RECYCLE HOUSEHOLD WASTE

THE END OF BLACK PLASTICS IN PACKAGES

The use of black plastics in food packaging has been a topic of public discussion. Black plastics are not recyclable because the optical sorting system used in recycling plants cannot detect the black carbon pigment used to colour the plastic. Due to this, in Finland and in Sweden, HKScan has decided to remove black plastic trays by the end of 2019 and replace them with other colours. Where applicable, plastics will be replaced with alternative materials, such as cardboard packaging. Actions have already been taken to reduce the use of black plastic trays, for example, for the Kariniemen® brand in Finland, where yellow plastic trays are used instead of black plastics.

Examples of activities in 2018

- In Latvia, the packaging material of baking packs were downgauged by replacing the 450 micron PET film with a thinner 350 micron PET film.

- A new Doypack (stand up pouch) design for shashlik meat was launched at the Rakvere production plant in Estonia (see the first image). The pouches require significantly less material (up to 71 per cent less material weight) than rigid packaging, thus generating less waste. In total, the Rakvere site generated approximately 10–15 tons less plastic for the market than last year.

- Packaging waste arising at Skovsgard in Denmark production has halved due to better management practices.

- In Sweden, a new packaging machine for meatballs was installed, allowing the replacement of the old "meatball tray" with a new resealable bag (see the image in the middle). The new packaging has reduced the use of plastics by 30 tons per year.

- In Finland, certain minced meat products were packaged into chub packaging (see the third image). The shelf life of the product has been extended, and the environmental impact of the package is 39 per cent lower compared to standard packaging.

Packaging material sources

Data related to packaging materials used (non-renewable and renewable sources, as well as virgin or recycled origin) was not available on the release of this report. The data will be published on the HKScan website when completed.

FOOD WASTE

Globally, about 30 per cent of food is wasted in the food value chain, from farm to plate. In Nordic countries, most of the food is wasted at consumer level. Reducing food waste is essential to reduce the overall impacts from food production. Reducing food waste is also important for securing cost efficiency.

Examples of activities in 2018

- In Finland, HKScan took part in the campaign called Ham Trick. The aim was to collect and recycle the fat from Christmas hams from people's households into renewable diesel. The amount of ham fat collected is enough to fuel 18 car trips around the globe. The joint project was created on the initiative of the Chemical Industry Federation of Finland in 2016.

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

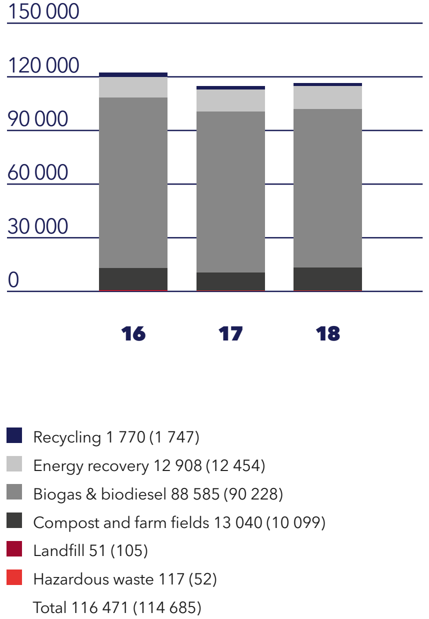
- In Denmark, the HKScan / Rose® brand has been one of the initiators of a campaign aiming to reduce food waste, together with a number of other companies. The goal is to halve food waste by 2030.

DANMARK
MOD
MADSPILD
50% MINDRE INDEN 2030

- In Sweden, HKScan's cooperation continues with the social supermarket called "Matmissionen". In 2018, HKScan Sweden's contribution was approximately 5 tonnes of food products. This is lower than previous year due to less excess of food products.

- In Sweden, HKScan participated in the "SaMMa network", a network made up of authorities (Naturvårdsverket, Livsmedelsverket and Jordbruksverket), researchers, NGOs and the food industry, all working together to decrease food waste.

WASTE DISPOSAL METHOD 2018 (2017) TON



WASTE

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

Around 75 per cent of the waste material produced by HKScan is of animal origin and is directed towards biogas or biodiesel production. Manure and organic fractions are composted or spread on farm fields. This constitutes about 10 per cent of the waste. Energy is recovered from the fractions that cannot be recycled or directed towards production of biogas or diesel, representing around 10 per cent of the waste. Such fractions include those parts of the carcass that are covered by Category 1 of EU regulation 1069/2009. About 2 per cent of the waste produced by operations is recycled, such as plastics, metals, cardboard or paper. Landfill waste accounts for 0.04 per cent of the material reported. The amount of landfill waste decreased by 99 per cent from 2014 to 2018.

In general, the recycling of waste can be carried out more efficiently even with small improvements.

Examples of activities in 2018

- For example, waste handling training sessions for employees have been conducted according to local needs.
- Improvements to recycling systems and bins have been implemented in cooperation with local waste management partners. The aim is to recycle more materials and reduce energy recovery.
- In Denmark, for example, all employees were provided with a reusable bag from the employer. They could be used for purchases from the personnel shop. The use of plastic bags was stopped. This represents an action that reduces the impact on the environment and the climate and is in accordance with HKScan's waste hierarchy principles.

Read more: Fact Sheet on Production Facilities and Environment

CHEMICALS

HKScan has a system in place for monitoring the amounts of chemicals used, and their environmental and health impacts. Many production units have taken actions for a better use of the monitoring system. Reducing the amount of chemicals and replacing them with more environmentally friendly options is an ongoing effort. Also, the safe use of chemicals has been developed by focusing on removing or reducing risks. In HKScan's operations, chemicals are mainly used for cleaning purposes.

Read more in related articles in our Story Kitchen: Don't let your food go to waste.

ENVIRONMENTAL WORK AT FARMS

A considerable part of the environmental impact of meat products come from farms.

HKScan's contract producers and own farms in Estonia are already carrying out significant environmental work, and best practices are actively shared with the company's primary production chain.

Read more about the environmental impacts of animal production in our Fact Sheet: Animal Primary Production

EXAMPLES OF ACTIVITIES IN 2018

- In Finland, as an example, the use of biofuels is a precondition for any new investments into broiler farms. Currently, 93.6 per cent of the heating produced for broiler farms is produced by biofuel (woodchips). Electricity is produced by the farms' own wind turbines at 8 farms and by solar panels in 10 cases. The use of solar energy has increased in particular, as all ten farms switched to the renewable energy source within the last two years. In addition, certain broiler farms use oat shells as biofuel.
- HKScan is also a partner in a project in Finland looking into the carbon footprint and water consumption of Finnish broiler and pig production. The project uses EU-wide calculation guidelines (Product Environmental Footprint, PEF), with calculations conducted by the Natural Resources Institute Finland. The project offers tools for further developing broiler and pig production and consumer communications.

EFFECTIVE CIRCULATION OF NUTRIENTS AND SIDE STREAMS ON FARMS

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

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

BIODIVERSITY

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

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

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

Examples of activities in 2018

- It was announced in Finland that HKScan will start an investment program with a goal to increase the amount of suckler cows in HKScan's production chain by 3 200 by the year 2025. The program has been a success and new production contracts already cover the set target. As grazers, cows play a role of unparalleled importance for biodiversity. Some graze on biodiverse fields, some on cultivated farmlands. Read more
- HKScan announced a feeding innovation, which makes it possible to move from soy to other domestic protein sources in Finnish broiler production. Read more

ENVIRONMENTAL AWARD FOR ANIMAL PRODUCERS IN FINLAND AND SWEDEN

HKScan encourages its producers to continue working in environmentally responsible ways, and to share success stories of their environmental work. In 2016, HKScan's environmental prize was launched for Swedish meat producers and it was expanded to include Finnish producers in 2018.

Environmental work on a farm with animal production is versatile. It includes e.g. reduction of energy consumption, reducing feed wastage or the consumption of resources, eutrophication, biodiversity and other efforts related to the mitigation of climate change.

HKScan's jury selected winners both in Finland and Sweden based on facts and progress made on the farms.

In 2018 the environmental prize was won by Johan Thuresson and Martin Andersson at Södergård farm in Sweden. At Södergård energy is used efficiently, both in stables and outdoors when working on fields. The pigs are fed by-products from alcohol production, reducing the need of soy in the feed at the same time as they are part of a circular flow as the grains for vodka production origin from the farm. Biodiversity flourish at the semi-natural pastures where cattle is grazing, and in the fields where biodiversity zones are cultivated. To maximise the use of nutrients, Södergård uses GPS-steering when fertilising and adapts the amount to the need of the plants.

In Finland, the environmental prize was given to Jussi Oittinen's farm. The electricity used in chicken houses is from onsite wind turbines, and the farm has also invested in the use of bioenergy in heating. The farm has for a long time produced its own energy solutions and has acted as an example for other producers to follow. Investments have been economically viable, and made with careful consideration. Without the use of renewable energy solutions, 300 000 to 400 000 litres of fuel oil would have to be used on the farm, and carbon dioxide emissions would amount to more than one million kilograms.

STORIES FROM FARM TO FORK: CHEF

CULINARY AGENT

Head Chef Mathias Emilsson is HKScan's link to the world of gastronomy, keeping the company up to date with the latest culinary trends.

HKScan's Head Chef, based in Stockholm, Sweden, **Mathias Emilsson** has had an extensive career in the food business. His previous jobs and activities include working as a chef, sommelier and food stylist, creating restaurant concepts, writing literature on gastronomy and training restaurant staff on finding the right combinations of food and beverages.

"As a foodie and meat lover myself, HKScan seemed like a natural place to end up working at. Here I have truly come to appreciate the amazing work of farmers and meat producers. I feel proud to be able to turn their produce into high-quality food", Emilsson says.

In his current position, Emilsson leads a network of chefs from all of HKScan's operating countries with the clear goal of bringing flavours from the restaurant world into our products, creating new concepts and leading a gastronomic way to the future.

"I work with people throughout the company value chain, from butchers to package designers. The aim is to utilise my gastronomic knowledge to stay ahead of food trends and keep us informed on the up-and-coming culinary influencers, cities, countries and flavours," he explains.

TRACEABLE, SUSTAINABLE

In Emilsson's view, the increasing awareness of climate issues has made consumers think more carefully about what they eat, preferring locally produced food and higher quality meat in smaller portions.

"It's quite similar to how wine enthusiasts are interested in the growth conditions of grapes and how they affect the taste of wine. I see the interest in the origin of meat as an advantage for HKScan, as we truly know and control what happens on the way from farm to fork."

Emilsson highlights the return of traditional ways of cooking as another culinary trend. For example, preservation methods such as smoking, fermentation and curing are trending in three-star Michelin restaurants, from where they tend to gradually enter the consumer market. Also, gaining further importance is the age-old "Nose to tail" concept of using all parts of the animal, since it fits perfectly with current sustainability goals of resource efficiency and waste reduction.

"Sustainability is not a food trend as such, but it's here to stay. I believe it's about everyday decisions regarding conscious and healthy eating, connecting to the need for more customised options, tailor-made for different types of consumers and meeting their values."

LEADING THE WAY

Emilsson considers his work to be very much about providing inspiration, both within the company and externally – through trend reports, social media

Mathias Emilsson, HKScan's Head Chef, leads a network of chefs from all of HKScan's operating countries.

"As a foodie and meat lover myself, HKScan seemed like a natural place to end up working at. Here I have truly come to appreciate the amazing work of farmers and meat producers."

content, events and workshops. He produces, for example, an internal report titled "What's cooking?", aimed at keeping the chef network, product developers and sales force one step ahead of the competition.

"I believe that the quality content we produce in-house, for example Instagram videos, food pictures and stories, really display the pride we have in our work and products. I see our high-level networks as differentiating factors helping us be more edgy and in touch with the culinary world", Emilsson states.

He feels especially proud of the external network of chefs and colleagues, for example, in all types of restaurants, culinary schools and hotel chains that he has been able to build up over the years and maintain while working at HKScan.

"I'm constantly meeting up with chefs around the world and organising discussions with top gastronomic influencers. That's the only way to gain valuable knowledge for our development work. Meeting with so many kinds of people that assist us in making this a better company is definitely one of the best parts of the job and gives me a daily boost," Emilsson concludes.

Check Mathias Emilsson's Instagram

Read more in related articles in our Story Kitchen: What's cooking

REPORTING PRINCIPLES

This corporate responsibility (CR) report is compiled in line with the Global Reporting Initiative GRI standards (2016).

The report has been prepared in accordance with the GRI SRS Core level. The reporting period is 1 January to 31 December 2018.

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

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

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

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

CALCULATION PRINCIPLES

GHG protocol

HKScan's calculations and reporting conform to the guidelines set out in the Greenhouse gas protocol.

The GHG Protocol is guided by the following principles: relevance, completeness, consistency, transparency and accuracy. To help delineate direct and indirect emission sources, improve transparency, and provide utility for different types of target groups, three "scopes" are defined for GHG accounting and reporting purposes:

Scope 1 – Direct GHG Emissions: GHG emissions that occur from sources that are owned or controlled by the company, for example emissions from boilers and vehicles.

Scope 2 – Purchased electricity, direct heating, direct cooling and steam: GHG emissions from generation of purchased electricity, direct heating, direct cooling and steam used by the company.

Scope 3 – Other indirect GHG emissions: all other GHG emissions that occur as a consequence of the activities of the company. Read more about the15 activity categories in scope 3, which cover, for instance, business travel, purchased transports and the use of sold products.

The categorisation of the scope depends on if the company chose to have a financial control approach or an operational control approach. For a lessee of a car, as an example, the GHG emissions when driving are scope 3 with a financial control approach and scope 1 with an operational control approach. For the rental company it is the other way around.

Emissions in scope 2 can be calculated according to two different methods:

Market-based method: the CO_2e intensity of purchased electricity depends on the trading of guarantees of origin. This means that if the company purchases electricity with guarantees of origin of hydro power, the company shall calculate the emissions for electricity from the emission factor for hydro power. If the company purchases electricity that is unspecified the emission factor of the residual mix shall be used.

Location-based method: the CO_2e intensity of purchased electricity only depends on the total production mix of the grid. This means that the system of guarantees of origin is neglected.

THE SCOPE AND PREMISES OF HKSCAN'S CALCULATIONS

HKScan discloses its scope 1 and scope 2[1)] GHG emissions, whereby the control approach is the "operational control approach". For this reason, the following emission sources are included:

- Boilers at the production sites and farms owned by HKScan (scope 1)
- Purchased electricity (scope 2)
- Purchased district heating and steam (scope 2)
- Leakage of refrigerants (scope 1)
- Leakage of CO_2 when using CO_2 for freezing and anaesthesia (scope 1)
- Car travel (scope 1)
- In-house transports, for example forklift trucks (scope 1)

[1)] For calculating scope 2 emissions, HKScan has chosen the "Market-based method".

GRI INDEX

DISCLOSURE	DISCLOSURE TITLE	LOCATION 2018	COMMENTS	SDG
GRI 102: GENERAL DISCLOSURES				
ORGANISATIONAL PROFILE				
102-1	Name of the organisation	HKScan in brief		
102-2	Activities, brands, products, and services	HKScan in brief, Market areas		
102-3	Location of headquarters	Market Areas		
102-4	Location of operations	Market Areas		
102-5	Ownership and legal form	Shares and shareholders		
102-6	Markets served	HKScan in brief, Market areas		
102-7	Scale of the organisation	CR/Employees, Market areas, Key figures, Shares and Shareholders		
102-8	Information on employees and other workers	CR/Employees, Market areas, Key figures, Shares and Shareholders		
102-9	Supply chain	CR/Social responsibility/Responsible and ethical sourcing		
102-10	Significant changes to the organisation and its supply chain	CR/Social responsibility/Responsible and ethical sourcing		
102-11	Precautionary Principle or approach	CR/Environment Governance / Risk management Non-financial Reporting		
102-12	External initiatives	Collaboration with stakeholders, CR/Responsible products, CR/Greenhouse Gas (GHG emissions), CR/ Material efficiency and waste		
102-13	Membership of associations	Collaboration with stakeholders		
STRATEGY				
102-14	Statement from senior decision-maker	CEO's Review		
102-15	Key impacts, risks, and opportunities	Governance / Risk management, Non-financial Reporting, Stakeholder collaboration		
ETHICS AND INTEGRITY				
102-16	Values, principles, standards, and norms of behavior	CR/Organisation of the responsibility work, Values and operating principles, Employees, Strategy, Non-financial report		
102-17	Mechanisms for advice and concerns about ethics	Non-financial Reporting	HKScan Fair Way - channel	

DISCLOSURE	DISCLOSURE TITLE	LOCATION 2018	COMMENTS	SDG
GOVERNANCE STRUCTURE				
102-18	Governance structure	Corporate Governance Statement, CR/Organisation of the responsibility work, Non financial Report		
102-19	Delegating authority	CR/Management Approach, Organisation of the responsibility work		
102-20	Executive-level responsibility for economic, environmental, and social topics	CR/Management Approach, Organisation of the responsibility work		
102-23	Chair of the highest governance body	Corporate Governance statement		
102-24	Nominating and selecting the highest governance body	Corporate Governance statement		
102-25	Conflicts of interest	Corporate Governance statement		
102-26	Role of highest governance body in setting purpose, values, and strategy	CR/ Organisation of the responsibility work		
102-33	Communicating critical concerns	CR/ Organisation of the responsibility work		
102-35	Remuneration policies	Remuneration statement		
102-36	Process for determining remuneration	Remuneration statement, Corporate Governance statement/ Compensation committee		
STAGEHOLDER ENGAGEMENT				
102-40	List of stakeholder groups	Collaboration with stakeholders		
102-41	Collective bargaining agreements	CR/Social responsibility/Employees		
102-42	Identifying and selecting stakeholders	Collaboration with stakeholders		
102-43	Approach to stakeholder engagement	Collaboration with stakeholders CR/Social responsibility/Employees		
102-44	Key topics and concerns raised	Collaboration with stakeholders		
REPORTING PRACTICE				
102-45	Entities included in the consolidated financial statements	Notes to the Financial Statement, Related party transactions		
102-46	Defining report content and topic Boundaries	CR/Corporate Responsibility at HKScan		
102-47	List of material topics	CR/Corporate Responsibility at HKScan		
102-48	Restatements of information	CR/Reporting principles	No changes	

DISCLOSURE	DISCLOSURE TITLE	LOCATION 2018	COMMENTS	SDG
102-49	Changes in reporting	CR/Reporting principles		
102-50	Reporting period	CR/Reporting principles		
102-51	Date of most recent report	CR/Reporting principles		
102-52	Reporting cycle	CR/Reporting principles		
102-53	Contact point for questions regarding the report	CR/Reporting principles		
102-54	Claims of reporting in accordance with the GRI Standards	CR/Reporting principles	This report has been prepared in accordance with the GRI Standards: Core option	
102-55	GRI content index	CR/GRI index		
102-56	External assurance	CR/Reporting principles	No external assurance	
GRI 103: MANAGEMENT APPROACH				
103-1	Explanation of the material topic and its Boundary	CR/Reporting principles		
103-2	The management approach and its components	CR/Management approach		
103-3	Evaluation of the management approach	CR/Management approach		
ECONOMIC STANDARDS				
GRI 201: ECONOMIC PERFORMANCE				
201-1	Direct economic value generated and distributed	Report of the Board of Directors, Business/Value Creation	Payments to government by country not listed in the financial statement. Community investments not material: Voluntary donations plus investment of funds in the broader community where the target beneficiaries are external to the organisation and not business related, not reported. Segment reporting revenue and EBIT level: Criteria used is based on segment reporting (management reporting detail level)	
201-3	Defined benefit plan obligations and other retirement plans	Financials/ Note 20. Pensions obligations	Percentage of salary contributed by employee or employer: Not presented but employer's contribution is visible in the income statement and related notes	
201-4	Financial assistance received from government	Financial statement note 2: subsidies Annual report shareholder information	Government presentation in the shareholding structure	
GRI 203: INDIRECT ECONOMIC IMPACTS				
203-2	Significant indirect economic impacts	CR/Economic responsibility, Farming community		

DISCLOSURE	DISCLOSURE TITLE	LOCATION 2018	COMMENTS	SDG
GRI 204: PROCUREMENT PRACTICES - Responsible and ethical sourcing				**SDG 8:** Decent work and economic growth **SDG 15:** Life on land
204-1	Proportion of spending on local suppliers	CR/Social responsibility/Responsible and ethical sourcing		
G4 Food Processing Sector Disclosure 1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	CR/Social responsibility/Responsible and ethical sourcing	Reported as relevance for HKScan : - Animal sourcing (live): % of purchasing according to animal sourcing practices - Percentage of purchased volume from suppliers compliant with HKScan's Supplier Guidelines	
G4 Food Processing Sector Disclosure 2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard	CR/Social responsibility/Responsible and ethical sourcing	Reported as relevance for HKScan - sourcing principles in: - Resposibible produced soy in value chain (animal feed, food product incredient) - Repsonsible produced palm oil	
GRI 205: ANTI-CORRUPTION				
205-2	Communication and training about anti-corruption policies and procedures	CR/Corporate Responsibility at HKScan/Values and operating principles		
205-3	Confirmed incidents of corruption and actions taken	CR/Corporate Responsibility at HKScan/Values and operating principles		
GRI 206: ANTI-COPETITIVE BEHAVIOR		CR/Corporate Responsibility at HKScan/Values and operating principles		
ENVIRONMENTAL STANDARDS - Environment				**SDG 12:** Responsible consumption and production **SDG 13**: Climate action **SDG 15:** Life on land
GRI 301: MATERIALS				
301-1	Materials used by weight or volume	CR/Environment/Material efficiency and waste	Packaging material data was not available on the release of this report, the data will be published at HKScan's webpages when completed.	
301-2	Recycled input materials used	CR/Environment/Material efficiency and waste	Packaging material data was not available on the release of this report, the data will be published at HKScan's webpages when completed.	

DISCLOSURE	DISCLOSURE TITLE	LOCATION 2018	COMMENTS	SDG
GRI 302: ENERGY				
302-1	Energy consumption within the organisation	CR/Environment/Energy efficiency	Used calculation unit MWh	
302-4	Reduction of energy consumption	CR/Environment/Energy efficiency		
GRI 303: WATER				
303-1	Water withdrawal by source	CR/Environment/Water and wastewater	Reported fresh water from municipal water supplies, water from other sources not used	
GRI 304: BIODIVERSITY - overall approach		CR/Environment/Environmental work at farms	HKScan reporting: Cattle and sheep grazing at semi natural pastures	
GRI 305: EMISSIONS				
305-1	Direct (Scope 1) GHG emissions	CR/Environment/Greenhouse gas emissions		
305-2	Energy indirect (Scope 2) GHG emissions	CR/Environment/Greenhouse gas emissions		
305-5	Reduction of GHG emissions	CR/Environment/Greenhouse gas emissions CR/Environment/Energy efficiency		
GRI 306: EFFLUENTS AND WASTE				
306-2	Waste by type and disposal method	CR/Environment/Material efficiency and waste		
GRI 307: ENVIRONMENTAL COMPLIANCE				
307-1	Non-compliance with environmental laws and regulations	CR/Environment		
SOCIAL STANDARDS				
GRI 403: OCCUPATIONAL HEALTH AND SAFETY - Employees				**SDG 3:** Good health and well-being **SDG 8:** Decent work and economic growth
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	CR/Social/Employees		
GRI 413: LOCAL COMMUNITIES - Farming community		CR/Social/Farming community	Reported as relevance for HKScan: Farming community and impacts on local communities via farmers	**SDG 3:** Good health and well-being **SDG 13:** Climate action
GRI 414: SUPPLIER SOCIAL ASSESSMENT				
414-2	Negative social impacts in the supply chain and actions taken	CR/Social responsibility/Responsible and ethical sourcing	Sourcing volumes from risk countries very low, process created to mitigate negative impacts	

DISCLOSURE	DISCLOSURE TITLE	LOCATION 2018	COMMENTS	SDG
GRI 416: CUSTOMER HEALTH AND SAFETY - Safe and healthy products				**SDG 3:** Good health and well-being
416-1	Assessment of the health and safety impacts of product and service categories	CR/Social responsibility/Responsible products		
G4 Food Processing Sector Disclosure 6	Percentage of total sales volume of consumer products, by product category, that are lowered saturated fat, trans fats, sodium and added sugar	CR/Social responsibility/Responsible products	Reported: percentage of total product development	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	CR/Social responsibility/Responsible products	Product recalls reported	
G4 Food Processing Sector Disclosure 5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards	CR/Social responsibility/Responsible products	Reported: FSSC 22000, IFS, BRC, ISO 22000	
HKSCAN SPECIAL: - Animal health and welfare				**SDG 3:** Good health and well-being
G4 Food Processing Sector Disclosure 9	Percentage and total of animals raised and/or processes, by species and breed type	CR/Animal health and welfare		
G4 Food Processing Sector Disclosure 10	Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic	CR/Animal health and welfare		
G4 Food Processing Sector Disclosure 11	Percentage and total of animals raised and/or processed, by species and breed type, per housing type	CR/Animal health and welfare		
G4 Food Processing Sector Disclosure 12	Policies and practices on antibiotic, anti-inflammatory, hormone, and/or growth promotion treatments, by species and breed type	CR/Animal health and welfare		
G4 Food Processing Sector Disclosure 13	Total number of incidents of significant non-compliance with laws and regulations, and adherence with voluntary standards related to transportation, handling, and slaughter practices	CR/Animal health and welfare		

MANAGEMENT APPROACH

MATERIALITY	ECONOMIC RESPONSIBILITY	SOCIAL RESPONSIBILITY				ANIMAL HEALTH AND WELFARE	ENVIRONMENTAL RESPONSIBILITY
	ECONOMIC VIABILITY OF VALUE CHAIN, COMPLIANCE	RESPONSIBLE PRODUCTS	EMPLOYEES	RESPONSIBLE AND ETHICAL SOURCING	FARMING COMMUNITY	MEAT PRODUCTION	ENVIRONMENTAL IMPACTS
Target of the management approach	HKScan's responsible way of working covers the entire value chain, all the way from animal genetics and feed production to the consumer's table. Values – Inspire, Lead, Care – support HSKcan's sustainable operations. Through our strategy and operations, the HKScan Group is committed to the continuous and systematic development of sustainable business operations.						
	Safeguard the profitability and competitiveness of business both in the short and long term. To promote positive impacts in the value chain. Compliance with laws and regulations.	To ensure product safety. To enhance positive impacts on populations nutrition and public health.	To ensure employee health and safety at work, to provide a motivating work environment that enables employees to further develop their knowledge and skills.	To avoid ethical business risks. To ensure efficient and smooth cooperation from the procurement of raw materials and services all the way to the consumer's shopping basket.	To ensure the continuity of food production in its home markets, maintain rural vitality and contribute to the national security of supply.	To be the best company in our industry in terms of animal welfare. Improve animal health and welfare by ensuring proper animal care and handling as well as by securing responsible rearing conditions on farms, during transport and in slaughterhouses.	To mitigate environmental impacts and to increase sustainable use of natural resources. Reduce environmental footprint and improve cost efficiency in the long term.
Policies and commitments	HKScan's operations are guided by the following policies and ethical principles (Code of Conduct).						
	Economic responsibility is led by treasury policy, governance policy, finance policy, risk policy and disclosure policy.	Product safety and quality are guided by quality and product safety policies. Nordic and national nutrition recommendations are taken into account in product development. HKScan has made five nutrition commitments in the Commitment 2050 initiative, which promotes sustainable development.	Human resources and personnel development are based on the company's internal policies and principles related to processes such as recruitment, performance management, remuneration, and occupational health and safety at work.	Sourcing is guided by the company's internal purchase policy. In addition suppliers of goods and services are required to sign and comply with ethical supplier guidelines (Code of Conduct). Animal sourcing is guided by the animal purchase policy, which provides guidelines for business practices to be followed with animal producers, among other aspects. HKScan is committed to use responsibly produced soy in its value chain in Finland and in Sweden.	The agreements between HKScan and the producers guide animal production.	With regard to animal health and welfare, HKScan's operations are guided by the HKScan Group's Animal Welfare Policy. Animal health and welfare are based on compliance with local laws and EU regulations, and on guidelines and operating methods adopted by the company and the industry that exceed statutory requirements.	HKScan's environmental work is driven by the company's environmental policy, and by the guideline on committing to reductions in energy use. In Finland, HKScan has signed the food industry's Energy Efficiency Agreement (EEA) for the period 2017–2025. In Sweden HKScan participates in the Haga Initiative. The Haga Initiative member companies have decided to become fossil free within their own operations by 2030.

MATERIALITY	ECONOMIC RESPONSIBILITY	SOCIAL RESPONSIBILITY				ANIMAL HEALTH AND WELFARE	ENVIRONMENTAL RESPONSIBILITY
	ECONOMIC VIABILITY OF VALUE CHAIN, COMPLIANCE	RESPONSIBLE PRODUCTS	EMPLOYEES	RESPONSIBLE AND ETHICAL SOURCING	FARMING COMMUNITY	MEAT PRODUCTION	ENVIRONMENTAL IMPACTS
Targets	The key targets and achievements of the responsibility work in 2018 have been presented in sections: Economic responsibility, Social responsibility, Animal health and welfare and Environmental responsibility.						
Responsibilities and resources	The Board of Directors approves the Group policies and reviews the significant corporate responsibility related processes and commitments. The Board receives updates on progress against key performance indicators and other relevant matters. HKScan's Group Leadership Team provides oversight and executional leadership for the implementation of the Group's 'From Farm to Fork' strategy, and EVP Communications and Corporate Responsibility is as part of strategy implementation for corporate responsibility targets and reporting. With the assignment from the Group Leadership Team, the Corporate Responsibility team develops corporate responsibility related programs and procedures, drives continuous improvement and secures related measurement of the Group's CR performance.						
	The Group Leadership Team is responsible for financial performance and work related to it. The responsibilities of the Group CEO and the Board of Directors are divided according to legislation.	VP Quality, who reports to EVP Operations is responsible for product safety and quality. HKScan's Health and Nutrition manager is responsible for ensuring the competence necessary for developing a product range of a high nutritional quality, and the head of the Categories & Concepts function is responsible for product concept development and management.	The person in charge of human resources is the Executive Vice President of HR, with the Executive Vice President of Operations being responsible for work safety.	Head of Sourcing is responsible for sourcing operations, and the person in charge of animal sourcing is the Executive Vice President of Animal Sourcing and Primary Production.	The person in charge of producer cooperation and its development is the Executive Vice President of Animal Sourcing and Primary Production.	The Executive Vice President of Animal Sourcing and Primary Production is responsible for operations related to animal health and welfare at HKScan. The Group's Quality head (VP) is responsible for animal health and welfare with regard to slaughterhouse operations, in cooperation with the employees in charge of animal welfare at the slaughterhouses. VP Quality reports to Executive Vice President of Operations	Development of HKScan's environmental work at production sites is the responsibility of the company's EVP Operations.
Grievance mechanism	HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities in HKScan's operations. HKScan has a standard practice for conducting dialogue with its stakeholders.						
Projects and initiatives	The key projects and initiative in 2018 have been presented in the CR section of this report: Economic responsibility, Social responsibility, Animal health and welfare and Environmental responsibility.						
Evaluation of management approach	The Board of Directors approves the Group strategy, policies and reviews the significant corporate responsibility related processes and commitments. Material CR themes were evaluated last in 2017.						
	HKScan actively identifies, evaluates, monitors and manages risks so that its operations would not deviate from its objectives. The company makes use of external expertise if the risk involves significant uncertainty or complexity.	Product safety management is based on risk assessments of products and their production processes and on the management system founded on these and their functionality is ensured through internal and third-party audits.	HKScan carries out studies concerning employee engagement, leadership and performance culture. Performance and development discussions between employees and supervisors are held twice a year.	Success and sustainability of sourcing are monitored internally. HKScan has a supplier assessment process in place where suppliers are assessed with regard to criteria related to product safety, quality, the environment, operating methods and each procurement process.	Success of producer collaboration is assessed by the means of producer surveys and assessments carried out by producer collaboration groups, in addition to the results of strategy implementation and animal production, for example.		Environmental impacts are measured regularly, and targets for the entire Group were set in 2018 (greenhouse gas emissions, energy and water use).

