



**HKSCAN**

# **Report of the Board of Directors and Financial Statement 2019**



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# Report of the Board of Directors for the financial year 2019

- HKScan's net sales increased by 1.7 per cent and were EUR 1,744.4 (1,715.4) million. In comparable currencies, net sales were EUR 1,765.2 million, representing an increase of 2.9%.
- Comparable EBIT improved by EUR 44.1 million to EUR -2.2 (-46.3) million. The impact on the EBIT from changes in currency rates was EUR -0.4 million.
- HKScan recorded a total of EUR -21.0 (-2.0) million in non-recurring items impacting the EBIT.
- EBIT improved by EUR 25.1 million but remained negative at EUR -23.2 (-48.3) million.
- The strong improvement of the poultry business performance in Finland continued and was the most significant factor strengthening the Group's EBIT and cash flow. Also, commercial successes, operational efficiency and cost control improved the EBIT.
- Cash flow from operating activities improved by EUR 73.5 million to EUR 59.2 (-14.3) million.
- In June 2019, the company raised gross proceeds of approximately EUR 71.9 million in a successful directed share issue, strengthening the Group's capital structure. In July 2019, the company agreed with its financing banks on a new credit agreement that replaced its earlier bank loans.
- Interest-bearing net debt was EUR 275.8 (335.6) million and net gearing 84.8 (103.3) per cent including an IFRS16 impact of approximately 14 percentage points.
- HKScan's new Group strategy was published in November 2019.
- The company decided to introduce a new Group-wide operating model from the beginning of 2020 to support the implementation of the Turnaround Programme and Group strategy. The new operating model emphasises Business Units' profit responsibility.
- Outlook for 2020: HKScan estimates that the Group's comparable EBIT in 2020 will improve compared to 2019.

## HKScan's CEO Tero Hemmilä

We started the Turnaround programme at HKScan at the beginning of 2019. The programme proceeded as planned and we are pleased with the achieved profit improvement. The Group's comparable EBIT improved by over EUR 44 million from the comparison year but was still EUR -2.2 million negative. We are on the right track and our profit improvement is almost on target. EBIT improved by over EUR 25 million from the comparison year and was EUR -23.2 million negative. The most significant non-recurring items in 2019 were related to the Rauma poultry unit, adjusting the number of personnel and impairment of assets in the Danish operations.

The company's cash flow from operating activities improved significantly in 2019 and was EUR 59.2 million positive, almost EUR 74 million higher than in the comparison year. Cash flow after investing activities was EUR 27.6 million positive. In the last quarter, cash flow from operating activities was EUR 48.6 million positive, almost EUR 17 million up from the comparison period.

In 2019, all HKScan's market areas improved their comparable EBIT. Finland and the Baltics were the best performers. Clear improvement was also seen in Sweden. Due to a clearly improved second half in 2019, Denmark achieved a better comparable EBIT compared to the previous year. It is clear that the Group's profitability is not yet at a satisfactory level, but we will continue our goal-oriented, systematic work together with the entire personnel.

HKScan's full-year net sales increased by 1.7 per cent, totalling EUR 1,744.4 million. In comparable figures, growth was seen in all market areas and in all product categories. During the second half of the year, we became the market leader in the Finnish poultry category and Kariniemen gained a market leadership position in branded products. Sales increased significantly both in the food service channel and in the Group's exports.

In Finland and Sweden, total meat consumption decreased slightly. In our estimation, the rise in consumer prices of meat has contributed to the consumption decline.

Growth in poultry consumption was strong while pork and beef consumption declined. According to our own estimates, total meat consumption continued to grow in the Baltics, both in pork, beef and poultry. In Denmark, poultry consumption continued to grow. We expect the clear increase in poultry to continue in all our home markets in the coming years.

Our pork exports from Finland to China increased, with volumes in line with targets. The demand is forecasted to remain strong also in 2020. The volatility of market prices is expected to continue. We will continue to work closely with the authorities in our home markets to obtain export licenses also for poultry and beef in China. The exceptional situation in the Chinese pork market caused by African swine fever has some impact on the demand for other types of meat and on world market prices.

We emphasise the role of meat as part of a healthy diet and the importance of responsible Northern livestock production in ensuring national food security in our home markets. The Group's new responsibility programme is based on leading and promoting responsibility throughout our long value chain from farms to consumers. Wide-ranging environmental responsibility, healthy and sustainably produced food, animal welfare as well as wellbeing and competence development of all the people involved in our operations are at the heart of our responsibility work. These priorities are based on an extensive stakeholder survey conducted in autumn 2019 and on our customers' responsibility requirements.

Our responsibility work develops as a systemic change guiding all our operations. Together with our partners, we will build an ecosystem that improves profitability and sustainability footprint across our value chain.

At the beginning of November, we published the Group's new strategy. HKScan's strategic target is to grow profitably into a versatile food company with a focus on poultry meat and meals as growth drivers, while keeping the responsibly produced pork and beef as well as processed meat products at the heart of our activities. We are also actively looking into new product categories and raw materials. We want to have a stronger presence in consumers' food moments and strengthen our market position in evolving markets together with our customers.

The new strategy provides direction for the company's development in the coming years.

In November, we published a strategic partnership with Hes-Pro (Finland) Oy. HKScan will sell and market Hes-Pro's plant protein products under its own product brands in the retail and food service channels in selected markets.

In December, the company decided to introduce a new Group-wide operating model targeted to strengthen market area-level profit responsibility and performance management as well as a customer and consumer-driven way to operate. The new operating model was launched at the beginning of 2020.

We have decided to continue increasing capacity and improving productivity in the Rauma poultry unit; we will invest approximately EUR 6.0 million in renewing the slaughter process. The investment will be implemented in stages at the end of 2020. With the investment, raw material yields, productivity and operational reliability will improve, and the capacity of the whole unit can be significantly increased to meet the strongly growing demand for poultry meat in the coming years. The current slaughter line does not correspond to the functional level we have set as our target in the Rauma poultry unit.

HKScan's strong profit improvement, significantly strengthened cash flow, successful share issue in summer 2019 and loan restructuring have provided the company with a solid foundation for continuing the systematic work to improve profitability and build the conditions for growth. We will continue the systematic implementation of our Turnaround programme, with our new strategy setting guidelines for the development and profitable growth of the company. Our goal is to make HKScan an attractive company that rewards its owners and is among the leading companies in its field.

## **Group net sales and EBIT**

The Group's net sales increased by 1.7 per cent and were EUR 1,744.4 (1,715.4) million. In comparable currencies, net sales increased by 2.9 per cent to EUR 1,765.2 million.

Comparable EBIT improved by EUR 44.1 million and was EUR -2.2 (-46.3) million. EBIT was EUR -23.2 (-48.3) million. The impact on the comparable EBIT from changes in currency rates was EUR -0.4 million.

The increase in net sales was mainly due to the recovery of the poultry business in Finland. Sales development in all markets was supported by the increase in global meat market prices and the strengthened demand for domestic meat. Pork exports from Finland to China increased and were in line with set targets, but the exports to China still have only a minor impact on Group figures.

The Group's comparable EBIT improved by EUR 44.1 million from the previous year. The main contributors to the performance improvement were the positive development of the poultry business in Finland as well as commercial successes in all market areas, improved operational efficiency and Group-wide savings in both personnel and administration costs. Due to the improved profitability, the Group's cash flow from operating activities improved significantly, by nearly EUR 73.5 million from the corresponding period.

The full-year EBIT was burdened by non-recurring items totalling EUR -21.0 million. The most significant items were an impairment loss of EUR -4.5 million in Denmark as a result of an impairment test in the first quarter, a non-recurring cost of EUR -4.2 million relating to the completed statutory negotiations in the second quarter and an impairment loss of EUR -6.9 million for the Rauma unit's slaughter line as well as an impairment loss of EUR -2.9 million related to the assets of the Swedish associated company in the fourth quarter.

In February 2019, HKScan announced its plans to improve its cost efficiency. The related statutory negotiations were started among white-collar employees and management in all HKScan's operating countries. As an outcome, HKScan's personnel reduced by approximately 180 employees. The actions will result in annual savings of EUR 10 million. The savings related to the changes have materialised as planned and were already partially visible during the review period. The savings impacts will reach their full effect during 2020.

## Balance sheet, cash flow and financing

The Group's interest-bearing debt at the end of December was EUR 313.3 (365.2) million including IFRS 16 lease liability EUR 46.3 (46.8) million. Interest-bearing net debt was EUR 275.8 (335.6) million and it decreased by EUR 59.8 million from the corresponding period in the previous year. The net gearing ratio was 84.8 (103.3) per cent. The impact of IFRS 16 lease liability on net gearing ratio was approximately 14.3 percentage points. Due to the positive financial performance, cash flow from operating activities improved clearly from the corresponding period to EUR 59.2 (-14.3) million. Cash flow after investments was EUR 27.6 (-104.1) million.

The Group's liquidity remained good. Committed credit facilities at the end of December stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 35.0 (35.5) million.

During the second quarter, the company strengthened its financial position with the directed share issue raising gross proceeds of EUR 71.9 million including subscriptions paid by setting off the outstanding receivables based on the notes issued by the company. A total of EUR 43.7 million of the subscriptions were paid in cash and a total of EUR 28.2 million by setting off the outstanding receivables based on the notes issued by the company. Of this amount, EUR 14.9 million represents the amount set off from the hybrid loan issued in September 2018.

During the third quarter, the company signed a new EUR 174.3 million loan agreement with its financing banks. The loan agreement consists of a EUR 100.0 million revolving credit facility and EUR 74.3 million term loan, and it matures at the end of 2021. The new credit agreement replaced the earlier revolving credit facilities and bilateral bank loans that were set to mature in 2020 and 2021. The new loan arrangement has one financial covenant, which is a net gearing ratio of 125%. Net financial expenses in the fourth quarter were EUR -2.5 (-3.3) million and EUR -11.7 (-11.2) million in January-December including fair value change for interest rate derivatives to the amount of EUR 2.4 (1.9) million.

In September, an interest of EUR 2.1 million was paid for the hybrid loan, treated as equity, from the retained earnings.

## Investments

The Group's investments totalled EUR 31.7 (41.0) million. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 11.3 (11.2) million.

The project concerning the modernisation of the Kristianstad unit in Sweden was completed in the first quarter of 2019. The upgrade enables energy savings, enhanced food safety and increased production efficiency.

In Estonia, the investment in the Rakvere unit was completed at the end of the second quarter of 2019. The investment comprised modernisation of the meals related cooking department, installation of new cooking and packaging lines and expansion of the plant. The benefits are seen in increased production capacity as well as in improved productivity and environmental efficiency.

The Group's investments' breakdown by market area was as follows:

(EUR million)	2019	2018
Sweden		
Gross capital expenditure on PPE	8.4	6.4
Additions in right-of-use assets	1.9	1.7
Investments total	10.4	8.1
Finland		
Gross capital expenditure on PPE	9.7	21.9
Additions in right-of-use assets	8.6	7.8
Investments total	18.2	29.7
Denmark		
Gross capital expenditure on PPE	2.0	2.3
Additions in right-of-use assets	0.6	0.7
Investments total	2.6	3.0

(EUR million)	2019	2018
Baltics		
Gross capital expenditure on PPE	11.6	10.4
Additions in right-of-use assets	0.3	0.9
Investments total	11.9	11.3
<b>Group total</b>	<b>43.0</b>	<b>52.2</b>

## Review by market area

### Net sales and EBIT by market area

(EUR million)	2019	2018
<b>NET SALES</b>		
Sweden	652.1	682.1
Finland	770.6	721.9
Denmark	153.3	149.3
Baltics	168.5	162.1
Between segments	0.0	0.0
<b>Group total</b>	<b>1,744.4</b>	<b>1,715.4</b>
<b>EBIT</b>		
Sweden	7.1	8.9
Finland	-10.3	-36.1
Denmark	-9.8	-5.8
Baltics	5.0	-0.7
Between segments	-	-
Segments total	-8.0	-33.6
Group administration costs	-5.2	-14.7
<b>Group total</b>	<b>-23.2</b>	<b>-48.3</b>



## Net sales and EBIT by market area

(EUR million)	2019	2018
<b>Comparable EBIT</b>	<b>-2.2</b>	<b>-46.3</b>
Personnel costs, Group Management <sup>1)</sup>	-	-1.2
Termination of employment, Sweden <sup>1)</sup>	-2.0	-0.1
Closing of sales office, Sweden <sup>3)</sup>	-	-0.2
Impairment of assets, Finland <sup>2)</sup>	-7.3	-0.5
Termination of employment, Group Management <sup>1)</sup>	-1.6	-
Termination of employment, Finland <sup>1)</sup>	-1.3	-
Termination of employment, Baltics <sup>1)</sup>	-0.1	-
Impairment of assets, Denmark <sup>2)</sup>	-4.5	-
Impairment of assets, Group Management <sup>1)</sup>	-1.3	-
Impairment of associated company balances, Sweden <sup>3)</sup>	-2.9	-
<b>EBIT</b>	<b>-23.2</b>	<b>-48.3</b>

<sup>1)</sup> Included in the Income Statement in the item "Employee benefit expenses"

<sup>2)</sup> Included in the Income Statement in the item "Depreciation and amortization"

<sup>3)</sup> Included in the Income Statement in the item "Other operating expenses"

The division of segments is based on the Group's organization and the reporting to the Board of Directors and Management. Management monitors the profitability of business operations by market area. The Group's primary segments are geographical segments: Sweden, Finland, Denmark and the Baltics.

### Market area Sweden

Net sales were EUR 652.1 (682.1) million. Comparable EBIT was EUR 12.0 (9.3) million and EBIT was EUR 7.1 (8.9) million.

Net sales decreased from the comparison period mainly due to the weakened Swedish krona. Net sales were also negatively affected by the transfer of the sales responsibility of Danish poultry sold in Sweden to market area Denmark, amounting to EUR 15.8 million. Adjusted for these effects, sales grew by 1.0 per cent.

Both retail sales of branded products and food service sales improved. The appreciation of Swedish consumers for domestic meat strengthened and supported sales.

Despite the negative local currency development, comparable EBIT increased from the comparison period as a result of commercial successes, improved operational efficiency and lower administration costs. Stock levels remained below the comparison period's level throughout the period.

A non-recurring cost of EUR -1.5 million was recorded in the second quarter in relation to statutory negotiations completed early in the year. A non-recurring cost totalling EUR -2.9 million relating to the assets of the associated company was recorded in the last quarter of the year.

### Market area Finland

Net sales increased by 6.7 per cent and were EUR 770.6 (721.9) million. Comparable EBIT was EUR -1.7 (-35.6) million and EBIT was EUR -10.3 (-36.1) million.

Net sales increased from the comparison period due to poultry sales as well as increased demand for pork and meals. Also the sales of processed meat developed well. The increase in net sales was driven by the improvement in the delivery capability and efficiency of the Rauma poultry unit, supported also by the strengthened Kariniemen brand. This boosted the entire Finnish poultry market. The positive development of subsidiaries Tamminen and Kivikylän also contributed to the strengthening of HKScan's brand portfolio and market position.

Pork exports from Finland to China increased and proceeded as planned. African swine fever, which is spreading in China, and changes in demand in the global pork market together with the increased price level have supported the company in achieving its export targets.

Comparable EBIT improved from the comparison period by EUR 33.9 million mainly as a result of the positive performance of the poultry business, improved operational efficiency and tight cost control.

The positive development in sales of red meat and meals as well as commercial successes boosted full-year profitability, as well.

Stock levels decreased slightly from the comparison period and active measures to balance the meat balance and inventories continued.

The full-year EBIT includes non-recurring items amounting to EUR -8.6 million. The most significant items were the impairment loss of EUR -6.9 million relating to the Rauma slaughter line and the non-recurring cost of EUR -1.1 million recorded in the second quarter in relation to statutory negotiations.

## Market area Denmark

Net sales increased to EUR 153.3 (149.3) million. Comparable EBIT was EUR -5.3 (-5.8) million and EBIT EUR -9.8 (-5.8) million.

After the weak beginning of the year, domestic sales improved during the second half of the year. Net sales increased in Denmark due to the transfer of sales responsibility for Danish poultry sold in Sweden from Sweden to Denmark. The impact of the transfer was EUR 15.8 million. Net sales also increased due to strengthened export and industrial sales as well as improved sales in Sweden. Price competition remained fierce throughout the year particularly in retail sales.

Comparable EBIT improved from the corresponding period although financial performance was burdened by changes in client portfolio and sales mix as well as increased raw material costs in the first half of the year. Commercial successes clearly improved profitability in the second half of the year.

As a result of modest financial development, an impairment loss amounting to EUR -4.5 million was recorded during the first quarter. The impairment had no impact on cash flow.

## Market area Baltics

Net sales were EUR 168.5 (162.1) million. Comparable EBIT was EUR 5.1 (-0.7) million and EBIT EUR 5.0 (-0.7) million.

Net sales increased in all main channels and were boosted particularly by continued growth in domestic retail and industrial sales, positive sales price development and improved sales mix.

Comparable EBIT improved clearly from the previous year especially due to the good development of pork market prices and improved sales prices. The EBIT was also strengthened by operational efficiency measures and lower administration costs. The change of biological asset revaluation amounted to EUR 2.3 (-0.7) million.

The investment project related to the Group's meals production capacity expansion in Rakvere, Estonia was completed as planned and the rebuilt sections of the unit were inaugurated in June. The investment increased the production capacity of the unit and improves productivity and environmental performance. Activities related to the deployment of the new production lines continued during the second half of the year.

## HKScan's strategy

HKScan's new Group strategy, published in November 2019, focuses on the Turnaround programme for 2020–2021. Implementation of the programme creates a financially solid foundation for the company's future growth. At the same time, we pave the way for profitable growth with other forward-looking development measures. HKScan aims to grow profitably into a versatile food company, have a stronger presence in consumers' food moments and strengthen its market position in evolving markets together with its customers. Our growth drivers are the Group's strong, innovative poultry range as well as meals and meal components. Responsibly produced meat and meat products are at the core of the company's operations and will continue to play a major role in the future.



HKScan is a strong partner for retail with its well-known consumer brands. Due to consumers' changing eating habits and buying behaviour, the food service channel is growing and opening interesting opportunities for the food industry. HKScan will continue investing in growth and strengthening its position in evolving and growing sales channels. New commercial concepts and digital solutions, together with the expanding product range, are the company's growth drivers.

Strong partnerships are part of the company's new strategy; they provide the basis for achieving the goals. As consumption habits are changing, HKScan is looking into expanding its business into new product categories and raw materials. In November 2019, HKScan signed a strategic partnership with Hes-Pro (Finland) Oy. Hes-Pro's new plant-based protein products will be first launched in Finland, but HKScan is looking into opportunities to sell them in the company's other home markets in the Baltic Sea region, as well. HKScan will launch the products under the company's own brands first in the strongly growing food service channel and later this year in retail.

The company's strategic priorities are growth in consumers' food moments, performance excellence, advanced responsibility work and a competitive farming community. In its strategy, HKScan also states that the growth of exports, especially to Asia, is important and that the company will continue its efforts to strengthen its position in its key export markets. HKScan continues to strategically assess the company structure and reviews the positioning of different market areas as part of the Group's operations.

In early 2020, HKScan launched a new operating model targeted to strengthen market area-level profit responsibility and performance management as well as the company's customer and consumer-driven way to operate. The operating model renewal is central in the implementation of the company's new strategy.

HKScan's long-term financial targets remain unchanged: EBIT over 4 per cent of net sales, return on capital employed (ROCE) over 12 per cent, net gearing less than 100 per cent, and dividends more than 30 per cent of net profit.

## Responsibility

HKScan's new responsibility programme is a central part of the company's new Group strategy published last autumn. In autumn 2019, we conducted an extensive stakeholder survey to find out the views of the key stakeholder groups on the priorities in HKScan's responsibility work. The survey was carried out in all the company's market areas and we got responses from nearly 1,300 people.

Based on the survey results, we have made a materiality analysis that confirmed the key priorities in the Group's responsibility programme: wide-ranging environmental responsibility, healthy and responsibly produced food, animal welfare as well as wellbeing and competence development of the people involved in our operations.

The starting point of HKScan's new responsibility programme is to manage and promote responsibility throughout our value chain, from farms to consumers. Our responsibility work develops as a systemic change; it applies to the whole business and guides everything we do. The goal is to promote sustainable development by developing our operating model and structure.

The goals of our sustainability work are to respond to the change in the operating environment, position HKScan as the most responsible company in its field, apply responsibility in new business models and increase the competitiveness of the entire value chain. Together with our partners, we will build an ecosystem that improves profitability and sustainability footprint across our value chain.

Our central goal is also to meet the consumer and customer demand for healthy, high-quality, responsibly produced, tasty products. For us, it is important that consumers can eat locally farmed and responsibly produced meat and meat products in good conscience.

Examples of HKScan's responsibility work in 2019:

- In 2019, our Lost Time Injury (LTI) frequency decreased significantly. The number of incidents decreased by over 30% from 2018. This change is a result of the company's target-oriented work to improve working methods and conditions as well as to strengthen the culture of work safety across all functions.
- HKScan introduced the Agrofood Ecosystem® network in Finland. Its goal is more effective management of the food value chain and increasingly responsible food production. HKScan is building a cooperation network in which knowledge, expertise and best practices are collected and used widely to meet the customer and consumer needs in HKScan's market areas. With this development work, we aim to promote responsibility in the meat chain, increase transparency, improve the productivity of food chain operators and ensure competitiveness.
- For three years, HKScan has invested in reducing antibiotics use in its Baltic poultry production. In 2019, we did not use any antibiotics in poultry production. Close cooperation between specialists and farms, transparent procedures, stricter animal welfare criteria and research have produced significant results.
- In Finland and Sweden, HKScan actively promoted material efficiency and recycling by abandoning the use of non-recyclable black plastics in the packages of its branded products. In Sweden all packages made of black plastics were abandoned. In Finland HKScan stopped using black plastic trays.
- In Denmark, HKScan renewed all product packaging sold under its Rose® brand and moved to packaging made of recycled raw materials.

## Research and development

A total of EUR 5.8 (8.6) million was spent on R&D in 2019, equal to 0.3 (0.5) per cent of net sales.

HKScan's research and development activities aim to develop the Group's product offering by leveraging consumer and customer insight and foresight as well as capabilities, resources and investments in innovation and concept development at all HKScan's markets.

In its product development, HKScan takes into account the growing categories defined in the Group strategy, the different needs of growing sales channels, changes in consumer behaviour as well as sustainability aspects.

## Personnel

In 2019, HKScan had an average of 6 928 (7 179) personnel.

The average number of employees in each market area was as follows:

	2019	2018
Sweden	2 013	2 123
Finland	2 774	2 883
Denmark	628	636
Baltics	1 512	1 538
<b>Total</b>	<b>6 928</b>	<b>7 179</b>

Salaries and remunerations to employees, including social costs, totalled EUR 313.7 (316.7) million.

In February 2019, HKScan announced its plans to improve its cost efficiency. The company initiated statutory negotiations resulting in a Group-wide personnel reduction of approximately 180 employees. These actions were estimated to generate annual savings of EUR 10 million, which materialised in part in the fourth quarter of 2019 and will gradually take full effect during 2020.

In October 2019, HKScan announced its plan to renew the Group's operating model and initiate relevant processes. At the same time, HKScan announced it was evaluating the need to improve the efficiency of its operations in Finland. In December 2019, HKScan completed the country-specific processes.

After the review period on 1 January 2020, HKScan implemented the new operating model, the objective of which is to strengthen the company's market-area level profit responsibility and management as well as a customer and consumer-oriented way of operating. The renewal of the operating model has a central role in the implementation of the company's Turnaround programme and the Group's new strategy.

## Changes in senior management

30 January 2019, HKScan announced that Tero Hemmilä would start working as the CEO of the Company on 4 February 2019.

On 3 April 2019, HKScan announced changes in the composition of the Group Management Team. The changes became valid as of 3 April 2019.

HKScan Corporation's Group Management Team includes the following positions and persons: CEO: Tero Hemmilä, EVP Market Area Finland: Jari Leija, EVP Market Area Sweden: Sofia Hyléen Toresson, EVP Market Area Baltics: Anne Mere, EVP Market Area Denmark & International: Jukka Nikkinen, EVP Meat Balance & Supply Chain: Esa Mäki, Chief Operating Officer (COO) leading Operations and Technology functions: Mika Koskinen, Chief Financial Officer (CFO): Jyrki Paappa and EVP Administration (HR and Legal): Markku Suvanto.

On 31 May 2019, HKScan announced that Esa Mäki, EVP Meat Balance & Supply Chain will leave his position at HKScan. Esa Mäki has been appointed as CEO of Apetit Plc and he will start in his new position on 1 September 2019. Mäki continues to work at HKScan and as a member of the Group Management Team until the end of August 2019.

On 2 September 2019, HKScan announced that Juha Ruohola has been appointed Executive Vice President of Group's Meat Balance and Supply Chain and a member of the Group Management Team. He succeeds Esa Mäki, who became CEO of Apetit Plc at the beginning of September 2019.

In November 2019, HKScan announced that Sofia Hyléen Toresson, EVP for HKScan's Swedish market area, was leaving her position in the company. In connection, Denis Mattsson was appointed HKScan's interim EVP for the market area Sweden and a member of the Group Management Team as of 20 November 2019.

In December 2019, HKScan announced it was introducing a new Group-wide operating model beginning on 1 January 2020. In connection with the change, the company specified the responsibilities of the members of the HKScan Management Team. HKScan's Management Team from 1 January 2020:

CEO Tero Hemmilä, EVP Business Unit Finland Jari Leija, EVP Business Unit Sweden Denis Mattsson, EVP Business Unit Baltics Anne Mere, EVP Business Unit Denmark Jukka Nikkinen, CFO Jyrki Paappa, EVP Administration Markku Suvanto, EVP Export, import and meat balance Juha Ruohola as well as EVP Strategic business development and investments Mika Koskinen.

## Shares and shareholders

### Shares

HKScan Corporation completed a directed share issue of new series A shares in June 2019. The share issue was based on the authorisation of the Extraordinary General Meeting on 29 May 2019. A total of 44,917,607 new series A shares subscribed for in the offering were registered in the trade register on 24 June 2019. In connection with the registration, the Company cancelled the series A shares in possession of the Company, totalling 992,348 series A shares. Following the registration of the new shares and the cancellation of treasury shares, the total number of registered series A shares in HKScan is 93,551,781.

At the end of December 2019, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The Corporation's total number of shares issued, 98,951,781, 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%). 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 market cap of HKScan's shares at the end of December 2019 stood at EUR 267.6 (76.7) million.



Series A shares had a market value of EUR 252.7 (69.1) million, and the unlisted Series K shares a calculational value of EUR 14.9 (7.7) million.

