



HKSCAN
Half Year Financial
Report 2020

HKScan's Half Year Financial Report 1 January–30 June 2020

HKScan's Q2 comparable EBIT positive

April–June 2020

- HKScan's net sales were EUR 440.9 (439.4) million.
- EBIT improved by EUR 6.7 million to EUR 0.1 (-6.6) million.
- Comparable EBIT improved by EUR 3.1 million to EUR 0.6 (-2.5) million.
- On an annual level (rolling 12 months), comparable EBIT rose to EUR 6.9 million.
- EBIT improved by commercial successes and strong growth in retail sales. Food service channel sales were significantly lower than in the comparison period due to the Covid-19 pandemic. Pandemic clearly slowed down the Group's profit improvement.
- In the exceptional circumstances caused by the coronavirus pandemic, HKScan successfully carried out special measures to ensure consumer and customer satisfaction, the health and safety of its personnel and the continuity of its production in all of the company's market areas.
- Cash flow from operating activities improved by EUR 8.4 million, totalling EUR 27.8 (19.4) million.

January–June 2020

- HKScan's net sales increased by 3.4 per cent, totalling EUR 869.8 (841.2) million.
- EBIT improved by EUR 17.4 million and was EUR -3.8 (-21.2) million negative.
- Comparable EBIT improved by EUR 9.1 million, totalling EUR -3.4 (-12.5) million.
- EBIT was improved by commercial successes and strong growth in retail sales. Food service channel sales were significantly lower than in the comparison period due to the Covid-19 pandemic.
- Cash flow from operating activities improved by EUR 18.6 million, totalling EUR 20.5 (1.9) million.
- Interest-bearing net debt was EUR 315.0 (304.7) million and net gearing 101.2 (88.0) per cent.

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 this report is unaudited.

Outlook 2020

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

Key figures, net sales

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Net sales	440.9	439.4	869.8	841.2	1 744.4
Finland	191.6	195.1	373.5	368.9	770.6
Sweden	162.0	163.0	315.4	317.2	652.1
Baltics	44.5	43.3	87.8	81.6	168.5
Denmark	42.7	38.0	93.1	73.4	153.3

Key figures, EBIT

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
EBIT	0.1	-6.6	-3.8	-21.2	-23.2
- % of net sales	0.0	-1.5	-0.4	-2.5	-1.3
Comparable EBIT	0.6	-2.5	-3.4	-12.5	-2.2
- % of net sales	0.1	-0.6	-0.4	-1.5	-0.1
Comparable EBIT, Finland	-2.2	-2.7	-5.7	-5.7	-1.7
- % of net sales	-1.2	-1.4	-1.5	-1.5	-0.2
Comparable EBIT, Sweden	4.3	2.9	5.8	2.0	12.0
- % of net sales	2.7	1.8	1.8	0.6	1.8
Comparable EBIT, Baltics	1.0	2.5	1.9	1.9	5.1
- % of net sales	2.1	5.8	2.2	2.3	3.0
Comparable EBIT, Denmark	0.1	-1.6	0.8	-4.2	-5.3
- % of net sales	0.3	-4.1	0.8	-5.7	-3.5

Key figures, other

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Profit before taxes	-2.0	-10.0	-8.5	-27.3	-34.5
- % of net sales	-0.4	-2.3	-1.0	-3.3	-2.0
Profit for the period	-3.2	-10.4	-10.1	-27.3	-37.5
- % of net sales	-0.7	-2.4	-1.2	-3.2	-2.2
EPS, EUR	-0.05	-0.17	-0.12	-0.47	-0.52
Comparable EPS, EUR	-0.04	-0.11	-0.12	-0.32	-0.26
Cash flow from operating activities	27.8	19.4	20.5	1.9	59.2
Cash flow after investing activities	-24.1*	10.9	-42.7*	-17.0	27.6
Return on capital employed (ROCE) before taxes, %			-0.3	-4.7	-3.1
Interest-bearing net debt			315.0	304.7	275.8
Net gearing, %			101.2	88.0	84.8

* Includes the investment to the plot of Vantaa EUR 37.7 million.

HKScan's CEO Tero Hemmilä

During the review period, the company was successfully implementing its strategy despite the impact of the Covid-19 pandemic on our business. Business growth and the positive development of profitability continued during the review period. In the second quarter, we achieved a positive comparable EBIT of EUR 0.6 million. The improvement from the comparison period was over EUR 3 million. On an annual basis, rolling 12 months, comparable EBIT rose to nearly EUR 7 million. The Group's April-June net sales were at the comparison period level, but net sales increased in comparable figures. Cash flow from operating activities strengthened by EUR 8.4 million from the comparison period.

Turnaround programme, which is at the core of our strategy, proceeded with a comprehensive change of the company, as planned. The cumulative improvement of the quarterly comparable EBIT, achieved during the programme, was over EUR 53 million. The company's cash flow from operating activities has improved cumulatively by over EUR 92 million during the same period. Net gearing is at a level that allows a controlled implementation of the Turnaround programme.

The coronavirus pandemic, however, affected our performance in all our market areas during the review period. The pandemic weakened net sales, in addition to which we estimate that the immediate impact of the pandemic on our comparable EBIT was some two million euros in April-June. In addition, the indirect effects of the pandemic weakened our EBIT through the market price changes. However, we have been able to keep the supply chain operations on a good level with no disruptions in the exceptional situation. I want to thank all our employees, our farmers and other partners for their good work in the exceptional circumstances. The appreciation of domestic food production has clearly increased in all our home markets.

In retail, consumer demand was strong in the second quarter while the demand in the food service channel weakened in all our home markets. The strongest impact was seen in Finland but was clear also in our other home markets. With the pandemic, consumer demand was as a whole more focused on products with less added value. This had a clear negative impact on the company's performance. Demand in the food service channel began gradually to strengthen in June but is still clearly below the pre-pandemic level.

Of our business units, Denmark, Sweden and Finland improved their comparable EBIT from the comparison period. During the first half of the year, especially Denmark and Sweden have shown strong development. The development in Sweden is significant for the Group as it represents a considerable part of the Group's business. In the Baltics, comparable EBIT weakened due to the indirect effects of the pandemic. In Europe, the price level of pork fell and decreased the value of biological assets related to our Baltic business. In the Baltics, we have otherwise made strong progress with successful commercial and operational measures. With these measures, other indirect and also direct effects caused by the pandemic have been compensated.

In Finland, the profit improvement was mainly due to the continued positive performance in the poultry business although the pace of profit improvement slowed down. The strengthened performance creates a financially stable basis for the execution of the investment, decided in early 2020, to improve the efficiency, reliability and raw material yield of the Rauma production unit's slaughter process. Due to the impact of the pandemic, the schedule of equipment deliveries will be somewhat postponed from the original. Implementation of the investment will be started as planned in late 2020 and will largely continue in early 2021.

