HKSCAN

Half Year Financial Report 2023

HKScan's Half Year Financial Report 1 January – 30 June 2023

HKScan's net sales continued to grow and EBIT strengthened clearly

April-June 2023

- HKScan's net sales from continuing operations increased by 3.8 per cent to EUR 473.8 (456.3) million. Sales prices were higher than in the comparison period, leading to an increase in net sales, while sales volumes remained at the comparison period's level.
- The Group's EBIT from continuing operations totalled EUR 8.4 (3.1) million.
- The Group's comparable EBIT from continuing operations was EUR 8.3 (3.3) million. Production costs continued to rise. The cost increase was covered by sales price increases. Consumer demand improved slightly after a weak start to the year. Profitability improved as a result of increased production efficiency and cost savings.
- The comparable EBIT of the Business Unit Finland was EUR 4.9 (1.4) million.
- The comparable EBIT of the Business Unit Sweden was EUR 4.1 (4.9) million.
- The comparable EBIT of the Business Unit Denmark was EUR 1.1 (0.3) million.
- Cash flow from operating activities was EUR 19.8 (22.4) million. Cash flow was down from the comparison period due to increased financial expenses.

January-June 2023

- HKScan's net sales from continuing operations increased by 9.3 per cent to EUR 931.4 (852.2) million. In the review period, sales prices were significantly higher than in the comparison period, as higher costs due to strong inflation had been passed on to sales prices in 2022.
- The Group's EBIT from continuing operations totalled EUR 8.4 (-1.3) million.
- The Group's comparable EBIT from continuing operations was EUR 6.5 (-0.7) million. The high cost level caused by exceptional inflation continued in January-June. Sales price increases implemented in 2022 covered the cost increase. Profitability improved as a result of increased production efficiency and cost savings.
- The comparable EBIT of the Business Unit Finland was EUR 5.0 (0.2) million.
- The comparable EBIT of the Business Unit Sweden was EUR 3.9 (5.1) million.
- The comparable EBIT of the Business Unit Denmark was EUR 2.3 (0.8) million.
- Cash flow from operating activities was EUR 14.1 (-12.0) million. Cash flow improved from the comparison period due to significantly slower growth in working capital.
- Interest-bearing net debt was EUR 357.9 (346.3) million and net gearing 137.0 (107.4) per cent.

The figures in parentheses refer to the same period in the previous year, unless otherwise mentioned. The figures are unaudited.

As of 1 January 2023, HKScan has changed accounting policy for spare parts inventory retrospectively. This change has an impact on the inventory value, equity and deferred tax liabilities on the balance sheet and key figures (Return on capital employed and Net gearing). Quarterly and full-year financial information for 2022 has been restated accordingly. Additional information about the impact is disclosed in the accounting policies.

Outlook for 2023

HKScan's guidance for 2023 remains unchanged.

In 2023, HKScan expects the Group's comparable EBIT from continuing operations to improve compared to 2022. The full-year performance will be significantly affected by inflation and the development of consumer purchasing power in the company's home markets. On the other hand, in the beginning of 2023, energy and logistics costs are on a more moderate level than in the peak of 2022.

Key figures, net sales, continuing operations

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Net sales	473.8	456.3	931.4	852.2	1 833.8
Finland	232.7	213.4	449.3	396.0	868.3
Sweden	182.0	185.4	361.6	349.4	745.1
Denmark	59.1	57.4	120.5	106.8	220.4

Key figures, EBIT, continuing operations

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
EBIT	8.4	3.1	8.4	-1.3	10.1
- % of net sales	1.8	0.7	0.9	-0.2	0.5
Comparable EBIT	8.3	3.3	6.5	-0.7	9.7
- % of net sales	1.7	0.7	0.7	-0.1	0.5
Comparable EBIT, Finland	4.9	1.4	5.0	0.2	3.4
- % of net sales	2.1	0.7	1.1	0.1	0.4
Comparable EBIT, Sweden	4.1	4.9	3.9	5.1	16.6
- % of net sales	2.2	2.6	1.1	1.4	2.2
Comparable EBIT, Denmark	1.1	0.3	2.3	0.8	1.4
- % of net sales	1.9	0.5	1.9	0.7	0.6

Key figures, other

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
EBITDA, continuing operations	20.0	15.0	31.9	22.8	55.8
Profit before taxes, continuing operations	1.4	2.7	-4.8	-3.5	-0.9
- % of net sales	0.3	0.6	-0.5	-0.4	0.0
Profit for the period, continuing operations	-0.6	1.4	-6.9	-5.0	-4.9
- % of net sales	-0.1	0.3	-0.7	-0.6	-0.3
EPS, EUR, continuing operations	-0.02	0.00	-0.09	-0.07	-0.11
Comparable EPS, EUR, continuing operations	-0.02	0.00	-0.11	-0.06	-0.11
Cash flow from operating activities, incl. discontinued operations	19.8	22.4	14.1	-12.0	18.9
Cash flow after investing activities, incl. discontinued operations	10.9	15.2	-1.9	-23.3	-21.9
Return on capital employed (ROCE) before taxes, %, incl. discontinued operations			-2.0	0.0	-6.4
Interest-bearing net debt			357.9	346.3	347.2
Net gearing, %			137.0	107.4	121.6

HKScan's CEO Juha Ruohola

HKScan's net sales from continuing operations increased by 3.8 per cent to EUR 473.8 (456.3) million in the second quarter. The Group's April-June EBIT from continuing operations totalled EUR 8.4 (3.1) million and comparable EBIT was EUR 8.3 (3.3) million. Comparable EBIT improved in Finland and Denmark in particular but was below the comparison period in Sweden.

As a result of sales price increases, HKScan's January-June net sales from continuing operations increased by 9.3 per cent to EUR 931.4 (852.2) million. Net sales increased in all the company's home markets during the first half of the year. The Group's EBIT from continuing operations improved from the comparison period to EUR 8.4 (-1.3) million, and the comparable EBIT was EUR 6.5 (-0.7) million.

Inflation continued to rise in January-June, despite the stabilisation of energy prices. The costs of raw materials, services and other production inputs have risen sharply over the last year and a half. Cost levels were also pushed up by the spring 2023 wage settlements in all of HKScan's home markets. In addition, the rise in market interest rates has continued, bringing additional costs not only to the entire value chain but also to consumers. Although consumer demand improved slightly after a weak start to the year, the situation has affected consumer demand for HKScan's products and the sales mix. The change in consumer demand had a negative impact on EBIT, especially in Sweden.

HKScan's measures to improve cost efficiency and save costs have continued throughout the first half of the year and have improved the EBIT in the review period. We expect annual cost savings from our previously reported investments and other development measures to total approximately EUR 12.6 million when completed during 2023 and 2024.

While the trend in the EBIT improvement is on the right track, the profitability of HKScan's continuing operations is not satisfactory, and improving profitability remains our key priority. The aim is to continue to minimise negative impacts on the company's profit development and to ensure it remains on target through tight cost management, production efficiency improvements, optimisation of the product portfolio in response to changes in consumer demand and commercial activities.

To increase financial flexibility, HKScan constantly assesses the position of each business within the Group. An important step in improving HKScan's profitability and strengthening its balance sheet is the progress of the divestment process of the Baltic business following the approval of the Estonian Competition Authority at the end of July 2023 for AS Maag Grupp to acquire HKScan's Baltic businesses. HKScan and AS Maag Grupp, the acquirer of the businesses, intend to close the transaction in the third quarter of 2023. In connection with the transaction, the buyer has committed to certain post-closing obligations. The Latvian Competition Authority already approved the transaction unconditionally in February.

In the first half of 2023, HKScan has advanced its responsibility programme and Zero Carbon climate plan in its businesses. For the third year in a row, HKScan's climate work was recognised in the Financial Times' European Climate Leaders list. The company works determinedly to improve safety at work, with a particular focus on promoting a proactive safety culture and continuous safety improvement. In the review period, HKScan continued, among other things, to prepare for the ISO 45001 occupational health and safety standard. The aim is to have all the company's production units ISO 45001 certified by the end of 2025.