CERTIFIED OPERATIONS 2018

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

1) Organic approval in Finland
2) Krav-organic and EU-ecological approval in Sweden
3) EU-ecological approval

STORIES FROM FARM TO FORK: CUSTOMER

SUSTAINABILITY FORERUNNER

CR specialist Katrin Bats has been resolutely developing retail chain Rimi into the Baltic's forerunner in sustainability. In her daily work, Bats sees that consumers are more conscious and demanding. Openness and the ability to find new solutions throughout the whole value chain are key in responding to growing demands.

Katrin Bats is a CR specialist at the retail chain Rimi, where she has worked for eight years.

Katrin Bats started at Rimi eight years ago. She says that, back then, nobody was talking about CR in the Baltics.

"When we started, our focus was on nutrition, which is still of course a very important aspect. After that. the scope of CR has become wider. Now, food waste is a hot topic here and we are working actively with charity organisations in this area. Last year we told people about our actions as a retailer towards decreasing food waste. We also highlighted that actually 71 per cent of food waste comes from households."

Rimi Baltic is one of today's fastest growing retailers in the Baltic states. The chain has 86 stores in Estonia, 123 in Latvia and 66 in Lithuania. The company employs a total of more than 12 300 people in those three countries and is part of the ICA Gruppen AB. Bats describes the Estonian retail market as extremely competitive. There are a few big retail players in addition to Rimi: Coop, Maxima and Prisma, for example. Lidl is entering the market next year.

Bats sees the Estonians as being the Baltic's most demanding consumers, who expect a lot from their retailers. The consumption of meat is not decreasing in the Baltic countries, even though vegans, for example, are a very visible group. She also sees that the expectations for quality are increasing.

"We operate transparently and we expect and appreciate the same openness from our suppliers. We are demanding, but so are the consumers."

In the future retailers are not only competing with assortment.

"I see a big future for online shopping. With online shop you don't choose the shop which is closest to you, but the one whose values are similar to yours. The way of doing business matters even more."

OPENNESS THROUGH THE WHOLE VALUE CHAIN

Bats emphasises the transparency through the entire value chain and the demand for quality, from farm to fork.

"We operate transparently and we expect and appreciate the same openness from our suppliers. We are demanding, but so are the consumers. If there is something wrong with a product, consumers will come to us with their questions. Therefore, it is important for us that we can track where our products come from. HKScan's brands are well known and loved in the Baltics. That creates a lot of responsibility to be open and act as an example."

Rimi has developed a manual for suppliers that highlights the sustainable ways of doing business with them. As the next step, Rimi plans to communicate with vendors even more about future trends and to explain what being sustainable means for Rimi in practice.

"A new focus area is also the use of plastic. We want to offer consumers continuously new ways to reduce the use of plastic. We have a dedicated team that is working with our suppliers, looking for new sustainable services."

"The future generation is evaluating the employer more in terms of values and responsibility-related matters. They are interested in following the company's track record of doing the right things."

Bats says that Rimi has been able to utilise its size in the market in a way that benefits the entire industry.

"When we set higher quality requirements for suppliers and ask for more sustainable products, it can facilitate suppliers' product development and create the impulse to move away from the products that do not meet our standards altogether."

WALK THE TALK

Bats feels that there is still a lot of work to be done in the field of CR. She believes that good things start from inside a company.

"You need to tell your own people about CR-related things first to get them committed. The future generation is evaluating the employer more in terms of values and responsibility-related matters. They are interested in following the company's track record of doing the right things. It's no longer just about salary or working conditions."

Bats is happy to see that Estonian companies have realised the importance of CR work and want to put the spotlight on their actions. More and more companies are now critically thinking about how they can make their business more sustainable. Bats offers valuable advice on how to proceed:

"There are small things you can start with. After you make your plans, you need to talk about them and shine a light on your work. But most importantly, you need to walk the talk."

GOVERNANCE

In this section, you will find the following:
- Corporate Governance Statement
- Remuneration Statement
- Information on risk management
- Information about Group Leadership Team
- Information about Board of Directors

CORPORATE GOVERNANCE STATEMENT 2018

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Corporate governance in HKScan Corporation ("HKScan" or the "Company") is based on Finnish legislation, EU-level regulations, HKScan's Articles of Association, the Finnish Corporate Governance Code 2015 (the "Code") issued by Securities Market Association, and HKScan Group's Code of Conduct as well as Governance Policy. HKScan furthermore complies with the rules and regulations of Nasdaq Helsinki Ltd and the Finnish Financial Supervisory Authority. This corporate governance statement has been drafted in accordance with the above-mentioned Code that entered into effect on 1 January 2016 and with Chapter 7:7 of the Finnish Securities Markets Act. The corporate governance statement is issued separately from the Report of the Board of Directors 2018.

HKScan observes the Code subject to the following exceptions:

- Recommendation 15: Members of the Nomination Committee may be appointed also from outside the Board of Directors in order to bring additional knowledge and expertise to bear on key appointments within the Company. The Board of Directors appoints the members of the Nomination Committee.

HKScan's corporate governance statement may be viewed on the Company's website at www.hkscan.com under "Investor information". The website also gives access a list of the Company's largest shareholders, the notifications of changes in holdings submitted to the Company and the Company's Articles of Association. The Code is available for review on the Securities Market Association website at http://cgfinland.fi/en/.

BOARD OF DIRECTORS

The Board of Directors is responsible for the administration and the proper organisation of the operations of the Company. The duties and accountability of the Board are determined primarily under the Articles of Association and the Finnish Limited Liability Companies Act. The Board's meetings procedure and duties are described in the charter adopted by the Board for each year.

Board members are elected annually by the Annual General Meeting ("AGM") based on a proposal put forward by the Board's Nomination Committee. The Articles of Association contain no mention of any special order of Board member appointments.

The Company's Board of Directors comprises between five and eight (5–8) members. In addition, a maximum of three (3) deputy members may be elected to the Board of Directors. All Board members possess the particular competence and independence consistent with the position. The Board members are proposed by the Nomination Committee taking into account the diversity principles determined by the Company in accordance with Recommendation 9 of the Code. The Company has determined the following diversity principles:

- both genders should be represented in the Board;
- the Board members should have versatile background regarding profession and education that benefits the business of the Company;
- the Board members should have experience of international tasks; and
- the Board members should represent varied age range.

The composition of the Board of the Company in 2018 represented well the Company's diversity principles.

The term of Board members begins at the end of the General Meeting at which they were elected and ends at the end of the General Meeting first following their election. The Board of Directors elects a chair and deputy chair from among its number.

The Board conducts an annual evaluation of the independence of its members in accordance with Recommendation 10. A member of the Board is required to submit to the Company the information necessary to conduct the evaluation of independence. A Board member is also required to notify the Company of any changes in information relating to independence.

The following persons were elected to the Board by the Annual General Meeting held on 12 April 2018:

Mikko Nikula (b. 1972)
Chair of the Board since 2015 – until 26 November 2018
M.Sc. (Physics)
Farm entrepreneur, broiler meat producer, Rusko, Finland
Shareholding at HKScan on 31.12.2018: 13 633 (direct ownership) and 2 733 (through Myllymäen Broileri Oy)

Marko Onnela (b. 1974)
Deputy chair of the Board since 2017 – until 14 December 2018
M.Sc. Agriculture
Farm entrepreneur, pork producer, Loimaa, Finland
Shareholding at HKScan on 31.12.2018: 13 707

Per Olof Nyman (b. 1956)
Member of the Board since 2017
M.Sc. (Industrial & Management Engineering)
President & CEO, Lantmännen ek. för.
Shareholding at HKScan on 31.12.2018: 8 386 (nominee-reg.)

Riitta Palomäki (b. 1957)
Member of the Board since 2017 – until 14 December 2018
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2018: 3 836

Tuomas Salusjärvi (b. 1973)
Member of the Board since 2017 – until 14 December 2018
PhD Biochemistry
Valio Oy, Executive Vice President
Shareholding at HKScan on 31.12.2018: 3 836

Reijo Kiskola (b. 1954)
Member of the Board since 12 April 2018 and Chair of the Board as of 27 November 2018
Dairy Engineer
Shareholding at HKScan on 31.12.2018: 2 053

Jari Mäkilä (b. 1970)
Deputy member of the Board since 12 April 2018 and acting Member of the Board as of 27 November 2018
Agricultural technician, pork producer, Oripää, Finland
Shareholding at HKScan on 31.12.2018: 7 790 (direct ownership) and 35 000 (through Mäkilän Tila Oy)

Carl-Peter Thorwid (b. 1964)
Deputy member of the Board since 2017 and acting Member of the Board as of 14 December 2018
M.Sc. (Industrial Engineering and Management)
CEO Lantmännen Cerealia AB
Shareholding at HKScan on 31.12.2018:–

Actual members of the Board, Mikko Nikula and Marko Onnela, and deputy member Jari Mäkilä are not independent from the Company. Actual member of the Board, Per Olof Nyman and deputy member Carl-Peter Thorwid are not independent from the Company's major shareholder. Other actual members of the Board are independent from the Company and its major shareholders.

During 2018, the Board held 16 meetings. The average attendance rate of Board members and deputy members was 100 per cent. The Board constitutes a quorum when more than half of its members are present. Besides the members, the Group's CEO, the CFO and the General Counsel, Head of Legal as secretary to the Board, also regularly attended the Board meetings.

Mikko Nikula resigned from his post as Chairman of the Board and Board member on 26 November 2018. Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi announced on 14 December 2018 that they will resign from the Board with this date. The Company's Board of Directors informed on 14 December 2018 that an Extraordinary General Meeting be convened to fill the vacancies in the Company's Board of Directors. The invitation to the Extraordinary General Meeting was published on 7 January 2019. The Extraordinary General Meeting held on 30 January 2019 elected Jari Mäkilä, Harri Suutari and Terhi Tuomi as new members of the Board. Ilkka Uusitalo was elected as new deputy member of the Board.

CHARTER OF THE BOARD

The work of the Board of Directors is based on the provisions of the Finnish Limited Liability Companies Act and the Company's Articles of Association as well as on the charter adopted by the Board.

According to the charter, the following key matters are among those to be resolved by the Board of Directors at HKScan:

- appointments and dismissals of the CEO and senior executives, and decisions on the terms of employment of management;
- terms of employment of managing directors of HKScan Group companies and senior management;
- HKScan Group management's and personnel's incentive schemes and bonus criteria;
- HKScan Group and organisation structure, commencement of new business, changes and discontinuation of central business;
- HKScan Group strategy, business plan and performance targets for the following year, and related underlying assumptions;
- HKScan Group's significant investments, as well as company, business and real estate arrangements, and sales and outsourcing of significant equipment and machinery;
- other significant contracts of the HKScan Group;
- dividend policy and division proposal to the Annual General Meeting;
- principles of risk management and communication related to HKScan Group's business and follow up of the legality of business operations;
- approving of investment plans and approval of relevant investments deviating from the plan;

- taking out HKScan Group loans and giving securities;
- giving procuration and other representative rights of the Company.

The meetings of the Board of Directors follow the annually agreed management calendar. Extra meetings may be convened if required. The chair of the Board convenes the Board meetings and prepares the meeting agenda together with the CEO.

PERFORMANCE EVALUATION OF THE BOARD

The Board conducts an annual evaluation of its performance and working methods in the interests of enhancing its operations. The evaluation addresses the composition and processes of the Board, the quality of the Board's performance, cooperation between the Board and operative management, and the expertise and participation of Board members.

BOARD COMMITTEES

Four committees have been set up in HKScan to streamline the preparation and management of matters for the consideration of the Board. The Board selects the members and chairs of the committees from among its members or deputy members, except for the Nomination Committee, to which members may be selected from outside the Board in order to bring additional knowledge and expertise to bear on key appointments within the Company. With respect to the Nomination Committee, the Company deviates from Recommendation 15 of the Code.

Audit committee

The Board elects at least three members of the Audit Committee from among its members or deputy members. At least one of the members must possess particular expertise in the fields of accounting, bookkeeping or auditing. The majority of the members of Audit Committee shall be independent of the Company and at least one member shall be independent of significant shareholders. The CEO of the Company or other senior executives may not be elected to the Audit Committee.

The Audit Committee assists the Board by preparing matters within its remit for the consideration of the Board and by submitting proposals or recommendations for Board resolution. The duties of the Audit Committee have been determined in its charter adopted by the Board, in keeping with Recommendation 16 of the Code. The tasks of the Audit Committee of HKScan's Board of Directors include, among other things, the following:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal auditing and risk management system;
- to evaluate and review the corporate governance statement covering the internal control and risk management related to the financial reporting process;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of auditors and the provision of related ancillary services to the Company in particular; and
- to prepare the proposal for decision on the election of the auditors.

The Audit Committee reports on its work to the Board at the Board meeting first following the meeting of the Committee and submits for the information of the Board the minutes of the committee's meeting.

The Audit Committee was chaired by Riitta Palomäki (until 14 December 2018), and its other members are Marko Onnela (until 14 December 2018), Carl-Peter Thorwid and Mikko Nikula (until 26 November 2018), and Reijo Kiskola as of 27 November 2018.

The Audit Committee held five meetings during 2018. The average attendance rate of Committee members was 100 per cent. Committee meetings were also regularly attended by the Company's CEO, the CFO, the internal auditor and by the external auditors. The chair of the Audit Committee prepares the agenda for the meeting based on a proposal made by the CFO and convenes the meetings, under normal circumstances with at least one week's notice.

Nomination committee

The Board elects the three members of the Nomination Committee. The members of the Committee need not be Board members. The CEO of the Company or other senior executives may not be elected to the Nomination Committee.

The duties of the Nomination Committee are defined in its charter adopted by the Board. The Committee is tasked with preparing the proposals to be presented to the General Meeting of Shareholders concerning the number, appointment and remuneration of Board members. The Nomination Committee convenes at least once before the General Meeting of Shareholders and reports on its work to the Board of Directors immediately following the meeting of the Committee.

When the Nomination Committee plans the composition of the Board of Directors, the target is to ensure that the Board of Directors forms a functional entity. The prerequisite is sufficient diversity of the Board of Directors. The Board's Nomination Committee searches, evaluates and recommends members to be elected in the Board of Directors and evaluates the number of the members of the Board of Directors. When designing the proposal for election of Board members, the diversity principles determined by the Company shall be taken into account:

- both genders should be represented in the Board;
- the Board members should have versatile background regarding profession and education that benefits the business of the Company;
- the Board members should have experience of international tasks; and
- the Board members should represent varied age range.

The members of the Nomination Committee are Jari Mäkilä (Chair), Per Lindahl and Mikko Nikula (until 26 November 2018), and Reijo Kiskola as of 27 November 2018.

The Nomination Committee held two meetings during 2018. The average attendance rate of Committee members was 100 per cent.

Introduction:

Per Lindahl (b. 1964)
Chair of the Board of Lantmännen
Farmer, Kristianstad, Sweden

Compensation committee

The Board elects at least three members of the Compensation Committee from among its members or deputy members. The majority of the members of the Compensation Committee must be independent of the Company. The CEO of the Company or other senior executives may not be elected to the Compensation Committee.

The duties of the Compensation Committee are defined in its charter adopted by the Board of Directors. The Compensation Committee is tasked with preparing matters pertaining to the Company's compensation schemes, such as CEO compensation, other management compensation, the Company's incentive and benefit plans and review of other arrangements or agreements between the Company and CEO or other senior executives.

The Compensation Committee convenes at least twice a year and reports on its work to the Board following the meeting of the Committee and submits for the information of the Board the minutes of the Committee's meetings.

The Committee is chaired by Per Olof Nyman and its other members are Riitta Palomäki (until 14 December 2018), Tuomas Salusjärvi (until 14 December 2018) and Mikko Nikula (until 26 November 2018), and Reijo Kiskola as of 27 November 2018.

The Compensation Committee held four meetings during 2018. The average attendance rate of Committee members was 100 per cent. The Compensation Committee has used external consultants in its work.

Working committee

Within the Working Committee the Board considers matters without the presence of the operative management of the Company.

The duties of the Working Committee are defined in its charter adopted by the Board of Directors. The Working Committee is tasked with promoting the efficient accomplishment of the duties of the Company's Board of Directors. The aim of the Committee is to advance compliance with the Finnish Corporate Governance Code in HKScan.

All members and deputy members of the Board are members of the Working committee. The Chair of the Board, Mikko Nikula until 26 November 2018 and Reijo Kiskola as of 27 November 2018, acts as the Committee's Chair. The Working Committee held six meetings during 2018. The average attendance rate of Committee members was 100 per cent.

CHIEF EXECUTIVE OFFICER (CEO)

The CEO and the possible deputy CEO are appointed by the Company's Board of Directors. The CEO is tasked with managing the HKScan Group's business activities and administration in accordance with the Articles of Association, the Finnish Limited Liability Companies Act and instructions provided by the Board of Directors. The CEO is accountable to the Board of Directors for the implementation of the objectives, plans, procedures and goals laid down by the Board. In managing the HKScan Group, the CEO is supported by the Group Leadership Team.

The Company's CEO does not serve on the Board but attends its meetings and provides monthly reports to the Board on the HKScan Group's financial performance, financial position, solvency and market position. He or she also presents the materials of the financial statements and interim reports to the Board. The CEO furthermore reports to the Board on the implementation of the Board's resolutions and on the measures and outcomes to which these have given rise.

Jari Latvanen (b. 1964), MBA, has worked as HKScan's President and CEO as of 31 October 2016 until 27 November 2018. As of 27 November 2018, for the time being, the duties of the President and CEO were carried out by the Chairman of the Board Reijo Kiskola.

MEETING ATTENDANCE OF THE BOARD AND ITS COMMITTEES

	BOARD OF DIRECTORS	AUDIT COMMITTEE	NOMINATION COMMITTEE	COMPENSATION COMMITTEE	WORKING COMMITTEE
Mikko Nikula[7)]	12/12	4/4	2/2	2/2	5/5
Marko Onnela[6)]	14/14	4/4			5/5
Riitta Palomäki[10)]	14/14	5/5		4/4	5/5
Tuomas Salusjärvi[11)]	14/14			4/4	5/5
Per Olof Nyman[5)]	16/16			2/2	6/6
Reijo Kiskola[2)]	13/13	1/1		0/0	5/5
Pirjo Väliaho[1)]	3/3	1/1		2/2	1/1
Jari Mäkilä (deputy)[4)]	13/13		2/2		5/5
Carl-Peter Thorwid (deputy)	16/16	5/5			6/6
Veikko Kemppi (deputy)[3)]	3/3				1/1
Per Lindahl[9)]			1/1		
Bengt-Olov Gunnarson[8)]			1/1		

1) Member of the Board, Audit Committee and Compensation Committee until 12 April. Between 1.1.–12.4.2018 the Board had 3 meetings, the Working Committee 1 meeting, the Audit Committee 1 meeting and the Compensation Committee 2 meetings.

2) Member of the Board as of 12 April. Between 12.4.–31.12.2018 the Board had 13 meetings and the Working Committee 5 meetings. Member of Audit Committee, Compensation Committee and Nomination Committee as of 27 November. Between 27.11.–31.12.2018 the Audit Committee had 1 meeting, the Compensation and Nomination Committee had no meetings.

3) Deputy member of the Board until 12 April. Between 1.1.–12.4.2018 the Board had 3 meetings and the Working Committee 1 meeting.

4) Deputy member of the Board as of 12 April. Between 12.4.–31.12.2018 the Board had 13 meetings and the Working Committee 5 meetings.

5) Member of the Compensation Committee as of 12 April. Between 12.4.–31.12.2018 the Compensation Committee had 2 meetings.

6) Member of the Audit Committee as of 12 April until 14 December. Between 12.4.–14.12.2018 the Audit Committee had 4 meetings. Member of the Board until 14 December. Between 1.1.–14.12.2018 the Board had 14 meetings and the Working Committee 5 meetings.

7) Member of the Compensation Committee as of 12 April until 26 November. Between 12.4.–26.11.2018 the Compensation Committee had 2 meetings. Member of the Board, Audit Committee and Nomination Committee until 26 November. Between 1.1.–26.11.2018 the Board had 12 meetings, the Working Committee 5 meetings, the Audit Committee 4 meetings and the Nomination Committee 2 meetings.

8) Member of the Nomination Committee until 12 April. Between 1.1.–12.4.2018 the Nomination Committee had 1meeting.

9) Member of the Nomination Committee as of 12 April. Between 12.4.–31.12.2018 the Nomination Committee had 1 meeting.

10) Member of the Board, Audit Committee and Compensation Committee until 14 December. Between 1.1.–14.12.2018 the Board had 14 meetings, the Working Committee 5 meetings, the Audit Committee 5 meetings and the Compensation Committee 4 meetings.

11) Member of the Board and Compensation committee until 14 December. Between 1.1.–14.12.2018 the Board had 14 meetings, the Working Committee 5 meetings and the Compensation Committee 4 meetings.

On 28 November 2018 Tero Hemmilä, M.Sc. (agr. econ.), was appointed as President and CEO of HKScan Corporation. He started at HKScan on 4 February 2019.

GROUP LEADERSHIP TEAM

The Group Leadership Team ("GLT") of HKScan assists the President and CEO in the management of the HKScan Group, in the preparation of matters such as business plans, strategy, policies and other matters of importance, as well as in the implementation of the strategic and operative targets. The members of the GLT are appointed by the Board.

The Group Leadership Team on 31 December 2018:

Reijo Kiskola (b. 1954)
President and CEO
Dairy Engineer
Shareholding at HKScan on 31.12.2018: 2 053

Mikko Forsell (b. 1974)
CFO of HKScan
M.Sc. (Tech.) and M.Sc. (Econ)
Shareholding at HKScan on 31.12.2018: 4 000

Kati Rajala (b. 1972)
EVP Market area Finland (as of 2 May 2018)
M.Sc. (Tech.)
Shareholding at HKScan on 31.12.2018: -

Sami Sivuranta (b. 1975)
EVP Operations
M.Sc. (Tech.)
Shareholding at HKScan on 31.12.2018: -

Jukka Nikkinen (b. 1962)
EVP Market Area Denmark and International
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2018: 15 657

Anne Mere (b. 1971)
EVP Market area Baltics
MBA
Shareholding at HKScan on 31.12.2018: 18 018

Heli Arantola (b. 1969)
EVP Categories and Concepts
D.Sc. (Econ.)
Shareholding at HKScan on 31.12.2018: -

Sofia Hyléen Toresson (b. 1977)
EVP Market Area Sweden
M.Sc. (Econ.)
Shareholding at HKScan on 31.12.2018: -

Anu Mankki (b. 1963)
EVP, HR of HKScan
MA
Shareholding at HKScan on 31.12.2018: -

Mikko Saariaho (b. 1977)
EVP Communications and Corporate Responsibility
M.Sc. (Business Administration)
Shareholding at HKScan on 31.12.2018: 300

Pia Nybäck (b. 1969)
EVP Animal Sourcing & Primary Production
M.Sc. (Engineering), eMBA
Shareholding at HKScan on 31.12.2018: -

During the year 2018 also Jyrki Karlsson has been a member of the Group Leadership Team as EVP Market Area Finland until 31 March 2018.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE FINANCIAL REPORTING PROCESS

Internal control framework

The Company's internal control framework is within the remit of Board of Directors. HKScan Group's management is responsible for maintaining and further developing effective internal control. Internal control aims to ensure compliance with laws and regulations as well as the HKScan's values and policies and guidelines. The internal control system has the further objective of supporting activities in line with HKScan's strategy. The reliability of financial reporting and measures in the service of this goal are an integral component in the Company's internal control framework.

CONTROL ENVIRONMENT

HKScan's values and policies form the basis for the internal control environment. The Board of Directors and the Audit Committee in particular monitor the Company's financial position and the quality of the financial reporting. The Board carries out this duty by, among other, adopting the HKScan Group's risk management policy and determining the objectives and principles of internal control. The CEO and CFO are responsible for maintaining and further developing an effective control environment relating to financial reporting.

At HKScan, the internal audit is a management tool for the accomplishment of supervision. The Group Internal Auditor reports to the CFO and the Board of Directors. In addition to this, the Company's Head of Legal especially ensures that all operations are lawful. He reports directly to the CEO.

The aims of internal auditing are integrally linked with the Company's management system built on a principle of continuous improvement. The implementation of corrective and preventative measures is a key part of the entire process.

RISK MANAGEMENT

The aim of risk management within the HKScan Group is to safeguard the conditions to achieve business objectives and enable uninterrupted business operations. The risks faced by HKScan are by nature strategic (e.g. acquisitions), operative (e.g. animal diseases), financial (e.g. currency exchange rates, interest rates, tax related risks) and risks of damage (e.g. accidents and interruptions in production).

The Board of Directors and CEO have responsibility for the strategy and principles of risk management within the Group, and for managing risks that threaten the achievement of HKScan's strategic intents. Operative risks are the responsibility of the managers of the respective business and Group entities. The CFO is responsible for the management of financial risks and the HKScan Group's insurance policies.

The Company uses a systematic Enterprise Risk Management (ERM) process, which contain consistent principles and systematic practices for risk management. The aim of the ERM process is to promote risk awareness in HKScan and effective risk management throughout the HKScan Group, and to ensure that the Company's management and the Board of Directors are in possession of sufficient information on risks to support their decision-making. The ERM process is an integral component of the management system and strategy process. The risk management policy is applied in all of the companies in the HKScan Group, which carry out business operations.

Risk management is a key element in HKScan's financial reporting process. At the Group level, the Company strives to identify and assess, at least once a year, all significant risks inherent in material balance sheet and income statement items and to determine the key controls for risk prevention.

CONTROL MEASURES

Control measures are designed to ensure that

- the Company's business is managed efficiently and profitably;
- the Company's financial reporting is accurate, transparent and reliable; and
- the Company complies with laws and regulations and all internal principles.

Control measures can take the form of manual or automated system controls. Examples of controls to ensure the reliability of financial reporting include reconciliations, approvals, reviews, analyses and the elimination of high-risk combinations of duties. The Company uses also anonymized channel, through which personnel and our partners can file notifications of unethical behaviour.

HKScan Group's financial administration has determined, via risk assessment, key controls to financial reporting process. The implementation and effectiveness of the controls is the responsibility of financial administration in the business segments. HKScan has in place a self-evaluation process, which seeks to ensure the function and effectiveness of controls relating to financial reporting. In addition to ensuring control effectiveness, self-evaluation also seeks to locate possible gaps and areas for further development in the controls.

MONITORING

HKScan Group's earnings performance is monitored in meetings of the Board and the Group Leadership Team with the help of monthly reporting. The Audit Committee evaluates and the Board approves all interim reports and financial statements prior to their release to the market. The Company's Internal Auditor provides the Audit Committee with an internal audit plan annually and regularly reports internal audit observations. In addition, the external auditors provide the Audit Committee with an annual report on their audit plans and a quarterly report on their audit observations and the functioning of internal control. The Audit Committee in turn conducts an annual evaluation of the performance and independence of the auditors.

In 2018, the development of the internal control framework continued among others by introducing new HKScan policies and guidelines, especially relating to internal and external security, data-privacy, disclosure and animal welfare. During year 2018 the Company's Code of Conduct and internal approval policy for agreements and other transactions were renewed and approved by the Board of Directors.

Implementation of EU's General Data Protection Regulation (GDPR), which took effect in Spring, was in focus whole year as Group wide implementation project to secure compliance with the new regulation in all our home markets was carried out.

RELATED PARTY TRANSACTIONS

The Company has identified its related parties and keeps a list of them in accordance with Recommendation 28 of the Code. The Company has defined its related parties according to the definitions of IAS 24.9 standard. The Company is engaged in transactions with its related parties and the Company evaluates and monitors such transactions in accordance with Recommendation 28 and the Company's internal guidelines for related party transactions.

As a general principle, all transactions to be entered with the related parties shall relate to the company's normal business operations (e.g. sale and purchase of animals) and be line with the purpose of the company and executed on market or market equivalent terms and practices. To ensure that possible conflicts of interest are appropriately taken into account in the decision-making process, the Company's Board of Directors ultimately decides upon execution of any related party transactions that are considered to be material to the Company, deviate from Company's normal business operations or are not made on market or market equivalent terms.

The principle defined in the Company's internal guidelines is that the Internal Auditor regularly monitors transactions concluded between the Company and its related parties and reports to the Board's Audit Committee.

