HKScan

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HKSCAN GROUP'S INTERIM REPORT 1 JANUARY – 30 JUNE 2012:
Challenging first half of the year – slight recovery during the second quarter

- Group net sales in January-June 2012 totalled EUR 1 250.4 million (EUR 1 223.3 m for the corresponding period in 2011), growing by 2 per cent. After eliminating changes in currency rates, growth stood at 3 per cent.
- Group EBIT came to EUR 4.9 million (EUR 8.0 m).
- EBIT decreased compared to the corresponding period in 2011 due to the negative EBIT of the business in Sweden. The focus for the development programme is to improve profitability in the market area of Sweden.
- Business in the market areas of Finland, the Baltics and Poland performed as planned and their EBIT improved.
- The production break caused by the fire in early June at the Vinderup plant in Denmark interrupted positive business operations in April-May by disturbing and delaying the manufacturing of fresh products being developed according to company strategy.
- Net financial expenses stood at EUR -16.0 million (EUR -12.9 m). Higher loan margins were the main reason for the increase.
- According to its strategy, defined in the summer, the Group will particularly concentrate on delivering profitable performance.
- HKScan keeps unchanged the 2012 outlook given in the January-March interim report: due to the weak development of business in Sweden, there is a risk that the Group's EBIT for 2012 will come out below the level of 2011.

HKSCAN GROUP

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Net sales	644.3	630.6	1 250.4	1 223.3	2 491.3
EBIT	5.5	6.7	4.9	8.0	39.6
- EBIT margin, %	0.9	1.1	0.4	0.7	1.6
Profit/loss before taxes	-1.6	-0.1	-9.4	-3.5	11.3
Earnings per share, EUR	0.00	0.01	-0.09	-0.05	0.18

GROUP OVERVIEW: APRIL–JUNE 2012

The HKScan Group's business in the second quarter of 2012 developed mostly as planned despite the rainy beginning of the summer. Finland, the Baltics and Poland all improved their EBIT levels. Business in Sweden continued to be extremely challenging in the second quarter and the EBIT remained still clearly in the red.

A fire on 6 June caused a production break, interrupting poultry slaughtering, as well as production, packing and delivery operations at the Vinderup plant in Denmark. Some lines of the production plant could be restarted to a certain degree soon after the fire by temporarily reorganising the operations and by increasing the slaughtering and production volumes at the Skovsgaard plant within its capacity. According to plans, full production will be restarted, phase by phase, in December at the latest. The insurance policies are estimated to cover both the material damage and that caused by the interruption of the business.

The scarcity of meat raw materials was troubling in all the Group's market areas during April-June. There is a lack of Swedish meat raw material in particular. Production volumes have continued to fall, procurement prices have increased and Group slaughtering volumes have remained low. The further strengthened Swedish krona has increased meat imports and made it difficult to increase the price of products based on Swedish meat raw materials.

At the beginning of April, the Group reported that it will launch an extensive development programme which will be implemented until the end of 2013. The aim is to achieve annual performance improvements exceeding EUR 20 million and a considerable reduction in invested capital. During the second quarter, a management model and an organisation have been created for the development programme, and its progress is being closely monitored. The programme covers the Group's operations in Finland, the Baltics, Sweden and Denmark.

HKScan has redefined its strategy. According to the new strategy, the Group will concentrate in particular on improving profitability by building up brand value and demand, by improving operational efficiency, by actively managing the dynamics of future business and by developing its capital structure and Group reporting.

As part of the strategy, HKScan will reform the Group's management and operating model in order to harmonise, simplify and enhance internal processes and cultures. The businesses involved in the new operating model are responsible for sales and marketing, product development, in addition to the order-supply chain and production. They are: 1. Consumer (Finland, the Baltics, Sweden and Denmark), 2. Away from Home (AFH) Business, and 3. Sokolów and other joint ventures. The other Group functions supporting the businesses are Technology and Operations Development, HR, Legal & Administration, Finance, Treasury, Communications as well as Strategy and Strategic Projects.

In addition, the company will also reform the Group reporting to better support the businesses, the new operating model, the organisation and Group management. HKScan will introduce the operating model gradually by the end of 2013. The work for building up Group functions has already begun. The reform will not affect the Group's external reporting. The reform of the operating model and organisation has been described further in a stock exchange release published on 10 August 2012.

A plan concerning restructuring of the business in Sweden was published on 10 August 2012. The plan aims to achieve an annual performance improvement of approximately EUR 10 million. The changes are planned to be implemented by the middle of 2013. The plan is discussed in more detail under "Market area Sweden" later in this report.

MARKET AREA: FINLAND

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Net sales	212.8	207.9	410.4	395.9	812.4
EBIT	2.7	0.7	5.4	0.1	12.1
- EBIT margin, %	1.3	0.3	1.3	0.0	1.5

In Finland, the level of profitability for the business is still weak, but the development of the business is on the right track. Net sales in the second quarter totalled EUR 212.8 million (EUR 207.9 m). EBIT improved to EUR 2.7 million (EUR 0.7 m) and was 1.3 per cent (0.3%) of net sales.

Concerning pork and beef, scarcity of the meat raw material challenged the company's ability to deliver. The scarcity of Finnish meat raw material results from growing demand and simultaneously from decreasing meat production in Finland.

In order to better manage and steer the fluctuations in supply and demand on the one hand, and chain management on the other, in times of scarcity and overproduction, the Group initiated a contract reform concerning pork procurement in Finland in the fall of 2011. The reform is progressing as planned.