In January–December, a total of 26,948,127 (11,399,917) of the company's shares were traded with a total value of EUR 55,238,860 (27,366,358). In the period under review, the highest price quoted was EUR 2.88 (3.23) and the lowest was EUR 1.48 (1.29). The average price was EUR 2.05 (2.40). At the end of December 2019, the closing price was EUR 2.76 (1.42).

### Shareholders

At the end of 2019, the shareholders maintained by Euroclear Finland Ltd included 13 942 (12 376) shareholders. Nominee-registered foreign shareholders held 16.5 (16.1) per cent of the company's shares.

### Treasury shares

At the end of December 2019, the company held 2,000,000 (992,348) A shares as treasury shares, corresponding to 2.02 per cent of the company's total number of shares and 1.0 per cent of the total number of votes.

On 25 September, HKScan announced the decision of its Board of Directors to launch a fixed-term share buy-back programme, the purpose of which is to acquire the company's own A shares in order to meet the potential rewards arising from the share-based incentive scheme for key employees.

The acquisition commenced on 1 October 2019 and ended on 12 December 2019. The number of shares acquired was 2,000,000 series A shares, corresponding to approximately 2.02 per cent of the total number of shares in the company and 2.13 per cent of the total number of series A shares. The shares were acquired at the market price quoted in trading organised by Nasdaq Helsinki Ltd on a regulated market at the time of acquisition. The shares were acquired with the company's distributable non-restricted equity. The total acquisition price for the shares was EUR 4.7 million.

### Share-based long-term incentive plan

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

The first plan (PSP 2018–2020) commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in spring 2021 if the performance targets set by the Board of Directors are reached. The potential rewards will be paid in series A shares of HKScan. At the time of commencement of the PSP 2018–2020 plan, approximately 30 individuals were eligible to participate in it.

The complementary Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year vesting period. After the vesting period the allocated restricted share rewards will be paid to the participants in series A shares of HKScan. The first Restricted Share Plan (RSP 2018–2020) commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in the spring 2021. At the time of commencement of the RSP 2018–2020 plan, eleven individuals belonging to the top management were eligible to participate in it.

On 8 May 2019, HKScan announced that the Board of Directors of HKScan Corporation has approved the commencing of new plans within the share-based long-term incentive scheme for HKScan's key employees. The Board approved the commencement of a new plan period, PSP 2019–2021, within the Performance Share Plan structure. Eligible to participate in PSP 2019–2021 are the Group Management Team members, in total a maximum of 10 individuals. The payment of the share rewards thereunder is conditional on the achievement of the performance targets set by the Board of Directors. The potential rewards will be paid in series A shares of HKScan in two tranches, the first in spring 2022 and the second in spring 2023.

The Board also approved the commencement of a new plan period, RSP 2019-2021, within the Restricted Share Plan structure. The potential share rewards thereunder will be paid in series A shares of HKScan in two tranches, the first in spring 2022 and the second in spring 2023. The Board has set a Group-level financial criterion for RSP 2019-2021, the fulfilment of which is a precondition for the payment of the share rewards under the plan. Eligible to participate in RSP 2019-2021 are the participants of the PSP 2019-2021 plan.

### Shareholding of the Board of Directors and the President and CEO

At the end of 2019, members of the Board of Directors and the company's President and CEO and his deputy, as well as their related parties owned a total of 165 159 A Shares, corresponding to 0.2 per cent of the total number of shares and 0.1 per cent of the votes.

### Ownership breakdown by amount of share on 31 December 2019

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of share capital
1-100	3,575	25.64	173.768	0.18
101-500	4,808	34.49	1,389.239	1.40
501-1000	2,325	16.68	1,850.009	1.87
1001-5000	2,564	18.39	5,821.514	5.88
5001-10000	343	2.46	2,576.488	2.60
10001-50000	246	1.76	4,740.088	4.79
50001-100000	30	0.22	2,124.127	2.15
100001-500000	30	0.22	6,665.316	6.74
500001-	20	0.14	72,818.127	73.59
On common accounts	0	0	128.105	0.13
On waiting list	1	0	665.000	0.67
<b>Total</b>	<b>13,942</b>	<b>100</b>	<b>98,951.781</b>	<b>100.00</b>

### Share capital by share series 31 December 2019

Share series	Number of shares	% of shares	% of votes
A Shares	93,551.781	94.54	46.42
K Shares	5,400.000	5.46	53.58
<b>Total</b>	<b>98,951.781</b>	<b>100</b>	<b>100</b>

### Ownership breakdown by sector on 31 december 2019

	Share of owners %	Share of shares %	Share of votes %
Corporates	3.68	41.02	64.78
Finance and insurance companies	0.20	20.35	9.99
Public entities	0.04	11.44	5.62
Households	95.42	19.25	9.45
Non-profit organizations	0.43	6.65	3.26
Abroad	0.23	1.16	6.84
<b>All sectors, total</b>	<b>100</b>	<b>99.87</b>	<b>99.94</b>
General account		0.13	0.06

## 20 Largest shareholders on 31 December 2019

	A shares	K shares	Of total shares, %	Of total votes, %
1 LSO Osuuskunta	25,083.884	4,735.000	30.13	59.43
2 Lantmännen ek. För	6,869.750	665.000	7.61	10.01
3 Keskinäinen työeläkevakuutusyhtiö Varma	4,846.806		4.90	2.40
4 Apteekkien Eläkekassa	3,581.889		3.62	1.78
5 Maa- ja metsätaloustuottajain Keskusliitto MTK ry	2,711.414		2.74	1.35
6 Suomen Kulttuurirahasto	2,448.117		2.47	1.21
7 Keskinäinen Työeläkevakuutusyhtiö Elo	2,392.830		2.42	1.19
8 HKScan Oyj	2,000.000		2.02	0.99
9 Tiiviste-Group Oy	1,550.000		1.57	0.77
10 Oy Etra Invest Ab	1,500.000		1.52	0.74
11 Hisinger-Jägerskiöld Eva	1,100.000		1.11	0.55
12 Petter ja Margit Forsströmin säätiö Karl ja Olivia Forsströmin muistolle	1,000.000		1.01	0.50
13 Sinituote Oy	1,000.000		1.01	0.50
14 K. Hartwall Invest Oy Ab	850.000		0.86	0.42
15 VR Eläkesäätiö	820.000		0.83	0.41
16 Suhonen Jyrki	816.069		0.82	0.40
17 Pivosto Oy	582.190		0.59	0.29
18 Valtion Eläkerahasto	500.000		0.51	0.25
19 Sijoitusrahasto Taaleritehdas Arvo Markka Osake	500.000		0.51	0.25
20 Nordea Henkivakuutus Suomi Oy	427,331		0.43	0.21
<b>Other shareholders</b>	<b>34,398.832</b>	<b>0</b>	<b>34.76</b>	<b>17.07</b>
<b>Amount of shares total</b>	<b>93,551.781</b>	<b>5,400.000</b>	<b>100</b>	<b>100</b>

Source: Euroclear Finland

## Annual General Meeting 2019

The Annual General Meeting (AGM) of HKScan Corporation was held on 11 April 2019 in Turku, Finland. The AGM decided that the company will not pay dividend for 2018.

The AGM also resolved on the annual remuneration of the Board's members, deputy members and the chairs of the committees. Of the Board members of that time, Reijo Kiskola, Jari Mäkilä, Per Olof Nyman, Harri Suutari and Terhi Tuomi were re-elected, and Anne Leskelä was elected as a new member until the end of the Annual General Meeting 2020. In addition, Carl-Peter Thorwid and Ilkka Uusitalo were re-elected as deputy Board members until the end of the Annual General Meeting 2020.

At the organisational meeting after the AGM, the Board re-elected Reijo Kiskola as Chairman and re-elected Jari Mäkilä as Vice Chairman.

Ernst & Young Oy, the firm of authorised public accountants, was elected as the auditor with Erkka-Tapani Talvinko, APA, as the lead audit partner, until the closing of the next AGM.

The AGM authorised the Board of Directors to decide on the purchase of the company's own Series A shares and/or on the acceptance the company's own Series A shares as pledges. The authorisation will be effective until 30 June 2020 and it revoked the authorisation given to the Board of Directors by the AGM 2018.

The AGM also authorised the Board to decide on issues of shares, option rights as well as other special rights entitling to shares, but this authorisation was later revoked by the Extraordinary General Meeting on 29 May 2019.

The resolutions of the Annual General Meeting have been published in full in the stock exchange release of 11 April 2019 and are also available on the company's website at [www.hkscan.com](http://www.hkscan.com).



## Extraordinary General Meetings

On 7 January 2019, HKScan published a notice of the Extraordinary General Meeting that was held on Wednesday, 30 January 2019 in Turku, Finland.

The Extraordinary General Meeting resolved that the number of ordinary members of the Board of Directors would be five (5) and the number of deputy members would be two (2).

Jari Mäkilä, Harri Suutari and Terhi Tuomi were elected as new members of the Board of Directors until the end of the Annual General Meeting 2019. In addition, Ilkka Uusitalo was elected as new deputy Board member until the end of the Annual General Meeting 2019.

Reijo Kiskola and Per Olof Nyman were elected to continue as Board members and Carl-Peter Thorwid as a deputy Board member until the end of the Annual General Meeting 2019.

On 8 May 2019, HKScan published a notice of the Extraordinary General Meeting that was held on 29 May 2019 in Turku, Finland.

The Extraordinary General Meeting resolved on the following:

### Financing arrangement

The Extraordinary General Meeting authorised the Board of Directors to carry out a financing arrangement consisting of a share issue of up to EUR 60 million (expected) where:

- In exchange for cash consideration, new series A shares were offered for subscription to the public in Finland.
- New series A shares were offered to institutional investors in the EEA. The subscription price of the shares could be paid at the option of the investor either in cash or by bonds issued by the company (at their nominal value and together with accrued interest).

- In the event of over-subscription, the Board of Directors was entitled to increase the size of the share issue by a maximum of EUR 12 million. In addition, in the event of over-subscription, the Board of Directors was entitled to allocate series A shares to the subscribing shareholders of the company before allocating to subscribers who were not shareholders of the company.

On the basis of the authorisation, the Board of Directors was authorised to negotiate and execute the financing arrangement on terms and conditions that the Board of Directors considers to be in the best interests of the company.

### Amendment to Articles of Association

The Extraordinary General Meeting resolved to amend Article 3 of the Articles of Association so that the maximum number of A shares is 100,000,000 instead of 60,000,000 shares. Following the amendment, Article 3 of the Articles of Association is as follows:

At least 3,600,000 and at most 8,000,000 of the total number of shares in the company are Series K shares and at least 400,000 and at most 100,000,000 are Series A shares.

Owners of Series K and A shares are entitled to exercise their right to vote at meetings of shareholders as provided in Article 5 of these Articles of Association.

### Share issue authorisation

The Extraordinary General Meeting authorised the Board of Directors to resolve on a share issue as follows:

The shares to be issued under the authorisation are new series A shares. Under the authorisation, a maximum of 50,000,000 series A shares can be issued, which corresponds to approximately 47.6 per cent of all the shares in the Company and approximately 24.2 per cent of votes pertaining to the shares, if the authorisation is used in full. Shares can be issued in one or more tranches.

The Board of Directors is authorised to resolve on all of the terms and conditions of the share issue. The shares may be issued as a directed share issue, i.e. in deviation from the shareholders' pre-emptive rights. A directed share issue always requires a substantial economic reason for the Company and the authorisation may not be utilised inconsistently with the principle of equal treatment of shareholders.

The authorisation was effective until 30 September 2019.

The authorisation revoked prior unused authorisations granted earlier by the General Meeting to the Board of Directors to resolve on an issue of shares, option rights as well as other special rights entitling to shares.

### **Short-terms risks and uncertainty factors**

Significant uncertainty factors in HKScan Group's business are related to sales and raw material prices. The demand-driven market situation of pork creates pressure for the increase of animal raw material prices.

In the food industry's raw material supply, the risks of animal diseases, such as the African Swine Fever (ASF), or any international or regional food scandals impacting the overall consumption outlook cannot be fully excluded. The company also recognises risks relating to food safety.

The risks related to impairment of assets will increase and have an effect on the financial position of the company if the Group is not able to improve its financial performance. Due to the successful share issue and improved financial performance, the risk for breaching financial covenants of loan agreements has clearly decreased.

Unexpected delays related to the efficiency improvement of the Rauma poultry unit may impact the Group's short-term financial performance.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. Public discussion

related to consumption of red meat and climate change may also have a negative impact on demand.

HKScan's potential involvement in juridical proceedings and potential breaches of business principles and the Group's Code of Conduct may pose operational risks.

HKScan's risks are reported in more detail in the risk management section of the Annual Report. More information is available in the Group's Report of Non-financial Information.

### **Corporate Governance**

HKScan has issued a separate Corporate Governance Statement for the Group. The statement will be published as part of the online Annual Report 2019 on the company's web site [www.hkscan.com](http://www.hkscan.com) on week 12/2020.

### **Events after the reporting period**

On 22 January 2020, HKScan announced its investment of approximately EUR 6 million in a new slaughter process in the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability and ensure the capacity required for the strongly growing demand. The investment will be carried out in stages at the end of 2020 to ensure the security of supply stabilised during 2019.

We will renew the whole first part of the poultry unit's production process in Rauma, as the original slaughter line introduced in 2017 does not meet the standards required by the Group's current management. With the investment, the processing capacity of the slaughter line will increase by approximately 20 per cent and raw material yield by approximately 10 per cent. The investment will enable us to better meet the strongly growing demand for poultry products.

The current slaughter line will be dismantled once the investment is completed. For this reason, HKScan has recorded a EUR -6.9 million write-down of the residual value of the current line balance sheet in the last quarter of 2019. The write-down had no impact on cash flow.

### **Board of Directors' proposal on the distribution of profit**

The parent company's distributable equity stands at EUR 274.7 (216.7) million including the reserve for invested unrestricted equity, which holds EUR 215.1 (143.3) million. The Board of Directors recommends that the company will not pay dividend for 2019. The company did not pay dividend for the year 2018.

### **Outlook for 2020**

HKScan estimates that the Group's comparable EBIT in 2020 will improve compared to 2019.

### **Annual General Meeting 2020**

HKScan's Annual General Meeting will be held on Wednesday, 15 April 2020 at 10.00 in Turku, Finland.

To be eligible to attend the Annual General Meeting, shareholders should register by 1 April 2020 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd. A notice to the Annual General Meeting will be published at a later date.

## **Report on non-financial information**

### **Business and operational impacts**

HKScan Corporation is a publicly listed food company with over one hundred years of experience in responsible Nordic food production, sales and marketing for customer and consumer needs. The company's product selection covers pork, beef, poultry and lamb products, processed meat products and meals. HKScan's home markets are Finland, Sweden, Denmark and the Baltics. With production units in all its home markets, HKScan has a significant direct and indirect impact on employment. The company's products are exported to nearly 50 countries. Exports increased in 2019, particularly to China.

HKScan's operations are based on responsible and efficient management of the entire, long value chain and on value creation throughout the farm to consumer chain. The company's sourcing of meat raw material in Finland, Sweden and Denmark is based on a close partnership and collaboration with HKScan's contract producers. In Estonia, the company has its own farms as well as contract producer partners. HKScan creates economic value for local communities and society by sourcing live animals from local markets. The company invests in the professional expertise of meat producers and in strengthening business expertise. Also the share of domestic purchases of other services and products is significant.

In its own operations, HKScan minimizes the environmental impacts related to its operations. Additionally, HKScan collaborates with its contract producers to reduce environmental impacts generated at farms.

Supply chain management is efficient. Production planning, transportation and distribution are critical functions for business operations. HKScan's customers include retail, the food service channel, the food industry and the export sector. HKScan engages in collaboration with its customers in sounding out trends, forecasting demand, product development, marketing, corporate responsibility development, and other business development.



## Corporate Responsibility as an integrated part of strategy and operating model

HKScan launched a three-year, Group-wide Turnaround programme and renewed the Group's operating model to strengthen market area-specific profit responsibility and improve profitability. In 2019, HKScan also updated its Group strategy. Its realization requires successful implementation of the Turnaround programme, continuous operational improvement, and a cost-efficient way of operating. The goal is for continuous development of operations, improved performance, and development of know-how, ways of working and tools to achieve the Group's strategic targets.

Corporate responsibility is a significant part of HKScan's new Group strategy, published in autumn 2019, and consequently the company has also updated its corporate responsibility programme. A stakeholder survey was carried out in autumn 2019 to help determine the various stakeholders' views on HKScan's sustainability focus areas. The survey was conducted in all market areas, and nearly 1,300 people from different stakeholder groups responded. The survey results were used to update the materiality analysis and to confirm the key focus areas of the new corporate responsibility programme. These are: sweeping environmental responsibility, healthy and responsibly produced food, animal welfare, and the wellbeing and development of expertise of the people involved in HKScan's operations.

The premise of the new corporate responsibility programme is to manage and promote responsibility in all operations, from farms to consumers, throughout the value chain. Responsibility work develops as a systemic change; it applies to the whole business and guides everything HKScan does with the starting point to respond to the change in the operating environment, to position HKScan as the most responsible company in its field, to use responsibility in new business models and to increase competitiveness of the entire value chain.

The corporate responsibility programme measures are focused on the key areas of the company's value chain, i.e. on developing the farming community's sustainable and economically efficient operations, reducing climate impacts from own processes, improving material efficiency, and responding to consumer and customer demands with healthy, high-quality products that taste good. A Group-wide management system was also created for the corporate responsibility programme, and it will be adopted in 2020.

## Most important commitments, policies and principles

HKScan's values and Code of Conduct are at the foundation of the company's operations. HKScan expects all its suppliers to sign and commit to compliance with its Supplier Guidelines.

Group-level policies guiding HKScan's operations are the quality, product safety, disclosure, environment and animal sourcing policies and the animal welfare policy. In addition to these, there are several internal policies and operating guidelines guiding operations.

HKScan has reported on its operations in line with the Global Reporting Initiative's GRI standards (2016) since 2017.

HKScan is committed to the UN Sustainable Development Goals (SDGs) and has identified five goals (SDG 3, 8, 12, 13, 15) to promote; the development of these goals is monitored through indicators and targets in the corporate responsibility programme. HKScan is committed to promoting the following SDGs:

- SDG 3: Good health and wellbeing – ensure healthy lives and promote wellbeing for all at all ages
- SDG 8: Decent work and economic growth – promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 12: Responsible consumption and production – ensure sustainable consumption and production patterns
- SDG 13: Climate action – take urgent action to combat climate change and its impacts
- SDG 15: Life on land – protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

## Key measures and results

The key results of the realized work and the renewed corporate responsibility programme are available in the Corporate Responsibility section of the 2019 Annual Report. Results will be reported in line with the KPI table in the end of this report.

In 2019, wide-scale development of corporate responsibility sub-areas, e.g. with investments, wasn't at the core of operations because the securing of the company's financial position required extensive measures to improve profitability.

## Products: Healthiness, quality, food safety and raw material sourcing

When developing new products and planning product improvements, a focus is on the healthiness of products by, e.g., reducing the amount of fat or sodium, increasing the amount of vegetables, decreasing portion sizes, or reducing food additives without

compromising product safety. Meat, along with vegetables, wholegrain products and plant-based fats, is part of a balanced diet following nutrition recommendations. Nutrition recommendations guide the general eating habits of the population. HKScan aims to have a positive impact on public health by developing and offering a diverse range of nutritious, quality products and by raising consumer awareness and understanding of a healthy diet.

All of HKScan's production plants, with the exception of the Jelgava production plant in Latvia, are certified in accordance with the Global Food Safety System (FSSC 22000, IFS, BRC). The Jelgava plant is certified to ISO 22000. Ensuring quality and product safety is a continuous activity and the development of operations is based on risk assessments. Risk assessment at production plants is based on the Hazard Analysis Critical Control Point (HACCP) process. The operational level is verified annually by internal and third-party external audits and through inspections and audits conducted by customers and authorities.

The conditions for safe and healthy food production in HKScan's operating countries are good. Our home markets have ample and pure water resources, a cool climate, seasonal temperature variations, and pure soil and air. Our meat production chain is short and traceable because of contract production and our own animal production. Animals are slaughtered at HKScan's own slaughterhouses. Sourcing meat locally (almost 100 per cent) has a significant economical and social impact on local communities and, more broadly, also on the surrounding society. HKScan's producer services support and promote the business of producers and wellbeing in rural areas as well as increase their professional expertise and the development of their professional skills. HKScan offers its contract producers training and consulting in, among other things, the planning of animal feeding, in production management, in animal healthcare, and in planning new production facilities.

HKScan's other purchases from local markets are significant, about 70 per cent of total purchases. All suppliers are assessed for product safety, quality, environmental performance, business practices and sourcing process-related criteria. The supplier assessment process also includes an evaluation of the supplier's social responsibility and ethical risks.

## **Product-related quality issues and food safety risks and their management**

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalization of the food chain, food fraud and deliberate sabotage have emerged as central themes alongside other food safety risks. To identify and prevent the risks related to them, HKScan Group has created a separate risk assessment model covering the entire chain.

## **Sourcing-related risks and their management**

Sourcing-related risks involve fluctuations in the availability and prices of raw materials, including meat raw material. The decrease in domestic meat production is a risk because of the domestic origin promise of HKScan's most significant brands (HK®, Kariniemen® and Scan®). Risks related to raw materials or products sourced from external suppliers are managed with standards fundamentally related to sourcing. To control food safety risks, we require suppliers to have a comprehensive food safety management system, and we monitor its implementation regularly. Social risks in the supply chain are managed in the risk assessment of the sourcing process.

## **Personnel**

Change management and development of the organization in line with the Turnaround programme were central activities in 2019. HKScan Group's operating model was renewed, and the company implemented organizational changes at all levels of the organization to support the new operating model and efficiency. The efficiency measures decreased the Group's headcount by about 10 per cent. The company's operating model supports market area-specific profit responsibility and management as well as a customer- and consumer-driven way of operating.

In line with its new operating model, at the beginning of 2020 HKScan moved from a matrix organization to country-based business unit-level P&L management where Finland, Sweden, the Baltics and Denmark form the reporting business units. The key Group-level functions will ensure business synergies and good governance.

A key resource for the company is personnel wellbeing and competence; HKScan aims to create and maintain an inspiring work atmosphere and to take care of the physical and mental wellbeing of personnel. When employees feel good, their work motivation increases, and shared goals are achieved in an efficient manner.

Development of occupational safety was very successful. The number of injuries leading to an absence decreased by more than 30 per cent, and there were 140 fewer injuries than in 2018. This was enabled by the close collaboration and the open sharing of good practices between all market areas, functions and units. The guiding principle was the clarification of occupational-safety related responsibilities and obligations, and the additional training. During the year, standardized Group-wide occupational safety indicators and risk assessment models were rolled out, and the development of a new reporting tool got under way. The tool was taken into use in January 2020.

## **HR-related risks and their management**

In HKScan Group's risk management, the significance of professional management and employees is defined as follows: HKScan's success is critically dependent on the competence and expertise of the company's management and other personnel, the company's ability to advance the competence and commitment of its existing management and other personnel, and the ability to recruit new, professional employees in the future. Possible legal and illegal strikes in HKScan's value chain, as well as in the Group's own production, can cause business risks. The risks can be diminished through the development of collaboration and the related practices as well as work wellbeing. Additionally, the risks can be mitigated through alternative supply chain structures and processes.



## Environment

The focus areas of HKScan's environmental work include reducing climate impacts and improving material efficiency. The company measures its environmental impacts, and the results are reported as part of the 2019 Annual Report. No significant investments to improve environmental efficiency were made during the year, due to the company's focus on improving profitability and stabilizing its financial position. The efficiency and impact of environmental work are assessed through internal and external ISO 14001 or ISO 50001 audits.

A significant share of the environmental impacts of meat products originate at farms. HKScan's contract producers and its own farms in Estonia have engaged in significant environmental work for years. To understand and to reduce the climate impacts (CO2 equivalent) of meat production, HKScan's Finnish functions joined forces with VTT Technical Research Centre Finland in the development of a tool to calculate the climate impacts of Omega-3 pork production; the tool also takes the unique, farm-specific factors into account in the calculation. The tool is being developed to also measure the climate impacts of other species-specific production. To manage and mitigate the environmental impacts of farms, HKScan launched development projects in Finland (Agrofood Ecosystem) and in Sweden (Halla Gård project). The results of these projects will be reported as the work progresses.

### Environment -related risks and their management

The environmental risks of HKScan production plants have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. Some of the production plants use also the ISO 50001 environment and energy-efficiency system. Identified environmental risks are risks related to wastewater or chemical leaks; these risks are managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

## Animal health and welfare

The foundation for animal health and welfare is compliance with EU and local legislation, and guidelines and practices that are stricter than legislated requirements. Improving animal welfare is an ongoing activity in collaboration with the company's contract producers and other collaboration partners. Healthy and well-bred animals produce high-quality meat raw material and ensure profitable animal production. For HKScan, animal health and welfare means good animal genetics, nutritionally correct feeding, good rearing conditions and care, and proper animal transportation and slaughterhouse operations.

HKScan continuously develops animal production together with its contract producers and takes into consideration the natural behaviour of the animals, ensures good handling and rearing conditions for the animals, and creates an excellent level of biosecurity. HKScan has defined internal animal health and welfare KPIs. The monitoring is systematic, and any deviations are addressed immediately. In HKScan's production, the use of antibiotics is limited to the treatment of illnesses. Some of the production is already realized through healthy animals that have never had to be treated in their entire lifetime. Examples of this are the Omega-3 pork production and poultry production in Finland. Significant work has also been done to reduce the use of antibiotics in poultry production in Estonia and Denmark.

### Animal health and welfare-related risks and their management

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Animal disease risks are mitigated by continuously monitoring an animal disease situation and by collaborating with authorities, veterinarians, and HKScan's producer services and animal producers. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes. At the farm level, biosecurity and high hygiene standards and procedures are followed.

An outbreak of possible animal disease such as African swine fever, avian influenza, Newcastle disease or foot-and-mouth disease may affect the company's business and demand for its products. For example, export bans between countries may be possible. Animal diseases may have a long-term impact on consumer behaviour. The animal disease risk may even out by a possible shift in consumption to another category of meat products. In a fully integrated value chain, such as is the case with most of the company's Baltic operations, an animal disease may in the worst case scenario temporarily sever the availability of raw materials if no substitute raw material source exists.

## **Human rights and prevention of corruption and bribery**

HKScan respects and supports international human rights agreements, the UN Convention on the Rights of the Child, and the International Labour Organization's core conventions. Additionally, HKScan takes into consideration in its operations the United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. HKScan has zero tolerance for corruption and bribery.