Key events in April-June 2023

Investing in profitability and adding value

Following change negotiations conducted in March-April, HKScan decided to implement a EUR 4.6 million development investment in its Rauma unit to improve profitability and competitiveness. The investment-related reorganisation of operations and adjustment of staffing levels will result in the reduction of up to 35 jobs in the Rauma poultry cutting department and changes to more than 200 jobs. With the investment and related development measures, HKScan aims to achieve total annual savings of around EUR 3 million in Finland, which are expected to be realised after the completion of the investment in the second half of 2024 at the latest.

In addition, HKScan continued to make investments to improve profitability and increase added value in several of its production units in Finland, Sweden and Denmark.

Strategy

HKScan’s long-term strategic target is to grow into a versatile food company. In the current exceptional and rapidly changing operating environment, the company is focusing on strengthening its financial base and improving the profitability of its core business. HKScan’s core business includes meat, processed meat products and ready-made foods, such as meals, meal components and snacks.

Advancing the long-term strategy will require HKScan to achieve a stronger balance sheet. To increase financial flexibility, the company continuously assesses the position of each business within the Group. Increasing productivity in all the business processes is important.

Within its financial resources, HKScan is looking for new growth and actively pursuing new business opportunities promoting its strategy. Partnerships offer HKScan the opportunity to move into new business areas quickly and flexibly.

HKScan wants to grow in its core business by increasing the added value of its products and strengthening the value creation capacity of its own brands. The aim is to grow in product categories that make everyday life easier for consumers, such as meals, meal components and snacks. The aim is also to grow in poultry products and new product categories and to strengthen in growing and new sales channels. HKScan wants to renew commercially and strengthen its relationship with consumers through its trusted brands.

Building responsibility as a value-creating basis for business plays a key role in creating differentiating value in the market. HKScan’s responsibility work focuses on the business needs and the expectations and requirements of key stakeholders. HKScan continues its goal-oriented climate work through its Zero Carbon programme.

Responsibility

HKScan continued to prepare for the EU's Corporate Sustainability Reporting Directive (CSRD). The company updated its responsibility materiality analysis and started defining its climate impacts in line with the new standards.

HKScan’s climate work was recognised in the Financial Times' European Climate Leaders list for the third year in a row. The top 500 companies on the list have reduced emissions from their own production in relation to net sales between 2016 and 2021, reported transparently on their climate impacts and committed to science-based climate targets or to setting them.

Zero Carbon

HKScan promoted its Zero Carbon climate plan determinedly. The company developed digital data collection on the climate impacts of the value chain. In Sweden, the Agrosfär tool for collecting climate data was launched for beef producers participating in the company's Gårdsinitiativet project, and in Finland the Zero Carbon questionnaire was further developed. HKScan uses digital climate tools to obtain information on the climate impact of its contract farmers and to help farms target their climate actions on the most impactful issues.

HKScan continued to work closely with 80 pilot farms in Finland, Sweden and Denmark to promote more climate-friendly meat production. During the 2023 summer growing season, HKScan is working with the pilot farms to explore, for example, how to improve carbon sequestration in fields. Based on the studies and collected data, the company makes recommendations to its contract farmers.

In Sweden, HKScan continues its close cooperation in climate work with the Hagainitiativet community. In the spring, Hagainitativet published a joint climate report for 2022 for its member companies.

Safety First

HKScan works in a goal-oriented way towards zero accidents at work through its Safety First policy, with a particular focus on promoting a proactive safety culture and continuous improvement. The company continued its preparation for ISO 45001 occupational health and safety standard by surveying current practices in the Finnish production units. In Denmark, a similar analysis was carried out early in the year. HKScan aims to have all its units ISO 45001 certified by the end of 2025.

In July, after the review period, a serious work-related accident occurred at HKScan's Baltic logistics centre, resulting in the death of an HKScan employee. Official investigations into the accident and internal investigations are ongoing. Employees have been provided with crisis support.

Other responsibility projects

In Finland, HKScan participated in a study by the Food and Drink Industries' Federation (ETL) to identify the main environmental impacts of the food industry and find ways to reduce them. In addition, HKScan launched an animal welfare project in Finland to study the behaviour of bulls using video imaging and artificial intelligence.

In Sweden, HKScan is a member of the Svenska plattformen för riskgrödor, a working group promoting the responsible use of soy and palm oil. In the spring, the group announced stricter criteria for responsible soy and palm oil. HKScan has committed to the criteria together with other major food companies.

Group net sales and EBIT

April–June

Net sales

HKScan's net sales from continuing operations increased by 3.8 per cent to EUR 473.8 (456.3) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 17.1 million. Net sales increased in the Business Units Finland and Denmark, while in Sweden it decreased due to the exchange rate change. Growth was particularly strong in the food service channel, with an 8 per cent increase in sales. Retail sales increased clearly in Finland and were at the comparison period's level in Denmark. In Sweden, retail sales increased at comparable exchange rates. Sales prices were higher than in the comparison period, leading to an increase in net sales, while sales volumes remained at the comparison period's level.

EBIT

HKScan's EBIT from continuing operations totalled EUR 8.4 (3.1) million. The comparable EBIT from continuing operations was EUR 8.3 (3.3) million. The negative impact of the exchange rate change of the Swedish krona on EBIT was EUR 0.4 million.

Items affecting comparability of EUR 0.1 (-0.2) million were recorded in continuing operations. Items affecting comparability are described in more detail in the Tables section of this report.

The cost level remained high in April-June 2023. In addition to high raw material and external service costs, general wage increases with one-off items increased costs. Energy prices were down from the comparison period. Consumer demand, weakened in the early part of the year, strengthened slightly in April-June in Finland and Sweden, but focused particularly on lower-priced products. Thanks to commercial measures, such as sales promotions, sales volumes remained at the comparison period's level. HKScan's production efficiency measures and cost savings improved the EBIT in the review period.

January–June

Net sales

HKScan's net sales from continuing operations increased by 9.3 per cent to EUR 931.4 (852.2) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 29.5 million. Net sales increased in all the home markets and sales channels due to the sales price increases implemented in 2022. Food service sales increased by 15 per cent. In Denmark, retail sales grew by 15 per cent and sales of value-added products continued to grow. Retail sales value also grew in Finland and Sweden. Sales volumes remained at the comparison period's level.

EBIT

HKScan's EBIT from continuing operations totalled EUR 8.4 (-1.3) million. The comparable EBIT from continuing operations was EUR 6.5 (-0.7) million. The negative effect of the exchange rate change of the Swedish krona on EBIT was EUR 0.4 million.

Items affecting comparability of EUR 1.9 (-0.6) million were recorded in continuing operations. Items affecting comparability are described in more detail in the Tables section of this report.

Exceptionally high cost inflation was gradually offset by sales price increases in 2022. In January-June 2023, high cost inflation continued, particularly for raw materials and external services. The change in consumer demand weakened EBIT in the first half of the year, especially in Finland and Sweden. Consumer demand improved slightly towards the end of the review period but focused in particular on lower-priced products. HKScan's production efficiency measures and cost savings improved the EBIT in the period under review.

Balance sheet, cash flow and financing

At the end of June, HKScan's balance sheet total was EUR 948.0 (1002.3) million. The Group's interest-bearing debt at the end of June was EUR 392.6 (362.0) million including an IFRS 16 lease liability of EUR 102.6 (109.5) million. The company's net debt increased from the comparison period by EUR 11.6 million to EUR 357.9 (346.3) million. From the turn of the year, the seasonal growth in the net debt was EUR 10.7 million. HKScan's net gearing ratio was 137.0 (107.4) per cent. The impact of the IFRS 16 lease liability on the net gearing ratio was 39.2 percentage points.

At the end of June 2023, the company had on 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 per cent 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 company intends to redeem the hybrid loan in 2024.

During the review period, the company agreed to extend the maturity of the EUR 100.0 million credit facility, EUR 45.0 million additional credit facility and EUR 39.5 million bank loan to July 2024. The Group's liquidity position was satisfactory. The EUR 200 million commercial paper programme had been drawn to the amount of EUR 10.0 (52.0) million. Committed credit facilities at the end of June 2023 stood at EUR 145.0 (100.0) million and had been drawn to the amount of EUR 135.0 (50.0) million.