The midsummer season sales, important for the Group, were a success as expected. New products, such as HK Rapeseed Pork and Kariniemen Chicken barbeque products were well received on the market.

As a part of the on-going group-wide development programme, the Group announced at the end of June that it will clarify and simplify the corporate structure in Finland in order to harmonize the Group's operational policies and to streamline its internal administration. HKScan Finland Oy and its wholly owned subsidiaries − Järvi-Suomen Portti Oy and Helanderin Teurastamo Oy, which has discontinued its business operations − will be merged into HK Ruokatalo Oy. This matter is dealt with further in the "Changes in the corporate structure" section in the present report.

MARKET AREA: BALTICS

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Net sales	46.8	44.1	87.3	83.5	173.3
EBIT	3.1	2.7	3.8	3.6	9.8
- EBIT margin, %	6.7	6.1	4.4	4.3	5.6

In the Baltics, net sales in the second quarter stood at EUR 46.8 million (EUR 44.1 m), achieving growth by 6 per cent. EBIT for the quarter was EUR 3.1 million (EUR 2.7 m), growing to a good level of 6.7 per cent (6.1%) of net sales.

The local brands of HKScan succeeded well in the Baltics. Tallegg's broiler grill product portfolio was well received in Estonia, as was the case with Rakvere's new product series "Lihakas". Jelgava, in turn, increased its sales of smoked and cold smoked products in Latvia.

Rakvere's products were awarded in the annual competition arranged by the Estonian Food Producers' Association. Rakvere received, among other things, the highest prize of the contest, "Best Estonian food product 2012" for its pork roast in bread coating.

The current price levels for feed raw materials and energy is high, which increases meat product prices. Feed price is expected to rise further in late 2012.

Competitiveness in the Baltics has been strengthened by investing in energy saving projects in pig primary production and by developing processes in Rakvere Lihakombinaat and Tallegg among other things. Synergies between the companies operating in the Baltics have been achieved by merging the operations of Tallegg and Rakvere, e.g. in logistics and administration.

The ban on live animal imports set by Russia has increased the export of carcass from the Baltics. Exports of more valuable meat parts to other European countries, on the other hand, has suffered from lower demand.

MARKET AREA: SWEDEN

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Net sales	267.0	263.0	513.9	515.4	1 045.7
EBIT	-4.2	4.0	-9.7	4.3	17.2
- EBIT margin, %	-1.6	1.5	-1.9	0.8	1.6

In Sweden, net sales in the second quarter amounted to EUR 267.0 million (EUR 263.0 m). Net sales calculated in krona were on the same level compared with the previous year too. As far as the business result is concerned, it was at the lowest at the beginning of the second quarter, which means that the result for the reporting period continued to be weak: EUR -4.2 million (EUR 4.0 m) and was -1.6 per cent of net sales (1.5%).

The difficulties reported in the first quarter continued further at the beginning of the second quarter in Sweden. As far as primary production is concerned, pork and beef production has declined further, causing high procurement prices for Swedish meat, and there is also a shortage of meat raw material. Slaughtering volumes have decreased. Additionally, the further strengthened Swedish krona has made meat imports easier and tightened competition. Increases in sales prices have been implemented to all customer groups, but during the reporting period, they have not yet been adequate with regard to the higher raw material costs. The share of private labels in retail has grown further.

Rainy weather conditions in the early summer have affected the demand for barbeque products. The launch of Swedish rapeseed pork (Svensk Rapsgris) for the HoReCa customers succeeded well. Svensk Rapsgris will be introduced to retail customers in August. Slaughtering and cutting of Rapsgris pigs is concentrated at the Skara plant in Sweden.

The Chosen By Farmers concept, launched at the end of 2011, was well received by consumers and trade during the Easter and barbeque seasons.

A plan concerning restructuring of the business in Sweden was published on 10 August 2012. The plan aims to achieve an annual performance improvement of approximately EUR 10 million. The changes are planned to be implemented by the middle of 2013.

The aim is to clarify and streamline the structure of the business in Sweden in line with the Group's new operating model. The wholly-owned subsidiaries belonging to the subgroup in Sweden will be merged into a single business entity to be known as HKScan Sweden. Scan and Pärsons, which have previously operated as business units, will continue as brands in HKScan’s business in Sweden. The aim is to continue to further develop the brands, the product offering, as well as raising the added-value of the products.

In addition, HKScan will streamline the structure of production and revamp the organisation. When the plan is implemented HKScan’s commercial, production and logistics organisations and other operations supporting the business in Sweden will be merged. Regarding the actions previously announced, the aim is to employ the plan in order to transfer the production of semi-finished products from Strövelstorp to the production facilities located in Halmstad and Kristianstad, Sweden. The plan, when implemented, will mean the discontinuation of production operations at the Strövelstorp plant. Negotiations concerning the plan with the employee representatives have been started in Sweden by initiating employer-employee negotiations. The implementation of the plan will mean a workforce reduction of approximately 100 white-collar employees and 50 blue-collar employees.

MARKET AREA: DENMARK

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Net sales	51.4	55.9	109.1	113.5	228.1
EBIT	1.5	-0.5	1.7	-1.0	-3.7
- EBIT margin, %	2.8	-1.0	1.6	-0.9	-1.6

In Denmark, net sales in the second quarter were EUR 51.4 million (EUR 55.9 m). EBIT for the period came in at EUR 1.5 million (EUR -0.5 m) and was 2.8 per cent (-1.0%) of net sales. It is estimated that because of the fire, the net sales for June were 20 per cent lower than planned. The EBIT includes non-recurring items amounting to EUR 3.4 million (net) due to the fire.