The Group's positive profit improvement was based on commercial and operational improvements and on cost control in all our business units.

The pandemic continued to affect our exports to China. However, our export volume to China clearly increased from the comparison period and were almost at the target level. We directed sales to other export markets. As a result of the pandemic, volatility has increased in the international meat market and is expected to continue during the rest of the year. In Europe, the market price level of meat has decreased since the beginning of the year due to the increase in stocks, causing indirect pressure on the price levels in our home markets. The level of meat prices in Europe is significantly dependent on the development of Asian export markets. Changes in Asia are rapidly reflected in Europe and our home markets.

HKScan's continued profit improvement gives the company a solid foundation to continue implementation of the strategy. The company's strategic target is to grow into a versatile food company. The coronavirus pandemic has changed consumer behaviour and thus our operations. As the situation normalises, it is quite unlikely that we will fully return to the pre-pandemic operating environment. In the big picture, there is no need to change the Group's strategy but other aspects raised by the pandemic will be assessed and changes implemented. A clear change is seen in the online food sales that multiplied compared to the pre-pandemic time. As the growth in online sales continues and strengthens, it will clearly change the way to operate in the market.

The pandemic has cleared HKScan's role as a major food company in its home markets. We do our utmost to secure the company's operations under the continuing exceptional situation. As a major player, we recognise our responsible role which includes healthy and safe food, food security and development of our operations to meet consumer needs.

Group net sales and EBIT

April–June

Net sales

HKScan's net sales totalled EUR 440.9 (439.4) million. Net sales were increased by commercial improvements and strong growth in retail sales due to the coronavirus pandemic. Food service sales in the review period were significantly lower than in the comparison period. In June, sales to restaurants began to recover as the countries eased their coronavirus-related restrictions. The weakened food service sales were compensated by growth in retail sales. The increase of home cooking boosted the demand for especially poultry products, minced meat, meal components and sausages from the comparison period.

In comparable figures, HKScan's net sales grew in Sweden, the Baltics and Denmark. In Finland, net sales were slightly down from the comparison period. The impact of the exchange rate change i.e. the conversion of net sales made in local currency into euros, of the Swedish krona on net sales was EUR -0.6 million.

The Covid-19 pandemic continued to impact our exports to China. The planned export volumes were not fully achieved but exports clearly increased from the comparison period. Substitute exports were directed to other markets, which compensated for the China export related challenges at the end of the review period. As a result of the pandemic, price volatility in the international meat market continued. The impact of China's exports on the Group's figures was minor.

EBIT

The Group EBIT improved by EUR 6.7 million, totalling EUR 0.1 (-6.6) million. Comparable EBIT improved by EUR 3.1 million, totalling EUR 0.6 (-2.5) million. The exchange rate change of the Swedish krona had no impact on EBIT.

During the review period, non-recurring items affecting the EBIT were EUR -0.5 million. The comparison period EBIT included non-recurring items of EUR -4.1 million. Items affecting comparability are described in more detail in the Tables section of this report.

The EBIT was improved by commercial successes in all market areas. Sweden, the Baltics and Denmark delivered a profitable comparable EBIT. Despite the improvement, Finland's comparable EBIT remained negative. The impact of exports on the EBIT development was minor.

The immediate impact of the coronavirus pandemic on the Group's comparable EBIT is estimated at some two million euros. Strong growth in the retail sales did not fully compensate for the food service sales that were low due to the pandemic. The strongest impact was seen in the Business Unit Finland but was also clear in the company's other home market areas. Responding to the sudden growth in retail sales and ensuring customer satisfaction led to rising costs and additional production costs.

January–June

Net sales

HKScan's net sales increased by 3.4 per cent, totalling EUR 869.8 (841.2) million. Net sales were increased by commercial improvements and strong growth in retail sales resulting from the coronavirus pandemic. Sales in the food service channel were significantly lower than in the comparison period due to the pandemic. The weakened food service sales were compensated by growth in retail sales.

In comparable figures, HKScan's net sales grew in all the market areas. The impact of the exchange rate change of the Swedish krona, i.e. the conversion of net sales made in local currency into euros, on net sales was EUR -4.3 million.

EBIT

The Group's EBIT improved by EUR 17.4 million, totalling EUR -3.8 (-21.2) million. Comparable EBIT improved by EUR 9.1 million, totalling EUR -3.4 (-12.5) million. The exchange rate change of the Swedish krona had no impact on EBIT.

Non-recurring items affecting the EBIT recognized during the period totalled EUR -0.5 million. The comparison period EBIT included non-recurring items amounting to EUR -8.7 million. Items affecting comparability are described in more detail in the Tables section of this report.

The EBIT was improved by commercial successes in all market areas. Strong growth in retail sales did not fully compensate for the food service sales that were low due to the pandemic. Sweden, the Baltics and Denmark delivered a profitable comparable EBIT. Despite improvement, Finland's comparable EBIT remained negative during the review period.

The pandemic had a clear negative impact on the Group's EBIT. The strongest impact was seen in the Business Unit Finland but was also clear in the company's other home market areas. Responding to the sudden growth in retail sales and ensuring customer satisfaction led to rising costs and additional production costs.

Balance sheet, cash flow and financing

At the end of June, the company's balance sheet total was EUR 945.1 (961.8) million.

The Group's interest-bearing debt at the end of June was EUR 337.0 (326.9) million including an IFRS 16 lease liability of EUR 36.1 (47.3) million. Net debt was EUR 315.0 (304.7) million. It increased by EUR 10.3 million from the comparison period and showed a seasonal increase of EUR 39.2 million from the year-end. The net gearing ratio was 101.2 (88.0) per cent in the end of June. The impact of the IFRS 16 lease liability on the net gearing ratio was approximately 11.6 percentage points. Investment to the plot of Vantaa increased the net gearing ratio approximately 10 percentage points. The investment was EUR 37.7 million including taxes.

A hybrid bond issued in 2018 amounting to EUR 25.9 million is included in the balance sheet. The coupon interest of the hybrid bond is fixed 8 per cent per annum until the first redemption date. The hybrid bond is treated as equity. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date in 2023, and subsequently, on each annual coupon interest payment date.

The Group's liquidity remained good. Committed credit facilities at the end of June stood at EUR 125.0 (100.0) million and were entirely undrawn. The EUR 200 million commercial paper programme had been drawn to the amount of EUR 69.5 (15.0) million.

Net financial expenses in the second quarter were EUR -2.6 (-3.2) million and EUR -5.6 (-5.9) million in January-June.

As a result of the Group's improved profitability, cash flow from operating activities improved by EUR 8.4 million from the comparison period. Cash flow from operating activities in the second quarter was EUR 27.8 (19.4) million and EUR 20.5 (1.9) million in January-June. Cash flow after investments in the second quarter was EUR -24.1 (10.9) million and EUR -42.7 (-17.0) million in January-June.

