HKSCAN

Financial Statements Bulletin 2021

HKScan's Financial Statements Bulletin 1 January – 31 December 2021

HKScan's 2021 performance twofold, with continued profit improvement in Finland and Sweden

October-December 2021

- HKScan's net sales increased by 4.0 per cent to EUR 491.6 (472.9) million. Food service sales clearly increased as Covid-19 restrictions were removed. Sales clearly increased in product categories with higher added value, such as meals and meal components.
- The Group EBIT totalled EUR 7.6 (17.5) million.
- The Group comparable EBIT totalled EUR 7.3 (12.1) million.
- In Finland, comparable EBIT totalled EUR 5.2 (10.4) million. It was clearly weakened by the rapid and significant increase in energy and other commodity prices. It was not possible to pass on cost increases to sales prices in the middle of the contract period.
- Sweden continued to improve its comparable EBIT to EUR 8.7 (7.2) million.
- In the Baltics, comparable EBIT was EUR -4.5 (0.3) million. It was clearly weakened by price pressure due to the overproduction of pork in Europe and significant increases in feed and energy prices.
- In Denmark, comparable EBIT strengthened to EUR 1.0 (-0.7) million. The strategic shift to more profitable product categories progressed as planned and supported sales increase.
- Exceptionally high price increases in energy and other production inputs drove up costs in all HKScan's home markets.
- Cash flow from operating activities was EUR 42.1 (40.5) million.

January-December 2021

- HKScan's net sales totalled EUR 1,815.3 (1,781.0) million. In comparable exchange rates, net sales remained at the comparison year level. Sales clearly increased in the strategically important products with higher added value, such as meals and meal components. Growth also continued in retail sales of own branded products. Food service sales increased as pandemic restrictions were gradually removed.
- The Group EBIT totalled EUR 17.9 (21.3) million.
- The Group comparable EBIT was EUR 14.5 (17.0) million.
- In Finland, comparable EBIT improved by EUR 2.5 million to EUR 8.5 (6.0) million.
- In Sweden, comparable EBIT improved by EUR 3.9 million to EUR 22.9 (19.0) million.
- In the Baltics, a significant rise in feed and energy prices and price pressure from oversupply of pork in Europe accounted for the largest negative deviation of the profit development of the entire Group. In the Baltics, comparable EBIT was EUR -5.1 (4.0) million.
- In Denmark, a strategic shift in sales focus to poultry products with higher added value clearly reduced the negative impact of avian flu on EBIT. In Denmark, comparable EBIT was EUR 0.0 (1.1) million.
- Cash flow from operating activities was EUR 54.6 (63.7) million. The change was due to a weaker profit than in the comparison year and volatility in working capital.
- Interest-bearing net debt was EUR 314.5 (299.6) million and net gearing 95.2 (91.0) per cent.
- The Board of Directors proposes to the Annual General Meeting that the company pays a dividend of EUR 0.04 per share for 2021.

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

Outlook for 2022

HKScan estimates that the Group's comparable EBIT in 2022 will improve compared to 2021. Early 2022 comparable EBIT is expected to be weaker than the comparison period due to inflation, which strongly affects the company's profit development, and significant imbalances in the international meat and grain market. The full-year profit development will be significantly affected by the development of the international meat and grain market.

Key figures, net sales

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Net sales	491.6	472.9	1 815.3	1 781.0
Finland	209.7	208.9	772.3	772.4
Sweden	196.7	184.6	700.4	662.1
Baltics	44.1	43.0	170.0	175.0
Denmark	41.0	36.4	172.7	171.5

Key figures, EBIT

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
EBIT	7.6	17.5	17.9	21.3
- % of net sales	1.5	3.7	1.0	1.2
Comparable EBIT	7.3	12.1	14.5	17.0
- % of net sales	1.5	2.6	0.8	1.0
Comparable EBIT, Finland	5.2	10.4	8.5	6.0
- % of net sales	2.5	5.0	1.1	0.8
Comparable EBIT, Sweden	8.7	7.2	22.9	19.0
- % of net sales	4.4	3.9	3.3	2.9
Comparable EBIT, Baltics	-4.5	0.3	-5.1	4.0
- % of net sales	-10.1	0.6	-3.0	2.3
Comparable EBIT, Denmark	1.0	-0.7	0.0	1.1
- % of net sales	2.4	-1.8	0.0	0.6

Key figures, other

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
EBITDA	23.6	25.0	78.1	78.1
Profit before taxes	5.1	15.2	6.6	12.3
- % of net sales	1.0	3.2	0.4	0.7
Profit for the period	0.8	11.2	-1.2	4.8
- % of net sales	0.2	2.4	-0.1	0.3
EPS, EUR	-0.01	0.09	-0.06	-0.01
Comparable EPS, EUR	-0.01	0.04	-0.10	-0.05
Cash flow from operating activities	42.1	40.5	54.6	63.7
Cash flow after investing activities	21.2	26.5	81.2*	-21.4*
Return on capital employed (ROCE) before taxes, %			3.6	3.9
Interest-bearing net debt			314.5	299.6
Net gearing, %			95.2	91.0

* 1-12/2020 includes the investment to the plot of the Vantaa unit EUR 37.7 million.
1-12/2021 includes the sale of Vantaa property (land and buildings) with EUR 76.1 million.

