HKSCAN

FINANCIAL STATEMENTS BULLETIN 2019

HKScan's Financial Statements Bulletin 1 January–31 December 2019

HKScan's strengthened cash flow and significantly improved financial performance create a firm basis for 2020

January–December 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.
- The Board of Directors proposes to the Annual General Meeting that the company will not pay a dividend for 2019.
- 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.

October–December 2019

- HKScan's net sales increased by 2.0 per cent and were EUR 463.8 (454.7) million. In comparable currencies, net sales were EUR 469.3 million, representing an increase of 3.2 per cent.
- Comparable EBIT improved by EUR 7.7 million to EUR 5.8 (-1.9) million. The impact on the EBIT from changes in currency rates was EUR -0.2 million.
- HKScan recorded a total of EUR -12.3 (-1.7) million in non-recurring items impacting the EBIT.
- EBIT was EUR -6.5 (-3.5) million.
- Cash flow from operating activities improved by EUR 16.7 million to EUR 48.6 (31.9) million.
- Profitability improved across the business and in all market areas. The positive development of the poultry business in Finland as well as improved commercial performance, operational efficiency and good cost control were the most significant factors strengthening the Group's EBIT.

The figures in parentheses refer to the comparison period, i.e. the same period in the previous year, unless otherwise mentioned. Financial information presented in October-December 2019 interim report is unaudited. The financial statements 2019 has been approved and audit report received.

As of 1 January 2019, HKScan has adopted the new IFRS 16 Leases standard using the full retrospective method. Quarterly and full-year Group and market area financial information for 2018 has been restated accordingly. Additional information about the impact is disclosed in the accounting policies.

Outlook 2020

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

Key figures, net sales

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Net sales	463.8	454.7	1 744.4	1 715.4
Sweden	173.5	181.9	652.1	682.1
Finland	211.5	195.6	770.6	721.9
Denmark	36.0	35.7	153.3	149.3
Baltics	42.9	41.4	168.5	162.1

Key figures, EBIT

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
EBIT	-6.5	-3.5	-23.2	-48.3
- % of net sales	-1.4	-0.8	-1.3	-2.8
Comparable EBIT	5.8	-1.9	-2.2	-46.3
- % of net sales	1.2	-0.4	-0.1	-2.7
Comparable EBIT, Sweden	6.3	5.6	12.0	9.3
- % of net sales	3.6	3.1	1.8	1.4
Comparable EBIT, Finland	2.6	-2.0	-1.7	-35.6
- % of net sales	1.3	-1.0	-0.2	-4.9
Comparable EBIT, Denmark	-1.0	-2.4	-5.3	-5.8
- % of net sales	-2.8	-6.8	-3.5	-3.9
Comparable EBIT, Baltics	1.6	-0.9	5.1	-0.7
- % of net sales	3.7	-2.1	3.0	-0.4

Key figures, other

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Profit before taxes	-9.0	-6.7	-34.5	-58.5
- % of net sales	-1.9	-1.5	-2.0	-3.4
Profit for the period	-10.6	-9.3	-37.5	-51.3
- % of net sales	-2.3	-2.0	-2.2	-3.0
EPS, EUR	-0.12	-0.20	-0.52	-1.00
Comparable EPS, EUR	0.00	-0.17	-0.26	-0.96
Cash flow from operating activities	48.6	31.9	59.2	-14.3
Cash flow before debt service	45.6	21.9	38.7	-95.4
Cash flow after investing activities	41.4	19.3	27.6	-104.1
Return on capital employed (ROCE) before taxes, %			-3.1	-6.7
Interest-bearing net debt			275.8	335.6
Net gearing, %			84.8	103.3

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.

