HKSCAN

# Interim Report Q3 2021

HKScan's Interim Report 1 January – 30 September 2021

# HKScan's EBIT stable, profit improvement continued in Finland and Sweden

## July-September 2021

- HKScan's net sales totalled EUR 446.8 (438.3) million. Clear growth in retail sales of own branded products continued. Sales clearly increased particularly in the product categories with higher added value, such as meals and meal components. Food service sales increased as a result of the gradual removal of restrictions related to the Covid-19 pandemic.
- The Group's EBIT was EUR 7.6 (7.7) million and comparable EBIT EUR 7.7 (8.2) million.
- Good profit development continued in HKScan's largest markets Finland and Sweden.
- Finland's comparable EBIT improved by EUR 1.7 million and Sweden's by EUR 1.0 million.
- In the Baltics, price pressure continued due to meat imports. Holding the market position and significantly risen feed and energy prices weakened EBIT.
- Avian flu in Denmark and the resulting restrictions on exports outside the EU continued to have a clear negative impact on EBIT. Strategy implementation progressed as planned, and the sales increase was particularly clear in ready-to-eat poultry products.
- Exceptionally high energy price increases raised HKScan's costs in all its home markets.
- Cash flow from operating activities was EUR -15.6 (2.8) million due to normal variation in the amount of trade payables and other non-interest-bearing payables.

## January-September 2021

- HKScan's net sales totalled EUR 1,323.6 (1,308.1) million. Growth in retail sales of own branded products continued. Sales clearly increased in the strategically important products with higher added value, such as meals and meal components. Food service sales recovered and sales were on the comparison period's level. Exceptionally challenging market conditions in the Baltics decreased sales. In Denmark, the negative impact of avian flu on exports outside the EU was significant.
- The Group's EBIT improved by EUR 6.4 million to EUR 10.2 (3.8) million. Comparable EBIT improved by EUR 2.3 million to EUR 7.2 (4.9) million.
- In Finland, EBIT improved by EUR 10.6 million and comparable EBIT by EUR 7.6 million.
- In Sweden, comparable EBIT improved by EUR 2.5 million.
- In the Baltics, a significant increase in feed and energy prices and price pressure due to oversupply of pork in Europe led to a clear decline in profitability.
- Avian flu, affecting business in Denmark throughout the year, and the resulting restrictions on exports outside the EU have had a significant negative impact on EBIT. A strategic shift in sales focus from low margin product categories to products with higher added value clearly reduced the negative impact of avian flu.
- Cash flow from operating activities was EUR 12.5 (23.3) million, the change was due to normal variation in the amount of short-term payables.
- Interest-bearing net debt was EUR 333.3 (323.1) million and net gearing 102.5 (103.2) percent.

*The figures in parentheses refer to the comparison period, i.e. the same period in the previous year, unless otherwise mentioned. The figures in this report are unaudited.*

## Outlook 2021

HKScan estimates that the Group's comparable EBIT in 2021 will improve compared to 2020.

# Key figures, net sales

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Net sales | 446.8 | 438.3 | 1 323.6 | 1 308.1 | 1 781.0 |
| Finland | 188.9 | 190.0 | 562.5 | 563.4 | 772.4 |
| Sweden | 170.8 | 162.2 | 503.6 | 477.6 | 662.1 |
| Baltics | 43.2 | 44.1 | 125.8 | 132.0 | 175.0 |
| Denmark | 44.0 | 42.0 | 131.6 | 135.1 | 171.5 |

# Key figures, EBIT

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| EBIT | 7.6 | 7.7 | 10.2 | 3.8 | 21.3 |
| - % of net sales | 1.7 | 1.7 | 0.8 | 0.3 | 1.2 |
| Comparable EBIT | 7.7 | 8.2 | 7.2 | 4.9 | 17.0 |
| - % of net sales | 1.7 | 1.9 | 0.5 | 0.4 | 1.0 |
| Comparable EBIT, Finland | 3.1 | 1.4 | 3.3 | -4.3 | 6.0 |
| - % of net sales | 1.6 | 0.7 | 0.6 | -0.8 | 0.8 |
| Comparable EBIT, Sweden | 6.9 | 5.9 | 14.2 | 11.7 | 19.0 |
| - % of net sales | 4.1 | 3.6 | 2.8 | 2.5 | 2.9 |
| Comparable EBIT, Baltics | -0.9 | 1.8 | -0.7 | 3.8 | 4.0 |
| - % of net sales | -2.1 | 4.2 | -0.5 | 2.8 | 2.3 |
| Comparable EBIT, Denmark | 0.1 | 1.0 | -1.0 | 1.7 | 1.1 |
| - % of net sales | 0.2 | 2.3 | -0.8 | 1.3 | 0.6 |

# Key figures, other

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| EBITDA | 23.5 | 24.0 | 54.5 | 53.1 | 78.1 |
| Profit before taxes | 5.4 | 5.6 | 1.5 | -2.9 | 12.3 |
| - % of net sales | 1.2 | 1.3 | 0.1 | -0.2 | 0.7 |
| Profit for the period | 3.6 | 3.7 | -2.1 | -6.4 | 4.8 |
| - % of net sales | 0.8 | 0.9 | -0.2 | -0.5 | 0.3 |
| EPS, EUR | 0.03 | 0.03 | -0.06 | -0.10 | -0.01 |
| Comparable EPS, EUR | 0.03 | 0.03 | -0.10 | -0.09 | -0.05 |
| Cash flow from operating activities | -15.6 | 2.8 | 12.5 | 23.3 | 63.7 |
| Cash flow after investing activities | -23.9 | -5.2 | 59.9* | -47.9* | -21.4* |
| Return on capital employed (ROCE) before taxes, % | | | 5.1 | 0.1 | 3.9 |
| Interest-bearing net debt | | | 333.3 | 323.1 | 299.6 |
| Net gearing, % | | | 102.5 | 103.2 | 91.0 |

* Year 2020 includes the investment to the plot of the Vantaa unit EUR 37.7 million.
1-9/2021 includes the sale of Vantaa property (land and buildings) with EUR 76.1 million.

# HKScan's CEO Tero Hemmilä

HKScan's July-September EBIT was stable in relation to the comparison period. The company's key market areas Finland and Sweden clearly strengthened their EBIT whereas Denmark and the Baltics were clearly down from the comparison period in a very exceptional market situation. The company's EBIT was EUR 7.6 million, while in the comparison period it was EUR 7.7 million. Comparable EBIT was EUR 7.7 million and EUR 8.2 million in the comparison period. The rolling 12-month comparable EBIT was EUR 19.4 million at the end of the review period whereas in the comparison period it was EUR 10.6 million. During the Turnaround programme, our comparable EBIT has improved cumulatively by almost EUR 66 million.

In July-September, our net sales were stable although slightly up on the comparison period. As restrictive measures due to the Covid-19 pandemic were gradually removed, food service sales recovered with an improvement of more than 5 percent from the comparison period. We did well with our own branded products. Our sales strengthened especially in processed meat products, meal components and meals, which has also clearly decreased the need for more cyclical and less profitable exports.

The profit development within the Group was two-fold and the reasons for this are clear. I am pleased that HKScan's key home markets Finland and Sweden continued their positive profit improvement in line with our targets. In Denmark and in the Baltics, we were not able to improve profitability in a very exceptional market situation. The development in Denmark and in the Baltics was not satisfactory and the performance of the review period was disappointing, as expected. We have initiated corrective actions to improve the situation.

In Finland and Sweden, the increase in the added value of products and sales growth of branded products secured the good development. This development also represents value creation in line with our strategy. Sweden has been able to improve its comparable EBIT for 14 consecutive quarters in relation to comparison periods. In this development, the most significant factor is the differentiating added value built in our product portfolio through the Scan brand, but also excellent productivity improvements in our production processes.

In Finland, we have been able to improve cumulatively our comparable EBIT by over EUR 49 million during the Turnaround programme. In Finland, we have a strong position in processed meat products, meal components and poultry products as well as a clear target to further grow in poultry products, meals and snacks. Our strategic target is to be increasingly strong and appealing to both consumers and retail, supported by HKScan's own strong offering and that of our subsidiaries, Kivikylän, Tamminen and Boltsi. Profit improvement in the poultry business continued and our Rauma production unit's operational development progressed. I am pleased with the strong sales growth of our partner and associate company Mäkitalon Maistuvat's ready-to-eat salads over a short period of time and with the excellent welcome the products have received from our customers and consumers.

During the review period, we created the capability in Finland to enter the consumer market with restaurant-level fresh meals. Meal sales started in pilot stores with the Vietävä meal concept in October. We are also preparing the investment in the production of snack products decided in the summer, which will provide opportunities to grow in Finland in the profitable snack product market.

In Sweden, after the review period, we signed a commercial cooperation agreement related to the Maten é klar meal concept. The implementation of the agreement will start early next year. The basic idea behind the Maten é klar concept is to provide consumers with healthy, high quality meals.

In Denmark, the avian flu situation affecting the whole industry and companies as well as the resulting restrictions on sales outside the EU continued to have a clear negative impact on our performance. For other parts, our strategy has progressed as planned and we will continue to focus on strengthening our market position in Denmark and Sweden with fresh and ready-to-eat poultry products as well as processed poultry products.

The market situation is exceptional in the Baltics, challenging our long local value chain. The overproduction of pork in Europe has strongly reduced market prices, also lowering the value of biological assets tied up in our business. At the same time, the rapid and significant rise in feed and energy prices has been very exceptional. However, the market will recover as the supply and demand balance stabilises. The resulting market situation has significantly reduced the profitability of our Baltic business in July-September. On the other hand, the profitability of our Baltic poultry business and processed meat products is better than in other product categories.

The value chain of HKScan's meat business is facing some major questions. Particularly the economic situation of the farms in meat production is in severe crisis due to the surplus in the European pork market, the sharp rise in feed prices and the scarcity of feed crops on the farms. The increase in prices for feed, and also for other production inputs, both on farms and in HKScan's own operations, is widely reflected across the business, increasing costs. The price of meat raw material will rise to ensure the profitability of meat production and the availability. The situation is also creating clear pressure for higher consumer prices for meat products.

