

**HKSCAN**

CORPORATE  
GOVERNANCE  
STATEMENT  
2016

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# CORPORATE GOVERNANCE STATEMENT 2016

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Corporate governance in HKScan Corporation ("HKScan" or the "Company") is based on Finnish legislation, EU-level regulations, HKScan's Articles of Association, the Finnish Corporate Governance Code 2015 (the "Code") issued by Securities Market Association, and HKScan Group's Code of Conduct as well as Governance Policy. HKScan furthermore complies with the rules and regulations of Nasdaq Helsinki Ltd and the Finnish Financial Supervisory Authority.

This corporate governance statement has been drafted in accordance with the above-mentioned Code that entered into force on 1 October 2015 and with Chapter 7:7 of the Finnish Securities Markets Act. The corporate governance statement is issued separately from the Board's Review 2016.

HKScan Corporation observes the Code subject to the following exceptions:

- Recommendation 18a: Members of the Nomination Committee may be appointed also from outside the Board of Directors in order to bring additional knowledge and expertise to bear on key appointments within the Company.

## AVAILABILITY OF CORPORATE GOVERNANCE CODE

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

## BOARD OF DIRECTORS

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

Board members are elected annually by the AGM based on a proposal put forward by the Board's Nomination Committee. The Articles of Association contain no mention of any special order of Board member appointments. The Company's Board of Directors comprises between five and eight (5-8) members. In addition, a maximum of three (3) deputy members may be elected to the Board of Directors.

All Board members possess the particular competence and independence consistent with the position. The term of Board members begins at the end of the General Meeting at which they were elected and ends at the end of the General Meeting first following their election. The Board of Directors elects a chairman and deputy chairman from among its number.

The Board conducts an annual evaluation of the independence of its members in accordance with recommendation 15. A member of the Board is required to submit to the Company the information necessary to conduct the evaluation of independence. A Board member is also required to notify the Company of any changes in information relating to independence.

The following persons were elected to the Board by the Annual General Meeting held on 13 April 2016 <sup>\*)</sup>

**Mikko Nikula** (b.1972)

Chairman of the Board since 2015

M.Sc. (Physics)

Farm entrepreneur, broiler meat producer, Rusko, Finland

Shareholding at HKScan on 31.12.2016: 4 220 (direct ownership)

and 2 733 (through Myllymäen broiler Oy)

**Niels Borup** (b. 1964)

Deputy Chairman of the Board since 2011

M.Sc. (Econ. & Bus. Admin.)

Farm entrepreneur, pork and milk producer, Lapinjärvi, South Finland

Shareholding at HKScan on 31.12.2016: 10 105

**Henrik Treschow** (b. 1946)

Member of the Board since 2011

MBA, Sweden

Shareholding at HKScan on 31.12.2016: 4 925 (nominee-reg.)

**Teija Andersen** (b.1957)

Member of the Board since 2012

M.Sc. (Agr. & For.), eMBA

Etelä-Hämeen Lomat Oy, CEO, 2013–2015

Shareholding at HKScan on 31.12.2016: 1 725

**Pirjo Väliäho** (b. 1954)

Member of the Board since 2015

Bachelor of Economic Sciences

Shareholding at HKScan on 31.12.2016: 1 725

**Per Nilsson** (b. 1973)

Deputy member of the Board since 2013

Lantmästare, Swedish University of Agricultural Sciences (SLU),

Master programme at Agriculture University of St. Paul/Minnesota, USA

Farm entrepreneur and pork and beef producer, Esplunda, Central Sweden

Shareholding at HKScan on 31.12.2016: 570 (nominee-reg.)

**Marko Onnela** (b. 1974)

Deputy member of the Board since 2015

M.Sc. Agriculture

Farm entrepreneur, pork producer, Loimaa, Finland

Shareholding at HKScan on 31.12.2016: 9 000

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

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

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

Besides the members, the Group's CEO, the deputy CEO, the CFO and the Legal and Administrative Director as secretary to the Board also regularly attended the Board meetings.