In 2018 HKScan updated its Code of Conduct, which covers human rights, employee rights, ethical business principles, such as the prevention of corruption and bribery, open and credible communications, and responsibility for the environment, animals and product safety. The Code of Conduct was communicated to personnel in all of the company's operating countries, but the additional training was moved from 2019 to 2020 because of the rollout of the organizational changes. The aim of the additional training is to give the personnel with more specific guidelines on the compliance with human rights principles and on the zero tolerance for corruption-related measures. HKScan has so far not implemented human rights impact assessments or similar human rights reviews in its operations.

HKScan expects all its suppliers to sign and commit to its Supplier Guidelines, which cover, e.g., the suppliers' commitment not to pay or accept bribes or other improper benefits or gifts, and a commitment to follow human rights principles.

HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activity related to HKScan's operations. This pertains to suspected violations of laws and regulations as well as non-compliance with HKScan's Code of Conduct and other policies. In 2019, 11 reports of possible non-compliance or regulation violations were made via the Fair Way channel. All reports were investigated. In addition, the unresolved cases from 2018 were handled and closed. No cases of non-compliance or regulation violations were found in any of the reported and investigated cases for either year. Three cases lead to the improvement of HKScan's Code of Conduct. The main emphasis in the reports was on suspected improper behaviour.

## **Risks related to respect for human rights and corruption or bribery**

HKScan's risk management has identified risks related to human rights in work safety management and in inappropriate treatment of employees. Work safety risks are managed through work safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the sourcing process risk assessment.

HKScan's Code of Conduct describes the company's principles related to corruption and bribery, and the realization of these principles is monitored in internal audits. Corruption-related risks in the supply chain are managed in the sourcing process risk assessment.

## KPIs and targets of HKScan's Corporate Responsibility work

CR FOCUS AREAS		KPI - Result reported in Annual Report 2019	Corporate targets
<b>Animal welfare*</b>		<ul style="list-style-type: none"> <li>Internal animal health and welfare KPI's for pigs, broiler, cattle, lamb</li> </ul>	<ul style="list-style-type: none"> <li>Increase in natural behaviour</li> <li>Continuous development in biosecurity</li> <li>Mitigation of painful procedures</li> </ul>
<b>Our community</b>	Producers*		<ul style="list-style-type: none"> <li>Increase producer welfare and competence</li> <li>Motivate next generation producers to become farmers</li> <li>Improve sustainable development in farming via new operating models</li> </ul>
	Employees	<ul style="list-style-type: none"> <li>Absentee rate (%)</li> <li>Lost Time Injury (LTI) frequency rate</li> </ul>	<ul style="list-style-type: none"> <li>Continuous positive development in employee wellbeing</li> <li>Continuous positive development in absentee rate</li> <li>Systematic work towards zero accidents</li> </ul>
<b>Environment*</b>		Climate impact, reduction in <ul style="list-style-type: none"> <li>GHG emissions</li> <li>Energy usage</li> <li>Water usage</li> </ul>	Mitigation of environmental impacts <ul style="list-style-type: none"> <li>90% reduction by 2030</li> <li>20% energy use reduction by 2030</li> <li>25% water use reduction by 2030</li> </ul>
		Material efficiency, improvement in <ul style="list-style-type: none"> <li>Packaging</li> <li>Waste</li> <li>Whole raw material use (carcass)</li> </ul>	<ul style="list-style-type: none"> <li>Development towards more sustainable packaging materials and solutions</li> <li>Follow waste hierarchy principles</li> <li>Efficient use of animal raw material (carcass) – circular economy approach</li> </ul>
<b>Sustainable and healthy food*</b>		Healthy food: Percentage of product launches with health aspects	<ul style="list-style-type: none"> <li>Enhance positive impact on nutrition and public health via healthy food solutions</li> <li>Increase awareness in healthy diet solutions</li> </ul>
		Safe food: <ul style="list-style-type: none"> <li>Certified sites</li> <li>Number of recalls</li> </ul>	<ul style="list-style-type: none"> <li>100% certified sites, food safety management systems</li> <li>Zero recalls</li> </ul>
		Responsible and ethical sourcing: <ul style="list-style-type: none"> <li>Purchase of responsible soy</li> <li>Animal sourcing: % local, live animals</li> <li>Percentages of purchases (other materials and services) from local markets</li> <li>Animal sourcing (live animals): % of purchases according to animal sourcing practices</li> <li>Percentage of purchased volume from suppliers compliant with HKScan's Supplier Guidelines and sourcing practices</li> </ul>	<ul style="list-style-type: none"> <li>Positive local economy impact</li> <li>Avoid ethical risks</li> </ul>
<b>ALL</b>	Compliance	<ul style="list-style-type: none"> <li>No non-compliances in CR focus areas</li> </ul>	<ul style="list-style-type: none"> <li>Accordance with laws and regulations</li> </ul>

\*Operative plan and measurement will be defined 2020.

## Key figures

Financial indicators	2019	2018	2017	2016	2015
Net sales, EUR million	1,744.4	1,715.4	1,808.1	1,872.9	1,917.1
Operating profit/loss (EBIT), EUR million**	-23.2	-48.3	-40.3	9.7	9.6
% of net sales**	-1.3	-2.8	-2.2	0.5	0.5
Comparable operating profit/loss, EUR million**	-2.2	-46.3	-17.6	13.2	21.5
% of net sales**	-0.1	-2.7	-1.0	0.7	1.1
Profit/loss before taxes, EUR million**	-34.5	-58.5	-45.5	0.9	2.2
% of net sales**	-2.0	-3.4	-2.5	0.0	0.1
Return on equity (ROE), %**	-11.5	-15.2	-10.4	-0.9	0.4
Return on capital employed before taxes (ROCE), %**	-3.1	-6.7	-6.3	2.1	2.3
Equity ratio, %**	34.8	33.3	36.9	47.9	50.9
Net gearing ratio, %**	84.8	103.3	59.3	33.5	33.8
Gross capital expenditure on PPE, EUR million	31.7	41.0	125.5	97.6	49.6
Additions in right-of-use assets, EUR million**	11.3	11.2	-	-	-
Investments total, EUR million**	43.0	52.2	125.5	97.6	49.6
% of net sales**	2.5	3.0	6.9	5.2	2.6
R&D expenses, EUR million	5.8	8.6	6.5	6.6	5.1
% of net sales	0.3	0.5	0.4	0.4	0.3
Employees, average	6,928	7,179	7,292	7,319	7,437

Per share data	2019	2018	2017	2016	2015
Earnings per share (EPS), undiluted, EUR**	-0.52	-1.00	-0.79	-0.10	0.01
Earnings per share (EPS), diluted, EUR**	-0.52	-1.00	-0.79	-0.10	0.01
Comparable earnings per share, EUR**	-0.26	-0.96	-0.37	-0.03	0.23
Equity per share, EUR**	3.18	5.73	6.23	7.31	7.63
Dividend paid per share, EUR	0.00*	0.00	0.09	0.16	0.14
Dividend payout ratio, undiluted, %	0.0*	0.0	-11.4	-160.4	2,378.9
Dividend payout ratio, diluted, %	0.0*	0.0	-11.4	-160.4	2,378.9
Effective dividend yield, %	0.0*	0.0	2.9	5.0	3.7
Price-to-earnings ratio (P/E)					
undiluted**	-5.3	-1.4	-4.0	-32.0	647.4
diluted**	-5.3	-1.4	-4.0	-32.0	647.4
Lowest trading price, EUR	1.48	1.29	2.96	2.89	3.24
Highest trading price, EUR	2.88	3.23	3.60	3.89	6.26
Middle price during the period, EUR	2.05	2.40	3.24	3.19	5.07
Share price at the end of the year, EUR	2.76	1.42	3.13	3.19	3.81
Market capitalisation, EUR million	267.6	76.7	169.1	172.3	205.6
Trading volume (1 000)	26,948	11,400	10,426	13,313	17,321
% of the average volume	33.7	21.1	19.3	24.7	32.1
Adjusted number of outstanding shares (1 000)					
average during financial period	79,943	54,030	54,018	54,006	53,973
at the end of financial period	96,952	54,034	54,018	54,018	53,973
fully diluted	96,952	54,034	54,018	54,018	53,973

\* Based on the Board of Directors' proposal.

\*\* Years 2015-2017 are not IFRS 16 restated.

## 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.

<b>Return on equity (%)</b>	Profit Total equity (average)	<b>x 100</b>
<b>Return on capital employed (ROCE) before tax (%)</b>	Profit before tax + interest and other financial expenses Balance sheet total - non-interest-bearing liabilities (average)	<b>x 100</b>
<b>Equity ratio (%)</b>	Total equity Balance sheet total - advances received	<b>x 100</b>
<b>Gearing ratio (%)</b>	Interest-bearing liabilities Total equity	<b>x 100</b>
<b>Net gearing ratio (%)</b>	Net interest-bearing liabilities Total equity	<b>x 100</b>
<b>Earnings per share*</b>	Profit for the period attributable to equity holders of the parent Average number of outstanding shares during period	
<b>Equity per share</b>	Equity attributable to holders of the parent Number of outstanding shares at end of period	
<b>Dividend per share</b>	Dividend distribution Number of outstanding shares at end of period	
<b>Dividend payout ratio (%)</b>	Dividend per share Earnings per share	<b>x 100</b>

\* 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.

Items affecting comparability and related APMs are disclosed to better reflect the operational business performance and to enhance comparability between periods.

<b>Effective dividend yield (%)</b>	Dividend per share Closing price on the last trading day of the financial year	<b>x 100</b>
<b>P/E ratio</b>	Closing price on the last trading day of the financial year Earnings per share	
<b>Market capitalization</b>	The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year	
<b>Cash flow before debt service</b>	Cash flow after investment activities - financial items	
<b>Employee numbers</b>	Average of workforce figures calculated at the end of calendar months	
<b>Items affecting comparability</b>	One-time charges, which are not related to the normal continuing operations and materially affect company's finance. Examples of such expenses are: capacity adjustment (restructuring), redundancy, legal costs relating to restructuring or similar, one-time expenses related to efficiency / reorganization programmes, significant compensations or penalties paid out due to legal verdict or settlement, transaction fees / expenses related to business acquisitions (consultation, advisory, legal, due diligence, registration etc.) and gains/losses of business disposals.	
<b>Comparable EBIT</b>	Operating profit - items affecting comparability	
<b>Comparable earnings per share*</b>	Profit for the period attributable to equity holders of the parent - items affecting comparability Average number of outstanding shares during period	
<b>Interest-bearing net debt</b>	Interest-bearing debt - cash and bank	



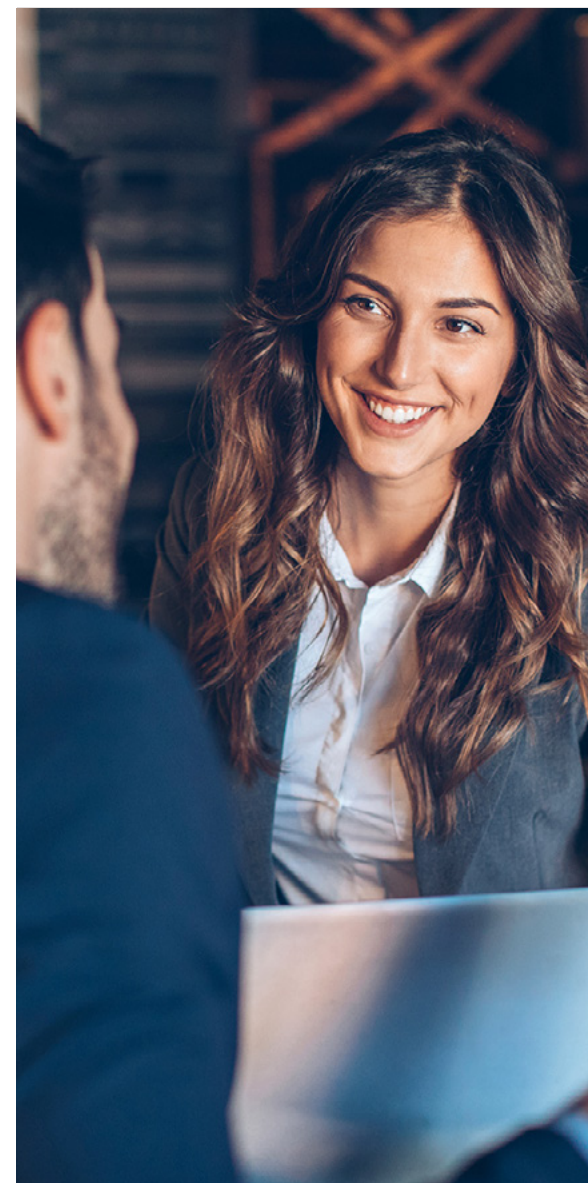
# Financial Statement

## Financial Statement

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## Consolidated income statement for 1 January - 31 December

(EUR million)	Note	2019	2018
Net sales	1.	1,744.4	1,715.4
Other operating income	2.	8.8	8.4
Materials and services	3.	-1,211.3	-1,211.2
Employee benefits expenses	4.	-313.7	-316.7
Depreciation and amortisation	5., 13.	-80.4	-67.3
Other operating expenses	6.	-171.0	-176.9
<b>EBIT</b>		<b>-23.2</b>	<b>-48.3</b>
Financial income	7.	2.2	2.0
Financial expenses	7., 13.	-13.9	-13.3
Share of associates' and joint ventures' results		0.4	1.1
<b>Profit/loss before taxes</b>		<b>-34.5</b>	<b>-58.5</b>
Income tax	8.	-3.0	7.2
<b>Profit/loss for the period</b>		<b>-37.5</b>	<b>-51.3</b>
Profit/loss for the period attributable to:			
Equity holders of the parent		-39.9	-53.0
Non-controlling interests		2.3	1.7
<b>Total</b>		<b>-37.5</b>	<b>-51.3</b>
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-0.52	-1.00
EPS, diluted, continuing operations, EUR/share	9.	-0.52	-1.00

The notes 1-28 form an integral part of the consolidated financial statements.

## Consolidated statement of comprehensive income 1 January - 31 December

(EUR million)	2019	2018
Profit/loss for the period	-37.5	-51.3
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	-1.6	-4.0
Cash flow hedging	-4.2	4.2
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-4.2	-6.9
<b>Total other comprehensive income</b>	<b>-10.0</b>	<b>-6.7</b>
<b>Total comprehensive income for the period</b>	<b>-47.5</b>	<b>-58.0</b>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	-49.8	-59.7
Non-controlling interests	2.3	1.7
<b>Total</b>	<b>-47.5</b>	<b>-58.0</b>

The notes 1-28 form an integral part of the consolidated financial statements.

## Consolidated balance sheet on 31 December

(EUR million)	Note	31 Dec. 2019	31 Dec. 2018
Intangible assets	10.	65.8	66.3
Goodwill	11.	70.7	71.2
Tangible assets	12.,13.	439.1	478.5
Shares in associates and joint ventures	14.	20.8	21.1
Other receivables	15.	3.5	2.5
Other shares and holdings	15.	11.7	11.9
Deferred tax asset	16.	43.4	43.3
<b>Non-current assets</b>		<b>654.9</b>	<b>694.8</b>
Inventories	17.	115.5	121.4
Trade receivables	18.	111.3	115.2
Other receivables	18.	16.2	15.5
Income tax receivable	18.	0.2	0.2
Cash and bank	19.	37.5	29.4
<b>Current assets</b>		<b>280.6</b>	<b>281.7</b>
<b>Assets</b>		<b>935.6</b>	<b>976.5</b>
Share capital	20.	66.8	66.8
Share premium reserve	20.	72.9	72.9
Treasury shares	20.	-4.8	0.0
Hybrid loan	20.	25.9	40.0
Fair value reserve and other reserves	20.	226.7	158.9
Translation differences	20.	-13.4	-11.9
Retained earnings	20.	-66.2	-17.2

Equity attributable to equity holders of the parent		307.9	309.5
Non-controlling interests		17.2	15.4
<b>Equity</b>		<b>325.1</b>	<b>325.0</b>
Deferred tax liability	16.	16.6	16.9
Non-current interest-bearing liabilities	13.,23.	262.7	278.3
Non-current non-interest-bearing liabilities	23.	3.1	3.5
Non-current provisions	22.	6.2	7.0
Pension obligations	21.	41.1	36.0
<b>Non-current liabilities</b>		<b>329.8</b>	<b>341.7</b>
Current interest-bearing liabilities	13.,23.	50.6	86.9
Trade and other payables	23.	222.0	215.5
Refund liabilities	23.	6.3	6.7
Income tax liability	23.	0.1	0.1
Current provisions	22.	1.7	0.7
<b>Current liabilities</b>		<b>280.7</b>	<b>309.9</b>
<b>Equity and liabilities</b>		<b>935.6</b>	<b>976.5</b>

The notes 1–28 form an integral part of the consolidated financial statements.

## Consolidated cash flow statement

(EUR million)	2019	2018
Profit/Loss for the period	-37.5	-51.3
Adjustments	95.8	70.6
Cash flow before change in net working capital	58.3	19.3
Change in net working capital	1.1	-26.4
Other changes	12.1	3.7
Interest paid	-13.0	-12.3
Other financial expenses paid	-6.5	-5.4
Interest received	1.7	1.7
Other financial income received	6.2	3.8
Dividends received	1.0	3.5
Income taxes paid	-1.6	-2.1
<b>Cash flow from operating activities (A)</b>	<b>59.2</b>	<b>-14.3</b>
Total investments	-31.8	-92.2
Total sales of assets	0.6	2.3
Acquisition of subsidiary, net of cash acquired	0.0	-
Loan receivables, borrowings and repayments	-0.4	0.1
<b>Cash flow from investing activities (B)</b>	<b>-31.6</b>	<b>-89.8</b>

Share issue	43.7	-
Share issue costs	-3.0	-
Purchase of own shares	-4.7	-
Hybrid loan	-2.1	39.8
Proceeds from external borrowings	74.3	136.5
Repayment of external borrowings	-114.7	-77.1
Payment of lease liabilities	-11.6	-11.1
Dividends paid	-0.6	-5.5
<b>Cash flow from financing activities (C)</b>	<b>-18.8</b>	<b>82.6</b>
<b>Net cash flow (A+B+C)</b>	<b>8.9</b>	<b>-21.5</b>
Cash and cash equivalents, end balance	37.5	29.4
Cash and cash equivalents, opening balance	29.4	50.9
Effect of changes in exchange rates	-0.8	0.1
<b>Change</b>	<b>8.9</b>	<b>-21.5</b>

The notes 1-28 form an integral part of the consolidated financial statements.

## Statement of changes in consolidated equity

(EUR million)	Share capital	Share premium reserve	Revaluation reserve	Reserve for invested unrestricted equity (RIUE)	Hybrid loan	Other reserves	Translation differences	Treasury shares	Retained earnings	Equity holders of the parent	Non-controlling interests	Total
<b>EQUITY ON 1 Jan. 2019</b>	<b>66.8</b>	<b>72.9</b>	<b>5.1</b>	<b>143.5</b>	<b>40.0</b>	<b>10.3</b>	<b>-11.9</b>	<b>0.0</b>	<b>-17.2</b>	<b>309.5</b>	<b>15.4</b>	<b>325.0</b>
Result for the financial period	-	-	-	-	-	-	-	-	-39.9	-39.9	2.3	-37.5
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-	-	-	-	-1.6	-	-	-1.6	-	-1.6
Cash flow hedging	-	-	-4.2	-	-	-	-	-	-	-4.2	-	-4.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-4.2	-4.2	-	-4.2
Total comprehensive income for the period	-	-	-4.2	-	-	-	-1.6	-	-44.1	-49.8	2.3	-47.5
Direct recognitions	-	-	-	-	-	0.0	-	-	1.0	1.0	-	1.0
Share issue	-	-	-	71.9	-14.1	-	-	-	-3.8	54.0	-	54.0
Purchase of own shares	-	-	-	-	-	-	-	-4.7	-	-4.7	-	-4.7
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.6	-0.6
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
<b>EQUITY ON 31 Dec. 2019</b>	<b>66.8</b>	<b>72.9</b>	<b>1.0</b>	<b>215.4</b>	<b>25.9</b>	<b>10.3</b>	<b>-13.4</b>	<b>-4.8</b>	<b>-66.2</b>	<b>307.9</b>	<b>17.2</b>	<b>325.1</b>
<b>EQUITY ON 1 Jan. 2018</b>	<b>66.8</b>	<b>72.9</b>	<b>1.0</b>	<b>143.5</b>	<b>0.0</b>	<b>10.3</b>	<b>-7.9</b>	<b>0.0</b>	<b>48.6</b>	<b>335.1</b>	<b>14.4</b>	<b>349.5</b>
IFRS9 Change in opening balance	-	-	-	-	-	-	-	-	-1.0	-1.0	-	-1.0
Result for the financial period	-	-	-	-	-	-	-	-	-53.0	-53.0	1.7	-51.3
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-0.1	-	-	-	-4.0	-	-	-4.0	-	-4.0
Cash flow hedging	-	-	4.2	-	-	-	-	-	-	4.2	-	4.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-6.9	-6.9	-	-6.9
Total comprehensive income for the period	-	-	4.2	-	-	-	-4.0	-	-59.9	-59.7	1.7	-58.0
Direct recognitions	-	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Dividend distribution	-	-	-	-	-	-	-	-	-4.9	-4.9	-0.6	-5.5
Hybrid loan, issue	-	-	-	-	40.0	-	-	-	-0.2	39.8	-	39.8
<b>EQUITY ON 31 Dec. 2018</b>	<b>66.8</b>	<b>72.9</b>	<b>5.1</b>	<b>143.5</b>	<b>40.0</b>	<b>10.3</b>	<b>-11.9</b>	<b>0.0</b>	<b>-17.2</b>	<b>309.5</b>	<b>15.4</b>	<b>325.0</b>

The notes 1-28 form an integral part of the consolidated financial statements.



# Notes to the financial statements for 2019

## Basic information about the entity

HKScan Corporation is a Finnish public limited company established under the law of Finland. The company is domiciled in Turku.

HKScan Corporation and its subsidiaries (together 'the Group') produce, sell and market high-quality and responsibly-produced pork, beef, poultry and lamb products, processed meats and convenience foods under strong brand names. Its customers are the retail, food service, industry and export sectors.

The Group is active in Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark, Russia, Germany and China. HKScan Corporation's A share has been quoted on Nasdaq Helsinki since 1997.

HKScan Corporation is a subsidiary of LSO Osuuskunta and part of the LSO Osuuskunta Group. LSO Osuuskunta is domiciled in Turku.

The Board of Directors of HKScan Corporation approved the publication of these financial statements at its meeting on 5 February 2020.

Under the Finnish Companies Act, shareholders may approve or reject the financial statements at the Annual General Meeting held subsequent to their publication. The Annual General Meeting can also modify the financial statements.

A copy of the HKScan Group's consolidated financial statements is available on the company's website at [www.hkscan.com](http://www.hkscan.com) or in the parent company's head office at Lemminkäisenkatu 48, FI-20520 Turku, Finland. The LSO Osuuskunta Group's consolidated financial statements are also available at the same address.

## Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have consistently been applied to all the years presented, unless otherwise stated.

### Basis of preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the IAS standards and SIC and IFRIC interpretations effective on 31 December 2019. 'International Financial Reporting Standards' refers, in the Finnish Accounting Act and in the provisions given thereupon, to the standards approved for application within the EU according to the procedure as established in EU Regulation (EC) No. 1606/2002 and the interpretations thereof. The notes to the financial statements also conform to Finnish accounting and corporate legislation supplementing IFRS requirements.

The consolidated financial statements have been prepared under the historical cost convention except for some financial instruments and biological assets, which have been measured at fair value.

The accounting policies in respect of subsidiaries have been changed to correspond to those of the parent company if required.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the accounting policies under critical accounting estimates and judgements.

Unless otherwise stated, the information in the consolidated financial statements is given in millions of euros. Consequently, some totals may not agree with the sum of their constituent parts.

The consolidated financial statements have been prepared in compliance with the same accounting policies as in 2018 except for the adoption of new standards.

#### **New and amended standards adopted by the group**

The Group applies for the first time with full retrospective method the new IFRS 16 standard that is effective as of 1 January 2019. Comparative information is restated. According to IFRS 16 lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. Less than 12 months agreements and assets of low value are excluded by the Group. Detailed information about the accounting principle is described in chapter "Leases". Disclosures required by standard are reported in note 13.

## Balance sheet (extract)

(EUR million)	31 Dec. 2019 (IAS 17)	IFRS 16	31 Dec. 2019 as presented	31 Dec 2018 as originally presented	IFRS 16	31 Dec. 2018 restated	1 Jan 2018 as originally presented	IFRS 16	1 Jan. 2018 restated
<b>Non-current assets</b>									
Tangible assets	371.5	44.3	415.9	403.5	46.1	449.6	422.2	46.2	468.5
Deferred tax assets	43.0	0.4	43.4	42.9	0.4	43.3	33.2	0.4	33.5
<b>Non-current liabilities</b>									
Non-current interest-bearing liabilities	226.3	36.5	262.7	242.0	36.3	278.3	245.1	36.4	281.6
Lease liabilities	0.0	36.5	36.5	0.5	36.3	36.8	1.3	36.4	37.7
<b>Current liabilities</b>									
Current interest-bearing liabilities	40.8	9.8	50.6	77.0	9.9	86.9	14.1	9.5	23.5
Lease liabilities	0.0	9.8	9.8	0.0	9.9	9.9	0.0	9.5	9.5
Retained earnings	309.5	-1.5	307.9	311.2	-1.6	309.5	336.6	-1.5	335.1

## Income statement (extract)

(EUR million)	2019 (IAS 17)	IFRS 16	2019 as presented	2018 as originally presented	IFRS 16	2018 restated
Depreciation and amortisation	-69.0	-11.4	-80.4	-56.7	-10.6	-67.3
Other operating expenses	-184.0	12.9	-171.0	-188.6	11.7	-176.9
<b>EBIT</b>	<b>-24.7</b>	<b>1.5</b>	<b>-23.2</b>	<b>-49.5</b>	<b>1.2</b>	<b>-48.3</b>
Financial expenses	-12.5	-1.4	-13.9	-11.9	-1.4	-13.3
<b>Profit/loss before taxes</b>	<b>-34.6</b>	<b>0.1</b>	<b>-34.5</b>	<b>-58.3</b>	<b>-0.2</b>	<b>-58.5</b>
Income tax	-3.0	0.0	-3.0	7.1	0.0	7.2
<b>Profit/loss for the period</b>	<b>-37.6</b>	<b>0.1</b>	<b>-37.5</b>	<b>-51.2</b>	<b>-0.1</b>	<b>-51.3</b>

## Cash flow statement (extract)

(EUR million)	31. Dec. 2019 (IAS 17)	IFRS 16	31. Dec. 2019 as presented	31. Dec. 2018 as originally presented	IFRS 16	31. Dec. 2018 restated
Cash flow before change in net working capital	45.3	12.9	58.3	7.6	11.7	19.3
Interest paid	-11.5	-1.4	-13.0	-11.0	-1.4	-12.3
<b>Cash flow from operating activities (A)</b>	<b>47.7</b>	<b>11.5</b>	<b>59.2</b>	<b>-24.6</b>	<b>10.4</b>	<b>-14.3</b>
Lease payments	-0.1	-11.5	-11.6	-0.7	-10.4	-11.1
<b>Cash flow from financing activities (C)</b>	<b>-7.3</b>	<b>-11.5</b>	<b>-18.8</b>	<b>92.9</b>	<b>-10.4</b>	<b>82.6</b>
<b>Net cash flow (A+B+C)</b>	<b>8.9</b>	<b>0.0</b>	<b>8.9</b>	<b>-21.5</b>	<b>0.0</b>	<b>-21.5</b>

The change had no impact to earnings per share or diluted earnings per share.

