



2017

NON-FINANCIAL REPORTING

HKSCAN

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NON-FINANCIAL REPORTING

INTRODUCTION

HKScan's Report on non-financial information is compiled in accordance with the Finnish Accounting Act. HKScan's Board of Directors is responsible for the report and has approved the information in it on 6 February 2017, HKScan reported on its corporate responsibility for the first time based on the Global Reporting Initiative reference framework and as part of its Annual Report 2017.

HKScan has selected the themes, which are relevant for measuring the Group's corporate responsibility related performance. Some of the indicator results will be available during February because of the manual collection of them. Those results will be published as part of the Annual Report 2017 in March 2018. This report (HKScan's Report on non-financial information) presents the responsibility indicator results that have been completed prior to the signing of the report.

The most relevant Corporate Responsibility themes, related key performance indicators and goals are described in the table below. The table also indicates whether the information is reported as part of this report or in HKScan's Annual Report 2017.

1. BUSINESS MODEL

HKScan is the leading Nordic food company. The Group sells, markets and produces high-quality, responsibly-produced pork, beef, poultry and lamb products, processed meat products and meals. The company's home markets are Finland, Sweden, Denmark and the Baltics, and its products are exported to nearly 50 countries. The company's best known product brands are HK, Scan, Rakvere, Pärsons, Kariniemen, Rose and Tallegg. In 2017, the company employed nearly 7 300 people. HKScan is listed on the Nasdaq Helsinki Oy.

HKScan's operations are based on responsible and efficient management of the entire, long value chain and on value creation throughout the Farm to Fork chain. The company's sourcing of meat raw material in Finland, Sweden and Denmark is based on close partnership and collaboration with HKScan's contract producers. In Estonia, the company has its own farms and contract producer partners.

With production units in all its home markets, HKScan has a significant direct and indirect impact on employment. Some of the production units are specialized in slaughtering and cutting operations, and some are focused on processing. In the biggest units, these operations are integrated. Efficient management of the supply chain plays a key role when the value chain is long and the company's end products are fast-moving perishables. Distribution and transportation is also critical to the business.

HKScan's customers include the retail, HoReCa, food industry and export sectors. HKScan engages in collaboration with its customers in sounding out trends, forecasting demand, product development, marketing, corporate responsibility development, and other business development. HKScan includes consumers in its product development work and engages in a dialogue with consumers through, e.g., social media channels and its country-specific consumer service functions.

Collaboration with stakeholders at all phases of the value chain, from feed and primary production to the consumer interface, is an integral part of HKScan's daily business operations.

HKScan's value chain



WE SERVE THE MOST DEMANDING FORK IN THE WORLD

VALUE CREATION FOR STAKEHOLDERS

HKScan creates both economic and intangible added value widely to its various stakeholders throughout the value chain in all countries where it operates. Examples of stakeholders include primary producers, own personnel, customers, shareholders, goods and services providers, and the surrounding society.

The company's net sales in 2017 were EUR 1 808.1 million with investments accounting for 6.9 per cent i.e. EUR 125.5 million. Dividends of EUR 9.0 million were paid to shareholders. Wages and salaries paid to personnel including social costs amounted to EUR 328.4 million. Raw material, energy and service suppliers were paid EUR 1 520 million and creditors EUR 11 million. The public sector was paid EUR 2 million as income taxes.

CORPORATE RESPONSIBILITY IN THE COMPANY'S STRATEGY

Corporate responsibility is an integral part of HKScan's 'From Farm to Fork' strategy. The company has committed to systematic development of responsible business in its strategy and operations. Consumers are at the core of the strategy, and the company actively manages the food value chain to serve them.