## CHARTER OF THE BOARD

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

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

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

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

## PERFORMANCE EVALUATION OF THE BOARD

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

## BOARD COMMITTEES

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

## AUDIT COMMITTEE

The Board elects at least three members of the Audit Committee from among its members or deputy members. At least one of the members must possess particular expertise in the fields of accounting, bookkeeping or auditing. The Audit Committee assists the Board by preparing matters within its remit for the consideration of the Board and by submitting proposals or recommendations for Board resolution.

The duties of the Audit Committee have been determined in its charter adopted by the Board, in keeping with recommendation 16 of the Corporate Governance Code. The tasks of the Audit Committee of HKScan's Board of Directors include, among other things, the following:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal auditing and risk management system;
- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement;
- to monitor the statutory audit;
- to evaluate the independence of auditors and the provision of related services to the Company in particular; and
- to prepare the proposal for resolution on the election of the auditors

The Audit Committee reports on its work to the Board at the Board meeting first following the meeting of the Committee and submits for the information of the Board the minutes of the committee's meeting. The CEO of the Company or other senior executives may not be elected to the Audit Committee.

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

The Audit Committee held 5 meetings during 2016. The average attendance rate of Committee members was 95 per cent. Committee meetings were also regularly attended by the Company's CEO, the CFO, the internal auditor and by the external auditors. The chairman of the Audit Committee prepares the agenda for the meeting based on a proposal made by the CFO and convenes the meetings, under normal circumstances with at least one week's notice.

## NOMINATION COMMITTEE

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

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

When planning the composition of the Board of Directors, the target is to ensure that the Board of Directors forms a functional entity. The prerequisite is sufficient diversity of the Board of Directors. The Board's Nomination Committee searches, evaluates and recommends members to be elected in the Board of Directors and evaluates the number of the members of the Board of Directors. When designing the proposal for election of Board members, the diversity principles determined by the company shall be taken into account: both genders should be represented in the Board, the Board members should have versatile background regarding profession and education which benefits the business of the company, experience of international tasks, and they should represent varied age range.

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

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

Introductions:

**Jari Mäkilä** (b. 1970)

Chairman of the supervisory board of LSO Osuuskunta  
Agricultural technician, pork producer, Oripää, Finland

**Lena Åsheim** (b.1958)

Chairman of the Board of Sveriges Djurbönder r.f.  
M Sc.(Agr. Econ.), Sweden

## COMPENSATION COMMITTEE

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

The duties of the Compensation Committee are defined in its charter adopted by the Board of Directors. The Compensation Committee is tasked with preparing matters pertaining to the Company's compensation schemes. The Compensation Committee convenes at least twice a year and reports on its work to the Board following the meeting of the Committee and submits for the information of the Board the minutes of the Committee's meetings.

The Committee is chaired by Niels Borup and its other members are Teija Andersen and Pirjo Väliäho.

The Compensation Committee held 6 meetings during 2016. The average attendance rate of Committee members was 100 per cent. The Compensation Committee has used external consultants in its work.

## WORKING COMMITTEE

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

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

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

## MEETING ATTENDANCE OF THE BOARD AND ITS COMMITTEES

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

<sup>1)</sup> Resigned from the Board 11 May. Between 1.1.-11.5.2016 the Board had 7 meetings.

<sup>2)</sup> Member of the Audit Committee and Working Committee until 11 May. Between 1.1.-11.5.2016 the Audit Committee had 2 meetings and the Working Committee 3 meetings.

<sup>3)</sup> Member of the Audit Committee as of 12 May. Between 12.5.-31.12.2016 the Audit Committee had 3 meetings.

<sup>4)</sup> Member of the Nomination Committee until 13 April. Between 1.1.-13.4.2016 the Nomination Committee had 2 meetings.

<sup>5)</sup> Member of the Nomination Committee as of 13 April. Between 13.4.-31.12.2016 the Nomination Committee had 1 meeting.