Investments

The Group's investments totalled EUR 52.7 (8.1) million in April-June. During the review period, the largest single investment was the purchase of a plot of land in Vantaa. Investments for January-June were EUR 60.7 million (EUR 18.8 million). In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 1.4 (5.6) million in April-June and EUR 3.0 (6.7) million in January-June.

In April-June, HKScan made production investments in all market areas. The investments were targeted at maintaining existing capacity and improving productivity. In 2020, HKScan is increasing its investments from the previous year as part of its Turnaround programme. Improving productivity and supporting the implementation of the Group's strategy are key goals when planning investments for the coming years.

On 3 April 2020, HKScan announced its acquisition of a plot of land in Vantaa housing the company's factory and logistics centre. HKScan exercised its pre-emption right included in the land lease agreement to purchase the plot of land from LSO Osuuskunta. The purchase price of the land including taxes was EUR 37.7 million. The purchase price paid by HKScan corresponds to the offer LSO Osuuskunta received for the plot of land from a third party. The City of Vantaa has announced that it will not exercise its statutory pre-emption right. The operating life of HKScan's Vantaa production unit and logistics centre will continue to the 2030s. The company's aim is to expand the ownership base of the land so that it can be developed further to meet future needs.

During the review period, HKScan invested in a new company with Leivon Leipomo. The company aims for strong and profitable growth of its Boltsi product family.

In January 2020, HKScan announced it would invest approximately EUR 6 million in the new slaughter process of the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability while ensuring the capacity needed to respond to the strongly growing demand. Due to the impact of the pandemic, the schedule of equipment deliveries will be somewhat delayed from the original. The implementation of the investment will be started as planned in late 2020, largely continuing in early 2021.

Operating environment

Changes in key sales channels and product categories

In April-June, changes in the HKScan's sales channels and sales structure caused by the coronavirus pandemic could be clearly seen in all the company's home markets. Growth in retail food sales continued strong in all HKScan's home market areas, but demand in the food service channel only began to recover at the end of the review period. Online food sales and deliveries directly to consumers' homes showed strong growth.

The pandemic increased home cooking. The retail sale of sausages, cold cuts, poultry and meal components increased clearly.

We estimate that the share of domestic meat of total meat consumption increased in the HKScan's home markets. The pandemic has increased consumers' awareness of the significance of domestic food and food security, increasing the appreciation of local primary production in all the company's home markets. The share of domestic meat of total consumption increased, as consumption focused on retail while consumption through the food service channel decreased. In retail, the importance of domesticity is strong in consumer choices.

As a result of the pandemic, price volatility has clearly increased in the international meat market. Weak demand in the food service channel has created market imbalances during the review period, not only in our home markets but also throughout Europe and in the HKScan's export markets in Asia.

Actions and effects caused by the Covid-19 pandemic at HKScan

HKScan takes the exceptional situation caused by the coronavirus pandemic extremely seriously. The basis for HKScan's operations is to ensure the health of personnel as well as consumers and to secure the disturbance-free production, business and the food chain.

In its production units, HKScan has, for example, minimised the interaction between employees with shift arrangements, increased the use of protective equipment and instructed white-collar employees to work remotely. This has caused additional costs in the company's production units.

The significance of domestic food production and the long food chain is further emphasised in situations such as the pandemic. HKScan ensures the functioning of the food chain with its comprehensive contingency plan in addition to authorities' guidelines. The plan covers all key functions of HKScan's value chain, such as animal and material procurement, production and logistics, customer cooperation, sales and support functions.

The company anticipates the impacts of the pandemic on consumer behaviour as well as possible and takes into account the effects of different scenarios on the company's operations in both short and long term. The assessment of long-term change needs will be made in the coming months.

HKScan has diversified its export structure. The goal is to balance exports and to prevent market risks.

Business Unit Finland

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Net sales	191.6	195.1	373.5	368.9	770.6
EBIT	-2.2	-3.7	-5.7	-6.7	-10.3
- EBIT margin, %	-1.2	-1.9	-1.5	-1.8	-1.3
Comparable EBIT	-2.2	-2.7	-5.7	-5.7	-1.7
- EBIT margin, %	-1.2	-1.4	-1.5	-1.5	-0.2

April–June

In Finland, net sales decreased slightly and were EUR 191.6 (195.1) million. Retail sales showed strong growth while food service sales declined significantly due to the coronavirus pandemic. Increased home cooking boosted the demand for poultry products, minced meat, meal components and sausages in particular.

EBIT totalled EUR -2.2 (-3.7) million and comparable EBIT was EUR -2.2 (-2.7) million. The direct impact of the pandemic on the comparable EBIT was significant as strong retail sales could not fully compensate for weak food service sales and, on the other hand, consumer demand focused on products with less added value. With the exception of ready meals, sales in all HKScan's product categories increased during the review period. Performance of the Finnish poultry business improved from the comparison period but fell short of the target level. The review period depreciations were slightly higher than in the comparison period.

The sales and profitability of HKScan's subsidiaries, Kivikylän Kotipalvaamo and Lihatukku Harri Tamminen, improved from the comparison period.

In June, HKScan and Leivon Leipomo set up a company that aims for strong and profitable growth of its Boltsi product family. The cooperation promotes the targets of both companies as Leivon Leipomo was looking for a strong partner to further develop the Boltsi product family. For HKScan, partnerships are an important part of the strategy supporting the company's strategic target to expand into new product categories and raw materials. As part of the operative collaboration, HKScan provides the new company with its production capacity and logistics chain.

The production investments implemented in April-June focused on maintenance and productivity improvement.

In January 2020, HKScan announced its investment of some 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 strong demand growth. Due to the effects of the pandemic, the schedule of equipment deliveries will be somewhat postponed from the original. The investment implementation will start as planned in late 2020 and largely continue in early 2021.

January–June

Net sales increased and were EUR 373.5 (368.9) million. Net sales were increased by the strong growth of retail sales during the pandemic in March-June. Before the impact of the pandemic, the Finnish business developed in line with the target, especially in the food service channel.

EBIT totalled EUR -5.7 (-6.7) million and comparable EBIT was EUR -5.7 (-5.7) million. The direct impact of the coronavirus pandemic on the comparable EBIT was significant as strong retail sales could not fully compensate for weak food service sales and, on the other hand, consumer demand focused on products with less added value.

Business Unit Sweden

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Net sales	162.0	163.0	315.4	317.2	652.1
EBIT	4.2	1.5	5.7	0.5	7.1
- EBIT margin, %	2.6	0.9	1.8	0.2	1.1
Comparable EBIT	4.3	2.9	5.8	2.0	12.0
- EBIT margin, %	2.7	1.8	1.8	0.6	1.8

April–June

In Sweden, net sales totalled EUR 162.0 (163.0) million. Retail sales showed strong growth while sales in the food service sector especially to restaurants and hotels declined clearly due to the pandemic. The impact of the coronavirus pandemic on our business in Sweden was minor, due to the significant share of retail sales as part of the whole and commercial successes in retail sales. In the review period, sales developed well in the branded red meat produced in Sweden.