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

Focus areas of HKScan's corporate responsibility work

**Economic
responsibility**



**Social
responsibility**



**Animal health
& welfare**



**Environmental
responsibility**



Sustainable & transparent supply chain

Stakeholder cooperation & communications

Relevant themes of HKScan's corporate responsibility work



KEY PERFORMANCE INDICATORS (KPIs) KPI RESULTS DOCUMENTED IN THIS REPORT ARE PRESENTED AND NUMBERED BELOW.	GOALS	QUALITATIVE /QUANTATIVE	REPORTED IN REPORT ON NON-FINANCIAL INFORMATION / ANNUAL REPORT
SAFE AND HEALTHY PRODUCTS			
<ul style="list-style-type: none"> • Certified sites¹ • Number of recalls² • Number of products with aspects launched³ 	<ul style="list-style-type: none"> • All sites certified • Zero recalls • Enhance positive impact on nutrition and public health 	Qualitative Quantitative	Report of non-financial information (later NFI) and Annual Report
ANIMAL HEALTH AND WELFARE			
<ul style="list-style-type: none"> • Optimal animal welfare in general and compliance with Welfare Quality Principles targeting good animal health and welfare at farms, during transportation and in slaughter⁴ 	<ul style="list-style-type: none"> • Compliance to laws and regulations • Become the best in animal care • Enhance positive impacts on animal health and welfare through proper animal handling and conditions at farms, during transportation and in slaughter • Maintain low use of antibiotics and achieve even better results - without endangering animal welfare 	Qualitative	NFI and Annual Report
EMPLOYEES			
<ul style="list-style-type: none"> • Absentee rate (%)⁵ • Lost Time Injury (LTI) frequency rate⁶ 	<ul style="list-style-type: none"> • General goal: healthy employees, safe working environment, employee satisfaction • Numeric Group targets for LTI and absentee rate to be set 	Qualitative Quantitative	NFI and Annual Report
ENVIRONMENT			
<ul style="list-style-type: none"> • Total energy use • Greenhouse gas emissions • Total water use • Waste tons by type and disposal method • Material efficiency 	<ul style="list-style-type: none"> • Mitigation of environmental impacts • Energy use -10% decrease by 2017 vs 2014 indexed to net sales • Numeric Group KPI targets to be set • Development towards more sustainable packaging materials and solutions 	Quantitative	Annual Report

	<ul style="list-style-type: none"> Efficient use of animal raw material – circular economy approach 		
FARMING COMMUNITY			
<ul style="list-style-type: none"> HKScan's actions to promote businesses and living at countryside, local investments, competence and professional development, wellbeing of farmers⁷ 	<ul style="list-style-type: none"> To enhance positive impact: farm economy, animal health and welfare Contribution to national food supply in possible national emergency situations Keep local countryside alive 	Qualitative	NFI and Annual Report
RESPONSIBLE AND ETHICAL SOURCING			
<ul style="list-style-type: none"> Purchase of responsible soy⁸ Purchases from local markets (%) Purchases from suppliers that comply with HKScan's requirements 	<ul style="list-style-type: none"> 100% responsible soy by the end of 2018 Avoid ethical risks Supplier Guidelines signed by 100% of suppliers 	Quantitative	Soy: NFI and Annual Report Purchases: Annual Report
ECONOMIC VIABILITY OF VALUE CHAIN			
<ul style="list-style-type: none"> HKScan's four long-term financial targets No special Corporate Responsibility KPI's 	<ul style="list-style-type: none"> Enhance positive impacts in value chain Operating profit (EBIT): >4% of net sales Return on capital employed (ROCE): >12% Net gearing: <100% Dividends: >30% of net profit 	Quantitative	Annual Report
COMPLIANCE			
<ul style="list-style-type: none"> No non-compliance in Corporate Responsibility-themes⁹ 	<ul style="list-style-type: none"> Compliance with laws and regulations 	Qualitative	NFI and Annual Report

2. MANAGEMENT OF ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL POLICY GUIDES OPERATIONS

HKScan assumes responsibility for the environment throughout the value chain and continuously decreases the environmental impacts of its processes. HKScan manages its operations so that guidelines, regulations and requirements for environmental permits are fulfilled. HKScan's aim is for its environmental work to align also with the goals of society. This is ensured, e.g., through collaboration with authorities. The company sets environment-related requirements also for its suppliers as part of HKScan's Supplier Guidelines.