AUDITORS

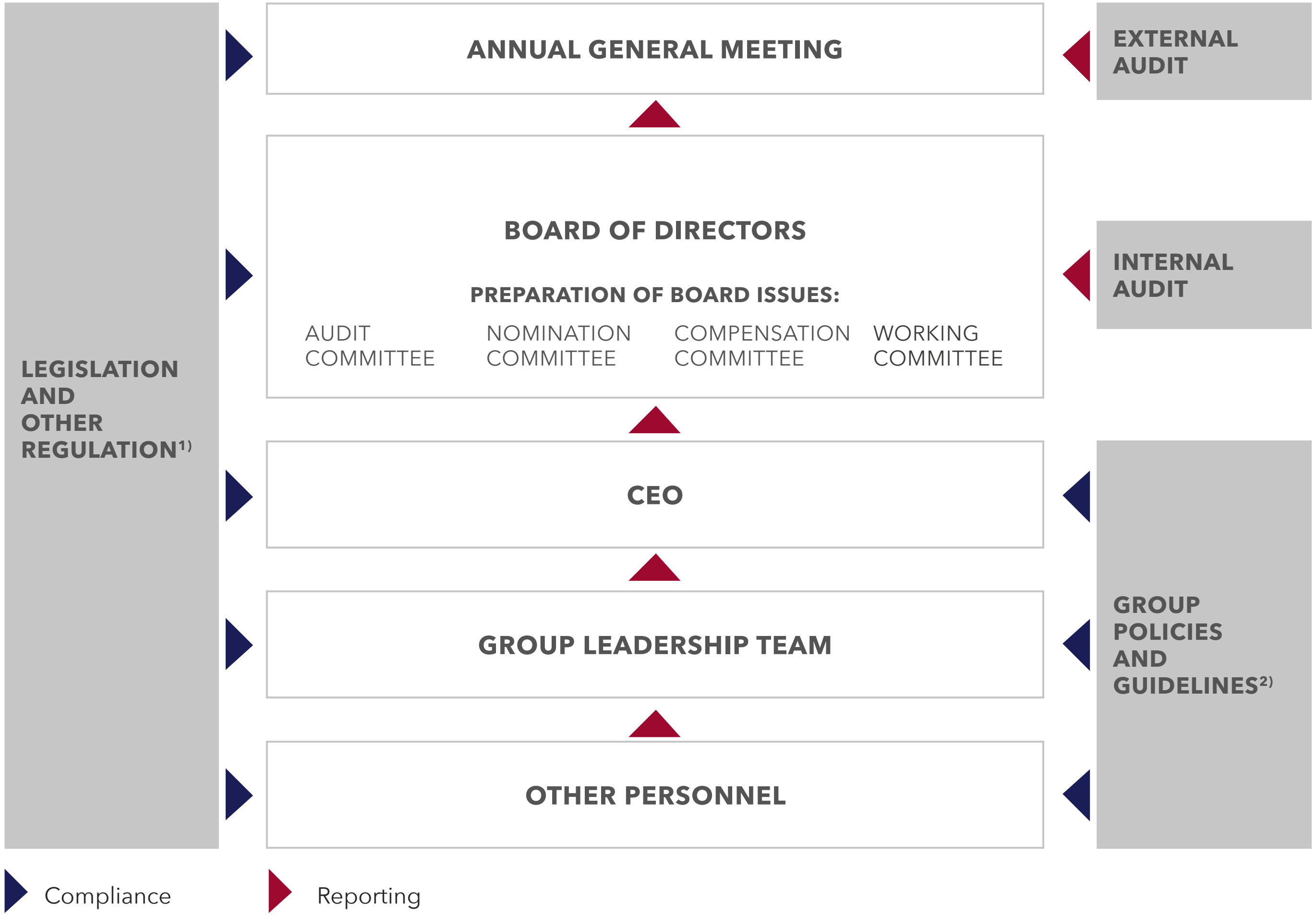
The external auditors are nominated annually by the Annual General Meeting. The AGM 2018 elected Ernst&Young Oy, the firm of authorized public accountants, with APA Erkka Talvinko as responsible auditor of HKScan until the close of the next AGM.

The Group's audit fees paid to independent auditors are presented in the table below. The fees are in respect of the audit of the annual accounts and legislative functions closely associated therewith. Other expert services include tax consulting and advisory services in corporate arrangements.

	2018	2017
Audit fees	-487	-498
Tax consultation	-16	-15
Other fees	-5	-767
Audit fees, total	**-508**	**-1 280**

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total four thousand euros during the financial year 2018.

HKSCAN GROUP GOVERNANCE AND CONTROL SYSTEM



[1] Limited Liability Companies Act, Securities Markets Act, Auditing Act, Accounting Act, EU-level regulations, Financial Supervisory Authority´s regulations, Rules of the Stock Exchange, Corporate Governance Code, industry-related legislation, Market abuse regulation/MAR

[2] Articles of Association, other internal policies, guidelines and operating procedures

REMUNERATION STATEMENT 2018

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

1. DECISION MAKING IN RELATION TO REMUNERATION

This section describes the decision-making procedure concerning the remuneration of the member of the Board of Directors (Board), the CEO and other executives.

The Annual General Meeting (AGM) decides on the remuneration and other financial benefits of the members of the Board and the committees of the Board annually based on a proposal by the Nomination Committee.

The Board decides, based on the proposal made by the Compensation Committee, on the remuneration principles and remuneration of the CEO. The remuneration and terms of employment of the Group Leadership Team (GLT) are decided by the Board on the basis of a proposal from the CEO. The Board approves all Group-wide incentive plans for senior management and key personnel.

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

2. MAIN PRINCIPLES OF REMUNERATION

This section describes the main principles of remuneration relating to the remuneration of the Board members, the CEO and other executives.

Remuneration at HKScan Group is based on the principles of remuneration approved by the Board, and attention is paid to the Group's strategic objectives and financial performance. A motivating remuneration scheme is used as a tool to elicit the commitment to the Group of core expertise and key employees.

HKScan Corporation's remuneration scheme consists of base salary, benefits, as well as short-term and long-term incentive schemes.

Board of Directors

The remuneration of the Board members consists of annual fees based on memberships of the Board and its committees, and in addition members receive an attendance payment for each Board or Committee meeting. The company has no share-based incentive scheme for Board members, neither are the members of the Board covered by the company's incentive or pension plans. Board members receive no separate meeting attendance fees for serving on the Boards of Directors of the Group's subsidiaries or associated companies.

The AGM on 12 April 2018 resolved the annual remuneration payable to the members of the Board as follows:

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

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

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

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

CEO

The principles of the CEO's remuneration are described below:

REMUNERATION ELEMENT	DESCRIPTION
Base salary	Fixed salary which includes taxable fringe benefits (car, housing and telephone). CEO's salary is EUR 56 000 per month.
Insurances	To support and protect the CEO in the performance of his duties, HKScan provides him with health insurance, life and disability insurance, business travel insurance, and liability insurance.
Pension	Retirement age is 63. In addition to Finnish statutory pension plan the CEO is covered by supplementary defined contribution pension plan, which provides a retirement benefit based on the accrued savings capital. The supplementary pension plan is financed in full by the employer and the contribution is 20% of annual salary. If the CEO's contract ends before retirement age, he is entitled to retain the accrued savings.
Short-term incentive (STI)	The CEO is entitled to participate in HKScan's STI program subject to the terms and conditions of such program in effect. The performance criteria on the basis of the STI payout is predefined by the Board annually. The mix of Group and individual targets, and their threshold and maximum ranges, are defined based on the strategic targets. The achievement of individual performance targets shall be evaluated annually by the Chairman of the Board. Maximum award value is 60% of annual base salary.
Long-term incentive (LTI)	The CEO is entitled to participate in HKScan's LTI program subject to the terms and conditions of such program in effect. The Board decides annually the plan terms and performance criteria based on strategic targets. If the performance targets are achieved, the share rewards attained based on the plan will be paid partly in HKScan's series A shares and partly in cash. The cash portion is intended to cover tax and tax-related costs arising from the award. The maximum award value at grant is 100% of annual salary. Final award value is depended on performance and share price appreciation.
Share ownership guidelines	The Board recommends that the CEO would hold 50% of all the shares received from LTI until the value of share ownership corresponds to his annual salary. This share ownership should be held during the validity of service.
Sign-on bonus	The CEO is entitled to a sign-on bonus of maximum EUR 150.000 at the time of assuming his duties. Company can pay half of the bonus, at maximum, in HKScan's shares.
Termination	The agreement can be terminated by both parties. Notice period for the CEO is 6 months. In the event that HKScan terminates the agreement, the CEO is entitled to compensation corresponding to his 12 months' salary. In addition he will be paid the salary for the termination period.

OTHER EXECUTIVES

The principles of the GLT members' remuneration are described below. The GLT consists of members from Finland, Sweden, Denmark and Estonia.

REMUNERATION ELEMENT	DESCRIPTION
Base salary	Annual salary consists of base salary and customary fringe benefits such as company car and phone. Each GLT member's annual salary package varies according to position and country where they reside.
Insurances	To support and protect the GLT members in the performance of their duties, HKScan provides them with health insurance, life and disability insurance, business travel insurance, and liability insurance.
Pension	The GLT members participate in local retirement programs according to local market and company practice in the country where they reside. Additionally, the Finnish members of GLT are covered by a supplementary defined contribution pension plan. The retirement age according to the pension plan is 63 years.
Short-term incentive (STI)	The GLT members are entitled to participate in HKScan's STI program subject to the terms and conditions of such program in effect. The performance criteria on the basis of the STI payout is predefined by the Board annually. The mix of Group, Unit/Function and individual targets, and their threshold and maximum ranges, are defined based on the strategic targets. The achievement of individual performance targets shall be evaluated annually by the CEO. Maximum award value is 50% of annual base salary.
Long-term incentive (LTI)	The GLT members are entitled to participate in HKScan's LTI program subject to the terms and conditions of such program in effect. The Board decides the plan terms & conditions and performance criteria based on strategic targets in the beginning of each earning period. If the performance targets are achieved, the share rewards attained based on the plan will be paid partly in HKScan's series A shares and partly in cash. The cash portion is intended to cover tax and tax-related costs arising from the award. The maximum award value at grant can be up to 90% of annual salary according to the position. Final award value is depended on performance and share price appreciation.
Share ownership guidelines	The Board recommends that the members of GLT would hold 50% of all the shares received from LTI until the value of share ownerships correspond to their annual salaries. This share ownership should be held during the validity of employment.
Termination	The agreement can be terminated by both parties with a notice period of 6 months. GLT members are, in the event of termination by the company, entitled to 6 months' severance payments.

3. REMUNERATION REPORT

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

Board of Directors

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

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

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

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

3) Deputy member of the Board until 12 April 2018.

4) Deputy member of the Board from 12 April 2018.

5) Member of the Compensation Committee from 12 April 2018.

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

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

8) Member of the Nomination Committee until 12 April 2018.

9) Member of the Nomination Committee from 12 April 2018.

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

11) Member of the Board and Compensation Committee until 14 December 2018.

12) According to the resolution of the AGM in 2017 and 2018, the Board's annual remuneration has been paid in Company shares and cash so that 20 per cent of the remuneration was paid in the Company shares acquired on the market on the Board members' behalf, and the rest was paid in cash. The shares were acquired within two weeks after the publication of HKScan Corporation's half year financial report.

The meeting attendance fees do not include travel expenses.

CEO AND OTHER GLT MEMBERS

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

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

1) Remuneration of the CEO in 2018 is an aggregate of payments to Jari Latvanen (1 Jan–27 Nov) and Reijo Kiskola (28 Nov–31 Dec), and includes compensation (payable in 2019) related to termination of Latvanen's contract.

2) Remuneration of GLT members is show as aggregate and is not fully comparable from year to year due to changes in GLT members and in foreign exchange rates.

3) LTI payments are gross amounts, out of which a part has been paid in shares and a part in cash.

SHORT-TERM INCENTIVES (STI)

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

LONG-TERM INCENTIVES (LTI)

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

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

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

All LTI plans include the requirement of continuance of employment or service upon award payment in order to be qualified to receive the potential award. Also, the CEO and other members of GLT should retain at least 50 per cent of all shares received as award until the value of their ownerships correspond to their annual base salaries, during the validity of employment or service.

The table below describes the main features of the long-term incentive plans:

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

AUTHORISATIONS OF THE BOARD CONCERNING REMUNERATION

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

> The shares issued under the authorisation are new or those in the company's possession Series A shares of the Company. Under the authorisation, a maximum of 2 500 000 Series A shares, which corresponds to approximately 4.50 per cent of all of the shares in the Company and approximately 5.00 per cent of all the Series A shares in the Company, can be issued. The shares, option rights or other special rights entitling to shares can be issued in one or more tranches.
>
> Under the authorisation, the Board of Directors may resolve upon issuing new Series A shares to the Company itself without consideration. However, the Company, together with its subsidiaries, cannot at any time own more than 10 per cent of all its registered shares.
>
> The Board of Directors is authorized to resolve on all terms for the share issue and granting of the special rights entitling to shares. The Board of Directors is authorized to resolve on a directed share issue and issue of the special rights entitling to shares in deviation from the shareholders' pre-emptive right. A directed share issue always requires a weighty economic reason for the Company and the authorisation may not be utilized inconsistently with the principle of equal treatment of shareholders.
>
> The authorisation to issue new shares, option rights as well as other special rights entitling to shares was resolved in order to enable the Board of Directors to decide flexibly on capital markets transactions that are beneficial for the Company, such as securing the financing needs of the Company or implementing acquisitions. In addition, the authorisation may be used in order to implement share based incentive arrangements and payment of the share-based remuneration directed to the management of the company and the Group companies.
>
> The authorisation shall be effective until 30 June 2019, and it revokes the authorisation granted on 6 April 2017 by the Annual General Meeting to the Board of Directors to resolve on an issue of shares, option rights as well as other special rights entitling to shares.

The Board resolved, within its authorisation, on a directed share issue without consideration according to the Group's share-based incentive plan 2013, payment of the rewards for the performance period 2015. On 20 April 2018 a total of 16 501 HKScan Corporation's A shares owned by the company were transferred without consideration to the participants of the share-based incentive plan according to its terms (stock exchange release on 20 April 2018).

RISK MANAGEMENT

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

Risk management is embedded in the HKScan management system and is based on the consistent identification, assessment and reporting of risks throughout the Group. The company's Enterprise Risk Management (ERM) process aims to promote risk awareness and effective, proactive risk management throughout the Group, and to ensure that management and the Board of Directors are in possession of sufficient information about 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 market area and Group function. 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 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 minimised 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, and pork, beef and poultry. 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 and extreme weather phenomena (e.g. dryness) 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.

From HKScan's main brands, HK®, Kariniemen® and Scan® have delivered a promise of a domestic meat content of 100 per cent. Although this gives HKScan a competitive edge over imported brands, it also makes HKScan vulnerable if domestic meat production declines.

HKScan monitors actively prices and availability of raw materials used in production. The Group may use external specialists for making estimates for future development.

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, good co-operation 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 materialising 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 health and welfare-related risks

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Animal disease risks are mitigated by continuous follow-up of animal disease situation, collaboration with authorities, veterinarians and HKScan's producer services and animal producers. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes. At farm level biosecurity and high hygiene standards and procedures are followed.

An outbreak of possible 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. For example, export bans between countries may be possible. Animal diseases may have a long-term impact on consumer behaviour, although HKScan 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 increase 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.

HKScan mitigates these risks among others by conducting business continuity assessments (what-if analyses) and planning and implementing preventive maintenance at critical operational locations.

Possible product-related quality issues and food safety risks

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalisation of the food chain, food fraud and deliberate sabotage have emerged as central themes alongside other food safety risks. To identify and prevent the risks related to them, HKScan Group has created a separate risk assessment model covering the entire chain.

To control risks, we require all players in our value chain to have a comprehensive food safety management system, and we monitor its implementation with regular audits both in our own facilities and in other production plants in our value chain.

Environmental responsibility-related risks

Environmental risks have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. Identified environmental risks include risks related to wastewater and chemical leaks; these risks are being managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

Risks related to respect for human rights and corruption or bribery

HKScan's risk management has identified risks related to human rights in work safety management and in inappropriate treatment of employees. Work safety risks are managed through work safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the risk evaluation of the sourcing process.

HKScan's risk management has not identified any risks related to corruption or bribery. The Code of Conduct describes the company's policy on corruption and bribery, and these are monitored in internal audits. Corruption-related risks in the supply chain are managed in the risk evaluation of the sourcing process.

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 and other risks

Financial risks refer to unfavourable movements taking place in financial markets that may erode accrual of the company's result or reduce cash flows. The company's financial risk management aims to harness financial means to hedge the company's intended earnings performance and equity and to safeguard the Group's liquidity in all circumstances.

Financial risk management, including external and internal funding of the Group, is centralised in the Group Treasury function. HKScan's funding is obtained through the parent company, while funding to subsidiaries is arranged by the Group Treasury through intra-Group loans in the local currency of each subsidiary. Part of the Group's profits and costs are denominated in foreign currencies. Additionally, some investments and earnings are denominated in foreign currencies. The most significant exchange risks in the company's business arise from the euro, Swedish krona and US dollar. The largest equities of HKScan companies are in euros, Swedish krona, and Danish krone. The Group's financial risks are presented in more detail in Note 25 to the financial statement.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. HKScan is also involved in some juridical proceedings in its home markets. Breaches of business principles and the Group's Code of Conduct are also recognised as potential risks.

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. Such factors may also hamper the company's operations and cause power outages, damage to production and property, disruptions in distribution chains, or other handicaps. HKScan mitigates these risks caused by unforeseeable factors through insurances, when possible, and necessary.

GROUP LEADERSHIP TEAM

Information as of 31 December 2018, unless stated otherwise. The CVs of members of the Group Leadership Team can be viewed at the Group's website.

TERO HEMMILÄ
CEO, as of 4 February 2019
M.Sc. (Agr. & Econ.), Finnish national, born 1967

HELI ARANTOLA
EVP CATEGORIES AND CONCEPTS
D.Sc. (Econ.), Finnish national, born 1969

SOFIA HYLÉEN TORESSON
EVP MARKET AREA SWEDEN
M.Sc. (Econ.), Swedish national, born 1977

KATI RAJALA
EVP MARKET AREA FINLAND
M.Sc. (Tech.). Finnish national, born 1972

JUKKA NIKKINEN
EVP MARKET AREA DENMARK AND INTERNATIONAL
M.Sc. (Econ.), Finnish national, born 1962

ANU MANKKI
EVP HR
MA, Finnish national, born 1963

ANNE MERE
EVP MARKET AREA BALTICS
MBA, Estonian national, born 1971

MIKKO SAARIAHO
EVP COMMUNICATIONS AND CORPORATE RESPONSIBILITY
M.Sc. (Business Administration), Finnish national, born 1977

PIA NYBÄCK
EVP ANIMAL SOURCING & PRIMARY PRODUCTION
M.Sc. (Eng.), eMBA, Finnish national, born 1969

MIKKO FORSELL
CFO
M.Sc. (Tech.) and M.Sc. (Econ.), Finnish national, born 1974

SAMI SIVURANTA
EVP OPERATIONS
M.Sc. (Tech.), Finnish national, born 1975

MEMBERSHIP IN THE GROUP LEADERSHIP TEAM ENDED DURING OR AFTER THE REPORTING PERIOD

Jari Latvanen,
President and CEO until 27 November 2018

Reijo Kiskola,
President and CEO as of 27 November 2018 until 3 February 2019

Jyrki Karlsson,
EVP Market Area Finland until 31 March 2018

BOARD OF DIRECTORS

Information as of 31 December 2018, unless stated otherwise. The CV's of members of the Board of Directors can be viewed at the Group's website.

REIJO KISKOLA
CHAIRMAN OF THE BOARD
Dairy Engineer, Finnish national, born 1954

PER OLOF NYMAN
MEMBER OF THE BOARD
M.Sc. (Industrial & Management Engineering), Swedish national, born 1956

JARI MÄKILÄ
MEMBER OF THE BOARD as of 30 January 2019, deputy member of the Board until the date
Agricultural Technician, Finnish national, born 1970

HARRI SUUTARI
MEMBER OF THE BOARD as of 30 January 2019
B.Sc. (Eng.), Finnish national, born 1959

TERHI TUOMI
MEMBER OF THE BOARD
as of 30 January 2019
M.Sc. (Econ.), Finnish national, born 1966

CARL-PETER THORWID
DEPUTY MEMBER OF THE BOARD
M.Sc. (Industrial Engineering and Management), Swedish national, born 1964

ILKKA UUSITALO
DEPUTY MEMBER OF THE BOARD
as of 30 January 2019
Finnish national, born 1968

MEMBERSHIP IN THE BOARD OF DIRECTORS ENDED DURING THE REPORTING PERIOD:

Mikko Nikula,
Chairman of the Board until 26 November 2018

Marko Onnela,
Vice Chairman of the Board until 14 December 2018

Riitta Palomäki,
member of the Board until 14 December 2018

Tuomas Salusjärvi,
member of the Board until 14 December 2018

INVESTORS

In this section, you will find information about HKScan as an investment and information about HKScan's shares and shareholders.

More information can be found on our website:
www.hkscan.com/en/investors-information/

HKSCAN AS AN INVESTMENT

HKScan is the leading Nordic food company with over a hundred years' experience in responsible meat production and processing of high-class raw materials.

In 2018, HKScan's net sales totalled EUR 1.7 billion with some 7 200 employees. The company is number one in total sales in its industry in the region of the Baltic Sea. HKScan has been listed on Nasdaq Helsinki since 1997.

HKScan's investor relations strive to offer transparent and reliable information about the company and its operating environment to the capital markets, enabling stakeholders to form a realistic picture of HKScan as an investment.

HKScan aims to ensure that all stakeholder groups are on an equal footing and have sufficient and correct information about the company, and that information is published in a timely manner and without delay. In its communications, HKScan observes the Finnish legislation, rules and regulations of Nasdaq Helsinki and the regulations and guidelines of the European Securities and Markets Authority and the Financial Supervisory Authority.

For more information, please visit our website for investors.

KEY SHARE INFORMATION

Listed in: Nasdaq Helsinki
Trading code: HKSAV
ISIN code: FI0009006308
Sector: Food & Beverage
Number of shares: 49 626 522 (A shares, quoted)
5 400 000 (K shares, not quoted)
Listing date: 6.2.1997

LONG-TERM FINANCIAL TARGETS

- Operating profit: more than 4 per cent of net sales
- Return on capital employed (ROCE): more than 12 per cent
- Net gearing: less than 100 per cent
- Dividends: more than 30 per cent of net profit

SHARES AND SHAREHOLDERS

SHARES

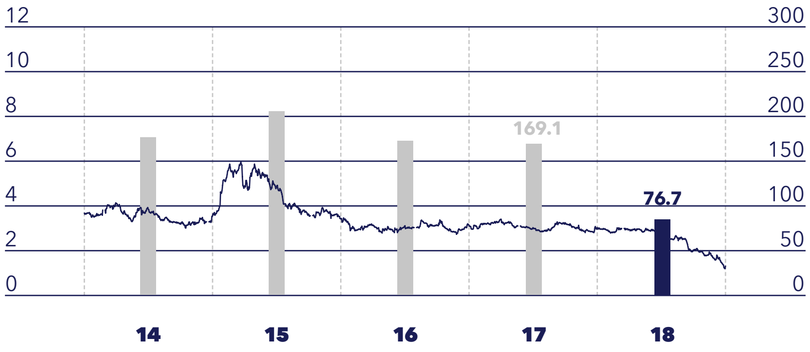
At the end of December 2018, HKScan Corporation's share capital stood at EUR 66 820 528. The Corporation's total number of shares issued, 55 026 522, were divided into two share series as follows: A Shares, 49 626 522 (90.19 per cent of the total number of shares) and K Shares, 5 400 000 (9.81 per cent). The A Shares are quoted on Nasdaq Helsinki Oy. The K Shares are held by LSO Osuuskunta (4 735 000 shares) and Lantmännen ek. för. (665 000 shares) and are not listed. There were no changes in the number of shares and in the holdings of LSO Osuuskunta and Lantmännen ek. för.

At the end of December 2018, the company held 992 348 (1 008 849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

HKScan's calculational market cap at the end of December 2018 stood at EUR 76.7 (169.1) million, breaking down as follows: Series A shares had a market value of EUR 69.1 (152.2) million, and the unlisted Series K shares a calculational value of EUR 7.7 (16.9) million.

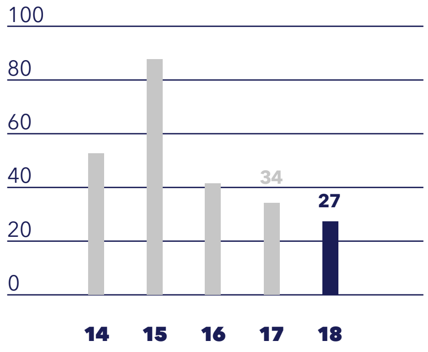
In January–December, a total of 11 399 917 (10 426 342) of the company's shares, with a total value of EUR 27 366 358 (33 784 168), were traded. The highest price quoted in the period under review was EUR 3.23 (3.60), and the lowest was EUR 1.29 (2.96). The average price was EUR 2.40 (3.24). At the end of December 2018, the closing price was EUR 1.42 (3.13).

SHARE PRICE DEVELOPMENT AND MARKET CAPITALISATION EUROS/EUR MILLION



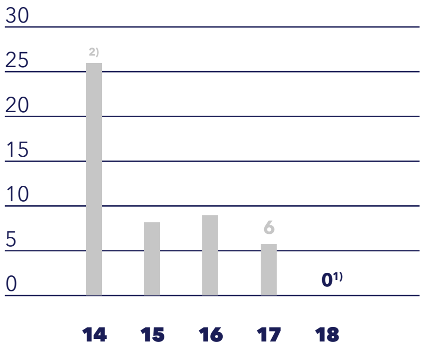
Source: Nasdaq Helsinki

SHARES TRADED EUR MILLION



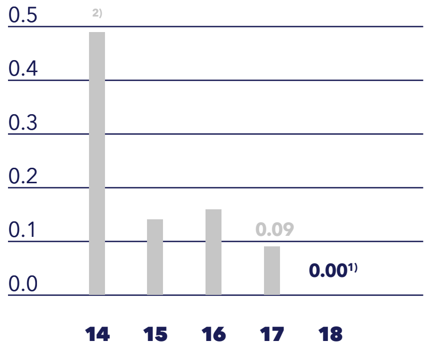
Source: Nasdaq Helsinki

DIVIDENDS EUR MILLION



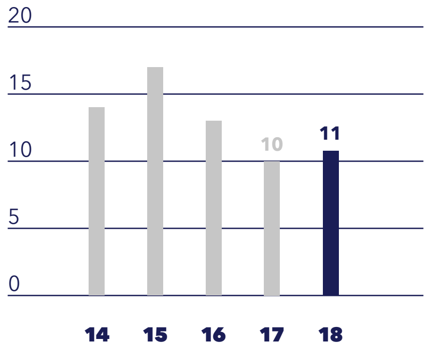
[1] Board's proposal to AGM.
[2] Includes EUR 21 million extra dividend.

DIVIDEND/SHARE EUROS



[1] Board's proposal to AGM.
[2] Dividend 0.10 euros/share + extra dividend 0.39 euros/share.

SHARES TRADED IN MILLIONS



Source: Nasdaq Helsinki

SHAREHOLDERS

At the end of 2018, the shareholders maintained by Euroclear Finland Ltd included 12 376 (12 212) shareholders. Nominee-registered foreign shareholders held 16.1 (18.1) per cent of the company's shares.

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DECEMBER 2018

	SHARE OF OWNERS, %	SHARE OF SHARES, %	SHARE OF VOTES, %
Corporates	3.59	43.12	68.99
Finance and insurance companies	0.21	4.64	6.97
Public entities	0.05	6.45	2.25
Households	95.39	24.52	8.56
Non-profit organisations	0.47	3.13	1.09
Domestic sectors, total	99.70	81.87	87.87
Abroad	0.30	0.16	0.32
All sectors, total	**100**	**82.03**	**88.18**
General account		0.24	0.08

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARE ON 31 DECEMBER 2018

NUMBER OF SHARES HELD	SHARE-HOLDERS	SHARE-HOLDERS %	SHARES	SHARES %	VOTES	VOTES %
1-100	3 337	26.96	163 670	0.30	163 670	0.10
101–500	4 425	35.76	1 267 939	2.30	1 267 939	0.80
501–1 000	1 999	16.15	1 568 458	2.85	1 568 458	1.00
1 001–5 000	2 106	17.02	4 755 521	8.64	4 755 521	3.02
5 001–10 000	283	2.29	2 055 561	3.74	2 055 561	1.30
10 001–50 000	178	1.44	3 615 951	6.57	3 615 951	2.29
50 001–100 000	20	0.16	1 420 268	2.58	1 420 268	0.90
100 001–500 000	13	0.11	3 111 134	5.65	3 111 134	1.97
500 001–	15	0.12	36 013 900	65.45	121 038 900	76.79
Total	**12 376**	**100**	**53 972 402**	**98.08**	**138 997 402**	**88.18**
of which nominee registered	10		8 836 616	16.06	8 836 616	5.61
Waiting list	2		925 000	1.68	18 500 000	11.74
General account			129 120	0.24	129 120	0.08
Number of shares issued			55 026 522	100	157 626 522	100

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2018

		A SHARES	K SHARES	OF TOTAL SHARES, %	OF TOTAL VOTES, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Lantmännen ek. för	2 619 750	665 000	5.97	10.10
3	Nordea Henkivakuutus Suomi Oy	1 500 000		2.73	0.95
4	Keskinäinen työeläkevakuutusyhtiö Elo	1 142 830		2.08	0.73
5	Apteekkien Eläkekassa	1 081 889		1.97	0.69
6	HKScan Oyj	992 348		1.80	0.63
7	Maa- ja metsätaloustuottajain Keskusliitto MTK ry	836 414		1.52	0.53
8	Keskinäinen työeläkevakuutusyhtiö Varma	822 806		1.50	0.52
9	Petter och Margit Forsströmin säätiö Karl ja Olivia Forströmin muistolle	670 500		1.22	0.43
10	Hisinger-Jägerskiöld Eva	650 000		1.18	0.41
11	Suhonen Jyrki	567 003		1.03	0.36
12	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550 000		1.00	0.35
13	K. Hartwall Invest Oy Ab	500 000		0.91	0.32
14	Valtion Eläkerahasto	500 000		0.91	0.32
15	Hallqvist AB	405 000		0.74	0.26
16	J & K Hämäläinen Oy	277 000		0.50	0.18
17	Gripenberg Jarl kuolinpesä	215 000		0.39	0.14
18	Ab 2011 Fruitgum Company Oy	205 923		0.37	0.13
19	4Capes Oy	175 000		0.32	0.11
20	Hissinger-Jägerskiöld Claes-Johan kuolinpesä	150 000		0.27	0.10
	Other shareholders	**21 306 175**	**0**	**38.72**	**13.51**
	Amount of shares total	**49 626 522**	**5 400 000**	**100**	**100**

Source: Euroclear Finland

SHARE-BASED INCENTIVE PLAN

On 7 February 2018, HKScan announced that the Board of Directors of HKScan Corporation approved a share-based long-term incentive plan for the Group's top management and selected key employees for 2018–2020. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure.

The first plan (PSP 2018–2020) commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in spring 2021 if the performance targets set by the Board of Directors are reached. The potential rewards will be paid in class A shares of HKScan. Approximately 30 individuals are eligible to participate in PSP 2018–2020.

The complementary Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year vesting period after which the allocated restricted share grants will be paid to the participants in class A shares of HKScan. The first plan (RSP 2018–2020) within the Restricted Share Plan structure commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in the spring 2021. Eleven individuals belonging to the top management are eligible to participate in RSP 2018–2020.

SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2018, 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 53 229 A Shares, corresponding to 0.1 per cent of the total number of shares and 0.03 per cent of the votes.

DEBT INVESTORS

More detailed information for HKScan's debt investors is provided at www.hkscan.com/en/investors-information/financials/Debtinvestors/

FOR MORE INFORMATION:

- For information about our Annual General Meeting, please visit our website: www.hkscan.com
- To review an updated list of analysts covering HKScan, please visit our website: www.hkscan.com/en/investors-information/share/Analysts/

IR CONTACTS

- **Mikko Forsell**, CFO
- **Keijo Keränen**, VP Treasury and IR
- **Mikko Saariaho**, EVP Communications and Corporate Responsibility
- **Marja-Leena Dahlskog**, VP Corporate Communications

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FINANCIALS

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2018

- Net sales were EUR 1 715.4 (1 808.1) million
- EBIT was EUR -49.5 (-40.3) million, and the EBIT margin -2.9 (-2.2) per cent. Comparable EBIT was EUR -47.5 (-17.6) million. The corresponding EBIT margin was -2.8 (-1.0) per cent.
- EPS was EUR -1.00 (-0.79).
- Cash flow before investments was EUR -15.1 (57.8) million and before debt service EUR -107.2 (-49.6) million.
- Net debt was EUR 289.4 (208.2) million and net gearing stood at 88.6 (59.3) per cent. The increase was mainly caused by the Rauma poultry plant investment.
- The challenges related to the Rauma unit ramp-up impacted the Group's comparable EBIT by EUR -35.7 million.
- Outlook for 2019: Global meat consumption is projected to increase during the coming years. Within HKScan's home markets, consumption growth is estimated to be led by poultry and meal categories, while demand in other categories is expected to remain stable. HKScan expects its improvement programmes and other corrective actions to start recording results in 2019.