Sales and the launch of fresh poultry products onto the Swedish market progressed as planned during April-May. Sales development, as well as the investment programme which was almost at its final phase, were partly interrupted after the fire at the Vinderup plant in early June.

Lines in the production plant could be restarted to a certain degree quite soon after the fire. The reparations have proceeded as planned. Additionally at the moment, part of poultry slaughtering has been returned to temporary production lines at Vinderup. According to plans, full production will be restarted in December at the latest. The insurances are estimated to cover both the material damages and those caused by the business interruption. The amount of the damage in euros will be specified further during the rest of the year. At the moment it is estimated that the total amount of damages will amount to more than EUR 50 million.

At this stage write-downs of EUR 6.3 million in total have been implemented for the property, plant and equipment as well as inventories destroyed in the fire. Correspondingly, a total of EUR 9.8 million in insurance compensation has been allocated on the basis of the property and interruption insurance policy towards other business income. Insurance claims booked in the reporting period are based on occurred costs, write-downs and estimated loss of margin.

MARKET AREA: POLAND

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
*)					
Net sales	86.9	77.0	167.3	147.5	298.9
EBIT	4.5	2.8	7.9	5.8	12.7
- EBIT margin, %	5.1	3.6	4.7	3.9	4.2

*) The figures refer to HKScan's share (50 %) of the Sokolów Group's figures.

In Poland, net sales in the second quarter totalled EUR 86.9 million (EUR 77.0 m), i.e. a growth of up to 13 per cent. When calculated in zloty the growth was even bigger, 21 per cent. EBIT for the period rose to EUR 4.5 million (EUR 2.8 m) and complied with the Group's EBIT target, i.e. 5.1 per cent (3.6%) of net sales.

The second quarter of the year was good in Poland despite the tough market situation and the fierce price competition in retail. Sales of processed products increased and the Sokolów brand strengthened.

At the beginning of the second quarter Sokolów received a license for its exports to China. Full SAP system was implemented in the company's own distribution network in June.

The new slaughtering line at Tarnów and the cold cuts plant at Sokołów Podlaski were introduced mostly during the first half of 2012.

CHANGES IN ORGANISATION

In conjunction with the strategy update and changes of operating model following appointments have been made in HKScan's Management Team and management as announced in a stock release on 10 August 2012: M.Sc.(Tech.) Aki Laiho (39) has been appointed Chief Operating Officer (COO) responsible for the development of HKScan's technology and production, deputy to the CEO and member of the management team; M.Sc.(Econ.) Tuomo Valkonen (45) has been appointed Chief Financial Officer (CFO) of HKScan and member of the management team. The current CFO Irma Kiilunen will continue as Group Treasurer of HKScan. M.Sc.(Econ.) Jukka Nikkinen (49) has been appointed Executive Vice President of the Away from Home (AFH) Business and member of the management team. M.Sc.(Econ.) Samuli Eskola (38) has been appointed Senior Vice President responsible for HKScan's strategy and strategic projects. The above mentioned persons report to CEO Hannu Kottonen.

M.Sc.(Econ.) Pekka Kuokka (55) has been appointed Senior Vice President responsible for ICT at HKScan's Technology & Operations Development. Pekka Kuokka will also act as the Group's Purchasing Director (in addition to his main position) responsible for purchasing categories other than primary production and meat raw materials. Pekka Kuokka reports to Aki Laiho.

HKSCAN’S MANAGEMENT TEAM

From 1 September 2012, the Management Team of HKScan will be comprised as follows: Hannu Kottonen, CEO; Aki Laiho, COO, Chief Operating Officer; Tuomo Valkonen, CFO; Anne Mere (EVP), Executive vice president of Finland and the Baltics; Denis Mattsson, (EVP), Executive vice president of Sweden and Denmark; Jukka Nikkinen, EVP, Away from Home Business; Sirpa Laakso, EVP, HR, and Markku Suvanto, EVP, Legal & Administration, who also acts as the Secretary of the Management Team.

CHANGES TO THE CORPORTE STRUCTURE

HKScan announced on 29 June 2012 that it will clarify and simplify its corporate structure in Finland in order to harmonize the Group’s operational policies and to streamline its internal administration.

HKScan Finland Oy and its wholly owned subsidiaries − Järvi-Suomen Portti Oy and Helanderin Teurastamo Oy, which has already earlier discontinued its business operations − will be merged into HK Ruokatalo Oy.

The company has submitted the merger plan concerning the restructuring programme (described above) to the Trade Register on 29 June 2012. It is planned that the mergers will be completed by 31 December 2012.

Concerning the restructuring of the business in Sweden, a stock exchange release was announced on 10 August 2012. See further chapters “Market area Sweden” and “Events after the reporting period”.

INVESTMENTS

The Group’s production-related gross investments in the second quarter totalled EUR 13.8 million (EUR 17.3 m) and in January-June EUR 33.6 million (EUR 32.4 m). They were divided by market area as follows:

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Finland	3.2	5.6	6.5	10.3	17.3
Baltics	2.3	3.4	4.7	6.3	12.4
Sweden	2.1	3.2	5.0	5.7	8.9
Denmark	2.3	1.7	7.8	2.8	7.8
Poland [1)]	4.0	3.3	9.7	7.2	14.5
Total	**13.8**	**17.3**	**33.6**	**32.4**	**61.0**

[1)] HKScan's share (50%) of Sokolów investments.