The management of environmental issues is based on the Group-wide [Environmental policy](#), which defines the Group's environmental commitments. The efficiency and success of environmental responsibility is assessed by measuring environmental impacts and by monitoring the results in the Management Team as well as through internal and external ISO 14001 audits. All HKScan production facilities, except those in Denmark, have ISO 14001 certification. HKScan had

no serious environmental legislation violations in 2017.⁹

TARGETS AND INDICATORS OF ENVIRONMENTAL RESPONSIBILITY FOCUS AREAS

The focus areas of HKScan's environmental work are energy efficiency, reduction of greenhouse gas emissions, good management of water consumption and wastewater, material efficiency, and environmentally efficient management, recycling and utilization of waste. The company measures its environmental impacts continuously and has set numerical targets for its environmental responsibility.

2.1. ENERGY EFFICIENCY

The long-term goal of HKScan's active energy efficiency work is to decrease the Group's environmental footprint while improving cost efficiency. Improving energy efficiency is an important area also in reducing greenhouse gas emissions.

In order to identify energy saving targets and to comply with the EU Energy Efficiency Directive (EED), HKScan continued its energy reviews in 2017. Energy reviews were conducted at HKScan's production plants in 2015 and 2016 in Sweden, Poland and Denmark. In 2017, energy reviews were initiated in the Baltics and Finland. The reviews identified several development targets that HKScan will pay special attention to in the future. All HKScan's production plants in Sweden are now ISO 50001 certified.

In 2017, the production plants continued the Group's internal energy efficiency project aiming for a 10 per cent reduction in HKScan's energy consumption from the 2014 level by 2017 (indexed to net sales). The 2017 figures will be available in early February 2018. The concrete measures implemented to improve energy efficiency at production plants are described in the corporate responsibility section of the Annual Report 2017 in chapter [Environment/Energy efficiency](#).

2.2. GREENHOUSE GAS EMISSIONS

HKScan has disclosed its greenhouse gas emissions since 2014. In total, HKScan's GHG emissions decreased by 53 per cent (127 000 tonnes) from 2014 to 2016. The 2017 data will be available at the end of February 2018 and will be reported in HKScan's Annual Report 2017 in chapter [Environment/Greenhouse gas emissions](#).

Improvements in energy efficiency and the use of renewable energy sources contribute to the reduction of emissions. This development work has been actively conducted in all Group countries also during 2017 and is described in the corporate responsibility section of the Annual Report 2017 in chapter [Environment/Energy efficiency](#).

HKScan is one of the first Nordic food companies to offset the carbon dioxide emissions of its production plants located in Finland. The offsets were made in 2016. In Sweden, HKScan is continuing to pursue the targets set in 2016. The goal is for a 95 per cent reduction in carbon dioxide emissions generated by HKScan's Swedish operations by 2030 compared to 2003 (Scope 1 and 2 emissions and Scope 3 purchased transportation and business travel).

In 2018, the Group will set its greenhouse gas emissions target for 2030.

2.3. WATER USE AND WASTEWATER

HKScan measures and optimizes the water consumption at production plants without jeopardizing food safety. Development targets for water use have been identified through reviews and audits, and through ideas generated by personnel. The improvement actions taken in 2017 at the Vantaa production plant are a good example of this.

Wastewater treatment in 2017 has functioned well in general. Some isolated and minor deviations from the environmental permit levels have been detected, but they have not been significant in terms of environmental impacts. The detections were made in HKScan's own monitoring in an early stage, the deviations have been investigated and improvement actions have been implemented.

2.4. MATERIAL EFFICIENCY AND WASTE

At HKScan material efficiency means the efficient use of animal raw material and all carcass parts, as well as the development of packaging in terms of the eco-efficiency of the materials used and the minimization of food waste. Material efficiency also aims to reduce production loss, minimize the generation of food waste throughout the value chain, and maximize the utilization of waste materials.

HKScan first reported on the waste generated by the company's production in 2016. The reporting was done on the basis of sorted categories. The relevant information for 2017 will be completed in the first part of February and will be reported in HKScan's Annual Report 2017 in chapter Environment/Material efficiency and waste.