As vaccination coverage has strengthened, the negative impact of the pandemic on our business has decreased, but the situation in the Baltic countries and Poland remains difficult. Through the strong commitment of our employees, we have ensured that our production units and the entire supply chain have operated without significant disruption. However, the pandemic is not over yet. While the company's own preventive restrictions have been gradually removed, we will still continue to follow them on a case-by-case and site-by-site basis.

In January-September, HKScan's EBIT improved by EUR 6.4 million to EUR 10.2 million. Comparable EBIT improved by EUR 2.3 million to EUR 7.2 million. Finland and Sweden were the clear profit drivers. Finland's comparable EBIT was EUR 7.6 million and Sweden's EUR 2.5 million better than in the comparison period. EBIT for Denmark and the Baltics clearly declined for the reasons mentioned above.

HKScan needs a stronger balance sheet to complete a more significant food company transformation as we build new food businesses and ways to face market changes alongside our existing core businesses in the future. We are constantly evaluating the position of our different businesses as part of the Group and its strategy. The ending Turnaround period will be followed by a phase in which improving the profitability of our core business will remain a priority. In addition, we will actively strengthen the company's balance sheet in various means to enable a clearer and more impressive food company transformation.

HKScan Group continues the goal-oriented climate work through its Zero Carbon programme aiming at a carbon-neutral food chain by the end of 2040. In addition to our own production activities, we have this year focused on climate issues in primary production and on building scalable ways to reduce emissions and increase carbon sinks together with our contract farmers and partners.

The operating environment has been and continues to be very challenging, even exceptional, with sharp increases in the prices of feeds, energy and other production inputs. The situation requires determined efforts from the company to achieve commercial improvements, to improve the efficiency of industrial operations and to manage costs. The aim of this work is a clear improvement in profitability. The company and all its employees are committed to this.

We are developing HKScan's business comprehensively and with the Turnaround achieved, we will be moving forward on a stronger basis. Our clear target is to grow into a versatile food company creating strong shareholder value.

# Key events in July-September 2021

HKScan strengthening its position in consumers' food moments with new premium fresh meals

A modern restaurant-level kitchen has been completed in HKScan's Vantaa unit where chefs prepare premium fresh meals. Sales of Vietävä concept fresh meals, developed by chef Kape Aihinen, will be launched in pilot stores in phases during the rest of the year. The fresh meals kitchen will be fully operational in early 2022. New delicious fresh meals of high-quality will be sold at retail service counters and as packaged products.

Consumer need for convenient, nutritionally high-quality and delicious ready meals has further strengthened during the Covid-19 pandemic. New premium fresh meals support HKScan's strategy to grow profitably in consumers' food moments.

Sweden's renewed commercial organisation driving the strategy implementation

At the beginning of September, a renewed commercial organisation started in HKScan's Business Unit Sweden. The main goal of the renewal is to promote the company's strategy-based growth and transformation into a versatile food company.

The renewed commercial organisation will enhance the focus on the development of core business and customer relationships. It will also utilise strong commercial expertise to increase profitability, efficiency and agility. Furthermore, the organisation will accelerate adaptation to changes in the operating environment and utilisation of new business opportunities that support the strategy. The new organisation also has a New Business Team to ensure a strategy-based expansion into new product categories and sales channels as well as growth through partnerships.

New logistics centre in the Baltics improves customer service and reduces environmental footprint

HKScan's new logistics centre was taken into use in August and the first orders were delivered to customers in September. The new logistics centre is located in Estonia, near Tallinn. The centre serving the entire Baltic market area provides customers with faster and more flexible service. HKScan centralises the operations of its assembly centres in Rakvere and Riga in the new logistics centre. The centre employs more than 100 people.

The modern logistics centre will bring savings in storage and distribution costs and significantly reduce the environmental footprint. Solar panels installed on the roof of the centre will reduce energy emissions by some 30 percent. In addition, carbon dioxide emissions will be significantly reduced as transport will be cut by about 400,000 kilometres per year.

In Denmark, the strategy implemented by raising the added value

In Business Unit Denmark, HKScan's strong focus on adding value in poultry products could be seen in a clear sales increase. HKScan has successfully shifted sales from low-margin frozen export products to fresh, ready-to-eat poultry products. There is still a lot of potential in Denmark's home market and Sweden's export market.

A strategic shift in sales focus towards higher added value products has partly reduced the negative effects of avian flu on business profitability.

# Food that does good

Advanced responsibility work is the basis of HKScan's strategy. Since climate change affects the entire food chain and the attitudes and choices of consumers and customers, responding to it is at the core of the company's operations. The Zero Carbon climate plan takes HKScan's business operations towards carbon neutrality.

HKScan's target is a carbon-neutral food chain by the end of 2040. During the review period, the company promoted its Zero Carbon climate plan across the food chain: in primary production, in its production units, packaging development and logistics. The company focuses its climate work primarily on measures with the greatest impact.

During the review period, HKScan promoted climate-friendly field farming by, for example, using carbon flux measurements to study farming techniques enhancing carbon sequestration. These studies identified the best practices that will be scaled up for the wider use of contract farmers through, for example, climate trainings organised by the company. There are significant opportunities to promote carbon sequestration and reduce emissions in the fields.

HKScan launched several product packages with less plastic. In Finland, the new bag packs of Kariniemen minced meat products contain 74 percent less plastic than the previous box packs. Similar packaging was already introduced in 2020 for HK minced meat packaging. In addition, plastic was replaced with cardboard-based solutions in new products in the autumn. The company aims to achieve 100 percent recyclable product packaging and a 20 percent reduction in packaging plastic by the end of 2025 from 2019.

The logistics centre opened in the Baltics in August will significantly reduce the environmental impact of transports. With its good location and route planning, transports are reduced by around 400,000 kilometres per year. The logistics centre also gets renewable energy from the solar panels installed on the roof.

The key figures of the responsibility programme 'Food that does good' for 2020 and, when applicable, for January-September 2021 are reported in the Interim Report before the Tables section.

Safety First

HKScan works in a goal-oriented way towards zero injuries at work and promotes a safety culture at work in many ways. Lost time injuries have been decreasing for several years, but in the end of 2020, the frequency of accidents started to increase. Measures to remedy the situation were launched early in the year and the number of accidents has decreased after the summer 2021. Despite the increase in accidents, absences due to the accidents decreased significantly in January-September 2021 as the number of more serious accidents clearly decreased. During the review period, determined safety work continued and employees were encouraged to report their safety observations.

# Group net sales and EBIT

## July-September

Net sales

HKScan's net sales totalled EUR 446.8 (438.3) million. Net sales were increased by the retail sales of the company's own branded products focusing on products with higher added-value and growth in food service sales as the restaurant restrictions were gradually removed in all home markets. Sales continued to clearly grow in the company's own branded meals and meal components.

HKScan's net sales increased at comparable figures in Sweden and Denmark. The positive impact of the exchange rate change of the Swedish krona, i.e., the conversion of net sales made in local currency into euros, on net sales was EUR 2.8 million. In Denmark, the strategy implementation progressed as planned, and the sales increase was particularly clear in ready-to-eat poultry products. In Finland, net sales were at the comparison period's level and in the Baltics, net sales decreased.

EBIT

HKScan's EBIT totalled EUR 7.6 (7.7) million and comparable EBIT was EUR 7.7 (8.2) million. The positive impact of the exchange rate change of the Swedish krona on EBIT was EUR 0.1 million.

In Finland, comparable EBIT improved by EUR 1.7 million. In Sweden, comparable EBIT improved by EUR 1.0 million. In the Baltics, the price pressure of imports and the home market continued and in addition, rising costs in primary production clearly weakened EBIT. In Denmark, avian flu and the resulting restrictions on exports outside the EU continued to have a significant negative impact on EBIT. Otherwise, the business developed in line with the strategy. Energy prices continued to rise in the review period, which weakened EBIT.

An item affecting comparability of EUR -0.1 million was recorded in the review period. The comparison period EBIT included an item affecting comparability of EUR -0.6 million. Items affecting comparability are described in more detail in the Tables section of this report.

## January-September

Net sales

HKScan's net sales totalled EUR 1,323.6 (1,308.1) million. Net sales were at the comparison period level in Finland and at comparable figures also in Sweden. The positive effect of the exchange rate change of the Swedish krona on net sales was EUR 19.5 million. Net sales decreased in the Baltics and were almost at the comparison period level in Denmark.

Net sales were increased as a result of sales growth in retail and, in particular, sales of the company's own branded products in higher value-added product categories. Food service sales recovered in the review period and net sales were at the comparison period level.

In the Baltics, net sales decreased due to the pressure on sales prices caused by cheaper meat raw material imported from abroad and lower sales volumes of pork products in relation to the comparison period. In Denmark, the negative effects of avian flu on exports outside the EU continued. Otherwise, HKScan's exports were in line with the target. Stronger sales in the home markets, especially in meals and meal components, decreased the need for more cyclical and less profitable exports.

EBIT

The Group's EBIT improved by EUR 6.4 million to EUR 10.2 (3.8) million. Comparable EBIT improved by EUR 2.3 million to EUR 7.2 (4.9) million. The positive impact of the exchange rate change of the Swedish krona on EBIT was EUR 0.5 million.

EBIT strengthened through commercial improvements in retail and recovering food service sales. In the Baltics, EBIT weakened clearly, the causes have been identified and actions to correct the profit development have been initiated. In Denmark, export restrictions due to the avian flu cases continued to have a significant negative impact on EBIT. The exceptionally high increase in energy prices weakened EBIT.

Strategic investments into new product categories raised the Eura production unit's utilisation rate and with the improved outlook, an impairment reversal of EUR +3.0 million was recorded under the items affecting comparability. The comparison period EBIT included items affecting comparability of EUR -1.0 million. Items affecting comparability are described in more detail in the Tables section of this report.