GROUP OVERVIEW

HKScan's full-year result was disappointing. The implementation of the From Farm to Fork strategy has not yielded the desired change in the company's profitability. Firm actions are now needed to correct the negative development.

The Group's From Farm to Fork strategy is a relevant framework for us. As a part of our annual strategy process, we will update the strategy and re-define our strategic focus areas. The strategy work will start immediately and proceed during the first half of the year.

It is evident that we need to strengthen our foundation based on strong meat industry competences and focus more firmly on leading the meat value chain efficiently. This requires more active management of all parts of the long value chain. These capabilities have somewhat eroded in our company, which has been one factor causing inefficiency and weak financial performance. Once we have corrected these basic issues, we can start shifting our focus towards actions targeting renewal.

To ensure our focus on our customers and consumers we aim to put stronger emphasis on market area level management of the value chain and the product portfolio. Our aim is to operate in a more dynamic and efficient way, closer to our customers. Increasing net sales and improving productivity and cost efficiency will remain our key focus areas when building a more solid foundation for our business.

During the second half of the year, HKScan succeeded in improving further the delivery capability from the Rauma poultry unit, but there were still challenges that strongly burdened the result. There is still plenty of work to be done in order to reach the targeted level of operational efficiency. In the near future, we will further strengthen our focus and level of special expertise needed in Rauma to improve the unit's efficiency and thereby its financial performance.

The group-wide efficiency improvement programme, specified in July 2018 is ongoing. The programme targets EUR 40 million annual savings during the year 2020 and onwards. We expect the most significant savings to stem from improved operational efficiency and reduced administrative costs. Effects of the programme are not showing yet in the 2018 results.

Despite the challenges, HKScan has several important strengths supporting our profitability improvement efforts. We have skilled personnel, strong consumer brands, a large selection of great products and a strong place on the consumer's dinner table. We firmly believe that, together with our personnel, we will be able to improve the company's competitiveness.

The Group's net sales were EUR 1 715.4 (1 808.1) million. Net sales decreased mainly as a result of the weakening of the Swedish krona, the Rauma poultry unit's ramp-up challenges and decreased sales in red meat both in Sweden and Finland. In Denmark, net sales increased slightly from the previous year as a result of boosted export volumes. A small increase in net sales was recorded also in the Baltics.

The Group's comparable EBIT was EUR -47.5 (-17.6) million. It was burdened by the ramp-up costs of the Rauma poultry unit by EUR -35.7 million due to increased production costs, material loss as well as lost sales.

In Sweden, EBIT improved from the previous year despite the weaker Swedish Krona, due to operational efficiency measures and lower administration costs. Denmark's EBIT decreased from the comparison period despite the improvement in operational efficiency and cost control. This was caused by increased raw material costs and changes in sales mix. In the Baltics, EBIT decrease was driven by increased personnel costs and the lowered market price of pork.

During the third quarter, HKScan specified further the content, financial targets and schedule of its ongoing efficiency improvement programme. The goal of the programme is to improve profitability and its full impact will be EUR 40 million in annual savings during the year 2020 and onwards. The programme covers all functions in the company's home markets – Finland, Sweden, Denmark and the Baltics.

In February 2018, HKScan signed an agreement to establish a joint venture in China. The company will commercialise, sell and market Finnish premium quality pork products in the Chinese market. Exports commenced in April, creating new revenue opportunities throughout the entire value chain.

The overall meat market showed positive development in all market areas. While fierce price competition continued and private labels increased their market share, the domestic origin of meat continued to raise growing interest among consumers in the Group's main market areas.

REVIEW BY MARKET AREA

NET SALES AND EBIT BY MARKET AREA

EUR MILLION	2018	2017
NET SALES		
Sweden	682.1	759.4
Finland	721.9	742.2
Denmark	149.3	147.8
Baltics	162.1	158.7
Group total	**1 715.4**	**1 808.1**
EBIT		
Sweden	8.6	5.4
Finland	-36.6	-16.5
Denmark	-5.9	-13.9
Baltics	-0.7	4.4
Segments total	**-34.6**	**-20.6**
Group administration costs	-14.9	-19.7
Group total	**-49.5**	**-40.3**

ITEMS AFFECTING COMPARABILITY

	2018	2017
Comparable EBIT	**-47.5**	**-17.6**
Personnel costs, Group Management 2)	-1.2	-
Termination of employment, Group Management 2)	-	-1.6
Termination of employment, Sweden 2)	-0.1	-3.2
Closing of sales office, Sweden 3)	-0.2	-
Termination of employment, Finland 2)	-	-0.5
Impairment of assets, Finland 1)	-0 5	-4.2
Environmental provision, Finland 3)	-	-2.5
Termination of employment, Denmark 2)	-	-0.6
Impairment of assets, Denmark 1)	-	-10.1
EBIT	**-49.5**	**-40.3**

1) Included in the Income Statement in the item "Depreciation and amortization"
2) Included in the Income Statement in the item "Employee benefits expenses"
3) Included in the Income Statement in the item "Other operating expenses"

The division of segments is based on the Group's 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

Net sales were EUR 682.1 (759.4) million and comparable EBIT was EUR 8.9 (8.6) million. Net sales decreased from the previous year mainly due to the weakened Swedish krona.

Despite good development in processed categories, product sales also decreased slightly in local currency. The hot and dry summer and the resulting barbeque ban lowered the demand in the red meat category. This together with fierce price competition had a negative impact on net sales.

Despite the negative currency effect, Comparable EBIT increased from the comparable period as a result of the operational efficiency measures and lower administration costs.

Both pork and beef animal raw material prices decreased due to increased availability on the market. Swedish meat continued to increase its share of the total Swedish meat market as well as its share in private label products in all categories. Stock levels remained close to par with the previous year during the whole reporting period.

MARKET AREA FINLAND

Net sales were EUR 721.9 (742.2) million and comparable EBIT was EUR -36.1 (-9.3) million. Net sales decreased due to postponed poultry campaigns and ramp-up challenges with the new poultry unit in Rauma. Special measures for improving delivery capability were taken in close cooperation with the customers throughout the year and the overall delivery capability of poultry products increased clearly towards the end of the year.

Total sales in other product groups decreased from the previous year mainly due to lower sales in the red meat category. However, meals and meal components developed well. HKScan's exports from Finland to China commenced and the first deliveries took place in April.

The Rauma plant ramp-up phase started at the end of the third quarter in 2017. Ramp-up challenges decreased the EBIT by EUR -35.7 million due to higher production costs and material losses together with lost sales and market share. Operations in the old Eura unit were closed at the end of the second quarter in 2018. Overall inventory levels were higher compared to the previous year during the entire year.

MARKET AREA DENMARK

Net sales were EUR 149.3 (147.8) million and comparable EBIT was EUR -5.9 (-3.2) million. The increase in net sales was attributed to boosted export volumes, while domestic retail sales decreased slightly due to fierce price competition.

Comparable EBIT decreased from the previous year despite the positive development in operational efficiency and lower administration costs. Branded sales in retail were kept under pressure by fierce price competition, which decreased margins together with increased raw material costs and changes in the sales mix. The share of the fresh chicken category in domestic retail continued its increase compared to the frozen category.

MARKET AREA BALTICS

Net sales were EUR 162.1 (158.7) million and comparable EBIT EUR -0.7 (4.4) million. Net sales were boosted by the continuing good growth in domestic retail sales and improved product mix, which offset the impact of lower slaughter volumes and slaughterhouse strike activities at the Rakvere unit during the first half of the year. The share of novelties increased as well.

Comparable EBIT decreased from the previous year due to increased animal procurement costs together with the low European meat market prices. In addition, increased personnel costs and additional costs from strike activities in the Rakvere unit during February–April eroded the performance.

The change in the fair value of biological assets amounted to EUR -0.7 (0.1) million.

STRATEGY IMPLEMENTATION

HKScan's From Farm to Fork strategy and relating strategic focus areas were launched in August 2017. The five focus areas were defined as: Focus on meat, Leadership in poultry, Continue growing the meals business, Cooperate with our farming community and Drive efficiency and cost-competitiveness. The Group's strategy execution was initiated in autumn 2017, but it has not resulted in the desired profitability.

HKScan's strategy will be updated this year, during the annual strategy process. As part of the process, we will re-define our strategic focus areas. The strategy work will start immediately and proceed during the first half of the year.

It is evident that we need to strengthen our foundation based on strong meat industry competences and focus more firmly on leading the meat value chain efficiently. This requires active management of all processes along the long value chain. These capabilities have somewhat eroded in HKScan, which has been one of the factors causing inefficiency and weak financial performance. Once we have corrected these basic issues, we can start shifting our focus towards actions targeting renewal.

To ensure a full focus on our customers and consumers we aim to put stronger emphasis on market area level management of the value chain and the product portfolio. Our aim is to operate in a more dynamic and efficient way, closer to our customers in local markets. Increasing net sales and improving productivity and cost efficiency will remain our key focus areas when building a more solid foundation for our business.

The Rauma poultry unit investment has had a significant role in the implementation of the current strategy. The unit will enable new, innovative products in the attractive poultry category. In the long run, the unit will also improve HKScan's competitiveness. Regardless of challenges related to the ramp-up phase of the Rauma unit, operations at the old Eura unit were terminated during the second quarter. During the third and fourth quarter, the performance of the Rauma operations developed gradually and delivery capability improved. There is nevertheless plenty of work to do in order to reach the targeted level of operational efficiency.

A programme for improving our operational efficiency was launched in the third quarter of 2017. The programme has been rolled out simultaneously at several production units. HKScan is improving on-site efficiency and developing asset utilisation in its production network with positive results.

The group-wide efficiency improvement programme, specified in July 2018 is ongoing. The programme targets EUR 40 million annual savings during the year 2020 and onwards. We expect the most significant savings to stem from improved operational efficiency and reduced administrative costs. Effects of the programme are not showing yet in the 2018 results.

Together with its farming community, HKScan has launched several strategic initiatives to secure the availability of responsibly produced, domestic, high-quality meat. Examples of these actions comprise pork, poultry and beef products based on completely antibiotic-free rearing, which is among the company's key competitive assets in export markets. During the third quarter, HKScan launched in Finland an education programme targeted for young farmers with an aim to support generation shifts of farming entrepreneurs. HKScan strives to safeguard the long-term competitiveness of sustainable Nordic primary production.

To strengthen the Group's position in the attractive and growing meals business, a decision to invest in the expansion of the Group's meals production capacity in Rakvere, Estonia was made in December 2017. The investment project has proceeded according to plan.

An important milestone in strategy implementation was achieved in April 2018, when HKScan launched pork exports form its Finnish Forssa plant to China. The export activities in China are proceeding well.

The growing demand for sustainably produced, high-quality food will be in the company's focus also in the near future. By stressing quality and sustainability in all its operations, HKScan continues to build a differentiating edge for both the Nordic and international markets.

INVESTMENTS

The Group's gross investments in 2018 came to EUR 41.0 (125.5) million.

Their breakdown by market area was as follows:

EUR MILLION	2018	2017
Sweden	6.4	13.7
Finland	21.9	100.4
Denmark	2.3	1.3
Baltics	10.4	10.0
Total	**41.0**	**125.5**

FINANCING

The Group's interest-bearing debt at the end of the year was EUR 319.0 (259.2) million. Net debt was EUR 289.4 (208.2) million. It increased by EUR 81.2 million from the previous year-end due to ramp-up costs and investment payments of the Rauma poultry plant. The net gearing ratio was 88.6 (59.3) per cent. Cash flow before investments decreased to EUR -15.1 (57.8) million.

The Group's liquidity remained good. Committed credit facilities at the end of the year 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 35.5 (0.0) million.

During the first quarter, the Group withdrew a new bilateral 4-year term loan (bullet) of EUR 40 million in relation to the Rauma investment. During the third quarter, HKScan issued a EUR 40 million hybrid bond to strengthen the company's capital structure. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date.

Net financial expenses were EUR -9.9 (-6.9) million, including fair value change for interest rate derivatives to the amount of EUR 1.9 (3.2) million. Net financial expenses increased due to the increase in interest-bearing debt.

With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities will grow by approximately EUR 45 million. With this increase the net gearing at year end 2018 would be approximately 102 per cent.

RESEARCH AND DEVELOPMENT

A total of EUR 8.6 (6.5) million was spent on R&D in 2018, equal to 0.5 (0.4) per cent of net sales.

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

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

CORPORATE RESPONSIBILITY

Corporate responsibility is an integral part of HKScan's From Farm to Fork strategy. HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare and Environment.

Corporate Responsibility at HKScan has been described on HKScan's web page. This information is complemented by the Group's 2018 Report of Non-financial Information and the Group's Annual Report 2018, to be published in March 2019.

During the year, HKScan has revisited some of its policies and updated the Group Code of Conduct and Disclosure Policy. Both documents have been published on the Group web site.

ANNUAL GENERAL MEETING AND BOARD OF DIRECTORS' AUTHORIZATIONS

The Annual General Meeting (AGM) of HKScan Corporation was held on 12 April 2018 in Turku, Finland. The AGM resolved that a dividend of EUR 0.09 shall be paid for 2017.

The AGM also resolved on the annual remuneration of the Board's members, deputy members and the chairs of the committees. Of the current Board members, Mikko Nikula, Per Olof Nyman, Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi were re-elected, and Reijo Kiskola was elected as a new member until the end of the Annual General Meeting 2019. In addition, Carl-Peter Thorwid was re-elected and Jari Mäkilä was elected as deputy Board member until the end of the Annual General Meeting 2019.

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

Ernst & Young Oy, the firm of authorised public accountants, with Erkka Talvinko, APA, as the lead audit partner, was elected as the auditor until the closing of the next AGM.

The AGM authorised the Board to decide on share issues, option rights as well as other special rights entitling to shares, and on the purchase of the company's own Series A shares and/or on the acceptance the company's own Series A shares as pledges. The authorisations will be effective until 30 June 2019, revoking the authorisations given by the AGM 2017.

The resolutions of the Annual General Meeting have been published in full in the stock exchange release of 12 April 2018 and are also available on the company's website at www.hkscan.com.

EXTRAORDINARY GENERAL MEETING

After the reporting period, on 7 January 2019, HKScan published a Notice of the Extraordinary General Meeting that was held on Wednesday, 30 January 2019, in Turku, Finland.

The Extraordinary General Meeting resolved that the number of ordinary members of the Board of Directors would be five (5) and the number of deputy members would be two (2).

Jari Mäkilä, Harri Suutari and Terhi Tuomi were elected as new members of the Board of Directors until the end of the Annual General Meeting 2019, In addition, Ilkka Uusitalo was elected as new deputy Board member until the end of the Annual General Meeting 2019.

Reijo Kiskola and Per Olof Nyman continue as Board members and Carl-Peter Thorwid as a deputy Board member until the end of the Annual General Meeting 2019.

CHANGES IN THE SENIOR MANAGEMENT AND BOARD OF DIRECTORS

On 27 November 2018, HKScan Corporation's Board of Directors elected Board member Reijo Kiskola as its new Chairman. Mikko Nikula left his position as the Chairman of the Board of Directors and as Board member. In connection with the change, President and CEO Jari Latvanen left his position in HKScan.

On 28 November 2018, HKScan announced that Tero Hemmilä, M.Sc. (agr. econ.) had been appointed as HKScan Corporation's new CEO. After the reporting period, on 30 January 2019, HKScan announced that Tero Hemmilä will start working at Company on 4 February 2019.

On 14 December, HKScan announced that the Board members Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi had announced their resignation from HKScan Corporation's Board of Directors.

SHARES AND SHAREHOLDERS

SHARES

At the end of December 2018, HKScan Corporation's share capital stood at EUR 66,820,528. The Corporation's total number of shares issued, 55,026,522, were divided into two share series as follows: A Shares, 49,626,522 (90.19% of the total number of shares) and K Shares, 5,400,000 (9.81%). The A Shares are quoted on Nasdaq Helsinki Oy. The K Shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of shares and in the holdings of LSO Osuuskunta and Lantmännen ek. för.

On 20 April 2018, a total of 16,501 HKScan Corporation's A shares owned by the company were transferred without consideration to the participants of the share-based incentive plan according to its terms. At the end of December 2018, the company held 992,348 (1,008,849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

HKScan's calculational market cap at the end of December 2018 stood at EUR 76.7 (169.1) million, breaking down as follows: Series A shares had a market value of EUR 69.1 (152.2) million, and the unlisted Series K shares a calculational value of EUR 7.7 (16.9) million.

In January–December, a total of 11,399,917 (10,426,342) of the company's shares, with a total value of EUR 27,366,358 (33,784,168), were traded. The highest price quoted in the period under review was EUR 3.23 (3.60), and the lowest was EUR 1.29 (2.96). The average price was EUR 2.40 (3.24). At the end of December 2018, the closing price was EUR 1.42 (3.13).

SHAREHOLDERS

At the end of 2018, the shareholders maintained by Euroclear Finland Ltd included 12 376 (12 212) shareholders. Nominee-registered foreign shareholders held 16.1 (18.1) per cent of the company's shares.

TREASURY SHARES

At the end of December 2018, the company held 992,348 (1,008,849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

SHARE-BASED LONG-TERM INCENTIVE PLAN

On 7 February 2018, HKScan announced that the Board of Directors of HKScan Corporation approved a share-based long-term incentive plan for the Group's top management and selected key employees for 2018–2020. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure.

The first plan (PSP 2018–2020) commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in spring 2021 if the performance targets set by the Board of Directors are reached. The potential rewards will be paid in class A shares of HKScan. Approximately 30 individuals are eligible to participate in PSP 2018–2020.

The complementary Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year vesting period after which the allocated restricted share grants will be paid to the participants in class A shares of HKScan. The first plan (RSP 2018–2020) within the Restricted Share Plan structure commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in the spring 2021. Eleven individuals belonging to the top management are eligible to participate in RSP 2018–2020.

SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2018, 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 53 229 A Shares, corresponding to 0.1 per cent of the total number of shares and 0.03 per cent of the votes.

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARE ON 31 DECEMBER 2018

NUMBER OF SHARES HELD	SHARE-HOLDERS	SHARE-HOLDERS %	SHARES	SHARES %	VOTES	VOTES %
1–100	3 337	26.96	163 670	0.30	163 670	0.10
101–500	4 425	35.76	1 267 939	2.30	1 267 939	0.80
501–1 000	1 999	16.15	1 568 458	2.85	1 568 458	1.00
1 001–5 000	2 106	17.02	4 755 521	8.64	4 755 521	3.02
5 001–10 000	283	2.29	2 055 561	3.74	2 055 561	1.30
10 001–50 000	178	1.44	3 615 951	6.57	3 615 951	2.29
50 001–100 000	20	0.16	1 420 268	2.58	1 420 268	0.90
100 001–500 000	13	0.11	3 111 134	5.65	3 111 134	1.97
500 001–	15	0.12	36 013 900	65.45	121 038 900	76.79
Total	**12 376**	**100**	**53 972 402**	**98.08**	**138 997 402**	**88.18**
of which nominee registered	10		8 836 616	16.06	8 836 616	5.61
Waiting list	2		925 000	1.68	18 500 000	11.74
General account			129 120	0.24	129 120	0.08
Number of shares issued			55 026 522	100	157 626 522	100

SHARE CAPITAL BY SHARE SERIES 31 DECEMBER 2018

SHARE SERIES	NUMBER OF SHARES	% OF SHARES	% 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 2018

	SHARE OF OWNERS, %	SHARE OF SHARES, %	SHARE OF VOTES, %
Corporates	3.59	43.12	68.99
Finance and insurance companies	0.21	4.64	6.97
Public entities	0.05	6.45	2.25
Households	95.39	24.52	8.56
Non-profit organizations	0.47	3.13	1.09
Domestic sectors, total	99.70	81.87	87.87
Abroad	0.30	0.16	0.32
All sectors, total	**100**	**82.03**	**88.18**
General account		0.24	0.08

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2018

		A SHARES	K SHARES	OF TOTAL SHARES, %	OF TOTAL VOTES, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Lantmännen ek. För	2 619 750	665 000	5.97	10.10
3	Nordea Henkivakuutus Suomi Oy	1 500 000		2.73	0.95
4	Keskinäinen työeläkevakuutusyhtiö Elo	1 142 830		2.08	0.73
5	Apteekkien Eläkekassa	1 081 889		1.97	0.69
6	HKScan Oyj	992 348		1.80	0.63
7	Maa- ja metsätaloustuottajain Keskusliitto MTK ry	836 414		1.52	0.53
8	Keskinäinen työeläkevakuutusyhtiö Varma	822 806		1.50	0.52
9	Petter och Margit Forsströmin säätiö Karl ja Olivia Forströmin muistolle	670 500		1.22	0.43
10	Hisinger-Jägerskiöld Eva	650 000		1.18	0.41
11	Suhonen Jyrki	567 003		1.03	0.36
12	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550 000		1.00	0.35
13	K. Hartwall Invest Oy Ab	500 000		0.91	0.32
14	Valtion Eläkerahasto	500 000		0.91	0.32
15	Hallqvist AB	405 000		0.74	0.26
16	J & K Hämäläinen Oy	277 000		0.50	0.18
17	Gripenberg Jarl kuolinpesä	215 000		0.39	0.14
18	Ab 2011 Fruitgum Company Oy	205 923		0.37	0.13
19	4Capes Oy	175 000		0.32	0.11
20	Hissinger-Jägerskiöld Claes-johan kuolinpesä	150 000		0.27	0.10
	Other shareholders	**21 306 175**	**0**	**38.72**	**13.51**
	Amount of shares total	**49 626 522**	**5 400 000**	**100**	**100**

Source: Euroclear Finland

PERSONNEL

In 2018, HKScan had an average of 7 179 (7 292) personnel.

The average number of employees in each market area was as follows:

	2018	2017
Sweden	2 123	2 139
Finland	2 883	2 964
Denmark	636	663
Baltics	1 538	1 527
Total	**7 179**	**7 292**

Salaries and remunerations to employees, including social costs, totalled EUR 316.7 (328.4) million.

At the end of the second quarter, HKScan published its plan to rationalise and adjust production operations in Finland. During the third quarter, related statutory negotiations covering the company's production and logistics personnel in the Vantaa, Forssa, Mikkeli, Paimio and Outokumpu units were started. After the third quarter, HKScan published the result of the cooperation negotiations. The number of employees would decrease by a total of 165. Additionally, all units within the scope of the negotiations have prepared for location-specific layoffs due to seasonal fluctuations.

During the second quarter and the latter part of the year, Group-wide actions for cascading HKScan's values were taken. Cross-functional workshops were arranged at all HKScan's offices and production units.

SHORT-TERM RISKS AND UNCERTAINTY FACTORS

Potential challenges related to the targeted efficiency improvement of the Rauma unit may impact on the Group's financial performance.

The risks related to impairment of assets or breaching financial covenants under finance agreements will increase and have an effect on the financial position in case the Group is not able to improve its financial performance and strengthen its balance sheet. Breaches of covenants could result in a default of an essential part of loans.

Significant uncertainty factors in HKScan Group's business are also related to sales and raw material prices, as well as management of global and local meat balances. Increased primary production costs put pressure on increasing raw material prices.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. Public discussion related to meat consumption and climate change may also have an impact on demand.

HKScan is also involved in some juridical proceedings in its home markets. Breaches of business principles and the Group's Code of Conduct are also recognised as operational risks.

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

HKScan's risks are reported in more detail in the risk management section of the Annual Report 2017. The Group's 2018 Report of Non-financial Information and the Group's Annual Report 2018 will be published in March 2019.

CORPORATE GOVERNANCE

HKScan has issued a separate Corporate Governance Statement for the Group. The statement will be published as part of the online Annual Report 2018 on the company's web site www.hkscan.com on week 11/2019.

EVENTS AFTER THE REPORTING PERIOD

After the reporting period, on 30 January 2019, HKScan announced that Tero Hemmilä would start working as the CEO of the Company on 4 February 2019.

OUTLOOK FOR 2019

Global meat consumption is projected to increase during the coming years. Within HKScan's home markets, consumption growth is estimated to be led by poultry and meal categories, while demand in other categories is expected to remain stable. HKScan expects its improvement programmes and other corrective actions to start recording results in 2019.

BOARD OF DIRECTORS' PROPOSAL ON DISTRIBUTION OF PROFIT

The parent company's distributable equity stands at EUR 221.6 (239.3) million including the reserve for invested unrestricted equity, which holds EUR 143.3 (143.2) million. The Board of Directors recommends that the company will not pay a dividend for 2018. Dividend for 2017 was EUR 0.09 per share a total of approximately EUR 4.9 million.

ANNUAL GENERAL MEETING 2019

HKScan's Annual General Meeting will be held on Thursday, 11 April 2019 at 10.00 in Turku, Finland.

To be eligible to attend the Annual General Meeting, shareholders should register by 1 April 2019 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd. A notice to the Annual General Meeting will be published at a later date.

NON-FINANCIAL REPORTING

BUSINESS MODEL AND OPERATIONAL IMPACTS

HKScan's business is to sell, market and produce high-quality, responsibly produced pork, beef, poultry and lamb meat, meat products and meals made from them. HKScan is the leading Nordic food company with home markets in Finland, Sweden, Denmark and the Baltics. The company's products are exported to nearly 50 countries.

With production units in all its home markets, HKScan has a significant direct and indirect impact on employment. The company creates economic value as an employer and a tax payer. In 2018, the company employed nearly 7,200 people.

HKScan's operations are based on responsible and efficient management of the entire, long value chain and on value creation throughout the Farm to Fork chain.

Corporate responsibility is an integral part of HKScan's 'From Farm to Fork' strategy. The company is committed to systematic development of responsible business in its strategy and operations. HKScan actively minimizes the social and environmental impacts related to its operations – from the sourcing of raw material to the finished product. Mitigation of environmental impacts throughout the production chain, also at farms, is important to HKScan.

The company's sourcing of meat raw material in Finland, Sweden and Denmark is based on close partnership and collaboration with HKScan's contract producers. In Estonia, the company has its own farms and contract producer partners. HKScan creates economic value for local communities and society also by sourcing live animals from local markets. Additionally, the company has invested in the professional expertise of meat producers and in strengthening business expertise. Also the share of domestic purchases of other services and products is significant.

HKScan's customers include the retail, HoReCa, food industry and export sectors. HKScan engages in collaboration with its customers in sounding out trends, forecasting demand, product development, marketing, corporate responsibility development, and other business development. HKScan includes consumers in its product development work and engages in a dialogue with consumers through, e.g., social media channels and its country-specific consumer service functions. Efficient management of the supply chain plays a key role when the value creation chain is long and the company's end products are fast-moving perishables. Distribution and transportation are also critical to business operations.

SOCIAL RESPONSIBILITY AND EMPLOYEE-RELATED ISSUES

Social responsibility at HKScan covers product quality and safety, health products, responsible and ethical sourcing, safeguarding and promoting the health and wellbeing of personnel and the development of local producer communities. The related operating principles are defined in the quality and product safety policy, the ethical requirements for suppliers, and the human resources policy.

One of the ways in which HKScan developed product quality and product safety in 2018 was through the rollout of a Group-wide allergen management standard in all its production facilities. Additionally, a programme was launched in all HKScan's home markets to proactively prevent counterfeited foods.

According to nutrition recommendations, meat is part of a balanced diet along with vegetables, whole grains and vegetable fats. Nutrition recommendations guide dietary habits of the general population. Also HKScan aims to have a positive impact on public health by developing and offering consumers a variety of products with good nutritional content. Thirteen per cent of product launches integrated a health aspect, for example a reduced amount of fat or sodium, an increase in the amount of vegetables, a smaller portion size, or the introduction of nitrite-free products.

HKScan primarily uses local meat sourced from long-term contract producers or HKScan's own farms. Animal sourcing is based on a separate animal purchasing policy. Animals are slaughtered at HKScan's own slaughterhouses. Sourcing meat locally has a significant economical and social impact on local communities and, more broadly, also on the surrounding society. Nearly 100 per cent of HKScan's live animal sourcing is from local markets. HKScan's other purchases from local markets account for about 70 per cent of total purchases. Goods suppliers are evaluated for product safety, quality, environmental performance, business practices and sourcing process-related criteria. The supplier evaluation process also includes the evaluation of the supplier's social responsibility and ethical risks.

HKScan's responsibilities as an employer include taking care of employee safety and wellbeing, offering a motivating work environment, skills and know-how development, systematic leadership development, and an equal and diverse work environment. In 2018, employee commitment to the company's values was deepened by arranging workshops on values. The results of a survey assessing the realization of values in leadership were utilized in the work. Values are also part of performance management and recruiting, as well as career and job rotation.

A Group-wide process to improve occupational safety was developed in 2018. HKScan's Lost Time Injury (LTI) frequency has been at a high level (LTI 34.7). The goal is to gradually decrease the LTI frequency to LTI 10 by 2020 and to LTI 3 by 2030. HKScan's occupational health and safety management practices are based on Group-wide operating plans and guidelines.

HKScan operates in close collaboration with producers in line with its strategy. HKScan offers its contract producers training and consulting in planning animal feeding, management, animal healthcare, and in planning new production facilities, among other things. Producer services enable and promote the business of producers and wellbeing in rural areas, as well as support local investments, the professional expertise of producers and its development.

POSSIBLE PRODUCT-RELATED QUALITY ISSUES AND FOOD SAFETY RISKS AND THEIR MANAGEMENT

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalization of the food chain, food fraud and deliberate sabotage have emerged as central themes alongside other food safety risks. To identify and prevent the risks related to them, HKScan Group has created a separate risk assessment model covering the entire chain.

To control risks, we require all players in our value chain to have a comprehensive food safety management system, and we monitor its implementation with regular audits both in our own facilities and in other production plants in our value chain.

SOURCING-RELATED RISKS AND THEIR MANAGEMENT

In HKScan's risk management, sourcing-related risks involve fluctuations in the availability and prices of raw materials. The decrease in domestic meat production is considered a risk because of the domestic origin promise of HKScan's most significant brands (HK®, Kariniemen® and Scan®). Risks related to raw materials or products sourced from suppliers are managed with strict standards that suppliers must meet. Social risks in the supply chain are managed in the risk evaluations of the sourcing process.

HR-RELATED RISKS AND THEIR MANAGEMENT

HKScan's risk management policy states that the company's success is critically dependent upon the professional competence and expertise of its senior executive management and other personnel as well as the organization's ability to continually improve its existing leadership skills and professional competencies, its ability to secure employee loyalty and commitment, and its success in recruiting skilled workers in the future. HKScan is also vulnerable to risks associated with legal and illegal strikes, both in its value chain and among its own production staff. These risks are mitigated by fostering close collaboration with employees, by facilitating teamwork within the company, and by working to improve employee wellbeing. Risks can also be mitigated by using alternative supply chain structures and processes.