2.5. ENVIRONMENTAL WORK AT FARMS

Some environmental impacts of meat products originate at farms. HKScan's contract producers already engage in significant environmental work, and best practices are actively shared in the company's primary production chain. HKScan has launched a study to explore ways to further decrease the environmental impacts of primary production. An example of the work is HKScan's commitment announced in 2014 to use responsibly produced soy throughout its production chain by the end of 2018.

ENVIRONMENTAL RESPONSIBILITY-RELATED RISKS AND THEIR MANAGEMENT

Environmental risks have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. The use of soy in the production chain has been identified as a global environmental risk as well as a social risk. This risk is being managed with a commitment to move to the use of responsibly produced soy throughout the Group by the end of 2018. Other environmental risks identified include, e.g., risks related to wastewater and chemical leaks; these risks are being managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

3. MANAGEMENT OF SOCIAL AND PERSONNEL ISSUES

Social responsibility at HKScan covers product quality and safety, the promotion of healthy products, responsible and ethical sourcing, and safeguarding and promoting the health and wellbeing of personnel.

3.1. PRODUCT QUALITY, FOOD SAFETY AND HEALTHY PRODUCTS

HKScan has policies that are implemented throughout the Group to ensure product quality and safety. [HKScan Group's Quality Policy](#) identifies the quality management principles and the regulations, rules and reference documents that are to be followed throughout the Group.

[HKScan Group's Food Safety Policy](#) identifies the Group's food safety management and responsibilities as well as the regulations, rules and documents that are to be followed. All HKScan production plants have certified food safety management systems, and their functionality is verified by internal audits and by external audits performed by a third party.¹

Included in HKScan's product safety management system is the ensuring of product traceability. The traceability system is used to ensure timely measures in possible recall situations so as to not jeopardize consumer health. HKScan has set a goal of zero recalls. When a mistake has happened, a recall is part of responsible operations. The impacts of a recall on the company's reputation or the costs incurred from it never prohibit a recall from being implemented. HKScan implemented 16 recalls in 2017.² The reasons for the recalls were investigated and corrective actions were taken.

HKScan aims to have a positive impact on public health by developing and offering consumers a variety of products with good nutritional content. In about 16 per cent of HKScan's product launches in 2017, the innovation or product improvement was related to nutritional development.³

There has been a focus on the amount and type of fat and the sodium content in products. For example, the unsaturated fat contained in Rypsiporsas® (rapeseed-fed) pork products is compliant with nutritional recommendations.³ Sodium content has been reduced by about 10 per cent in product renewals. Product composition has been modified with the addition of vegetables.³ In meals, for instance, the share of vegetables ranges between 21–50 per cent.³ Meals and cold cuts that are suitable for a vegetarian diet have also been introduced to the markets.³

PRODUCT-RELATED RISKS AND THEIR MANAGEMENT

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

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

3.2. RESPONSIBLE AND ETHICAL SOURCING

HKScan assumes responsibility for its entire supply chain. The Group's sourcing is guided by an internal sourcing policy defining responsible management of Group purchases, as well as responsibilities, regulations, guidelines and documents. Animal sourcing is based on a separate animal purchasing policy. [HKScan's Animal purchasing policy](#) includes guidelines for sourcing the best animal stock and the business practices with HKScan's animal producers. It offers guidelines also for guiding and managing HKScan's producer community, and outlines the Group's internal responsibility areas related to animal sourcing.

Suppliers commit to operate in accordance with HKScan's sourcing principles by signing the company's ethical Supplier Guidelines.

LOCAL MEAT PRODUCTION

HKScan primarily uses local meat sourced from long-term contract producers or HKScan's own farms. Animals are slaughtered at HKScan's own slaughterhouses. Sourcing meat locally has a significant economical and social impact on local communities and, more broadly, also on the surrounding society. Nearly 100 per cent of HKScan's live animal sourcing is from local markets. The origin of the meat is known, without any gaps, and the living conditions of the animals are known because of the tight collaboration with the producer, and, in Estonia, because of our own farms.