In the fourth quarter, HKScan's comparable EBIT was EUR 5.8 million positive, nearly EUR 8 million higher than in the comparison period. EBIT was EUR -6.5 million negative, mainly due to the write-down related to the Rauma poultry unit. The most significant factors contributing to the last quarter's profit improvement were the positively developed poultry business in Finland, affected by improved productivity and delivery capability at the Rauma unit, and our strong brand Kariniemen®. Commercial activities, cost control consistent with objectives and operational efficiency improvement measures also had a strong impact on profit improvement. During the last quarter of 2019, all market areas recorded a higher comparable EBIT than in the comparison period.

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 well-being 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

October–December

The Group's net sales in the fourth quarter increased by 2.0 per cent and were EUR 463.8 (454.7) million. In comparable currencies, net sales increased by 3.2 per cent to EUR 469.3 million. Comparable EBIT improved by EUR 7.7 million and was EUR 5.8 (-1.9) million. The impact on the comparable EBIT from changes in currency rates was EUR -0.2 million. EBIT was EUR -6.5 (-3.5) million.

Net sales increased most in Finland due to the improved delivery capability and efficiency of the Rauma poultry unit. Sales increased in Finland in all other product categories, as well. Sweden's reported net sales decreased from the corresponding period due to the weakening of the Swedish krona. Net sales were also weakened by the transfer of the sales responsibility of Danish poultry sold in Sweden to market area Denmark. In local currency, net sales in Sweden remained at the previous year's level. The increase in pork market prices and positive development of the sales mix supported net sales growth in the Baltics. Denmark's net sales increased due to the transfer of the sales responsibility of Danish poultry sold in Sweden as well as the strengthening of sales in Sweden.

The Group's comparable EBIT improved from the corresponding period by EUR 7.7 million. Profitability improved widely in all market areas and product categories. The main contributors to the performance improvement were the positive development of the poultry business in Finland, commercial successes as well as the successful cost control and operational efficiency measures in all market areas. Due to the improved profitability, the Group's cash flow from operating activities improved significantly, by nearly EUR 17 million from the corresponding period.

Non-recurring items amounting to EUR -12.3 million were recorded for the last quarter of the year. The most significant items were the EUR -6.9 million impairment loss from the Rauma unit's slaughter line and the EUR -2.9 million impairment loss relating to assets in the Swedish associated company.

January–December

The Group’s net sales in January–December 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 January−December. 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.

Market area Sweden

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Net sales	173.5	181.9	652.1	682.1
EBIT	2.9	5.6	7.1	8.9
- EBIT margin, %	1.7	3.1	1.1	1.3
Comparable EBIT	6.3	5.6	12.0	9.3
- EBIT margin, %	3.6	3.1	1.8	1.4

October–December

Sweden’s net sales were EUR 173.5 (181.9) million. Comparable EBIT was EUR 6.3 (5.6) million and EBIT was EUR 2.9 (5.6) million.

In the Swedish market, the demand for domestic meat strengthened and the international demand-driven meat market situation created a positive tone in the meat market as a whole. Net sales decreased from the comparison period mainly due to the weakening of the Swedish krona, but sales were also weakened by the shortage of domestic pork. Net sales were improved by good development in branded sales and sales in the food service channel. Comparable net sales in local currency were nearly at the level of the comparison period. Net sales decreased by the transfer of the sales responsibility of Danish poultry sold in Sweden to market area Denmark, amounting to EUR 3.4 million.

Comparable EBIT improved due to commercial successes, improved operational efficiency and lower administrative costs. The increase in raw material prices showed in sales price development.

A non-recurring cost of EUR -2.9 million relating to the assets of the associated company was recorded for the last quarter of the year. The impairment loss had no impact on cash flow.

January–December

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

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Net sales	211.5	195.6	770.6	721.9
EBIT	-4.9	-2.4	-10.3	-36.1
- EBIT margin, %	-2.3	-1.2	-1.3	-5.0
Comparable EBIT	2.6	-2.0	-1.7	-35.6
- EBIT margin, %	1.3	-1.0	-0.2	-4.9

October–December

Finland's net sales increased by 8.1 per cent and were EUR 211.5 (195.6) million. Comparable EBIT was EUR 2.6 (-2.0) million and EBIT was EUR -4.9 (-2.4) million.