## Balance sheet, cash flow and financing

At the end of September, HKScan's balance sheet total was EUR 953.7 (942.4) million. The Group's interest-bearing debt was EUR 342.8 (338.3) million including IFRS 16 lease liability EUR 114.1 (34.3) million at the end of September. The increase in lease liability was due to the lease liabilities generated by the rental of the property in Vantaa as agreed on in connection with the sale of the property, the extension of the logistics centre lease in Sweden and the Baltics new logistics centre which was taken into use. Net debt increased by EUR 10.2 million and totalled EUR 333.3 (323.1) million.

HKScan's net gearing ratio was 102.5 (103.2) percent at the end of September. The impact of the IFRS 16 lease liability on the net gearing ratio was 35.1 percentage points.

At the end of September, the company had, in its balance sheet, a hybrid bond that was issued in 2018 and amounted to EUR 25.9 million. The coupon interest of the hybrid bond is fixed at 8 percent per annum until the first redemption date. The hybrid bond is treated as equity. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date in 2023, and subsequently, on each annual coupon interest payment date.

The Group's liquidity remained good. Committed credit facilities at the end of September stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 74.0 (73.6) million.

Net financial expenses were EUR -3.2 (-2.6) million in July-September and EUR -11.5 (-8.2) million in January-September. The net financial expenses were higher than during the comparison period as a result of non-recurring costs related to financing arrangements.

Cash flow from operating activities was EUR -15.6 (2.8) million in July-September and EUR 12.5 (23.3) million in January-September. Cash flow after investments was EUR -23.9 (-5.2) million in July-September and EUR 59.9 (-47.9) million in January-September. Cash flow from investments includes the positive effect of EUR 76.1 million from the sale of the Vantaa property.

# Pending processes with the authorities

The Danish tax authorities have conducted an audit of energy taxes covering the period 2011–2020 in HKScan Denmark A/S, which is a subsidiary of the Group. At the end of 2020, the Danish tax authorities issued their decision, according to which the company should repay past refunds of energy taxes amounting to 24.7 million Danish krone (ca. EUR 3.3 million) in the pending matter. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S has submitted an appeal concerning the decision.

HKScan recorded the expense in the last quarter of 2020 and paid the amount to the authorities in the first quarter of 2021.

# Investments

HKScan's investments totalled EUR 8.4 (8.2) million in July-September. Investments for January-September were EUR 29.7 (68.9) million. In addition, IFRS 16 increases to right-of-use assets totalled EUR 8.4 (0.8) million in July-September and EUR 86.8 (3.7) million in January-September. These include the lease agreement for the Vantaa production unit and the extended lease agreement for the logistics centre in Sweden.

<u>Key investments in July-September 2021</u>

In the Baltics, HKScan's new logistics centre was taken into use in August and the first orders were delivered to customers in September. The new logistics centre is located in Estonia, near Tallinn. The logistics centre serving the entire Baltic market area provides customers with faster and more flexible service. HKScan centralises the operations of its assembly centres in Rakvere and Riga in the new logistics centre. The modern logistics centre brings savings in storage and distribution costs and significantly reduces the environmental footprint. HKScan has a long-term lease agreement with Astlanda Ehitus, the company that built the logistics centre.

In Sweden, the project to optimise product flows to different production units and production lines has progressed as planned and production efficiency has clearly improved. The project is ongoing and it involves additional investments and realising the full potential of the investments already made. The investments will increase the level of automation and the resulting productivity efficiency, and reduce transport costs.

In HKScan's Vantaa unit, an investment was completed in a restaurant-level kitchen where chefs prepare premium fresh meals for sale at service counters and as packaged products. Consumer need for convenient, nutritionally high-quality and delicious ready meals has further strengthened during the Covid-19 pandemic.

<u>Strategic investment in future growth</u>

In July 2021, HKScan announced its investment in new manufacturing technology that will enable strengthening in the growing snack product category. The investment will be completed in summer 2022 at HKScan's production unit in Eura where the company's poultry products are already packed and Mäkitalon Farmi ready-to-eat salads are produced. The investment will contribute to HKScan's strategic target to have a stronger presence in consumers' various food moments and diversify the product portfolio.

Investments that advance the implementation of the company's strategy and improve productivity are key aspects of HKScan's investment planning for the coming years.

# Operating environment

Changes in key sales channels and product categories

The changes caused by the Covid-19 pandemic in HKScan's key sales channels, sales structure and in the development of different product categories remained clear, but began to level off during the third quarter. The most significant change compared to the first half of the year was the recovery of demand in the food service channel as the pandemic-related restrictions began to be gradually removed. The food service market continued to suffer from the impacts of the restaurant and assembly restrictions, even though the catering services provided by public administration began to recover during July–September. The number of big events during the review period, for example, remained considerably low in relation to the period preceding the pandemic.

In response to the recovery of food service sales, the long growth trend in retail sales began to take a downward turn during the third quarter. The share of food purchased online is still marginal in relation to purchases within physical stores but, for example, the share of online food sales in Finland has doubled this year. Consumers are also increasingly purchasing fresh products online.

Sales of HKScan's product categories in the retail market increased during the review period in all of the company's home markets. The market grew slightly in terms of value, but the volume figures reflected a shift to dining outside of the home. The growth in demand for processed meat products, such as sausages and cold cuts, continued. The growth in demand for poultry products, meals and meal components also continued during the review period.

The pandemic-related restrictions have increased the purchasing power of households, also in retail sales, which continued to be reflected in the consumers' purchasing behaviour. The general trends include the stronger consumer awareness concerning quality and environment as well as a heightened appreciation for domesticity, which has increased the demand for locally produced branded products. This development was seen as growth in the sales of HKScan's own branded products during the review period. The demand for home-delivered restaurant foods remained at the comparison period level. At the same time, retail trade has increased the share of restaurant-quality ready meals as part of their product selection. Consumption in retail selections has shifted to more high quality products, which is reflected as an increase in the value of the sales.

Consumers are more interested than earlier in trying new food solutions that seek to make dining faster, easier, more diverse and healthier. This showed as growth in the demand for ready-to-eat foods. The share of snacking as part of daily food intake has increased, and warm meals are being partially replaced by snacks. This development in consumer behaviour offers new possibilities for the food industry, retail and food service companies.

Changes in the international meat market

The sharp rise in meat raw material prices at the beginning of the year turned into a decline in June. The decline continued in the third quarter of the year. This was caused by the continuation of the pandemic, the increase in China's own pork production, the oversupply of pork in the EU and extensive export restrictions resulting from avian flu. Additionally, the weak grain harvest within the EU has weakened the profitability of pork and poultry production.

During the review period, the production and sales prices of pork declined in China by nearly one third as a result of low demand and increased local availability. The export of pork to China is not expected to recover significantly during the end of the year. During the review period, the price of pork also decreased significantly in many EU countries.

The avian flu detected in Denmark and several other European countries during last autumn are still affecting the export of poultry products outside the EU. This was reflected in the increase in the supply of poultry products in the EU but, on the other hand, as decreased production in some EU countries. The production price of poultry in the EU area was slightly decreasing at the end of the review period.

The opening of the food service market in all of HKScan's key home and export markets supports the meat market, but the demand has not yet returned to the level seen prior to the pandemic.

# Business Unit Finland

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Net sales | 188.9 | 190.0 | 562.5 | 563.4 | 772.4 |
| EBIT | 3.1 | 1.4 | 6.3 | -4.3 | 10.7 |
| - EBIT margin, % | 1.6 | 0.7 | 1.1 | -0.8 | 1.4 |
| Comparable EBIT | 3.1 | 1.4 | 3.3 | -4.3 | 6.0 |
| - EBIT margin, % | 1.6 | 0.7 | 0.6 | -0.8 | 0.8 |

## July-September

In Finland, net sales totalled EUR 188.9 (190.0) million. Sales growth continued in strategically important products with higher added value, such as meal components and processed meat products. Sales growth was strong in meals, boosted also by the ready-to-eat salads of our partner Mäkitalon Maistuvat. The need to export pork was clearly reduced by the sales growth of products with higher added value and increased sales of subsidiaries.

EBIT improved by EUR 1.7 million to EUR 3.1 (1.4) million. Comparable EBIT improved by EUR 1.7 million to EUR 3.1 (1.4) million. The performance was improved by a shift in sales towards higher value-added products instead of less profitable exports. A clear improvement in operational efficiency continued but the rapid price rise in energy and other production inputs weakened the performance.

Performance in the poultry business improved clearly and Rauma production unit's operational development progressed. In Finland, demand for poultry products continued to grow and sales in the food service channel continued to focus on cooked products.

In HKScan's Vantaa unit, a modern restaurant-level kitchen was completed where chefs prepare premium fresh meals. Sales of Vietävä concept fresh meals, developed by chef Kape Aihinen, were launched in pilot stores after the review period in October.

## January-September

Net sales totalled EUR 562.5 (563.4) million. Retail sales increased and the growth focused on products with higher added value. Food service sales were at the comparison period's level. Stronger home market sales, especially in meals and meal components, decreased the need for more cyclical and less profitable exports.

In Finland, EBIT improved by EUR 10.6 million to EUR 6.3 (-4.3) million. Comparable EBIT improved by EUR 7.6 million to EUR 3.3 (-4.3) million. Growth in retail sales, especially in higher added-value products, improved poultry business, recovering food service sales and improved operational efficiency contributed positively to EBIT. During the review period, energy and other production input prices started to rise.

Strategy-based investments in new product categories clearly improved the outlook for the Eura production unit, and an impairment reversal of EUR 3.0 million was made in the review period and recorded under items affecting comparability. There were no items affecting comparability during the comparison period.

The collaboration between HKScan and Mäkitalon Maistuvat started in April with a sales and distribution partnership, and HKScan's product range expanded to include ready-to-eat salads. In addition, the company acquired 24.9 percent of the share capital of Mäkitalo Maistuvat Oy, which supports HKScan's strategic target to grow in meals and plant-based products.

