

# REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2017

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

## GROUP OVERVIEW

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

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

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

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

As for pork, volumes decreased both in Sweden and in Finland in 2017. Sweden showed a volume recovery in the third and fourth quarters and improved the margins. As Finland suffered from a pork overcapacity in 2016, the volume decrease in 2017 improved the meat balance and improved pork sales margins. Thanks to the systematic actions to mitigate the oversupply, pork inventories in Finland continued to improve from 2016 and are on a good level. The pork

category showed improvement in the Baltics where exports increased and new export channels were launched. Towards the end of the year, there was a shortage of raw material in the Baltics. Several actions to strengthen the market position in animal sourcing, and availability of the animal raw material, were initiated in collaboration with the farming community in all market areas.

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

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

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

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

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

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

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

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

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

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

# REVIEW BY MARKET AREA

## NET SALES AND EBIT BY MARKET AREA

(EUR million)

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

## ITEMS AFFECTING COMPARABILITY

	<b>2017</b>	<b>2016</b>
<b>Comparable EBIT</b>	<b>-17.6</b>	<b>13.2</b>
Personnel costs, Group Management <sup>2)</sup>	-	-1.2
Termination of employment, Denmark <sup>2)</sup>	-0.6	-0.5
Termination of employment, Finland <sup>2)</sup>	-0.5	-0.3
Environmental provision, Sweden <sup>3)</sup>	-	-1.5
Termination of employment, Group Management <sup>2)</sup>	-1.6	-
Termination of employment, Sweden <sup>2)</sup>	-3.2	-

Impairment of assets, Finland <sup>1)</sup>	-4.2	-
Environmental provision, Finland <sup>3)</sup>	-2.5	-
Impairment of assets, Denmark <sup>1)</sup>	-10.1	-
<b>EBIT</b>	<b>-40.3</b>	<b>9.7</b>

<sup>1)</sup> Included in the Income Statement in the item "Depreciation and amortization"

<sup>2)</sup> Included in the Income Statement in the item "Employee benefits expenses"

<sup>3)</sup> Included in the Income Statement in the item "Other operating expenses"

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

## MARKET AREA SWEDEN

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

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

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

## MARKET AREA FINLAND

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

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

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

The new Rauma poultry unit was inaugurated in August 2017. The efficient new unit will enable the development of innovative Kariniemen® novelties, as well as improve the competitiveness and the overall profitability of the farm-to-fork

chain. It will also give a boost to domestic poultry farming and local employment. The main target during the first quarter of 2018 is to ensure our delivery capability in Rauma.

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

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

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

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

## MARKET AREA DENMARK

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

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

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

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

## MARKET AREA BALTICS

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

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

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

In November 2016 HKScan communicated its decision to start an internal inquiry investigating the practices of its Baltic business. The aim was to ensure that the local management was complying with the principles of good governance and

the company's Code of Conduct. During 2017 HKScan requested the Estonian authorities to investigate the malpractice allegations and whether a violation of the law had taken place. The Group thereby ended its own internal inquiry. On November 2017 the Estonian Public Prosecutor announced an investigation related to the criminal allegations.

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

## INVESTMENTS

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

Their breakdown by market area was as follows:

(EUR million)

	2017	2016
Sweden	13.7	19.8
Finland	100.4	64.0
Denmark	1.3	3.1
Baltics	10.0	10.8
<b>Total</b>	<b>125.5</b>	<b>97.6</b>

## FINANCING

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

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

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

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

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

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

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

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

## RESEARCH AND DEVELOPMENT

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

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

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

## CORPORATE RESPONSIBILITY

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

## ANNUAL GENERAL MEETING AND BOARD OF DIRECTORS' AUTHORIZATIONS

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

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

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

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

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

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

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

## CHANGES IN THE SENIOR MANAGEMENT

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

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

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

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

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

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

## GROUP LEADERSHIP TEAM

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

## SHARES AND SHAREHOLDERS

### SHARES

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

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

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



value of EUR 16.9 (17.2) million.

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

## SHAREHOLDERS

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

## NOTIFICATIONS OF CHANGES IN HOLDINGS

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

## TREASURY SHARES

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

## SHARE-BASED INCENTIVE SCHEME

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

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

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

## SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

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

## OWNERSHIP BREAKDOWN BY AMOUNT OF SHARE ON 31 DECEMBER 2017

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

**SHARE CAPITAL BY SHARE SERIES ON 31 DECEMBER 2017**

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

**OWNERSHIP BREAKDOWN BY SECTOR ON 31 DECEMBER 2017**

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

**20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2017**

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

## PERSONNEL

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

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

## SHORT-TERM RISKS AND UNCERTAINTY FACTORS

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

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

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

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

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

## CORPORATE GOVERNANCE

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

## EVENTS AFTER THE REPORTING PERIOD

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

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

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

## OUTLOOK FOR 2018

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

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

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

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

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

## BOARD OF DIRECTORS' PROPOSAL ON DISTRIBUTION OF PROFIT

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

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

## ANNUAL GENERAL MEETING 2018

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

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