Net sales continued to increase particularly in the poultry business and in pork. Sales increased in processed meat and meals, as well. Sales growth was supported by successful Christmas sales and increased export volumes.

Comparable EBIT improved by EUR 4.6 million from the comparison period. Profitability improved mainly due to good development in the poultry business, which was driven by the improved delivery capability and productivity of the Rauma poultry unit, supported by the strengthened market position of the Kariniemen brand. The profitability of other business categories, such as red meat and meals, also improved from the corresponding period due to commercial successes, improved operative efficiency and good cost control.

A total of EUR -7.5 million in non-recurring items was recorded for the last quarter of the year, the most significant of which was the EUR -6.9 million impairment loss relating to the Rauma unit's slaughter line.

January–December

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

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Net sales	36.0	35.7	153.3	149.3
EBIT	-1.0	-2.4	-9.8	-5.8
- EBIT margin, %	-2.8	-6.8	-6.4	-3.9
Comparable EBIT	-1.0	-2.4	-5.3	-5.8
- EBIT margin, %	-2.8	-6.8	-3.5	-3.9

October–December

Denmark's net sales were EUR 36.0 (35.7) million. Comparable EBIT and EBIT were EUR -1.0 (-2.4) million.

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 3.4 million. Additionally, sales from Denmark to Sweden strengthened during the last quarter of the year. Domestic sales declined in Denmark, which was partially offset by positive development in export and industrial sales.

EBIT improved clearly and was supported by an improved sales mix, operational efficiency measures and tight cost control.

January–December

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

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Net sales	42.9	41.4	168.5	162.1
EBIT	1.6	-0.9	5.0	-0.7
- EBIT margin, %	3.7	-2.1	3.0	-0.4
Comparable EBIT	1.6	-0.9	5.1	-0.7
- EBIT margin, %	3.7	-2.1	3.0	-0.4

October–December

In the Baltics, net sales increased by 3.6 per cent and were EUR 42.9 (41.4) million. Comparable EBIT and EBIT were EUR 1.6 (-0.9) million.

Net sales increased from the corresponding period due to improved retail and food service sales as well as increased market prices of pork.

Comparable EBIT improved clearly from the corresponding period due to commercial successes and operational efficiency measures. The increase in raw material costs was also reflected in sales pricing. The change of biological asset revaluation amounted to EUR 0.7 (-0.2) million.

January–December

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 well-being 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

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

HKScan employed 6,784 (6,801) people at the end of December 2019. The average number of employees in January−December was 6,928 (7,179). Of that number, 29.1 (29.6) per cent were located in Sweden, 40.0 (40.1) per cent in Finland, 9.1 (8.9) per cent in Denmark and 21.8 (21.4) per cent in the Baltics.

Salaries and remunerations to employees, including social costs, totalled EUR 313.7 (316.7) million in January–December and EUR 76.6 (79.3) million in the fourth quarter.

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

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

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.

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.

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).

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.

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.

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.

Board Authorisations

The new authorisations, granted to the Board by the AGM 2019 on 11 April 2019, are described in the section 'Annual General Meeting 2019'.

Authorisations granted to the Board by the Extraordinary General Meeting on 29 May 2019 are described in the section 'Extraordinary General Meetings'.

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.

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 proposes to the Annual General Meeting that the company will not pay a dividend for 2019. The company did not pay dividend for the year 2018.

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.

Information meeting for analysts and media

An information meeting related to HKScan Corporation's 2019 financial statement for analysts, institutional investors and media will be organised in the auditorium of Hotel Haven (address: Eteläranta 16, Helsinki) on 6 February 2020 at 10–11 a.m. EET.

The financial statement will be presented by Tero Hemmilä, CEO, and Jyrki Paappa, CFO. The event will be held in Finnish.