## CHIEF EXECUTIVE OFFICER (CEO)

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

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

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

## GROUP LEADERSHIP TEAM

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

The Group Leadership Team on 31 December 2016:

**Jari Latvanen** (b.1964)

President and CEO as of 31 October 2016

MBA

Shareholding at HKScan on 31.12.2016: -

**Aki Laiho** (b. 1972)

COO as of 2012

CEO's deputy

Doctor of Science (Technology), CSCP

Shareholding at HKScan on 31.12.2016: 14 711

**Tuomo Valkonen** (b. 1967)

CFO of HKScan as of 2012

M.Sc. (Econ.)

Shareholding at HKScan on 31.12.2016: 7 855

**Jyrki Karlsson** (b. 1969)

EVP of HKScan's Consumer business, Finland as of 19 December 2016

M.Sc. (Eng)

Shareholding at HKScan on 31.12.2016: 2 500

**Jukka Nikkinen** (b. 1962)

EVP of HKScan's Away from Home (AfH) Business as of 2012

M.Sc. (Econ.)

Shareholding at HKScan on 31.12.2016: 10 711

**Göran Holm** (b. 1958)

EVP of HKScan's Consumer business, Scandinavia as of 2012

DIMH diploma in marketing, Stockholm IHM Business School

Shareholding at HKScan on 31.12.2016: 10 600

**Anne Mere** (born 1971)

EVP of HKScan's Consumer business, Baltics as of 19 December 2016 and

Chief Marketing Officer (CMO) of HKScan Group as of 2013

MBA

Shareholding at HKScan on 31.12.2016: 14 720

**Markku Suvanto** (b. 1966)

EVP, Legal and Administration of HKScan as of 2011

LL.M. trained on the bench

Shareholding at HKScan on 31.12.2016: 7 855

**Anu Mankki** (b. 1963)

EVP, HR of HKScan as of 2 January 2017

MA

Shareholding at HKScan on 31.12.2016: 0

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

### **INTERNAL CONTROL FRAMEWORK**

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

### **CONTROL ENVIRONMENT**

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

The Board of Directors and the Audit Committee in particular monitor the Company's financial position and the quality of the financial reporting. The Board carries out its duty by means including adoption of the Group's risk management policy and determination of the objectives and principles of internal control. The Group's CEO and CFO are responsible for maintaining and further developing an effective control environment relating to financial reporting.

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

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

### **RISK MANAGEMENT**

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

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

The Company uses a systematic Enterprise Risk Management (ERM) process, which comprises consistent principles and systematic practices for risk management. The aim of the ERM process is to promote risk awareness in HKScan and effective risk management throughout the Group, and to ensure that management and the Board of Directors are in possession of sufficient information on risks to support their decision-making. The ERM process is an integral

component of the management system and strategy process. The risk management policy is applied in all of the companies in the HKScan Group, which carry out business operations.

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

## CONTROL MEASURES

Control measures are designed to ensure that

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

Control measures can take the form of manual or automated system controls. Examples of controls to ensure the reliability of financial reporting include reconciliations, approvals, reviews, analyses and the elimination of high-risk combinations of duties.

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

## MONITORING

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

In 2016, the development of the internal control framework continued. It includes updating of internal policies and guidelines, specification of the Group processes and preparation of charters for the various bodies.