In comparable figures, net sales increased by almost 1.3 per cent in local currency. The effect of the exchange rate change of the Swedish krona on the review period's net sales was EUR -0.6 million. Net sales were decreased by the transfer of sales responsibility for Danish poultry meat sold also in Sweden to Business Unit Denmark last year.

EBIT totalled EUR 4.2 (1.5) million and comparable EBIT was EUR 4.3 (2.9) million. EBIT was improved by commercial successes and lower administrative costs. There was a shortage of locally produced pork, which was reflected in higher prices as demand increased. The exchange rate change had no impact on the EBIT of the review period. The EBIT impact of the transfer of sales responsibility for Danish poultry meat sold in Sweden on EBIT was minor.

The investments in April-June were targeted at maintenance and improving productivity.

January–June

Net sales totalled EUR 315.4 (317.2) million. Retail sales showed strong growth while sales in the food service sector especially to restaurants and hotels declined clearly due to the pandemic. In comparable figures, net sales increased by some 3.4 per cent in local currency. The effect of the exchange rate change of the Swedish krona on net sales was EUR -4.3 million. Net sales also decreased by some EUR 8 million due to the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark, which took place last year.

EBIT totalled EUR 5.7 (0.5) million and comparable EBIT was EUR 5.8 (2.0) million. EBIT was improved by commercial successes and lower administrative costs. In Sweden, there was a shortage of locally produced pork, which was reflected in higher prices as demand increased. The exchange rate change had no impact on the EBIT of the review period. The EBIT impact of the transfer of sales responsibility for Danish poultry meat sold in Sweden on EBIT was minor.

Business Unit Baltics

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Net sales	44.5	43.3	87.8	81.6	168.5
EBIT excluding biological asset revaluation	1.4	1.7	2.4	0.2	2.7
Biological asset revaluation	-0.8	0.8	-0.8	1.5	2.3
EBIT	0.6	2.5	1.6	1.7	5.0
- EBIT margin, %	1.4	5.7	1.8	2.1	3.0
Comparable EBIT excluding biological asset revaluation	1.7	1.7	2.8	0.3	2.9
Biological asset revaluation	-0.8	0.8	-0.8	1.5	2.3
Comparable EBIT	1.0	2.5	1.9	1.9	5.1
- EBIT margin, %	2.1	5.8	2.2	2.3	3.0

April–June

In the Baltics, net sales totalled EUR 44.5 (43.3) million. Net sales were increased by commercial successes, which was reflected in strong growth of retail sales and good sales development of novelties and especially branded products. Of our product categories, especially red meat and poultry were showing strong growth. Sales in the food service channel declined significantly due to the pandemic. The Baltics have also developed strongly the exports of further processed products to Europe, particularly to Germany.

EBIT excluding the change in the fair value of biological assets totalled EUR 1.4 (1.7) million. Similarly, comparable EBIT totalled EUR 1.7 (1.7) million. EBIT was improved by commercial successes, streamlining of production in production units and in primary production as well as good control of costs. Significantly declined food service sales weakened the EBIT. The change in the fair value of biological assets in the balance sheet was EUR -0.8 (0.8) million.

The production investments made in April-June focused on maintenance and profitability improvement.

January–June

Net sales increased clearly by over 7 per cent, amounting to EUR 87.8 (81.6) million. Net sales were increased by commercial successes, such as the good development in retail sales and sales of branded products, as well as growth in exports of further processed products, particularly to Germany.

EBIT excluding the change in the fair value of biological assets totalled EUR 2.4 (0.2) million. Similarly, comparable EBIT totalled EUR 2.8 (0.3) million. EBIT was improved by commercial successes, operational efficiency measures in production units and in primary production as well as good control of costs. The change in the fair value of biological assets in the balance sheet totalled EUR -0.8 (1.5) million.

Business Unit Denmark

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Net sales	42.7	38.0	93.1	73.4	153.3
EBIT	0.1	-1.6	0.8	-8.7	-9.8
- EBIT margin, %	0.3	-4.1	0.8	-11.8	-6.4
Comparable EBIT	0.1	-1.6	0.8	-4.2	-5.3
- EBIT margin, %	0.3	-4.1	0.8	-5.7	-3.5

April–June

Denmark's net sales increased by almost 12 per cent, amounting to EUR 42.7 (38.0) million. Net sales were primarily increased by more than 30 per cent increase in broiler products sold fresh in Danish retail sales channel. Due to the pandemic, home cooking increased and sales in the food service channel decreased clearly. However, our strong development in retail compensated the sales decline in the food service channel. Net sales were also increased by the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark last year. Due to the strong growth in domestic demand and sales in Sweden, exports to other markets decreased.

Denmark's EBIT clearly improved, totalling EUR 0.1 (-1.6) million. EBIT was improved by commercial successes in Denmark and Sweden, increased processing degree of products and cost control.

The investment in a new bird reception area made at the Vinderup production unit was taken into use at the end of June. The investment improves operational efficiency, animal welfare and occupational safety. The investment related to the production of cooked poultry products was being finalised at the Skovsgaard production unit.

January–June

Net sales increased by almost 27 per cent, amounting to EUR 93.1 (73.4) million. Sales of fresh broiler products to Danish retailers increased by almost 60 per cent from the comparison period. Net sales were also increased by some EUR 8 million by the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark, which took place last year. Our strong development in retail compensated the sales decline in the food service channel.

EBIT totalled EUR 0.8 (-8.7) million and comparable EBIT was EUR 0.8 (-4.2) million. EBIT was improved by commercial successes in Denmark and Sweden as well as increased degree of product processing and good cost control.

HKScan's strategy

HKScan's strategy focuses on the determined implementation of the Turnaround programme to improve the company's profitability in 2020-2021. The successful implementation of the Turnaround programme creates a financially strong foundation for the company, enabling future growth. A fundamental change in the Group's operating model from a matrix organisation to the country-specific profit centre based organisation plays a key role in the strategy implementation.

HKScan aims to grow into a versatile food company and to strengthen its market position in evolving markets together with its customers. HKScan invests in strengthening and growing its position in existing and new product categories and sales channels, with evolving retail and the growing food service channel as the key sales channels. The company also invests in the growth of exports, particularly to Asia.

The coronavirus pandemic has already changed consumer behaviour and thus the company's operations. As the situation normalises, it is quite unlikely that we will fully return to the pre-pandemic operating environment. In the big picture, there is no need to change the Group's strategy but other aspects raised by the pandemic will be assessed and changes implemented.

HKScan continues its strategic assessment related to the company structure and reviews the positioning of different market areas as part of the Group's operations.

Growth in consumers' food moments

The Group's strong, innovative poultry range as well as meals and meal components are defined as growth drivers in the strategy. Responsibly produced red meat and meat products are at the core of the company's operations and will continue to play a major role. To meet changing consumption habits, HKScan is looking into expanding its business into new product categories and raw materials. Growth drivers include new commercial concepts and digital solutions together with the strengthening product portfolio.