Conference calls in English will be arranged upon separate request. Those interested in the calls, kindly contact HKScan Communications, communications@hkscan.com (phone +358 10 570 5700) to make an appointment.

Next financial report

HKScan's January-March 2020 interim report will be published on 7 May 2020.

Vantaa, 6 February 2020
HKScan Corporation
Board of Directors

For further information

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HKScan Corporation is a publicly listed food company with over one hundred years of experience in responsible Nordic food production for customer and consumer needs. HKScan's sustainable way of operating spans the entire value chain, from farm to consumer. Our nearly 7 000 professionals ensure our promise of high-quality products that taste good. Our home markets cover Finland, Sweden, Denmark and the Baltics. Our diverse product selection includes poultry, pork, beef, and lamb products as well as charcuterie and meals. The company's strong consumers brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose®. In 2019, HKScan's net sales were EUR 1.7 billion.

DISTRIBUTION:
Nasdaq Helsinki,
Main media,
www.hkscan.com

Consolidated Financial Statements 1 January – 31 December 2019

Consolidated income statement

(EUR million)		10-12/2019	10-12/2018	1-12/2019	1-12/2018
Net sales		463.8	454.7	1 744.4	1 715.4
Cost of goods sold	1.	-443.7	-432.7	-1 670.3	-1 659.5
Gross profit		20.1	22.0	74.1	55.9
Other operating items total	1.	0.9	1.9	7.1	6.9
Sales and marketing costs	1.	-10.2	-10.7	-38.5	-43.6
General administration costs	1.	-17.3	-16.7	-65.8	-67.5
Operating profit		-6.5	-3.5	-23.2	-48.3
Financial income		0.5	0.4	2.2	2.0
Financial expenses		-3.0	-3.7	-13.9	-13.3
Share of profit/loss in associates and joint ventures		0.1	0.2	0.4	1.1
Profit/loss before taxes		-9.0	-6.7	-34.5	-58.5
Income tax		-1.6	-2.6	-3.0	7.2
Profit/loss for the period		-10.6	-9.3	-37.5	-51.3
Profit/loss for the period attributable to:					
Equity holders of the parent		-11.5	-10.2	-39.9	-53.0
Non-controlling interests		0.9	0.9	2.3	1.7
Total		-10.6	-9.3	-37.5	-51.3
Earnings per share calculated on profit attributable to equity holders of the parent:					
EPS, undiluted, continuing operations, EUR/share		-0.12	-0.20	-0.52	-1.00
EPS, diluted, continuing operations, EUR/share		-0.12	-0.20	-0.52	-1.00

Consolidated statement of comprehensive income

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Profit/loss for the period	-10.6	-9.3	-37.5	-51.3
OTHER COMPREHENSIVE INCOME (after taxes):				
Exchange differences on translating foreign operations	2.4	0.4	-1.6	-4.0
Cash flow hedging	-1.1	1.6	-4.2	4.2
Actuarial gains or losses	-4.2	-6.9	-4.2	-6.9
TOTAL OTHER COMPREHENSIVE INCOME	-2.9	-4.9	-10.0	-6.7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-13.6	-14.2	-47.5	-58.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:				
Equity holders of the parent	-14.4	-15.1	-49.8	-59.7
Non-controlling interests	0.9	0.9	2.3	1.7
Total	-13.6	-14.2	-47.5	-58.0