In Finland, the investments concerned the repair and maintenance of the production lines. In Sweden, the investments were made in process development in Linköping and the Svensk Rapsgris concept in Skara. In Denmark, the investments involved the improvement of Rose Poultry’s production processes. The fire in early June interrupted the investment programme in Vinderup. In the market area of the Baltics, the investments involved energy savings and primary production as well the programme for restructuring production at Tallegg. In Poland, the investments included the beef slaughtering line at the Tarnów plant and development of the Sokolów Podlaski production facility.

FINANCING

The Group’s interest-bearing debt at the end of June stood at EUR 522.4 million (EUR 508.7 m). Gross interest-bearing debt at the turn of the year was EUR 504.2 million. The growth in debt compared with the situation at the turn of the year is attributable to currency changes, paid dividend and tying up of working capital. Compared with the corresponding period in 2011, the debt increased due to currency changes and especially the tying up of working capital.

Group net financial expenses in January-June totalled EUR -16.0 million (EUR -12.9 m). Net financial expenses increased compared with the previous year due to higher debt, higher margins on loans and non-recurring expenses for financing arrangements. Because of interest rate hedging, decreased general interest levels have not significantly lowered the financial expenses.

Untapped credit facilities on 30 June 2012 stood at EUR 176.8 million (EUR 171.9 m). In addition, the Group had other untapped overdraft and other facilities of EUR 28.1 million (EUR 39.9 m). The EUR 200 million commercial paper programme had been drawn to the amount of EUR 142.5 million (EUR 60.0 m).

The equity ratio at the end of June was 32.7 per cent (33.7%). The equity ratio at the turn of the year was 33.6 per cent.

SHARES

At the end of June 2012, the HKScan Group's share capital stood at EUR 66 820 528.10. The Group's total number of shares issued was 55 026 522, and was divided into two share series as follows: A Shares, 49 626 522 (90.19% of the total number of shares) and K Shares 5 400 000 (9.81%). The A Shares are quoted on the NASDAQ OMX Helsinki. The K Shares are held by LSO Osuuskunta (4 735 000 shares) and Sveriges Djurbönder ek.för. (665 000 shares) and are not listed. The company held 53 734 A Shares as treasury shares at the end of June.

HKScan’s market capitalization at the end of June 2012 stood at EUR 208.6 million. It breaks down as follows: The Series A shares had a market value of EUR 188.1 million and the unlisted Series K shares a calculated market value of EUR 20.5 million.

In January-June 2012, a total of 5 702 100 of the company’s shares with a total value of EUR 28 032 244 were traded. The highest price quoted in the period under review was EUR 6.40 and the lowest EUR 3.17. The median price was EUR 4.87. At the end of June, the closing price was EUR 3.79.

At the end of June 2012, foreign and nominee-registered shareholders held 14.9 per cent of the company’s shares.

HKScan has a market making agreement with FIM Pankkiiriliike Oy which meets the requirements of NASDAQ OMX’s Liquidity Providing (LP) operation.

REPURCHASE OF OWN SHARES

On 4 June 2012, the former owners of the Danish company Rose Poultry A/S – Vinderup Poultry A/S, Skovsgaard Fjerkræslagteri A/S and Hedegaard A/S – invoked their put option under the terms of the share purchase agreement, announced on 9 September 2010, concerning the shares in Rose Poultry A/S. Consequently, HKScan repurchased 1 000 000 its own Series A shares for EUR 8 000 000 (á 8.00 euros/share). The payment was made on 6 August.

The share repurchase concerns the acquisition of Rose Poultry A/S concluded in 2010. More detailed information about the agreement was announced in HKScan’s stock exchange release on 9 September 2010.

The repurchased shares remain in the company. The total amount of own shares will thus be a total of 1 053 734 series A shares.

ANNUAL GENERAL MEETING AND BOARD OF DIRECTORS’ AUTHORIZATIONS

The Annual General Meeting of HKScan Corporation held on 25 April 2012 in Helsinki adopted the parent company’s and consolidated financial statements and discharged the members of the Board of Directors and the CEO from liability for the year 2011.

The AGM resolved that a dividend of EUR 0.17 per share be paid for 2011 in accordance with the proposal made by the Board of Directors. In addition, the AGM agreed on the annual remuneration and remuneration for meeting attendance for Board members and the chairs of the committees.

Niels Borup, Tero Hemmilä Juha Kylämäki, and Henrik Treschow were re-elected to the Board, and Gunilla Aschan and Teija Andersen were elected as new members. At the organisation meeting held after the AGM, the Board re-elected Juha Kylämäki as chairman and Niels Borup as deputy chairman.

Authorized Public Accountants PricewaterhouseCoopers Oy, with APA Johan Kronberg as principal auditor, and APA Petri Palmroth were appointed as auditors. The deputy auditors are APA Mika Kaarisalo and APA Jari Viljanen.

The AGM gave the following three authorizations to the Board:

(1) The Board of Directors was authorized to decide on share issue as well as issue of option rights and other special rights entitling to shares. The shares issued under the authorization are new Series A shares of the Company. Under the authorization, a maximum of 2 500 000 Series A shares, which corresponds to approximately 4.50 per cent of all of the shares in the Company and approximately 5.00 per cent of all the Series A shares in the Company, can be issued. The shares, option rights or other special rights entitling to shares can be issued in one or more tranches.
(2) The Board of Directors was authorized to decide on the purchase of the Company's own Series A shares and/or on the acceptance of the Company's own Series A shares as a pledge as follows. The aggregate number of own Series A shares to be acquired and/or accepted as a pledge shall not exceed 2 500 000 Series A shares in total, which corresponds to approximately 4.50 per cent of all of the shares in the Company and approximately 5.00 per cent of all the Series A shares in the Company. However, the Company together with its subsidiaries cannot at any moment own and/or hold as a pledge more than 10 per cent of all the shares in the Company.
The above authorizations revoke authorizations granted on 27 April 2011 by the Annual General Meeting to the Board of Directors.