EVALUATING SUPPLY CHAIN RESPONSIBILITY

Suppliers are evaluated for product safety, quality, environmental performance, business practices and sourcing process-related criteria. HKScan uses a systematic supplier evaluation process to acquire adequate information for sourcing decisions related to meat, other raw materials, products and services. It also includes the evaluation of the supplier's social responsibility and ethical risks.

RESPONSIBLE SOURCING OF SOY⁸

HKScan is committed to using only responsibly produced soy in all of the Group's home markets by the end of 2018. HKScan reached the goal in Finland in 2017 and in Sweden in 2015. HKScan and its animal feed collaboration partners are actively developing the use of local protein crops. The goal is to reduce the use of soy in animal feed.

SOURCING-RELATED RISKS AND THEIR MANAGEMENT

In HKScan's risk management, sourcing-related risks involve fluctuations in the availability and prices of raw materials. The decrease in domestic meat production is considered a risk because of the domestic origin promise of HKScan's most significant brands (HK®, Kariniemen® and Scan®). Risks related to raw materials or products sourced from suppliers are managed with strict standards that suppliers must meet. Social risks in the supply chain are managed in the risk evaluations of the sourcing process.

3.3. PERSONNEL

HKScan provides a large number of jobs in the communities in which it is active. In 2017, the company had nearly 7 300 (7 292) employees on its payroll, 84.8 per cent of whom were permanent employees. Of this figure, 82.8 per cent were blue-collar workers and 17.2 were white-collar employees. Women account for 40.0 per cent of the blue-collar staff and 49.0 per cent of white-collar personnel, with men correspondingly making up 60.0 per cent of blue-collar staff and 51.0 per cent of white-collar personnel. HKScan's heterogeneous personnel uniformly observes common principles of equality, non-discrimination and shared corporate values.

HKScan's HR management and personnel development practices are based on the Group's internal policies and shared principles on recruitment, performance management, remuneration, and occupational health and safety. The Group's daily teamwork is governed by HKScan's shared Group values, with the aim of fostering a safe, healthy work community honouring principles of mutual respect and positive reinforcement. By continually working to improve our leadership skills and competencies, HKScan does its utmost to maximize quality and facilitate the attainment of Group objectives.

OCCUPATIONAL HEALTH AND SAFETY

HKScan's OH management practices are based on Group-wide standards defining common safety procedures such as reporting and investigation of near-misses, sharing of safety observations, and commitment to universal standards and regulations related to dangerous tasks and occupational risks. Two of HKScan's Estonian production plants are OHSAS 180001-certified.

HKScan's LTI rate in 2017 was 44.3 (lost-time incidents per million hours worked), marking a slight increase on the previous year (2016: 40.6).⁶ The absentee rate in 2017 was largely the same as it was the previous year: 6.2 per cent (2016: 6.3 per cent).⁵

EMPLOYEE ENGAGEMENT SURVEYS

HKScan conducted Group-wide surveys of its personnel engagement, leadership and performance culture in 2014 and 2016. Extensive improvement actions were undertaken on the basis on the results, which in the 2016 survey yielded a measurable improvement, especially in managerial work. HKScan's rating in the 2016 People Power Index was A+/Satisfactory+.

PERSONNEL DEVELOPMENT AND IMPROVEMENT OF LEADERSHIP SKILLS

HKScan renewed its operating model in June 2017. Throughout autumn, the company conducted an extensive survey of its strategic competencies to ensure that it has adequate skills in place to implement the new strategy and operating model. Based on the results of the survey, the management formulated a plan of action for improving HR competencies and leadership skills within the company. HKScan additionally expects its personnel to independently take responsibility for their ongoing self-improvement and professional development.

In order to ensure the successful implementation of the new strategy and values-based leadership system, the management conducted an extensive online survey related to the Group's values and leadership practices. The Group's values were defined in more specific detail based on the survey results, which also provided a foundation for formulating a quantifiable definition of HKScan's values-based leadership performance and its ongoing improvement. HKScan's internal leadership skills are monitored and measured as part of its performance appraisal, recruitment and

job rotation schemes. The newly formulated definition of “values-based leadership” steers the ongoing development of leadership skills and related processes.