Consolidated balance sheet

(EUR million)	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
Intangible assets	2.	136.4	137.5
Tangible assets	3.4	439.1	478.5
Holdings		32.5	33.0
Deferred tax asset	5.	43.4	43.3
Other non-current assets		3.5	2.5
TOTAL NON-CURRENT ASSETS		654.9	694.8
Inventories	6.	115.5	121.4
Current receivables		127.6	130.9
Cash and cash equivalents		37.5	29.4
TOTAL CURRENT ASSETS		280.6	281.7
TOTAL ASSETS		935.6	976.5
EQUITY AND LIABILITIES			
EQUITY	7.	325.1	325.0
Non-current loans, interest-bearing	4.	262.7	278.3
Non-current liabilities, non-interest-bearing		67.0	63.3
TOTAL NON-CURRENT LIABILITIES		329.8	341.7
Current loans, interest-bearing	4.	50.6	86.9
Current liabilities, non-interest-bearing		230.1	223.0
TOTAL CURRENT LIABILITIES		280.7	309.9
TOTAL EQUITY AND LIABILITIES		935.6	976.5

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2019	**66.8**	**72.9**	**5.1**	**143.5**	**40.0**	**10.3**	**-11.9**	**0.0**	**-17.2**	**309.5**	**15.4**	**325.0**
Result for the financial period	-	-	-	-	-	-	-	-	-39.9	-39.9	2.3	-37.5
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	-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 compreh. 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
Purchase of own shares	-	-	-	71.9	-14.1	-	-	-	-3.8	54.0	-	54.0
Share issue	-	-	-	-	-	-	-	-4.7	-	-4.7	-	-4.7
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.6	-0.6
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2019	**66.8**	**72.9**	**1.0**	**215.4**	**25.9**	**10.3**	**-13.4**	**-4.8**	**-66.2**	**307.9**	**17.2**	**325.1**

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2018	**66.8**	**72.9**	**1.0**	**143.5**	**0.0**	**10.3**	**-7.9**	**0.0**	**48.6**	**335.1**	**14.4**	**349.5**
IFRS 9, 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 (–)												
Transl. diff.	-	-	-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
EQUITY ON 31 Dec. 2018	**66.8**	**72.9**	**5.1**	**143.5**	**40.0**	**10.3**	**-11.9**	**0.0**	**-17.2**	**309.5**	**15.4**	**325.0**

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

Cash flow statement

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Cash flow before change in net working capital	20.0	14.4	58.3	19.3
Change in net working capital	33.3	20.4	13.2	-22.7
Financial items and taxes	-4.7	-2.9	-12.2	-10.9
CASH FLOW FROM OPERATING ACTIVITIES	48.6	31.9	59.2	-14.3
Cash flow from investing activities	-7.2	-12.6	-31.6	-89.8
CASH FLOW AFTER INVESTING ACTIVITIES	41.4	19.3	27.6	-104.1
Hybrid loan	0.0	-0.2	-2,1	39.8
Share issue	-	-	43,7	-
Share issue costs	-	-	-3.0	-
Change in loans	-15.0	-2.8	-52,0	48.3
Purchase of own shares	-4.7	-	-4.7	-
Dividends paid	-0.2	-	-0.6	-5.5
CASH FLOW FROM FINANCING ACTIVITIES	-19.9	-3.0	-18.8	82.6
NET CASH FLOW	21.5	16.3	8.9	-21.5
Cash and cash equivalents at beginning of period	16.2	13.0	29.4	50.9
Translation differences	-0.2	0.1	-0.8	0.1
Cash and cash equivalents at end of period	37.5	29.4	37.5	29.4

Financial indicators

(EUR million)	31 Dec. 2019	31 Dec. 2018
Earnings per share (EPS), undiluted, EUR	-0.52	-1.00
Earnings per share (EPS), diluted, EUR	-0.52	-1.00
Equity per share, EUR	3.18	5.73
Equity ratio, %	34.8	33.3
Adjusted average number of outstanding shares, mill.	79.9	54.0
Gross capital expenditure on PPE, EUR mill.	31.7	41.0
Additions in right-of-use assets, EUR mill.	11.3	11.2
Depreciation, EUR mill.	80.4	67.3
Employees, end of month average	6,928	7,179

Calculation of financial indicators

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

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

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

Notes to the consolidated financial statements

HKScan Corporation's financial statements bulletin for 1 January–31 December 2019 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the financial statements bulletin as in the annual financial statements for 2018, except for the adoption of new IFRS 16 standard effective as of 1 January 2019 as described below. Due to the rounding of the figures to the nearest million euros in the interim report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2018. The financial statements bulletin is unaudited.