(3) The Board of Directors was authorized to decide on the transfer of the Company's own shares. Under the authorization, a maximum of 2 500 000 Series A Shares, which corresponds to approximately 4.50 per cent of all of the shares in the Company and approximately 5.00 per cent of all the Series A shares in the Company, can be transferred. The Company's own shares may be transferred in one or several tranches. The Board of Directors decides on all the conditions for the transfer of own shares. To avoid any doubt, this authorization does not invalidate any other authorizations decided in the meeting.

All the authorizations given to the Board will be effective until 30 June 2013.

During January-June 2012, the Board did not exercise the authorizations described above. Related to the share repurchase payment carried out on 6 August 2012, see "Share repurchase" and "Events after the reporting period".

EMPLOYEES

During the first half of 2012, HKScan, excluding Sokolów in Poland, had an average workforce of 8 164 employees (8 594).

The number of employees in Finland has increased mainly due to the intake of outsourced cutting operations. In Sweden, Denmark and the Baltics, the numbers of employees have decreased as a consequence of efficiency programmes.

The average number of employees by market area was as follows:

	Q1-Q2/2012	Q1-Q2/2011	2011
Finland	2 832	2 773	2 750
Baltics	1 783	1 905	1 881
Sweden	2 761	3 008	2 789
Denmark	788	908	867

Total	**8 164**	**8 594**	**8 287**

In addition, the Sokolów Group employed an average of 6 166 (6 192) persons during the period. In 2011, the average number of personnel was 6 191.

On 30 June the number of employees, excluding Sokolów in Poland, stood at 8 990 (9 309).

Division of employees by market area on 30 June is as follows:

	30.6.2012	30.6.2011	31.12.2011
Finland	3 254	3 249	2 568
Baltics	1 787	1 913	1 803
Sweden	3 115	3 259	2 704
Denmark	834*)	888	807
Total	**8 990**	**9 309**	**7 882**

Additionally, the Sokolów Group had 6 491 (6 363) employees at the end of the period under review. At the end of 2011, the corresponding number was 6 175.
*) The figure includes approximately 200 persons laid off because of the fire.

RISKS AND UNCERTAINTY FACTORS IN THE NEAR FUTURE

The most significant uncertainty factors in the HKScan Group's business are connected – through price increases for feed raw material in particular and other production inputs related to primary production - to the price development and availability of local meat raw material as well as with the adequacy of increases in the sales prices for the products in relation to cost development. Market area-specific factors of uncertainty have to do with the implementation of the business development programmes. The factors are also related to recovery from the production break at the Vinderup plant in Denmark on the market.

Challenges in the global economic situation will continue. Major fluctuations in the Group's central currencies and higher interest rates may affect the Group's competitiveness, net sales, earnings and balance sheet. Changes in demand attributable to the financial situation, such as growing unemployment, may occur in the Group's market areas or its export markets. These may affect the Group's net sales and earnings.

Rapid and unforeseeable procedures by the authorities may affect the company's business in its export markets.

The possibility of animal diseases can never be fully excluded in the food industry's raw meat supplies.

EVENTS AFTER THE REVIEW PERIOD

On 6 August, HKScan published a stock exchange release on having repurchased own shares according to the announcement in June. The company acquired 1 000 000 HKScan series A shares for EUR 8 000 000 (á 8,00 euros/share) on 6 August 2012. The acquisition pertains to the share purchase agreement of the Danish company Rose Poultry A/S, announced on 9 September 2010 and 4 June 2012. After the acquisition HKScan has in total 1 053 734 Series A own shares.

HKScan's strategy reshape as well as the renewal of the Group's operating model and organisation have been announced in a specific stock exchange release on 10 August 2012 and also described in "the Group overview" in this report.

On 10 August 2012, HKScan announced a plan on enhancing the Group's business in Sweden. The plan aims to achieve an annual performance improvement of approximately EUR 10 million. The changes are planned to be implemented by the middle of 2013.

The aim is to clarify and streamline the structure of the business in Sweden in line with the Group's new operating model. The plan is that the wholly-owned subsidiaries belonging to the subgroup in Sweden will be merged into a single business entity to be known as HKScan Sweden. Scan and Pärsons, which have previously operated as business units, will continue as brands in HKScan's business in Sweden. The aim is to continue to further develop the brands and the product offering, as well as raising the added-value of the products.

In addition, HKScan will streamline the structure of production and revamp the organisation. When the plan is implemented, HKScan's commercial, production and logistics organisations and other operations supporting the business in Sweden will be merged. Regarding the actions previously announced, the aim is to employ the plan in order to transfer the production of semi-finished products from Strövelstorp to the production facilities located in Halmstad and Kristianstad, Sweden. The plan, when implemented, will mean the discontinuation of production operations at the Strövelstorp plant. Negotiations concerning the plan with the employee representatives have been started in Sweden by initiating employer-employee negotiations. The implementation of the plan will mean a workforce reduction of approximately 100 white-collar employees and 50 blue-collar employees.

FUTURE OUTLOOK

Consumer demand for meat is expected to remain steady in the Group's home markets.