In June, HKScan acquired Jokisen Eväät business and brand known for high-quality fish products. HKScan's product range already includes fish as a raw material for meals and meal components. The acquisition of Jokisen Eväät Oy business is an opportunity for HKScan to gain a deeper insight into the growing fish product category.

# Business Unit Sweden

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Net sales | 170.8 | 162.2 | 503.6 | 477.6 | 662.1 |
| EBIT | 6.9 | 5.9 | 14.2 | 11.6 | 19.1 |
| - EBIT margin, % | 4.1 | 3.6 | 2.8 | 2.4 | 2.9 |
| Comparable EBIT | 6.9 | 5.9 | 14.2 | 11.7 | 19.0 |
| - EBIT margin, % | 4.1 | 3.6 | 2.8 | 2.5 | 2.9 |

## July-September

In Sweden, net sales totalled EUR 170.8 (162.2) million. Retail sales of products sold under the Scan brand increased and food service sales continued to recover. The positive impact of the exchange rate change of the Swedish krona, i.e. the conversion of net sales made in local currency into euros, on net sales was EUR 2.8 million. Net sales for Sweden also increased in local currency.

EBIT improved by EUR 1.0 million to EUR 6.9 (5.9) million. Comparable EBIT was EUR 6.9 (5.9) million. The positive effect of the exchange rate change on EBIT was EUR 0.1 million. EBIT strengthened as a result of commercial improvements seen in pork and beef, recovering food service sales and improved operational efficiency. Prices of energy and other production inputs started to rise rapidly in the review period.

At the beginning of September, a renewed commercial organisation started in HKScan's Business Unit Sweden. The main goal of the renewal is to promote the company's strategy-based growth and transformation into a versatile food company.

## January-September

Net sales totalled EUR 503.6 (477.6) million. Retail sales of products sold under the Scan brand increased. Pork exports net sales increase was driven by higher volumes of by-products. Food service sales increased as pandemic-related restrictions were reduced. The effect of the exchange rate change of the Swedish krona on net sales was EUR 19.5 million.

EBIT improved by EUR 2.6 million to EUR 14.2 (11.6) million. Comparable EBIT was EUR 14.2 (11.7) million. The positive effect of the exchange rate change on EBIT was EUR 0.5 million. Commercial improvements in pork and beef, including export achievements, had a positive impact on EBIT.

HKScan's product range expanded in the summer to include premium Scan Korvmakarna sausages, with an emphasis on deliciousness and high quality. Plant-based balls and patties complementing the Pärsons brand product range were also launched in Sweden.

HKScan's strategic goal is to have a stronger presence in consumers' changing and various food moments. The cooperation with Foodora, a food delivery company, continued during the summer barbeque season. In addition, HKScan is present in a new sales channel where consumers can use a mobile app to order tasty on-the-go meals of the Korv & Bread concept in Swedish travel destinations. Presence in new evolving sales channels allows HKScan to engage directly with consumers and increases the visibility of the Scan brand.

# Business Unit Baltics

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Net sales | 43.2 | 44.1 | 125.8 | 132.0 | 175.0 |
| EBIT excluding biological asset revaluation | -0.2 | 2.5 | -0.9 | 4.9 | 5.7 |
| Biological asset revaluation | -1.0 | -0.7 | 0.0 | -1.5 | -2.0 |
| EBIT | -1.1 | 1.8 | -0.9 | 3.4 | 3.7 |
| - EBIT margin, % | -2.6 | 4.2 | -0.7 | 2.6 | 2.1 |
| Comparable EBIT excluding biological asset revaluation | 0.1 | 2.5 | -0.7 | 5.3 | 6.1 |
| Biological asset revaluation | -1.0 | -0.7 | 0.0 | -1.5 | -2.0 |
| Comparable EBIT | -0.9 | 1.8 | -0.7 | 3.8 | 4.0 |
| - EBIT margin, % | -2.1 | 4.2 | -0.5 | 2.8 | 2.3 |

Biological assets are farmed animals in the company's own primary production.

## July-September

In the Baltics, net sales totalled EUR 43.2 (44.1) million. Net sales were clearly decreased by the declined volumes and prices of pork. As a relatively small market area, the Baltics is sensitive to import price pressure, and defending the market position weakened EBIT. Sales of poultry products increased clearly. Food service sales were at the comparison period's level.

EBIT excluding the change in the fair value of biological assets totalled EUR -0.2 (2.5) million. Comparable EBIT excluding the change in the fair value of biological assets totalled EUR 0.1 (2.5) million. The change in the fair value of biological assets in the balance sheet was EUR -1.0 (-0.7) million. The low market price of pork had a clear negative impact on EBIT. Exceptionally high increases in feed and energy prices increased HKScan's costs. In the Baltics, actions have been initiated to reduce costs and increase sales prices.

In addition to own efficiency measures, the development of European pork market prices and changes in energy prices have a significant impact on the profit development of the Baltics. Higher price levels of feeds will last at least until the new harvest season.

HKScan's new logistics centre was taken into use in August and the first orders were delivered to customers in September. The new logistics centre is located in Estonia, near Tallinn. The logistics centre serving the entire Baltic market area provides customers with faster and more flexible service.

## January-September

Net sales totalled EUR 125.8 (132.0) million. Net sales were clearly decreased by the declined prices and volumes of pork, particularly in industrial sales. Food service sales were down from the comparison period, but recovered towards the end of the review period. Sales volumes of poultry products sold under the Tallegg brand continued to grow. Sales of meal components grew especially in retail and exports.

EBIT excluding the change in the fair value of biological assets totalled EUR -0.9 (4.9) million. Comparable EBIT excluding the change in the fair value of biological assets totalled EUR -0.7 (5.3) million. The change in the fair value of biological assets in the balance sheet was EUR 0.0 (-1.5) million.

As a a relatively small market area, the Baltics is sensitive to import price pressure, and defending the market position weakened EBIT. Exceptionally high increases in feed and energy costs could not be passed on in sales prices in the current situation of surplus pork production in Europe. On the other hand, the profitability of our Baltic poultry business and processed meat products is better than in other product categories.

# Business Unit Denmark

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Net sales | 44.0 | 42.0 | 131.6 | 135.1 | 171.5 |
| EBIT | 0.1 | 0.4 | -1.0 | 1.2 | 1.0 |
| - EBIT margin, % | 0.2 | 1.0 | -0.8 | 0.9 | 0.6 |
| Comparable EBIT | 0.1 | 1.0 | -1.0 | 1.7 | 1.1 |
| - EBIT margin, % | 0.2 | 2.3 | -0.8 | 1.3 | 0.6 |

## July-September

In Denmark, net sales totalled EUR 44.0 (42.0) million. Retail sales for the company's own branded products increased clearly. Strategy implementation progressed as planned, and sales increased especially in ready-to-eat poultry products. The avian flu, affecting the whole industry in Denmark, and resulting restrictions on exports outside the EU continued to have a significant negative impact on net sales.

Denmark's EBIT totalled EUR 0.1 (0.4) million and comparable EBIT was EUR 0.1 (1.0) million. The comparison period EBIT included an item affecting comparability of EUR -0.6 million. The avian flu continued to have a significant negative impact on EBIT. Energy prices continued to rise during the review period, which increased HKScan's costs. Good sales development of ready-to-eat poultry products improved EBIT.

## January-September

Net sales totalled EUR 131.6 (135.1) million. Net sales were clearly weakened by export restrictions resulting from the avian flu. The sales focus on strategically important products increased net sales. Sales increased significantly in minced poultry meat and ready-to-eat poultry products. A significant part of products with higher added value are sold under the company's Rose brand.

EBIT totalled EUR -1.0 (1.2) million and comparable EBIT was EUR -1.0 (1.7) million. The comparison period EBIT included an item affecting comparability of EUR -0.6 million. Avian flu cases affecting the entire industry had a significant negative impact on EBIT. Exceptionally high energy price increase raised HKScan's costs.

HKScan has shifted sales from low margin frozen export products to fresh and ready-to-eat products that meet consumer needs, which has clearly improved EBIT. Strategically, the shift in focus towards higher added-value products will reduce the negative impact of possible animal diseases, such as avian flu, on business performance in the long term.

# Personnel

HKScan prepared a hybrid working model that combines office time and remote work. The model will be launched throughout the company during the end of 2021.

During the review period, the number of personnel increased from the comparison period in Finland and Poland due to the launch of new production investments. The number of employees also increased in the Baltics with the completion of a new logistics centre near Tallinn, as the Riga logistics centre also continues to operate during the start-up phase.

| | 1-9/2021 | 1-9/2020 | 1-12/2020 |
|---|---|---|---|
| Personnel on average* | 6,960 | 6,788 | 6,741 |
| Finland | 2,788 | 2,730 | 2,684 |
| Sweden** | 1,952 | 1,896 | 1,899 |
| The Baltics | 1,565 | 1,522 | 1,528 |
| Denmark | 655 | 640 | 629 |
| Women / men %*** | | | 40 / 60 |
| Women / men of supervisors %*** | | | 35 / 65 |

* The reporting of personnel figures has been specified as of 1 January 2021: the figures include HKScan's employees converted into full-time employees (FTE). The comparison figures have been updated accordingly.
** Including Poland.
*** Reported according to the situation at the end of the year.

# Group Management

Anne Mere, HKScan's EVP Business Unit Baltics and a member of the Group Executive Team, left her position on 13 August 2021. In the same connection, Juha Ruohola, the Group Executive Team member, was appointed as HKScan's EVP Business Unit Baltics. He continues to be responsible for HKScan's Polish business, the Group's biotech business and meat balance.

Mika Koskinen, a Group Executive Team member responsible for HKScan's strategic business development and investments took over responsibility for the Group's exports and imports, which were until 13 August 2021 the responsibility of Juha Ruohola.

# Shares and shareholders

At the end of September, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The company's issued shares totalled 98,951,781, which were divided into two share series as follows: A shares, 93,551,781 (94.54% of the total number of shares) and K shares, 5,400,000 (5.46% of the total number of shares). The A shares are quoted on Nasdaq Helsinki Ltd. 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 K shares of LSO Osuuskunta and Lantmännen ek. för.