The Group applies with full retrospective method the new IFRS 16 standard that are 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. The new standard has no significant impact on profit before taxes. Assets and interest-bearing liabilities grew by approximately EUR 45 million. Detailed information about the impact is available in restatement bulletin published 3 May 2019.

Analysis by segment

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
NET SALES				
- Sweden				
Sales, goods	173.5	181.9	652.1	681.9
Sales, services	0.0	0.0	0.0	0.1
- Finland				
Sales, goods	210.7	194.7	767.4	718.4
Sales, services	0.8	0.9	3.1	3.5
- Denmark				
Sales, goods	36.0	35.7	153.3	149.3
Sales, services	0.0	0.0	0.0	0.0
- Baltics				
Sales, goods	42.8	41.4	168.0	161.9
Sales, services	0.1	0.0	0.5	0.3
Group total	463.8	454.7	1 744.4	1 715.4
EBIT				
- Sweden	2.9	5.6	7.1	8.9
- Finland	-4.9	-2.4	-10.3	-36.1
- Denmark	-1.0	-2.4	-9.8	-5.8
- Baltics	1.6	-0.9	5.0	-0.7
Segments total	-1.4	-0.2	-8.0	-33.6
Group administration costs	4.8	-3.4	-15.2	-14.7
Group total	-6.5	-3.5	-23.2	-48.3
INVESTMENTS				
- Sweden				
Gross capital expenditure on PPE	2.1	1.5	8.4	6.4
Additions in right-of-use assets	0.4	0.4	1.9	1.7
Investments total	2.5	1.9	10.4	8.1

- Finland				
Gross capital expenditure on PPE	2.7	6.6	9.7	21.9
Additions in right-of-use assets	2.1	1.8	8.6	7.8
Investments total	4.8	8.4	18.2	29.7
- Denmark				
Gross capital expenditure on PPE	1.1	1.4	2.0	2.3
Additions in right-of-use assets	0.1	0.1	0.6	0.7
Investments total	1.2	1.5	2.6	3.0
- Baltics				
Gross capital expenditure on PPE	1.3	2.8	11.6	10.4
Additions in right-of-use assets	0.1	0.1	0.3	0.9
Investments total	1.5	3.0	11.9	11.3
Total	9.9	14.7	43.0	52.2
AVERAGE NUMBER OF EMPLOYEES				
- Sweden			2 013	2 123
- Finland			2 774	2 883
- Denmark			628	636
- Baltics			1 512	1 538
Total			6 928	7 179

Notes to the income statement

1. Items affecting comparability

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Comparable EBIT	**5.8**	**-1.9**	**-2.2**	**-46.3**
Personnel costs, Group Management 1)	-	-1.2	-	-1.2
Termination of employment, Sweden 1)	-0.5	-	-1.5	-0.1
Closing of sales office, Sweden 1)	-	-	-	-0.2
Impairment of assets, Finland 2) 3)	-7.3	-0.5	-7.3	-0.5
Termination of employment, Group Management 1)	-0.0	-	-1.6	-
Termination of employment, Sweden 2)	-	-	-0.4	-
Termination of employment, Finland 1)	-	-	-0.8	-
Termination of employment, Finland 2)	-0.2	-	-0.4	-
Termination of employment, Baltics 1)	-	-	-0.1	-
Termination of employment, Baltics 2)	-	-	-0.0	-
Impairment of assets, Denmark 2) 3)	-	-	-4.5	-
Impairment of assets, Group Management 1) 3)	-1.3	-	-1.3	-
Impairment of associated company balances, Sweden 1) 2) 4)	-2.9	-	-2.9	-
EBIT	**-6.5**	**-3.5**	**-23.2**	**-48.3**