During 2020, HKScan has been able to show strong growth in poultry in Finland, Denmark and the Baltics. Poultry meat consumption has been growing and the growth is expected to continue strong in the future. In red meat and processed meat products, the company has been able to strengthen especially the sales of branded products in Sweden and the Baltics.

Partnerships

Strong partnerships are one key part of the company's strategy. Through partnerships, HKScan can expand into new product categories and sales channels. On the other hand, HKScan's wide commercial network and customer contacts provide many smaller companies with an interesting platform to grow in the Baltic Sea region.

In June 2020, HKScan and Leivon Leipomo set up a company with the aim of promoting the growth and further development of the plant-based Boltsi product family. HKScan provides Leivon Leipomo with a strong commercial platform enabling profitable growth of the Boltsi product family primarily in Finland, but possibly in other HKScan's home markets as well.

The implementation of the cooperation agreement signed with Hes-Pro (Finland) Oy in November 2019, focusing on the sale of plant-based protein products, has been postponed due to the pandemic. The goal is to start cooperation as planned, both in the food service channel and retail, during the autumn 2020 when the situation normalises.

Partnerships with Hes-Pro and Leivon Leipomo support HKScan's strategic target to expand into new product categories and to grow into a versatile food company.

Development of the farming community

In the contract production of domestic meat raw material, HKScan aims to deepen cooperation with its farmers in responsibility-related areas. With pilot farms, a renewal of operating models has been started in all animal species in connection with the next development stage of contract production. It includes goal-oriented responsibility work that enables the entire value chain to meet the future needs of the markets.

Long-term financial targets

HKScan's long-term financial targets are: 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.

Corporate responsibility

HKScan continued its goal-oriented work towards carbon-neutrality. With the Agrofood Ecosystem® model, HKScan is developing an operating model with its pilot farms and business partners in Finland, with the aim of building advanced responsibility work into contract production. The key idea is to develop an operating model that develops the responsibility of primary production and increases the transparency of the value chain. These allow us to respond to market changes in demand. In Sweden, this work has been promoted with the Gårdsinitiativet project.

During the review period, HKScan together with VTT investigated the carbon footprint of the Finnish beef from farms to the HKScan's production units. The carbon footprint of Finnish HK Ehta® beef is as much as 35 per cent lower than the European average. HKScan has also calculated the carbon footprints of Kariniemen® chicken, HK Rypsiporsas® pork and Swedish Hållbarhetsgrisen pork, sold under the Scan® brand. The carbon footprint of Finnish and Swedish meat is clearly lower than the European averages.

Carbon footprint calculation increases understanding of the climate impacts of food production and helps discover ways to further reduce them. To HKScan, the carbon footprints of primary production give a starting level from which the company and its partners continue to work towards even more sustainable meat production. In summer 2020, HKScan, together with pilot farms and partners, carries out several actions to collect information about net carbon impacts and to find ways to reduce the carbon footprint of primary production. During the summer, the company will study e.g. the ability of fields to bind carbon, because improving the effectiveness of the carbon sequestration and the growth capacity of fields are means to further reduce the carbon footprint of meat production.

Research and development

HKScan's R&D aim to develop the product offering on all key markets to meet changing consumer and customer needs. In its product development, HKScan also focuses on the existing and new product categories defined in the Group strategy, evolving and growing sales channels, changes in consumer behaviour as well as sustainability aspects.

In April 2020, HKScan decided to support companies that reshape the food system in Finland, other Nordic countries and the Baltics, through the new capital investment fund Nordic FoodTech VC. The fund aims to invest in technology companies that change the food chain into a more resource-efficient and ecological direction, produce food in novel ways or promote healthy eating. The investment in sustainable food technologies of the future supports HKScan's strategic renewal and responsibility work in an excellent way.

Innovation funding organisation Business Finland participates in funding HKScan's Digitalized Agrofood Ecosystem® business development project. It aims to generate new business by increasing the transparency of the entire value chain and to develop the responsibility of operations through better resource efficiency and productivity. Digitalisation is a key aspect in the business models under development.

Personnel and Group management

HKScan employed 7,818 (7,609) people at the end of June 2020. The average number of employees in the review period was 7,103 (7,024). Of that number, 40.7 (40.5) per cent were located in Finland, 29.2 (29.0) per cent in Sweden, 21.1 (21.9) per cent in the Baltics and 9.0 (8.6) per cent in Denmark. The increase in the number of personnel from the comparison period was caused by the company taking over the responsibility for production facility maintenance in two production units in Finland. The figures also include seasonal employees.

On 26 June 2020, HKScan announced the appointment of Lars Appelqvist as EVP for Business Unit Sweden and member of the Group Executive Team. He comes from the company Löfbergs where he serves as CEO. Appelqvist will take up his new position on 1 January 2021 at the latest. Until then, Denis Mattsson will continue as interim EVP for Business Unit Sweden.

Salaries and remunerations to employees, including social costs, totalled EUR 162.3 (160.1) million in January–June 2020 and EUR 82.3 (82.5) million in the second quarter.

Shares and shareholders

At the end of June 2020, 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, was divided into two share series as follows: A Shares, 93,551,781 (94.54% of the total number of shares) and K Shares, 5,400,000 (5.46% of the total number of shares). The A Shares are quoted on Nasdaq Helsinki Ltd. The K Shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of K Shares of LSO Osuuskunta and Lantmännen ek. för.

At the end of June 2020, the company held 2,000,000 (0) 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.

The market cap of HKScan's shares at the end of June 2020 stood at EUR 194.5 (160.1) million. Series A shares had a market value of EUR 184.0 (151.4) million, and the unlisted Series K shares a calculational value of EUR 10.9 (8.7) million.

In January–June, a total of 17,643,140 (9,611,539) of the company's shares were traded with a total value of EUR 36,933,493 (15,896,464). In the period under review, the highest price quoted was EUR 2.85 (2.48) and the lowest was EUR 1.60 (1.48). The average price was EUR 2.09 (1.65). At the end of June 2020, the closing price was EUR 2.01 (1.62).

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 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 Executive 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.

Annual General Meeting 2020

HKScan Corporation's Annual General Meeting was held on 10 June 2020 in Turku under special arrangements due to the Covid-19 pandemic. The AGM adopted the parent company's and consolidated financial statements for the financial period 1 January – 31 December 2019 and discharged the members of the Board of Directors and CEO from liability for the year 2019. The AGM resolved that the company will not pay a dividend for the year 2019.

Board members Reijo Kiskola, Anne Leskelä, Jari Mäkilä, Per Olof Nyman, Harri Suutari and Terhi Tuomi were re-elected until the end of the Annual General Meeting 2021. In addition, Carl-Peter Thorwid and Ilkka Uusitalo were both re-elected as deputy Board members until the end of the AGM 2021. At the organising meeting held after the AGM, the Board re-elected Reijo Kiskola as Chairman and Jari Mäkilä as Vice Chairman.