Biannual performance reviews between managers and employees form the backbone of HKScan’s leadership system. In these talks, managers and employees together discuss HKScan’s strategy, goals and values, on the basis of which they together formulate individual targets for each employee as well

as an action plan for their professional development. Each employee’s performance is reviewed against the previous year’s targets in order to identify their strengths and improvement needs.

REWARDS AND REMUNERATION

HKScan aims to offer a remuneration system that is competitive, motivational, fair and transparent, including bonus rewards to employees who attain or exceed their personal targets. Salaries are reviewed regularly and benchmarked against similar employers to ensure our competitiveness. The remuneration paid to each employee is contingent on their individual performance and HKScan’s overall financial result. HKScan is mindful of the fact that employee motivation is not guaranteed solely through pay and other material incentives.

HR-RELATED RISKS AND THEIR MANAGEMENT

HKScan’s risk management policy states that the company’s success is critically dependent upon the professional competence and expertise of its senior executive management and other personnel as well as the organization’s ability to continually improve its existing leadership skills and professional competencies, its ability to secure employee loyalty and commitment, and its success in recruiting skilled workers in the future. HKScan is also vulnerable to risks associated with legal and illegal strikes, both in its value chain and among its own production staff. These risks are mitigated by fostering close collaboration with employees, by facilitating teamwork within the company, and by working to improve employee wellbeing. Risks can also be mitigated by using alternative supply chain structures and processes.

3.4. FARMING COMMUNITY - LOCAL PRODUCER COMMUNITIES⁷

HKScan’s animal sourcing is based on long-term contract production or own production and on close collaboration with producers. HKScan offers its contract producers training and consulting in planning animal feeding, animal healthcare, and in planning new production facilities, among other things. Producer services enable and promote the business of producers and wellbeing in rural areas, local investments, the professional expertise of producers and knowledge.

Producer wellbeing has an impact on animal welfare. HKScan arranges seminars and wellbeing events for its contract producers, and it presents Producer of the Year awards in Finland, Sweden and Denmark.

3.5 DONATIONS, SPONSORSHIPS AND CHARITY

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

4. RESPECT FOR HUMAN RIGHTS

The purpose of [HKScan’s Code of Conduct](#) is to ensure that common ethical working principles are applied throughout the HKScan Group. The principles provide a general framework for guiding the Group in what constitutes appropriate business conduct and working behaviour. The Group expects each employee of the HKScan Group, including management at all levels, to comply with these principles in their work. The Code of Conduct will be updated during 2018.

The Code of Conduct states the following regarding respect for human rights: HKScan does not accept any form of forced or compulsory labour or the use of child labour. Employees are treated equally regardless of e.g. age, race, religion or gender. Employees' rights are respected.

HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities in HKScan's operations. This pertains to suspected violations of laws and regulations as well as non-conformance with HKScan's Code of Conduct and other policies.⁹ In 2017, three (3) reports related to suspected human rights violations were made via Fair Way or other channels. The internal investigations of these suspected violations are still under way.⁹

RISKS RELATED TO RESPECT FOR HUMAN RIGHTS AND THEIR MANAGEMENT

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

5. PREVENTION OF CORRUPTION, BRIBERY AND ACTIVITIES VIOLATING COMPETITION LAWS

HKScan's Code of Conduct includes statements aiming to prevent corruption, as well as activities that violate competition laws and are fraudulent. Some examples include:

- Giving and receiving bribes is strictly forbidden. HKScan or its employees do not pay bribes or make any illegal actions to promote or secure our business. Employees may only give and receive personal gifts or hospitality of nominal value.
- HKScan competes within the framework of applicable competition laws. HKScan employees must not take part in any illegal practises that restrict competition. All fraudulent behaviour or activities are prohibited in HKScan. Such violations are evaluated internally and will be reported to the authorities if the matter so requires.