In April-June, net financial expenses from continuing operations were EUR -7.4 (-2.9) million and in January-June EUR -14.6 (-6.0) million. The increase in net financial expenses was due to the general rise of interest rates and the arrangement costs of the loans. Cash flow from operating activities in April-June was EUR 19.8 (22.4) million and in January-June EUR 14.1 (-12.0) million. Cash flow after investments in April-June was EUR 10.9 (15.2) million and totalled EUR -1.9 (-23.3) million in January-June.

HKScan's covenants for bank loans and revolving credit facilities are the net gearing ratio and the ratio of net debt to EBITDA. The EBITDA includes the share of profits from associates and joint ventures.

In December 2022, in connection with the sale of the Baltic business, the company negotiated temporary waivers to the net gearing covenants of the revolving credit facilities, the bank loan, certain export credit agreements and the bond. The waivers are valid until the closing of the sale but expire at the latest on 1 January 2024. The temporary limit on the net gearing ratio is 140 per cent for the bank loans and 145 per cent for the bond. At the end of June 2023, the company's net gearing ratio was 137 per cent. Once the transaction of the Baltic business is closed, the limit on the net gearing ratio will decrease by 15 percentage points, and at the same time the Group's net gearing ratio will decrease accordingly.

The covenant limit for the net debt to EBITDA ratio is 6.0. At the end of June 2023, the net debt to EBITDA ratio was 5.2. During the review period, HKScan negotiated new covenant limits for the net debt to EBITDA ratio for the rest of the year: 5.5 from the beginning of July 2023, 5.0 from the beginning of October 2023 and 4.5 from the beginning of January 2024. HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicate that the covenants will not be breached, assuming that the divestment of the Baltic businesses is closed by the end of September 2023. Further information is available under the headline Assumption of ability to continue as a going concern in the accounting policies of the Half Year Financial report.

Disputes and pending legal proceedings

The Danish tax authorities 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 has been obliged to 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 in continuing operations totalled EUR 7.7 (6.3) million in April-June. Investments for January-June were EUR 13.4 (10.6) million. IFRS 16 additions to right-of-use assets totalled EUR 1.7 (1.0) million in April-June and EUR 9.5 (2.5) million in January-June.

During the review period, the investment in the Forssa unit in Finland to improve the competitiveness and cost-efficiency of production progressed as planned. A development investment was started in the Rauma unit's poultry cutting department to improve profitability and competitiveness.

In Sweden, the Linköping unit continued the implementation of its investment to increase the efficiency and capacity of beef production. In Denmark, the investment in the production of higher-value ready-to-eat poultry products progressed as planned to the trial phase. The Polish production unit launched an investment to improve the capacity and efficiency of bacon production as well as a property development project.

In addition, HKScan implemented several investments to improve operational efficiency as part of its ongoing investment plan in Finland, Sweden and Denmark.

Export

Due to the improved demand in the home markets, exports declined in April-June. The opening of the food service market after the Covid pandemic further increased demand for meat in HKScan's export markets. HKScan's objective is to develop the exports of processed meat products in particular and to reduce the role of meat exports as a channel for balancing the home markets. Currently, processed meat products account for about one fifth of exports.

Changes in the international meat market

The strong demand for poultry is expected to continue despite rising consumer prices. Beef consumption is expected to continue to decline, which will further increase demand for poultry products.

Pork production has been declining in the EU and is expected to continue to fall this year. Pork prices are expected to remain high in the EU, but profitability of production remains weak due to high input prices. Very low pork prices in the Americas will challenge EU pork exports to Asia during the rest of the year.

Business Unit Finland

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Net sales	232.7	213.4	449.3	396.0	868.3
EBIT	5.1	1.4	5.1	0.0	5.6
- EBIT margin, %	2.2	0.7	1.1	0.0	0.6
Comparable EBIT	4.9	1.4	5.0	0.2	3.4
- EBIT margin, %	2.1	0.7	1.1	0.1	0.4

April-June

In Finland, net sales totalled EUR 232.7 (213.4) million. Higher sales prices increased net sales, and sales volumes remained at the comparison period’s level. Food service sales continued to grow, but the growth rate levelled off early in the year as the impact of pandemic restrictions decreased in the comparison period. Retail sales value increased, with particular growth in higher value-added branded products such as sausages and ready meals.

EBIT was EUR 5.1 (1.4) million. Comparable EBIT was EUR 4.9 (1.4) million. The review period’s EBIT included a positive item of EUR 0.1 million affecting comparability. Cost levels in Finland remained high, with raw material prices significantly higher than in the comparison period, while general wage increases with one-off items increased costs. Cost inflation was covered by higher sales prices. Improved production efficiency and successful commercial measures improved EBIT in the review period.

Following change negotiations conducted in March-April, HKScan decided to implement a EUR 4.6 million development investment in its Rauma unit to improve profitability and competitiveness. The investment-related reorganisation of operations and adjustment of staffing levels will result in the reduction of up to 35 jobs in the Rauma poultry cutting department and changes to more than 200 jobs. With the investment and related development measures, HKScan aims to achieve total annual savings of around EUR 3 million in Finland, which are expected to be realised after the completion of the investment in the second half of 2024 at the latest.

January-June

In Finland, net sales totalled EUR 449.3 (396.0) million. Net sales increased mainly due to the price increases made before the review period. Food service sales continued to grow strongly, especially in the first quarter, and were strongest in strategically important poultry products. The volume of retail sales was below the comparison period. In the early part of the year, demand for pork, beef and poultry in Finland was down from the comparison period, but consumer demand improved slightly towards the summer. Strong growth in pork exports at the beginning of the year turned down in the second quarter.

EBIT was EUR 5.1 (0.0) million. Comparable EBIT was EUR 5.0 (0.2) million. EBIT included a positive item of EUR 0.1 (0.2) million affecting comparability. Cost levels in Finland remained high, with raw materials in particular being more expensive than in the comparison period. The increase in costs was covered by higher sales prices. Improved production efficiency and successful commercial measures improved EBIT in the review period.

Business Unit Sweden

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Net sales	182.0	185.4	361.6	349.4	745.1
EBIT	4.1	4.9	3.9	5.1	16.6
- EBIT margin, %	2.2	2.6	1.1	1.4	2.2
Comparable EBIT	4.1	4.9	3.9	5.1	16.6
- EBIT margin, %	2.2	2.6	1.1	1.4	2.2

April-June

In Sweden, net sales decreased slightly to EUR 182.0 (185.4) million. At comparable exchange rates, net sales clearly increased. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 17.1 million. The impact of cost inflation was partly offset by sales price increases, which increased net sales.

HKScan maintained its market position and retail sales volumes increased from the comparison period. Especially the sales of private labels and the share of promotional sales increased. Food service sales also continued to grow, especially in processed meat products.

EBIT was EUR 4.1 (4.9) million. Comparable EBIT was EUR 4.1 (4.9) million. There were no items affecting comparability during the review period and comparison period. The negative impact of the exchange rate change on EBIT was EUR 0.4 million. In the review period, EBIT was weakened by high meat raw material prices and general cost inflation. The higher costs were partly covered by an increase in sales prices. In addition, EBIT was negatively impacted by weaker demand for higher-value meat and an increased emphasis on promotional sales in the retail sector.

January-June

In Sweden, net sales increased to EUR 361.6 (349.4) million. At comparable exchange rates, net sales increased clearly. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 29.5 million. The impact of cost inflation was partly offset by sales price increases, which increased net sales. Sales volumes were at the comparison period's level.

EBIT was EUR 3.9 (5.1) million. Comparable EBIT was EUR 3.9 (5.1) million. There were no items affecting comparability during the review period and comparison period. The negative impact of the exchange rate change on EBIT was EUR 0.4 million. In the review period, EBIT was weakened by the high prices of meat raw material and external services. The higher costs were partly covered by an increase in sales prices. In addition, EBIT was negatively impacted by weaker demand for higher-value meat and an increased emphasis on promotional sales in the retail sector.

HKScan started the investment in its Linköping unit to increase the efficiency and capacity of beef production. The value of the investment is approximately EUR 5 million. The investment, scheduled for completion in the first quarter of 2024, is expected to deliver cost savings of EUR 1.6 million per year after completion.