## Comparability with previous years

The years 2019 and 2018 are comparable with each other.

### Consolidation subsidiaries

The consolidated financial statements include the accounts of the parent company HKScan Corporation and its subsidiaries. Subsidiaries are entities over which the Group exercises control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value, or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Recorded goodwill is originally the sum of consideration transferred, interest of non-controlling shareholders in the acquiree and previously held interest in the acquiree minus the fair value of the acquired net assets. If the consideration is smaller than the fair value of the subsidiary's acquired net assets, the difference is recognised through profit or loss.

Subsidiaries acquired are consolidated from the date the Group acquires a controlling interest in them. All intragroup transactions, receivables and liabilities, and intragroup profit distribution, have been eliminated upon preparation of the consolidated financial statements.

A previous shareholding in a staggered acquisition is measured at the fair value and any profit or loss derived from this is recorded in the income statement as either profit or loss. When the Group loses control in a subsidiary, the remaining investment is measured at the fair value of the date of the expiry of control and the difference derived from this is recognised through profit and loss.

Distribution of profit for the period between holders of the parent and non-controlling interests is presented in the separate income statement, and the distribution of comprehensive income between holders of the parent and non-controlling interests is presented in the statement of comprehensive income. Comprehensive income is allocated to the parent company shareholders and non-controlling interests, even if this should mean that the share held by non-controlling interests becomes negative. The share of equity owing to non-controlling interests is presented as a separate item on the balance sheet under equity. Changes in the parent company's shareholding in a subsidiary, which do not lead to loss of control, are treated as equity-related transactions. The difference between fair value of any consideration paid, and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### **Associates**

Associates are companies over which the Group exercises a significant influence which usually arises when the Group holds 20-50 per cent of a company's voting rights. Associates have been consolidated using the equity method.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. If the Group's share of the losses of an associate exceeds the investment's carrying amount, the investment is recognized as having no value and, unless the Group is committed to meeting the obligations of associates, no losses exceeding the carrying amount are consolidated. Investments in associates include the goodwill arising on their acquisition. Dividends received from associates have been eliminated in the consolidated financial statements. The associates mentioned below in Note 27, 'Related Party Transactions' have been consolidated into the consolidated financial statements. Share of associates' results is presented below EBIT.

The Group's share in associates' changes recognised in other items of comprehensive income are recognised in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2018 - 2019 financial periods.

### **Joint ventures**

A joint venture is a company in which the Group exercises joint control with another party. Joint ventures are consolidated using the equity method.

More detailed information about holdings in Group companies and associates and joint ventures is presented in Note 27, 'Related party transactions'.

### **Foreign Currency Translation**

The items included in the financial statements of the Group companies are valued in the currency of the main operating environment for that company (functional currency). The consolidated financial statements are presented in euros, the parent company's functional and reporting currency.

The assets and liabilities of foreign subsidiaries, and the foreign joint venture, are translated into euros at the closing exchange rates confirmed by the European Central Bank on the balance sheet date. The income statements are translated into euros using the average rate for the period. A translation difference arises from translating the result for the period and the comprehensive result at different rates



in the income statement and comprehensive income statement and the balance sheet. The difference is recognised under equity. The change in the translation difference is recognised in other comprehensive income. The translation differences arising from eliminating the acquisition cost of foreign subsidiaries, and the joint venture, and from the translation of equity items accrued after the acquisition, are recognised in translation differences in the Group's equity, and the change is recognised in items of comprehensive income.

Group companies recognise transactions in foreign currencies at the rate prevailing on the day of the transaction. Trade receivables, trade payables, and loan receivables denoted in foreign currencies, and foreign currency bank accounts, have been translated into the operational currency at the exchange rates quoted on the balance sheet date. Exchange rate gains and losses on loans denoted in foreign currencies are included in financial income and expenses below EBIT. As a rule, exchange rate gains and losses related to business operations are included in the corresponding items above EBIT.

## Property, plant and equipment

Property, plant and equipment have been measured at cost less accumulated depreciation and any impairment. Depreciation of assets is made on a straight-line basis over the expected useful life. No depreciation is made on land.

The expected useful lives are as follows:

Buildings and structures	25-50 years
Building machinery and equipment	8-12,5 years
Machinery and equipment	2-10 years

The residual value and useful life of assets are reviewed in each financial statement and if necessary adjusted to reflect changes taking place in expected useful life.

Depreciation on property, plant and equipment ends when an item is classified as being for sale. Gains and losses arising on the disposal and discontinuation and assignment of property, plant and equipment are included either in other operating income or expenses.

Maintenance and repair costs arising from normal wear and tear are recognized as an expense when they occur. Major refurbishment and improvement investments are capitalised and depreciated over the remaining useful life of the main asset to which they relate.

## Government grants

Government grants, such as grants from the State or the EU relating to PPE acquisitions, have been recognized as deductions in the carrying amounts of PPE when receipt of the grants and the Group's eligibility for them is reasonably certain. The grants are recognised as income in the form of lower depreciations over the useful life of the item. Grants received in reimbursement of expenses incurred are recognised as income in the income statement at the same time as the costs relating to the object of the grant are recognised as an expense. Grants of this kind are reported under other operating income.

## Intangible assets

### Goodwill

Goodwill arises on the acquisition of subsidiaries or business operations, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree, and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the segment level.

Goodwill impairment reviews are undertaken annually, or more frequently, if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill and other intangible items that have an unlimited useful life are not subject to regular depreciation, being instead tested yearly for impairment. For this reason, goodwill is allocated to CGUs or, in the case of an associate, included in the acquisition cost of the associate concerned. Goodwill is measured according to the historical cost convention less impairments. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of goodwill are not reversed. See, 'Impairment' and 'Impairment testing'.

#### **Research and development costs**

Research and development costs are charged as incurred and are included in other operating expenses in the income statement.

#### **Other intangible rights and assets**

An intangible asset is recognised on the balance sheet only if its acquisition cost can be reliably determined and it is likely that the company will reap the expected economic benefit of the asset. Intangible rights include trademarks and patents, while items such as software licenses are included in other intangible assets. Patents and software licenses are recognised on the balance sheet at cost and are depreciated on a straight-line basis during their useful life, which varies from five to 10 years. No depreciation is made on intangible assets with an unlimited useful life.

Brands have been estimated to have an unlimited useful life. The good recognition of the brands and analyses performed support the view of management that the brands will affect cash flow generation for an indeterminate period of time.

### **Impairment of non-financial assets**

Intangible assets that have an indefinite useful life, or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

See 'Critical accounting estimates and judgements' and 'Goodwill'.

### **Inventories**

Raw materials are measured at weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labor costs, other direct costs and a systematically allocated proportion of variable and fixed production overheads. In determining the acquisition cost, standard cost accounting is applied and standard costs are reviewed regularly and changed if necessary. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Inventories are shown net of a reserve for obsolete and slow-moving inventories. A reserve is established and a corresponding charge is taken to profit and loss in the period in which the loss occurs based upon an assessment of obsolescence and related factors.

## Biological assets

Biological assets, which in the case of the HKScan Group means living animals, are recognised on the balance sheet at fair values less estimated sales-related expenses. The Group's live slaughter animals are measured at market price. Animals producing slaughter animals (sows, boars, breeding hens) have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

Biological assets are included in inventories on the balance sheet and changes in the fair value are included in material costs in the income statement.

Animals producing slaughter animals are included in fixed assets.

## Leases

### The group as lessee

The Group recognises a right-of-use asset and related lease liability from all lease for all leases with term of more than 12 months. Less than 12 months agreements and assets of low value are excluded by the Group. Office equipment such as printers, coffee machines, phones and computers are considered assets of low value. Initial recognition is based on discounted present value of the lease payments. The discount rate is a rate from the agreement, or if not available, the interest rate for additional loan. Discounted present value of the lease payments include expected payable residual value guarantee, price of purchase or continuation option if likely that the Group will utilise option and expected payments from the ending of the agreement. Lease agreements without end date (with short notice period) are based on management judgement considered with two years duration which is renewed when the time expires. Also, other justified duration based on management judgment can be used. Depreciations from right-of-use assets and interest expense on lease liability are recorded to income statement instead of the lease expense. Right-of-use assets are depreciated with straight-line method during the lease period. Lease payments are divided into interest expense and lease liability amortisation with effective interest rate method. Right-of-use assets are included in tangible assets and lease liabilities in interest bearing debts in the balance sheet.

When an arrangement enters into force, the Group uses its factual content to determine whether the arrangement is a lease agreement or whether it includes one. A lease agreement exists if the following conditions are met: there is an identified asset, customer has the right to obtain substantially all of the economical benefits from the use of the asset throughout the period of use, customer has the right to direct how and for what purpose the asset is used throughout the period of use, or if the use is predetermined, customer operates the asset or has designed the asset.

### The group as lessor

The Group's leased assets whose risks and rewards of ownership have essentially been transferred to the lessee are recognised as receivables on the balance sheet. Receivables are initially recognised at their present value. Financing income is recognised during the term of the lease so as to achieve a constant rate of return on the outstanding net investment over the term of lease.

Other assets leased under other operating leasing agreements are included in property, plant and equipment on the balance sheet. They are depreciated over their useful lives in the same way as corresponding property, plant and equipment in the company's own use are. Rental income is recognised in the income statement on a straight-line basis over the lease term.

## Employee benefits

### Pension obligations

Pension plans are classified as defined benefit plans and defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate entity. The Group is under no legal or actual obligation to make additional payments in the event that the entity collecting pension payments is unable to meet its obligations to pay the pension benefits in question. Any pension plan that does not meet these criteria is a defined benefit plan.

Statutory pension cover for Finnish Group companies has been arranged through pension insurance. Pension plans in respect of companies outside Finland have been made in accordance with local practice.

In defined contribution plans, such as the Finnish employment pension scheme (TyEL) and the Swedish ITP-plan, pension plan contributions are recognised in the income statement during the financial period in which they are incurred.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, curtailments and settlements.

Past-service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are charged or credited to equity in other comprehensive income in the period in which they arise.

### **Share-based payments**

Based on IFRS2, the fair value of share based incentives is determined at the grant date and the fair value is expensed until vesting. If the share reward is paid as a combination of shares and cash, the fair value determination is divided into equity-settled and cash-settled portions. The equity-settled portion is booked into equity and cash-settled into liabilities. The fair value of equity-settled portion is the fair value of Company share at the grant date deducted with expected dividends to be paid before the reward payment. Furthermore, the share purchase and ownership requirement in the performance period is taken into account by deducting the estimated financing costs of the share purchases from the fair value. The fair value of the cash-settled portion is recalculated on each reporting date until the reward payment.

### **Provisions**

A provision is recognised when the Group has a legal or actual obligation as the result of a past event, it is likely that the payment obligation will be realised and the magnitude of the obligation can be reliably estimated.

A restructuring provision is made when the Group has compiled a detailed restructuring plan and launched its implementation or announced the plan. No provision is made for expenses relating to the Group's continuing operations.

A provision for environmental obligations is made when the Group has an obligation, based on environmental legislation and the Group's environmental responsibility policies, which relates to site decommissioning, repairing environmental damage or moving equipment from one place to another.

### **Taxes and deferred taxes based on taxable income for the period**

The income tax expense in the income statement consists of tax based on taxable income and deferred tax. Taxes are recognised in the income statement, except when related to items recognised directly in equity, or the statement of comprehensive income, in which event the tax is also recognised in the said items.

Tax based on taxable income in the financial period is calculated from taxable income on the basis of the tax law of the domicile of each company. Taxes are adjusted with any taxes relating to previous financial periods.

Deferred tax assets and liabilities are calculated on temporary differences in book-keeping and taxation using the tax rate valid at the balance sheet date or expected date the tax is paid. The most significant temporary differences arise from measurement to fair value of derivative instruments, defined benefit pension plans, unclaimed tax losses and measurements to fair value in connection with acquisitions. No deferred tax is recognised on non-deductible goodwill. Deferred tax assets are recognised for the amount which it is likely that taxable profit will be generated in the future, against which the temporary difference can be utilised.

Deferred taxes are calculated using the tax rates which have been enacted or which in practice have been adopted by the reporting date.

The deferred tax liability relating to the retained earnings of the Baltic Group companies has not been recognised, as the assets are used to safeguard the foreign companies' own investment needs. The parent company has control over the dividend distribution policy of the Baltic subsidiaries, and there are no plans to distribute said earnings within the foreseeable future.

## Revenue recognition policies

Net sales is presented as revenue from the sales of products and services measured at fair value and adjusted for indirect taxes, discounts and translation differences resulting from sales in foreign currencies.

The Group sells food products, feed, animals and to a small extent slaughtering and transport services. The Group fulfils its performance obligation and recognises revenue when the product is delivered, and service is performed. Food products have limited shelf life, so quality and warranty issues realise quickly. There is no additional warranty provision recorded for the delivered products. Product and service prices and quantities do not include significant judgement.

Variable discount periods are typically short, value is low, and usually end at year end so they can be reliably estimated. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service is short.

## Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operation is a material part of the Group that has been disposed of or classified as held for sale. Profit from discontinued operations is disclosed as a separate item in the other comprehensive income statement.

## Financial assets and liabilities

### Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

### Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding



Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and loan receivables under current and non-current financial assets.

#### **Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as financial income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group elected to classify irrevocably its non-listed equity investments under this category.

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

#### **Derecognition**

Financial assets are derecognised from the balance sheet when the Group's contractual right to the cash flows has expired or when the risks and rewards of ownership have to a significant degree been transferred outside the Group.

#### **Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash, demand deposits and other highly liquid short-term investments which are easily exchangeable for a previously known amount of cash assets, and whose risk of a change in value is minimal. Items classified in cash and cash equivalents have a maturity of less than three months from the date of acquisition. Credit accounts relating to the Group accounts are included in current financial liabilities, and they are recognized as setoffs, as the Group has an agreement-based legal right to settle or otherwise eliminate the amount to be paid to the creditor in full or in part.

#### **Financial liabilities**

The Group's financial liabilities are classified into the following categories: financial liabilities recognised at fair value through profit or loss, and other financial liabilities at amortised cost.

Financial liabilities recognised at fair value through profit or loss are initially and subsequently measured at fair value with the same principles as corresponding financial assets. Derivative financial liabilities are included in this category. Other financial liabilities are initially recognised at fair value and transaction costs are included in the original carrying amount. Financial liabilities, except for derivative contract liabilities, are subsequently measured at amortised cost using the effective interest method. Financial liabilities are included in current and non-current liabilities. Financial liabilities are classified as current unless the Group has an unconditional right to defer payment for at least 12 months from the reporting date.

Borrowing costs directly attributable to the acquisition, construction or manufacture of a qualifying asset are capitalised as a part of the cost of the said asset when it is likely that these will generate future economic benefits, and when the costs can be measured reliably. During the financial years presented, the Group did not have any qualifying investments.

Other borrowing costs are recognised as an expense in the period in which they are incurred. Credit fees related to loan commitments are recognised as transaction costs in proportion to the extent that it is probable that the total loan commitment or a part of it will be raised. Credit fees are recognised on the balance sheet until the loan is raised. In connection with the drawdown, the credit fee related to loan commitments is recognised as part of the transaction costs. To the extent that it is probable that the loan commitment will not be raised, the credit fee is recognised as a prepaid expense in respect of the liquidity-related services and is accrued for the period of the loan commitment.

## **Derivatives and hedge accounting**

Derivative contracts are initially accounted for at fair value on the date on which the Group becomes a party to the contract and subsequently continue to be measured at fair value. Gains and losses arising from the measurement at fair value are treated in the income statement in the manner determined by the purpose of the derivative.

The impacts on profit or loss arising from changes in the value of derivative contracts to which hedge accounting applies and which are effective hedges, are presented in a manner consistent with the hedged item. When derivative contracts are entered into, the Group treats the derivatives, as in the case of interest rate risk, as cash flow hedges, cash flow hedges of a highly probable forecast transaction, or derivatives that do not satisfy the criteria for applying hedge accounting. The Group documents the hedge accounting at the beginning of the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management and the hedging strategy applied. When initiating the hedge and thereafter when publishing all financial statements, the Group documents and assesses the effectiveness of the hedging relationships by examining the ability of the hedging instrument to nullify changes in the fair value of the hedged item or changes in cash flows.

### **Cash flow hedging**

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised under other comprehensive income and reported in the hedging reserve (included in Fair value reserve and other reserves). Gains and losses accrued from the hedging instrument are transferred to the income statement when the hedged item affects profit or loss.

The ineffective portion of the hedging instrument's profit or loss is recognised as financial income or expenses (interest rate derivatives) or other operating expenses (commodity derivatives).

When a hedging instrument acquired to hedge cash flow matures or is sold, or when the criteria for hedge accounting are no longer satisfied, the profit or loss accrued from the hedging instrument remains in equity until the forecast transaction is carried out. Nevertheless, if the forecast hedged transaction is no longer expected to be realised the profit or loss accrued in equity is recognised immediately in the income statement.

### **Other hedging instruments where hedge accounting is not applied**

Despite the fact that some hedging relationships satisfy the Group's risk management hedging criteria, hedge accounting is not applied to them. Derivatives hedging against currency and interest risk fall into this category.

In accordance with the Group's recognition policy, changes in the fair value of foreign exchange contracts hedging commercial flows are recognised in other operating income and expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations. On the balance sheet, derivatives relating to currency-denominated trade receivables or trade payables are presented in other current receivables or liabilities. Changes in the fair value of interest rate derivatives are recognised in financial items. On the balance sheet the fair value of interest rate derivatives is presented in current and non-current liabilities according to maturity.

Changes in the hedging reserve are presented in Note 20. 'Notes relating to equity' under 'Revaluation reserve'.

## Equity

All company shares are reported as share capital. Any repurchase of its own shares by the company is deducted from equity.

## Dividend

The dividend proposed to the Annual General Meeting by the Board of Directors is not deducted from distributable equity until approved by the AGM.

## EBIT

The concept of EBIT is not defined in IAS 1: Presentation of Financial Statements. The Group employs the following definition: EBIT is the net sum arrived at by adding other operating income to net sales, deducting from this purchase costs as well employee benefit expenses, depreciation and impairment losses, if any, and other operating expenses. All other income statement items are presented below EBIT.

Where necessary, major gains and losses on disposal, impairment and recognitions of discontinuations, reorganisations of operations or significant compensations or penalties paid out due to the legal verdict or settlement, recorded as items affecting comparability, as well as comparable EBIT may be presented separately in interim reports and financial statement bulletins.

## Critical accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions affecting the content and to exercise judgement in applying the accounting policies. The most important of these estimates affect the possible impairment of goodwill and other assets as well as provisions. Actual results may differ from these estimates.

The estimates made in preparation of the financial statements are based on the best judgement of management on the reporting date. The estimates are based on historical experience and assumptions regarding the future seen as most likely on the balance sheet date. Such assumptions are related to the expected development of the Group's financial operating environment in terms of sales and cost levels. The estimations and judgements are reviewed regularly.

The most important areas in which the estimations and judgement have been used are presented below.

The assumptions made by the management regarding the taxable income of the Group companies in the coming reporting periods are taken into account when estimating the amount of recognised deferred tax assets.

### Measurement to fair value of assets acquired in business combinations

Where possible, Management has used available market values as the basis of determining the fair value of the net assets acquired in a business combination. When this is not possible, measurement is principally based on the historic return from the asset item and its intended use in business operations.

Measuring the intangible right at fair value has required the Management to make estimations on the future cash flows. Valuations are based on discounted cash flows as well as estimated disposal and repurchase prices and require Management's estimates and assumptions about the future use of assets and the effect on the company's financial position. Changes in the emphasis and direction of business operations may result in changes to the original measurement in the future.

In addition, both intangible and tangible assets are reviewed for any indications of impairment on each reporting date at the least.

### **Impairment testing**

The Group tests goodwill annually for possible impairment. The recoverable amounts of cash generating units are determined in calculations based on value in use. The preparation of these calculations requires the use of estimates. Although the assumptions used are appropriate according to the Management, the estimated recoverable amounts may differ substantially from those realised in future. The assumptions used in the impairment calculation involve judgement that the Management has used in estimating the development of different factors. The sensitivity analysis emphasises that the factors related to revenue growth are the most central sources of uncertainty in the methods, assumptions and estimates used in the calculations. This sensitivity derives from the challenging estimation of the future development of the previously mentioned factors.

### **Deferred tax**

Deferred tax assets are recognised for the amount which it is likely that taxable profit will be generated in the future, against which the temporary difference can be utilised. The Group assesses the principles for recognising deferred tax in connection with the financial statements. To this end, it has assessed how likely subsidiaries are to have recoverable taxable income against which the unused tax losses or unused tax credits can be utilised.

### **Valuation of inventories**

Management's principle is to recognise an impairment loss for slowly moving and outdated inventories based on the management's best possible estimate of possibly

unusable inventories in the Group's possession at the reporting date.

The Group has valuation policy for inventories which is approved by the Management. Management bases its estimates on systematic and continuous monitoring and evaluations. Also, biological assets' fair value includes Management's judgement.

### **Application of new and revised IFRS norms**

There are no new IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## **Notes to income statement**

### **1. Business segments**

The Group's operational activities are the responsibility of the Group's CEO assisted by the Group Management Team. The division into business segments is based on the reports used by the Group Management Team for the allocation of resources and assessment of performance.

The Group Management Team monitors business performance by geographical area. The geographical segments monitored are Sweden, Finland, Denmark and the Baltics.

All the geographical segments manufacture, sell and market meat products, processed meat products and convenience foods. In addition to this the Group sells to a small extent slaughtering and transport services.

The net sales and EBIT for specific segments do not include intercompany sales and margins. Segments report external sales and cost of the external sales.

The assets and liabilities of the segments are items that are either directly or fairly allocated to the business of the relevant segment. Segment assets include tangible and intangible assets, shares in associates, inventories and non-interest bearing receivables. Segment liabilities include current non-interest bearing liabilities. Unallocated items include financial and tax items and items common to the entire Group.