ENVIRONMENTAL RESPONSIBILITY

The focus areas of HKScan's environmental work are the reduction of greenhouse gas emissions, energy efficiency, good management of water consumption and wastewater, material efficiency, recycling and utilization of waste. The company measures its environmental impacts continuously and, in 2018, set Group-wide numerical targets for its environmental responsibility. Environmental work and environmental risks are managed through the ISO 14001, ISO 50001 environmental and energy efficiency systems, or through Group guidelines and processes. The efficiency and success of environmental responsibility is assessed by measuring environmental impacts and by monitoring the results in the Operations' Management Team as well as through internal and external ISO 14001or ISO 50001 audits. HKScan had no serious environmental legislation violations in 2018.

The results of the environmental work are collected manually; the results will be ready in February and will be published as part of the Annual Report in March 2019. The specific measures have targeted the improvement of greenhouse gas emissions, energy, water and material efficiency.

ENVIRONMENTAL RESPONSIBILITY-RELATED RISKS AND THEIR MANAGEMENT

Environmental risks have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. Identified environmental risks include risks related to wastewater and chemical leaks; these risks are being managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

ANIMAL HEALTH AND WELFARE

HKScan's strategic objective is to be the best company in the sector in issues related to animal welfare. This means well-bred and healthy animals as well as high-quality meat raw material. The foundation for animal health and welfare is in compliance with EU and local legislation and with guidelines and practices that are stricter than legislated requirements. Improving animal welfare is an ongoing activity in collaboration with the company's contract producers and other collaboration partners.

In 2018 HKScan defined guidelines for the advancement of animal health and welfare to 2030. HKScan's targets are as follows: enabling natural animal behaviour, avoiding unnecessary stress through housing and animal handling practices, an excellent level of biosecurity, avoiding painful measures, minimal or no use of antibiotics. Additionally, HKScan has defined the company's internal indicators for animal health and welfare.

ANIMAL HEALTH AND WELFARE-RELATED RISKS AND THEIR MANAGEMENT

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Animal disease risks are mitigated by continuous follow-up of animal disease situation, collaboration with authorities, veterinarians and HKScan's producer services and animal producers. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes. At farm level biosecurity and high hygiene standards and procedures are followed.

An outbreak of possible 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. For example, export bans between countries may be possible. Animal diseases may have a long-term impact on consumer behaviour, although HKScan 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.

RESPECT FOR HUMAN RIGHTS AND PREVENTION OF CORRUPTION AND BRIBERY

HKScan respects and supports international human rights agreements, the UN Convention on the Rights of the Child, and the International Labour Organization's core conventions. Additionally, HKScan takes into consideration in its operations the United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises.

In 2018 HKScan updated and supplemented its Code of Conduct, which covers human rights, employee rights, ethical business principles, such as the prevention of corruption and bribery, open and credible communications, and responsibility for the environment, animals and product safety. Personnel familiarization with the renewed Code of Conduct was supported through internal communications, and training on the topic will be arranged during 2019. HKScan also requires its suppliers to comply with the Supplier Guidelines.

HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities related to HKScan's operations. This pertains to suspected violations of laws and regulations as well as non-compliance with HKScan's Code of Conduct and other policies. In 2018, 24 reports of possible cases of non-compliance were made via the Fair Way channel. In six of the cases, the investigation was discontinued due to insufficient information, and in two of the cases the investigation is ongoing. Of the investigated cases, sanctions were imposed in three of them for either non-compliance with HKScan's Code of Conduct (two cases), or for the violation of laws or regulations (one case). There were five cases that led to the development of HKScan's processes and operations, and eight cases were determined not to be misconduct or non-compliance. The main emphasis on the reports was on suspected improper behaviour.

RISKS RELATED TO RESPECT FOR HUMAN RIGHTS AND CORRUPTION OR BRIBERY AND THEIR MANAGEMENT

HKScan's risk management has identified risks related to human rights in work safety management and in inappropriate treatment of employees. Work safety risks are managed through work safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the risk evaluation of the sourcing process.

HKScan's risk management has not identified any risks related to corruption or bribery. The Code of Conduct describes the company's policy on corruption and bribery, and these are monitored in internal audits. Corruption-related risks in the supply chain are managed in the risk evaluation of the sourcing process.

REPORTING PRINCIPLES

The targets, actions and results of the corporate responsibility themes based on HKScan's materiality analysis are reported in the corporate responsibility section of the HKScan 2018 Annual Report. The report is compiled in line with the Global Reporting Initiative GRI standards (2016). This report (Non-financial information) covers the results of the responsibility indicators that were finalized before the signing of the Board of Directors' report.

HKSCAN'S CORPORATE RESPONSIBILITY RELATED KPIS, TARGETS AND 2018 RESULTS

CR THEME	KPI	CORPORATE TARGETS	2018
Safe and healthy products	• Certified sites	• 100% certified sites, food safety management systems	• 100%
	• Number of recalls	• Zero recalls	• Reported in annual report
	• Percentage of product launches with health aspects	• Enhance positive impact on nutrition and public health	• 13% of product launches with health aspects
			• Actions reported in annual report
Animal health and welfare	• Internal animal health and welfare KPI's for pigs, broilers, cattle, lamb	Best in class: Well-bred and healthy animals – high meat quality • Natural behaviour enabled • Unnecessary stress avoided by housing and handling practices • Biosecurity at an excellent level • Mitigation of painful procedures • No or minimal use of antibiotic	• Actions reported in annual report
Employees		• Healthy employees, safe working environment, employee satisfaction	• Actions reported in annual report
	• Absentee rate (%)	• Absentee rate 2018: 5.8	• Absentee rate 5.9
	• Lost Time Injury (LTI) frequency rate	• LTI 2021: 10 • LTI 2030: 3	• LTI 34.7
Environment		• Mitigation of environmental impacts	• Actions and KPI results reported in annual report
	• GHG emissions	• 90% reduction by 2030	
	• Total energy use	• 20% energy use reduction by 2030	
	• Total water use	• 25% water use reduction by 2030	
	• Material efficiency		
	- Packaging	• Development towards more sustainable packaging materials and solutions	
	- Waste - Whole carcass use	• Follow waste hierarchy principles • Efficient use of animal raw material (carcass) – circular economy approach	
Farming community	• Based on strategic targets	• High-level producer welfare and competence – profitable business • Contribution to national food supply in possible national emergency situations • Keep local countryside alive	• Actions reported in annual report

Responsible and ethical sourcing	• Purchase of responsible soy	• 100% responsible soy in Finland and Sweden, Denmark and Estonia postponed	• Actions reported in annual report
	• Purchases from local markets - % of local live animals	• 100% Denmark, Finland, Sweden • 100% Estonia: Poultry, cattle • Pigs: Estonia according to supply demand balance	• 100% Denmark, Finland, Sweden • 100% Estonia: Poultry, cattle • 95% Estonia: pigs
	- % of other materials and services	• Positive local economy impact	• About 70%
	• Purchases from suppliers that comply with HKScan's requirements - % of local live animals	• 100% of animal purchases according to animal sourcing practices	• 100%
	- % of other materials and services	• Supplier Guidelines signed by 100% of suppliers by 2020 • Avoid ethical risks	• About 70%
Economic viability of value chain		• Enhance positive impacts in value chain	• Reported in financial statements
	• Operating profit (EBIT)	• Operating profit (EBIT): over 4 per cent of net sales	
	• Return on capital employed (ROCE)	• Return on capital employed (ROCE): over 12 per cent	
	• Net gearing	• Net gearing: under 100 per cent	
	• Dividends (% of net profit)	• Dividends: over 30 per cent of net profit	
Compliance	• No non-compliances in CR themes	• In accordance with laws and regulations	• No serious environmental legislation violations • 24 cases reported to the Fair Way channel • Other cases, if any, reported in annual report

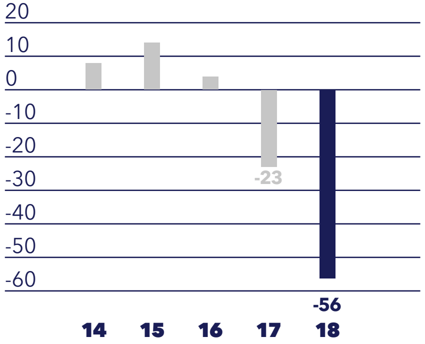
KEY FIGURES

FINANCIAL INDICATORS	2018	2017	2016	2015	2014
Net sales, EUR million	1 715.4	1 808.1	1 872.9	1 917.1	1 988.7
Operating profit/loss (EBIT), EUR million	-49.5	-40.3	9.7	9.6	55.5
% of net sales	-2.9	-2.2	0.5	0.5	2.8
Comparable operating profit/loss, EUR million	-47,5	-17.6	13.2	21.5	12.4
% of net sales	-2.8	-1.0	0.7	1.1	0.6
Profit/loss before taxes, EUR million	-58.3	-45.5	0.9	2.2	51.2
% of net sales	-3.4	-2.5	0.0	0.1	2.6
Return on equity (ROE), %	-15.1	-10.4	-0.9	0.4	13.4
Return on capital employed before taxes (ROCE), %	-7.4	-6.3	2.1	2.3	9.7
Equity ratio, %	35.1	36.9	47.9	50.9	51.5
Net gearing ratio , %	88.6	59.3	33.5	33.8	31.8
Gross investments, EUR million	41.0	125.5	97.6	49.6	48.7
% of net sales	2.4	6.9	5.2	2.6	2.4
R&D expenses, EUR million	8.6	6.5	6.6	5.1	3.7
% of net sales	0.5	0.4	0.4	0.3	0.2
Employees, average	7 179	7 292	7 319	7 437	7 662

PER SHARE DATA	2018	2017	2016	2015	2014
Earnings per share (EPS), undiluted, EUR	-1.00	-0.79	-0.10	0.01	1.05
Earnings per share (EPS), diluted, EUR	-1.00	-0.79	-0.10	0.01	1.05
Equity per share, EUR	5.76	6.23	7.31	7.63	8.09
Dividend paid per share, EUR	0.00*	0.09	0.16	0.14	0.49
Dividend payout ratio, undiluted, %	0.00*	-11.4	-160.4	2 378.9	46.7
Dividend payout ratio, diluted, %	0.00*	-11.4	-160.4	2 378.9	46.7
Effective dividend yield, %	0.00*	2.9	5.0	3.7	15.0
Price-to-earnings ratio (P/E)					
undiluted	-1.4	-4.0	-32.0	647.4	3.1
diluted	-1.4	-4.0	-32.0	647.4	3.1
Lowest trading price, EUR	1.29	2.96	2.89	3.24	3.12
Highest trading price, EUR	3.23	3.60	3.89	6.26	4.49
Middle price during the period, EUR	2.40	3.24	3.19	5.07	3.74
Share price at the end of the year, EUR	1.42	3.13	3.19	3.81	3.27
Market capitalisation, EUR million	76.7	169.1	172.3	205.6	202.9
Trading volume (1 000)	11 400	10 426	13 313	17 321	13 990
% of the average volume	21.1	19.3	24.7	32.1	25.9
Adjusted number of outstanding shares (1 000)					
average during financial period	54 030	54 018	54 006	53 973	53 973
at the end of financial period	54 034	54 018	54 018	53 973	53 973
fully diluted	54 034	54 018	54 018	53 973	53 973

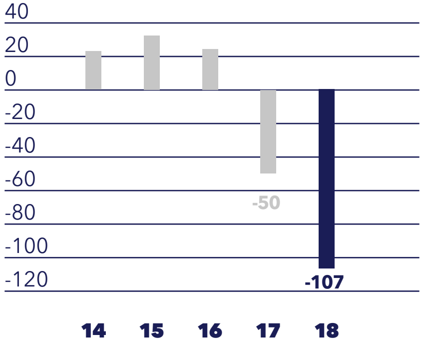
* Based on the Board of Directors' proposal.

PROFIT BEFORE TAX[1)]
EUR MILLION

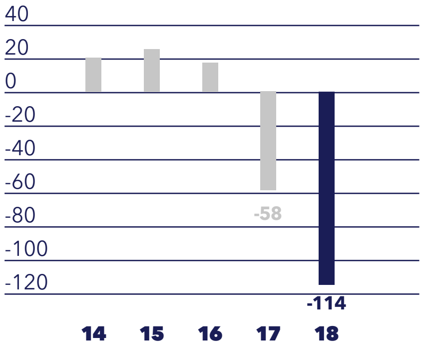


[1)] Comparable

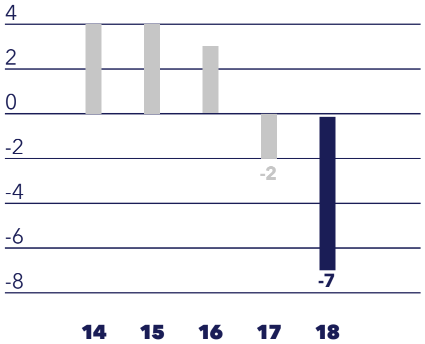
CASH FLOW
BEFORE DEBT SERVICE
EUR MILLION



CASH FLOW BEFORE
FINANCING ACTIVITIES
EUR MILLION

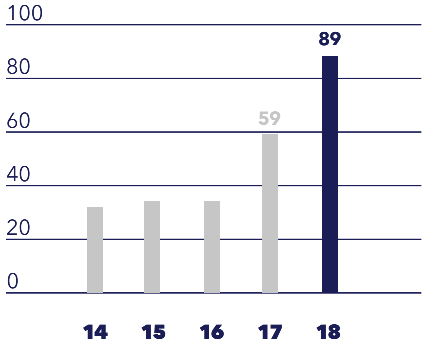


RETURN ON CAPITAL
EMPLOYED (ROCE)[1)]
%



[1)] Comparable

NET GEARING
%



CALCULATION OF FINANCIAL INDICATORS

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

Return on equity (%)

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

Return on capital employed

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

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
Comparable profit before taxes	Profit before taxes – items affecting comparability
Net debt	Interest-bearing debt – cash and bank

* When calculating the earnings per share, interest and issue costs of the hybrid loan, net of tax, have been reduced from profit for the period.

CONSOLIDATED INCOME STATEMENT FOR 1 JANUARY – 31 DECEMBER

EUR MILLION	NOTE	2018	2017
Net sales	1.	1 715.4	1 808.1
Other operating income	2.	8.4	8.5
Materials and services	3.	-1 211.2	-1 271.3
Employee benefits expenses	4.	-316.7	-328.4
Depreciation and amortisation	5.	-56.7	-69.5
Other operating expenses	6.	-188.6	-187.7
EBIT		**-49.5**	**-40.3**
Financial income	7.	2.0	2.0
Financial expenses	7.	-11.9	-8.9
Share of associates' and joint ventures' results		1.1	1.7
Profit/loss before taxes		**-58.3**	**-45.5**
Income tax	8.	7.1	6.0
Profit/loss for the period		**-51.2**	**-39.5**
Profit/loss for the period attributable to:			
Equity holders of the parent		-52.9	-42.5
Non-controlling interests		1.7	3.0
Total		**-51.2**	**-39.5**
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-1.00	-0.79
EPS, diluted, continuing operations, EUR/share	9.	-1.00	-0.79

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY – 31 DECEMBER

EUR MILLION	2018	2017
Profit/loss for the period	-51.2	-39.5
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	-4.0	-2.7
Cash flow hedging	4.2	0.2
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-6.9	-3.1
Total other comprehensive income	**-6.7**	**-5.6**
Total comprehensive income for the period	**-57.9**	**-45.1**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	-59.6	-48.1
Non-controlling interests	1.7	3.0
Total	**-57.9**	**-45.1**

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

CONSOLIDATED BALANCE SHEET ON 31 DECEMBER

EUR MILLION	NOTE	31 DEC. 2018	31 DEC. 2017
Intangible assets	10.	66.3	64.8
Goodwill	11.	71.2	72.4
Tangible assets	12.	434.2	458.2
Shares in associates and joint ventures	13.	21.1	22.5
Other receivables	14.	2.5	2.8
Other shares and holdings	14.	11.9	12.4
Deferred tax asset	15.	42.9	33.2
Non-current assets		**650.2**	**666.3**
Inventories	16.	121.4	111.8
Trade receivables	17.	115.2	100.1
Other receivables	17.	15.5	23.4
Income tax receivable	17.	0.2	0.2
Cash and bank	18.	29.4	50.9
Current assets		**281.7**	**286.4**
Assets		**931.9**	**952.7**
	19.		
Share capital	19.	66.8	66.8
Share premium reserve	19.	72.9	72.9
Treasury shares	19.	0.0	0.0
Hybrid loan	19.	40.0	-
Fair value reserve and other reserves	19.	158.9	154.8
Translation differences	19.	-11.9	-7.9
Retained earnings		-15.6	50.1
Equity attributable to equity holders of the parent		311.2	336.6
Non-controlling interests		15.4	14.4
Equity		**326.6**	**351.0**
Deferred tax liability	15.	16.9	17.4
Non-current interest-bearing liabilities	22.	242.0	245.1
Non-current non-interest-bearing liabilities	22.	3.5	6.7
Non-current provisions	21.	7.0	7.1
Pension obligations	20.	36.0	27.5
Non-current liabilities		**305.4**	**303.8**
Current interest-bearing liabilities	22.	77.0	14.1
Trade and other payables	22.	215.5	273.4
Refund liabilities	22.	6.7	7.6
Income tax liability	22.	0.1	0.7
Current provisions	21.	0.7	2.1
Current liabilities		**300.0**	**297.8**
Equity and liabilities		**931.9**	**952.7**

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

CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION	2018	2017
Profit/Loss for the period	-51.2	-39.5
Adjustments	58.7	69.5
Cash flow before change in net working capital	7.6	30.0
Change in net working capital	-26.4	22.8
Other changes	3.7	5.1
Interest paid	-11.0	-11.1
Other financial expenses paid	-5.4	-5.1
Interest received	1.7	1.8
Other financial income received	3.8	3.2
Dividends received	3.5	0.6
Income taxes paid	-2.1	-1.5
Cash flow from operating activities (A)	**-24.6**	**45.7**
Total investments	-92.2	-108.7
Total sales of assets	2.3	2.8
Loan receivables, borrowings and repayments	0.1	1.9
Cash flow from investing activities (B)	**-89.8**	**-104.0**
Hybrid loan	39.8	-
Proceeds from external borrowings	136.5	256.8
Repayment of external borrowings	-77.1	-140.6
Payment of finance lease liabilities	-0.7	-0.7
Dividends paid	-5.5	-9.0
Transactions with non-controlling interests	-	-4.5
Cash flow from financing activities (C)	**92.9**	**101.9**
Net cash flow (A+B+C)	**-21.5**	**43.6**
Cash and cash equivalents, end balance	29.4	50.9
Cash and cash equivalents, opening balance	50.9	6.6
Effect of changes in exchange rates	0.1	0.6
Change	**-21.5**	**43.6**

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR MILLION	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	RESERVE FOR INVESTED UNRESTRICTED EQUITY (RIUE)	HYBRID LOAN	OTHER RESERVES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	EQUITY HOLDERS OF THE PARENT	NON-CONTROLLING INTERESTS	TOTAL
EQUITY ON 1 Jan. 2018	66.8	72.9	1.0	143.5	0.0	10.3	-7.9	0.0	50.1	336.6	14.4	351.0
IFRS9 Change in opening balance	-	-	-	-	-	-	-	-	-1.0	-1.0	-	-1.0
Result for the financial period	-	-	-	-	-	-	-	-	-52.9	-52.9	1.7	-51.2
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-0.1	-	-	-	-4.0	-	-	-4.0	-	-4.0
Cash flow hedging	-	-	4.2	-	-	-	-	-	-	4.2	-	4.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-6.9	-6.9	-	-6.9
Total comprehensive income for the period	-	-	4.2	-	-	-	-4.0	-	-59.7	-59.6	1.7	-57.9
Direct recognitions	-	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Dividend distribution	-	-	-	-	-	-	-	-	-4.9	-4.9	-0.6	-5.5
Hybrid loan, issue	-	-	-	-	40.0	-	-	-	-0.2	39.8	-	39.8
EQUITY ON 31 Dec. 2018	66.8	72.9	5.1	143.5	40.0	10.3	-11.9	0.0	-15.6	311.2	15.4	326.6
EQUITY ON 1 Jan. 2017	66.8	72.9	-9.9	143.5	0.0	10.3	-5.3	0.0	116.5	394.8	14.9	409.7
Opening balance restatement*	-	-	10.7	-	-	-	-	-	-10.7	0.0	-	0.0
Result for the financial period	-	-	-	-	-	-	-	-	-42.5	-42.5	3.0	-39.5
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-	-	-	-	-2.7	-	-	-2.7	-	-2.7
Cash flow hedging	-	-	0.2	-	-	-	-	-	-	0.2	-	0.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-3.1	-3.1	-	-3.1
Total comprehensive income for the period	-	-	0.2	-	-	-	-2.7	-	-45.6	-48.1	3.0	-45.1
Direct recognitions	-	-	-	-	-	0.0	-	-	-0.1	0.0	-	0.0
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-1.3	-1.3	-3.2	-4.5
Dividend distribution	-	-	-	-	-	-	-	-	-8.6	-8.6	-0.4	-9.0
EQUITY ON 31 Dec. 2017	66.8	72.9	1.0	143.5	0.0	10.3	-7.9	0.0	50.1	336.6	14.4	351.0

* See restatement from notes.

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

NOTES TO THE FINANCIAL STATEMENTS FOR 2018

BASIC INFORMATION ABOUT THE ENTITY

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

HKScan Corporation and its subsidiaries (together 'the Group') produce, sell and market high-quality and responsibly-produced pork, beef, poultry and lamb products, processed meats and convenience foods under strong brand names. Its customers are the retail, away-from-home and export sectors.
The Group is active in Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark, England, Russia, Germany and China. HKScan Corporation's A share has been quoted on Nasdaq Helsinki since 1997.

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

The Board of Directors of HKScan Corporation approved the publication of these financial statements at its meeting on 5 February 2019. 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 2018. '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 2017 except for the adoption of new standards and amending hedge accounting as described below.

The Group has restated hedging reserve derived from interest rate derivatives amounting to EUR -10.7 million into retained earnings on 1 January 2017 as the applicability of hedge accounting has been re-evaluated.
As result change in fair value previously reported in other comprehensive income is reported in profit for the period in financial items. Profit for the period impact after tax for 2017 is EUR 2.9 million and for 2018 EUR 1.5 million. Earnings per share impact for 2017 is EUR 0.05 and for 2018 EUR 0.03.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group applies for the first time the new IFRS 9 and IFRS 15 standards that are effective as of 1 January 2018. According to IFRS 9, bond modification costs from 2017 that have been treated with the effective interest rate method are recorded as an expense. This results in a EUR 1.0 million deduction of retained earnings, a EUR 1.2 million increase in interest-bearing liabilities and EUR 0.2 million deduction of deferred tax liability in the opening balance sheet 1 January 2018. Comparative information is not restated. Other IFRS 9 changes, such as new credit loss impairment model, classification and measurement of financial assets and liabilities and hedge accounting, do not have a material impact. Regarding IFRS 15, there is no impact on revenue recognition. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Group.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has adopted IFRS 9 starting from 1 January 2018. Comparative information has not been restated. The impact from standard change has been recognised in the opening retained earnings.

Classification of financial assets and financial liabilities:
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit and loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see paragraph "financial assets and liabilities". The adoption of IFRS 9 has not had effect on the Group's accounting policies for financial liabilities, except for the bond modification costs described above.

Impairment of financial assets:
IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortised cost. However, the change has no significant impact on the Group.

Hedge accounting:

The Group has elected to adopt the new hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. However, the change has no impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Group adopted IFRS 15 using the full retrospective method of adoption. However, there is no impact to revenue recognition. For an explanation of how the Group recognises revenue, see paragraph "revenue recognition policies".

COMPARABILITY WITH PREVIOUS YEARS

The years 2018 and 2017 are comparable with each other, except for the bond modification costs described in the previous chapter.

CONSOLIDATION SUBSIDIARIES

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

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

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

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

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

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

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

ASSOCIATES

Associates are companies over which the Group exercises a significant influence which usually arises when the Group holds 20-50 per cent of a company's voting rights. Associates have been consolidated using the equity method. Under the equity method, the investment is initially recognised 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 27, 'Related Party Transactions' have been consolidated into the consolidated financial statements. Share of associates' results is presented below EBIT.

The Group's share in associates' changes recognised in other items of comprehensive income are recognised in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2017 – 2018 financial periods.

JOINT VENTURES

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

The expected useful lives are as follows:

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

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

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

Maintenance and repair costs arising from normal wear and tear are 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 recognised as income in the form of lower depreciations over the useful life of the item. Grants received in reimbursement of expenses incurred are recognised as income in the income statement at the same time as the costs relating to the object of the grant are recognised as an expense. Grants of this kind are reported under other operating income.

INTANGIBLE ASSETS

GOODWILL

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

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

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

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

RESEARCH AND DEVELOPMENT COSTS

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

OTHER INTANGIBLE RIGHTS AND ASSETS

An intangible asset is recognised on the balance sheet only if its acquisition cost can be reliably determined and it is likely that the company will reap the expected economic benefit of the asset. Intangible rights include trademarks and patents, while items such as software licenses are included in other intangible assets. Patents and software licenses are recognised on the balance sheet 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 recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

INVENTORIES

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

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

BIOLOGICAL ASSETS

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

Biological assets are included in inventories on the balance sheet and changes in the fair value are included in material costs in the income statement. Animals producing slaughter animals are included in fixed assets.

LEASES

THE GROUP AS LESSEE

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

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

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

THE GROUP AS LESSOR

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

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

ARRANGEMENTS THAT MAY INCLUDE A LEASE AGREEMENT

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

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

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

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

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

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

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

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

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

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

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

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

SHARE-BASED PAYMENTS

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

PROVISIONS

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

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

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

TAXES AND DEFERRED TAXES BASED ON TAXABLE INCOME FOR THE PERIOD

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

Deferred tax assets and liabilities are calculated on temporary differences in bookkeeping and taxation using the tax rate valid at the balance sheet date or expected date the tax is paid. The most significant temporary differences arise from measurement to fair value of derivative instruments, defined benefit pension plans, unclaimed tax losses and measurements to fair value in connection with acquisitions. No deferred tax is recognised on non-deductible goodwill. Deferred tax assets are recognised for the amount which it is likely that taxable profit will be generated in the future, against which the temporary difference can be utilised.

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

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

REVENUE 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.

The Group sells food products, feed, animals and services. The Group fulfils its performance obligation and recognises revenue when the product is delivered, and service is performed. Food products have limited shelf life, so quality and warranty issues realise quickly. There is no additional warranty provision recorded for the delivered products. Product and service prices and quantities do not include significant judgement. Variable discount periods are typically short, value is low, and usually end at year end so they can be reliably estimated. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service is short.

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 – POLICY APPLICABLE AFTER 1 JANUARY 2018

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and loan receivables under current and non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as financial income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition
Financial assets are derecognised from the balance sheet when the Group's contractual right to the cash flows has expired or when the risks and rewards of ownership have to a significant degree been transferred outside the Group.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

FINANCIAL ASSETS – POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

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

Changes in the fair value of available-for-sale financial assets are recorded in other comprehensive income and reported in the fair value reserve included in equity, Other reserves, 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 recognised on the investment. Interest income on available-for-sale investments are recognised in financial income using the effective interest method.

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

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

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.

FINANCIAL LIABILITIES

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

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

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

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

DERIVATIVES AND HEDGE ACCOUNTING

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

CASH FLOW HEDGING

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

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

OTHER HEDGING INSTRUMENTS WHERE HEDGE ACCOUNTING IS NOT APPLIED

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

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

EQUITY

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

DIVIDEND

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

EBIT

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

MEASUREMENT TO FAIR VALUE OF ASSETS ACQUIRED IN BUSINESS COMBINATIONS

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

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

IMPAIRMENT TESTING

The Group tests goodwill annually for possible impairment. The recoverable amounts of cash generating units are determined in calculations based on value in use. The preparation of these calculations requires the use of estimates. Although the assumptions used are appropriate according to the Management, the estimated recoverable amounts may differ substantially from those realised in future.
The assumptions used in the impairment calculation involve judgement that the Management has used in estimating the development of different factors. The sensitivity analysis emphasises that the factors related to revenue growth are the most central sources of uncertainty in the methods, assumptions and estimates used in the calculations. This sensitivity derives from the challenging estimation of the future development of the previously mentioned factors.

DEFERRED TAX

Deferred tax assets are recognised for the amount which it is likely that taxable profit will be generated in the future, against which the temporary difference can be utilised. The Group assesses the principles for recognising deferred tax in connection with the financial statements. To this end, it has assessed how likely subsidiaries are to have recoverable taxable income against which the unused tax losses or unused tax credits can be utilised.

VALUATION OF INVENTORIES

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

APPLICATION OF NEW AND REVISED IFRS NORMS

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

IFRS 16, Leases will replace current IAS 17 guidance regarding lease agreements. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019 and Group will adopt it then with full retrospective method. According to IFRS 16 lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. Less than 12 months agreements and assets of low value are excluded by the Group. The new standard has no significant impact on profit before taxes. Assets and interest-bearing liabilities grow by approximately EUR 45 million at year end 2018. With this increase the net gearing at year end 2018 would be approximately 102 per cent. The standard has been endorsed for application in the EU.