Business Unit Denmark

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Net sales	59.1	57.4	120.5	106.8	220.4
EBIT	1.1	0.3	2.1	0.8	1.4
- EBIT margin, %	1.9	0.5	1.8	0.7	0.6
Comparable EBIT	1.1	0.3	2.3	0.8	1.4
- EBIT margin, %	1.9	0.5	1.9	0.7	0.6

April-June

In Denmark, net sales totalled EUR 59.1 (57.4) million. Strongest growth was seen in the food service channel, where sales increased by 15 per cent, driven in particular by strong demand in the Danish food service sector. The value of retail sales remained at the comparison period's level while sales volume declined slightly. Due to strong demand in the home markets, exports were down from the comparison period.

Denmark's EBIT was EUR 1.1 (0.3) million. Comparable EBIT was EUR 1.1 (0.3) million. There were no items affecting comparability during the review period and comparison period. The impact of cost inflation levelled off in the second quarter. Successful commercial measures, strong consumer demand and long-term improvements in production efficiency improved the EBIT. Sales of strategically important higher value-added poultry products continued to grow.

In line with its strategy, HKScan is investing in Denmark to grow poultry product sales and increase the added value of the products. The new frying line of poultry products was put into trial operation in June and production of the new products will start in August.

In May, HKScan's production units in Vinderup and Skovsgaard received the highest possible BRC AA+ rating in the widely acknowledged BRC food safety certification audit.

HKScan was selected as one of the three finalists for the Danish CSR People Prize 2023. The well-known prize is awarded annually for progress in promoting social responsibility. For many years, HKScan has employed people whose employment is challenging for various reasons. In addition, the company has invested in developing diversity and inclusion. The winner of the award will be selected in September.

January-June

In Denmark, net sales totalled EUR 120.5 (106.8) million. Price increases made before the review period increased net sales significantly in the first quarter, but the impact of inflation and price increases levelled off in the second quarter. In Denmark, sales of value-added products continued to grow. Food service sales showed clear growth in Denmark. Strong sales of Danish poultry products in the Swedish retail continued and food service sales to Sweden also increased. Exports were down from the comparison period due to strong demand in the home markets.

Denmark's EBIT was EUR 2.1 (0.8) million. Comparable EBIT was EUR 2.3 (0.8) million. EBIT included an item of EUR -0.2 (0.0) million affecting comparability. The strong cost inflation was covered by sales price increases made before the review period. Successful commercial measures, strong consumer demand and long-term improvements in production efficiency improved the EBIT. Sales of strategically important higher value-added poultry products continued to grow.

Personnel

The number of HKScan employees in Finland decreased mainly as a result of the change negotiations conducted in the Rauma production unit and Group operations in 2022. In April-June, HKScan employed nearly thousand temporary seasonal workers.

The change negotiations at the Rauma production unit ended in April. The negotiations were related to an investment in production development and aimed at improving profitability and competitiveness. The Rauma unit's poultry cutting department will reduce up to 35 jobs and changes will affect up to 200 jobs.

Personnel in continuing operations	1-6/2023	1-6/2022	2022
Personnel on average*	5,369	5,414	5,390
Finland	2,719	2,783	2,747
Sweden**	1,984	1,972	1,978
Denmark	667	659	664
Women / men %			35 / 65
Women / men of superiors %			26 / 74

* Figures include persons employed by HKScan converted to full-time equivalents (FTE).
** Including Polish personnel.

HKScan's values – Inspire, Lead, Care and Deliver – guide the activities of the company and its employees. During the review period, the We Are Valuable award was given to teams whose work reflected the company's values particularly well.

Shares and shareholders

At the end of June 2023, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The company's issued shares totalled 98,951,781 and 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 payment of the rewards for the Group's Restricted Share Plan 2019-2021 and Performance Share Plan 2018 for the performance period 2019-2021. On 6 March 2023, a total of 115,137 HKScan Corporation's series A shares owned by the company was transferred without consideration to the participants of the share-based incentive plans in accordance with the terms of the plans. The establishment of the plans and their key terms have been announced in stock exchange releases on 7 February 2018, 8 May 2019 and 7 April 2021. The transfer of own shares by a directed share issue without consideration is based on the Board's authorisation granted by the Annual General Meeting on 30 March 2022. After the transfer HKScan Corporation holds 1,506,658 A shares as treasury shares.

At the end of June, the company held 1,506,658 (1,621,795) A shares as treasury shares, corresponding to 1.52% of the company's total number of shares and 0.75 % of the total number of votes.

The calculational market value of HKScan's shares at the end of June stood at EUR 75.8 (114.3) million. The market value of the Series A shares was EUR 71.7 (107.9) million and the calculational market value of the unlisted Series K shares was EUR 4.1 (6.3) million.

In January-June a total of 9,622,833 (10,577,188) of the company's shares were traded with a total value of EUR 7,687,822 (15,669,762). The highest price quoted was EUR 0.97 (1.71) and the lowest EUR 0.68 (1.16). The average price was EUR 0.79 (1.48). At the end of June, the closing price was EUR 0.77 (1.17).

Annual General Meeting 2023

HKScan Corporation's Annual General Meeting was held on 20 April 2023 in Turku. The AGM adopted the parent company's and consolidated financial statements, discharged the members and the deputy members of the Board of Directors and the CEOs from liability for the year 2022 and adopted the remuneration report for governing bodies. The AGM resolved that no dividend will be paid for 2022.

The decisions of the AGM have been published in their entirety in a stock exchange release on 20 April 2023, and the minutes are available in Finnish on the company website at www.hkscan.com.

Share-based long-term incentive plan

On 7 April 2021, HKScan announced changes to the payment schedules of both the Performance Share Plan (PSP) and Restricted Share Plan (RSP) to ensure relative alignment with the company's long-term performance and shareholder returns. 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 on the basis of the achievement of minimum targets set by the Board of Directors for total shareholder return (TSR) and profitability. The Board of Directors has set a ceiling on the cost of the deferred reward.

Part of the shares earned based on the achievement of the performance targets in the 2018-2020 PSP was paid out in spring 2021 according to the original payment schedule and part of the rewards was paid out in spring 2022 according to the new payment schedule. Part of the shares earned based on the achievement of the performance targets in the 2019-2021 PSP and meeting the financial indicator of the 2019-2021 RSP was paid out in spring 2022 and 2023 according to the original payment schedule.

In April, HKScan announced a new Performance Share Plan for the CEO for the period 2023-2027. Further information on the CEO's incentive scheme is available in the stock exchange release published on 3 April 2023.

More information on the incentive plan is available in HKScan's 2022 Remuneration Report on the company website www.hkscan.com.

Short-term business risks

Economic operating environment and financial risks

In the second quarter of 2023, inflation in the euro area remained high, especially due to increases in wages, services and food prices. Although high inflation is expected to continue in the euro area, the associated uncertainty, in particular regarding energy and electricity prices, has diminished in the first half of the year.

Uncertainty for the rest of 2023 remains related to the evolution of consumer demand in the environment of high inflation and high interest rates on loans. If consumer demand weakens significantly and HKScan's sales volumes fall considerably, this will have a negative impact on the company's profitability. The developments described above or a delay in the completion of the sale of the Baltic business could result in a breach of the covenants. The covenants are close to the limits throughout the year. Should unforeseen changes in the business environment make a breach of the covenants appear likely, the management will enter into negotiations with the banks on a temporary modification of the covenants and their terms. If the management cannot negotiate new terms, banks have the right to mature the loans. The circumstances described above indicate a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. For more information, see the accounting principles in the section "Assumption of ability to continue as a going concern" of the Half Year Financial Report.

If the Group's financial performance does not improve as planned or if long-term interest rates continue to rise, the risk of impairment losses will increase and may affect the company's economic and financial position.

Price increase and availability of production inputs and raw materials

Uncertainty about the availability and price of inputs can be reflected in production costs. If the crisis of liquidity and profitability of farms is prolonged, the situation may weaken the availability of local meat raw material or the company's profitability if it fails to raise the sales prices of its products to cover higher costs in the production chain alongside measures to improve production efficiency.

In the global meat raw material market, changes in the trade relations between major meat importing and exporting countries can lead to significant local price fluctuations. The effects of these price fluctuations are partly unpredictable and concern also HKScan's home markets. In an unstable geopolitical situation, the role of global supply chains is weakening, while the importance and potential of regional supply chains and local food production are increasing.