## RELATED PARTY TRANSACTIONS

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

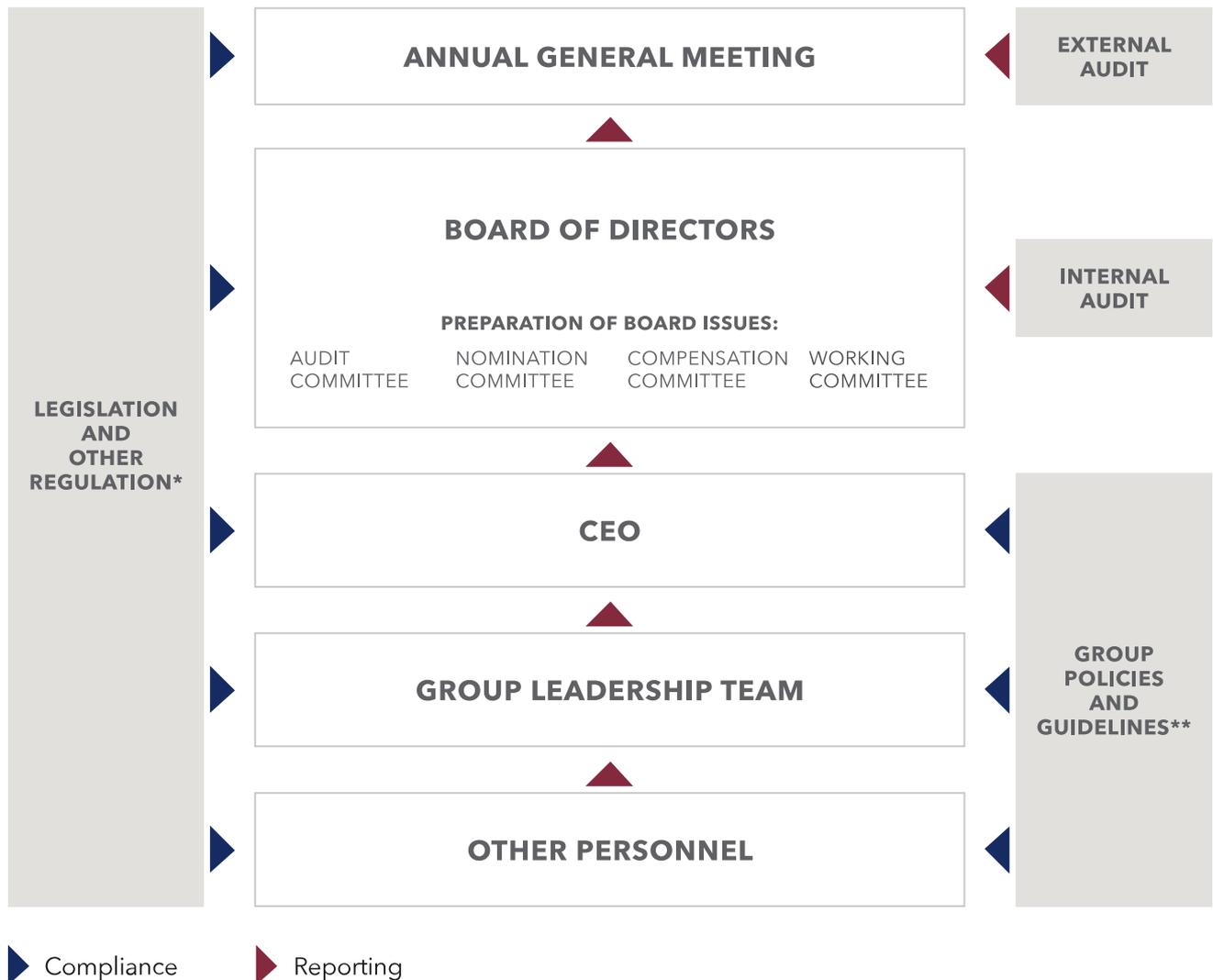
## AUDITORS

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

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

	<b>2015</b>	<b>2016</b>
Audit fees	-0.5	-0.3
Tax consultation	0.0	-
Other fees	-0.4	-0.1
<b>Audit fees, total</b>	<b>-0.9</b>	<b>-0.5</b>

## HKSCAN GROUP GOVERNANCE AND CONTROL SYSTEM



\* Limited Liability Companies Act, Securities Markets Act, Auditing Act, Accounting Act, EU-level regulations, Financial Supervisory Authority's regulations, Rules of the Stock Exchange, Corporate Governance Code, industry-related legislation

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

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