Control of the sector is highly challenging, because prices of meat raw material are difficult to predict under cost pressure in primary production. The Group will improve its profitability through its development programmes, raising sales prices and through the controlled adjustment of procurement volumes. Rectifying the performance level of the business in Sweden will have a significant impact on the Group during the end of the year.

HKScan keeps unchanged the 2012 outlook given in the January-March interim report: due to the weak development of business in Sweden, there is a risk that the Group's EBIT for 2012 will come out below the level of 2011.

CONSOLIDATED INTERIM REPORT 1 JANUARY – 30 JUNE 2012

CONSOLIDATED INCOME STATEMENT

(EUR million)	Note	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
NET SALES		644.3	630.6	1 250.4	1 223.3	2 491.3
Operating income and expenses	1.	-615.1	-605.8	-1 203.5	-1 179.4	-2 380.5
Share of associates' results		-0.2	0.2	-0.3	0.4	1.1
Depreciation and impairment	1.	-23.5	-18.3	-41.7	-36.3	-72.3
EBIT		5.5	6.7	4.9	8.0	39.6
Financial income		1.5	1.9	3.4	3.5	7.4
Financial expenses		-9.5	-9.5	-19.3	-16.4	-38.3
Share of associates' results		0.9	0.8	1.7	1.4	2.5
PROFIT/LOSS BEFORE TAXES		-1.6	-0.1	-9.4	-3.5	11.3
Income taxes		1.8	1.1	4.3	1.8	1.0
PROFIT/LOSS FOR THE PERIOD		0.1	1.0	-5.1	-1.7	12.2
PROFIT/LOSS FOR THE PERIOD ATTRIBUTABLE TO:						
Equity holders of the parent		0.0	0.6	-5.1	-2.5	10.1

Non-controlling interests		0.1	0.4	0.0	0.8	2.1
Total		0.1	1.0	-5.1	-1.7	12.2

Earnings per share calculated on profit attributable to equity holders of the parent company:

EPS, undiluted, continuing operations, EUR/share	0.00	0.01	-0.09	-0.05	0.18
EPS, diluted, continuing operations, EUR/share	0.00	0.01	-0.09	-0.05	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY – 30 JUNE

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	31.12.2011
Profit/loss for the period	0.1	1.0	-5.1	-1.7	12.2
OTHER COMPREHENSIVE INCOME (after taxes):					
Exchange differences on translating foreign operations	-0.2	-2.8	4.1	-1.7	-2.5
Cash flow hedging	-0.9	-1.7	-0.4	1.0	-7.4
Revaluation	0.0	0.0	0.2	0.0	0.0
TOTAL OTHER COMPREHENSIVE INCOME	-1.1	-4.5	3.9	-0.8	-9.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-0.9	-3.5	-1.2	-2.5	2.4
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent company	-1.1	-4.0	-1.2	-3.2	0.3
Non-controlling interests	0.1	0.5	0.1	0.8	2.1
Total	-0.9	-3.5	-1.2	-2.5	2.4

CONSOLIDATED BALANCE SHEET

(EUR million)	Note	30.6.2012	30.6.2011	31.12.2011
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	2.	77.0	75.0	76.6
Goodwill	3.	101.6	99.4	101.0
Tangible assets	4.	513.0	530.2	516.5
Shares in associates		30.2	27.9	29.9
Trade and other receivables		35.2	29.0	31.1
Available-for-sale investments		13.4	12.1	13.0
Deferred tax asset		28.1	14.8	21.1
NON-CURRENT ASSETS		798.5	788.4	789.2

CURRENT ASSETS				
Inventories	5.	183.8	174.3	190.2
Trade and other receivables		234.0	227.9	223.8
Income tax receivable		2.3	4.4	1.5
Other financial assets		0.4	0.4	0.4
Cash and bank		38.7	43.6	48.0
CURRENT ASSETS		459.2	450.5	463.8
ASSETS		1 257.7	1 238.8	1 253.0
EQUITY AND LIABILITIES				
EQUITY				
Share capital	6.	66.8	66.8	66.8
Share premium reserve		73.4	73.4	73.4
Treasury shares		0.0	0.0	0.0
Fair value reserve and other reserves		154.6	162.3	153.2
Translation differences		2.1	-2.0	-1.9
Retained earnings		102.1	105.3	117.9
Equity attributable to equity holders of the parent company		398.9	405.8	409.3
Non-controlling interests		11.4	10.9	12.2
EQUITY		410.3	416.7	421.5
NON-CURRENT LIABILITIES				
Deferred tax liability		37.9	37.3	36.9
Non-current interest-bearing liabilities		334.6	407.6	333.5
Non-current non-interest bearing liabilities		2.3	12.6	3.0
Non-current provisions		0.6	1.4	0.6
Pension obligations		3.0	3.0	3.1
NON-CURRENT LIABILITIES		378.5	461.9	377.1
CURRENT LIABILITIES				
Current interest-bearing liabilities		187.9	101.1	170.6
Trade and other payables		280.0	255.1	282.9
Income tax liability		0.4	3.2	0.1
Current provisions		0.7	0.8	0.7
CURRENT LIABILITIES		468.9	360.2	454.4
EQUITY AND LIABILITIES		1 257.7	1 238.8	1 253.0

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR million	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
EQUITY AT 1.1.2012	**66.8**	**73.4**	**-13.9**	**143.5**	**23.5**	**-1.9**	**0.0**	**117.9**	**409.3**	**12.2**	**421.5**
Result for the financial period								-5.1	-5.1	0.0	-5.1