Changes in consumer behaviour

Consumer purchasing behaviour is expected to change significantly as food prices rise sharply in response to rising costs in the food supply chain. Depending on the purchasing power of consumers in HKScan's various home markets, consumer demand for food will focus on lower-priced products and product groups. This may be reflected in a weakening of HKScan's sales volume in higher-priced products and a strengthening in basic foods. In the unstable geopolitical situation, demand for basic foods is expected to remain strong.

The impact of possible international or local food scandals on consumer behaviour cannot be excluded. The discussion surrounding climate change may also affect consumer demand for meat products. In addition, unexpected actions taken by pressure groups may impact business and consumer demand.

Other business risks

Food safety is of key importance in the long production chain of the food industry.

The possibility of animal diseases cannot be fully excluded. African Swine fever and avian flu cases in European countries have reduced the export potential of meat outside the EU.

Pandemics are a risk to the business and their potential development is closely monitored.

The risk of cyber-attacks has increased due to the unstable geopolitical situation. In the event of a cyber-attack, the company's operations could be significantly affected.

The weakened functioning of global logistics chains could pose risks to the company's ability to execute its investments within the planned timeframes and costs, and affect the availability of capital goods used in HKScan's value chain. In its planning, HKScan takes into account the potential impact of cost and scheduling risks on the execution of its investments.

Events after the reporting period

Inside information 24 July 2023: Estonian Competition Authority approves AS Maag Grupp's acquisition of HKScan's Baltic businesses

The Estonian Competition Authority has approved the arrangement announced in December 2022 whereby HKScan will sell its businesses in the Baltics. HKScan and AS Maag Grupp, the acquirer of the businesses, intend to close the transaction in the third quarter of 2023. The purchaser has undertaken certain post-closing obligations in connection with the transaction. The Latvian Competition Authority already approved the transaction unconditionally in February.

On 13 December 2022, HKScan announced that it had signed an agreement to sell its Baltic businesses to Estonian AS Maag Grupp. With the transaction, HKScan's ownership of its Baltic businesses will end. The businesses and personnel of HKScan's Baltic subsidiaries will be transferred to the new owner at the closing of the transaction.

Turku, 9 August 2023

HKScan Corporation
Board of Directors

Webcast

In connection with its Half Year Financial Report, HKScan will hold a webcast in Finnish for analysts, institutional investors and media on 9 August 2023 at 10 am EET. You can follow the Finnish webcast at https://hkscan.videosync.fi/q2-2023 and the recording will be available at www.hkscan.com later during the same day. HKScan's CEO Juha Ruohola and CFO Jyrki Paappa will present the Half Year Financial Report.

To arrange investor calls, please contact executive assistant Suvi Oksava, tel. +358 44 554 4231 or suvi.oksava@hkscan.com.

Financial reports

HKScan will publish the Interim Report for January-September 2023 on Wednesday 8 November 2023, at about 8:30 EET.

For further information

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Jyrki Paappa, CFO, tel. +358 50 556 6512
HKScan Media Service Desk tel. +358 10 570 5700 or email communications@hkscan.com

With 110 years of experience, we at HKScan make life tastier – today and tomorrow. Our strategic target is to grow into a versatile food company. Our home markets are Finland, Sweden and Denmark, where around 5,400 of our professionals make responsible and locally produced food for consumers' varied food moments. Our well-known brands include HK®, Kariniemen®, Via®, Scan®, Pärsons® and Rose®. We are developing a more climate-friendly way of producing food and our Zero Carbon target is a carbon-neutral food chain by the end of 2040. HKScan is a publicly listed company, and in 2022, our net sales from continuing operations totalled over EUR 1.8 billion. www.hkscan.com

The brands mentioned in this report - HK®, Kariniemen®, Via®, Scan®, Pärsons® and Rose® - are registered trademarks of HKScan Group.

Food that does good:
Targets and results of the Group's responsibility programme

TARGETS	RESULTS, CONTINUING OPERATIONS 2022 Complemented with selected Q2/2023 figures marked in blue
NATURE	
Zero Carbon • Carbon-neutral food chain by the end of 2040 *KPI: climate emissions CO_2e*	2022: Climate impacts of the entire food chain (scope 1–3) 2.22 (2.20) $MtCO_2e$, carbon intensity 4.00 (3.97) tCO_2e / sold product tonne
Zero Carbon • Carbon-neutral own production by the end of 2025 *KPI: climate emissions CO_2e*	**Energy consumption Q2/2023: 0.69 (0.74) MWh /sold product tonne*** **Carbon intensity Q2/2023: 0.068 (0.058) tCO_2e /sold product tonne*** 2022: Climate impacts of own production (scope 1 and 2) 34,900 (34,800) tCO_2e, carbon intensity 0.06 (0.06) tCO_2e /sold product tonne*
Sustainable packaging • 100% recyclable packaging by the end of 2030 *KPI: share of recyclable packaging* • 80% of packaging renewable or recycled materials by the end of 2030 *KPI: share of renewable or recycled materials*	Results 2022: • 73 (72)% of packaging recyclable • 59 (47)% renewable or recycled materials
We are committed to increasing biodiversity in our food chain	Target added to the programme in 2022
PEOPLE	
Safety First • Systematic work towards zero accidents *KPI: lost-time accident rate (LTIR)*	**Lost-time accident rate (LTIR)** **7/2022–6/2023: 15.6 (7/2021–6/2022: 20.9) / million working hours** 2022: 15.6 (20.9) /million working hours
Better Together • Continuous improvement in employee wellbeing *KPIs: Sickness absences, inappropriate behaviour, eNPS: > 10*	**Personnel absences 7/2022–6/2023: 7.6% (7/2021–6/2022: 7.7)**

Consolidated Half Year Financial Report 1 January – 30 June 2023

Consolidated income statement

(EUR million)		4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Continuing operations:						
Net sales		473.8	456.3	931.4	852.2	1 833.8
Cost of goods sold	1.	-442.7	-429.6	-876.9	-806.1	-1 736.3
Gross profit		31.2	26.7	54.5	46.1	97.4
Other operating items total	1.	1.8	1.3	2.9	2.3	7.9
Sales and marketing costs	1.	-12.1	-12.3	-23.9	-22.9	-43.7
General administration costs	1.	-12.4	-12.6	-25.1	-26.8	-51.5
Operating profit		8.4	3.1	8.4	-1.3	10.1
Financial income		1.3	1.0	2.3	1.4	2.9
Financial expenses		-8.7	-3.9	-16.8	-7.4	-19.2
Share of profit/loss in associates and joint ventures		0.3	2.5	1.3	3.8	5.4
Profit/loss before taxes		1.4	2.7	-4.8	-3.5	-0.9
Income tax		-2.0	-1.3	-2.1	-1.5	-4.0
Profit/loss for the period, continuing operations		-0.6	1.4	-6.9	-5.0	-4.9
Profit/loss for discontinued operations		1.1	-17.5	-0.7	-22.0	-61.1
Profit/loss for the period		0.5	-16.1	-7.6	-26.9	-66.0
Profit/loss for the period attributable to:						
Equity holders of the parent		-0.6	-16.8	-9.0	-27.9	-69.7
Non-controlling interests		1.1	0.7	1.5	1.0	3.7
Total		0.5	-16.1	-7.6	-26.9	-66.0
Earnings per share calculated on profit attributable to equity holders of the parent:						
EPS, undiluted, continuing operations, EUR/share		-0.02	0.00	-0.09	-0.07	-0.11
EPS, diluted, continuing operations, EUR/share		-0.02	0.00	-0.09	-0.07	-0.11
EPS, undiluted, discontinued operations, EUR/share		0.01	-0.18	-0.01	-0.23	-0.63
EPS, diluted, discontinued operations, EUR/share		0.01	-0.18	-0.01	-0.23	-0.63
EPS, undiluted, EUR/share		-0.01	-0.18	-0.10	-0.30	-0.73
EPS, diluted, EUR/share		-0.01	-0.18	-0.10	-0.30	-0.73