The Board of Directors of HKScan Corporation resolved on a directed share issue without consideration related to the Group's share-based incentive plan 2018, payment of the rewards for the performance period 2018-2020. On 7 May 2021 a total of 141,936 HKScan Corporation's A shares owned by the company was transferred without consideration to the participants of the share-based incentive plan in accordance to the terms and conditions of the plan. The transfer of own shares by a directed share issue without consideration is based on the Board's authorization granted by the Annual General Meeting on 8 April 2021.

At the end of September 2021, the company held 1,858,064 (2,000,000) A shares as treasury shares, corresponding to 1.88% of the company's total number of shares and 0.9%of the total number of votes.

The calculational market value of HKScan's shares at the end of September 2021 stood at EUR 185.8 (180.9) million. The market value of the Series A shares was EUR 175.5 (170.8) million and the calculational market value of unlisted Series K shares was EUR 10.3 (10.1) million.

During the period of January–September, a total of 22,932,028 (22,047,531) of the company's shares were traded with a total value of EUR 51,083,580 (45,605,940). In the review period, the highest price quoted was EUR 2.52 (2.85) and the lowest EUR 1.89 (1.60). The average price was EUR 2.23 (2.07).
At the end of September, the closing price was EUR 1.91 (1.87).

## Annual General Meeting 2021

HKScan Corporation's Annual General Meeting was held on 8 April 2021 in Turku, Finland, under special arrangements due to the Covid-19 pandemic. The AGM adopted the parent company's and consolidated financial statements for the financial period 1 January–31 December 2020 and discharged the members of the Board of Directors and the CEO from liability for the year 2020. The AGM resolved that a dividend of EUR 0.03 be paid for each share for the year 2020.

The decisions of the AGM have been published in their entirety in a stock exchange release on 8 April 2021, and the minutes are available in Finnish on the company website at www.hkscan.com.

## Share-based long-term incentive plan

On 7 February 2018, HKScan announced that the Board of Directors of HKScan Corporation had approved a share-based long-term incentive plan for the Group's top management and selected key employees. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure. The incentive plan consists of annually commencing plans. The commencement of each plan requires a separate decision from the Board of Directors.

At the time of commencement of the PSP 2018–2020 plan, approximately 30 individuals were eligible to participate in it. According to the original PSP reward payment schedule, the rewards for this plan were paid in spring 2021 based on the achievement of the performance targets.

On 8 May 2019, HKScan announced that the Board of Directors of HKScan Corporation had approved the commencing of new plans within the share-based long-term incentive scheme for HKScan's key employees. The Group Executive Team members, in total a maximum of 10 individuals are eligible to participate in PSP 2019–2021. According to the original PSP reward payment schedule, the rewards for this plan would be paid in two tranches, the first in spring 2022 and the second in spring 2023 based on the achievement of the performance targets.

The performance periods 2019–2020 of PSP 2018–2020 and PSP 2019–2021 ended on 31 December 2020. The rewards are paid in series A shares of HKScan.

The Restricted Share Plan complementing the main structure consists of annually commencing individual restricted share plans, each with a three-year vesting period. After the vesting period, the allocated restricted share rewards will be paid to the participants in series A shares of HKScan.

On 8 May 2019, HKScan announced the commencement of a new plan, RSP 2019–2021, within the Restricted Share Plan structure. Eligible to participate in the RSP 2019–2021 were the participants of the PSP 2019–2021. According to the original RSP reward payment schedule, the rewards for this plan would be paid in two tranches, the first in spring 2022 and the second in spring 2023 based on the fulfilment of the Group-level financial criterion set by the Board.

On 7 April 2021, HKScan announced amendments to the payment schedules for both the PSP and RSP plans. According to the new payment schedule, part of the rewards earned will be paid during 2021–2023 and the remaining portion of the Group Executive Team rewards is deferred and will be paid during 2024–2025. The deferred rewards will be paid based on the achievement of minimum level of the performance targets. A maximum amount for the cost of deferred reward has been set.

The same amendments are also applied to the rewards to be earned based on the ongoing performance period 2021 of the PSP 2019–2021.

## Short-term business risks

Price increase in production inputs and raw materials

As the economy in the euro area grows and the deficit spending continues, general inflationary pressure is rising. Additionally, the price of energy has been strongly rising in Europe, which has also impacted HKScan's home markets, and particularly the Baltics, Denmark and Sweden. This has already created and will continue to create cost pressures in packaging materials and other production inputs.
The significant price increase for feed grains, caused by the weak harvest in Europe, will lead to a delayed rise in the price of meat raw material. The situation poses a considerable risk for HKScan's profitability, if the company is unable to increase the sales prices of its products to offset the increase in costs alongside improvements in its production. If, in particular, the market price of pork does not rise fast enough and the extremely poor profitability situation of the farmers continues, there may be a risk related to the weakened local meat raw material availability and an increase in the credit loss risks related to the feed trading services.

Covid-19 pandemic

In case the Covid-19 pandemic continues, it poses a significant uncertainty factor for HKScan's business. The situation in HKScan's home market areas in Finland, Sweden and Denmark is not currently critical, but the situation in the Baltics and Poland remains very serious. At HKScan, the situation and its development are still being monitored closely and any necessary reactions are being taken. The company's primary aim is to safeguard the health and safety of its personnel and to ensure disturbance-free activities throughout the entire food chain. Disruption of production due to personnel becoming ill is a significant risk for the company, which is reduced by the expansion of the vaccination coverage. In addition to strict hygiene practices and compliance with guidelines issued by the authorities, the company has implemented numerous contingency measures of its own in response to the pandemic. The company assesses the need to gradually eliminate these measures in accordance with the changing situation in its different market areas.

Other business risks

In the food industry's long production chain, food safety is essential. However, the possibility of animal diseases cannot be fully excluded. Furthermore, the impact of possible international or regional food scandals on consumption behaviour cannot either be excluded.

African Swine Fever has increased strong price fluctuations within the international meat market. This has also affected HKScan's home markets. The avian flu detected in Denmark and several other European countries have weakened the export possibilities for poultry products outside the EU and increased the availability within Europe. New cases of avian flu will prolong the initiation of country-specific exports outside the EU. On the other hand, avian flu has also led to a significant decrease in poultry production in certain European countries. This causes, in part, unpredicted price fluctuations, the effects of which also extend to HKScan's home markets.

The international meat raw material market is more global than before, and the resulting changes within international trade relations between major meat import and export countries may cause significant price fluctuations to occur locally.

The discussion related to the climate change may also affect the consumer demand for meat products. Unexpected actions taken by pressure groups may impact business and consumer demand.
In addition, HKScan's potential involvement in juridical proceedings may pose risks.

The risks related to impairment of assets will increase and affect the financial position of the company if the Group is not able to improve its financial performance as planned. Due to the Group's improved profitability, the risk for breaching the financial covenants of loan agreements has clearly decreased.

## An information meeting for analysts and the media

HKScan will organise an information meeting related to the Interim Report for analysts, institutional investors and the media in the auditorium of the Hotel Haven (address: Eteläranta 16, Helsinki, Finland) on 4 November 2021 at 10 am. The event will be held in Finnish. The Interim Report will be presented by Tero Hemmilä, CEO, and Jyrki Paappa, CFO.

To arrange an investor call in English, please contact Heidi Hirvonen, SVP Communications, tel. +358 10 570 6072 or by email heidi.hirvonen@hkscan.com.

## Financial reports

HKScan's Financial Statements Bulletin for 2021 will be published on 10 February 2022.

Turku, 4 November 2021

HKScan Corporation
Board of Directors

### For further information

Tero Hemmilä, CEO, tel. +358 10 570 2012
Jyrki Paappa, CFO, tel. +358 10 570 2512
Heidi Hirvonen, SVP Communications, tel. +358 10 570 6072

Media contacts: HKScan Media Service Desk +358 (0)10 570 5700 or email: communications@hkscan.com

*At HKScan, we make life tastier – today and tomorrow. Our strategic target is to grow into a versatile food company. Our responsibly produced, delicious products are part of consumers' varied food moments – both every day and on special occasions. We have some 7,000 HKScan professionals applying more than 100 years of experience to make locally produced food. For us at HKScan, responsibility means continuous improvements and concrete actions throughout the food chain. As part of our Zero Carbon programme, we are targeting a carbon-neutral food chain from farms to consumers by the end of 2040. Our home markets cover Finland, Sweden, the Baltics and Denmark. Our strong product brands include HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose™. Through our strategic partnerships, we are also known for Kivikylän®, Tamminen® and Boltsi brands. HKScan is a publicly listed company, and in 2020, our net sales totalled nearly EUR 1.8 billion.*

The brands mentioned in the Interim Report - HK®, Kariniemen®, Scan®, Pärsons®, Rakvere®, Tallegg®, Rose™, Vietävä™ and Korv & Bread™- are registered trademarks of HKScan Group.