Year 2019	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group administration	Eliminations	Un-allocated	Group total
<b>Income statement information</b>									
Net sales	652.1	770.6	153.3	168.5	1,744.4	-	-	-	1,744.4
EBIT	7.1	-10.3	-9.8	5.0	-8.0	-15.2	-	-	-23.2
Share of associates' results	-0.3	0.5	0.3	-	0.4	-	-	-	0.4
Financial income and expenses								-11.7	-11.7
Income taxes								-3.0	-3.0
<b>Result for the period</b>									<b>-37.5</b>
<b>Balance sheet information</b>									
Segment assets	260.2	409.5	55.0	142.0	866.7	57.1	-67.9	-	855.9
Shares in associates	2.6	13.4	3.8	-	19.8	1.0	-	-	20.8
Unallocated assets	-	-	-	-	-	-	-	58.8	58.8
<b>Total assets</b>	<b>262.8</b>	<b>422.9</b>	<b>58.8</b>	<b>142.0</b>	<b>886.6</b>	<b>58.0</b>	<b>-67.9</b>	<b>58.8</b>	<b>935.6</b>
Segment liabilities	129.5	124.8	20.7	24.4	299.5	18.5	-5.7	-	312.2
Unallocated liabilities	-	-	-	-	-	-	-	298.2	298.2
<b>Total liabilities</b>	<b>129.5</b>	<b>124.8</b>	<b>20.7</b>	<b>24.4</b>	<b>299.5</b>	<b>18.5</b>	<b>-5.7</b>	<b>298.2</b>	<b>610.5</b>

<b>Other information</b>									
Sales, goods	652.1	767.4	153.3	168.0	1,740.8	-	-	-	1,740.8
Sales, services	0.0	3.1	-	0.5	3.6	-	-	-	3.6
Investments	10.4	16.3	2.6	11.9	41.2	1.9	-	-	43.0
Depreciation and amortisation	-13.0	-34.3	-7.9	-10.5	-65.7	-2.9	-	-	-68.6
Impairment	0.0	-7.3	-4.5	0.0	-11.8	-	-	-	-11.8
Goodwill	28.7	19.8	-	22.2	70.7	-	-	-	70.7
Cash flow before debt service	18.7	21.1	-1.2	0.7	39.4	-0.7	-	-	38.7
<b>Cash flow before debt service reconciliation Group total</b>									
Cash flow from operating activities									59.2
Financial items (-)									10.6
Cash flow from investing activities									-31.6
Loan receivables Borrowings and repayments (-)									0.4
<b>Cash flow before debt service</b>									<b>38.7</b>

<b>Year 2018</b>	<b>Swedish operations</b>	<b>Finnish operations</b>	<b>Danish operations</b>	<b>Baltic operations</b>	<b>Business segments, total</b>	<b>Group administration</b>	<b>Eliminations</b>	<b>Un-allocated</b>	<b>Group total</b>
<b>Income statement information</b>									
Net sales	682.1	721.9	149.3	162.1	1,715.4	-	-	-	1,715.4
EBIT	8.9	-36.1	-5.8	-0.7	-33.6	-14.7	-	-	-48.3
Share of associates' results	0.0	0.4	0.6	-	1.1	-	-	-	1.1
Financial income and expenses								-11.2	-11.2
Income taxes								7.2	7.2
<b>Result for the period</b>									<b>-51.3</b>



Year 2018	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group administration	Eliminations	Un-allocated	Group total
<b>Balance sheet information</b>									
Segment assets	261.9	425.3	62.3	143.6	893.1	45.5	-41.0	-	897.6
Shares in associates	3.4	13.2	3.6	-	20.2	1.0	-	-	21.1
Unallocated assets	-	-	-	-	-	-	-	57.9	57.9
<b>Total assets</b>	<b>265.3</b>	<b>438.5</b>	<b>65.9</b>	<b>143.6</b>	<b>913.3</b>	<b>46.4</b>	<b>-41.0</b>	<b>57.9</b>	<b>976.5</b>
Segment liabilities	124.9	121.6	19.8	25.8	292.2	19.5	-7.5	-	304.2
Unallocated liabilities	-	-	-	-	-	-	-	347.4	347.4
<b>Total liabilities</b>	<b>124.9</b>	<b>121.6</b>	<b>19.8</b>	<b>25.8</b>	<b>292.2</b>	<b>19.5</b>	<b>-7.5</b>	<b>347.4</b>	<b>651.6</b>
<b>Other information</b>									
Sales, goods	681.9	718.4	149.3	161.9	1,711.5	-	-	-	1,711.5
Sales, services	0.1	3.5	-	0.3	3.9	-	-	-	3.9
Investments	8.1	25.6	3.0	11.3	48.1	4.1	-	-	52.2
Depreciation and amortisation	-12.8	-33.0	-8.9	-10.5	-65.2	-1.6	-	-	-66.8
Impairment	-	-0.5	-	-	-0.5	-	-	-	-0.5
Goodwill	29.2	19.8	-	22.2	71.2	-	-	-	71.2
Cash flow before debt service	5.2	-86.4	0.8	2.1	-78.2	-17.2	-	-	-95.4
<b>Cash flow before debt service reconciliation to Group total</b>									
Cash flow from operating activities									-14.3
Financial items (-)									8.8
Cash flow from investing activities									-89.8
Loan receivables Borrowings and repayments (-)									-0.1
<b>Cash flow before debt service</b>									<b>-95.4</b>

## 2. Other operating income

	2019	2018
Rental income	1.5	1.3
Gain on disposal of non-current assets	0.3	0.8
Exchange rate gains related to foreign exchange derivatives	0.9	0.8
Insurance compensation	0.0	0.1
Government grants	-	0.0
Other operating income	6.1	5.5
<b>Other operating income</b>	<b>8.8</b>	<b>8.4</b>

## 3. Materials and services

	2019	2018
Purchases during the financial period	-1,041.3	-1,067.2
Increase/decrease in inventories	-18.3	8.1
Work performed for own use and capitalised	0.0	0.0
<b>Materials and supplies</b>	<b>-1,059.5</b>	<b>-1,059.1</b>
External services	-151.7	-152.1
<b>Materials and services</b>	<b>-1,211.3</b>	<b>-1,211.2</b>

## 4. Employee benefit expenses

	2019	2018
Salaries and fees	-242.4	-245.9
Share-based payments	-1.0	0.0
Pension expenses, defined contribution plans	-27.5	-27.2
Pension expenses, defined benefit plans	-2.4	-2.2
Total pension expenses	-29.8	-29.5
Other social expenses	-40.4	-41.3
<b>Employee benefit expenses</b>	<b>-313.7</b>	<b>-316.7</b>
<b>Key management personnel compensation:</b>		
Short-term employee benefits	-3.7	-3.3
Post-employment benefits	-0.4	-0.5
Termination benefits	-1.7	-1.1
Share-based payments	-	0.0
<b>Key management salaries, fees and benefits</b>	<b>-5.8</b>	<b>-4.9</b>
Average number of employees during financial year		
Clerical employees	1,181	1,264
Workers	5,747	5,915
<b>Total</b>	<b>6,928</b>	<b>7,179</b>

Members of Board of Directors:	Salaries and fees	Post-employment benefits
Reijo Kiskola, Chairman	0.108	-
Jari Mäkilä, Deputy Chairman, starting from 30.1.2019	0.060	-
Per Olof Nyman	0.049	-
Harri Suutari, starting from 30.1.2019	0.048	-
Terhi Tuomi, starting from 30.1.2019	0.044	-
Anne Leskelä, starting from 11.4.2019	0.036	-
Carl-Peter Thorwid	0.031	-
Ilkka Uusitalo, starting from 30.1.2019	0.031	-
<b>Total</b>	<b>0.407</b>	<b>-</b>
<b>CEO</b>		
Reijo Kiskola and Tero Hemmilä	0.837	0.123

The Finnish members of the Group Leadership Team are covered by a contribution-based additional pension insurance. The contribution is 20 per cent of the insured person's annual pay. The retirement age according to the pension agreements is 63 years.

## Share-based payments

### Long-term incentive scheme 2018-2020

On 7 February 2018, HKScan announced that the Board of Directors had approved a share based incentive scheme for the Group's key management. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure. Each Plan covers a three-year period. The earning opportunity of the participants within these plans is capped.

#### PSP 2018-2020

The potential share rewards under PSP 2018-2020, performance period 2018-2020, will be paid partly in the Company's A series shares and partly in cash in spring 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. As a main rule, no reward will be paid, if the key employee's employment or service ends before reward payment. The performance targets based on which the potential share reward under PSP 2018 - 2020 will be paid are the comparable EBIT (operating profit) and comparable EPS (earnings per share) of HKScan for year 2018 and HKScan operative cash flow for years 2019-2020.

The plan is directed to approximately 30 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 910 400 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the three-year plan exceeds three times its start value, the exceeding value of the reward will be cut and will not be paid.

#### RSP 2018-2020

The potential share rewards under RSP 2018-2020 will be paid partly in the Company's A series shares and partly in cash in spring 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee's employment or service ends before reward payment. In addition to the afore-mentioned employment precondition, the Board has for RSP 2018 - 2020 set a company level financial criterion, the fulfilment of which is a precondition for the payment of the share reward under the plan. This criterion is based on the average comparable ROCE (return on capital employed) before taxes.

The plan is directed to approximately 11 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 44 200 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the plan exceeds three times its start value, the exceeding value of the reward will be cut and will not be paid.

#### **PSP 2019-2021**

The potential share rewards under PSP 2019-2021, performance period 2019-2021, will be paid partly in the Company's A series shares and partly in cash in two tranches, the first in the spring 2022 and the second in the spring 2023. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. As a main rule, no reward will be paid, if the key employee's employment or service ends before reward payment. The performance criterion based on which the potential share rewards under PSP 2019-2021 will be paid is the operative cash flow of HKScan.

Eligible to participate in PSP 2019-2021 are the Group Management Team members, in total maximum of 10 individuals. The rewards to be paid on basis of the performance period are a maximum approximate total of 1322 200 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the three-year plan exceeds four times its start value, the exceeding value of the reward will be cut and will not be paid.

#### **RSP 2019-2021**

The potential share rewards under RSP 2019-2021 will be paid partly in the Company's A series shares and partly in cash in two tranches, the first in the spring 2022 and the second in the spring 2023. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee's employment or service ends before reward payment. In addition to the afore-mentioned employment precondition, the Board has for RSP 2019 - 2021 set a company level financial criterion, the fulfilment of which is a precondition for the payment of the share reward under the plan. This criterion is based on the average comparable ROCE (return on capital employed) before taxes.

Eligible to participate in RSP 2019-2021 are the Group Management Team members, in total maximum of 10 individuals. The rewards to be paid on basis of the performance period are a maximum approximate total of 881 500 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the plan exceeds four times its start value, the exceeding value of the reward will be cut and will not be paid.

More specific information of the performance share plan grants are presented in the tables below.

## Share based incentives during the reporting period 1 Jan. 2018 - 31 Dec. 2018

Instrument	PSP 2019-2021 (2 tranche)	RSP 2019-2021 (2 tranche)	PSP 2019-2021 (1 tranche)	RSP 2019-2021 (1 tranche)	PSP 2018-2020	RSP 2018-2020	TOT/WA
Initial amount, pcs	661,100	440,750	661,100	440,750	910,400	44,200	3,158,300
Initial allocation date	26/06/2019	26/06/2019	26/06/2019	26/06/2019	05/03/2018	05/03/2018	
Vesting date / payment approximately	31/03/2023	31/03/2023	31/03/2022	31/03/2022	31/03/2021	31/03/2021	
Maximum contractual life, yrs	3.7	3.7	2.7	2.7	3.0	3.0	3.1
Remaining contractual life, yrs	3.3	3.3	2.3	2.3	1.3	1.3	2.3
Vesting conditions	Operative Cash flow, Employment precondition	ROCE, Employment precondition	Operative Cash flow, Employment precondition	ROCE, Employment precondition	2018: EBIT (50%), EPS (50%); 2019-2020 Operative Cash flow, Employment precondition	ROCE, Employment precondition	
Number of persons at the end of the reporting year	8	8	8	8	20	8	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	

Changes during the period 2019	PSP 2019-2021 (2 tranche)	RSP 2019-2021 (2 tranche)	PSP 2019-2021 (1 tranche)	RSP 2019-2021 (1 tranche)	PSP 2018-2020	RSP 2018-2020	Total
1 Jan. 2019							
Outstanding at the beginning of the reporting period, pcs	0	0	0	0	718,100	33,600	751,700
Changes during the period							
Granted	661,100	440,750	661,100	440,750	628,600	38,000	2,870,300
Forfeited	0	0	0	0	458,292	30,000	488,292
Exercised	0	0	0	0	0	0	0
Expired	0	0	0	0	296,136	0	296,136
31 Dec. 2019							
Outstanding at the end of the period	661,100	440,750	661,100	440,750	592,272	41,600	2,837,572

### Fair value determination

Based on IFRS2 standard, the fair value of share based incentives is determined at grant date and the fair value is expensed until vesting. The fair value is booked to equity and possible social security contributions to liability. The fair value of the equity is the fair value of Company share at grant date deducted with expected dividends

to be paid before reward payment; unless dividends are compensated within the plan. The fair value of the liability is recalculated on each reporting date until reward payment.

The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

#### Valuation parameters for instruments granted during period

Share price at grant, euros	1.67
Share price at reporting period end, euros	2.76
Maturity, years	2.9
Expected dividends, euros	0.00
Fair value at grant, euros	4,454,123
Fair value 31 Dec. 2017, euros	4,159,208

#### Effect of share-based incentives on the result and financial position during the period

Expenses for the financial year, share-based payments, euros	1,037,016
Expenses for the financial year, share-based payments, equity-settled, euros	964,376
Liabilities arising from share-based payments 31 Dec. 2018, euros	72,640
Estimated amount of cash to be paid to the tax authorities under the plans which have not yet been delivered	3,801,616

## 5. Depreciation and impairment

	2019	2018
Depreciation according to plan	-55.8	-56.0
Depreciation expense of right-of-use assets	-11.4	-10.8
Impairment	-13.1	-0.5
<b>Total</b>	<b>-80.4</b>	<b>-67.3</b>



## 6. Other operating expenses

	2019	2018
Rents/leases	-2.0	-2.0
Losses on disposal of non-current assets	0.0	-0.1
R&D costs	-5.8	-8.6
Non-statutory staff costs	-10.1	-11.4
Energy	-37.5	-38.5
Maintenance	-43.2	-41.3
Advertising, marketing and entertainment costs	-12.6	-18.3
Service, information management and office costs	-24.2	-27.4
Exchange rate losses related to foreign exchange derivatives	-1.1	-1.1
Other expenses	-34.4	-28.0
<b>Total other operating expenses</b>	<b>-171.0</b>	<b>-176.9</b>

### Audit fees

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

	2019	2018
Audit fees	-0.5	-0.5
Tax consultation	0.0	0.0
Other fees	-0.1	0.0
<b>Audit fees, total</b>	<b>-0.6</b>	<b>-0.5</b>

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total 82 thousand euros during the financial year 2019.

## 7. Financial income and expenses

Financial income	2019	2018
Dividend income	0.5	0.3
Interest income		
Interest income from loans and receivables	1.7	1.7
Other financial income	0.0	0.1
<b>Total</b>	<b>2.2</b>	<b>2.0</b>
<b>Financial expenses</b>		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-8.6	-8.2
Interest expenses from interest derivatives	-2.6	-3.2
Interest expenses from lease liabilities	-1.4	-1.4
Other financial expenses		
Change in fair value of interest rate derivatives	2.4	1.9
Other financial expenses	-3.5	-2.1
Exchange gains and losses from loans and other receivables	0.0	-1.3
Exchange gains and losses from derivative instruments	-0.2	1.0
<b>Total</b>	<b>-13.9</b>	<b>-13.3</b>
<b>Total financial income and expenses</b>	<b>-11.7</b>	<b>-11.2</b>

## 8. Income taxes

Income taxes	2019	2018
Income tax on ordinary operations	-1.7	-1.6
Tax for previous financial periods	0.1	0.0
Change in deferred tax liabilities and assets	-1.4	8.7
<b>Income tax on ordinary operations</b>	<b>-3.0</b>	<b>7.2</b>
<b>Cumulative tax rate reconciliation</b>		
Accounting profit/loss before taxes	-34.5	-58.5
Deferred tax at parent company's tax rate	6.9	11.7
Effect of different tax rates applied to foreign subsidiaries	0.4	-0.6
Share of associates' results	0.1	0.2
Tax-exempt income	0.1	0.1
Non-deductible expenses	-0.1	-0.4
Unrecognised tax on the losses for the financial period	-10.4	-4.3
Tax for previous financial periods	0.1	0.0
Adjustments concerning previous financial periods	0.0	0.0
Effect of change in tax rate	-	0.5
<b>Tax expenses in the income statement</b>	<b>-3.0</b>	<b>7.2</b>

## 9. Earnings per share

	2019	2018
Profit for the period attributable to equity holders of the parent	-39.9	-53.0
Hybrid loan issue costs and calculational interest	-2.0	-0.9
<b>Total</b>	<b>-41.9</b>	<b>-54.0</b>
Weighted average number of outstanding shares in thousands	79,943	54,030
Weighted average number of outstanding shares adjusted for dilution effect	79,943	54,030
Undiluted earnings per share (EUR/share)	-0.52	-1.00
Earnings per share adjusted for dilution effect (EUR/share)	-0.52	-1.00

# Notes to the balance sheet

## 10. Intangible assets

	2019	2018
Opening balance, cumulative acq cost	96.5	96.5
Translation differences	-1.1	-2.4
Additions	0.7	0.1
Disposals	-0.1	-3.9
Reclassification between items	2.8	6.1
Closing balance, cumulative acq cost	98.9	96.5
Opening balance, cumulative depreciations	-30.2	-31.8
Translation differences	0.0	0.1
Accumulated depreciation on disposals and reclassifications	0.1	3.9
Depreciation for the financial period	-3.1	-2.4
Closing balance, cumulative depreciations	-33.2	-30.2
<b>Intangible assets on 31 Dec.</b>	<b>65.8</b>	<b>66.3</b>

The trademarks included in the Swedish business operations, carrying amount EUR 52.2 (53.2) million, are tested for impairment each year. The Group has estimated that their useful life is unlimited. These are well known trademarks with a long history, high business and profitability impact and it is expected to be so also in the future. An impairment test is made on the segment level and it covers all the segment's assets, see detailed description in note 11. Remaining balance includes IT-software, other trademarks and connection fees.

## 11. Goodwill

	2019	2018
Opening balance	71.2	72.4
Translation differences	-0.5	-1.2
<b>Closing balance</b>	<b>70.7</b>	<b>71.2</b>

### Allocation of goodwill

All acquisitions resulting in the Group recognising goodwill have concerned the acquisition of net assets or business by an individual CGU and goodwill has been allocated to said CGU separately in respect of each acquisition. Goodwill has been allocated to a total of four CGUs.

Specification of goodwill	2019	2018
Finland	19.8	19.8
Sweden	28.7	29.2
Denmark	-	-
Baltics	22.2	22.2
<b>Total</b>	<b>70.7</b>	<b>71.2</b>

In addition to goodwill, trademarks related to Swedish business operations, carrying amount EUR 52.2 (53.2) million, have unlimited useful life. These are tested for impairment each year.

### Impairment testing

The company tests for impairment each year. The key assumptions in testing are the growth prospects of the business, cost trends, and the discount rate employed.

Management reviews the business performance based on business segments and it has identified Sweden, Finland, Denmark and the Baltics as the main cash generating units. Goodwill is monitored by the Management at the CGU level.

In impairment testing all the CGU's assets are tested against the recoverable amounts in the future. The recoverable amounts of the CGUs' are based on value-in-use calculations. The cash flow estimates employed are based on management's financial plans. The cash flow for terminal period is extrapolated using a cautious growth factor (1.5 per cent in Baltics and others 0.5 per cent). The growth factors of the CGUs for the period following the forecast period do not exceed the long-term historical growth of the CGUs.

The interest rate has been defined as the weighted average cost of capital (WACC). Calculation of the interest rate is based on market information on companies operating in the same field (control group). In addition, the risks in each market area have been taken into account in the calculation. The higher risk related in the Finnish and Danish operations are reflected in the discount factor of the CGU. The interest rates used before taxes are 9.3 (6.6) per cent in Sweden, 8.5 (6.3) per cent in Finland, 10.1 (6.0) per cent in Denmark and 7.5 (6.5) per cent in the Baltic countries.

The sensitivity of each CGU to impairment is tested by varying the discount rate and future cash flow before debt service. Based on the sensitivity analyses conducted, an increase of 1 percentage point in WACC would result in impairment amounting to EUR 3 million in Denmark and EUR 6 million in the Baltics. If EBITDA in testing would be 10 % smaller, impairment loss amounting to EUR 17 million in Finland, EUR 10 million in Denmark and EUR 20 million in the Baltics would have to be booked.

Following discount rate increases in percentage points would not cause any impairment, provided that other factors remained unchanged: Sweden 5.3, Finland 1.6, Denmark 0.1, the Baltics 0.6. Recoverable amounts in testing exceeded the assets values by EUR 65 million in Finland, EUR 1 million in Denmark and EUR 12 million in the Baltics.

The following table presents EBITDA used in testing.

	2016	2017	2018	2019	2020	2021	terminal
Sweden	24.6	19.5	22.1	24.9	29.5	34.6	34.6
Finland	39.2	11.8	-2.6	32.6	49.5	59.4	59.4
Denmark	-0.1	2.7	3.1	2.6	9.3	9.2	9.2
Baltics	15.2	14.0	9.8	15.7	18.8	18.8	18.8

As far as Management is aware, reasonable changes in assumptions used in respect of other factors do not necessitate impairment for the goodwill of Sweden or Finland. Sudden, and other than reasonably possible changes in the business environment of cash generating unit, may result in an increase in capital costs or in a situation where a cash generating unit is forced to assess clearly lower cash flows. Recognition of an impairment loss is possible in such situations.

An impairment testing performed resulted in recognition of impairment loss EUR 4.5 million in Denmark in first quarter of 2019. The impairment was done to buildings as the segment has no intangible assets. The annual impairment testing performed in 2019 did not result in recognition of impairment loss. The annual impairment testing performed in 2018 did not result in recognition of impairment loss.

## 12. Tangible assets

	Land and water	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Pre-payments and work in progress	Total
<b>Tangible assets 2019</b>						
Opening balance, cumulative acq cost	10.6	526.1	742.9	19.4	25.0	1,324.0
Translation differences	0.0	-1.2	-3.1	0.0	-0.2	-4.5
Additions	-	1.0	4.4	1.1	24.5	31.0
Disposals	-	-0.2	-2.3	-0.6	-	-3.1
Impairment losses	-	-	-	-	-1.8	-1.8
Reclassification between items	-	4.2	22.3	0.5	-28.0	-1.1
Closing balance, cumulative acq cost	10.5	529.9	764.2	20.3	19.6	1,344.5
Opening balance, cumulative depreciations	0.0	-315.1	-560.2	-16.2	-	-891.6
Translation differences	-	1.2	2.3	0.0	-	3.5
Accumulated depreciation on disposals and reclassifications	-	0.2	2.3	-0.1	-	2.4
Depreciation for the financial period	-	-13.8	-37.8	-1.1	-	-52.7
Impairment losses	-	-4.5	-6.9	-	-	-11.4
Closing balance, cumulative depreciations	0.0	-332.0	-600.4	-17.4	-	-949.8
<b>Tangible assets on 31 Dec. 2019</b>	<b>10.5</b>	<b>197.9</b>	<b>163.8</b>	<b>2.9</b>	<b>19.6</b>	<b>394.7</b>
Right-of-use assets (Note 13)	10.0	18.7	15.7	-	-	44.3
<b>Tangible assets total on 31 Dec. 2019</b>	<b>20.5</b>	<b>216.6</b>	<b>179.5</b>	<b>2.9</b>	<b>19.6</b>	<b>439.1</b>

<b>Tangible assets 2018</b>	<b>Land and water</b>	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Other property, plant and equipment</b>	<b>Pre-payments and work in progress</b>	<b>Total</b>
Opening balance, cumulative acq cost	10.6	524.3	720.0	18.2	29.9	1,303.1
Translation differences	-0.1	-3.5	-7.7	0.0	-0.4	-11.6
Additions	-	1.9	12.1	1.5	25.0	40.6
Disposals	-0.3	-0.3	-0.9	-0.5	-0.2	-2.2
Reclassification between items	0.4	3.6	19.3	0.2	-29.4	-5.9
Closing balance, cumulative acq cost	10.6	526.1	742.9	19.4	25.0	1,324.0
Opening balance, cumulative depreciations	0.0	-304.2	-528.0	-14.9	-	-847.1
Translation differences	-	2.9	6.0	0.0	-	8.9
Accumulated depreciation on disposals and reclassifications	-	0.3	0.6	-0.3	-	0.6
Depreciation for the financial period	-	-14.1	-38.4	-1.0	-	-53.6
Impairment losses	-	-	-0.4	-	-	-0.4
Closing balance, cumulative depreciations	0.0	-315.1	-560.2	-16.2	-	-891.6
<b>Tangible assets on 31 Dec. 2018</b>	<b>10.6</b>	<b>211.0</b>	<b>182.7</b>	<b>3.2</b>	<b>25.0</b>	<b>432.4</b>
Right-of-use assets (Note 13)	6.4	19.7	20.0	-	-	46.1
<b>Tangible assets total on 31 Dec. 2018</b>	<b>17.0</b>	<b>230.7</b>	<b>202.7</b>	<b>3.2</b>	<b>25.0</b>	<b>478.5</b>

Other property, plant and equipment include EUR 1.3 (1.4) million biological assets. These are animals producing slaughter animals and they have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.



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

The company leases land, premises, machinery and equipment. Lease durations vary from few years for machinery and equipment up to decades for land. An expense amounting to EUR -2.0 (-2.0) million has been recognised in other operating expenses from short term and items of low value leases.

	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2019	6.4	19.7	20.0	46.1	46.8
Translation differences	-	-0.2	-0.1	-0.2	-0.2
Additions	4.8	3.2	3.3	11.3	11.3
Disposals	-	0.4	0.0	0.4	-
Depreciation for the financial period	-1.3	-4.4	-5.8	-11.4	-
Reclassification between items	-	0.0	-1.8	-1.8	0.0
Payments	-	-	-	-	-11.6
<b>Closing balance on 31 Dec. 2019</b>	<b>10.0</b>	<b>18.7</b>	<b>15.7</b>	<b>44.3</b>	<b>46.3</b>

	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2018	6.5	18.0	21.7	46.2	47.2
Translation differences	-	-0.4	-0.2	-0.6	-0.6
Additions	1.0	5.8	4.4	11.2	11.2
Depreciation for the financial period	-1.1	-3.9	-5.8	-10.8	-
Payments	-	-	-	-	-11.1
<b>Closing balance on 31 Dec. 2018</b>	<b>6.4</b>	<b>19.7</b>	<b>20.0</b>	<b>46.1</b>	<b>46.8</b>

	2019	2018
Depreciation expense of right-of-use assets	-11.4	-10.8
Interest expense on lease liabilities	-1.4	-1.4
<b>Total amounts recognised in profit or loss</b>	<b>-12.8</b>	<b>-12.2</b>

Maturity of lease liabilities is disclosed in note 24 regarding interest bearing loans.

## 14. Shares in associates and joint ventures

	2019	2018
Opening balance	21.1	22.5
Translation differences	-0.1	-0.2
Additions	0.0	1.0
Impairment losses	-0.2	-
Closing balance	20.9	23.3
Share of associates' and joint ventures' results	0.4	1.1
Dividend from associates and joint ventures	-0.5	-3.2
<b>Shares in associates on 31 Dec.</b>	<b>20.8</b>	<b>21.1</b>
<b>Effect on the Group's earnings:</b>		
Associates	-0.1	1.0
Joint ventures	0.5	0.1
<b>Total</b>	<b>0.4</b>	<b>1.1</b>
<b>Book value in the Group's balance sheet:</b>		
Associates	9.9	10.7
Joint ventures	10.9	10.4
<b>Total</b>	<b>20.8</b>	<b>21.1</b>

Associated companies and joint ventures consolidated in the Group's financial statements are listed in note 27. The Group has no single material associated companies or joint ventures. The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services.

There are no contingent liabilities relating to the Group's interest in the associates and joint ventures.

## 15. Financial assets and liabilities

### Financial instruments by category 2019

	Assets and liabilities at fair value through profit and loss	Financial assets at amortised cost	Equity instruments at fair value through OCI	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
<b>Assets as per balance sheet</b>								
Non-current trade and other receivables	-	3.2	-	-	-	3.2	-	-
Other shares and holdings	-	-	11.7	-	-	11.7	11.7	3
Trade and other receivables *	-	118.2	-	-	-	118.2	-	-
Derivative financial instruments	-	-	-	0.6	-	0.6	0.6	2
Cash and bank	-	37.5	-	-	-	37.5	-	-
<b>Total</b>	<b>0.0</b>	<b>158.9</b>	<b>11.7</b>	<b>0.6</b>	<b>0.0</b>	<b>171.2</b>	<b>-</b>	<b>-</b>

\* Trade and other receivables balance sheet amount of EUR 124.7 million euros includes derivative financial instruments amounting to EUR 0.4 million euros and prepayments and other items that are not financial instruments amounting to EUR 8.9 million euros.

<b>Liabilities as per balance sheet</b>								
Non-current interest-bearing liabilities	-	-	-	-	262.7	262.7	-	-
Non-current non-interest bearing liabilities	-	-	-	-	-0.1	-0.1	-	-
Current interest-bearing liabilities	-	-	-	-	50.6	50.6	-	-
Derivative financial instruments *	6.4	-	-	-	-	6.4	6.4	2
Trade and other payables *	-	-	-	-	224.8	224.8	-	-
<b>Total</b>	<b>6.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>538.0</b>	<b>544.4</b>	<b>-</b>	<b>-</b>

\* Trade and other payables balance sheet amount of EUR 228.2 million euros includes derivative financial instruments amounting to EUR 3.2 million euros and advance payments that are not financial instruments amounting to EUR 0.3 million euros.