Consolidated statement of comprehensive income

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Profit/loss for the period	0.5	-16.1	-7.6	-26.9	-66.0
OTHER COMPREHENSIVE INCOME (after taxes):					
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translating foreign operations	-3.0	-3.2	-4.2	-4.1	-7.2
Cash flow hedging	-2.1	15.7	-9.7	22.1	15.2
Reclassification adjustment (electricity derivative)	-	-	-1.9	-	-
Share of associates' and joint ventures' other comprehensive income items	0.7	-	0.7	-	-
Items that will not be reclassified to profit or loss					
Actuarial gains or losses	-	-	-	-	14.1
TOTAL OTHER COMPREHENSIVE INCOME	-4.3	12.5	-15.1	18.0	22.2
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-3.8	-3.6	-22.7	-8.9	-43.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	-4.9	-4.3	-24.2	-10.0	-47.4
Non-controlling interests	1.1	0.7	1.5	1.0	3.7
Total	-3.8	-3.6	-22.7	-9.0	-43.8

Consolidated balance sheet

(EUR million)	Note	30 June 2023	30 June 2022	31 Dec. 2022
ASSETS				
Intangible assets	2.	108.5	123.3	113.8
Tangible assets	3.4	367.0	444.7	378.6
Holdings		39.8	39.6	41.1
Deferred tax asset	5.	31.3	31.8	31.8
Other non-current assets		10.2	17.3	12.2
TOTAL NON-CURRENT ASSETS		556.8	656.8	577.5
Inventories	6.	126.2	160.7	123.9
Current receivables		135.2	169.3	155.5
Cash and cash equivalents		34.6	15.5	17.2
TOTAL CURRENT ASSETS		295.9	345.5	296.5
Assets of disposal group classified as held for sale	7.	95.3	-	101.9
TOTAL ASSETS		948.0	1 002.3	976.0
EQUITY AND LIABILITIES				
EQUITY		261.2	322.5	285.5
Non-current loans, interest-bearing	4.	231.6	205.8	333.9
Non-current liabilities, non-interest-bearing		31.8	59.9	42.3
TOTAL NON-CURRENT LIABILITIES		263.4	265.7	376.1
Current loans, interest-bearing	4.	161.0	156.2	30.6
Current liabilities, non-interest-bearing		228.1	257.9	243.3
TOTAL CURRENT LIABILITIES		389.1	414.1	273.9
Liabilities of disposal group classified as held for sale	7.	34.3	-	40.4
TOTAL EQUITY AND LIABILITIES		948.0	1 002.3	976.0

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2023	**66.8**	**72.9**	**21.9**	**215.4**	**25.9**	**10.4**	**-19.9**	**-4.1**	**-128.4**	**260.9**	**24.6**	**285.5**
Result for the financial period	-	-	-	-	-	-	-	-	-9.0	-9.0	1.5	-7.6
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	-4.2	-	-	-4.2	-	-4.2
Cash flow hedging	-	-	-9.7	-	-	-	-	-	-	-9.7	-	-9.7
Reclassification adjustment (electricity derivative)	-	-	-1.9	-	-	-	-	-	-	-1.9	-	-1.9
Share of associates' and joint ventures' other comprehensive income items	-	-	0.7	-	-	-	-	-	-	0.7	-	0.7
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income / expense	-	-	-10.9	-	-	-	-4.2	-	-	-15.1	-	-15.1
Total compreh. income for the period	**-**	**-**	**-10.9**	**-**	**-**	**-**	**-4.2**	**-**	**-**	**-24.2**	**1.5**	**-22.7**
Direct recognitions	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1
Transfer of own shares	-	-	-	-	-	-	-	0.3	-0.3	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-1.9	-1.9
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	0.1	0.1
EQUITY ON 30 June 2023	**66.8**	**72.9**	**11.0**	**215.4**	**25.9**	**10.4**	**-24.1**	**-3.8**	**-137.6**	**236.9**	**24.3**	**261.2**

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2022	**66.8**	**72.9**	**6.6**	**215.4**	**25.9**	**10.4**	**-12.6**	**-4.8**	**-65.9**	**314.8**	**22.1**	**336.9**
Result for the financial period	-	-	-	-	-	-	-	-	-27.9	-27.9	1.0	-26.9
Other comprehensive income (+) / expense (–)												
Transl. diff.-	-	-	-	-	-	-	-4.2	-	-	-4.2	-	-4.2
Cash flow hedging	-	-	22.1	-	-	-	-	-	-	22.1	-	22.1
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income / expense	-	-	22.1	-	-	-	-4.2	-	-	17.9	-	17.9
Total comprehensive income for the period	**-**	**-**	**22.1**	**-**	**-**	**-**	**-4.2**	**-**	**-27.9**	**-10.0**	**1.0**	**-9.0**
Direct recognitions	-	-	-	-	-	-	-	-	-0.2	-0.2	-	-0.2
Transfer of own shares	-	-	-	-	-	-	-	0.7	-0.7	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-3.9	-3.9	-1.4	-5.3
Founding of subsidiary	-	-	-	-	-	-	-	-	-	-	0.2	0.2
EQUITY ON 30 June 2022	**66.8**	**72.9**	**28.8**	**215.4**	**25.9**	**10.4**	**-16.8**	**-4.1**	**-98.6**	**300.7**	**21.8**	**322.5**

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, incl. discontinued operations

-	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Cash flow before change in net working capital	20.3	17.6	29.0	24.5	53.2
Change in net working capital	3.8	5.1	-2.0	-31.9	-20.8
Financial items and taxes	-4.3	-0.2	-12.9	-4.7	-13.5
CASH FLOW FROM OPERATING ACTIVITIES	19.8	22.4	14.1	-12.0	18.9
Cash flow from investing activities	-8.9	-7.2	-16.0	-11.3	-40.8
CASH FLOW AFTER INVESTING ACTIVITIES	10.9	15.2	-1.9	-23.3	-21.9
Hybrid loan	-	-	-	-	-2.1
Change in loans	-4.9	-3.6	20.9	17.9	21.8
Dividends paid	-1.9	-5.3	-1.9	-5.3	-5.3
CASH FLOW FROM FINANCING ACTIVITIES	-6.8	-8.9	19.0	12.6	14.4
NET CASH FLOW	4.1	6.3	17.1	-10.8	-7.4
Cash and cash equivalents at beginning of period	30.6	9.8	17.8	27.2	27.2
Translation differences	0.0	-0.6	-0.2	-0.9	-2.0
Cash and cash equivalents at end of period	34.8	15.5	34.8	15.5	17.8

Financial indicators

(EUR million)	30 June 2023	30 June 2022	31 Dec. 2022
Earnings per share (EPS), undiluted, EUR, continuing operations	-0.09	-0.07	-0.11
Earnings per share (EPS), diluted, EUR, continuing operationes	-0.09	-0.07	-0.11
Equity per share, EUR	2.43	3.08	2.67
Equity ratio, %	27.6	32.2	29.2
Adjusted average number of outstanding shares, mill.	97.4	97.3	97.3
Gross capital expenditure on PPE, EUR mill., continuing operations	13.4	10.6	37.4
Additions in right-of-use assets, EUR mill., continuing operations	9.5	2.5	9.0
Depreciation and impairment, EUR mill., continuing operations	23.6	24.1	45.8
Employees, average, FTE, continuing operations	5,369	5,414	5,390

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	
Net debt to EBITDA ratio (leverage)	Interest-bearing net debt / EBITDA + share of profit/loss in associates and joint ventures	

** 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 Half Year Financial report

Accounting policies

HKScan Corporation's half year financial report for 1 January–30 June 2023 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the half year financial report as in the annual financial statements for 2022, except for the change in accounting policy for spare parts inventory. From 2023 onwards spare parts exceeding minimum value as a practical matter are capitalised to spare parts inventory with acquisition cost. Items below the minimum value are recorded as cost when purchased. Before all purchased spare parts were recorded as cost when purchased. The change is done retrospectively as if the policy would have been always effective. Opening balance 2022 and each subsequent quarter balance sheet have been restated higher than previously reported by EUR 7.9 million for inventory, EUR 6.4 million for retained earnings and EUR 1.5 million for deferred tax liability. The change has no impact to 2022 income statement as the inventory balance is stable. Due to the rounding of the figures to the nearest million euros in the half year financial report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2022. The half year financial report is unaudited.