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

1. BUSINESS SEGMENTS

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

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

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

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

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

YEAR 2018	SWEDISH OPERATIONS	FINNISH OPERATIONS	DANISH OPERATIONS	BALTIC OPERATIONS	BUSINESS SEGMENTS, TOTAL	GROUP ADMINISTRATION	ELIMINATIONS	UN-ALLOCATED	GROUP TOTAL
INCOME STATEMENT INFORMATION									
Net sales	682.1	721.9	149.3	162.1	1 715.4	-	-	-	1 715.4
EBIT	8.6	-36.6	-5.9	-0.7	-34.6	-14.9	-	-	-49.5
Share of associates' results	0.0	0.4	0.6	-	1.1	-	-	-	1.1
Financial income and expenses								-9.9	-9.9
Income taxes								7.1	7.1
Result for the period									**-51.2**
BALANCE SHEET INFORMATION									
Segment assets	251.9	402.1	59.3	142.2	855.5	38.9	-41.0	-	853.3
Shares in associates	3.4	13.2	3.6	-	20.2	1.0	-	-	21.1
Unallocated assets	-	-	-	-	-	-	-	57.5	57.5
Total assets	**255.2**	**415.3**	**62.9**	**142.2**	**875.7**	**39.8**	**-41.0**	**57.5**	**931.9**
Segment liabilities	113.6	98.0	16.7	24.4	252.6	12.3	-7.5	-	257.4
Unallocated liabilities	-	-	-	-	-	-	-	347.9	347.9
Total liabilities	**113.6**	**98.0**	**16.7**	**24.4**	**252.6**	**12.3**	**-7.5**	**347.9**	**605.3**

YEAR 2018	SWEDISH OPERATIONS	FINNISH OPERATIONS	DANISH OPERATIONS	BALTIC OPERATIONS	BUSINESS SEGMENTS, TOTAL	GROUP ADMINISTRATION	ELIMINATIONS	UN-ALLOCATED	GROUP TOTAL
OTHER INFORMATION									
Sales, goods	681.9	718.4	149.3	161.9	1 711.5	-	-	-	1 711.5
Sales, services	0.1	3.5	-	0.3	3.9	-	-	-	3.9
Investments	6.4	18.5	2.3	10.4	37.6	3.4	-	-	41.0
Depreciation and amortisation	-9.9	-28.7	-7.4	-9.8	-55.8	-0.5	-	-	-56.3
Impairment	-	-0.5	-	-	-0.5	-	-	-	-0.5
Goodwill	29.2	19.8	-	22.2	71.2	-	-	-	71.2
Cash flow before debt service	1.9	-91.2	-0.7	1.3	-88.7	-18.5	-	-	-107.2

Cash flow before debt service reconciliation, Group total	
Cash flow from operating activities	-24.6
Financial items (-)	7.4
Cash flow from investing activities	-89.8
Loan receivables Borrowings and repayments (-)	-0.1
Cash flow before debt service	**-107.2**

YEAR 2017	SWEDISH OPERATIONS	FINNISH OPERATIONS	DANISH OPERATIONS	BALTIC OPERATIONS	BUSINESS SEGMENTS, TOTAL	GROUP ADMINISTRATION	ELIMINATIONS	UN-ALLOCATED	GROUP TOTAL
INCOME STATEMENT INFORMATION									
Net sales	759.4	742.2	147.8	158.7	1 808.1	-	-	-	1 808.1
EBIT	5.4	-16.5	-13.9	4.4	-20.6	-19.7	-	-	-40.3
Share of associates' results	-0.2	2.4	-0.5	-	1.7	-	-	-	1.7
Financial income and expenses								-6.9	-6.9
Income taxes								6.0	6.0
Result for the period									**-39.5**
BALANCE SHEET INFORMATION									
Segment assets	239.4	404.4	66.7	141.2	851.7	62.4	-32.5	-	881.6
Shares in associates	3.8	15.5	3.2	-	22.5	-	-	-	22.5
Unallocated assets	-	-	-	-	-	-	-	48.6	48.6
Total assets	**243.1**	**420.0**	**69.9**	**141.2**	**874.2**	**62.4**	**-32.5**	**48.6**	**952.7**
Segment liabilities	106.8	154.8	17.6	20.8	300.0	13.5	-7.1	-	306.3
Unallocated liabilities	-	-	-	-	-	-	-	295.3	295.3
Total liabilities	**106.8**	**154.8**	**17.6**	**20.8**	**300.0**	**13.5**	**-7.1**	**295.3**	**601.6**
OTHER INFORMATION									
Sales, goods	759.0	738.2	147.8	158.5	1 803.5	-	-	-	1 803.5
Sales, services	0.3	4.0	-	0.2	4.5	-	-	-	4.5
Investments	13.7	96.9	1.3	10.0	122.0	3.5	-	-	125.5
Depreciation and amortisation	-11.2	-24.8	-8.9	-9.4	-54.3	-0.9	-	-	-55.2
Impairment	-	-4.2	-10.1	-	-14.3	-	-	-	-14.3
Goodwill	30.4	19.8	0.0	22.2	72.4	-	-	-	72.4
Cash flow before debt service	18.1	-56.0	0.8	4.4	-32.6	-17.0	-	-	-49.6
Cash flow before debt service reconciliation, Group total									
Cash flow from operating activities									45.7
Financial items (-)									10.6
Cash flow from investing activities									-104.0
Loan receivables Borrowings and repayments (-)									-1.9
Cash flow before debt service									**-49.6**

2. OTHER OPERATING INCOME

	2018	2017
Rental income	1.3	1.3
Gain on disposal of non-current assets	0.8	0.5
Exchange rate gains related to foreign exchange derivatives	0.8	1.4
Insurance compensation	0.1	0.0
Government grants	0.0	0.0
Other operating income	5.5	5.2
Other operating income	**8.4**	**8.5**

3. MATERIALS AND SERVICES

	2018	2017
Purchases during the financial period	-1 067.2	-1 114.8
Increase/decrease in inventories	8.1	-3.2
Work performed for own use and capitalised	0.0	0.0
Materials and supplies	**-1 059.1**	**-1 118.0**
External services	-152.1	-153.3
Materials and services	**-1 211.2**	**-1 271.3**

4. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Salaries and fees	-245.9	-254.8
Share-based payments	0.0	0.0
Pension expenses, defined contribution plans	-27.2	-28.4
Pension expenses, defined benefit plans	-2.2	-2.2
Total pension expenses	-29.5	-30.5
Other social expenses	-41.3	-43.1
Employee benefit expenses	**-316.7**	**-328.4**
Key management personnel compensation:		
Short-term employee benefits	-3.3	-3.1
Post-employment benefits	-0.5	-0.4
Termination benefits	-1.1	-0.7
Share-based payments	0.0	0.0
Key management salaries, fees and benefits	**-4.9**	**-4.2**
Average number of employees during financial year		
Clerical employees	1 264	1 302
Workers	5 915	5 990
Total	**7 179**	**7 292**

MEMBERS OF BOARD OF DIRECTORS:	SALARIES AND FEES	POST-EMPLOYMENT BENEFITS
Mikko Nikula, Chairman until 27.11.2018	0.099	-
Reijo Kiskola, starting from 12.4.2018, Chairman starting from 27.11.2018	0.038	-
Marko Onnela, Debuty Chairman, until 14.12.2018	0.051	-
Pirjo Väliaho, until 12.4.2018	0.015	-
Per Olof Nyman	0.043	-
Riitta Palomäki, until 14.12.2018	0.047	-
Tuomas Salusjärvi, until 14.12.2018	0.039	-
Jari Mäkilä	0.025	-
Veikko Kemppi, until 12.4.2018	0.007	-
Carl-Peter Thorwid	0.027	-
Total	**0.392**	**-**
CEO		
Jari Latvanen and Reijo Kiskola	0.805	0.183
Termination benefits	1.139	

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

SHARE-BASED PAYMENTS

Performance Share Plan 2013

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

The potential reward from the performance period 2015 will be based on the HKScan Group´s Earnings per Share (EPS) and Return on Capital Employed (ROCE).
The possible rewards from the performance 2015 will be paid in 2018 partly in the HKScan series A shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. In general, no reward will be paid, if the key employee's employment or service ends before reward payment. A total of 16 501 shares were delivered to participants in performance period 2015. In addition, a cash portion was paid to cover taxes and tax related costs.

LTI Bridge Plan 2017-2019

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

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

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

No rewards will be paid from performance period 2017 since the performance criteria targets were not achieved.

Long-term incentive scheme 2018-2020

On 7 February 2018, HKScan announced that the Board of Directors had approved a share-based incentive scheme for the Group's key management. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure. Each Plan covers a three-year period. The earning opportunity of the participants within these programs is capped. If the end value of the class A share of HKScan within the individual three-year plan exceeds three times its start value, the exceeding value of the reward will be cut and will not be paid

PSP 2018-2020

The potential share rewards under PSP 2018-2020, performance period 2018-2020, will be paid partly in the Company's A series shares and partly in cash in spring 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. As a main rule, no reward will be paid, if the key employee's employment or service ends before reward payment. The performance targets based on which the potential share reward under PSP 2018 - 2020 will be paid are the comparable EBIT (operating profit) and comparable EPS (earnings per share) of HKScan.

The plan is directed to approximately 30 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 910 400 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs.

RSP 2018-2020

The potential share rewards under RSP 2018-2020 will be paid partly in the Company's A series shares and partly in cash in spring 2021. 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. In addition to the afore-mentioned employment precondition, the Board has for RSP 2018 – 2020 set a company level financial criterion, the fulfilment of which is a precondition for the payment of the share reward under the plan. This criterion is based on the average comparable ROCE (return on capital employed) before taxes.

The plan is directed to approximately 11 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 44 200 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs.

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

SHARE-BASED INCENTIVES DURING THE REPORTING PERIOD 1 JAN. 2018 – 31 DEC. 2018

PLAN

INSTRUMENT	PSP 2018-2020	RSP 2018-2020	PLAN 2017-2019, 2018 DELIVERY	PLAN 2017-2019, 2019 DELIVERY	PERFORMANCE PERIOD 2015	TOTAL
Initial amount, pcs	910 400	44 200	371 500	371 500	451 000	2 148 600
Initial allocation date	5 March 2018	5 March 2018	8 June 2017	8 June 2017	10 Feb. 2015	
Vesting date / payment approximately	31 March 2021	31 March 2021	30 June 2018	31 March 2019	30 Apr. 2018	
Maximum contractual life, yrs	3.0	3.0	1.0	1.8	3.2	2.4
Remaining contractual life, yrs	2.3	2.3	0.0	0.0	0.0	2.3
Vesting conditions	EBIT (50%) EPS (50%) Employment precondition	ROCE Employment precondition	ROCE (70%) EPS (30%) Employment precondition	ROCE (70%) EPS (30%) Employment precondition	EPS (70%) ROCE-% (30%) Employment precondition	
Number of persons at the end of the reporting year	27	10	-	-	-	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	

CHANGES DURING THE PERIOD 2018	PSP 2018-2020	RSP 2018-2020	PLAN 2017-2019, 2018 DELIVERY	PLAN 2017-2019, 2019 DELIVERY	PERFORMANCE PERIOD 2015	TOTAL
1 Jan. 2018						
Outstanding at the beginning of the reporting period, pcs	0	0	278 500	278 500	24 971	581 971
Changes during the period						
Granted	845 600	44 200	0	0	0	889 800
Forfeited	127 500	10 600	0	0	3 530	141 630
Excercised	0	0	0	0	21 441	21 441
Expired	0	0	278 500	278 500	0	557 000
31 Dec. 2018						
Outstanding at the end of the period	718 100	33 600	0	0	0	751 700

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	3.16
Share price at reporting period end, euros	1.42
Maturity, years	3.0
Expected dividends (unless they are compensated), euros	0.39
Fair value at grant, euros	2 469 225
Fair value 31 Dec. 2018, 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	-2 818
Expenses for the financial year, share-based payments, equity-settled, euros	-3 903
Liabilities arising from share-based payments 31 Dec. 2018, euros	
Estimated amount of cash to be paid to the tax authorities under the plans which have not yet been delivered	0

5. DEPRECIATION AND IMPAIRMENT

	2018	2017
Depreciation according to plan	-56.3	-55.2
Impairment	-0.5	-14.3
Total	**-56.7**	**-69.5**

6. OTHER OPERATING EXPENSES

	2018	2017
Rents/leases	-13.8	-13.9
Losses on disposal of non-current assets	-0.1	-0.1
R&D costs	-8.6	-6.5
Non-statutory staff costs	-11.4	-8.9
Energy	-38.5	-37.7
Maintenance	-41.3	-39.4
Advertising, marketing and entertainment costs	-18.3	-20.6
Service, information management and office costs	-27.4	-29.0
Exchange rate losses related to foreign exchange derivatives	-1.1	-0.7
Other expenses	-28.0	-31.0
Total other operating expenses	**-188.6**	**-187.7**

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.

	2018	2017
Audit fees	-0.5	-0.5
Tax consultation	0.0	0.0
Other fees	0.0	-0.8
Audit fees, total	**-0.5**	**-1.3**

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total 4 thousand euros during the financial year 2018.

7. FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME	2018	2017
Dividend income	0.3	0.1
Interest income		
Interest income from loans and receivables	1.7	1.8
Interest income from interest derivatives	-	-
Other financial income	0.1	0.0
Total	**2.0**	**2.0**
Financial expenses		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-8.2	-6.4
Interest expenses from interest derivatives	-3.2	-3.4
Other financial expenses		
Change in fair value of interest rate derivatives	2.0	3.2
Impairment losses on loan receivables	-	-
Other financial expenses	-2.2	-1.9
Exchange gains and losses from loans and other receivables	-1.3	-0.3
Exchange gains and losses from derivative instruments	1.0	-0.1
Total	**-11.9**	**-8.9**
Total financial income and expenses	**-9.9**	**-6.9**

8. INCOME TAXES

INCOME TAXES	2018	2017
Income tax on ordinary operations	-1.6	-1.9
Tax for previous financial periods	0.0	0.0
Change in deferred tax liabilities and assets	8.7	7.9
Income tax on ordinary operations	**7.1**	**6.0**
Cumulative tax rate reconciliation		
Accounting profit/loss before taxes	-58.3	-45.5
Deferred tax at parent company's tax rate	11.7	9.1
Effect of different tax rates applied to foreign subsidiaries	-0.6	0.7
Share of associates' results	0.2	0.3
Tax-exempt income	0.1	0.0
Non-deductible expenses	-0.4	-1.2
Unrecognised tax on the losses for the financial period	-4.3	-3.3
Tax for previous financial periods	0.0	0.0
Adjustments concerning previous financial periods	0.0	0.0
Effect of change in tax rate	0.5	0.4
Tax expenses in the income statement	**7.1**	**6.0**

9. EARNINGS PER SHARE

	2018	2017
Profit for the period attributable to equity holders of the parent	-52.9	-42.5
Hybrid loan issue costs and calculational interest	-0.9	-
Total	**-53.8**	**-42.5**
Weighted average number of outstanding shares in thousands	54 030	54 018
Weighted average number of outstanding shares adjusted for dilution effect	54 030	54 018
Undiluted earnings per share (EUR/share)	-1.00	-0.79
Earnings per share adjusted for dilution effect (EUR/share)	-1.00	-0.79

10. INTANGIBLE ASSETS

	2018	2017
Opening balance, cumulative acq cost	96.5	94.0
Translation differences	-2.4	-1.9
Additions	0.1	1.7
Disposals	-3.9	0.0
Reclassification between items	6.1	2.8
Closing balance, cumulative acq cost	96.5	96.5
Opening balance, cumulative depreciations	-31.8	-28.0
Translation differences	0.1	0.2
Accumulated depreciation on disposals and reclassifications	3.9	0.0
Depreciation for the financial period	-2.4	-2.3
Impairment losses	-	-1.7
Closing balance, cumulative depreciations	-30.2	-31.8
Intangible assets on 31 Dec.	**66.3**	**64.8**

The trademarks included in the Swedish business operations, carrying amount EUR 53.2 (55.4) million, are tested for impairment each year. The Group has estimated that their useful life is unlimited. These are well known trademarks with a long history, high business and profitability impact and it is expected to be so also in the future. An impairment test is made on the segment level and it covers all the segment's assets, see detailed description in note 11. Remaining balance includes IT-software, other trademarks and connection fees.

11. GOODWILL

	2018	2017
Opening balance	72.4	77.0
Translation differences	-1.2	-0.9
Depreciation and impairment	-	-3.6
Closing balance	**71.2**	**72.4**

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	2018	2017
Finland	19.8	19.8
Sweden	29.2	30.4
Denmark	-	-
Baltics	22.2	22.2
Total	**71.2**	**72.4**

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 Sweden, Finland, Denmark and the Baltics as the main cash generating units. Goodwill is monitored by the Management at the CGU level.

In impairment testing all the CGU's assets are tested against the recoverable amounts in the future. The recoverable amounts of the CGUs' are based on value-in-use calculations. The cash flow estimates employed are based on historical performance. For Finland the cash flows in testing have been reduced from last year due to prolonged challenges in the Rauma factory ramp up. For Denmark the cash flows in testing have been estimated with the assumption that EBIT will breakeven in 2020. The cash flow for terminal 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 higher risk related in the Finnish and Danish operations are reflected in the discount factor of the CGU. The interest rates used are 6.6 (4.7) per cent in Sweden, 6.3 (4.4) per cent in Finland, 6.0 (4.3) per cent in Denmark and 6.5 (4.7) per cent in the Baltic countries.

The sensitivity of each CGU to impairment is tested by varying the discount rate and future cash flow before debt service. Based on the sensitivity analyses conducted, an increase of 1 percentage point in WACC would result in impairment amounting to EUR 23 million in Finland, EUR 6 million in Denmark and EUR 9 million in the Baltics. If the cash flow in testing would be 10 % smaller, impairment loss amounting to EUR 2 million in Finland, EUR 4 million in Denmark and EUR 4 million in the Baltics would have to be booked. Following discount rate increases in percentage points would not cause any impairment, provided that other factors remained unchanged: Sweden 4.1, Finland 0.6, Denmark 0.0, the Baltics 0.5. Recoverable amounts in testing exceeded the assets values by EUR 34 million in Finland, EUR 0 million in Denmark and EUR 9 million in the Baltics.

The following table presents cash flow before debt service used in testing.

	2015	2016	2017	2018	2019	2020	2021	TERMINAL
Sweden	20.4	8.2	18.1	1.9	10.1	11.8	11.8	16.3
Finland	16.0	25.9	-56.0	-91.2	18.2	18.6	16.3	16.4
Denmark	-2.1	-0.8	0.8	-0.7	3.2	2.3	2.1	2.0
Baltics	8.0	6.7	4.4	1.3	2.3	10.6	8.9	5.5

As far as Management is aware, reasonable changes in assumptions used in respect of other factors do not necessitate impairment for the goodwill of Sweden. Sudden, and other than reasonably possible changes in the business environment of cash generating unit, 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 in Sweden is possible in such situations.

The annual impairment testing performed in 2018 did not result in recognition of impairment loss. The annual impairment testing performed in 2017 resulted in recognition of impairment loss in Denmark.

12. TANGIBLE ASSETS

TANGIBLE ASSETS 2018	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	10.6	524.3	722.8	18.2	29.9	1 305.8
Translation differences	-0.1	-3.5	-7.8	0.0	-0.4	-11.7
Additions	-	1.9	12.4	1.5	25.0	40.8
Disposals	-0.3	-0.3	-0.9	-0.5	-0.2	-2.2
Reclassification between items	0.4	3.6	19.1	0.2	-29.4	-6.1
Closing balance, cumulative acq cost	10.6	526.1	745.6	19.4	25.0	1 326.6
Opening balance, cumulative depreciations	0.0	-304.2	-528.5	-14.9	-	-847.6
Translation differences	-	2.9	6.0	0.0	-	8.9
Accumulated depreciation on disposals and reclassifications	-	0.3	0.6	-0.3	-	0.6
Depreciation for the financial period	-	-14.1	-38.7	-1.0	-	-53.9
Impairment losses	-	-	-0.4	-	-	-0.4
Closing balance, cumulative depreciations	0.0	-315.1	-561.0	-16.2	-	-892.4
Tangible assets on 31 Dec. 2018	**10.6**	**211.0**	**184.5**	**3.2**	**25.0**	**434.2**

TANGIBLE ASSETS 2017	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	PRE-PAYMENTS AND WORK IN PROGRESS	TOTAL
Opening balance, cumulative acq cost	10.8	466.4	627.3	16.8	74.3	1 195.6
Translation differences	-0.1	-1.8	-4.6	0.0	-0.3	-6.7
Additions	0.0	31.3	56.0	1.8	34.7	123.9
Disposals	-0.2	-0.1	-2.9	-0.8	0.0	-4.0
Reclassification between items	0.0	28.5	47.0	0.4	-78.8	-3.0
Closing balance, cumulative acq cost	10.6	524.3	722.8	18.2	29.9	1 305.8
Opening balance, cumulative depreciations	0.0	-289.5	-490.5	-14.0	-	-793.9
Translation differences	-	1.9	3.5	0.0	-	5.4
Accumulated depreciation on disposals and reclassifications	-	0.1	2.5	0.1	-	2.8
Depreciation for the financial period	-	-15.1	-36.7	-1.0	-	-52.9
Impairment losses	-	-1.6	-7.3	-	-	-9.0
Closing balance, cumulative depreciations	0.0	-304.2	-528.5	-14.9	-	-847.6
Tangible assets on 31 Dec. 2017	**10.6**	**220.1**	**194.2**	**3.3**	**29.9**	**458.2**

Other property, plant and equipment include 1.4 (1.3) million euros biological assets. These are animals producing slaughter animals and they have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

13. SHARES IN ASSOCIATES AND JOINT VENTURES

	2018	2017
Opening balance	22.5	22.2
Translation differences	-0.2	-0.1
Additions	1.0	-
Disposals, business disposals	-	-0.7
Closing balance	23.3	21.3
Share of associates' and joint ventures' results	1.1	1.7
Dividend from associates and joint ventures	-3.2	-0.5
Shares in associates on 31 Dec.	**21.1**	**22.5**
Effect on the Group's earnings:		
Associates	1.0	0.3
Joint ventures	0.1	1.4
Total	**1.1**	**1.7**
Book value in the Group's balance sheet:		
Associates	10.7	11.7
Joint ventures	10.4	10.8
Total	**21.1**	**22.5**

Associated companies and joint ventures consolidated in the Group’s financial statements are listed in note 27. The Group has no single material associated companies or joint ventures. The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services.

There are no contingent liabilities relating to the Group’s interest in the associates and joint ventures.

14. FINANCIAL ASSETS AND LIABILITIES

FINANCIAL INSTRUMENTS BY CATEGORY 2018

	ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS AT AMORTISED COST	EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OCI	DERIVATIVES USED FOR HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL	FAIR VALUE	FAIR VALUE HIERARCHY
Assets as per balance sheet								
Non-current trade and other receivables	-	2.5	-	-	-	2.5	-	-
Other shares and holdings	-	-	11.9	-	-	11.9	-	-
Trade and other receivables *	-	123.6	-	-	-	123.6	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	29.4	-	-	-	29.4	-	-
Total	**0.1**	**155.5**	**11.9**	**0.0**	**0.0**	**167.5**	**-**	**-**

* Trade and other receivables balance sheet amount of EUR 130.7 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 7.0 million euros.

	ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS AT AMORTISED COST	EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OCI	DERIVATIVES USED FOR HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL	FAIR VALUE	FAIR VALUE HIERARCHY
Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	242.0	242.0	-	-
Non-current non-interest bearing liabilities	-	-	-	-	-0.1	-0.1	-	-
Current interest-bearing liabilities	-	-	-	-	77.0	77.0	-	-
Derivative financial instruments *	8.3	-	-	-5.3	-	3.1	3.1	2
Trade and other payables *	-	-	-	-	222.2	222.2	-	-
Total	**8.3**	**0.0**	**0.0**	**-5.3**	**541.1**	**544.2**	**-**	**-**

* Trade and other payables balance sheet amount of EUR 222.1 million euros includes derivative financial instruments amounting to EUR -0.4 million euros and advance payments that are not financial instruments amounting to EUR 0.4 million euros.

FINANCIAL INSTRUMENTS BY CATEGORY 2017

	ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS: CLASSIFIED AS HELD FOR TRADING	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE	DERIVATIVES USED FOR HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL	FAIR VALUE	FAIR VALUE HIERARCHY
Assets as per balance sheet								
Non-current trade and other receivables	-	2.8	-	-	-	2.8	-	-
Other shares and holdings	-	-	12.4	-	-	12.4	-	-
Trade and other receivables *	-	111.7	-	-	-	111.7	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	50.9	-	-	-	50.9	-	-
Total	**0.1**	**165.4**	**12.4**	**0.0**	**0.0**	**177.9**	**-**	**-**

* Trade and other receivables balance sheet amount of EUR 123.5 million euros includes derivative financial instruments amounting to EUR 0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 11.7 million euros.

	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
Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	245.1	245.1	-	-
Non-current non-interest bearing liabilities	-	-	-	-	0.0	0.0	-	-
Current interest-bearing liabilities	-	-	-	-	14.1	14.1	-	-
Derivative financial instruments *	10.5	-	-	-0.5	-	10.0	10.0	2
Trade and other payables *	-	-	-	-	277.4	277.4	-	-
Total	**10.5**	**0.0**	**0.0**	**-0.5**	**536.6**	**546.6**	**-**	**-**

* Trade and other payables balance sheet amount of EUR 280.9 million euros includes derivative financial instruments amounting to EUR 3.3 million euros and advance payments that are not financial instruments amounting to EUR 0.3 million euros.

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value. The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Fair value of financial instruments, other than those recorded at fair value, is close to the balance sheet value and therefore they are not separately disclosed. EUR 168.5 million bond that has a balance sheet value of EUR 165.7 million has a market value of EUR 145.0 million at the end of 2018.

15. DEFERRED TAX ASSETS AND LIABILITIES

SPECIFICATION OF DEFERRED TAX ASSETS

	1 JAN. 2018	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2018
Pension benefits	5.7	-0.2	-0.2	1.8	7.1
Other timing differences	3.7	0.0	-0.1	-	3.5
Postponed tax depreciations	6.2	-	3.7	-	9.9
Non-deductible interest expense	3.0	-	1.5	-	4.5
Adopted losses	14.6	-	4.2	-	18.8
Arising from hedge accounting	0.0	0.0	-	-0.8	-0.9
Total	**33.2**	**-0.3**	**9.0**	**1.0**	**42.9**

SPECIFICATION OF DEFERRED TAX LIABILITIES

	1 JAN. 2018	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2018
Depreciation difference	2.4	-0.1	0.5	-	2.8
Other timing differences	1.7	0.0	-0.1	-0.2	1.4
Arising from consolidation	13.3	-0.5	-0.1	-	12.7
Arising from hedge accounting	0.0	-	-	-	0.0
Total	**17.4**	**-0.6**	**0.3**	**-0.2**	**16.9**

SPECIFICATION OF DEFERRED TAX ASSETS

	1 JAN. 2017	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2017
Pension benefits	4.7	-0.1	0.3	0.9	5.7
Other timing differences	4.8	0.0	-1.0	-0.1	3.7
Postponed tax depreciations	1.4	-	4.9	-	6.2
Non-deductible interest expense	1.8	-	1.2	-	3.0
Adopted losses	11.2	-	3.4	-	14.6
Arising from hedge accounting	0.1	0.0	-	-0.1	0.0
Total	**23.8**	**-0.1**	**8.8**	**0.7**	**33.2**

SPECIFICATION OF DEFERRED TAX LIABILITIES

	1 JAN. 2017	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2017
Depreciation difference	2.1	0.0	0.3	-	2.4
Other timing differences	0.8	0.0	1.0	-	1.7
Arising from consolidation	14.2	-0.4	-0.5	-	13.3
Arising from hedge accounting	0.0	-	-	-	0.0
Total	**17.0**	**-0.4**	**0.8**	**-**	**17.4**

Deferred tax asset from adopted losses comes from the Group's operations in Finland. Utilisation of this deferred tax asset is based on the same assumptions that are used in goodwill impairment testing in note 11 and the assumption that there are no significant adverse changes in tax legislation. In addition postponing tax depreciations and non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Postponed tax depreciations and non-deducted interest expense can be utilised indefinitely. The losses in taxation in Finland expire with the following schedule: EUR 4.7 million in 2020, EUR 2.2 million in 2021, EUR 3.6 million in 2022, EUR 28.4 million in 2023, EUR 10.0 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027 and EUR 27.2 million in 2028.

Deferred tax liability has not been recognized in respect of retained profits of subsidiaries, amounting to EUR 20.8 (25.4) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2018, the Group had EUR 19.6 (11.7) million of losses, of which no deferred tax receivable has been recognized.

16. INVENTORIES

	2018	2017
Materials and supplies	75.8	62.9
Unfinished products	4.8	4.3
Finished products	33.4	36.8
Other inventories	0.2	0.3
Prepayments for inventories	1.7	0.7
Biological assets	5.4	6.8
Total inventories	**121.4**	**111.8**

Fair value hierarchy level of the biological assets is 2. There were no transfers between any levels during the year. Fair value of live animals is derived from the quoted market price for slaughtered animals by using historical yield. The change in the fair value of the biological assets amounted to EUR -0.7 (0.1) million.

17. TRADE AND OTHER CURRENT RECEIVABLES

	2018	2017
Trade receivables from associates	2.4	2.0
Loan receivables from associates	0.2	0.2
Other receivables from associates	0.0	0.0
Current receivables from associates	2.6	2.2
Trade receivables	112.7	98.1
Loan receivables	0.0	0.0
Other receivables	6.2	9.2
Current receivables from others	119.0	107.3
Current derivative receivables	0.1	0.1
Interest receivables	2.1	2.3
Other prepayments and accrued income	7.0	11.7
Current prepayments and accrued income	9.1	14.0
Trade and other receivables	130.7	123.5
Tax receivables (income taxes)	0.2	0.2
Total current receivables	**130.9**	**123.7**

AGE BREAKDOWN OF TRADE RECEIVABLES AND ITEMS RECOGNISED AS IMPAIRMENT LOSSES

	2018	IMPAIRMENT LOSSES	NET 2018	2017	IMPAIRMENT LOSSES	NET 2017
Unmatured	107.6	0.0	107.6	90.0	0.0	90.0
Matured:						
Under 30 days	6.4	0.0	6.4	9.7	0.0	9.7
30–60 days	0.7	-0.1	0.6	0.4	0.0	0.4
61–90 days	0.1	0.0	0.1	0.1	0.0	0.1
over 90 days*	1.2	-0.7	0.5	0.6	-0.7	0.0
Total	**116.0**	**-0.8**	**115.2**	**100.7**	**-0.7**	**100.1**

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

18. CASH AND CASH EQUIVALENTS

The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Cash and cash equivalents according to the cash flow statement are as follows:

	2018	2017
Cash and bank	29.4	50.9
Short-term money market investments	-	-
Other financial instruments	-	-
Total cash and cash equivalents	**29.4**	**50.9**

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

19. NOTES RELATING TO EQUITY

The effects of changes in the number of outstanding shares are presented below.

	NUMBER OF OUTSTANDING SHARES (1 000)	SHARE CAPITAL (EUR MILLION)	SHARE PREMIUM RESERVE (EUR MILLION)	RIUE (EUR MILLION)	TREASURY SHARES (EUR MILLION)	TOTAL (EUR MILLION)
1 Jan. 2017	54 018	66.8	72.9	143.5	0.0	283.1
31 Dec. 2017	54 018	66.8	72.9	143.5	0.0	283.1
1 Jan. 2018	54 018	66.8	72.9	143.5	0.0	283.1
31 Dec. 2018	54 034	66.8	72.9	143.5	0.0	283.1

The shares have no nominal value. All issued shares have been paid up in full. The company's stock is divided into Series A and K shares, which differ from each other in the manner set out in the Articles of Association. Each share gives equal entitlement to a dividend. K Shares produce 20 votes and A Shares 1 vote each. A Shares are numbered 49 626 522 and K Shares 5 400 000.

The equity reserves are described below:

SHARE PREMIUM RESERVE

In share issues, decided while the earlier Finnish Companies Act (29.9.1978/734) was in force, payments in cash or kind obtained on share subscription, less transaction costs, were recognised under equity and the share premium reserve in accordance with the terms of the arrangements.

RESERVE FOR INVESTED UNRESTRICTED EQUITY

The reserve for invested unrestricted equity (RIUE) contains other investments of an equity nature and share issue price inasmuch as this is not recognised under equity pursuant to an express decision to that effect.