The auditing firm Ernst & Young Oy was elected as auditor of the Company until the end of the next Annual General Meeting. Ernst & Young has notified that it will appoint Erkka Talvinko, Authorised Public Accountant, as the lead audit partner.

The AGM authorised the Board of Directors to decide on a share issue as well as on the issue of option rights and other special rights entitling to shares, and on the acquisition and/or the acceptance as pledge of the Company's own Series A shares. The authorisations are effective until 30 June 2021 and they revoke the authorisations given by the 2019 AGM to the Board of Directors.

The decisions of the AGM have been published in their entirety in a stock exchange release on 10 June 2020, and the minutes are available on the company website at www.hkscan.com.

Short-term risks and uncertainty factors

The Covid-19 pandemic is a significant uncertainty factor for business. HKScan's operations are based on ensuring the health and safety of employees and consumers and on securing the disturbance-free operations of the entire food chain also during the pandemic. The company follows strict hygiene processes and instructions set by the authorities and has implemented numerous contingency actions. Disruption of production due to potential illness of personnel poses a risk for the company. In addition, if the pandemic is prolonged, it may impact the availability and prices of some raw materials, production inputs, packaging materials and protective equipment. The pandemic may also affect the price and volume development of certain products in sales channels in which demand has significantly declined due to the pandemic. This applies to home markets as well as export markets. Direct and indirect effects through the international meat raw materials market in both the domestic and export markets may be unpredictable as the situation continues this year. The effects may be longer-lasting and extend into the coming year. The corona pandemic may also cause unexpected delays in the implementation of investments, which may affect the company's Turnaround programme.

Other significant uncertainty factors in HKScan's business are related to the availability, price and quality of key production inputs as well as to raw material and sales prices.

In the food industry's long production chain, food safety is essential. Risks of animal diseases, such as the African Swine Fever (ASF), or any international or regional food scandals impacting the consumption behaviour cannot be fully excluded. The discussion around climate change may for its part impact the consumer demand for meat products.

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

Unexpected actions taken by pressure groups may impact business and consumer demand. In addition, HKScan's potential involvement in juridical proceedings may pose risks.

HKScan's risks are reported in more detail in the Annual Report.

Webcast for analysts and media

In connection with its Half Year Financial Report for January–June 2020, HKScan will hold a webcast in Finnish for analysts, institutional investors and media representatives on 16 July 2020 at 10 am, Finnish time. You can follow the Finnish webcast at: <https://hkscan.videosync.fi/2020-q2-tulokset>. HKScan's CEO Tero Hemmilä and CFO Jyrki Paappa will present the Half Year Financial Report.

Investor calls in English will be arranged on request. To agree on the date and time, please contact Marjukka Uutela-Hujanen, tel. +358 10 570 6218.

Financial reports

The January–September 2020 Interim Report will be published on 5 November 2020.

Turku, 16 July 2020

HKScan Corporation

Board of Directors

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HKScan's target is to grow into a versatile food company. With over 100 years of experience, we make tasty, healthy and responsibly produced food responding to the needs of consumers and customers. For us at HKScan, responsibility includes the development of food production throughout the value chain, from farms to consumers. Our home markets cover Finland, Sweden, Denmark and the Baltics. Our over 7,000 HKScan professionals ensure tastier life - today and tomorrow. Our diverse product portfolio includes poultry, pork and beef, as well as meat products and meals. Our strong brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose®. In 2019, net sales of the publicly listed HKScan totalled EUR 1.7 billion.

DISTRIBUTION:
Nasdaq Helsinki
Main media
www.hkscan.com

Consolidated Half Year Financial Report 1 January – 30 June 2020

Consolidated income statement

(EUR million)		4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Net sales		440.9	439.4	869.8	841.2	1 744.4
Cost of goods sold	1.	-417.3	-418.9	-826.3	-811.9	-1 668.2
Gross profit		23.6	20.5	43.5	29.3	76.2
Other operating items total	1.	0.4	1.7	3.0	3.7	4.9
Sales and marketing costs	1.	-10.3	-10.0	-21.7	-19.7	-38.5
General administration costs	1.	-13.6	-18.7	-28.6	-34.5	-65.8
Operating profit		0.1	-6.6	-3.8	-21.2	-23.2
Financial income		0.8	0.9	1.2	1.3	2.2
Financial expenses		-3.5	-4.0	-6.9	-7.3	-13.9
Share of profit/loss in associates and joint ventures		0.6	-0.3	1.0	-0.2	0.4
Profit/loss before taxes		-2.0	-10.0	-8.5	-27.3	-34.5
Income tax		-1.2	-0.4	-1.7	0.0	-3.0
Profit/loss for the period		-3.2	-10.4	-10.1	-27.3	-37.5
Profit/loss for the period attributable to:						
Equity holders of the parent		-4.0	-11.0	-11.2	-28.0	-39.9
Non-controlling interests		0.8	0.6	1.1	0.7	2.3
Total		-3.2	-10.4	-10.1	-27.3	-37.5
Earnings per share calculated on profit attributable to equity holders of the parent:						
EPS, undiluted, continuing operations, EUR/share		-0.05	-0.17	-0.12	-0.47	-0.52
EPS, diluted, continuing operations, EUR/share		-0.05	-0.17	-0.12	-0.47	-0.52

Consolidated statement of comprehensive income

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Profit/loss for the period	-3.2	-10.4	-10.1	-27.3	-37.5
OTHER COMPREHENSIVE INCOME (after taxes):					
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translating foreign operations	4.5	-1.3	-0.7	-2.5	-1.6
Cash flow hedging	2.1	-0.4	-3.1	-2.9	-4.2
Items that will not be reclassified to profit or loss					
Actuarial gains or losses	-	-	-	-	-4.2
TOTAL OTHER COMPREHENSIVE INCOME	6.7	-1.7	-3.8	-5.5	-10.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	3.5	-12.1	-14.0	-32.8	-47.5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	2.7	-12.7	-15.1	-33.5	-49.8
Non-controlling interests	0.8	0.6	1.1	0.7	2.3
Total	3.5	-12.1	-14.0	-32.8	-47.5