In 2017, two (2) reports related to suspicions of corruption and bribery were made via Fair Way or other channels. These suspicions were investigated but did not lead to any actions.⁹

In November 2016, HKScan announced its decision to initiate an internal inquiry investigating the practices of the Group's Baltic business to ensure that the business area is complying with the principles of good governance and the company's Code of Conduct.⁹ The decision to launch the internal inquiry was based on information received by the company management that indicated inappropriate activity. In 2017, HKScan requested the Estonian authorities to investigate whether any crimes had been committed in HKScan's Baltic operations, and simultaneously it ended its own investigation. In November 2017, the Estonian Public Prosecutor published a press release related to the criminal allegations.

RISKS AND THEIR MANAGEMENT

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

6. ANIMAL HEALTH AND WELFARE

HKScan's strategic objective is to be the best company in the sector in issues related to animal welfare. [HKScan's animal](#)

health and welfare policy applies to the entire HKScan Group and its supply chain. The foundation for animal health and welfare is compliance with EU and local legislation, and guidelines and practices that are stricter than legislated requirements. Improving animal welfare is an ongoing activity in collaboration with the company's contract producers and other collaboration partners.

HKSCAN IS A FRONTRUNNER IN ANIMAL HEALTH AND WELFARE

In HKScan's production countries, the use of antibiotics is low compared to other European countries. In fact, Sweden and Finland have the lowest usage of antibiotics in the EU. Healthy animals do not need antibiotics. Farms owned by HKScan or by its contract producers do not treat animals preventively for growth promotion. The possible use of antibiotics is carefully monitored. Medications are administered only when prescribed by a veterinarian to treat sick animals. In summer 2017, HKScan launched the "No antibiotics ever" pork meat products from Finland to the company's export markets.⁴ The animals have been healthy their entire life and hence there has been no need to treat them with antibiotics.

In pork meat production, the new Opti-Pekoni feed concept was launched in 2017; it promotes animal welfare and the raising of pigs without antibiotics.⁴

In 2017, HKScan was among the first in the world to use a new method for raising chicks.⁴ The eggs are hatched at the farm house where the chicks will be raised, rather than in a separate hatchery. This way, the chicks don't have to be transported to another farm after hatching; this reduces handling and improves animal welfare. Also, water and food are immediately available as soon as the chicks are born.

HKScan has installed recording video surveillance cameras in all of its slaughterhouses in all its home markets. Cameras were installed most recently in the Swedish units in 2017. Training of the slaughterhouse employees was postponed to 2018 due to technical problems with the telecommunications. HKScan takes animal welfare seriously and acts with determination to prevent risks that can endanger animal welfare.

In August 2017, evidence of a serious deviation was found in the handling of unviable chicks and unhatched embryos in HKScan's Estonian hatchery operations.⁹ The incident was immediately investigated and corrective actions were implemented. Additionally, training and guidance about the issue was arranged for the personnel. The hatchery was audited also by an external expert.

HIGH BIOSECURITY

Infectious animal diseases and their potential impacts on the production chain are actively monitored. Preventing the spread of African swine fever (ASF) to pig farms has played a very important role at HKScan's farms in the Baltics. Also in Finland preparations have been made to prevent the spreading of ASF both nationally and at the farm level. The avian flu epidemic in early 2017 tightened farm-level measures.

ANIMAL HEALTH AND WELFARE-RELATED RISKS AND THEIR MANAGEMENT

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes and also part of ensuring farm-level biosecurity. Risks are managed through the collaboration of authorities and HKScan's producer services and primary production facilities, and through compliance with biosecurity guidelines.

SIGNATURES TO THE REPORT ON NON-FINANCIAL STATEMENT

Vantaa, 6 February 2018

Mikko Nikula

Chair of the Board

Marko Onnela

Deputy chair of the Board

Pirjo Väliäho

Member of the Board

Per Olof Nyman

Member of the Board

Riitta Palomäki

Member of the Board

Tuomas Salusjärvi

Member of the Board

Jari Latvanen

CEO

Annual report 2017

Quality and responsibility from farm to fork.

Read a full overview of our year:

annualreport2017.hkscan.com

HKSCAN

hkscan.com