## Financial instruments by category 2018

	Assets and liabilities at fair value through profit and loss: classified as held for trading	Loans and receivables	Available-for-sale	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
<b>Assets as per balance sheet</b>								
Non-current trade and other receivables	-	2.5	-	-	-	2.5	-	-
Other shares and holdings	-	-	11.9	-	-	11.9	11.9	3
Trade and other receivables *	-	123.6	-	-	-	123.6	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	29.4	-	-	-	29.4	-	-
<b>Total</b>	<b>0.1</b>	<b>155.5</b>	<b>11.9</b>	<b>0.0</b>	<b>0.0</b>	<b>167.5</b>	<b>-</b>	<b>-</b>

\* Trade and other receivables balance sheet amount of EUR 130.7 million euros includes derivative financial instruments amounting to EUR 0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 7.0 million euros.

<b>Liabilities as per balance sheet</b>								
Non-current interest-bearing liabilities	-	-	-	-	278.3	278.3	-	-
Non-current non-interest bearing liabilities	-	-	-	-	-0.1	-0.1	-	-
Current interest-bearing liabilities	-	-	-	-	86.9	86.9	-	-
Derivative financial instruments *	8.3	-	-	-5.3	-	3.1	3.1	2
Trade and other payables *	-	-	-	-	222.2	222.2	-	-
<b>Total</b>	<b>8.3</b>	<b>0.0</b>	<b>0.0</b>	<b>-5.3</b>	<b>587.4</b>	<b>590.5</b>	<b>-</b>	<b>-</b>

\* Trade and other payables balance sheet amount of EUR 222.1 million euros includes derivative financial instruments amounting to EUR -0.4 million euros and advance payments that are not financial instruments amounting to EUR 0.4 million euros.

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value. Change in value between year is due to translation difference. The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counter-parties are unable to fulfil their obligations associated with the financial instruments.

Fair value of financial instruments, other than those recorded at fair value (hierarchy 2), is close to the balance sheet value and therefore they are not separately disclosed. EUR 125.4 million bond that has a balance sheet value of EUR 123.5 million has a market value of EUR 116.7 million at the end of 2019.

## 16. Deferred tax assets and liabilities

### Specification of deferred tax assets

	1 Jan. 2019	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2019
Pension benefits	7.1	-0.1	0.2	1.1	8.3
Other timing differences	3.9	0.0	-1.2	-	2.7
Postponed tax depreciations	9.9	-	-	-	9.9
Non-deductible interest expense	4.5	-	-	-	4.5
Adopted losses	18.8	-	-0.6	-	18.2
Arising from hedge accounting	-0.9	0.0	-	0.7	-0.2
<b>Total</b>	<b>43.3</b>	<b>-0.1</b>	<b>-1.5</b>	<b>1.8</b>	<b>43.4</b>

### Specification of deferred tax liabilities

	1 Jan. 2019	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2019
Depreciation difference	2.8	0.0	0.2	-	3.0
Other timing differences	1.4	0.0	-0.2	-	1.2
Arising from consolidation	12.7	-0.2	-0.1	-	12.4
<b>Total</b>	<b>16.9</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>16.6</b>

### Specification of deferred tax assets

	1 Jan. 2018	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2018
Pension benefits	5.7	-0.2	-0.2	1.8	7.1
Other timing differences	4.0	0.0	-0.1	-	3.9
Postponed tax depreciations	6.2	-	3.7	-	9.9
Non-deductible interest expense	3.0	-	1.5	-	4.5
Adopted losses	14.6	0.0	4.2	-	18.8
Arising from hedge accounting	0.0	0.0	-	-0.8	-0.9
<b>Total</b>	<b>33.5</b>	<b>-0.3</b>	<b>9.1</b>	<b>1.0</b>	<b>43.3</b>

## Specification of deferred tax liabilities

	1 Jan. 2018	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2018
Depreciation difference	2.4	-0.1	0.5	-	2.8
Other timing differences	1.7	0.0	-0.1	-0.2	1.4
Arising from consolidation	13.3	-0.5	-0.1	-	12.7
<b>Total</b>	<b>17.4</b>	<b>-0.6</b>	<b>0.3</b>	<b>-0.2</b>	<b>16.9</b>

EUR 35.1 million of the deferred tax asset arise from Group's operations in Finland and mostly from adopted losses, postponed depreciations and non-deductible interest expenses. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

The company has ability to mitigate the expiration risk of the tax losses by deferring use of tax depreciation. A gradual reduction of the asset is expected to take place when effects of the turnaround programme will take effect. As a result of the successful share issue the expected decrease in interest expense will also positively affect on tax position.

Deferred tax assets are assumed to be used in less than 10 years. Consideration is based on current three years business plan of which implementation has so far proceeded according to original targeting. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2022 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 non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Postponed tax depreciations and non-deducted interest expense can be utilised indefinitely.

In 2019, the company was able to utilize some of the tax losses as a result of improved operational result and deferring tax depreciation. As a result, respective million euros deferred tax asset was used and recognized as a tax expense in Q4 2019. Unrecognized Finnish deferred tax asset at the end of 2019 was EUR 11.6 million. The losses in taxation in Finland expire with the following schedule: EUR 3.2 million in 2022, EUR 28.4 million in 2023, EUR 10.2 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027, EUR 27.2 million in 2028 and EUR 11.0 million in 2029.

Deferred tax liability has not been recognized in respect of retained profits of subsidiaries, amounting to EUR 21.6 (20.8) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2019, the Group had EUR 29.1 (19.6) million of losses, of which no deferred tax receivable has been recognized.



## 17. Inventories

	2019	2018
Materials and supplies	59.3	75.8
Unfinished products	4.7	4.8
Finished products	41.8	33.4
Other inventories	0.2	0.2
Prepayments for inventories	1.9	1.7
Biological assets	7.5	5.4
<b>Total inventories</b>	<b>115.5</b>	<b>121.4</b>

Fair value hierarchy level of the biological assets is 2. There were no transfers between any levels during the year. Fair value of live animals is derived from the quoted market price for slaughtered animals by using historical yield.

The change in the fair value of the biological assets amounted to EUR 2.3 (-0.7) million.

## 18. Trade and other current receivables

	2019	2018
Trade receivables from associates	1.3	2.4
Loan receivables from associates	-	0.2
Other receivables from associates	0.2	0.0
Current receivables from associates	1.5	2.6
Trade receivables	110.0	112.7
Loan receivables	0.0	0.0
Other receivables	5.0	6.2
Current receivables from others	115.0	119.0
Current derivative receivables	0.4	0.1
Interest receivables	1.8	2.1
Other prepayments and accrued income	8.7	7.0
Current prepayments and accrued income	10.5	9.1
Trade and other receivables	127.4	130.7
Tax receivables (income taxes)	0.2	0.2
<b>Total current receivables</b>	<b>127.6</b>	<b>130.9</b>

## Age breakdown of trade receivables and items recognised as impairment losses

	2019	Expected loss rate	Impairment losses	Net 2019
Unmatured	104.9	0,01 % - 0,1 %	-0.03	104.9
Matured:				
Under 30 days	5.7	0,01 % - 0,1 %	0.0	5.7
30-60 days	0.4	30 % - 35 %	-0.1	0.3
61-90 days	0.1	30 % - 35 %	-0.1	0.0
over 90 days*	1.1	50 % - 55 %	-0.7	0.4
<b>Total</b>	<b>112.2</b>		<b>-1.0</b>	<b>111.3</b>

\* Comprise among other receivables to be set off against payments for animals.

	2018	Expected loss rate	Impairment losses	Net 2018
Unmatured	107.6	0,01 % - 0,1 %	-0.03	107.6
Matured:				
Under 30 days	6.4	0,01 % - 0,1 %	0.0	6.4
30-60 days	0.7	30 % - 35 %	-0.1	0.6
61-90 days	0.1	30 % - 35 %	0.0	0.1
over 90 days*	1.2	50 % - 55 %	-0.7	0.5
<b>Total</b>	<b>116.0</b>		<b>-0.8</b>	<b>115.2</b>

\* Comprise among other receivables to be set off against payments for animals.

Expected loss rates used by the company represent long term average bad debt history adjusted with management judgment and estimate of the future. In addition, netting right related to animal sales receivables is considered. As result over 90 days old receivable are not fully written down.

## The loss allowances for trade receivables as at 31. December reconcile to the opening loss allowances as follows:

	2019	2018
Opening loss allowance at 1 January	0.8	0.7
Receivables written off during the year as uncollectible	-2.4	-0.1
Allowance exceeded	1.6	0.0
Increase in loss allowance recognised in profit or loss during the year	1.0	0.8
Unused amount reversed	0.0	-0.6
Closing loss allowance at 31 December	1.0	0.8

## 19. Cash and cash equivalents

The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Cash and cash equivalents according to the cash flow statement are as follows:

	2019	2018
Cash and bank	37.5	29.4
Short-term money market investments	-	-
Other financial instruments	-	-
Total cash and cash equivalents	37.5	29.4

There are no significant concentrations of credit risk associated with cash and cash equivalents.

## 20. Notes relating to equity

The effects of changes in the number of outstanding shares are presented below.

	Number of outstanding shares (1 000)	Share capital (EUR million)	Share premium reserve (EUR million)	RIUE (EUR million)	Treasury shares (EUR million)	Total (EUR million)
1 Jan. 2018	54,018	66.8	72.9	143.5	0.0	283.1
31 Dec. 2018	54,034	66.8	72.9	143.5	0.0	283.1
1 Jan. 2019	54,034	66.8	72.9	143.5	0.0	283.1
31 Dec. 2019	96,952	66.8	72.9	215.4	-4.8	350.3

The shares have no nominal value. All issued shares have been paid up in full. The company's stock is divided into Series A and K shares, which differ from each other in the manner set out in the Articles of Association. Each share gives equal entitlement to a dividend. K Shares produce 20 votes and A Shares 1 vote each. A Shares are numbered 93 551 791 and K Shares 5 400 000.

### The equity reserves are described below:

#### Share premium reserve

In share issues, decided while the earlier Finnish Companies Act (29.9.1978/734) was in force, payments in cash or kind obtained on share subscription, less transaction costs, were recognised under equity and the share premium reserve in accordance with the terms of the arrangements.

#### Reserve for invested unrestricted equity

The reserve for invested unrestricted equity (RIUE) contains other investments of an equity nature and share issue price inasmuch as this is not recognised under equity pursuant to an express decision to that effect.

### Treasury shares

At the beginning of the financial year 2019, HKScan held 992 348 treasury A shares. During the year the company completed a directed share issue and in connection with the registration, the company cancelled the series A shares in possession of the company. Subsequently the company has acquired 2 000 000 own A shares at the market price quoted in trading organised by Nasdaq Helsinki Ltd on a regulated market at the time of acquisition. The shares were acquired with the company's distributable non-restricted equity. The total acquisition price for the shares was EUR 4.7 million. At the end of December 2019, the company held 2 000 000 A shares. At the end of the year, they had a market value of EUR 5.5 million and accounted for 2.02 per cent of all shares and 1.0 per cent of all votes. The acquisition cost is presented in the balance sheet as a deduction from equity.

### Translation differences

The translation differences reserve includes exchange differences arising on the translation of foreign units' financial statements, as well as gains and losses arising on the hedging of net investments in foreign units, when hedge accounting requirements are satisfied.

### Revaluation reserve and other reserves

These reserves are for changes in the value of available-for-sale financial assets and changes in the fair value of derivative instruments used in cash flow hedging. The revaluation reserve includes EUR 0.6 million (EUR 0.6 million) other than hedging instrument related items. The following is an itemisation of events in the hedging instruments reserve during the financial period.

Hedging instruments reserve	2019	2018
Fair value reserve and hedging instruments reserve on 1 Jan.	4.6	0.4
Amount recognised in equity in the financial period (effective portion), commodity derivatives	-4.5	4.6
Share of deferred tax asset of changes in period	0.3	-0.4
Fair value reserve and hedging instruments reserve on 31 Dec.	0.4	4.6

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR 3.6 (0.2) million from commodity derivatives.

## Dividends

Dividend of EUR 0.00 (0.09) per share, totaling EUR 0.0 (4.9) million, was distributed in 2019. Since the reporting date, the Board of Directors has proposed that no dividend will be paid from the previous financial year.

## Hybrid loan

In September 2018 the Group issued a EUR 40 million hybrid bond to strengthen the company's capital structure. After the conversions carried out in the context of the share issue in June 2019, the outstanding amount is EUR 25.9 million. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date, but the Group is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date. An interest payment obligation is set up if the Annual Shareholders' Meeting decides to distribute dividends. If no dividend is distributed, the company can decide upon the payment of interest separately. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.6. The payment of interest is recorded from retained earnings.

## 21. Pension obligations

	2019	2018
Pension liability/receivable in balance sheet		
Defined benefit plans	40.3	35.0
Other long-term employee benefits	0.8	1.0
<b>Pension liability (+)/receivable (-) in balance sheet</b>	<b>41.1</b>	<b>36.0</b>

The Group's defined benefit plans consist of the pension liability for the former CEO of the parent company which is unfunded and the Swedish pension programme which is funded. The company's pension commitment in respect of the defined benefit relating to the former CEO was EUR 2.6 million on 31 December 2019. The remaining pension liability relates to the Swedish pension programme. Through its defined benefit plans the Group is exposed to a number of risks such as changes in discount rate, salary increases, inflation and life expectancy. Expected contribution into the plans for 2020 is EUR 0.4 million.

The defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. HKScan has a pension foundation in Sweden to secure obligations relating to retirement pensions for white-collar workers in accordance with the ITP2 plan. Only new white-collar employees born before, or in 1979 have the possibility to choose the ITP2 solution. Pension foundation has employer and employee representatives in the board. The plan assets are invested in various funds in accordance with a distribution that is determined by the foundation's Board of Directors. Swedish companies can secure new pension obligations through pension insurance, balance-sheet provisions or pension-fund contributions. A credit insurance policy must be taken out for the value of the obligations. Special pension tax is applicable for the pension plan in Sweden.

Summary of provision for post-employment benefits, defined benefit plans	2019	2018
Obligations	-104.5	-101.5
Fair value of plan assets	74.3	75.7
Special pension tax	-7.3	-6.3
<b>Net provision for funded post-employment benefits</b>	<b>-37.6</b>	<b>-32.2</b>
Provision for unfunded post-employment benefits	-2.7	-2.8
<b>Total provision for post-employment benefits, defined benefit plans</b>	<b>-40.4</b>	<b>-35.0</b>

Pension costs in the income statement	2019	2018
Current year service costs	-1.2	-1.2
Interest costs	-2.3	-2.4
Interest income	1.6	1.9
Early retirement pensions	-0.1	-
Special pension tax	-0.4	-0.4
<b>Pension costs for defined benefit plans</b>	<b>-2.4</b>	<b>-2.1</b>
Pension costs for defined contribution plans	-27.5	-27.4
<b>Total pension costs for the period</b>	<b>-29.8</b>	<b>-29.5</b>

Pension costs in other comprehensive income	2019	2018
Changes in actuarial assumptions	-4.3	-6.5
Special pension tax	-1.0	-1.6
Income tax effect	1.1	1.2
<b>Total pension costs in other comprehensive income after taxes</b>	<b>-4.2</b>	<b>-6.9</b>

The following information is about the funded defined benefit plan the Group has in Sweden:

<b>Obligations</b>	<b>2019</b>	<b>2018</b>
Obligations opening balance	-101.5	-103.5
Current year service costs	-1.2	-1.2
Interest costs	-2.3	-2.4
Early retirements	-0.1	-
Remeasurements:		
Effect of changes in financial assumptions	-7.3	-3.5
Effect of experience adjustments	0.8	-0.5
Exchange rate translation	1.9	4.3
Benefits paid	5.1	5.3
<b>Obligations closing balance</b>	<b>-104.5</b>	<b>-101.5</b>

<b>Fair value of plan assets</b>	<b>2019</b>	<b>2018</b>
Plan assets opening balance	75.7	84.6
Interest income	1.6	1.9
Remeasurements (experience adjustments)	2.2	-2.5
Exchange rate translation	-1.4	-3.4
Settlement paid	-3.8	-4.9
<b>Plan assets closing balance</b>	<b>74.3</b>	<b>75.7</b>

<b>Assumptions applied for actuarial calculations, %</b>	<b>2019</b>	<b>2018</b>
Discount rate	1.40	2.20
Expected salary increase	2.00	2.25
Inflation	1.7	2.0
Personnel turnover rate	4	4
Life expectancy	DUS 14	DUS 14

<b>Plan assets by category %</b>	<b>2019</b>	<b>2018</b>
Interest funds	70	69
Equity instrument funds	30	31

<b>Sensitivity analysis 2019, effect on obligation (+decrease/-increase), EUR million</b>	<b>Change</b>	<b>Used value</b>	<b>Change</b>
Discount rate	-0.50%	1.40%	0.50%
	-7.0	-104.5	8.0
Salary increase	-0.50%	2.00%	0.50%
	1.8	-104.5	-0.2
Inflation	-0.50%	1.70%	0.50%
	7.3	-104.5	-6.1
Life expectancy	-1 year	DUS 14	1 year
	5.6	-104.5	-3.9

Average duration of the obligation is 14 years.

## 22. Provisions

	1 Jan. 2019	Translation difference	Increase in provisions	Exercised in financial period (-)	Reclassification between items	31 Dec. 2019
Non-current provisions	7.0	0.0	0.0	-0.1	-0.6	6.2
Current provisions	0.7	0.0	1.9	-1.6	0.6	1.7
<b>Total</b>	<b>7.6</b>	<b>0.0</b>	<b>1.9</b>	<b>-1.7</b>	<b>0.0</b>	<b>7.9</b>

	1 Jan. 2018	Translation difference	Increase in provisions	Exercised in financial period (-)	Reclassification between items	31 Dec. 2018
Non-current provisions	7.1	0.0	0.4	-0.5	-	7.0
Current provisions	2.1	0.0	0.3	-1.7	-	0.7
<b>Total</b>	<b>9.2</b>	<b>-0.1</b>	<b>0.6</b>	<b>-2.1</b>	<b>0.0</b>	<b>7.6</b>

### Legal matters

A number of Group companies are, and will likely continue to be subject to various legal proceedings and investigations that arise from time to time. As a result, the Group may incur substantial costs that may not be covered by insurance and could affect business and reputation. While Management does not expect any of these legal

proceedings to have a material adverse effect on the Group's financial position, litigation is inherently unpredictable and the Group may in the future incur judgments, or enter into settlements, that could have a material adverse effect on the results of operations and cash flows.

## 23. Liabilities

	2019	2018
<b>Non-current liabilities</b>		
Interest-bearing		
Bond	123.5	132.2
Bank loans	94.2	98.0
Pension loans	8.6	9.6
Non-current lease liabilities	36.5	36.8
Other liabilities	-	1.6
<b>Non-current interest-bearing liabilities</b>	<b>262.7</b>	<b>278.3</b>
Non-interest-bearing		
Other liabilities	-0.1	-0.1
Derivatives	3.2	3.5
<b>Non-current non-interest-bearing liabilities</b>	<b>3.1</b>	<b>3.5</b>
Non-current provisions	6.2	7.0
Deferred tax liability	16.6	16.9
Pension obligations	41.1	36.0
<b>Non-current liabilities</b>	<b>329.8</b>	<b>341.7</b>
<b>Current interest-bearing liabilities</b>		
Bond	-	33.5
Commercial paper	34.9	35.5
Pension loans	2.1	3.2
Bank loans	3.6	3.6
Current lease liabilities	9.8	9.9
Other liabilities	0.2	1.2
<b>Current interest-bearing liabilities</b>	<b>50.6</b>	<b>86.9</b>

	2019	2018
<b>Trade and other payables</b>		
Advances received	0.3	0.4
Trade payables	128.1	136.4
Refund liabilities	6.3	6.7
Accruals and deferred income		
Short-term interest payable	2.0	1.9
Matched staff costs	55.8	54.1
Other short-term accruals and deferred income	22.8	12.7
Derivatives	3.2	-0.4
Other liabilities	9.7	10.3
<b>Trade and other payables</b>	<b>228.3</b>	<b>222.2</b>
Income tax liability	0.1	0.1
Current provisions	1.7	0.7
<b>Current liabilities</b>	<b>280.7</b>	<b>309.9</b>
<b>Liabilities</b>	<b>610.5</b>	<b>651.6</b>

Amounts of the Group's interest-bearing liabilities and their contractual re-pricing periods are as follows:

	31 Dec. 2019	31 Dec. 2018
Under 6 months	132.7	138.8
6-12 months	10.9	48.0
1-5 years	123.5	132.2
Over 5 years	0.0	0.0
<b>Total</b>	<b>267.1</b>	<b>319.0</b>



## Interest-bearing net debt reconciliation

	2019	2018
Cash and cash equivalents	37.5	29.4
Liquid investments	0.0	0.2
Lease liabilities due within 1 year	-9.8	-9.9
Lease liabilities due after 1 year	-36.5	-36.8
Borrowings due within one year (including overdraft)	-40.8	-77.0
Borrowings due after one year	-226.3	-241.5
<b>Interest-bearing net debt</b>	<b>-275.8</b>	<b>-335.6</b>

	Other assets				Liabilities from financing activities			
	Cash/bank over-draft	Liquid investments	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total	
Interest-bearing net debt on 1 Jan 2018	50.9	0.2	-9.5	-37.7	-14.1	-243.8	-254.1	
Cash flows	-21.4	-	10.4	0.7	-63.0	2.3	-71.0	
Acquisitions - leases	-	-	-2.3	-8.9	-	-	-11.2	
Reclassification between items - leases	-	-	-8.7	8.7	-	-	0.0	
Foreign exchange adjustments	-	-	0.1	0.5	0.1	-	0.7	
<b>Net debt on 31 Dec 2018</b>	<b>29.4</b>	<b>0.2</b>	<b>-9.9</b>	<b>-36.8</b>	<b>-77.0</b>	<b>-241.5</b>	<b>-335.6</b>	
Cash flows	8.1	-0.2	11.1	0.5	36.2	15.2	70.9	
Acquisitions - leases	-	-	-1.9	-9.4	-	-	-11.3	
Reclassification between items - leases	-	-	-9.1	9.1	-	-	0.0	
Foreign exchange adjustments	-	-	0.1	0.2	0.0	-	0.2	
<b>Interest-bearing net debt on 31 Dec 2019</b>	<b>37.5</b>	<b>0.0</b>	<b>-9.8</b>	<b>-36.5</b>	<b>-40.8</b>	<b>-226.3</b>	<b>-275.8</b>	

## 24. Financial risk management

The duty of Group Treasury in the HKScan Group is to ensure cost-effective funding and financial risk management for Group companies and to attend to relations with financiers. The treasury policy approved by the Board provides the principles for financial risk management in the Group. The policy is supplemented by separate guidelines and instructions, as well as approval practices.

Financial risks mean unfavourable movements taking place in the financial markets that may erode accrual of the company's result or reduce cash flows. Financial risk management aims to use financial means to hedge the company's intended earnings performance and equity, and to safeguard the Group's liquidity in all circumstances and market conditions.

External funding of the Group's operations and financial risk management is centralised to the Group Treasury operating under the Group Treasurer. Group Treasury identifies and assesses the risks and acquires the instruments required for hedging against the risks, in close co-operation with the operational units.

Risk management may employ various instruments, such as currency forwards and options, interest-rate or currency swaps, foreign currency loans and commodity derivatives. Derivatives are used for the sole purpose of hedging, not for speculation. Funding of the Group's subsidiaries is managed mainly through the parent company. The subsidiaries may not accept new external funding, nor may they give guarantees or pledges without the permission of the Group Treasury in the parent company.

### Foreign exchange risk

The Group's domestic market consists of Finland, Sweden, Denmark and the Baltic countries. Customers are in retail, food service, industry and export sectors. Meat products are mainly produced for domestic markets which reduces the overall currency risk in the Group.

Transaction risk arises when the Group companies engage in foreign currency denominated import and export both outside and within the Group.

The aim of transaction risk management is to hedge the Group's business against foreign exchange rate movements and allow the business units time to react and adapt to fluctuations in exchange rates. Foreign exchange risk exposures, which include sales, purchases (balance sheet items and committed cash flows), financing related contractual cash flows, and highly probable forecasted cash flows, are hedged through forward contracts made with the parent company. The business units report their balance sheet risk exposures, forecasted foreign currency sales and purchases and hedging levels to the Group Treasury on a regular basis.

According to Treasury Policy, subsidiaries must hedge balance sheet items in full amount and committed cash flows from 50 to 100 per cent. In addition, forecasted, highly probable cash flows are hedged at 0 - 50 per cent for up to 12 months into the future. Group Treasury can use currency forwards, options and swaps as hedging instruments. Treasury targets to hedge fully its significant foreign exchange risk exposures. Those include commercial exposures, external financing and internal financing which is given in the subsidiary's home currency. All the forward contracts mature within one year. Hedge accounting is not applied currently. Nevertheless, all hedging instruments are done for hedging purposes.

Translation risk arises from the consolidation of equity into the basic currency in subsidiaries whose operational currency is not the euro. The largest foreign currency denominated equities of the Group companies are in Swedish krona and Danish krone. Fluctuations of exchange rates affect the amount of consolidated equity, and translation differences are generated in connection with the consolidation of equity in accounting. Group Treasury identifies and manages foreign exchange translation risks according to Treasury Policy. HKScan Group is not hedging translation risk currently.

The equities of the Group's non-euro-denominated subsidiaries and associates are presented in the following table in million euros.

	2019	2018
Currency	Exposure	Exposure
SEK	89.2	91.9
PLN	5.0	8.6
DKK	-2.4	11.0

The parent company's functional currency is the euro. The following net positions (USD, NZD, SEK, JPY) include sales receivables, payables, interest bearing loans and receivables, cash reserves and committed commercial flows in the most significant foreign currencies. The reported amounts are translated into euros at the exchange rates of the reporting date:

	2019				2018			
	USD	NZD	SEK	JPY	USD	NZD	SEK	JPY
Net position before hedging	2.8	4.5	24.2	0.9	3.7	2.2	12.0	0.0
Hedging of balance sheet items	-0.6	-1.7	-10.2	-0.5	-0.7	-1.3	-10.8	0.0
Hedging of committed items	-0.5	-2.5	-12.1	-0.4	-2.7	-0.9	0.0	0.0
<b>Open position</b>	<b>1.6</b>	<b>0.3</b>	<b>2.0</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.0</b>	<b>1.2</b>	<b>0.0</b>

The following table analyses the strengthening or weakening of the euro against the US dollar, New Zealand dollar, Swedish krona and Japanese yen, all other factors remaining unchanged. Sensitivity analysis is based on assets, liabilities and committed cash flows denominated in foreign currencies at the reporting date. The effects of currency derivatives, which offset the effects of changes in exchange rates, are also taken into account in sensitivity analysis. Net investments in foreign units and the instruments used to hedge these have been excluded from sensitivity analysis.