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	31 Dec. 2019	31 Dec. 2018
Opening balance	137.5	137.2
Translation differences	-1.6	-3.5
Additions	0.7	0.1
Disposals	-	-
Depreciation and impairment	-3.1	-2.4
Reclassification between items	2.8	6.1
Closing balance	136.4	137.5

3. Changes in tangible assets

(EUR million)	31 Dec. 2019	31 Dec. 2018
Opening balance	478.5	502.2
Translation differences	-1.2	-3.3
Additions	42.3	52.1
Disposals	-0.3	-1.6
Depreciation and impairment	-77.3	-64.8
Reclassification between items	-2.8	-6.1
Closing balance	439.1	478.5

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2019	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
Closing balance on 31 Dec. 2019	10,0	18,7	15,7	44,3	46,3

(EUR million)	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
Closing balance on 31 Dec. 2018	6.4	19.7	20.0	46.1	46.8

(EUR million)	10-12/2019	10-12/2018	1-12/2019	1-12/2018
Depreciation expense of right-of-use assets	-3.2	-2.8	-11.4	-10.8
Interest expense on lease liabilities	-0.4	-0.4	-1.4	-1.4
Total amounts recognised in profit or loss	**-3.5**	**-3.1**	**-12.8**	**-12.2**

5. Deferred tax assets

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.

6. Inventories

(EUR million)	1-12/2019	1-12/2018
Materials and supplies	59.3	75.8
Semi-finished products	4.7	4.8
Finished products	41.8	33.4
Other inventories	0.2	0.2
Inventories, advance payments	1.9	1.7
Biological assets	7.5	5.4
Total inventories	115.5	121.4

7. Notes to equity

Share capital and share premium reserve	Number of outstanding shares	Share capital	Share premium reserve	Reserve for invested unrestricted equity	Treasury	Total
1 Jan. 2019	54,034,174	66.8	72.9	143.5	0.0	283.1
31 Dec. 2019	96,951,781	66.8	72.9	215.4	-4.8	350.3

Derivative instrument liabilities

(EUR million)	31 Dec. 2019	31 Dec. 2018
Nominal values of derivative instruments		
Foreign exchange derivatives	56.7	40.0
Interest rate derivatives	98.5	119.1
Electricity derivatives	12.9	10.0
Fair values of derivative instruments		
Foreign exchange derivatives	-0.4	-0.1
Interest rate derivatives	-5.8	-8.2
Electricity derivatives	0.5	5.3

Consolidated other contingent liabilities

(EUR million)	31 Dec. 2019	31 Dec. 2018
Debts secured by pledges or mortgages		
- loans from financial institutions	-	-
On own behalf		
- Mortgages given	-	-
- Assets pledged	-	-
On behalf of others		
- guarantees and other commitments	7.8	11.7
Other contingencies		
Leasing and rental commitments	0.7	1.3

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

Derivatives

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

(EUR million)	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	-	-	-	-
- Commodity derivatives	1.0	-	1.0	-
of which subject to cash flow hedging	1.0	-	1.0	-
Total	**1.0**	**-**	**1.0**	**-**
Liabilities measured at fair value				
Financial liabilities 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	-
Total	**-6.7**	**-**	**-6.7**	**-**

(EUR million)	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	-
Total	**5.4**	**-**	**5.4**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit of loss				
-Trading derivatives				
- Interest rate swaps	-8.2	-	-8.2	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-	-	-	-
of which subject to cash flow hedging	-	-	-	-
Total	**-8.3**	**-**	**-8.3**	**-**

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

Business transactions with related parties

(EUR million)	1-12/2019	1-12/2018
Sales to associates	17.7	20.2
Purchases from associates	35.5	32.5
Trade and other receivables from associates	1.6	2.7
Trade and other payables to associates	3.0	3.3