Transl. diff.						4.0			4.0	0.1	4.1
Cash flow hedging			-0.4						-0.4		-0.4
Revaluat.					0.2				0.2		0.2
Total compreh. income for the period			**-0.4**		**0.2**	**4.0**		**-5.1**	**-1.2**	**0.1**	**-1.2**
Shared-based compens. expense									0.0		0.0
Other change									0.0		0.0
Direct recognit. in retained earnings								0.2	0.2		0.2
Transfers between items					1.6			-1.6	0.0		0.0
Share issue									0.0		0.0
Purchase of treasury shares									0.0		0.0
Increase in holdings in subsidiaries									0.0		0.0
Dividend distribution								-9.3	-9.3	-0.9	-10.2
EQUITY AT 30.6.2012	**66.8**	**73.4**	**-14.2**	**143.5**	**25.3**	**2.1**	**0.0**	**102.1**	**398.9**	**11.4**	**410.3**

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
EQUITY AT 1.1.2011	**66.8**	**73.4**	**-6.5**	**143.5**	**17.4**	**0.6**	**0.0**	**124.4**	**419.6**	**11.1**	**430.6**
Result for the financial period								-2.5	-2.5	0.8	-1.7
Transl. diff.		0.0	0.0		0.2	-2.6		0.8	-1.6	-0.1	-1.7
Cash flow hedging			1.0						1.0		1.0
Total compreh. income for the period		**0.0**	**1.0**		**0.2**	**-2.6**		**-1.7**	**-3.2**	**0.8**	**-2.5**
Shared-based compens. expense									0.0		0.0
Other change									0.0	0.0	0.0
Direct recognit. in retained earnings								1.5	1.5		1.5

Transfers between items					6.8			-6.8	0.0		0.0
Share issue									0.0		0.0
Purchase of treasury shares									0.0		0.0
Increase in holdings in subsidiaries									0.0		0.0
Dividend distribution								-12.1	-12.1	-0.9	-13.0
EQUITY AT 30.6.2011	**66.8**	**73.4**	**-5.5**	**143.5**	**24.4**	**-2.0**	**0.0**	**105.3**	**405.8**	**10.9**	**416.7**

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

CASH FLOW STATEMENT

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
Operating activities			
Cash flow from operating activities	36.4	30.9	79.9
Financial items and taxes	-22.2	-13.6	-26.1
Net cash flow from operating activities	14.2	17.3	53.9
Investments			
Gross investments in property, plant and equipment	-32.7	-31.7	-60.4
Disposals of property, plant and equipment	0.8	1.0	1.9
Investments in subsidiary	-	-	-
Shares in associates purchased	-0.1	-0.2	-1.0
Shares in associates sold	0.6	0.0	0.0
Loans granted	-0.4	-2.1	-1.8
Repayments of loans receivable	0.3	1.1	2.1
Net cash flow from investing activities	-31.5	-31.9	-59.2
Cash flow before financing activities	-17.3	-14.6	-5.4
Financing activities			
Current borrowings raised	43.8	28.0	76.8
Current borrowings repaid	-26.8	-81.8	-98.3
Non-current borrowings raised	103.6	109.7	159.4
Non-current borrowings repaid	-102.5	-57.7	-142.4
Dividends paid	-9.9	-12.1	-12.7
Net cash flow from financing activities	8.1	-13.9	-17.1
Change in cash and cash equivalents	-9.1	-28.5	-22.5

Cash and cash equivalents at 1.1.	48.4	73.4	73.4
Effect of changes in exchange rates on cash and cash equivalents	-0.2	-1.0	-2.5
Cash and cash equivalents at 30.6.	39.0	43.9	48.4

FINANCIAL INDICATORS

	30.6.2012	30.6.2011	31.12.2011
Earnings per share (EPS), undiluted, EUR	-0.09	-0.05	0.18
Earnings per share (EPS), diluted, EUR	-0.09	-0.05	0.18
Equity per share at 31 March, EUR	7.46	7.38	7.67
Equity ratio, %	32.7	33.7	33.6
Adjusted average number of shares, mil.	55.0	55.0	55.0
Gross capital expenditure on PPE, EUR mil.	33.6	32.4	61.0
Employees, end of month average	8 164	8 594	8 287

NOTES TO THE CONSOLIDATED INTERIM REPORT

ACCOUNTING POLICIES

HKScan Corporation's interim report for 1 January – 30 June 2012 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 2011. There are no IFRS standards or IFRIC interpretations that have become effective in the period under review that would have a material impact on the Group. 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. These accounting principles are explained in the financial statements for 2011.

ANALYSIS BY SEGMENT

Net sales and EBIT by market area

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
NET SALES					
- Finland	212.8	207.9	410.4	395.9	812.4
- Baltics	46.8	44.1	87.3	83.5	173.3
- Sweden	267.0	263.0	513.9	515.4	1 045.7
- Denmark	51.4	55.9	109.1	113.5	228.1
- Poland	86.9	77.0	167.3	147.5	298.9
- Between segments	-20.5	-17.4	-37.6	-32.4	-67.1
Group total	644.3	630.6	1 250.4	1 223.3	2 491.3
EBIT					
- Finland	2.7	0.7	5.4	0.1	12.1
- Baltics	3.1	2.7	3.8	3.6	9.8
- Sweden	-4.2	4.0	-9.7	4.3	17.2
- Denmark	1.5	-0.5	1.7	-1.0	-3.7
- Poland	4.5	2.8	7.9	5.8	12.7
- Between segments	-	-	-	-	-
Segments total	7.6	9.6	9.2	12.7	48.0
Group administration costs	-2.1	-2.9	-4.3	-4.7	-8.4