TREASURY SHARES

At the beginning of the financial year 2018, HKScan held 1 008 849 treasury A Shares. During the year 16 501 HKScan Corporation's A shares were transferred without consideration to the participants of the share-based incentive plan according to its terms. At the end of December 2018, the company held 992 348 A shares. At the end of the year, they had a market value of EUR 1.4 million and accounted for 1.8 per cent of all shares and 0.6 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	2018	2017
Fair value reserve and hedging instruments reserve on 1 Jan.	0.4	0.2
Amount recognised in equity in the financial period (effective portion), interest rate derivatives	-	-
Amount recognised in equity in the financial period (effective portion), commodity derivatives	4.6	0.3
Share of deferred tax asset of changes in period	-0.4	-0.1
Fair value reserve and hedging instruments reserve on 31 Dec.	4.6	0.4

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR 0.2 (-0.1) million from commodity derivatives.

DIVIDENDS

Dividend of EUR 0.09 (0.16) per share, totalling EUR 4.9 (8.6) million, was distributed in 2018. Since the reporting date, the Board of Directors has proposed that no dividend will be paid from the pervious financial year.

HYBRID LOAN

In September 2018 the Group issued a EUR 40 million hybrid bond to strengthen the company's capital structure. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date, but the Group is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date. An interest payment obligation is set up if the Annual Shareholders' Meeting decides to distribute dividends. If no dividend is distributed, the company can decide upon the payment of interest separately. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.9 million. The payment of interest is recorded into retained earnings.

20. PENSION OBLIGATIONS

	2018	2017
Pension liability/receivable in balance sheet		
Defined benefit plans	35.0	26.4
Other long-term employee benefits	1.0	1.1
Pension liability (+)/receivable (-) in balance sheet	**36.0**	**27.5**

The Group's defined benefit plans consist of the pension liability for the former CEO of the parent company which is unfunded and the Swedish pension programme which is funded. The company's pension commitment in respect of the defined benefit relating to the former CEO was EUR 2.7 million on 31 December 2018. The remaining pension liability relates to the Swedish pension programme. Through its defined benefit plans the Group is exposed to a number of risks such as changes in discount rate, salary increases, inflation and life expectancy. Expected contribution into the plans for 2019 is EUR 0.4 million.

The defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. HKScan has a pension foundation in Sweden to secure obligations relating to retirement pensions for white-collar workers in accordance with the ITP2 plan. Only new white-collar employees born before, or in 1979 have the possibility to choose the ITP2 solution. Pension foundation has employer and employee representatives in the board. The plan assets are invested in various funds in accordance with a distribution that is determined by the foundation's Board of Directors. Swedish companies can secure new pension obligations through pension insurance, balance-sheet provisions or pension-fund contributions. A credit insurance policy must be taken out for the value of the obligations. Special pension tax is applicable for the pension plan in Sweden.

SUMMARY OF PROVISION FOR POST-EMPLOYMENT BENEFITS, DEFINED BENEFIT PLANS	2018	2017
Obligations	-101.5	-103.5
Fair value of plan assets	75.7	84.6
Special pension tax	-6.3	-4.6
Net provision for funded post-employment benefits	**-32.2**	**-23.6**
Provision for unfunded post-employment benefits	-2.8	-2.8
Total provision for post-employment benefits, defined benefit plans	**-35.0**	**-26.4**

PENSION COSTS IN THE INCOME STATEMENT	2018	2017
Current year service costs	-1.2	-1.2
Interest costs	-2.4	-2.6
Interest income	1.9	2.0
Special pension tax	-0.3	-0.4
Pension costs for defined benefit plans	**-2.0**	**-2.2**
Pension costs for defined contribution plans	-27.5	-28.4
Total pension costs for the period	**-29.5**	**-30.5**

PENSION COSTS IN OTHER COMPREHENSIVE INCOME	2018	2017
Changes in actuarial assumptions	-6.5	-3.2
Special pension tax	-1.6	-0.8
Income tax effect	1.2	0.9
Total pension costs in other comprehensive income after taxes	**-6.9**	**-3.1**

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

OBLIGATIONS	2018	2017
Obligations opening balance	-103.5	-104.5
Current year service costs	-1.2	-1.2
Interest costs	-2.4	-2.6
Remeasurements:		
Effect of changes in financial assumptions	-3.5	-1.3
Effect of experience adjustments	-0.5	-3.0
Exchange rate translation	4.3	3.4
Benefits paid	5.3	5.6
Obligations closing balance	**-101.5**	**-103.5**

FAIR VALUE OF PLAN ASSETS	2018	2017
Plan assets opening balance	84.6	89.4
Interest income	1.9	2.0
Remeasurements (experience adjustments)	-2.5	1.0
Exchange rate translation	-3.4	-2.6
Settlement paid	-4.9	-5.2
Plan assets closing balance	**75.7**	**84.6**

ASSUMPTIONS APPLIED FOR ACTUARIAL CALCULATIONS, %	2018	2017
Discount rate	2.20	2.30
Expected salary increase	2.25	2.25
Inflation	2.0	1.8
Personnel turnover rate	4	4
Life expectancy	DUS 14	DUS 14

PLAN ASSETS BY CATEGORY %	2018	2017
Interest funds	69	65
Equity instrument funds	31	35

SENSITIVITY ANALYSIS 2018, EFFECT ON OBLIGATION (+DECREASE/-INCREASE), EUR MILLION	CHANGE	USED VALUE	CHANGE
Discount rate	-0.50%	2.20%	0.50%
	-7.4	-101.5	6.6
Salary increase	-0.50%	2.25%	0.50%
	0.9	-101.5	-1.2
Inflation	-0.50%	2.00%	0.50%
	5.9	-101.5	-6.5
Life expectancy	-1 year	DUS 14	1 year
	4.4	-101.5	-4.5

Average duration of the obligation is 14 years.

21. PROVISIONS

	1 JAN. 2018	TRANSLATION DIFFERENCE	INCREASE IN PROVISIONS	EXERCISED IN FINANCIAL PERIOD (-)	31 DEC. 2018
Non-current provisions	7.1	-	0.4	-0.5	7.0
Current provisions	2.1	0.0	0.3	-1.7	0.7
Total	**9.2**	**0.0**	**0.6**	**-2.1**	**7.6**

	1 JAN. 2017	TRANSLATION DIFFERENCE	INCREASE IN PROVISIONS	EXERCISED IN FINANCIAL PERIOD (-)	31 DEC. 2017
Non-current provisions	0.1	-	7.0	-	7.1
Current provisions	1.6	-0.1	3.7	-3.1	2.1
Total	**1.7**	**-0.1**	**10.7**	**-3.1**	**9.2**

LEGAL MATTERS

A number of Group companies are, and will likely continue to be subject to various legal proceedings and investigations that arise from time to time. As a result, the Group may incur substantial costs that may not be covered by insurance and could affect business and reputation. While Management does not expect any of these legal proceedings to have a material adverse effect on the Group's financial position, litigation is inherently unpredictable and the Group may in the future incur judgments, or enter into settlements, that could have a material adverse effect on the results of operations and cash flows.

22. LIABILITIES

	2018	2017
NON-CURRENT LIABILITIES		
Interest-bearing		
Bond	132.2	163.7
Bank loans	98.0	62.4
Pension loans	9.6	15.7
Other liabilities	2.1	3.4
Non-current interest-bearing liabilities	**242.0**	**245.1**
Non-interest-bearing		
Other liabilities	-0.1	0.0
Derivatives	3.5	6.7
Non-current non-interest-bearing liabilities	**3.5**	**6.7**
Non-current provisions	7.0	7.1
Deferred tax liability	16.9	17.4
Pension obligations	36.0	27.5
Non-current liabilities	**305.4**	**303.8**
CURRENT INTEREST-BEARING LIABILITIES		
Bond	33.5	-
Commercial paper	35.5	-
Pension loans	3.2	7.1
Bank loans	3.6	3.6
Other liabilities	1.2	3.3
Current interest-bearing liabilities	**77.0**	**14.1**
TRADE AND OTHER PAYABLES		
Advances received	0.4	0.3
Trade payables	136.4	187.6
Refund liabilities	6.7	7.6
Accruals and deferred income		
- Short-term interest payable	1.9	1.7
- Matched staff costs	54.1	54.6
- Other short-term accruals and deferred income	12.7	17.7
Derivatives	-0.4	3.3
Other liabilities	10.3	8.2

	2018	2017
Trade and other payables	**222.2**	**281.0**
Income tax liability	0.1	0.7
Current provisions	0.7	2.1
Current liabilities	**300.0**	**297.8**
Liabilities	**605.3**	**601.6**

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

	31 DEC. 2018	31 DEC. 2017
Under 6 months	138.8	37.5
6–12 months	48.0	-
1–5 years	132.2	221.7
Over 5 years	-	-
Total	**319.0**	**259.2**

NET DEBT RECONCILIATION

	2018	2017
Cash and cash equivalents	29.4	50.9
Liquid investments	0.2	0.2
Borrowings - repayable within one year (including overdraft)	-77.0	-14.1
Borrowings - repayable after one year	-242.0	-245.1
Net debt	**-289.4**	**-208.2**

	OTHER ASSETS		LIABILITIES FROM FINANCING ACTIVITIES				
	CASH / BANK OVERDRAFT	LIQUID INVESTMENTS	FINANCE LEASES DUE WITHIN 1 YEAR	FINANCE LEASES DUE AFTER 1 YEAR	BORROWINGS DUE WITHIN 1 YEAR	BORROWINGS DUE AFTER 1 YEAR	TOTAL
Net debt on 1 Jan 2017	6.6	0.2	0.0	-2.1	-17.2	-124.8	-137.2
Cash flows	44.2	0.0	-	0.8	3.2	-119.0	-70.8
Acquisitions - finance leases and lease incentives	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	0.0	-0.1	-	-0.1
Net debt on 31 Dec 2017	**50.9**	**0.2**	**0.0**	**-1.3**	**-14.1**	**-243.8**	**-208.2**
Cash flows	-21.4	-	-	0.8	-62.8	2.3	-81.0
Acquisitions - finance leases and lease incentives	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-0.1	-0.1	-	-0.2
Net debt on 31 Dec 2018	**29.4**	**0.2**	**0.0**	**-0.5**	**-77.0**	**-241.5**	**-289.4**

23. FINANCIAL RISK MANAGEMENT

The duty of Group Treasury in the HKScan Group is to ensure cost-effective funding and financial risk management for Group companies and to attend to relations with financiers. The treasury policy approved by the Board provides the principles for financial risk management in the Group. The policy is supplemented by separate guidelines and instructions, as well as approval practices.

Financial risks mean unfavourable movements taking place in the financial markets that may erode accrual of the company's result or reduce cash flows. Financial risk management aims to use financial means to hedge the company's intended earnings performance and equity, and to safeguard the Group's liquidity in all circumstances and market conditions.

External funding of the Group's operations and financial risk management is centralised to the Group Treasury operating under the Group Treasurer. Group Treasury identifies and assesses the risks and acquires the instruments required for hedging against the risks, in close co-operation with the operational units.

Risk management may employ various instruments, such as currency forwards and options, interest-rate or currency swaps, foreign currency loans and commodity derivatives. Derivatives are used for the sole purpose of hedging, not for speculation. Funding of the Group's subsidiaries is managed mainly through the parent company. The subsidiaries may not accept new external funding, nor may they give guarantees or pledges without the permission of the Group Treasury in the parent company.

FOREIGN EXCHANGE RISK

The Group's domestic market consists of Finland, Sweden, Denmark and the Baltic countries. The company produces, sells and markets pork, beef, poultry and lamb products, processed meats and convenience foods to retail, food service, industry and export sectors. Meat products are mainly produced for domestic markets which reduces the overall currency risk in the Group.

Transaction risk arises when the Group companies engage in foreign currency denominated import and export both outside and within the Group. The aim of transaction risk management is to hedge the Group's business against foreign exchange rate movements and allow the business units time to react and adapt to fluctuations in exchange rates. Foreign exchange risk exposures, which include sales, purchases (balance sheet items and committed cash flows), financing related contractual cash flows, and highly probable forecasted cash flows, are hedged through forward contracts made with the parent company. The business units report their balance sheet risk exposures, forecasted foreign currency sales and purchases and hedging levels to the Group Treasury on a regular basis.

According to Treasury Policy, subsidiaries must hedge balance sheet items in full amount and committed cash flows from 50 to 100 per cent. In addition, forecasted, highly probable cash flows are hedged at 0 - 50 per cent for up to 12 months into the future. Group Treasury can use currency forwards, options and swaps as hedging instruments. Treasury targets to hedge fully its significant foreign exchange risk exposures. Those include commercial exposures, external financing and internal financing which is given in the subsidiary's home currency. All the forward contracts mature within one year. Hedge accounting is not applied currently. Nevertheless, all hedging instruments are done for hedging purposes.

Translation risk arises from the consolidation of equity into the basic currency in subsidiaries whose operational currency is not the euro. The largest foreign currency denominated equities of the Group companies are in Swedish krona and Danish krone. Fluctuations of exchange rates affect the amount of consolidated equity, and translation differences are generated in connection with the consolidation of equity in accounting. Group Treasury identifies and manages foreign exchange translation risks according to Treasury Policy. HKScan Group is not hedging translation risk currently.

The equities of the Group's non-euro-denominated subsidiaries and associates are presented in the following table in million euros.

	2018	**2017**
Currency	Exposure	Exposure
SEK	91.9	95.9
PLN	8.6	6.5
DKK	11.0	19.2

The parent company's functional currency is the euro. The following net position includes sales receivables, payables, interest bearing loans and receivables, cash reserves and committed commercial flows in the most significant foreign currencies. The reported amounts are translated into euros at the exchange rates of the reporting date:

	2018				**2017**			
	USD	**NZD**	**SEK**	**GBP**	**USD**	**NZD**	**SEK**	**GBP**
Net position before hedging	3.7	2.2	12.0	0.3	4.9	1.6	8.0	2.0
Hedging	-3.4	-2.2	-10.8	-0.2	-5.3	-1.5	-7.5	-1.9
Open position	0.3	0.0	1.2	0.2	-0.3	0.1	0.4	0.1

The following table analyses the strengthening or weakening of the euro against the US dollar, New Zealand dollar, Swedish krona and British pound sterling, all other factors remaining unchanged. The movements represent average volatility over the past 12 months. Sensitivity analysis is based on assets, liabilities and committed cash flows denominated in foreign currencies at the reporting date. The effects of currency derivatives, which offset the effects of changes in exchange rates, are also taken into account in sensitivity analysis. Net investments in foreign units and the instruments used to hedge these have been excluded from sensitivity analysis.

In respect of the foreign currencies, the effect would mainly be due to changes in the exchange rates applicable to foreign currency denominated trade receivables and payables.

	2018				**2017**			
	USD	**NZD**	**SEK**	**GBP**	**USD**	**NZD**	**SEK**	**GBP**
Movement (+/-), %	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Effect on profit before taxes	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0

The following assumptions were used in calculating sensitivity to currency risks:
Forecast future cash flows have not been taken into account in the calculation except for committed cash flows. Financial instruments such as forward contracts used to cover these positions are included in the analysis.

The calculation and estimates of reasonably possible changes in exchange rates are based on the assumption of ordinary market and business conditions.

INTEREST RATE RISK

The Group's main exposure to interest rate risk arises through interest-bearing liabilities. The goal of interest rate risk management is to reduce the fluctuation of interest expenses in the income statement, minimize debt servicing costs and improve the predictability. The Group's short-term money market investments expose it to cash flow interest rate risk, but the impact is not significant as these investments are targeted to keep in minimum. Group revenues and operative cash flows are mainly independent of fluctuations in market rates.

Interest rate risk is measured by the effect of interest rate movements on the total forecasted debt portfolio. The relevant measurement horizons are selected in accordance with the rolling business strategy planning and possible major investment programmes.

To manage interest rate risks, Group borrowings are spread across fixed and variable interest instruments. The company may borrow at fixed or variable interest rates and use interest rate derivatives to achieve a result that is in line with the Treasury policy. The goal of the policy is to keep the fixed interest term of the loans between 12 and 48 months. On the balance sheet date the fixed interest term was 25 months.

The Group monitors and analyses its interest rate risk position on a regular basis. The Group has determined sensitivity limits for interest rate movements. The sensitivity of net financial expenses on the balance sheet date to an increase/decrease of one per cent in interest rates, all other things being equal, was approximately EUR 1.7 (1.1) million before taxes over the next 12 months. The sensitivity analysis was prepared based on the amounts and maturities of interest-bearing liabilities and interest rate derivatives on the balance sheet date.

COUNTERPARTY RISK

Financial counterparty risk refers to the risk that counterparty may fail to fulfill its contractual obligations. The risks are mostly related to investment activities and counterparty risks in derivative contracts. Banks that finance the Group are used as counterparties whenever possible, as well as a few other specified counterparties. Cash may be invested in bank deposits, certificates of deposit, municipal papers, and the commercial paper programmes of certain specified companies listed on the main list of the Nasdaq Helsinki, and to certain state-owned companies. Because of the limited extent of the investment activities, the resulting counterparty and price risks are not significant.

COMMODITY RISK

The Group is exposed to commodity risks that are related to the availability and price fluctuations of commodities. In addition to meat raw materials, physical electricity consumption is one of the most significant commodity risks in the Group companies. The subsidiaries can hedge against fluctuation in market prices for electricity and other commodities by procuring fixed-price products or through derivative contracts with the Group Treasury. The companies may use external parties to assist them in commodity risk management.

The Group uses electricity derivatives in Finland, Sweden, Denmark and Estonia to level out energy costs. The electricity price risk is evaluated for five-year periods. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases.

A sensitivity analysis for electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity changed by +/-10 percentage points from the balance sheet date, the impact would be as follow, calculated before tax:

EUR MILLION	2018	2017
Electricity – effect in income statement	+/- 0 3	+/- 0 3
Electricity – effect in equity (price + 10%)	-3.0	-0.1
Electricity – effect in equity (price - 10%)	-4.1	-0.6

CREDIT RISK

The Group's Treasury Policy and related guidelines specify the credit quality requirements and investment principles applied to customers and counterparties to investment transactions and derivative contracts. The Group Treasury is responsible for defining the principles for credit management within the Group and updating the Credit Policy as well as instructing the Group's subsidiaries in credit management.

Credit risk results from a customer's possible failure to fulfil its payment obligations. The Group's trade receivables are spread among a wide customer base, the most important customers being central retail organisations in the various market areas. The creditworthiness, payment behaviour and credit limits of the clients are monitored systematically. As a main principle some type of securing is needed for all credit granted. The security can be credit insurance, a bank guarantee, or a security deposit. In addition, the Group is exposed to minor credit risk in remaining financing investments of primary production contract producers.

The amount of impairment losses recognised through profit or loss in the financial period was EUR -0.2 (0.0) million. The Group's maximum exposure to credit risk equals the carrying amount of financial assets at year-end. The age breakdown of trade receivables is presented in Note 17.

LIQUIDITY AND REFINANCING RISK

The Group constantly assesses and monitors the amount of funding required for operations by means such as preparation and analysis of cash flow forecasts. The Group maintains adequate liquidity under all circumstances to cover its business and financing needs in the foreseeable future.

The availability of funding is ensured by spreading the maturity of the borrowing portfolio, financing sources and instruments. In general, cash and cash equivalents are targeted to be kept at a minimum. The Group also has revolving credit facilities with banks, bank borrowings, current accounts with overdraft facilities and the short-term EUR 200 million Finnish commercial paper programme. Liquidity risk is managed by retaining long-term liquidity reserves and by exceeding short-term liquidity requirements. The Group's liquidity reserve includes cash and cash equivalents, money market investments and long-term unused committed credit facilities. Short-term liquidity requirements include the repayments of short- and long-term debt within the next 12 months, expected dividends as well as a specifically defined strategic liquidity requirement, which covers the operative funding needs.

The Group's liquidity together with funding profile and maturity structure remained good in 2018. Undrawn committed credit facilities on 31 December 2018 stood at EUR 100.0 (100.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 19.9 (20.1) million. The overdraft facility agreements are in force until further notice. At year end, the company's EUR 200 million commercial paper programme had been drawn to the amount of EUR 35.5 (0.0) million. Similar to previous year, cash and cash equivalents were above the normal level amounting EUR 29.4 (50.9) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 2.5 (3.0) per cent at the balance sheet date.

The company's current loan agreements are subject to the net gearing ratio financial covenant. Outstanding unsecured bonds maturing in November 2019 and September 2022 have the net gearing ratio covenant level of 130%. 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. The risks related to impairment of assets or breaching financial covenants under finance agreements will increase and have an effect on the financial position in case the Group i s not able to improve its financial performance and strengthen its balance sheet. Breaches of covenants could result in a default of an essential part of loans. With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities will grow by approximately EUR 45 million. With this increase the net gearing at year end 2018 would be approximately 102 per cent.

THE NUMBER OF THE GROUP'S COMMITMENTS ON THE BALANCE SHEET DATE BY TYPE OF CREDIT

2018

CREDIT TYPE	SIZE	IN USE	AVAILABLE
Overdraft facility	19.9	-	19.9
Credit limit	100.0	-	100.0
Total	119.9	-	119.9

2017

CREDIT TYPE	SIZE	IN USE	AVAILABLE
Overdraft facility	20.1	-	20.1
Credit limit	100.0	-	100.0
Total	**120.1**	**-**	**120.1**

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity analysis only applies to financial instruments and statutory liabilities are therefore excluded. The amounts also include interest on financial liabilities and margin on loan.

31 DEC. 2018 MATURITY OF FINANCIAL LIABILITIES

CREDIT TYPE	BALANCE SHEET 31 DEC. 2018	CASHFLOWS SUM	CASHFLOWS 2019	2020	2021	2022	2023	>2023
Bond	165.6	181.0	38.2	3.5	3.5	135.7	-	-
Bank loans	101.8	105.4	4.8	38.9	43.8	3.3	3.3	11.3
Pension loans	12.9	13.1	2.2	2.2	2.2	2.2	2.2	2.2
Commercial paper programme	35.5	35.5	35.5	-	-	-	-	-
Other borrowing	3.3	3.3	1.4	1.9	-	-	-	-
Trade and other payables	222.2	222.2	222.2	-	-	-	-	-
Total	**541.2**	**560.6**	**304.4**	**46.5**	**49.6**	**141.2**	**5.4**	**13.4**

31 DEC. 2017 MATURITY OF FINANCIAL LIABILITIES

CREDIT TYPE	BALANCE SHEET 31 DEC. 2017	CASHFLOWS SUM	CASHFLOWS 2018	2019	2020	2021	2022	>2022
Bond	163.7	188.6	4.8	38.2	3.5	3.5	138.5	-
Bank loans	66.0	68.5	4.4	4.4	39.3	3.8	3.8	12.9
Pension loans	22.9	23.3	7.3	5.1	2.2	2.2	2.2	4.3
Commercial paper programme	-	-	-	-	-	-	-	-
Other borrowing	6.7	6.8	3.4	2.8	0.7	-	-	-
Trade and other payables	277.4	277.4	277.4	-	-	-	-	-
Total	**536.6**	**564.6**	**297.3**	**50.4**	**45.7**	**9.5**	**144.5**	**17.2**

The following table presents the nominal value and fair values (EUR million) of derivative instruments. The derivatives mature within the next 12 months except for interest rate derivatives and commodity derivatives, the maturity of which are presented separately.

	2018 POSITIVE FAIR VALUE	2018 NEGATIVE FAIR VALUE	2018 FAIR VALUE NET	2017 FAIR VALUE NET	2018 NOMINAL VALUE	2017 NOMINAL VALUE
Interest rate derivatives	-	**-8.2**	**-8.2**	**-10.2**	**119.1**	**120.6**
matured in 2018	-	-	-	-	-	-
matures in 2019	-	-0.4	-0.4	-0.7	20.0	20.0
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-2.3	-2.3	-2.8	25.0	25.0
matures in 2022	-	-3.7	-3.7	-4.7	44.5	45.3
matures in >2022	-	-1.8	-1.8	-2.0	29.6	30.2
of which defined as cash flow hedging instruments	-	-	-	-	-	-
Foreign exchange derivatives	**0.1**	**-0.1**	**-0.1**	**-0.1**	**40.0**	**41.4**
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	**5.3**	**0.0**	**5.3**	**0.5**	**10.0**	**7.4**
matured in 2018	-	-	-	0.2	-	4.5
matures in 2019	3.6	0.0	3.6	0.2	4.9	2.3
matures in 2020	1.3	-	1.3	0.1	2.4	0.6
matures in 2021	0.3	-	0.3	-	1.5	-
matures in 2022	0.0	-	0.0	-	1.1	-
of which defined as cash flow hedging instruments	5.3	0.0	5.3	0.5	10.0	7.4

DERIVATIVES TO WHICH HEDGE ACCOUNTING APPLIES

Changes in the fair values of the effective portions after taxes of commodity derivatives, designated as hedges of cash flow amounting to EUR 4.2 (0.2) million, are recognised under other comprehensive income. The hedged highly probable transactions are estimated to occur at various dates during the next 60 months. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of commodity risk hedge amounting to EUR 0.0 (0.1) million are recognised under other operating expenses in the income statement.

CAPITAL MANAGEMENT

The purpose of capital management in the Group is to support business through an optimal capital structure by safeguarding a normal operating environment and enabling organic and structural growth. An optimal capital structure also generates lower costs of capital.

Capital structure is influenced by controlling the amount of working capital tied up in the business and through reported profit/loss, distribution of dividend and share issues. The Group may also decide on the disposal of assets to reduce liabilities.

The tools to monitor the development of the Group's capital structure are the equity ratio and net gearing ratio. Equity ratio refers to the ratio of equity to total assets. Net gearing ratio is measured as net liabilities divided by equity. Net liabilities include interest-bearing liabilities less interest-bearing short term receivables and cash and cash equivalents.

On the balance sheet date the equity ratio is 35.1 per cent. The official financial target in respect of net gearing ratio is below 100 per cent. On the balance sheet date, the net gearing ratio was 88.6 per cent. With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities will grow by approximately EUR 45 million. With this increase the net gearing at year end 2018 would be approximately 102 per cent.

NET GEARING RATIO

	2018	2017
Interest-bearing liabilities	319.0	259.2
Interest-bearing short-term receivables	0.2	0.2
Cash and bank	29.4	50.9
Interest-bearing net liabilities	289.4	208.2
Equity	326.6	351.0
Net gearing ratio	88.6 %	59.3 %

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

THE FAIR VALUE DETERMINATION PRINCIPLES APPLIED BY THE GROUP ON ALL FINANCIAL INSTRUMENTS

When determining the fair values of the financial assets and liabilities, the following price quotations, assumptions and measurement models have been used.

OTHER SHARES AND HOLDINGS

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value.

DERIVATIVES

The fair values of currency forward contracts are determined by using the market prices for contracts of equal duration at the reporting date. The fair values of interest rate swaps are determined using the net present value method supported by the market interest rate or other market information at the reporting date. If the market value given by a counterparty is used, the Group also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the Group would have to pay or would obtain if it were to terminate a derivative instrument.

BANK LOANS

The fair values of liabilities are based on the discounted cash flows. The rate used for measurement is the rate at which the Group could obtain corresponding credit from a third party on the reporting date. The overall rate consists of a risk free rate and a risk premium (margin on loan) for the company.

BONDS

The fair values of bonds are based on the quoted market prices.

FINANCE LEASE LIABILITIES

The fair value is measured by discounting future cash flows by an interest rate which corresponds to the interest rate of future leases.

TRADE AND OTHER RECEIVABLES

The original carrying amounts of non-derivative based receivables are equal to their fair values, as discounting has no material effect taking into account the maturity of the receivables.

TRADE AND OTHER PAYABLES

The original carrying amounts of trade and other payables are equal to their fair values, as discounting has no material effect taking into account the maturity of the payables.

Fair value hierarchy for financial assets and liabilities measured at fair value. Fair values at end of reporting period.

	31 DEC. 2018	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities		-	-	-
Trading derivatives	-			
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	5.3	-	5.3	-
of which subject to cash flow hedging	5.3	-	5.3	-
Total	**5.4**	**0.0**	**5.4**	**0.0**
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities				
Interest rate swaps	-8.2	-	-8.2	-
Foreign exchange derivatives	-0.1	-	-0.1	-
Commodity derivatives	0.0	-	0.0	-
of which subject to cash flow hedging	0.0	-	0.0	-
Total	**-8.3**	**0.0**	**-8.3**	**0.0**

	31 DEC. 2017	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	0.7	-	0.7	-
of which subject to cash flow hedging	0.7	-	0.7	-
Total	**0.8**	**0.0**	**0.8**	**0.0**
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities				
Interest rate swaps	-10.2	-	-10.2	-
Foreign exchange derivatives	-0.2	-	-0.2	-
Commodity derivatives	-0.2	-	-0.2	-
of which subject to cash flow hedging	-0.2	-	-0.2	-
Total	**-10.6**	**0.0**	**-10.6**	**0.0**

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 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 management estimates and measurement models generally acceptable for their use.

25. OTHER LEASES

THE GROUP AS LESSEE

The Group leases many of its premises. The leases have usually been made until further notice and normally include the possibility to continue the agreement after the original date of termination. Leases generally include an index clause. In addition, other rent commitments include various machinery and equipment. The lengths of these leases are from three to five years on average.

Minimum rents payable on the basis of irrevocable lease agreements:

OTHER RENT COMMITMENTS	2018	2017
Maturing in less than a year	8.2	6.4
Maturing in 1–5 years	20.6	17.0
Maturing in over 5 years	14.8	9.0
Other rent commitments, total	**43.6**	**32.4**
Rent receivables on other irrevocable lease agreements		
Maturing in less than a year	0.1	-
Maturing in 1–5 years	-	-
Maturing in over 5 years	-	-
Rent receivables, total	**0.1**	**0.0**

26. CONDITIONAL ASSETS AND LIABILITIES AND PURCHASE COMMITMENTS

COMMITMENTS AND CONTINGENT LIABILITIES	2018	2017
Loans secured by mortgages	-	-
On own behalf		
Mortgages given	-	-
Assets pledged	-	-
On behalf of others		
Guarantees	5.5	8.5
Other commitments	6.2	8.7
Leasing commitments		
Leasing commitments maturing in less than a year	3.1	3.3
Leasing commitments maturing in 1–5 years	3.9	4.0
Leasing commitments maturing in over 5 years	0.1	0.2
Total	**18.8**	**24.7**

27. RELATED PARTY TRANSACTIONS

Parties are considered related parties if one of the parties is able to exercise control, or a significant influence, over the other in decisions affecting its finances and business. The Group's related parties include the associates and joint ventures. Related parties also include the Supervisory Board and Board of Directors of the Group parent's parent entity (LSO Osuuskunta), the members of the Group's Board of Directors, the Group's CEO, the deputy CEO and their immediate family members, as well as the members of the 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 900 Finnish meat producers. The cooperative fosters its members' meat production and marketing by exercising its power of ownership in HKScan. Today, LSO Osuuskunta has no actual business, but receives an income in the form of dividend paid by HKScan and, to a lesser extent, income in the form of other investments and rents. The HKScan Group applies pure market price principles to the acquisition of raw meat material.