Assumption of ability to continue as a going concern

The Half Year Financial Report has been prepared on a going concern basis, assuming that HKScan will be able to realise its assets and settle its liabilities in the foreseeable future in the ordinary course of business. In assessing the going concern basis, HKScan's management has taken into account the uncertainties and risks associated with the business environment, available funding sources and the cash flow estimates of the Group companies over the next 12 months.

The weak profitability development and the increase in working capital have had a negative impact on cash flow and further on the net gearing and leverage, which are the company's covenants. In January-June 2023, the impact of the weakening consumer demand on the company's profitability and cash flow was offset by cost savings, efficiency improvements and working capital management.

The uncertainty related to the increase in cost inflation in 2023 has decreased in late 2022 and in January-June 2023. Especially the uncertainty related to energy and electricity prices has been reduced for 2023, based on the electricity price forecasts for the next 12 months updated during the period under review, from a very unstable and volatile market price situation in the second half of 2022.

Uncertainty for 2023 remains related to the development of consumer demand in the environment of high inflation and high interest rates. If consumer demand weakens significantly and HKScan's sales volumes fall considerably, this will have a negative impact on the company's profitability. The developments described above may also lead to a temporary increase in working capital, which would weaken the profitability and have a negative impact on the company's cash flow and asset values. This could result in a breach of the covenants.

HKScan's covenants for bank loans and revolving credit facilities are the net gearing ratio and the ratio of net debt to EBITDA. The EBITDA includes the share of profits from associates and joint ventures.

In December 2022, in connection with the sale of the Baltic business, the company negotiated temporary waivers to the net debt covenants for the revolving credit facility, the bank loan, certain export credit agreements and the bond. The waivers are valid until the closing of the sale, but expire at the latest on 1 January 2024. The temporary limit on the net gearing ratio is 140 per cent for the bank loans and 145 per cent for the bond. At the end of June 2023, the net gearing ratio was 137.0 per cent. Once the transaction of the Baltic business is closed, the net gearing covenant will decrease by 15 percentage points, and at the same time the Group's net gearing ratio will decrease accordingly.

The covenant limit for the net debt to EBITDA ratio is 6.0. At the end of June 2023, the net debt to EBITDA ratio was 5.2. During the review period, HKScan negotiated new covenant limits for net debt and EBITDA for the rest of the year, which are 5.5 from July 2023, 5.0 from October 2023 and 4.5 from January 2024.

HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicates that the covenants will not be breached, assuming that the divestment of the Baltic businesses is completed by the end of September 2023. The covenants will remain close to their limits for the full year. In case of unforeseen changes in the business environment or a delay in the approval by the competition authorities, a breach of the covenants would seem to be apparent, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms.
If management cannot negotiate new terms, banks have the right to mature the loans. The circumstances described above indicate a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Should it prove in the foreseeable future that the preparation of financial statements on the going concern principle is not justified, the carrying amounts and/or classifications of the company's assets and liabilities would have to be adjusted. This would result in an impairment of deferred tax assets and measurement of non-current assets at fair value.

Analysis by segment

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
NET SALES					
- Finland					
Sales, goods	231.8	212.4	447.4	394.2	864.4
Sales, services	0.9	1.0	1.9	1.8	3.9
- Sweden					
Sales, goods	182.0	185.4	361.6	349.3	745.1
Sales, services	0.0	0.0	0.0	0.0	0.1
- Denmark					
Sales, goods	59.1	57.4	120.5	106.8	220.4
Sales, services	0.0	0.0	0.0	0.0	0.0
Group total	54.8	49.4	104.3	852.2	1 833.8
EBIT					
- Finland	5.1	1.4	5.1	0.0	5.6
- Sweden	4.1	4.9	3.9	5.1	16.6
- Denmark	1.1	0.3	2.1	0.8	1.4
Segments total	10.3	6.6	11.1	5.8	23.5
Group administration costs	-1.9	-3.5	-2.7	-7.1	-13.4
Group total	8.4	3.1	8.4	-1.3	10.1
INVESTMENTS					
- Finland					
Gross capital expenditure on PPE	4.6	3.0	7.3	4.3	15.3
Additions in right-of-use assets	0.4	0.4	6.4	0.7	3.0
Investments total	5.0	3.5	13.7	5.0	18.3
- Sweden					
Gross capital expenditure on PPE	0.6	2.9	3.0	5.3	18.6
Additions in right-of-use assets	0.4	0.3	1.5	0.9	4.1
Investments total	1.0	3.2	4.5	6.2	22.7
- Denmark					
Gross capital expenditure on PPE	2.5	0.4	3.2	0.9	3.5
Additions in right-of-use assets	0.9	0.3	1.6	0.8	1.9
Investments total	3.5	0.7	4.8	1.7	5.4
Total	9.4	7.4	22.9	13.0	46.4
AVERAGE NUMBER OF EMPLOYEES, FTE					
- Finland			2 719	2 783	2 747
- Sweden			1 984	1 972	1 978
- Denmark			667	659	664
Total			5 369	5 414	5 390

Notes to the income statement

1. Items affecting comparability

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Comparable EBIT, continuing operations	**8.3**	**3.3**	**6.5**	**-0.7**	**9.7**
Termination of employment, Group management 1)	-	-0.2		-0.4	-1.8
Termination of employment, Finland 1)	-0.3	-	-0.3	-	-
Reversal of environmental provision, Finland 2)	0.5	-	0.5	-	-
Loss of prepayment, Finland 4)	-	-	-	-0.2	-0.2
Reversal of impairment of assets, Finland 2) 3)	-	-	-	-	2.3
Reclassification adjustment of electricity derivatives, Group management 2)	-	-	1.9	-	-
Impairment of associated company, Denmark 3) 4)	-	-	-0.2	-	-
EBIT, continuing operations	**8.4**	**3.1**	**8.4**	**-1.3**	**10.1**

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 June 2023	30 June 2022	31 Dec. 2022
Opening balance	113.8	144.2	144.2
Translation differences	-4.4	-3.8	-6.6
Additions	0.4	0.7	2.0
Depreciation and impairment	-2.1	-17.8	-20.0
Reclassification between items	0.7	0.0	1.3
Assets of disposal group classified as held for sale	-	-	-7.0
Closing balance	108.5	123.3	113.8

3. Changes in tangible assets

(EUR million)	30 June 2023	30 June 2022	31 Dec. 2022
Opening balance	378.6	459.7	459.7
Translation differences	-4.4	-4.0	-6.8
Additions	22.6	16.4	53.2
Disposals	-7.2	-0.3	-1.0
Depreciation and impairment	-21.5	-27.1	-51.9
Reclassification between items	-1.0	0.0	-1.3
Assets of disposal group classified as held for sale	-	-	-73.3
Closing balance	367.0	444.7	378.6

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 Jan. 2023	2.2	80.3	13.8	96.3	101.7
Translation differences	-	-0.7	-0.1	-0.8	-0.8
Additions	-	7.5	2.0	9.5	9.5
Disposals	-2.2	-	-	-2.2	-2.2
Depreciation for the financial period	-	-4.0	-2.4	-6.5	-
Payments	-	-	-	-	-5.6
Closing balance on 30 June 2023	-0.1	83.1	13.3	96.3	102.6

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1 Jan. 2022	2.2	92.1	15.3	109.5	113.4
Translation differences	-	-0.5	-0.1	-0.6	-0.6
Additions	-	0.9	1.7	2.7	2.7
Depreciation for the financial period	0.0	-4.2	-2.6	-6.9	-
Payments	-	-	-	-	-5.9
Closing balance on 30 June 2022	2.1	88.3	14.3	104.7	109.5

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Depreciation expense of right-of-use assets, continuing operations	-3.3	-3.1	-6.5	-6.2	-12.6
Interest expense on lease liabilities, continuing operations	-1.2	-1.1	-2.4	-2.2	-4.5
Total amounts recognised in profit or loss, continuing operations	-4.5	-4.2	-8.9	-8.4	-17.1

5. Deferred tax assets

Out of the total EUR 31.3 million, EUR 28.0 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 were 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 profitability improves.