# Food that does good:
# Key figures of the Group's responsibility programme 2020

Key figures reported according to the situation at the end of the year unless otherwise mentioned. The base year for the responsibility programme is 2019.

| TARGETS | RESULTS 2020<br>Complemented with selected 1-9/2021 figures. |
|---|---|
| **Environment** | |
| Zero Carbon: carbon-neutral own production (Scope 1 & 2) by the end of 2025 | **Energy use 1-9/2021:**<br>**0.91 (1-9/2020: 0.88) MWh / sold product tonne**<br>Climate emissions from own production -57%,<br>52,000 (2019: 122,000) tonnes $CO_2e$ |
| Zero Carbon: carbon-neutral food chain from farms to consumers (Scope 1 - 3) by the end of 2040 | Climate emissions from the entire food chain<br>2.3 megatonnes $CO_2e$ |
| Reduce water usage by 25% in own production by the end of 2030 | **1-9/2021: 6.68 (1-9/2020: 6.98) $m^3$/ sold product tonne**<br>Water usage 6.95 (2019: 6.77) $m^3$/ sold product tonne |
| 100% recyclable packaging by the end of 2025 | 70% of packaging recyclable |
| 20% less packaging plastic by the end of 2025 | 7% less packaging plastic |
| 20% lower carbon footprint of packaging by the end of 2025 | We developed the reporting of packaging carbon footprints together with the packaging material suppliers |
| **Safe and healthy food** | |
| Annually 60% of our new and renewed products with increased nutritional quality | 44% (2019: 38) of our new and renewed products with increased nutritional quality |
| 100% of raw materials in line with our sustainable procurement principles by the end of 2025 | • We will update our principles of sustainable procurement in 2021<br>• 77% (2019: 75) of the suppliers committed to the Supplier Guidelines, excluding contract farmers<br>• 100% of animals purchased according to animal sourcing principles |
| Zero recalls | 1 recall |
| **Own community / farmers** | |
| Ensuring the continuity of local meat production:<br>• Implementation and further development of the Next Generation programme in Finland and Sweden | Next Generation programme conducted in Finland, 45 young farmers involved. In Sweden, the launch of a similar programme in the autumn 2020, 25 young farmers involved |
| 100% of raw materials from contract production in line with HKScan's new sustainable farming operating model by the end of 2030 | We developed our new operating model and piloted farming practices supporting sustainable development |
| **Own community / personnel** | |
| Continuous improvement in employee wellbeing | **Personnel absences 10/2020–9/2021: 6.4% (10/2019–9/2020: 6.1%)**<br>Personnel's willingness to promote HKScan as an employer (eNPS) 5 |
| Systematic work towards zero accidents | **Lost time accident frequency (LTIR)**<br>**10/2020–9/2021: 22.9 (10/2019–9/2020: 20.8) / million working hours**<br>Lost time accidents 21.0 (2019: 25.1) / million working hours |
| **Animal welfare** | |
| Zero animal welfare breaches in our operations | 1 (2019: 0) animal welfare breach |

# Consolidated Interim Report 1 January – 30 September 2021

## Consolidated income statement

| (EUR million) | | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|---|
| Net sales | | 446.8 | 438.3 | 1 323.6 | 1 308.1 | 1 781.0 |
| Cost of goods sold | 1. | -416.7 | -409.9 | -1 240.1 | -1 236.3 | -1 664.2 |
| Gross profit | | 30.1 | 28.4 | 83.6 | 71.8 | 116.8 |
| | | | | | | |
| Other operating items total | 1. | 0.8 | 0.3 | 4.2 | 3.2 | 1.8 |
| Sales and marketing costs | 1. | -10.9 | -8.8 | -34.8 | -30.5 | -41.3 |
| General administration costs | 1. | -12.3 | -12.2 | -42.8 | -40.8 | -56.0 |
| Operating profit | | 7.6 | 7.7 | 10.2 | 3.8 | 21.3 |
| | | | | | | |
| Financial income | | 0.5 | 0.5 | 2.1 | 1.7 | 2.2 |
| Financial expenses | | -3.8 | -3.1 | -13.6 | -9.9 | -13.2 |
| Share of profit/loss in associates and joint ventures | | 1.0 | 0.5 | 2.8 | 1.5 | 1.9 |
| Profit/loss before taxes | | 5.4 | 5.6 | 1.5 | -2.9 | 12.3 |
| | | | | | | |
| Income tax | | -1.8 | -1.8 | -3.5 | -3.5 | -7.5 |
| Profit/loss for the period | | 3.6 | 3.7 | -2.1 | -6.4 | 4.8 |
| | | | | | | |
| Profit/loss for the period attributable to: | | | | | | |
| Equity holders of the parent | | 2.9 | 3.0 | -4.1 | -8.2 | 1.2 |
| Non-controlling interests | | 0.7 | 0.7 | 2.0 | 1.8 | 3.6 |
| Total | | 3.6 | 3.7 | -2.1 | -6.4 | 4.8 |
| | | | | | | |
| Earnings per share calculated on profit attributable to equity holders of the parent: | | | | | | |
| EPS, undiluted, continuing operations, EUR/share | | 0.03 | 0.03 | -0.06 | -0.10 | -0.01 |
| EPS, diluted, continuing operations, EUR/share | | 0.03 | 0.03 | -0.06 | 0.10 | -0.01 |

# Consolidated statement of comprehensive income

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Profit/loss for the period | 3.6 | 3.7 | -2.1 | -6.4 | 4.8 |
| | | | | | |
| OTHER COMPREHENSIVE INCOME (after taxes): | | | | | |
| Items that may be subsequently reclassified to profit or loss | | | | | |
| Exchange differences on translating foreign operations | -0.6 | -0.8 | -1.3 | -1.5 | 2.8 |
| Cash flow hedging | 2.6 | 0.7 | 5.5 | -2.5 | -1.7 |
| Items that will not be reclassified to profit or loss | | | | | |
| Actuarial gains or losses | - | - | - | - | -0.3 |
| TOTAL OTHER COMPREHENSIVE INCOME | 1.9 | -0.1 | 4.2 | -3.9 | 0.8 |
| | | | | | |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 5.6 | 3.7 | 2.2 | -10.3 | 5.6 |
| | | | | | |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO: | | | | | |
| Equity holders of the parent | 4.8 | 2.9 | 0.1 | -12.1 | 1.9 |
| Non-controlling interests | 0.7 | 0.7 | 2.0 | 1.8 | 3.6 |
| Total | 5.6 | 3.7 | 2.2 | -10.3 | 5.6 |

# Consolidated balance sheet

| (EUR million) | Note | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|---|
| ASSETS | | | | |
| | | | | |
| Intangible assets | 2. | 144.2 | 143.7 | 148.0 |
| Tangible assets | 3.4 | 456.1 | 444.4 | 458.7 |
| Holdings | | 35.8 | 32.6 | 33.8 |
| Deferred tax asset | 5. | 37.8 | 41.8 | 40.9 |
| Other non-current assets | | 6.8 | 5.4 | 6.2 |
| TOTAL NON-CURRENT ASSETS | | 680.8 | 667.8 | 687.7 |
| | | | | |
| Inventories | 6. | 133.7 | 133.0 | 119.0 |
| Current receivables | | 129.9 | 126.4 | 122.4 |
| Cash and cash equivalents | | 9.3 | 15.2 | 46.8 |
| TOTAL CURRENT ASSETS | | 272.9 | 274.6 | 288.2 |
| | | | | |
| TOTAL ASSETS | | 953.7 | 942.4 | 975.9 |
| | | | | |
| EQUITY AND LIABILITIES | | | | |
| | | | | |
| EQUITY | | 325.2 | 313.0 | 329.1 |
| | | | | |
| Non-current loans, interest-bearing | 4. | 212.9 | 250.9 | 249.2 |
| Non-current liabilities, non-interest-bearing | | 62.3 | 61.5 | 69.1 |
| TOTAL NON-CURRENT LIABILITIES | | 275.1 | 312.4 | 318.3 |
| | | | | |
| Current loans, interest-bearing | 4. | 129.9 | 87.4 | 97.2 |
| Current liabilities, non-interest-bearing | | 223.5 | 229.5 | 231.3 |
| TOTAL CURRENT LIABILITIES | | 353.4 | 316.9 | 328.5 |
| | | | | |
| TOTAL EQUITY AND LIABILITIES | | 953.7 | 942.4 | 975.9 |

# Statement of changes in consolidated equity

| (EUR million) | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY ON 1 Jan. 2021** | **66.8** | **72.9** | **-0.8** | **215.4** | **25.9** | **10.3** | **-10.6** | **-4.8** | **-66.4** | **308.8** | **20.3** | **329.1** |
| Result for the financial period | - | - | - | - | - | - | - | - | -4.1 | -4.1 | 2.0 | -2.1 |
| Other comprehensive income (+) / expense (–) | | | | | | | | | | | | |
| Transl. diff. | - | - | - | - | - | - | -1.3 | - | - | -1.3 | - | -1.3 |
| Cash flow hedging | - | - | 5.5 | - | - | - | - | - | - | 5.5 | - | 5.5 |
| Actuarial gains or losses | - | - | - | - | - | - | - | - | - | - | - | - |
| Total other comprehensive income / expense | - | - | 5.5 | - | - | - | -1.3 | - | - | -4.2 | - | -4.2 |
| **Total compreh. income for the period** | **-** | **-** | **5.5** | **-** | **-** | **-** | **-1.3** | **-** | **-4.1** | **0.1** | **2.0** | **2.2** |
| Direct recognitions | - | - | - | - | - | - | - | - | 0.3 | 0.3 | - | 0.3 |
| Dividend distribution | - | - | - | - | - | - | - | - | -2.9 | -2.9 | -1.4 | -4.3 |
| Hybrid loan | - | - | - | - | - | - | - | - | -2.1 | -2.1 | - | -2.1 |
| **EQUITY ON 30 Sept. 2021** | **66.8** | **72.9** | **4.7** | **215.4** | **25.9** | **10.3** | **-11.9** | **-4.8** | **-75.1** | **304.3** | **20.9** | **325.2** |

| (EUR million) | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY ON 1 Jan. 2020** | **66.8** | **72.9** | **1.0** | **215.4** | **25.9** | **10.3** | **-13.4** | **-4.8** | **-66.2** | **307.9** | **17.2** | **325.1** |
| Result for the financial period | - | - | - | - | - | - | - | - | -8.2 | -8.2 | 1.8 | -6.4 |
| Other comprehensive income (+) / expense (–) | | | | | | | | | | | | |
| Transl. diff.- | - | - | - | - | - | - | -1.5 | - | - | -1.5 | - | -1.5 |
| Cash flow hedging | - | - | -2.5 | - | - | - | - | - | - | -2.5 | - | -2.5 |
| Actuarial gains or losses | - | - | - | - | - | - | - | - | - | - | - | - |
| Total other comprehensive income / expense | - | - | -2.5 | - | - | - | -1.5 | - | - | -3.9 | - | -3.9 |
| **Total comprehensive income for the period** | **-** | **-** | **-2.5** | **-** | **-** | **-** | **-1.5** | **-** | **-8.2** | **-12.1** | **1.8** | **-10.3** |
| Direct recognitions | - | - | - | - | - | - | - | - | 0.9 | 0.9 | - | 0.9 |
| Dividend distribution | - | - | - | - | - | - | - | - | - | - | -0.7 | -0.7 |
| Acquisition of subsidiary | - | - | - | - | - | - | - | - | - | - | 0.1 | 0.1 |
| Hybrid loan | - | - | - | - | - | - | - | - | -2.1 | -2.1 | - | -2.1 |
| **EQUITY ON 30 Sept. 2020** | **66.8** | **72.9** | **-1.5** | **215.4** | **25.9** | **10.3** | **-14.9** | **-4.8** | **-75.6** | **294.6** | **18.4** | **313.0** |

*COLUMNS: 1. Share capital, 2. Share premium reserve, 3. Revaluation reserve, 4. Reserve for invested unrestricted equity (RIUE), 5. Hybrid loan, 6. Other reserves, 7. Translation differences, 8. Treasury shares, 9. Retained earnings, 10. Equity holders of the parent, 11. Non-controlling interests, 12. Total*

# Cash flow statement

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Cash flow before change in net working capital | 23.1 | 23.5 | 52.3 | 53.1 | 78.7 |
| Change in net working capital | -33.2 | -15.9 | -24.5 | -21.0 | -1.3 |
| Financial items and taxes | -5.4 | -4.8 | -15.3 | -8.8 | -13.7 |
| CASH FLOW FROM OPERATING ACTIVITIES | -15.6 | 2.8 | 12.5 | 23.3 | 63.7 |
| | | | | | |
| Cash flow from investing activities | -8.3 | -8.0 | 47.4 | -71.1 | -85.1 |
| CASH FLOW AFTER INVESTING ACTIVITIES | -23.9 | -5.2 | 59.9 | -47.9 | -21.4 |
| | | | | | |
| Hybrid loan | -2.1 | -2.1 | -2.1 | -2.1 | -2.1 |
| Change in loans | 3.0 | 0.5 | -90.6 | 28.7 | 32.7 |
| Dividends paid | - | - | -4.3 | -0.7 | -0.7 |
| CASH FLOW FROM FINANCING ACTIVITIES | 0.9 | -1.6 | -97.0 | 26.0 | 30.0 |
| | | | | | |
| NET CASH FLOW | -23.0 | -6.8 | -37.1 | -21.9 | 8.6 |
| | | | | | |
| Cash and cash equivalents at beginning of period | 32.8 | 22.0 | 46.8 | 37.5 | 37.5 |
| Translation differences | -0.4 | 0.0 | -0.4 | -0.4 | 0.6 |
| Cash and cash equivalents at end of period | 9.3 | 15.2 | 9.3 | 15.2 | 46.8 |

# Financial indicators

| (EUR million) | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|
| Earnings per share (EPS), undiluted, EUR | -0.06 | -0.10 | -0.01 |
| Earnings per share (EPS), diluted, EUR | -0.06 | -0.10 | -0.01 |
| Equity per share, EUR | 3.13 | 3.04 | 3.19 |
| Equity ratio, % | 34.1 | 33.2 | 33.7 |
| Adjusted average number of outstanding shares, mill. | 97.0 | 97.0 | 97.0 |
| Gross capital expenditure on PPE, EUR mill. | 29.7 | 68.9 | 83.5 |
| Additions in right-of-use assets, EUR mill. | 86.8 | 3.7 | 7.2 |
| Depreciation and impairment, EUR mill. | 44.2 | 49.2 | 56.7 |
| Employees, average | 6,960 | 6,788 | 6,741 |

# Calculation of financial indicators

HKScan discloses alternative performance measures (APM) to give relevant information to stakeholders. Disclosed APMs are also used in steering the company. Items affecting comparability and related APMs are disclosed to better reflect the operational business performance and to enhance comparability between periods.

| | | |
|---|---|---|
| Return on capital employed (ROCE) before tax, last 12 months (%) | Profit before tax + interest and other financial expenses / Balance sheet total – non-interest-bearing liabilities (average) | x 100 |
| Equity ratio (%) | Total equity / Balance sheet total – advances received | x 100 |
| Net gearing ratio (%) | Net interest-bearing liabilities / Total equity | x 100 |
| Earnings per share (EPS)* | Profit for the period attributable to equity holders of the parent / Average number of outstanding shares during period | |
| Equity per share | Equity attributable to holders of the parent / Number of outstanding shares at end of period | |
| Market capitalisation | The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year | |
| Cash flow before debt service | Cash flow after investing activities before financing activities - financial items | |
| Employee numbers | Average of workforce figures calculated at the end of calendar months | |
| Items affecting comparability | One-time charges, which are not related to the normal continuing operations and materially affect the company's finances. Examples of such expenses are: capacity adjustments (restructuring), redundancy, legal costs relating to restructuring or similar, one-time expenses related to efficiency/reorganisation programmes, significant compensations or penalties paid out due to a legal verdict or settlement, transaction fees/expenses related to business acquisitions (consultation, advisory, legal, due diligence, registration etc.) and gains/losses of business disposals. | |
| Comparable EBIT | Operating profit – items affecting comparability | |
| Comparable profit before taxes | Profit before taxes – items affecting comparability | |
| Comparable earnings per share (EPS)* | Profit for the period attributable to equity holders of the parent – items affecting comparability / Average number of outstanding shares during period | |
| Interest-bearing net debt | Interest-bearing debt – cash and bank | |

** When calculating the earnings per share, interest and issue costs of the hybrid loan, net of tax, have been reduced from profit for the period.*

# Notes to the Interim report

## Accounting policies

HKScan Corporation's Interim report for 1 January–30 September 2021 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the Interim report as in the annual financial statements for 2020. Due to the rounding of the figures to the nearest million euros in the Interim report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2020. The Interim report is unaudited.

## Analysis by segment

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| NET SALES | | | | | |
| - Finland | | | | | |
| Sales, goods | 188.0 | 189.3 | 560.2 | 561.1 | 769.1 |
| Sales, services | 0.9 | 0.7 | 2.4 | 2.3 | 3.2 |
| - Sweden | | | | | |
| Sales, goods | 170.7 | 162.2 | 503.6 | 477.6 | 662.1 |
| Sales, services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Baltics | | | | | |
| Sales, goods | 42.9 | 44.0 | 125.5 | 131.7 | 174.6 |
| Sales, services | 0.2 | 0.1 | 0.3 | 0.3 | 0.4 |
| - Denmark | | | | | |
| Sales, goods | 44.0 | 42.0 | 131.6 | 135.1 | 171.5 |
| Sales, services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| Group total | 446.8 | 438.3 | 1 323.6 | 1 308.1 | 1 781.0 |
| | | | | | |
| EBIT | | | | | |
| - Finland | 3.1 | 1.4 | 6.3 | -4.3 | 10.7 |
| - Sweden | 6.9 | 5.9 | 14.2 | 11.6 | 19.1 |
| - Baltics | -1.1 | 1.8 | -0.9 | 3.4 | 3.7 |
| - Denmark | 0.1 | 0.4 | -1.0 | 1.2 | 1.0 |
| | | | | | |
| Segments total | 9.0 | 9.5 | 18.5 | 11.8 | 34.4 |
| | | | | | |
| Group administration costs | -1.3 | -1.8 | -8.3 | -8.0 | -13.2 |
| Group total | 7.6 | 7.7 | 10.2 | 3.8 | 21.3 |
| | | | | | |
| INVESTMENTS | | | | | |
| - Finland | | | | | |
| Gross capital expenditure on PPE | 3.4 | 2.3 | 12.0 | 48.9 | 54.8 |
| Additions in right-of-use assets | 0.8 | 0.3 | 70.2 | 1.4 | 3.0 |
| Investments total | 4.2 | 2.6 | 82.2 | 50.3 | 57.8 |
| - Sweden | | | | | |
| Gross capital expenditure on PPE | 2.4 | 4.0 | 10.7 | 11.6 | 17.4 |
| Additions in right-of-use assets | 0.1 | 0.1 | 8.4 | 1.0 | 1.7 |
| Investments total | 2.5 | 4.1 | 19.1 | 12.6 | 19.1 |

| | | | | | |
|---|---|---|---|---|---|
| - Baltics | | | | | |
| Gross capital expenditure on PPE | 2.6 | 0.8 | 4.7 | 3.6 | 4.9 |
| Additions in right-of-use assets | 7.3 | 0.3 | 7.7 | 0.7 | 0.9 |
| Investments total | 9.9 | 1.1 | 12.4 | 4.2 | 5.8 |
| - Denmark | | | | | |
| Gross capital expenditure on PPE | 0.0 | 1.1 | 2.3 | 4.8 | 6.4 |
| Additions in right-of-use assets | 0.2 | 0.0 | 0.5 | 0.7 | 1.6 |
| Investments total | 0.2 | 1.1 | 2.8 | 5.5 | 8.0 |
| Total | 16.8 | 9.0 | 116.5 | 72.6 | 90.7 |
| | | | | | |
| AVERAGE NUMBER OF EMPLOYEES | | | | | |
| - Finland | | | 2 788 | 2 730 | 2 684 |
| - Sweden | | | 1 952 | 1 896 | 1 899 |
| - Baltics | | | 1 565 | 1 522 | 1 528 |
| - Denmark | | | 655 | 640 | 629 |
| Total | | | 6 960 | 6 788 | 6 741 |