Lot lease amounting to EUR 1.2 million in 2018 (EUR 1.2 million in 2017) has been paid by the Group to LSO. In addition, there are minor office services and revolving credit facility amounting to EUR 5 million to both ways between the Group and LSO. Regarding the credit facility the Group had liability amounting to EUR 1.6 million at year end. 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 8.8 million in 2018 (EUR 9.5 million in 2017). Said persons purchased animals from the Group with EUR 2.6 million in 2018 (EUR 3.5 million in 2017).

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 2018, 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	OWNER %	SHARE OF VOTES %
Owned by the Group's parent company		
HKScan Finland Oy, Finland	100.00	100.00
HKScan Sweden AB, Sweden	100.00	100.00
HKScan Denmark A/S, Denmark	100.00	100.00
AS HKScan Estonia, Estonia	100.00	100.00
UAB HKScan Lietuva, Lithuania	100.00	100.00
AS HKScan Latvia, Latvia	99.52	99.52
HKScan UK Ltd, the UK**	100.00	100.00
HKScan Asia Limited, Hong Kong	100.00	100.00
OOO HKScan, Russia	100.00	100.00
Owned by HKScan Finland Oy		
Kivikylän Kotipalvaamo Oy, Finland	49.00*	49.00*
Lihatukku Harri Tamminen Oy, Finland	49.00*	49.00*

SHARES IN SUBSIDIARIES	OWNER %	SHARE OF VOTES %
Paimion Teurastamo Oy, Finland	100.00	100.00
Owned by AS HKScan Estonia		
Rakvere Farmid AS, Estonia	100.00	100.00
Owned by HKScan Sweden AB		
HKScan Real Estate AB, Sweden	100.00	100.00
HKScan International AB, Sweden**	100.00	100.00
HKScan Poland Sp.zo.o, Poland	100.00	100.00
Samfod S.A., Belgium**	100.00	100.00
Owned by HKScan Real Estate AB		
HKScan Real Estate Halmstad AB, Sweden	100.00	100.00
Owned by HKScan Denmark A/S		
Kreatina A/S, Denmark**	100.00	100.00

* Control is based on shareholders' agreement / board selection.
** Dormant

SHARES AND HOLDINGS IN ASSOCIATED COMPANIES AND JOINT VENTURES	OWNER %	SHARE OF VOTES %
Owned by the Group's parent company		
Nordic Lotus Food Co. Ltd, China*	35.00	35.00
Owned by HKScan Finland Oy		
Länsi-Kalkkuna Oy, Finland*	50.00	50.00
Pakastamo Oy, Finland	50.00	50.00
Honkajoki Oy, Finland*	50.00	50.00
Finnpig Oy, Finland	50.00	50.00
Oy LHP Bio-Carbon LTD, Finland	24.24	24.24
DanHatch Finland Oy, Finland	20.00	20.00
Owned by HKScan Sweden AB		
Industrislakt Syd AB, Sweden	50.00	50.00
Siljans Chark AB, Sweden	39.30	39.30
AB Tillväxt for svensk animalieproduktion, Sweden	33.33	33.33
Svenska Köttforetagen Holding AB, Sweden	23.52	23.52
Owned by HKScan Denmark A/S		
Tican-Rose GmbH, Germany	50.00	50.00
Farmfood A/S, Denmark	33.30	33.30

* Joint venture

The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services. All commercial contracts are negotiated on market terms.

The following transactions were carried out with related parties

	2018	2017
Sales to associates	20.2	17.7
Sales of animals to related parties	2.6	3.5
Purchases from associates	32.5	33.0
Purchases of animals from related parties	8.8	9.5

OPEN BALANCES ON 31 DECEMBER	2018	2017
Trade and other receivables from associates	2.7	2.3
Trade and other payables to associates	3.3	5.8

28. EVENTS AFTER THE REPORTING DATE

After the reporting period, on 7 January 2019, HKScan published a Notice of the Extraordinary General Meeting that was held on Wednesday, 30 January 2019, in Turku, Finland. The Extraordinary General Meeting resolved that the number of ordinary members of the Board of Directors would be five (5) and the number of deputy members would be two (2). Jari Mäkilä, Harri Suutari and Terhi Tuomi were elected as new members of the Board of Directors until the end of the Annual General Meeting 2019, In addition, Ilkka Uusitalo was elected as new deputy Board member until the end of the Annual General Meeting 2019. Reijo Kiskola and Per Olof Nyman continue as Board members and Carl-Peter Thorwid as a deputy Board member until the end of the Annual General Meeting 2019.

After the reporting period, on 30 January 2019, HKScan announced that Tero Hemmilä will start working as the CEO of the Company on 4 February 2019.

PARENT COMPANY INCOME STATEMENT FOR 1 JANUARY - 31 DECEMBER

EUR	NOTE	2018	2017
Net sales		-	-
Other operating income	1.	21 998 196.77	17 875 688.79
Materials and services		-	-
Employee costs	2.	-14 041 359.72	-13 691 603.28
Depreciation and impairment	3.	-527 975.49	-879 204.09
Other operating expenses	4.	-22 367 770.44	-23 015 103.16
EBIT		**-14 938 908.88**	**-19 710 221.74**
Financial income and expenses	5.	4 551 084.30	-45 553 212.42
Profit/loss before appropriations and taxes		**-10 387 824.58**	**-65 263 434.16**
Appropriations	6.	-7 443.00	115 830.00
Income taxes	7.	1 242 221.97	3 306 533.44
Profit/loss for the period		**-9 153 045.61**	**-61 841 070.72**

PARENT COMPANY BALANCE SHEET 31 DECEMBER

EUR	NOTE	2018	2017
ASSETS			
Intangible assets	8.	1 426 009.00	646 063.00
Tangible assets	8.	4 963 074.31	5 831 275.90
Financial assets	8.	448 695 032.22	347 745 032.22
Non-current assets		**455 084 115.53**	**354 222 371.12**
Non-current receivables	9.	267 130 260.72	253 002 860.94
Deferred tax asset	9.	11 757 958.74	10 484 929.27
Current receivables	10.	13 130 542.62	11 588 512.62
Cash and cash equivalents		19 353 845.69	44 387 128.72
Current assets		**311 372 607.77**	**319 463 431.55**
Assets		**766 456 723.30**	**673 685 802.67**
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.	-	-
RIUE	11.	143 252 832.19	143 202 868.19
Other reserves	11.	4 882 017.78	4 818 596.94
Retained earnings	11.	82 052 804.55	148 755 465.84
Profit/loss for the period	11.	-9 153 045.61	-61 841 070.72
Equity		**361 236 888.09**	**375 138 139.43**
Accumulated appropriations	12.	91 407.00	83 964.00
Provisions	13.	2 711 022.00	2 780 459.00
Deferred tax liability	14.	-	-
Non-current interest-bearing liabilities	14.	284 384 655.78	248 638 657.70
Non-current non-interest-bearing liabilities	14.	3 440 804.71	4 563 120.29
Current interest-bearing liabilities	15.	101 013 874.16	28 170 554.60
Current non-interest-bearing liabilities	15.	13 578 071.56	14 310 907.65
Liabilities		**402 417 406.21**	**295 683 240.24**
Equity and liabilities		**766 456 723.30**	**673 685 802.67**

PARENT COMPANY CASH FLOW STATEMENT

EUR 1 000	2018	2017
EBIT	-14 939	-19 710
Adjustments to EBIT	1 049	1 862
Depreciation and impairment	528	879
Change in provisions	-69	9
Change in net working capital	-3 125	1 325
Interest income and expenses	5 645	4 791
Dividends received	-	6 170
Taxes	-31	-32
Cash flow from operating activities	**-10 942**	**-4 706**
Purchases of shares in subsidiary	-100 950	-81 941
Purchase of other fixed assets	-3 366	-3 541
Disposals of other fixed assets	2 927	2 478
Repayments of loans receivable	-16 459	-3 245
Cash flow from investing activities	**-117 848**	**-86 249**
Cash flow before financing activities	**-128 790**	**-90 955**
Proceed from external borrowings	136 540	256 762
Hybrid loan	39 751	-
Repayment of external borrowings	-67 671	-116 524
Dividends paid	-4 863	-8 636
Cash flow from financing activities	**103 757**	**131 602**
Change in cash and cash equivalents	-25 033	40 647
Cash and cash equivalents on 1 Jan.	44 387	3 740
Cash and cash equivalents on 31 Dec.	**19 354**	**44 387**
CHANGE IN WORKING CAPITAL:		
Increase (-) / decrease (+) in current operating receivables	-1 474	-165
Increase (+) / decrease (-) in current non-interest-bearing liabilities	-1 651	1 491
Total	**-3 125**	**1 325**

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 2018.

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

Non-current assets

Intangible and tangible assets 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. Intangible assets are depreciated over 5-10 years and tangible assets over 2-10 years.
Holdings in subsidiaries and associated companies as well as other shares and holdings are measured at cost less any impairment.

Transactions in foreign currency

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

Derivative contracts

HKScan Oyj makes all external derivative contracts for the Group. Derivatives that are made for subsidiaries are handled with intercompany derivative contracts. Because of this HKScan Oyj has all the external derivatives of the Group and these are partly for the parent company and partly for subsidiaries.

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

Commodity derivatives all relate to subsidiaries and intercompany derivatives have been made. There is no income statement effect as the cash flows from the derivatives are eliminated by the intercompany derivative contracts with subsidiaries. Hedge accounting is not applied. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

Hedge accounting is not 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 income statement in financial items. Realised gains or losses on interest rate swaps hedging variable-interest loans are presented under financial items in the income statement. Hedge accounting is also 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 service 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.

Detailed information about management compensation is available in group financial statement note 4.

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

1. OTHER OPERATING INCOME, TOTAL

EUR 1 000	2018	2017
Rental income	-	-
Other operating income	21 998	17 861
Gain on disposal of non-current assets	-	15
Other operating income, total	**21 998**	**17 876**

2. STAFF COSTS

	2018	2017
Salaries and fees	-11 234	-10 355
Pension expenses	-1 823	-1 851
Other social expenses	-984	-1 486
Staff costs	**-14 041**	**-13 692**
Managing directors and their deputies	1 937	807
Members of the Board of Directors	360	353
Management salaries, fees and benefits	**2 297**	**1 160**
Employees, average	137	125

3. DEPRECIATION AND IMPAIRMENT

	2018	2017
Depreciation according to plan on non-current assets and goodwill	-528	-879
Total depreciation and impairment	**-528**	**-879**

4. OTHER OPERATING EXPENSES

	2018	2017
Rents/leases	-1 492	-1 431
Losses on disposal of fixed assets, tangible assets total	0	-103
Losses on disposal of non-current assets	**0**	**-103**
Audit fees, ordinary audit	-84	-134
Audit fees, other expert services	-9	-17
Audit fees	**-93**	**-151**
Non-statutory staff costs	-2 485	-2 026
Energy	-95	-92
Maintenance	-39	-35
Advertising, marketing and entertainment costs	-1 355	-1 358
Service, information management and office costs	-14 068	-14 966
Other expenses	-2 741	-2 853
Total other operating expenses	**-22 368**	**-23 015**

5. FINANCIAL INCOME AND EXPENSES

	2018	2017
Financial income		
Dividends from Group companies	-	6 170
Dividends from participating interests	-	-
Income from units	**0**	**6 170**
Interest income from Group companies	15 582	14 660
Interest income from participating interests	3	3
Interest income from others	46	88
Interest income from other non-current financial assets	**15 631**	**14 751**
Other financial income from others	4 139	3 599
Other financial income	**4 139**	**3 599**
Total financial income	**19 770**	**24 520**
Financial expenses		
Interest expenses payable to Group companies	-	-
Interest expenses payable to others	-9 060	-7 144
Total other interest and financial expenses	**-9 060**	**-7 144**
Unrealised losses on fair value assessment	**1 082**	**2 137**
Impairment in holdings in Group companies	0	-24 950
Other financial expense from Group companies	-1 342	-30 000
Other financial expense from others	-5 899	-10 116
Other financial expense	**-7 241**	**-65 066**
Total financial expenses	**-15 219**	**-70 073**
Financial income and expenses, total	**4 551**	**-45 553**

6. APPROPRIATIONS

	2018	2017
Increase (-) or decrease (+) in depreciation difference	-7	116
Group contribution income	-	-
Total appropriations	**-7**	**116**

7. DIRECT TAXES

	2018	2017
Tax for previous financial periods	-	-
Change in deferred tax liabilities and assets	1 273	3 338
Other direct taxes	-31	-32
Income tax on ordinary operations	**1 242**	**3 306**

8. NON-CURRENT ASSETS

INTANGIBLE ASSETS 2018	INTELLECTUAL PROPERTY RIGHTS	OTHER LONG-TERM EXPENDITURE	TOTAL
Acquisition cost on 1 Jan.	2 707	661	3 368
Decrease	-735	-	-735
Transfers between items	1 909	-	1 909
Acquisition cost on 31 Dec.	**3 881**	**661**	**4 542**
Accumulated depreciation on 1 Jan.	-2 226	-496	-2 722
Depreciation for the financial period	-332	-62	-394
Accumulated depreciation on 31 Dec.	**-2 558**	**-558**	**-3 116**
Carrying amount on 31 Dec.	**1 323**	**103**	**1 426**

INTANGIBLE ASSETS 2017	INTELLECTUAL PROPERTY RIGHTS	OTHER LONG-TERM EXPENDITURE	TOTAL
Acquisition cost on 1 Jan.	2 690	661	3 351
Increase	425	-	425
Decrease	-2 653	-	-2 653
Transfers between items	2 245	-	2 245
Acquisition cost on 31 Dec.	**2 707**	**661**	**3 368**
Accumulated depreciation on 1 Jan.	-1 999	-405	-2 404
Accumulated depreciation on disposals	106	-	106
Depreciation for the financial period	-333	-91	-424
Accumulated depreciation on 31 Dec.	**-2 226**	**-496**	**-2 722**
Carrying amount on 31 Dec.	**481**	**165**	**646**

TANGIBLE ASSETS 2018	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	PRE-PAYMENTS	TOTAL
Acquisition cost on 1 Jan.	1 166	381	5 572	7 119
Increase	-	-	1 176	1 176
Decrease	-14	-	-	-14
Transfers between items	-	-	-1 909	-1 909
Acquisition cost on 31 Dec.	**1 152**	**381**	**4 839**	**6 372**
Accumulated depreciation on 1 Jan.	-920	-367	0	-1 287
Depreciation for the financial period	-121	-	-	**-121**
Accumulated depreciation on 31 Dec.	**-1 041**	**-367**	**0**	**-1 408**
Carrying amount on 31 Dec.	**111**	**14**	**4 839**	**4 964**

TANGIBLE ASSETS 2017	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	PRE-PAYMENTS	TOTAL
Acquisition cost on 1 Jan.	1 204	380	4 896	6 480
Increase	6	1	2 943	2 950
Decrease	-66	-	-	-66
Transfers between items	22	-	-2 267	-2 245
Acquisition cost on 31 Dec.	**1 166**	**381**	**5 572**	**7 119**
Accumulated depreciation on 1 Jan.	-826	-367	0	-1 193
Accumulated depreciation of disposals and reclassifications	46	-	-	46
Depreciation for the financial period	-140	-	-	-140
Accumulated depreciation on 31 Dec.	**-920**	**-367**	**0**	**-1 287**
Carrying amount on 31 Dec.	**246**	**14**	**5 572**	**5 832**

FINANCIAL ASSETS 2018	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN ASSOCIATES	RECEIVABLES FROM ASSOCIATES	OTHER SHARES AND HOLDINGS	TOTAL
Acquisition cost on 1 Jan.	347 729	0	0	16	347 745
Increase	100 000	950	-	-	100 950
Carrying amount on 31 Dec.	**447 729**	**950**	**0**	**16**	**448 695**

Increase in 2018 amounting to EUR 100.0 million is an equity investment (RIUE) to a Finnish subsidiary.

FINANCIAL ASSETS 2017	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN ASSOCIATES	RECEIVABLES FROM ASSOCIATES	OTHER SHARES AND HOLDINGS	TOTAL
Acquisition cost on 1 Jan.	290 738	148	0	16	290 902
Increase	81 941	-	-	-	81 941
Decrease	-	-148	-	-	-148
Impairment	-24 950	-	-	-	-24 950
Carrying amount on 31 Dec.	**347 729**	**0**	**0**	**16**	**347 745**

Increase in 2017 amounting to EUR 81.9 million is an equity investment (RIUE) to a Finnish subsidiary.

	2018	2017
INTANGIBLE ASSETS		
Intellectual property rights	1 323	481
Other long-term expenditure	103	165
Intangible assets	**1 426**	**646**
TANGIBLE ASSETS		
Machinery and equipment	110	246
Other tangible assets	14	14
Payments on account and tangible assets in the course of construction	4 839	5 572
Tangible assets	**4 963**	**5 832**

	2018	2017
FINANCIAL ASSETS		
Holdings in Group companies	447 729	347 729
Holdings in associates	950	-
Other shares and holdings	16	16
Financial assets	**448 695**	**347 745**
Total non-current assets	**455 084**	**354 223**

9. NON-CURRENT RECEIVABLES

	2018	2017
Non-current loan receivables	794	817
Deferred tax assets	11 758	10 485
Other receivables	32	72
Prepayments and accrued income	130	245
Total	**12 714**	**11 619**
RECEIVABLES FROM GROUP COMPANIES		
Non-current Group loan receivables	266 174	251 868
Non-current receivables from Group companies	**266 174**	**251 868**
Total non-current receivables	**278 888**	**263 487**

On 31 December 2018, the company had EUR 2.5 (0.0) million of losses, of which no deferred tax receivable has been recognized. The losses in taxation expire with the following schedule: EUR 1.3 million in 2022, EUR 12.1 million in 2023, EUR 4.9 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027 and EUR 9.9 million in 2028. Utilisation of deferred tax asset from losses is based on the same assumptions that are used in goodwill impairment testing in group note 11 and the assumption that there are no significant adverse changes in tax legislation.

10. CURRENT RECEIVABLES

	2018	2017
Trade receivables	8	-
Short-term receivables (from others)	15	7
Short-term prepayments from accrued income (from others)	2 458	2 775
Total	**2 481**	**2 782**
RECEIVABLES FROM GROUP COMPANIES		
Trade receivables	2 035	568
Loan receivables	8 343	8 011
Other receivables	122	76
Total	**10 500**	**8 655**
RECEIVABLES FROM PARTICIPATING INTERESTS		
Loan receivables	150	150
Other receivables	-	1
Short-term receivables from participating interests	**150**	**151**
Total current receivables	**13 131**	**11 588**
MAIN ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME		
Accrued financial items	65	97
Accrued interest receivables	1 791	2 049
Accrued staff costs	15	29
Other prepayments and accrued income	587	600
Total	**2 458**	**2 775**

11. EQUITY

EQUITY IN 2018	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	0	143 203	4 818	86 916	375 139
Increase	-	-	-	-	50	63	-	113
Dividend distribution	-	-	-	-	-	-	-4 862	-4 862
Profit for the period	-	-	-	-	-	-	-9 153	-9 153
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**0**	**143 253**	**4 881**	**72 901**	**361 237**

EQUITY IN 2017	SHARE CAPITAL	SHARE PREMIUM RESERVE	TREASURY SHARES	FAIR VALUE RESERVE	RIUE	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Equity on 1 Jan.	66 820	73 420	-38	-6 786	143 203	4 805	164 186	445 609
Opening balance adjustment	-	-	-	6 786	-	-	-6 786	0
Increase	-	-	-	-	-	13	-	13
Dividend distribution	-	-	-	-	-	-	-8 643	-8 643
Profit for the period	-	-	-	-	-	-	-61 841	-61 841
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**0**	**143 203**	**4 818**	**86 916**	**375 138**

The company has adjusted fair value reserve derived from interest rate derivatives amounting to EUR -6.8 million into retained earnings on 1 January 2017 as the applicability of hedge accounting has been re-evaluated. As result change in fair value previously reported in equity is reported in profit for the period in financial items. Profit for the period impact after tax for 2017 is EUR 1.9 million and for 2018 EUR 0.8 million.

DISTRIBUTABLE EQUITY	2018	2017
Contingency reserve	603	540
Treasury shares	-38	-38
Reserve for invested unrestricted equity	143 253	143 203
Retained earnings	82 053	148 755
Profit/loss for the period	-9 153	-61 841
Distributable equity	**216 718**	**230 619**

12. ACCUMULATED APPROPRIATIONS

	2018	2017
Depreciation difference	91	84
Total appropriations	**91**	**84**

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

13. STATUTORY PROVISIONS

	2018	2017
Provisions for pensions	2 711	2 780
Statutory provisions, total	**2 711**	**2 780**

14. NON-CURRENT LIABILITIES

	2018	2017
Deferred tax liability	-	-
Hybrid loan	40 000	-
Bond	135 000	168 495
Loans from financial institutions	107 780	78 079
Other liabilities	5 045	6 628
Total	**287 825**	**253 202**
Total non-current liabilities	**287 825**	**253 202**
Interest-bearing		
Amounts owed to others	284 384	248 639
Non-current interest-bearing liabilities	**284 384**	**248 639**
Non-interest-bearing		
Amounts owed to others	3 441	4 563
Non-current non-interest-bearing liabilities	**3 441**	**4 563**
Total non-current liabilities	**287 825**	**253 202**

The company has two bonds. EUR 33.5 million maturing in November 2019 with 3.625 percent coupon interest and EUR 135.0 million maturing in September 2022 with 2.625 percent coupon interest. In addition, company has issued a hybrid bond in 2018 amounting to EUR 40 million with 8 per cent coupon interest. Hybrid bond does not have specified maturity, but the company has right to redeem it on the fifth anniversary of the issue date and subsequently on each annual coupon interest payment date. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.9 million.

15. CURRENT LIABILITIES

	2018	2017
Bond	33 495	-
Loans from financial institutions	42 293	10 759
Trade payables	2 170	3 794
Accruals and deferred income	8 495	8 202
Other liabilities	2 780	2 099
Total	**89 233**	**24 854**
AMOUNTS OWED TO GROUP COMPANIES		
Trade payables	101	128
Accruals and deferred income	32	88
Other liabilities	25 226	17 411
Total	**25 359**	**17 627**
Total current liabilities	**114 592**	**42 481**
Interest-bearing		
Current amounts owed to Group companies	25 226	17 411
Amounts owed to others	75 788	10 759
Current interest-bearing liabilities	**101 014**	**28 170**
Non-interest-bearing		
Current amounts owed to Group companies	132	216
Amounts owed to others	13 446	14 095
Current non-interest-bearing liabilities	**13 578**	**14 311**
Total current liabilities	**114 592**	**42 481**
MAIN ITEMS (NON-CURRENT AND CURRENT) INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Accrued staff costs	3 655	3 177
Accrued interest expenses	1 842	1 445
Accrued changes in value of derivatives	2 127	2 215
Other accruals and deferred income	871	1 365
Total	**8 495**	**8 202**
LIABILITIES DUE IN FIVE YEARS OR MORE		
Loans from financial institutions	9 042	12 659
Pension loans	2 143	4 286
Other long-term liabilities	-	-
Liabilities due in more than five years	**11 185**	**16 945**

16. COMMITMENTS AND CONTINGENT LIABILITIES

COMMITMENTS AND CONTINGENT LIABILITIES	2018	2017
DEBTS SECURED BY MORTGAGES AND SHARES		
Loans from financial institutions	-	-
Total	**0**	**0**
Real estate mortgages	-	-
Total	**0**	**0**
SECURITY FOR DEBTS OF SUBSIDIARIES AND OTHER GROUP COMPANIES		
Guarantees	19 259	19 364
Total	**19 259**	**19 364**
SECURITY FOR DEBTS OF PARTICIPATING INTERESTS		
Guarantees	-	-
Total	**0**	**0**
SECURITY FOR DEBTS OF OTHERS		
Guarantees	1 303	1 895
Total	**1 303**	**1 895**
OTHER CONTINGENCIES		
Leasing commitments		
Maturing in less than a year	318	276
Maturing in 1–5 years	337	347
Total	**655**	**623**
OTHER RENT COMMITMENTS		
Maturing in less than a year	1 326	871
Maturing in 1–5 years	3 724	3 482
Maturing in more than five years	2 793	3 482
Total	**7 843**	**7 835**
Other commitments	4	4
Total other contingencies	**8 502**	**8 462**

17. DERIVATIVE INSTRUMENTS

	2018 POSITIVE FAIR VALUE	2018 NEGATIVE FAIR VALUE	2018 FAIR VALUE NET	2017 FAIR VALUE NET	2018 NOMINAL VALUE	2017 NOMINAL VALUE
Interest rate derivatives	2 942	-8 190	-5 248	-6 406	64 627	65 238
matured in 2018	-	-	-	-	-	-
matures in 2019	357	-357	-	-	-	-
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-2 293	-2 293	-2 840	25 000	25 000
matures in 2022	1 433	-3 726	-2 293	-2 840	25 000	25 000
matures in >2022	1 152	-1 814	-662	-726	14 627	15 238
of which defined as cash flow hedging instruments	-	-	-	-	-	-
Foreign exchange derivatives	**165**	**-163**	**2**	**-107**	**30 249**	**29 318**
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	**5 283**	**-5 283**	**-**	**-**	**-**	**-**
matured in 2018	-	-	-	-	-	-
matures in 2019	3 624	-3 624	-	-	-	-
matures in 2020	1 296	-1 296	-	-	-	-
matures in 2021	330	-330	-	-	-	-
matures in 2022	32	-32	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-

Nominal values of external derivatives that are eliminated due to intercompany derivatives are netted to zero in the table above. The nominal values are EUR 9 755 (12 131) thousand foreign exchange derivatives, EUR 9 992 (7 355) thousand commodity derivatives, EUR 54 503 (55 317) thousand interest rate derivatives.

FAIR VALUE HIERARCHY	31 DEC. 2018	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives positive fair value				
Interest rate swaps	2 942	-	2 942	-
Foreign exchange derivatives	165	-	165	-
Commodity derivatives	5 283	-	5 283	-
Total	**8 389**	**-**	**8 389**	**-**
Derivatives negative fair value				
Interest rate swaps	-8 190	-	-8 190	-
Foreign exchange derivatives	-163	-	-163	-
Commodity derivatives	-5 283	-	-5 283	-
Total	**-13 636**	**-**	**-13 636**	**-**

FAIR VALUE HIERARCHY	31 DEC. 2017	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives positive fair value				
Interest rate swaps	3 816	-	3 816	-
Foreign exchange derivatives	125	-	125	-
Commodity derivatives	859	-	859	-
Total	**4 800**	**-**	**4 800**	**-**
Derivatives negative fair value				
Interest rate swaps	-10 222	-	-10 222	-
Foreign exchange derivatives	-231	-	-231	-
Commodity derivatives	-859	-	-859	-
Total	**-11 313**	**-**	**-11 313**	**-**

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, 5 FEBRUARY 2019

REIJO KISKOLA
Chairman of the Board

JARI MÄKILÄ
Deputy chair of the Board

HARRI SUUTARI
Member of the Board

PER OLOF NYMAN
Member of the Board

TERHI TUOMI
Member of the Board

TERO HEMMILÄ
CEO

AUDITOR'S NOTE

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

VANTAA, 5 FEBRUARY 2019

Ernst & Young Oy
Authorized Public Accountants

Erkka Talvinko
APA

AUDITOR'S REPORT (TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of HKScan Corporation

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of HKScan Corporation (business identity code 0111425-3) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

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 Financial Statements section of our report.

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

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

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Revenue recognition We refer to the group's accounting policies and the note 1. Revenue is measured taking into account discounts, volume based credits and marketing support. The management is using judgment in recognizing the items affecting revenue and therefore, revenue could be subject to misstatement, whether due to fraud or error. Based on above revenue recognition was a key audit matter. This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	Relating to revenue recognition we performed, among others, the following audit procedures: • We assessed the compliance of the group's accounting policies over revenue recognition with applicable accounting standards. • We tested the group's controls over timing of revenue recognition and over the calculation of discounts, volume based credits and marketing support. • We tested using analytical procedures and transaction level testing the underlying calculations of discounts, volume based credits and marketing support, the timing of their recognition and compliance with the contract terms. • We tested the cutoff of revenue with analytical procedures supplemented with tests on a transaction level either side of the balance sheet date as well as credit notes prepared after the balance sheet date. • We considered the appropriateness of the group's disclosures in respect of revenues.

Valuation of goodwill, intangible and tangible assets *We refer to the group's accounting policies and the notes 5, 10, 11 and 12.* At the balance sheet date, the value of tested goodwill, intangible and tangible assets amounted to 572 M€ representing 61 % of the total assets and 175 % of the total equity. Valuation of goodwill, intangible and tangible assets was a key audit matter because the impairment testing imposes estimates and judgment. The group management uses assumptions in respect of determining discount rate as well as future market and economic conditions such as economic growth, expected inflation rates, expected market share and revenue and profitability developments. This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	We performed, among others, the following audit procedures: • We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the group. Audit focused among others to those relating to the forecasted profitability, volume of replacement investments and discount rates used. • We focused on analysing by cash generating unit how the profitability has been derived from the historical performance and the budget prepared by the management. • We assessed the historical accuracy of the management's estimates. • We tested the mathematical accuracy of the calculation. • We considered the appropriateness of the group's disclosures in respect of impairment testing.
Valuation of deferred tax asset *We refer to the group's accounting policies and the notes 8 and 15.* Deferred tax asset arising from tax losses carried forward, deferred tax depreciation and deferred interest expenses subject to interest deduction limit recognized when IAS 12 Income Taxes – standard's recognition criteria are met. Valuation of deferred tax asset was a key audit matter because the assessment regarding the utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deductions imposes significant management judgment. This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	We performed, among others, the following audit procedures: • We assessed the compliance of the group's accounting policies over the recording deferred tax assets with applicable accounting standards. • We evaluated the analyses made by management with respect to utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deduction. • We considered the appropriateness of the group's disclosures about the deferred tax assets.
Valuation of inventory *We refer to the group's accounting policies and the note 16.* At the balance sheet date, the value of inventory amounted to 121 M€. The valuation of the inventory was a key audit matter as the amount of inventory in the financial statements is material and imposes management judgement. The valuation of finished and semi-finished goods is based on cost accounting imposing estimates.	We performed, among others, the following audit procedures: • We assessed the group's accounting principles related to the valuation of inventories. • We tested using analytical procedures and testing the underlying analyses and calculations prepared by the management relating to the costing of finished and semi-finished goods and determining the net realizable value. We familiarized ourselves regarding the relevant controls and processes. • We also considered the appropriateness of the group's disclosures in respect of balance sheet values and the accounting principles concerning the valuation of inventories.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticisim throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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

INFORMATION ON OUR AUDIT ENGAGEMENT

We were appointed as auditors by the Annual General Meeting on April 12, 2018. This has been our first year as HKScan Corporation's auditors.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS BASED ON ASSIGNMENT OF THE ANNUAL GENERAL MEETING

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable equity shown in the balance sheet for the parent company is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

HELSINKI, 5.2.2019

Ernst & Young Oy
Authorized Public Accountant Firm

Erkka Talvinko
Authorized Public Accountant

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