Consolidated balance sheet

(EUR million)	Note	30 June 2020	30 June 2019	31 Dec. 2019
ASSETS				
Intangible assets	2.	144.7	136.8	136.4
Tangible assets	3.4	452.1	461.9	439.1
Holdings		32.3	32.2	32.5
Deferred tax asset	5.	43.1	43.6	43.4
Other non-current assets		5.5	4.0	3.5
TOTAL NON-CURRENT ASSETS		677.7	678.6	654.9
Inventories	6.	122.5	127.0	115.5
Current receivables		122.9	134.1	127.6
Cash and cash equivalents		22.0	22.2	37.5
TOTAL CURRENT ASSETS		267.3	283.3	280.6
TOTAL ASSETS		945.1	961.8	935.6
EQUITY AND LIABILITIES				
EQUITY		311.2	346.4	325.1
Non-current loans, interest-bearing	4.	253.3	265.3	262.7
Non-current liabilities, non-interest-bearing		63.6	60.4	67.0
TOTAL NON-CURRENT LIABILITIES		316.8	325.7	329.8
Current loans, interest-bearing	4.	83.7	61.6	50.6
Current liabilities, non-interest-bearing		233.3	228.2	230.1
TOTAL CURRENT LIABILITIES		317.0	289.8	280.7
TOTAL EQUITY AND LIABILITIES		945.1	961.8	935.6

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2020	66.8	72.9	1.0	215.4	25.9	10.3	-13.4	-4.8	-66.2	307.9	17.2	325.1
Result for the financial period	-	-	-	-	-	-	-	-	-11.2	-11.2	1.1	-10.1
Other comprehensive income (+) / expense (-)												
Transl. diff.	-	-	-	-	-	-	-0.7	-	-	-0.7	-	-0.7
Cash flow hedging	-	-	-3.1	-	-	-	-	-	-	-3.1	-	-3.1
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total compreh. income for the period	-	-	-3.1	-	-	-	-0.7	-	-11.2	-15.1	1.1	-14.0
Direct recognitions	-	-	-	-	-	-	-	-	0.6	0.6	-	0.6
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.7	-0.7
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	0.1	0.1
EQUITY ON 30 June 2020	66.8	72.9	-2.2	215.4	25.9	10.3	-14.1	-4.8	-76.8	293.5	17.7	311.2

(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	-	-	-	-	-	-	-	-	-28.0	-28.0	0.7	-27.3
Other comprehensive income (+) / expense (-)												
Transl. diff.	-	-	-	-	-	-	-2.5	-	-	-2.5	-	-2.5
Cash flow hedging	-	-	-2.9	-	-	-	-	-	-	-2.9	-	-2.9
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-2.9	-	-	-	-2.5	-	-28.0	-33.5	0.7	-32.8
Direct recognitions	-	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Share issue	-	-	-	71.9	-14.1	-	-	-	-3.5	54.3	-	54.3
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.2	-0.2
EQUITY ON 30 June 2019	66.8	72.9	2.2	215.4	25.9	10.3	-14.4	0.0	-48.7	330.4	15.9	346.4

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)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Cash flow before change in net working capital	17.7	10.0	29.6	16.7	58.3
Change in net working capital	14.7	10.9	-5.2	-11.1	13.2
Financial items and taxes	-4.6	-1.6	-3.9	-3.8	-12.2
CASH FLOW FROM OPERATING ACTIVITIES	27.8	19.4	20.5	1.9	59.2
Cash flow from investing activities	-51.9	-8.4	-63.1	-18.8	-31.6
CASH FLOW AFTER INVESTING ACTIVITIES	-24.1	10.9	-42.7	-17.0	27.6
Hybrid loan	-	-	-	-	-2.1
Share issue	-	43.7	-	43.7	43.7
Share issue costs	-	-2.1	-	-2.1	-3.0
Change in loans	-0.9	-35.9	28.3	-31.6	-52.0
Purchase of own shares	-	-	-	-	-4.7
Dividends paid	-0.7	-0.2	-0.7	-0.2	-0.6
CASH FLOW FROM FINANCING ACTIVITIES	-1.5	5.5	27.6	9.8	-18.8
NET CASH FLOW	-25.6	16.4	-15.1	-7.1	8.9
Cash and cash equivalents at beginning of period	45.7	5.9	37.5	29.4	29.4
Translation differences	1.9	-0.1	-0.5	-0.1	-0.8
Cash and cash equivalents at end of period	22.0	22.2	22.0	22.2	37.5

Financial indicators

(EUR million)	30 June 2020	30 June 2019	31 Dec. 2019
Earnings per share (EPS), undiluted, EUR	-0.12	-0.47	-0.52
Earnings per share (EPS), diluted, EUR	-0.12	-0.47	-0.52
Equity per share, EUR	3.03	3.34	3.18
Equity ratio, %	32.9	36.0	34.8
Adjusted average number of outstanding shares, mill.	97.0	61.5	79.9
Gross capital expenditure on PPE, EUR mill.	60.7	18.8	31.7
Additions in right-of-use assets, EUR mill.	3.0	6.7	11.3
Depreciation, EUR mill.	32.9	38.1	80.4
Employees, end of month average	7,103	7,024	6,928

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 (%)	$\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Balance sheet total – non-interest-bearing liabilities (average)}} \times 100$
Equity ratio (%)	$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$
Net gearing ratio (%)	$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$
Earnings per share (EPS)*	$\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares during period}}$
Equity per share	$\frac{\text{Equity attributable to holders of the parent}}{\text{Number of outstanding shares at end of period}}$
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)*	$\frac{\text{Profit for the period attributable to equity holders of the parent – items affecting comparability}}{\text{Average number of outstanding shares during period}}$
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 half year financial report

Accounting policies

HKScan Corporation's half year financial report for 1 January–30 June 2020 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the half year financial report as in the annual financial statements for 2019. Due to the rounding of the figures to the nearest million euros in the half year financial report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2019. The half year financial report is unaudited.

Analysis by segment

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
NET SALES					
- Finland					
Sales, goods	190.7	194.3	371.9	367.4	767.4
Sales, services	0.9	0.8	1.6	1.5	3.1
- Sweden					
Sales, goods	162.0	163.0	315.4	317.2	652.1
Sales, services	0.0	0.0	0.0	0.0	0.0
- Baltics					
Sales, goods	44.4	43.2	87.7	81.4	168.0
Sales, services	0.1	0.2	0.1	0.2	0.5
- Denmark					
Sales, goods	42.7	38.0	93.1	73.4	153.3
Sales, services	0.0	0.0	0.0	0.0	0.0
Group total	440.9	439.4	869.8	841.2	1 744.4
EBIT					
- Finland	-2.2	-3.7	-5.7	-6.7	-10.3
- Sweden	4.2	1.5	5.7	0.5	7.1
- Baltics	0.6	2.5	1.6	1.7	5.0
- Denmark	0.1	-1.6	0.8	-8.7	-9.8
Segments total	2.8	-1.3	2.3	-13.1	-8.0
Group administration costs	-2.7	-5.2	-6.2	-8.1	-15.2
Group total	0.1	-6.6	-3.8	-21.2	-23.2
INVESTMENTS					
- Finland					
Gross capital expenditure on PPE	44.4	2.9	46.6	4.9	9.7
Additions in right-of-use assets	0.5	4.2	1.0	4.8	8.6
Investments total	44.9	7.0	47.6	9.7	18.2
- Sweden					
Gross capital expenditure on PPE	5.0	1.5	7.6	5.4	8.4
Additions in right-of-use assets	0.3	1.1	0.9	1.4	1.9
Investments total	5.3	2.5	8.5	6.8	10.4