Deferred tax assets are assumed to be used to material respect during the current decade. The company has not reached earlier estimates and this has prolonger the deferred tax asset utilisation time. Consideration is based on management's plans for the near future. As plans contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2026 and beyond. 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 deductibility restrictions 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 June 2023 was EUR 25.3 million.

The company has utilized tax losses in Finland every year in 2019-2022 and losses have not expired. The losses in taxation in Finland expire with the following schedule: EUR 11.5 million in 2023, EUR 10.2 million in 2024, EUR 5.5 million in 2025, EUR 17.8 million in 2027, EUR 27.2 million in 2028, EUR 10.1 million in 2029 and EUR 1.6 million in 2031.

6. Inventories

(EUR million)	30 June 2023	30 June 2022	31 Dec. 2022
Materials and supplies	68.4	96.7	66.2
Semi-finished products	7.3	5.2	6.1
Finished products	41.2	41.6	41.9
Spare parts	7.9	8.4	7.9
Inventories, advance payments	1.4	1.3	1.7
Biological assets	0.0	7.5	0.0
Total inventories	126.2	160.7	123.9

7. Assets and liabilities of disposal group classified as held for sale and discontinued operations

Group has on December 13th 2022 agreed on selling Baltics business unit to an Estonian AS Maag Grupp. The sale includes the whole segment. Because of this in the financial statement on December 31st 2022 the business unit has been classified as assets and liabilities held for sale and they are presented as discontinued operations. The debt-free purchase price is EUR 90 million, of which EUR 20 million is conditional on the combined performance of the separately defined meat business subject to the transaction and Maag Grupp's Baltic meat business in years 2024-2026. Of the EUR 70 million fixed purchase price, EUR 55 million will be paid at the closing of the transaction and the remainder over the next three years. After the review period in July, HKScan was informed that the Estonian Competition Authority has approved the arrangement announced in December 2022 whereby HKScan will sell its businesses in the Baltics. HKScan and AS Maag Grupp, the acquirer of the businesses, intend to close the transaction in the third quarter of 2023. The purchaser has undertaken certain post-closing obligations in connection with the transaction. The Latvian Competition Authority already approved the transaction unconditionally in February.

Assets and liabilities held for sale are measured at debt-free purchase price EUR 83.2 million deducted with transaction costs which led to EUR 30.6 million impairment in book value at the end of year 2022. EUR 6.6 million of the impairment was allocated to goodwill, EUR 0.4 million to other intangible assets and the rest to tangible assets. During the year 2022 in Q2 an impairment amounting to EUR 15.6 million was recorded to Baltics goodwill. As result the whole year 2022 impairment to Baltics book value was EUR 46.2 million. Fair value measurement of assets and liabilities held for sale includes management consideration and estimate. Estimate includes transaction costs, post-closing purchase price discounting and an estimate on conditional EUR 20 million purchase price. Post-closing fixed purchase price has been discounted with 5 per cent and conditional purchase price with 9.7 per cent. Management has estimated the probability of earn-out realisation and estimate includes the uncertainty in development of profitability. EBITDA for the sold business required for realisation of earn-out is lower than the Group has previously used for valuation, because realization of earn-out is significantly impacted by development of buyer's meat business and synergies. The amount of conditional purchase price is estimated at 13.2 million and its carrying amount at fair value is 9.8 million at the end of 2022. During the year 2023 no changes have been made to the fair value measurement of assets and liabilities held for sale.

The significant transactions between continuing and discontinued operations are Baltics' product sales and purchases with Group companies, Group's service fee from Baltics and Group's financial income from financing Baltics. Figures for continuing and discontinued operations represent external sales and its costs according to Group's segment reporting. Group service fee from Baltics has been reduced to post closing level agreed with the buyer. Baltics' external financial expenses are shown as financial expenses for the discontinued operation.

Profit/loss for discontinued operations

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Net sales	54.9	49.4	104.4	90.6	195.7
Cost of goods sold	-51.5	-64.8	-101.8	-109.4	-222.7
Other operating items total	-2.1	-1.9	-3.0	-3.2	-3.2
Operating profit	1.2	-17.4*	-0.4	-21.9*	-30.2*
Financial income and expenses	-0.1	-0.1	-0.3	-0.1	-0.3
Income tax	0.0	0.0	0.0	0.0	0.0
Profit/loss for the period	1.1	-17.5	-0.7	-22.0	-30.5
Impairment from fair-value measurement	-	-	-	-	-30.6
Profit/loss for the period from discontinued operations	1.1	-17.5	-0.7	-22.0	-61.1

* Includes an impairment to goodwill amounting to EUR 15.6 million.

Cash flow of discontinued operations

(EUR million)	4-6/2023	4-6/2022	1-6/2023	1-6/2022	2022
Cash flow from operating activities	4.1	-2.4	-0.1	-6.1	-15.5
Cash flow from investing activities	-1.2	-1.6	-1.7	-3.3	-5.7
Cash flow from financing activities	-0.3	-0.3	-0.6	-0.6	-1.3
Cash flow total	2.5	-4.4	-2.5	-10.0	-22.5

Assets and liabilities of disposal group classified as held for sale

(EUR million)	30 June 2023	31 Dec. 2022
Intangible assets	-	-
Tangible assets	51.1	49.7
Inventories	30.7	34.4
Receivables	13.5	17.8
Total assets (A)	**95.**3	**101.9**
Lease liabilities	7.6	8.1
Trade payables and other liabilities	26.6	32.2
Total liabilities (B)	**34.3**	**40.4**
Net balance sheet value (A-B)	**61.0**	**61.5**

Derivative instrument liabilities

(EUR million)	30 June 2023	30 June 2022	31 Dec. 2022
Nominal values of derivative instruments			
Foreign exchange derivatives	82.7	81.9	91.8
Interest rate derivatives	20.0	29.0	48.5
Electricity derivatives	-2.4	-3.5	-1.7
Fair values of derivative instruments			
Foreign exchange derivatives	1.2	0.5	0.7
Interest rate derivatives	0.4	-0.1	0.3
Electricity derivatives	12.4	32.7	23.8

The negative nominal value of electricity derivatives is the net value of purchase derivatives made against the increase in the price of electricity and sales derivatives related to partial closing of the position.

The nominal value is negative because sales derivatives are made at higher prices than purchase derivatives.

Consolidated other contingent liabilities

(EUR million)	30 June 2023	30 June 2022	31 Dec. 2022
Debts secured by pledges or mortgages			
- loans from financial institutions	39.5	-	39.5
On own behalf			
- Assets pledged	61.5	-	61.5
On behalf of others			
- guarantees and other commitments	2.9	6.2	2.6
Other contingencies			
Leasing and rental commitments	0.2	0.2	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 June 2023	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	0.4	-	0.4	-
- Foreign exchange derivatives	1.4	-	1.4	-
- Commodity derivatives	13.1	-	13.1	-
of which subject to cash flow hedging	13.1	-	13.1	-
Total	**14.9**	**-**	**14.9**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps		-		-
- Foreign exchange derivatives	-0.2	-	-0.2	-
- Commodity derivatives	-0.6	-	-0.6	-
of which subject to cash flow hedging	-0.6	-	-0.6	-
Total	**-0.8**	**-**	**-0.8**	**-**

(EUR million)	30 June 2022	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	0.1	-	0.1	-
- Foreign exchange derivatives	0.5	-	0.5	-
- Commodity derivatives	37.9	-	37.9	-
of which subject to cash flow hedging	37.9	-	37.9	-
Total	**38.5**	**-**	**38.5**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-0.1	-	-0.1	-
- Foreign exchange derivatives	0.0	-	0.0	-
- Commodity derivatives	-5.2	-	-5.2	-
of which subject to cash flow hedging	-5.2	-	-5.2	-
Total	**-5.3**	**-**	**-5.3**	**-**

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)	1-6/2023	1-6/2022	2022
Sales to associates	7.3	6.4	14.9
Purchases from associates	24.4	21.3	45.4
Trade and other receivables from associates	1.6	1.6	2.0
Trade and other payables to associates	3.5	3.1	3.5
Animal purchases from related party*	15.5	10.7	21.3
Animal sales to related party*	3.1	2.6	5.1
Loan receivable from LSO Osuuskunta	3.5	1.4	1.6

*Members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta.