

# CEO'S REVIEW

## STEADY THROUGH CHANGE

The year 2015 at HKScan was a year of implementation. During the year, a substantial number of projects, that aimed to finalise the Group's strategic restructuring work, were completed. At the same time we moved into a new strategy period of profitable growth in an operating environment where economic and political uncertainty increased, impacting consumer behaviour and the operating conditions of retailers, industry and producers. Our work was challenged - but also inspired - by internal and external changes. We are confident that responsibly produced, pure Nordic products will continue to be a strong part of a comprehensive and healthy diet.

Over the course of its impressive, more than century-long history, HKScan has been through numerous periods of change, some of them strategically significant. That's how I view also the 2012-2015 period; I believe those years will be remembered as a period in the company's history when the fragmented company, built through acquisitions, became a more unified, international group. The fundamental changes to the company's structure and ways of working have created a stable foundation to build on and to further develop the Group - a foundation that provides realistic prerequisites for actions targeting profitable growth.

The economic downturn and political uncertainty weakened consumer demand in Europe in 2015. The market declined from previous years, which was most visible in Finland of the HKScan's home markets. With Russia's ban on imports, all of Europe suffered from an oversupply of pork in particular. The spreading of African swine fever in Estonia further challenged the Baltic market area. The comprehensive measures taken to prevent the animal disease from spreading were successful and the work is continuing.

Despite the challenges, we succeeded in improving our financial results, and the full-year comparable operating profit nearly doubled compared to the previous year. Net sales decreased somewhat, which was partially attributable to our own proactive measures to improve profitability. Changes in exchange rates had an impact on the lower net sales, and the overall market development in the latter part of the year was also reflected in the net sales. At the same time, HKScan's economic standing is stable and the balance sheet is strong, which enables development and investment measures in line with the new strategy period.

One of our most significant strengths is the leading product brands in all our home markets. The Group's strong local brands were supported e.g. with updated advertising and other marketing concepts, as well as product and packaging renewals. The Group's promise of Nordic meat expertise was leveraged in the marketing of the Swedish Scan<sup>®</sup> and the Finnish HK<sup>®</sup> brand. Consequently our market position remained strong across all home markets.

Implementation of the strategy advanced and we took important steps towards our goal of profitable growth. We strengthened our operations in our close-by markets, e.g. in Great Britain, where we renewed our offering. A sales company serving our Asian business was opened in Hong Kong. The good development of the Biotech business line established at the end of 2014 continued.

In line with our strategy, we invested in areas that clearly support the Group's growth targets. Last year we decided on HKScan's biggest investment project in recent history - construction of a production facility specialising in poultry products, in Rauma, Finland.

The two efficiency improvement programmes successfully implemented during the last strategy period have strengthened the Group-wide culture of continuous improvement. This was visible in, among others, the operational

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efficiency improvements in production and in the supply chain that were executed during the year. We developed wellbeing at work and personnel engagement by focusing on three areas: leadership, employee wellbeing and workplace safety, and a more unified corporate culture. The action plans stemming from the results of the Group-wide Employee Engagement Survey advanced during the past year. Additionally, we launched a training programme for leaders and specialists in order to strengthen leadership skills and to deepen professional expertise.

Going to year 2016, food and cooking are of interest to an increasing number of consumers, and changing food trends are inspiring the media, industry players and consumers maybe more than ever. HKScan is very well positioned to drive the food culture tradition forward, with our broad product portfolio and recognized Nordic meat expertise.

Despite the current economic and political uncertainty, we see multiple positive long-term trends and market drivers in the business environment which support the consistent progress in our strategy implementation. The global consumption of meat is continuing to steadily increase as consumer buying power strengthens in developing markets. Demand for poultry products is growing, and convenience foods and semi-finished products that make daily living easier are becoming more and more popular.

The importance of corporate responsibility is increasing, which will strengthen HKScan's position also beyond its home markets. Sustainable operations are a cornerstone of HKScan's strategy. Corporate responsibility is integrated into all areas of the Group's operations and is systematically developed in accordance with HKScan's corporate responsibility programme.

The now proven ability of HKScan's personnel and management to carry out targeted measures in the midst of internal restructuring and cultural change - and also at a time when the operating environment has become significantly more difficult - gives me strong reason to believe that the implementation of HKScan's strategy will continue successfully also in 2016. This year we are moving forward with optimism and solid footing on a path of development and improved performance.

I want to extend a warm thank you to HKScan's personnel for their commendable work and commitment to our shared goals. Likewise, I want to thank the consumers, customers, business partners, producers and owners who have cooperated with us, shared our daily operations, and helped us to achieve our common goals. It is important for us to continue the collaboration and thereby ensure the competitiveness of our home markets and the position and success of responsibly produced Nordic food on domestic and export markets alike.

Turku, 7 March 2016

**Aki Laiho**

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