# Notes to the income statement

## 1. Items affecting comparability

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| **Comparable EBIT** | **7.7** | **8.2** | **7.2** | **4.9** | **17.0** |
| Termination of employment, Baltics 1) | -0.2 | - | -0.2 | - | - |
| Termination of employment, Group management 1) | 0.2 | - | 0.2 | - | - |
| Impairment of assets, Finland 2) 3) | - | - | 3.0 | - | 3.1 |
| Impairment of assets, Baltics 4) | - | - | - | -0.3 | -0.3 |
| Impairment of assets, Denmark 2) 3) | - | - | - | - | 4.1 |
| Impairment of associated company balances, Sweden 1) 2) 4) | - | - | - | -0.1 | 0.1 |
| Legal dispute and settlement, Denmark 1) 4) | - | -0.6 | - | -0.6 | -0.7 |
| Energy tax provision, Denmark 1) 4) | - | - | - | - | -3.5 |
| Environmental provision, Finland 2) | - | - | - | - | 0.9 |
| Gain on sale of property, Finland 2) | - | - | - | - | 0.6 |
| **EBIT** | **7.6** | **7.7** | **10.2** | **3.8** | **21.3** |

1) Included in the Income Statement in the item “General administration and sales and marketing costs”

2) Included in the Income Statement in the item “Cost of goods sold”

3) Assets impairment to match their book value with estimated future profit

4) Included in the Income Statement in the item ”Other operating items total”

# Notes to the statement of financial position

## 2. Changes in intangible assets

| (EUR million) | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|
| Opening balance | 148.0 | 136.4 | 136.4 |
| Translation differences | -1.1 | -1.0 | 3.4 |
| Additions | 0.8 | 4.9 | 5.4 |
| Disposals | -0.7 | - | 0.0 |
| Depreciation and impairment | -3.4 | -3.2 | -4.3 |
| Reclassification between items | 0.6 | 6.5 | 7.1 |
| Closing balance | 144.2 | 143.7 | 148.0 |

## 3. Changes in tangible assets

| (EUR million) | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|
| Opening balance | 458.7 | 439.1 | 439.1 |
| Translation differences | -1.1 | -1.2 | 2.3 |
| Additions | 115.7 | 67.7 | 85.3 |
| Disposals | -75.8 | -8.7 | -8.4 |
| Depreciation and impairment | -40.8 | -46.1 | -52.5 |
| Reclassification between items | -0.6 | -6.5 | -7.1 |
| Closing balance | 456.1 | 444.4 | 458.7 |

# 4. Right-of-use assets and lease liabilities

| (EUR million) | Land and Water | Buildings and structures | Machinery and equipment | Total | Lease liabilities |
|---|---|---|---|---|---|
| Opening balance on 1.1.2021 | 2.2 | 15.6 | 15.6 | 33.3 | 35.6 |
| Translation differences | - | -0.1 | 0.0 | -0.1 | -0.1 |
| Additions | - | 83.3 | 3.6 | 86.8 | 86.9 |
| Disposals | - | - | 0.0 | - | - |
| Depreciation for the financial period | -0.1 | -5.4 | -4.0 | -9.5 | - |
| Payments | - | - | - | - | -8.3 |
| Closing balance on 30 Sept. 2021 | 2.1 | 93.4 | 15.1 | 110.6 | 114.1 |

| (EUR million) | Land and Water | Buildings and structures | Machinery and equipment | Total | Lease liabilities |
|---|---|---|---|---|---|
| Opening balance on 1.1.2020 | 10.0 | 18.7 | 15.7 | 44.3 | 46.3 |
| Translation differences | - | -0.1 | 0.0 | -0.1 | -0.1 |
| Additions | 0.3 | 0.7 | 2.8 | 3.7 | 3.7 |
| Disposals | -7.7 | - | - | -7.7 | -7.9 |
| Depreciation for the financial period | -0.4 | -3.4 | -3.8 | -7.6 | - |
| Other changes | - | -0.4 | 0.0 | -0.4 | - |
| Payments | - | - | - | - | -7.7 |
| Closing balance on 30 Sept. 2020 | 2.2 | 15.4 | 14.7 | 32.3 | 34.3 |

| (EUR million) | 7-9/2021 | 7-9/2020 | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|---|---|
| Depreciation expense of right-of-use assets | -3.4 | -2.5 | -9.5 | -7.6 | -10.1 |
| Interest expense on lease liabilities | -1.2 | -0.3 | -3.0 | -0.9 | -1.2 |
| **Total amounts recognised in profit or loss** | -4.6 | -2.8 | -12.5 | -8.5 | -11.3 |

# 5. Deferred tax assets

Out of the total EUR 37.8 million, EUR 30.2 million of the deferred tax asset arise from adopted losses, postponed depreciations and non-deductible interest expenses in Group's operations in Finland. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

The company has ability to mitigate the expiration risk of the tax losses by deferring use of tax depreciation. A gradual reduction of the asset takes place as the Turnaround programme takes effect.

Deferred tax assets are assumed to be used in less than 10 years. Consideration is based on current three years business plan of which implementation has so far proceeded well. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2022 and beyond. Covid-19 has only minor impact on the expected period of use. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Utilisation of postponed tax depreciations and non-deducted interest expense do not have a time limit. Unrecognized Finnish deferred tax asset at the end of September 2021 was EUR 18.2 million.

# 6. Inventories

| (EUR million) | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|
| Materials and supplies | 70.9 | 68.4 | 59.8 |
| Semi-finished products | 4.9 | 4.8 | 4.6 |
| Finished products | 50.1 | 52.1 | 47.5 |
| Other inventories | 0.5 | 0.4 | 0.5 |
| Inventories, advance payments | 1.5 | 1.8 | 1.5 |
| Biological assets | 5.8 | 5.5 | 5.2 |
| **Total inventories** | 133.7 | 133.0 | 119.0 |

# Derivative instrument liabilities

| (EUR million) | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|
| Nominal values of derivative instruments | | | |
| | | | |
| Foreign exchange derivatives | 71.4 | 62.2 | 59.2 |
| Interest rate derivatives | 74.4 | 98.1 | 99.9 |
| Electricity derivatives | 12.2 | 13.1 | 13.4 |
| | | | |
| Fair values of derivative instruments | | | |
| | | | |
| Foreign exchange derivatives | 0.1 | 0.4 | -0.3 |
| Interest rate derivatives | -1.6 | -4.2 | -3.5 |
| Electricity derivatives | 4.9 | -2.3 | -1.5 |

## Consolidated other contingent liabilities

| (EUR million) | 30 Sept. 2021 | 30 Sept. 2020 | 31 Dec. 2020 |
|---|---|---|---|
| Debts secured by pledges or mortgages | | | |
| - loans from financial institutions | - | 74.3 | 84.3 |
| | | | |
| On own behalf | | | |
| - Mortgages given | - | 37.7 | 37.7 |
| | | | |
| On behalf of others | | | |
| - guarantees and other commitments | 6.7 | 7.0 | 8.0 |
| | | | |
| Other contingencies | | | |
| Leasing and rental commitments | 0.2 | 0.4 | 0.2 |

# The fair value determination principles applied by the group on financial instruments measured at fair value

## Derivatives

The fair values of currency derivatives are determined by using the market prices for contracts of equal duration at the reporting date. The fair values of interest rate swaps are determined using the net present value method supported by the market interest rates at the reporting date. The fair value of commodity derivatives is determined by using publicly quoted market prices.

| (EUR million) | 30 Sept. 2021 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| Financial assets recognised at fair value through profit or loss | | | | |
| - Trading securities | - | - | - | - |
| - Trading derivatives | | | | |
| - Interest rate swaps | - | - | - | - |
| - Foreign exchange derivatives | 0.2 | - | 0.2 | - |
| - Commodity derivatives | 4.9 | - | 4.9 | - |
| of which subject to cash flow hedging | 4.9 | - | 4.9 | - |
| **Total** | **5.1** | - | **5.1** | **-** |
| | | | | |
| Liabilities measured at fair value | | | | |
| Financial liabilities recognised at fair value through profit or loss | | | | |
| -Trading derivatives | | | | |
| - Interest rate swaps | -1.6 | - | -1.6 | - |
| - Foreign exchange derivatives | -0.1 | - | -0.1 | - |
| - Commodity derivatives | 0.0 | - | 0.0 | - |
| of which subject to cash flow hedging | 0.0 | - | 0.0 | - |
| **Total** | **-1.7** | **-** | **-1.7** | **-** |

| (EUR million) | 30 Sept. 2020 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| Financial assets recognised at fair value through profit or loss | | | | |
| - Trading securities | - | - | - | - |
| - Trading derivatives | | | | |
| - Interest rate swaps | - | - | - | - |
| - Foreign exchange derivatives | 0.4 | - | 0.4 | - |
| - Commodity derivatives | 0.1 | - | 0.1 | - |
| of which subject to cash flow hedging | 0.1 | - | 0.1 | - |
| **Total** | 0.5 | - | 0.5 | **-** |
| | | | | |
| Liabilities measured at fair value | | | | |
| Financial liabilities recognised at fair value through profit or loss | | | | |
| -Trading derivatives | | | | |
| - Interest rate swaps | -4.2 | - | -4.2 | - |
| - Foreign exchange derivatives | -0.1 | - | -0.1 | - |
| - Commodity derivatives | -2.4 | - | -2.4 | - |
| of which subject to cash flow hedging | -2.4 | - | -2.4 | - |
| **Total** | -6.7 | - | -6.7 | **-** |

The fair values of Level 1 instruments are based on prices quoted on the market. The fair values of Level 2 instruments are to a significant degree based on inputs other than the quoted prices included in Level 1 but nonetheless observable for the relevant asset or liability either directly or indirectly (derived from prices). In determining the fair value of these instruments, the Group uses generally accepted measurement models, the inputs of which are nonetheless to a considerable degree based on observable market information. The fair values of Level 3 instruments are based on inputs which are not based on observable market information; rather to a significant degree on management estimates and measurement models generally acceptable for their use.

## Business transactions with related parties

| (EUR million) | 1-9/2021 | 1-9/2020 | 2020 |
|---|---|---|---|
| Sales to associates | 6.7 | 7.5 | 9.6 |
| Purchases from associates | 26.4 | 25.6 | 34.0 |
| Trade and other receivables from associates | 1.2 | 1.0 | 1.2 |
| Trade and other payables to associates | 2.3 | 3.2 | 2.6 |