In respect of the foreign currencies, the effect would mainly be due to changes in the exchange rates applicable to foreign currency denominated trade receivables and payables.

	2019				2018			
	USD	NZD	SEK	JPY	USD	NZD	SEK	JPY
Movement (+/-), %	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Effect on profit before taxes	0.1	0.0	0.2	0.0	0.0	0.0	0.1	0.0

The following assumptions were used in calculating sensitivity to currency risks: Forecast future cash flows have not been taken into account in the calculation except for committed cash flows. Financial instruments such as forward contracts used to cover these positions are included in the analysis.

The calculation and estimates of reasonably possible changes in exchange rates are based on the assumption of ordinary market and business conditions.

### Interest rate risk

The Group's main exposure to interest rate risk arises through interest-bearing liabilities. The goal of interest rate risk management is to reduce the fluctuation of interest expenses in the income statement, minimize debt servicing costs and improve the predictability. The Group's short-term money market investments expose it to cash flow interest rate risk, but the impact is not significant as these investments are targeted to keep in minimum. Group revenues and operative cash flows are mainly independent of fluctuations in market rates.

Interest rate risk is measured by the effect of interest rate movements on the total forecasted debt portfolio.

To manage interest rate risks, Group borrowings are spread across fixed and variable interest instruments. The company may borrow at fixed or variable interest rates and use interest rate derivatives to achieve a result that is in line with the Treasury policy. The goal of the policy is to keep the fixed interest term of the loans between 12 and 48 months. On the balance sheet date the fixed interest term was 17 months.

The Group monitors and analyses its interest rate risk position on a regular basis.

The Group has determined sensitivity limits for interest rate movements. The sensitivity of net financial expenses on the balance sheet date to an increase/decrease of one per cent in interest rates, all other things being equal, was approximately EUR 2.5 (1.7) million before taxes over the next 12 months. The sensitivity analysis was prepared based on the amounts and maturities of interest-bearing liabilities and interest rate derivatives on the balance sheet date.

### Counterparty risk

Financial counterparty risk refers to the risk that counterparty may fail to fulfill its contractual obligations. The risks are mostly related to investment activities and counterparty risks in derivative contracts. Banks that finance the Group are used as counterparties whenever possible, as well as a few other specified counterparties. Cash may be invested in bank deposits, certificates of deposit, municipal papers, and the commercial paper programmes of certain specified companies listed on the main list of the Nasdaq Helsinki, and to certain state-owned companies. Because of the limited extent of the investment activities, the resulting counterparty and price risks are not significant.

### Commodity risk

The Group is exposed to commodity risks that are related to the availability and price fluctuations of commodities. In addition to meat raw materials, physical electricity consumption is one of the most significant commodity risks in the Group companies. The subsidiaries can hedge against fluctuation in market prices for electricity and other commodities by procuring fixed-price products or through derivative contracts with the Group Treasury. The companies may use external parties to assist them in commodity risk management.

The Group uses electricity derivatives in Finland, Sweden, Denmark and Estonia to level out energy costs. Electricity derivatives do not result in physical electricity delivery, but instead the difference between fixed and variable price is realised as cashflow. The price risk of electricity is analysed in five year time span so that next year's hedge ratio is between 50-100 per cent. Subsequent years are hedged with reducing hedge ratio. Acquired electricity derivatives' nominal value is 412 GWh and 193 GWh is allocated for the next 12 months.

The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases. Maturity table for electricity derivatives is presented later in this note.

Sensitivity analysis has been made with expected annual consumption of 255 GWh. Change in electricity price and derivatives maturing in less than 12 months impact income statement and derivatives maturing after 12 months impact balance sheet. If the market price of electricity changed by +/-10 percentage points from the balance sheet date, the impact would be as follow, calculated before tax:

EUR million	2019	2018
Electricity - effect in income statement	+/- 0,2	+/- 0,3
Electricity - effect in equity (price + 10%)	0.2	-3.0
Electricity - effect in equity (price - 10%)	-0.6	-4.1

### Credit risk

The Group's Treasury Policy and related guidelines specify the credit quality requirements and investment principles applied to customers and counterparties to investment transactions and derivative contracts. The Group Treasury is responsible for defining the principles for credit management within the Group and updating the Credit Policy as well as instructing the Group's subsidiaries in credit management.

Credit risk results from a customer's possible failure to fulfil its payment obligations. The Group's trade receivables are spread among a wide customer base, the most important customers being central retail organisations in the various market areas. The creditworthiness, payment behaviour and credit limits of the clients are monitored systematically. As a main principle some type of securing is needed for all credit granted. The security can be credit insurance, a bank guarantee, or a security deposit. In addition, the Group is exposed to minor credit risk in remaining financing investments of primary production contract producers.

The amount of impairment losses recognised through profit or loss in the financial period was EUR -2.4 (-0.2) million. The Group's maximum exposure to credit risk equals the carrying amount of financial assets at year-end. The age breakdown of trade receivables is presented in Note 18.

### Liquidity and refinancing risk

The Group constantly assesses and monitors the amount of funding required for operations by means such as preparation and analysis of cash flow forecasts. The Group maintains adequate liquidity under all circumstances to cover its business and financing needs in the foreseeable future.

The availability of funding is ensured by spreading the maturity of the borrowing portfolio, financing sources and instruments. In general, cash and cash equivalents are targeted to be kept at a minimum. The Group also has revolving credit facilities with banks, bank borrowings, current accounts with overdraft facilities and the short-term EUR 200 million Finnish commercial paper programme. Liquidity risk is managed by retaining long-term liquidity reserves and by exceeding short-term liquidity requirements. The Group's liquidity reserve includes cash and cash equivalents, money market investments and long-term unused committed credit facilities. Short-term liquidity requirements include the repayments of short- and long-term debt within the next 12 months, expected dividends as well as a specifically defined strategic liquidity requirement, which covers the operative funding needs.

The Group's liquidity together with funding profile and maturity structure remained good in 2019. Undrawn committed credit facilities on 31 December 2019 stood at EUR 100.0 (100.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 17.4 (19.9) million. The overdraft facility agreements are in force until further notice. At year end, the company's EUR 200 million commercial paper programme had been drawn to the amount of EUR 35.0 (35.5) million. Similar to previous year, cash and cash equivalents were above the normal level amounting EUR 37.5 (29.4) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 3.3 (2.5) per cent at the balance sheet date.

The company's current bank loan agreements are subject to the net gearing ratio financial covenant 125%. Financiers are provided with quarterly reports on the observance of the financial loan covenant.

Outstanding unsecured bond maturing in September 2022 have the net gearing ratio covenant level of 130%. If the Group is in breach of the covenant, the creditor may demand accelerated loan repayment. Management monitors the fulfillment of the loan covenant on a regular basis. Breaches of covenants could result in a default of an essential part of loans. Due to successful share issue and improved financial result risks for breaching loan agreement covenants have significantly reduced.

IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 45 million. With this increase the net gearing increased by some 14 percentage points.

Group Management has identified no significant concentrations of liquidity risk in financial assets or sources of funding.

### The number of the Group's commitments on the balance sheet date by type of credit 2019

Credit type	Size	In use	Available
Overdraft facility	17.4	-	17.4
Committed credit limit	100.0	-	100.0
<b>Total</b>	<b>117.4</b>	<b>-</b>	<b>117.4</b>

### 2018

Credit type	Size	In use	Available
Overdraft facility	19.9	-	19.9
Committed credit limit	100.0	-	100.0
<b>Total</b>	<b>119.9</b>	<b>-</b>	<b>119.9</b>

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity analysis only applies to financial instruments and statutory liabilities are therefore excluded. The amounts also include interest on financial liabilities and margin on loan.

## 31 Dec. 2019

### Maturity of financial liabilities

Credit type	Balance sheet 31 Dec. 2019	Cashflows sum	Cashflows					
			2020	2021	2022	2023	2024	>2024
Bond	123.5	133.4	3.3	3.3	126.8	-	-	-
Bank loans	97.8	105.2	6.9	81.6	3.8	3.7	3.7	5.5
Pension loans	10.7	10.9	2.2	2.2	2.2	2.2	2.2	0.0
Commercial paper programme	34.9	35.0	35.0	-	-	-	-	-
Lease liabilities	46.3	52.3	11.2	9.0	7.6	6.2	4.6	13.7
Other borrowing	0.2	0.2	0.2	-	-	-	-	-
Trade and other payables	224.8	224.8	224.8	-	-	-	-	-
<b>Total</b>	<b>538.1</b>	<b>561.7</b>	<b>283.5</b>	<b>96.1</b>	<b>140.3</b>	<b>12.1</b>	<b>10.5</b>	<b>19.2</b>

## 31 Dec. 2018

### Maturity of financial liabilities

Credit type	Balance sheet 31 Dec. 2018	Cashflows sum	Cashflows					
			2019	2020	2021	2022	2023	>2023
Bond	165.7	181.0	38.2	3.5	3.5	135.7	-	-
Bank loans	101.6	105.4	4.8	38.9	43.8	3.3	3.3	11.3
Pension loans	12.8	13.1	2.2	2.2	2.2	2.2	2.2	2.2
Commercial paper programme	35.5	35.5	35.5	-	-	-	-	-
Lease liabilities	46.7	52.8	11.2	9.7	7.3	6.4	3.9	14.3
Other borrowing	2.8	3.3	1.4	1.9	-	-	-	-
Trade and other payables	222.2	222.2	222.2	-	-	-	-	-
<b>Total</b>	<b>587.3</b>	<b>613.4</b>	<b>315.6</b>	<b>56.2</b>	<b>56.9</b>	<b>147.6</b>	<b>9.4</b>	<b>27.8</b>

The following table presents the nominal value and fair values (EUR million) of derivative instruments. The derivatives mature within the next 12 months except for interest rate derivatives and commodity derivatives, the maturity of which are presented separately.

	2019	2019	2019	2018	2019	2018
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
<b>Interest rate derivatives</b>	-	-5.8	-5.8	-8.2	98.5	119.1
matured in 2019	-	-	-	-0.4	-	20.0
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-1.6	-1.6	-2.3	25.0	25.0
matures in 2022	-	-2.6	-2.6	-3.7	44.1	44.5
matures in 2023	-	-1.6	-1.6	-1.8	29.4	29.6
matures in >2023	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-
<b>Foreign exchange derivatives</b>	0.0	-0.4	-0.4	-0.1	56.7	40.0
of which defined as net investment hedging instruments	-	-	-	-	-	-
<b>Commodity derivatives</b>	1.0	-0.5	0.5	5.3	12.9	10.0
matured in 2019	-	-	-	3.6	-	4.9
matures in 2020	0.6	-0.4	0.2	1.3	5.9	2.4
matures in 2021	0.3	-0.1	0.2	0.3	4.1	1.5
matures in 2022	0.1	0.0	0.1	-	2.3	1.1
matures in 2023	0.0	0.0	0.0	-	0.6	-
of which defined as cash flow hedging instruments	1.0	-0.5	0.5	5.3	12.9	10.0

### Derivatives to which hedge accounting applies

Changes in the fair values of the effective portions after taxes of commodity derivatives, designated as hedges of cash flow amounting to EUR -4.2 (4.2) million, are recognised under other comprehensive income. The hedged highly probable transactions are estimated to occur at various dates during the next 60 months. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of commodity risk hedge amounting to EUR 0.0 (0.0) million are recognised under other operating expenses in the income statement.

### Capital management

The purpose of capital management in the Group is to support business through an optimal capital structure by safeguarding a normal operating environment and enabling organic and structural growth. An optimal capital structure also generates lower costs of capital.

Capital structure is influenced by controlling the amount of working capital tied up in the business and through reported profit/loss, distribution of dividend and share issues. The Group may also decide on the disposal of assets to reduce liabilities.

The tools to monitor the development of the Group's capital structure are the equity ratio and net gearing ratio. Equity ratio refers to the ratio of equity to total assets. Net gearing ratio is measured as net liabilities divided by equity. Net liabilities include interest-bearing liabilities less interest-bearing short term receivables and cash and cash equivalents.

On the balance sheet date the equity ratio is 34.8 per cent. The official financial target in respect of net gearing ratio is below 100 per cent. On the balance sheet date, the net gearing ratio was 84.8 per cent. With IFRS 16 introduction from 1. January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 45 million. With this increase the net gearing increased some 14 percentage points.

### Net gearing ratio

	2019	2018
Interest-bearing liabilities	313.3	365.2
Interest-bearing short-term receivables	0.0	0.2
Cash and bank	37.5	29.4
Interest-bearing net liabilities	275.8	335.6
Equity	325.1	325.0
Net gearing ratio	84.8%	103.3%



## 25. Fair values of financial assets and liabilities

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

When determining the fair values of the financial assets and liabilities, the following price quotations, assumptions and measurement models have been used.

#### Other shares and holdings

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value.

#### Derivatives

The fair values of currency forward contracts 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 rate or other market information at the reporting date. If the market value given by a counterparty is used, the Group also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the Group would have to pay or would obtain if it were to terminate a derivative instrument.

#### Bank loans

The fair values of liabilities are based on the discounted cash flows. The rate used for measurement is the rate at which the Group could obtain corresponding credit from a third party on the reporting date. The overall rate consists of a risk free rate and a risk premium (margin on loan) for the company.

#### Bonds

The fair values of bonds are based on the quoted market prices.

#### Finance lease liabilities

The fair value is measured by discounting future cash flows by an interest rate which corresponds to the interest rate of future leases.

#### Trade and other receivables

The original carrying amounts of non-derivative based receivables are equal to their fair values, as discounting has no material effect taking into account the maturity of the receivables.

#### Trade and other payables

The original carrying amounts of trade and other payables are equal to their fair values, as discounting has no material effect taking into account the maturity of the payables.

Fair value hierarchy for financial assets and liabilities measured at fair value.

Fair values at end of reporting period.

Fair value hierarchy for financial assets and liabilities measured at fair value.  
Fair values at end of reporting period.

	31 Dec. 2019	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.0	-	0.0	-
Commodity derivatives	1.0	-	1.0	-
of which subject to cash flow hedging	1.0	-	1.0	-
<b>Total</b>	<b>1.0</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-5.8	-	-5.8	-
Foreign exchange derivatives	-0.4	-	-0.4	-
Commodity derivatives	-0.5	-	-0.5	-
of which subject to cash flow hedging	-0.5	-	-0.5	-
<b>Total</b>	<b>-6.7</b>	<b>0.0</b>	<b>-6.7</b>	<b>0.0</b>

	31 Dec. 2018	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	5.3	-	5.3	-
of which subject to cash flow hedging	5.3	-	5.3	-
<b>Total</b>	<b>5.4</b>	<b>0.0</b>	<b>5.4</b>	<b>0.0</b>
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-8.2	-	-8.2	-
Foreign exchange derivatives	-0.1	-	-0.1	-
Commodity derivatives	0.0	-	0.0	-
of which subject to cash flow hedging	0.0	-	0.0	-
<b>Total</b>	<b>-8.3</b>	<b>0.0</b>	<b>-8.3</b>	<b>0.0</b>

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.

## 26. Conditional assets and liabilities and purchase commitments

Commitments and contingent liabilities	2019	2018
Loans secured by mortgages	-	-
<b>On own behalf</b>		
Mortgages given	-	-
Assets pledged	-	-
<b>On behalf of others</b>		
Guarantees	5.3	5.5
Other commitments	2.5	6.2
<b>Leasing and rental commitments</b>		
Leasing commitments maturing in less than a year	0.6	0.6
Leasing commitments maturing in 1-5 years	0.1	0.7
Leasing commitments maturing in over 5 years	0.0	0.0
<b>Total</b>	<b>8.5</b>	<b>13.0</b>

## 27. Related party transactions

Parties are considered related parties if one of the parties is able to exercise control, or a significant influence, over the other in decisions affecting its finances and business. The Group's related parties include the associates and joint ventures. Related parties also include the Supervisory Board and Board of Directors of the Group parent's parent entity (LSO Osuuskunta), the members of the Group's Board of Directors, the Group's CEO, the deputy CEO and their immediate family members, as well as the members of the Group Management Team. The Group strives to treat all parties equally in its business.

HKScan Corporation's principal owner, LSO Osuuskunta, is a cooperative of 900 Finnish meat producers. The cooperative fosters its members' meat production and marketing by exercising its power of ownership in HKScan. Today, LSO Osuuskunta has no actual business, but receives an income in the form of dividend paid by HKScan and, to a lesser extent, income in the form of other investments and rents. The HKScan Group applies pure market price principles to the acquisition of raw meat material.

Lot lease amounting to EUR 1.4 million in 2019 (EUR 1.2 million in 2018) has been paid by the Group to LSO. In addition, there are minor office services and funding between the Group and LSO. The sale of animals to the Group by members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta totalled EUR 14.7 million in 2019 (EUR 8.8 million in 2018). Said persons purchased animals from the Group with EUR 4.5 million in 2019 (EUR 2.6 million in 2018).

Information on employee benefits of the Management are presented in Note 4. More information on fees of the Board of Directors and the Management is available in the remuneration statement for 2019, which can be found on the Group's website.

Related party individuals are not otherwise in a material business relationship with the company.

Shares in subsidiaries	Owner %	Share of votes %
<b>Konsernin emoyhtiön omistamat</b>		
HKScan Finland Oy, Finland	100.00	100.00
HKScan Sweden AB, Sweden	100.00	100.00
HKScan Denmark A/S, Denmark	100.00	100.00
AS HKScan Estonia, Estonia	100.00	100.00
UAB HKScan Lietuva, Lithuania	100.00	100.00
AS HKScan Latvia, Latvia	99.87	99.87
HKScan Asia Limited, Hong Kong**	100.00	100.00
OOO HKScan, Russia**	100.00	100.00
<b>Owned by HKScan Finland Oy</b>		
Kivikylän Kotipalvaamo Oy, Finland	49.00*	49.00*
Lihatukku Harri Tamminen Oy, Finland	49.00*	49.00*
Paimion Teurastamo Oy, Finland	100.00	100.00
<b>Owned by AS HKScan Estonia</b>		
Rakvere Farmid AS, Estonia	100.00	100.00
<b>Owned by HKScan Sweden AB</b>		
HKScan Real Estate AB, Sweden	100.00	100.00
HKScan International AB, Sweden**	100.00	100.00
HKScan Poland Sp. z o.o., Poland	100.00	100.00
Samfod S.A., Belgium**	100.00	100.00
<b>Owned by HKScan Real Estate AB</b>		
HKScan Real Estate Halmstad AB, Sweden	100.00	100.00
<b>Owned by HKScan Denmark A/S</b>		
Kreatina A/S, Denmark**	100.00	100.00

\* Control is based on shareholders' agreement / board selection.

\*\* Dormant

Shares and holdings in associated companies and joint ventures	Owner %	Share of votes %
<b>Owned by the Group's parent company</b>		
Nordic Lotus Food Co. Ltd, China*	35.00	35.00
<b>Owned by HKScan Finland Oy</b>		
Länsi-Kalkkuna Oy, Finland*	50.00	50.00
Pakastamo Oy, Finland	50.00	50.00
Honkajoki Oy, Finland*	50.00	50.00
Finnpig Oy, Finland	50.00	50.00
Oy LHP Bio-Carbon LTD, Finland	24.24	24.24
DanHatch Finland Oy, Finland	20.00	20.00
<b>Owned by HKScan Sweden AB</b>		
Industrislakt Syd AB, Sweden	50.00	50.00
Siljans Chark AB, Sweden	40.60	40.60
AB Tillväxt för svensk animalieproduktion, Sweden	25.00	25.00
Svenska Köttföretagen Holding AB, Sweden	23.52	23.52
<b>Owned by HKScan Denmark A/S</b>		
Tican-Rose GmbH, Germany	50.00	50.00
Farmfood A/S, Denmark	33.30	33.30

\* Joint venture

The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services. All commercial contracts are negotiated on market terms.

**The following transactions were carried out with related parties**

	2019	2018
Sales to associates	17.7	20.2
Sales of animals to related parties	4.5	2.6
Purchases from associates	35.5	32.5
Purchases of animals from related parties	14.7	8.8

Open balances on 31 December	2019	2018
Trade and other receivables from associates	1.6	2.7
Trade and other payables to associates	3.0	3.3

**28. Events after the reporting date**

On 22 January 2020, HKScan announced its investment of approximately EUR 6 million in a new slaughter process in the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability and ensure the capacity required for the strongly growing demand. The investment will be carried out in stages at the end of 2020 to ensure the security of supply stabilised during 2019.

We will renew the whole first part of the poultry unit's production process in Rauma, as the original slaughter line introduced in 2017 does not meet the standards required by the Group's current management. With the investment, the processing capacity of the slaughter line will increase by approximately 20 per cent and raw material yield by approximately 10 per cent. The investment will enable us to better meet the strongly growing demand for poultry products.

The current slaughter line will be dismantled once the investment is completed. For this reason, HKScan has recorded a EUR -6.9 million write-down of the residual value of the current line balance sheet in the last quarter of 2019. The write-down had no impact on cash flow.

## Parent company income statement for 1 January - 31 December

(EUR)	Note	2019	2018
Net sales		-	-
Other operating income	1.	32,151,344.79	21,998,196.77
Materials and services		-	-
Employee costs	2.	-16,712,272.38	-14,041,359.72
Depreciation and impairment	3.	-1,808,096.89	-527,975.49
Other operating expenses	4.	-22,258,392.91	-22,367,770.44
<b>EBIT</b>		<b>-8,627,417.39</b>	<b>-14,938,908.88</b>
Financial income and expenses	5.	-28,107.44	4,551,084.30
<b>Profit/loss before appropriations and taxes</b>		<b>-8,655,524.83</b>	<b>-10,387,824.58</b>
Appropriations	6.	14,729.00	-7,443.00
Income taxes	7.	-546,032.21	1,242,221.97
<b>Profit/loss for the period</b>		<b>-9,186,828.04</b>	<b>-9,153,045.61</b>

## Parent company balance sheet 31 December

(EUR)	Note	2019	2018
<b>ASSETS</b>			
Intangible assets	8.	1,013,350.00	1,426,009.00
Tangible assets	8.	5,070,891.40	4,963,074.31
Financial assets	8.	448,675,293.11	448,695,032.22
<b>Non-current assets</b>		<b>454,759,534.51</b>	<b>455,084,115.53</b>
Non-current receivables	9.	274,958,632.30	267,130,260.72
Deferred tax asset	9.	11,246,159.82	11,757,958.74
Current receivables	10.	12,596,594.66	13,130,542.62
Cash and cash equivalents		32,618,562.79	19,353,845.69
<b>Current assets</b>		<b>331,419,949.57</b>	<b>311,372,607.77</b>
<b>Assets</b>		<b>786,179,484.08</b>	<b>766,456,723.30</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	11.	66,820,528.10	66,820,528.10
Share premium reserve	11.	73,420,363.20	73,420,363.20
Treasury shares	11.	-4,762,908.54	-38,612.12
Fair value reserve	11.	-	-
RIUE	11.	215,121,053.79	143,252,832.19
Other reserves	11.	4,899,963.05	4,882,017.78
Retained earnings	11.	72,899,758.94	82,052,804.55
Profit/loss for the period	11.	-9,186,828.04	-9,153,045.61
<b>Equity</b>		<b>419,211,930.50</b>	<b>361,236,888.09</b>

(EUR)	Note	2019	2018
Accumulated appropriations	12.	76,678.00	91,407.00
Provisions	13.	2,643,766.00	2,711,022.00
Deferred tax liability	14.	-	-
Non-current interest-bearing liabilities	14.	254,124,083.83	284,384,655.78
Non-current non-interest-bearing liabilities	14.	3,055,970.02	3,440,804.71
Current interest-bearing liabilities	15.	92,595,218.24	101,013,874.16
Current non-interest-bearing liabilities	15.	14,471,837.49	13,578,071.56
<b>Liabilities</b>		<b>364,247,109.58</b>	<b>402,417,406.21</b>
<b>Equity and liabilities</b>		<b>786,179,484.08</b>	<b>766,456,723.30</b>

## Parent company cash flow statement

(EUR 1 000)	2019	2018
EBIT	-8,627	-14,939
Adjustments to EBIT	4,921	1,049
Depreciation and impairment	1,808	528
Change in provisions	-67	-69
Change in net working capital	1,447	-3,125
Interest income and expenses	2,321	5,645
Taxes	-34	-31
<b>Cash flow from operating activities</b>	<b>1,769</b>	<b>-10,942</b>
Purchases of shares in subsidiary	-85	-100,950
Purchase of other fixed assets	-1,657	-3,366
Disposals of other fixed assets	153	2,927
Repayments of loans receivable	-8,687	-16,459
<b>Cash flow from investing activities</b>	<b>-10,276</b>	<b>-117,848</b>
<b>Cash flow before financing activities</b>	<b>-8,507</b>	<b>-128,790</b>
Share issue	43,668	-
Share issue costs	-3,019	-
Proceed from external borrowings	74,300	136,540
Hybrid loan	-	39,751
Repayment of external borrowings	-88,453	-67,671
Dividends paid	-	-4,863
Purchase of own shares	-4,724	-
<b>Cash flow from financing activities</b>	<b>21,772</b>	<b>103,757</b>

(EUR 1 000)	2019	2018
<b>Change in cash and cash equivalents</b>	<b>13,265</b>	<b>-25,033</b>
Cash and cash equivalents on 1 Jan.	19,354	44,387
<b>Cash and cash equivalents on 31 Dec.</b>	<b>32,619</b>	<b>19,354</b>
CHANGE IN WORKING CAPITAL:		
Increase (-) / decrease (+) in current operating receivables	534	-1,474
Increase (+) / decrease (-) in current non-interest-bearing liabilities	913	-1,651
<b>Total</b>	<b>1,447</b>	<b>-3,125</b>



# Notes to the parent company's financial statements

## Basic information about the entity

HKScan Corporation is a Finnish public limited company established under the law of Finland. The Company is domiciled in Turku.

HKScan Corporation comprises Group management and Group administration.

HKScan Corporation's A Share has been quoted on the Nasdaq Helsinki since 1997.

HKScan Corporation is a subsidiary of LSO Osuuskunta and part of the LSO Osuuskunta Group. LSO Osuuskunta is domiciled in Turku.

Copies of HKScan Corporation's financial statements are available at the company's registered office at Lemminkäisenkatu 48, 20520 Turku.

## Accounting policies

### Basis of preparation

The parent company's financial statements have been prepared in compliance with valid Finnish Accounting Standards (FAS). The HKScan Group's consolidated financial statements have been prepared in compliance with the IFRS (International Financial Reporting Standards) and the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2019.