- Baltics					
Gross capital expenditure on PPE	1.7	3.5	2.8	7.8	11.6
Additions in right-of-use assets	0.3	0.1	0.4	0.1	0.3
Investments total	2.0	3.5	3.1	7.9	11.9
- Denmark					
Gross capital expenditure on PPE	1.6	0.3	3.6	0.7	2.0
Additions in right-of-use assets	0.4	0.4	0.7	0.4	0.6
Investments total	2.0	0.7	4.4	1.1	2.6
Total	54.2	13.8	63.6	25.5	43.0
AVERAGE NUMBER OF EMPLOYEES					
- Finland			2 886	2 841	2 774
- Sweden			2 077	2 038	2 013
- Baltics			1 499	1 540	1 512
- Denmark			641	606	628
Total			7 103	7 024	6 928

Notes to the income statement

1. Items affecting comparability

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Comparable EBIT	0.6	-2.5	-3.4	-12.5	-2.2
Termination of employment, Sweden 1)	-	-1.0	-	-1.0	-1.5
Impairment of assets, Finland 2) 3)	-	-	-	-	-7.3
Termination of employment, Group Management 1)	-	-1.5	-	-1.5	-1.6
Termination of employment, Sweden 2)	-	-0.4	-	-0.4	-0.4
Termination of employment, Finland 1)	-	-0.8	-	-0.8	-0.8
Termination of employment, Finland 2)	-	-0.2	-	-0.2	-0.4
Termination of employment, Baltics 1)	-	0.0	-	-0.1	-0.1
Termination of employment, Baltics 2)	-	0.0	-	0.0	-0.0
Impairment of assets, Baltics 4)	-0.3	-	-0.3	-	-
Impairment of assets, Denmark 2) 3)	-	-	-	-4.5	-4.5
Impairment of assets, Group Management 1) 3)	-	-	-	-	-1.3
Impairment of associated company balances, Sweden 1) 2) 4)	-0.1	-	-0.1	-	-2.9
EBIT	0.1	-6.6	-3.8	-21.2	-23.2

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	30 June 2020	30 June 2019	31 Dec. 2019
Opening balance	136.4	137.5	137.5
Translation differences	-0.4	-2.5	-1.6
Additions	4.7	0.5	0.7
Depreciation and impairment	-2.1	-1.5	-3.1
Reclassification between items	6.1	2.8	2.8
Closing balance	144.7	136.8	136.4

3. Changes in tangible assets

(EUR million)	30 June 2020	30 June 2019	31 Dec. 2019
Opening balance	439.1	478.5	478.5
Translation differences	-0.6	-1.8	-1.2
Additions	58.9	25.1	42.3
Disposals	-8.5	-0.4	-0.3
Depreciation and impairment	-30.8	-36.6	-77.3
Reclassification between items	-6.0	-2.8	-2.8
Closing balance	452.1	461.9	439.1

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 1.1.2020	10.0	18.7	15.7	44.3	46.3
Translation differences	-	0.0	0.0	0.0	0.0
Additions	0.3	0.5	2.1	3.0	3.0
Disposals	-7.7	-0.4	0.0	-8.1	-7.9
Depreciation for the financial period	-0.4	-2.3	-2.5	-5.1	-
Reclassification between items	-	-	-	-	-
Payments	-	-	-	-	-5.2
Closing balance on 30 June 2020	2.2	16.5	15.4	34.1	36.1

(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	-0.3	-0.3
Additions	4.1	1.1	1.5	6.7	6.7
Depreciation for the financial period	-0.6	-2.1	-2.7	-5.4	-
Reclassification between items	-	-	-1.8	-1.8	-
Payments	-	-	-	-	-5.8
Closing balance on 30 June 2019	10.0	18.4	16.9	45.3	47.3

(EUR million)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	2019
Depreciation expense of right-of-use assets	-2.5	-2.7	-5.1	-5.4	-11.4
Interest expense on lease liabilities	-0.3	-0.4	-0.6	-0.7	-1.4
Total amounts recognised in profit or loss	-2.8	-3.1	-5.7	-6.1	-12.8

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 takes 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.

Unrecognized Finnish deferred tax asset at the end of June 2020 was EUR 14.2 million.

6. Inventories

(EUR million)	30 June 2020	30 June 2019	31 Dec. 2019
Materials and supplies	67.7	75.9	59.3
Semi-finished products	4.6	5.6	4.7
Finished products	42.4	37.7	41.8
Other inventories	0.5	0.2	0.2
Inventories, advance payments	1.4	0.9	1.9
Biological assets	6.1	6.8	7.5
Total inventories	122.5	127.0	115.5

Derivative instrument liabilities

(EUR million)	30 June 2020	30 June 2019	31 Dec. 2019
Nominal values of derivative instruments			
Foreign exchange derivatives	62.2	45.6	56.7
Interest rate derivatives	98.3	118.1	98.5
Electricity derivatives	14.3	11.0	12.9
Fair values of derivative instruments			
Foreign exchange derivatives	-0.1	0.1	-0.4
Interest rate derivatives	-4.8	-7.8	-5.8
Electricity derivatives	-3.1	2.0	0.5

Consolidated other contingent liabilities

(EUR million)	30 June 2020	30 June 2019	31 Dec. 2019
Debts secured by pledges or mortgages			
- loans from financial institutions	74.3	-	-
On own behalf			
- Mortgages given	37.7	-	-
On behalf of others			
- guarantees and other commitments	7.3	11.0	7.8
Other contingencies			
Leasing and rental commitments	0.5	1.0	0.7

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

Derivatives

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

(EUR million)	30 June 2020	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives		-		-
- Commodity derivatives	0.1	-	0.1	-
of which subject to cash flow hedging	0.1	-	0.1	-
Total	0.1	-	0.1	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-4.8	-	-4.8	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-3.3	-	-3.3	-
of which subject to cash flow hedging	-3.3	-	-3.3	-
Total	-8.2	-	-8.2	-
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0,2	-	0,2	-
- Commodity derivatives	2,1	-	2,1	-
of which subject to cash flow hedging	2,1	-	2,1	-
Total	2,3	-	2,3	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-7,8	-	-7,8	-
- Foreign exchange derivatives	-0,1	-	-0,1	-
- Commodity derivatives	-0,1	-	-0,1	-
of which subject to cash flow hedging	-0,1	-	-0,1	-
Total	-8,0	-	-8,0	-

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

Business transactions with related parties

(EUR million)	1-6/2020	1-6/2019	2019
Sales to associates	5.4	9.5	17.7
Purchases from associates	17.0	18.4	35.5
Trade and other receivables from associates	1.0	2.7	1.6
Trade and other payables to associates	3.0	2.9	3.0