Group total	5.5	6.7	4.9	8.0	39.6

NOTES TO THE INCOME STATEMENT

1. NON-RECURRING ITEMS

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/2012	Q1-Q2/2011	2011
Insurance claim [1)]	9.8	-	9.8	-	-
Impairment of stock [1)]	-0.9	-	-0.9	-	-
Impairment of fixed assets [2)]	-5.4	-	-5.4	-	-
Non-recurring items total	3.5	-	3.5	-	-

[1)] Included in the Income Statement in the item ”Operating income and expenses”

[2)] Included in the Income Statement in the item ”Depreciation and impairment”

NOTES TO THE STATEMENT OF FINANCIAL POSITION

2. CHANGES IN INTANGIBLE ASSETS

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
Carrying amount at beginning of period	76.6	77.1	77.1
Translation differences	1.0	-1.5	0.3
Increase	0.6	0.7	2.3
Increase (acquisitions)	-	-	-
Decrease	0.0	-0.1	-0.3
Depreciation and impairment	-2.1	-1.9	-4.0
Transfer to other balance sheet item	0.9	0.7	1.1
Carrying amount at end of period	77.0	75.0	76.6

3. CHANGES IN GOODWILL

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
Carrying amount at beginning of period	101.0	100.4	100.4
Translation differences	0.6	-1.4	0.2
Increase	-	0.4	0.4
Increase (acquisitions)	-	0.0	0.0
Decrease	-	-	-
Depreciation and impairment	-	-	-
Transfer to other balance sheet item	-	-	-
Carrying amount at end of period	101.6	99.4	101.0

4. CHANGES IN PROPERTY, PLANT AND EQUIPMENT

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
Carrying amount at beginning of period	516.5	537.8	537.8
Translation differences	6.3	-1.8	-7.9
Increase	31.7	30.3	56.2
Increase (acquisitions)	-0.1	0.7	1.3
Decrease	-0.5	-0.9	-1.2
Depreciation and impairment	-40.0	-34.4	-67.7
Transfer to other balance sheet item	-0.9	-1.5	-1.8
Carrying amount at end of period	513.0	530.2	516.5

5. INVENTORIES

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
Materials and supplies	81.7	86.3	88.7
Unfinished products	11.9	11.2	9.1
Finished products	70.7	58.3	72.1
Goods	0.0	0.0	0.0
Other inventories	7.9	8.1	7.7
Prepayments for inventories	3.2	2.2	4.5
Live animals. IFRS 41	8.4	8.2	7.9
Total inventories	183.8	174.3	190.2

6. NOTES TO EQUITY

Share capita and share premium reserve	Number of outstanding shares	Share capital	Share premium reserve	Reserve for invested unrestricted equity	Treasury	Total
1.1.2012	54 972 788	66.8	72.9	143.5	0.0	283.2
30.6.2012	54 972 788	66.8	72.9	143.5	0.0	283.2

DERIVATIVE INSTRUMENT LIABILITIES

(EUR million)	30.6.2012	30.6.2011	31.12.2011
Nominal values of derivative instruments			
Foreign exchange derivatives	95.5	77.1	63.2
Interest rate derivatives	285.2	276.5	283.8
Electricity derivatives	11.0	10.4	11.1
Fair values of derivative instruments			
Foreign exchange derivatives	-1.3	0.4	-0.5
Interest rate derivatives	-23.2	-12.2	-23.0
Electricity derivatives	-1.4	0.5	-1.1

OTHER CONSOLIDATED CONTINGENT LIABILITIES

(EUR million)	30.6.2012	30.6.2011	31.12.2011
Debts secured by			
pledges or mortgages			
- loans from financial institutions	367.9	39.6	34.1
Given as security			
- real estate mortgages	76.0	63.4	63.0
- pledges	5.1	6.3	5.1
- floating charges	23.5	44.6	22.8

For associates			
- guarantees	5.1	5.3	5.2
For others			
- guarantees and pledges	13.4	14.0	14.0
Other contingencies			
Leasing commitments	23.9	25.8	26.2
Rent liabilities	57.9	43.4	61.0
Other commitments	7.8	20.3	7.8

The parent company has pledged the shares of its subsidiaries, HKScan Finland Oy and Scan Ab, as security for its loans.

BUSINESS TRANSACTIONS WITH RELATED PARTIES

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
Sales to associates	43.7	29.5	73.0
Purchases from associates	19.7	24.8	47.3
Trade and other receivables	3.7	1.7	2.8
Trade and other payables	9.3	8.7	9.1

NEXT FINANCIAL REPORT

The HKScan Group's interim report for January-September 2012 will be published on Tuesday 6 November, 2012.

Vantaa, 10 August 2012

HKScan Corporation
Board of Directors

Further information is available from HKScan Corporation's CEO, Hannu Kottonen. Please leave any messages for him with HKScan's communications manager Marja Siltala, firstname.surname@hkscan.com, tel. +358 10 570 2290 or with executive assistant Marjukka Hujanen, tel. +358 10 570 6218.

HKScan is one of the leading food companies in northern Europe with home markets in Finland, Sweden, Denmark, the Baltic countries and Poland. HKScan manufactures, sells and markets pork and beef, poultry products, processed meats and convenience foods under strong brand names. Its customers are retail, the Food Service, industry and export sectors. It had net sales of EUR 2.5 billion in 2011 and some 11 400 employees.

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