The amounts in the parent company's income statement and balance sheet are in euros and the amounts in the cash flow statement and notes are in thousands of euros.

### Non-current assets

Intangible and tangible assets have been measured at cost less accumulated depreciation and any impairment. Depreciation of assets is made on a straight-line basis over the expected useful life. Intangible assets are depreciated over 5-10 years and tangible assets over 2-10 years. Holdings in subsidiaries and associated companies as well as other shares and holdings are measured at cost less any impairment.

### Transactions in foreign currency

Foreign currency denominated transactions are recognised at the exchange rates valid on the transaction date. Trade receivables, trade payables and loan receivables denoted in foreign currencies, and foreign currency bank accounts have been translated into the functional currency at the closing rate quoted by the European Central Bank on the balance sheet date. Gains and losses arising from business transactions in foreign currencies, and from the translation of monetary items, have been recognised in financial income and expenses in the income statement.

### Derivative contracts

HKScan Oyj makes all external derivative contracts for the Group. Derivatives that are made for subsidiaries are handled with intercompany derivative contracts. Because of this HKScan Oyj has all the external derivatives of the Group and these are partly for the parent company and partly for subsidiaries.

Outstanding derivatives in foreign currencies are measured at the forward exchange rate quoted on the balance sheet date. Hedge accounting is not applied and changes in the value of foreign exchange contracts hedging commercial flows are recognised through profit or loss in other operating income or expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations.

Commodity derivatives all relate to subsidiaries and intercompany derivatives have been made. There is no income statement effect as the cash flows from the derivatives are eliminated by the intercompany derivative contracts with subsidiaries. Hedge accounting is not applied. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

Hedge accounting is not applied on interest rate swaps for the part that they hedge parent company's interest risk. The fair values of the derivatives are recorded in the balance sheet and changes in the fair values are recorded in the income statement in financial items. Realised gains or losses on interest rate swaps hedging variable-interest loans are presented under financial items in the income statement. Hedge accounting is also not applied on external interest rate swaps that relate to subsidiaries and intercompany derivatives. Income statement effect is eliminated by the intercompany derivative contract with subsidiaries. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

The fair values of currency forward contracts 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 rate or other market information at the reporting date. If the market value given by a counterparty is used, the company also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the company would have to pay, or would obtain, if it were to terminate a derivative instrument.

#### Pension plans

HKScan Corporation employees' statutory pension provision has been organised through insurance in a pension insurance company. Statutory pension expenses have been charged in the year to which the contributions relate.

#### Management retirement benefit obligations and severance payments

The remuneration of the CEO consists of a fixed monthly salary, benefits, supplementary pension benefits and possible incentive awards under the company's incentive scheme. Under the terms of the CEO's executive agreement, the CEO's employment may be terminated by the company and the CEO at six months' notice. In the event that the company terminates the CEO's executive agreement, the CEO will receive an amount that equals 12 months' salary, in addition to the salary for the period of notice.

Detailed information about management compensation is available in group financial statement note 4.

#### Income taxes

Consolidated accounting principles are applied to income taxes and deferred tax assets and liabilities when allowed under Finnish accounting principles. The deferred tax liability on depreciation difference is disclosed as a Note.

#### Leases

All leasing payments have been treated as rent. Leasing payments based on unpaid leasing agreements are shown in contingent liabilities in the financial statements.

#### Accumulated appropriations

Accumulated appropriations consist of change in depreciation difference.

The difference in depreciation according to plan and accounting depreciation, is shown as an appropriation in the income statement, and the accumulated difference in depreciation according to plan and accounting depreciation, is shown in the balance sheet as accumulated appropriations.

## Notes to the parent company's income statement

### 1. Other operating income, total

(EUR 1 000)	2019	2018
Other operating income	32,151	21,998
<b>Other operating income, total</b>	<b>32,151</b>	<b>21,998</b>

### 2. Staff costs

	2019	2018
Salaries and fees	-13,994	-11,833
Pension expenses	-2,479	-1,823
Other social expenses	-239	-386
<b>Staff costs</b>	<b>-16,712</b>	<b>-14,041</b>

Managing directors and their deputies	837	1,937
Members of the Board of Directors	409	360
<b>Management salaries, fees and benefits</b>	<b>1,246</b>	<b>2,297</b>
Employees, average	125	137

### 3. Depreciation and impairment

	2019	2018
Depreciation according to plan on non-current assets and goodwill	-485	-528
Impairment	-1,323	-
<b>Total depreciation and impairment</b>	<b>-1,808</b>	<b>-528</b>

### 4. Other operating expenses

	2019	2018
Rents/leases	-1,316	-1,492
Losses on disposal of fixed assets, tangible assets total	-105	-
<b>Losses on disposal of non-current assets</b>	<b>-105</b>	<b>0</b>
Audit fees, ordinary audit	-140	-84
Audit fees, other expert services	-98	-9
<b>Audit fees</b>	<b>-238</b>	<b>-93</b>
Non-statutory staff costs	-1,262	-2,485
Energy	-101	-95
Maintenance	-32	-39
Advertising, marketing and entertainment costs	-619	-1,355
Service, information management and office costs	-15,487	-14,068
Other expenses	-3,098	-2,741
<b>Total other operating expenses</b>	<b>-22,258</b>	<b>-22,368</b>

### 5. Financial income and expenses

	2019	2018
<b>Financial income</b>		
Income from units	0	0
Interest income from Group companies	14,248	15,582
Interest income from participating interests	1	3
Interest income from others	41	46
<b>Interest income</b>	<b>14,290</b>	<b>15,631</b>
Other financial income from others	3,300	4,139
<b>Other financial income</b>	<b>3,300</b>	<b>4,139</b>
<b>Total financial income</b>	<b>17,590</b>	<b>19,770</b>
<b>Financial expenses</b>		
Interest expenses payable to Group companies	-19	-
Interest expenses payable to others	-12,846	-9,060
<b>Total other interest and financial expenses</b>	<b>-12,865</b>	<b>-9,060</b>
<b>Unrealised losses on fair value assessment</b>	<b>1,423</b>	<b>1,082</b>
Other financial expense from Group companies	-	-1,342
Other financial expense from others	-6,176	-5,899
<b>Other financial expense</b>	<b>-6,177</b>	<b>-7,241</b>
<b>Total financial expenses</b>	<b>-17,619</b>	<b>-15,219</b>
<b>Financial income and expenses, total</b>	<b>-29</b>	<b>4,551</b>

## 6. Appropriations

	2019	2018
Increase (-) or decrease (+) in depreciation difference	15	-7
<b>Total appropriations</b>	<b>15</b>	<b>-7</b>

## 7. Direct taxes

	2019	2018
Change in deferred tax liabilities and assets	-512	1,273
Other direct taxes	-34	-31
<b>Income tax on ordinary operations</b>	<b>-546</b>	<b>1,242</b>

# Notes to the parent company's balance sheet

## 8. Non-current assets

(EUR 1000)

Intangible assets 2019	Intellectual property rights	Other long-term expenditure	Total
Acquisition cost on 1 Jan.	3,881	661	4,542
<b>Acquisition cost on 31 Dec.</b>	<b>3,881</b>	<b>661</b>	<b>4,542</b>
Accumulated depreciation on 1 Jan.	-2,558	-558	-3,116
Depreciation for the financial period	-351	-62	-413
<b>Accumulated depreciation on 31 Dec.</b>	<b>-2,909</b>	<b>-620</b>	<b>-3,529</b>
<b>Carrying amount on 31 Dec.</b>	<b>972</b>	<b>41</b>	<b>1,013</b>

Intangible assets 2018	Intellectual property rights	Other long-term expenditure	Total
Acquisition cost on 1 Jan.	2,707	661	3,368
Decrease	-735	-	-735
Transfers between items	1,909	-	1,909
<b>Acquisition cost on 31 Dec.</b>	<b>3,881</b>	<b>661</b>	<b>4,542</b>
Accumulated depreciation on 1 Jan.	-2,226	-496	-2,722
Depreciation for the financial period	-332	-62	-394
<b>Accumulated depreciation on 31 Dec.</b>	<b>-2,558</b>	<b>-558</b>	<b>-3,116</b>
<b>Carrying amount on 31 Dec.</b>	<b>1,323</b>	<b>103</b>	<b>1,426</b>

Tangible assets 2019	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan.	1,152	381	4,839	6,372
Increase	-	-	1,503	1,503
Transfers between items	14	-	-14	0
Impairment	-	-	-1,323	-1,323
<b>Acquisition cost on 31 Dec.</b>	<b>1,166</b>	<b>381</b>	<b>5,005</b>	<b>6,552</b>
Accumulated depreciation on 1 Jan.	-1,041	-367	0	-1,408
Depreciation for the financial period	-72	-	-	-72
<b>Accumulated depreciation on 31 Dec.</b>	<b>-1,113</b>	<b>-367</b>	<b>0</b>	<b>-1,480</b>
<b>Carrying amount on 31 Dec.</b>	<b>53</b>	<b>14</b>	<b>5,005</b>	<b>5,072</b>

<b>Tangible assets 2018</b>	<b>Machinery and equipment</b>	<b>Other tangible assets</b>	<b>Pre-payments</b>	<b>Total</b>
Acquisition cost on 1 Jan.	1,166	381	5,572	7,119
Increase	-	-	1,176	1,176
Decrease	-14	-	-	-14
Transfers between items	-	-	-1,909	-1,909
<b>Acquisition cost on 31 Dec.</b>	<b>1,152</b>	<b>381</b>	<b>4,839</b>	<b>6,372</b>
Accumulated depreciation on 1 Jan.	-920	-367	0	-1,287
Depreciation for the financial period	-121	-	-	-121
<b>Accumulated depreciation on 31 Dec.</b>	<b>-1,041</b>	<b>-367</b>	<b>0</b>	<b>-1,408</b>
<b>Carrying amount on 31 Dec.</b>	<b>111</b>	<b>14</b>	<b>4,839</b>	<b>4,964</b>

<b>Financial assets 2019</b>	<b>Holdings in Group companies</b>	<b>Holdings in associates</b>	<b>Receivables from associates</b>	<b>Other shares and holdings</b>	<b>Total</b>
Acquisition cost on 1 Jan.	447,729	950	0	16	448,695
Increase	85	-	-	-	85
Impairment	-105	-	-	-	-105
<b>Carrying amount on 31 Dec.</b>	<b>447,709</b>	<b>950</b>	<b>0</b>	<b>16</b>	<b>448,675</b>

There is in China a joint venture company Nordic Lotus Co. Ltd owned by parent company. That company's equity was EUR 2.3 million in 2019 and profit/loss for the period was EUR -0.5 million. Owner% is 35 per cent.

<b>Financial assets 2018</b>	<b>Holdings in Group companies</b>	<b>Holdings in associates</b>	<b>Receivables from associates</b>	<b>Other shares and holdings</b>	<b>Total</b>
Acquisition cost on 1 Jan.	347,729	0	0	16	347,745
Increase	100,000	950	-	-	100,950
<b>Carrying amount on 31 Dec.</b>	<b>447,729</b>	<b>950</b>	<b>0</b>	<b>16</b>	<b>448,695</b>

Increase in 2018 amounting to EUR 100.0 million is an equity investment (RIUE) to a Finnish subsidiary.

<b>Intangible assets</b>	<b>2019</b>	<b>2018</b>
Intellectual property rights	972	1,323
Other long-term expenditure	41	103
<b>Intangible assets</b>	<b>1,013</b>	<b>1,426</b>
<b>Tangible assets</b>		
Machinery and equipment	53	110
Other tangible assets	14	14
Payments on account and tangible assets in the course of construction	5,005	4,839
<b>Tangible assets</b>	<b>5,072</b>	<b>4,963</b>
<b>Financial assets</b>		
Holdings in Group companies	447,709	447,729
Holdings in associates	950	950
Other shares and holdings	16	16
<b>Financial assets</b>	<b>448,675</b>	<b>448,695</b>
<b>Total non-current assets</b>	<b>454,760</b>	<b>455,084</b>

## 9. Non-current receivables

	2019	2018
Non-current loan receivables	484	794
Non-current Group loan receivables	274,475	266,174
Other receivables	-	32
Prepayments and accrued income	-	130
<b>Total</b>	<b>274,959</b>	<b>267,130</b>
Deferred tax assets	11,246	11,758

On 31 December 2019, the company had EUR 13.5 (2.5) million of losses, of which no deferred tax receivable has been recognized. The losses in taxation expire with the following schedule: EUR 1.3 million in 2022, EUR 12.1 million in 2023, EUR 4.9 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027, EUR 9.9 million in 2028 and EUR 11.0 million in 2019. Utilisation of deferred tax asset from losses is based on the same assumptions that are used in group note 16.

## 10. Current receivables

	2019	2018
Trade receivables	5	8
Short-term receivables (from others)	5	15
Short-term prepayments from accrued income (from others)	1,952	2,458
<b>Total</b>	<b>1,962</b>	<b>2,481</b>

### Receivables from group companies

Trade receivables	157	2,035
Loan receivables	9,807	8,343
Other receivables	671	122
<b>Total</b>	<b>10,635</b>	<b>10,500</b>

### Receivables from participating interests

Loan receivables	-	150
<b>Short-term receivables from participating interests</b>	<b>0</b>	<b>150</b>

<b>Total current receivables</b>	<b>12,597</b>	<b>13,131</b>
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### Main items included in prepayments and accrued income

Accrued financial items	32	65
Accrued interest receivables	1,533	1,791
Accrued staff costs	23	15
Other prepayments and accrued income	364	587
<b>Total</b>	<b>1,952</b>	<b>2,458</b>

## 11. Equity

Equity in 2019	Share capital	Share premium reserve	Treasury shares	Fair value reserve	RIUE	Other reserves	Retained earnings	Total
Equity on 1 Jan.	66,820	73,420	-38	0	143,253	4,881	72,901	361,237
Increase	-	-	-4,724	-	-	18	-	-4,706
Share issue	-	-	-	-	71,868	-	-	71,868
Profit for the period	-	-	-	-	-	-	-9,187	-9,187
<b>Equity on 31 Dec.</b>	<b>66,820</b>	<b>73,420</b>	<b>-4,762</b>	<b>0</b>	<b>215,121</b>	<b>4,899</b>	<b>63,714</b>	<b>419,212</b>

Equity in 2018	Share capital	Share premium reserve	Treasury shares	Fair value reserve	RIUE	Other reserves	Retained earnings	Total
Equity on 1 Jan.	66,820	73,420	-38	0	143,203	4,818	86,916	375,139
Increase	-	-	-	-	50	63	-	113
Dividend distribution	-	-	-	-	-	-	-4,862	-4,862
Profit for the period	-	-	-	-	-	-	-9,153	-9,153
<b>Equity on 31 Dec.</b>	<b>66,820</b>	<b>73,420</b>	<b>-38</b>	<b>0</b>	<b>143,253</b>	<b>4,881</b>	<b>72,901</b>	<b>361,237</b>

Distributable equity	2019	2018
Contingency reserve	621	603
Treasury shares	-4,763	-38
Reserve for invested unrestricted equity	215,121	143,253
Retained earnings	72,900	82,053
Profit/loss for the period	-9,187	-9,153
<b>Distributable equity</b>	<b>274,692</b>	<b>216,718</b>

## 12. Accumulated appropriations

	2019	2018
Depreciation difference	77	91
<b>Total appropriations</b>	<b>77</b>	<b>91</b>

The unrecognised deferred tax liability on depreciation difference is EUR 49 000.

## 13. Statutory provisions

	2019	2018
Provisions for pensions	2,644	2,711
<b>Statutory provisions, total</b>	<b>2,644</b>	<b>2,711</b>

## 14. Non-current liabilities

	2019	2018
Hybrid loan	25,920	40,000
Bond	125,440	135,000
Loans from financial institutions	102,764	107,780
Other liabilities	3,056	5,045
<b>Total</b>	<b>257,180</b>	<b>287,825</b>
<b>Total non-current liabilities</b>	<b>257,180</b>	<b>287,825</b>
Interest-bearing		
Amounts owed to others	254,124	284,384
<b>Non-current interest-bearing liabilities</b>	<b>254,124</b>	<b>284,384</b>
Non-interest-bearing		
Amounts owed to others	3,056	3,441
<b>Non-current non-interest-bearing liabilities</b>	<b>3,056</b>	<b>3,441</b>
<b>Total non-current liabilities</b>	<b>257,180</b>	<b>287,825</b>

The company has EUR 125.4 million bond maturing in September 2022 with 2.625 percent coupon interest. In addition, company has issued a hybrid bond in 2018 amounting to EUR 40 million with 8 per cent coupon interest. After the conversions carried out in the context of the share issue in June 2019, the outstanding amount is EUR 25.9 million. Hybrid bond does not have specified maturity, but the company has right to redeem it on the fifth anniversary of the issue date and subsequently on each annual coupon interest payment date.



## 15. Current liabilities

	2019	2018
Bond	-	33,495
Loans from financial institutions	40,656	42,293
Trade payables	1,358	2,170
Accruals and deferred income	9,626	8,495
Other liabilities	3,375	2,780
<b>Total</b>	<b>55,015</b>	<b>89,233</b>
<b>Amounts owed to group companies</b>		
Trade payables	81	101
Accruals and deferred income	32	32
Other liabilities	51,939	25,226
<b>Total</b>	<b>52,052</b>	<b>25,359</b>
<b>Total current liabilities</b>	<b>107,067</b>	<b>114,592</b>
<b>Interest-bearing</b>		
Current amounts owed to Group companies	51,939	25,226
Amounts owed to others	40,656	75,788
<b>Current interest-bearing liabilities</b>	<b>92,595</b>	<b>101,014</b>
<b>Non-interest-bearing</b>		
Current amounts owed to Group companies	114	132
Amounts owed to others	14,358	13,446
<b>Current non-interest-bearing liabilities</b>	<b>14,472</b>	<b>13,578</b>
<b>Total current liabilities</b>	<b>107,067</b>	<b>114,592</b>

	2019	2018
<b>Main items (non-current and current) included in accruals and deferred income</b>		
Accrued staff costs	3,455	3,655
Accrued interest expenses	2,531	1,842
Accrued changes in value of derivatives	2,375	2,127
Other accruals and deferred income	1,265	871
<b>Total</b>	<b>9,626</b>	<b>8,495</b>
<b>Liabilities due in five years or more</b>		
Loans from financial institutions	5,425	9,042
Pension loans	-	2,143
<b>Liabilities due in more than five years</b>	<b>5,425</b>	<b>11,185</b>

## 16. Commitments and contingent liabilities

Commitments and contingent liabilities	2019	2018
<b>Debts secured by mortgages and shares</b>		
Loans from financial institutions	-	-
<b>Total</b>	<b>0</b>	<b>0</b>
Real estate mortgages	-	-
<b>Total</b>	<b>0</b>	<b>0</b>
<b>Security for debts of subsidiaries and other group companies</b>		
guarantees	15,974	19,259
Total	15,974	19,259
<b>Security for debts of participating interests</b>		
guarantees	-	-
<b>Total</b>	<b>0</b>	<b>0</b>
<b>Security for debts of others</b>		
guarantees	1,307	1,303
Total	1,307	1,303
<b>Leasing and rental commitments</b>		
maturing in less than a year	1,711	1,644
Maturing in 1-5 years	4,107	4,061
Maturing in more than five years	1,885	2,793
<b>Total</b>	<b>7,704</b>	<b>8,498</b>
Other commitments	4	4
<b>Total other contingencies</b>	<b>7,708</b>	<b>8,502</b>

## 17. Derivative instruments

	2019	2019	2019	2018	2019	2018
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
<b>Interest rate derivatives</b>	1,968	-5,797	-3,829	-5,248	64,359	64,627
matured in 2019	-	-	-	-	-	-
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-1,634	-1,634	-2,293	25,000	25,000
matures in 2022	947	-2,581	-1,634	-2,293	25,000	25,000
matures in 2023	1,021	-1,581	-561	-662	14,359	14,627
matures in >2023	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-
<b>Foreign exchange derivatives</b>	307	-424	-117	2	34,331	30,249
of which defined as net investment hedging instruments	-	-	-	-	-	-
<b>Commodity derivatives</b>	533	-533	-	-	-	-
matured in 2019	-	-	-	-	-	-
matures in 2020	240	-240	-	-	-	-
matures in 2021	232	-232	-	-	-	-
matures in 2022	60	-60	-	-	-	-
matures in 2023	2	-2	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-

Nominal values of external derivatives that are eliminated due to intercompany derivatives are netted to zero in the table above. The nominal values are EUR 22 380 (9 755) thousand foreign exchange derivatives, EUR 12 871 (9 992) thousand commodity derivatives, EUR 34 145 (54 503) thousand interest rate derivatives.

## Fair value hierarchy

	31 Dec. 2019	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	1,968	-	1,968	-
Foreign exchange derivatives	307	-	307	-
Commodity derivatives	533	-	533	-
<b>Total</b>	<b>2,808</b>	<b>-</b>	<b>2,808</b>	<b>-</b>
Derivatives, negative fair value				
Interest rate swaps	-5,797	-	-5,797	-
Foreign exchange derivatives	-424	-	-424	-
Commodity derivatives	-533	-	-533	-
<b>Total</b>	<b>-6,753</b>	<b>-</b>	<b>-6,753</b>	<b>-</b>
	31 Dec. 2018	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	2,942	-	2,942	-
Foreign exchange derivatives	165	-	165	-
Commodity derivatives	5,283	-	5,283	-
<b>Total</b>	<b>8,389</b>	<b>-</b>	<b>8,389</b>	<b>-</b>
Derivatives, negative fair value				
Interest rate swaps	-8,190	-	-8,190	-
Foreign exchange derivatives	-163	-	-163	-
Commodity derivatives	-5,283	-	-5,283	-
<b>Total</b>	<b>-13,636</b>	<b>-</b>	<b>-13,636</b>	<b>-</b>

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 company 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.

## Signatures to the financial statement and report of the Board of Directors

Vantaa, 5 February 2020

### **Reijo Kiskola**

Chairman of the Board, CEO

### **Jari Mäkilä**

Deputy chairman of the Board

### **Harri Suutari**

Member of the Board

### **Per Olof Nyman**

Member of the Board

### **Terhi Tuomi**

Member of the Board

### **Anne Leskelä**

Member of the Board

### **Tero Hemmilä**

CEO

## **Auditor's note**

A report on the audit carried out has been submitted today.

Vantaa, 5 February 2020

### **Ernst & Young Oy**

Authorized Public Accountants

Erkka Talvinko

APA

# Auditor's report (Translation of the Finnish original)

To the Annual General Meeting of HKScan Corporation

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of HKScan Corporation (business identity code 0111425-3) for the year ended 31 December 2019. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

## Key Audit Matter

### Revenue recognition

*We refer to the group's accounting policies and the note 1.*

HKScan sells food products, feed, animals and minor amount of services. Revenue consists of product and service sales, which is adjusted with discounts and translation differences resulting from sales in foreign currencies. The Group fulfils its performance obligation and recognises revenue when the control over product or service has been transferred to the buyer.

Revenue recognition was key audit matter due to risk related to correct timing of revenue and discounts.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

## How our audit addressed the Key Audit Matter

Our audit procedures to address the risk of material misstatement in respect of correct timing of revenue recognition included among others:

- We assessed the compliance of the group's accounting policies over revenue recognition with applicable accounting standards.
- We assessed the group's controls over timing of revenue recognition and over the calculation of discounts and credits.
- We tested using analytical procedures and transaction level testing the underlying calculations of discounts and credits, the correct timing of their recognition and compliance with the contract terms.
- We tested the timing of revenue with analytical procedures and testing on a transaction level either side of the balance sheet date as well as credit notes prepared after the balance sheet date.
- We considered the appropriateness of the group's disclosures in respect of revenues.

### Valuation of goodwill, intangible and tangible assets

*We refer to the group's accounting policies and the notes 5, 10, 11, 12 and 13.*

At the balance sheet date, the value of tested goodwill, intangible and tangible assets amounted to 575 M€ representing 61 % of the total assets and 176 % of the total equity. Valuation of goodwill, intangible and tangible assets was a key audit matter because the impairment testing imposes estimates and judgment. The group management uses assumptions in respect of determining discount rate as well as future market and economic conditions such as economic growth, expected inflation rates, expected market share and revenue and profitability developments.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

Our audit procedures to address the risk of material misstatement in respect of valuation of goodwill, intangible and tangible assets included among others:

- We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the group. Audit focused among others to those relating to the forecasted profitability, volume of replacement investments and discount rates used.
- We focused on analysing by cash generating unit how the profitability has been derived from the historical performance and the budget prepared by the management.
- We assessed the historical accuracy of the management's estimates.
- We tested the mathematical accuracy of the calculation.
- We considered the appropriateness of the group's disclosures in respect of impairment testing.

## Key Audit Matter

### Valuation of deferred tax asset

*We refer to the group's accounting policies and the notes 8 and 16.*

Deferred tax asset arising from tax losses carried forward, deferred tax depreciation and deferred interest expenses subject to interest deduction limit can be recognized when IAS 12 Income Taxes – standard's recognition criteria are met.

Valuation of deferred tax asset was a key audit matter because the management's assessment regarding the utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deductions involves management's assumptions and judgement.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

## How our audit addressed the Key Audit Matter

Our audit procedures to address the risk of material misstatement in respect of valuation of deferred tax asset included among others:

- We assessed the compliance of the group's accounting policies over the recording deferred tax assets with applicable accounting standards.
- We evaluated the estimates made by management with respect to utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deduction.
- We considered the appropriateness of the group's disclosures about the deferred tax assets.

### Valuation of inventory

*We refer to the group's accounting policies and the note 17.*

At the balance sheet date, the value of inventory amounted to 116 M€. The valuation of the inventory was a key audit matter as the amount of inventory in the financial statements is material and imposes management judgement. The valuation of finished and semi-finished goods is based on cost accounting imposing estimates.

We performed, among others, the following audit procedures:

- We assessed the group's accounting principles related to the valuation of inventories.
- We tested using analytical procedures and testing the underlying analyses and calculations prepared by the management relating to the costing of finished and semi-finished goods and determining the net realizable value. We familiarized ourselves regarding the relevant controls and processes.
- We also considered the appropriateness of the group's disclosures in respect of balance sheet values and the accounting principles concerning the valuation of inventories.

### **Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of Financial Statements**

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Other Reporting Requirements**

### **Information on our audit engagement**

We were first appointed as auditors by the Annual General Meeting on 12 April 2018, and our appointment represents a total period of uninterrupted engagement of 2 years.

### **Other information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Opinions based on assignment of the Annual General Meeting**

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable equity shown in the balance sheet for the parent company is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Directors of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 5.2.2020

Ernst & Young Oy  
Authorized Public Accountant Firm

Erkka Talvinko  
Authorized Public Accountant

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