HKScan's CEO Tero Hemmilä

HKScan's three-year Turnaround programme was completed at the end of 2021. During the Turnaround, we improved the company's comparable EBIT cumulatively by some EUR 61 million. I see our profit improvement as a good achievement, taking into account the very exceptional and unexpected changes in our operating environment.

It is clear that our profit improvement is not yet sufficient. As communicated earlier, the Turnaround will be followed by a phase of further strengthening of the company's financial base before the comprehensive implementation of the strategy. Therefore, in 2022, our focus will remain firmly on improving the competitiveness and profitability of our core business. The highly exceptional operating environment will continue to challenge us also in 2022, with high prices in feed, energy and other production inputs. This requires us to take decisive action on sales pricing and other commercial measures to increase net sales and strengthen profitability. Equally important for strengthening profitability is a significant improvement in cost efficiency and productivity in our industrial operations.

Net sales stable, performance twofold in 2021

In 2021, HKScan's net sales were stable, but increased by four per cent in the last quarter of the year. Food service sales recovered clearly. Food service sales for the full year were up by more than six percent and for the last quarter by almost 10 percent from the comparison period. In 2021, we did well in retail with our own branded products. Our sales strengthened especially in processed meat products, meal components and meals, which has decreased our need for more cyclical and less profitable exports.

The Group's 2021 comparable EBIT was below the comparison year in a very exceptional market environment. Covid-19 pandemic, strong cost inflation, avian flu, low market prices caused by pork overproduction in Europe and record-high feed and energy prices generated significant instability in the business. HKScan's main market areas Sweden and Finland improved their EBIT while EBIT in Denmark and the Baltics weakened. In 2021, HKScan's EBIT was EUR 17.9 million and EUR 21.3 million in the comparison year. Comparable EBIT was EUR 14.5 million and EUR 17.0 million in the comparison year.

The full-year profit development was twofold and the reasons for this are clear. HKScan's key home markets Finland and Sweden continued their profit improvement. I am particularly pleased with the good development of our Swedish business. Sweden has been able to improve its comparable EBIT for 15 consecutive quarters in relation to comparison periods. In Finland, the comparable EBIT weakened, but retail sales for meals and meal components showed good development. Although the profit development in Denmark was down on the comparison period, I am satisfied with the comparable EBIT achieved, taking the market environment into account, and in particular with the last quarter of the year. In the Baltics, the full-year profit development was weak and accounted for the majority of the Group's profit deviation against our target. Exceptionally low pork prices and historically high grain prices significantly undermined the performance of our Baltic business in an operating model based on extensive vertical integration.

The good profit development in Finland and Sweden was driven by an increase in the added value of products and growth in sales of branded products. This development is also in line with our strategy of creating added value. We have been able to build differentiating added value with our Scan brand and by developing our product portfolio. The good development in Sweden has also been supported by a clear increase in the productivity of our production processes. In Finland, the poultry business continued to improve its results, although moderately. The Rauma production unit's operational development progressed as planned, but commercial success in poultry products left room for improvement. Strong sales growth was seen in our partner and associate company Mäkitalon Maistuvat's ready-to-eat salads.

In Denmark, the avian flu situation affecting the whole industry and resulting restrictions on exports outside the EU had a clear negative impact on our EBIT. Our strategy to strengthen our position with Danish fresh and ready-to-eat poultry products both in Denmark and Sweden has progressed well, which has contributed to strengthening our EBIT in Denmark and reducing our dependence on frozen exports outside the EU.

In the Baltics, the exceptional market situation continues to challenge our long local value chain. The overproduction of pork in Europe has strongly decreased market prices, also lowering the value of biological assets tied up in our business. At the same time, the rapid and significant rise in feed and energy prices has been very exceptional. The meat and grain market will recover once the supply and demand balance stabilises, which will also strengthen our Baltic profit.

On a journey into a versatile food company

HKScan needs a stronger balance sheet to implement a more comprehensive food company transformation as we build new food businesses alongside our existing core businesses. Strengthening the company's EBIT plays a key role in this. In addition, we are constantly assessing the role of our existing businesses as part of the Group and its strategy. These are key elements in enabling a clearer and more impactful food company transformation.

In Sweden, we signed a cooperation agreement in November 2021 with Scandinavian Aquasystems Ab, the owner of the Gårdsfisk farming concept. The aim of the partnership is to scale up fish farming based on more environmentally friendly recirculating water system on farms and to participate in the growing market for fish proteins. HKScan collaborates as both commercial and production partner in Sweden.

In Sweden, we launched cooperation in ready-to-eat meals with Maten é klar meal concept. Our highly valued, strong Scan brand is also taking new steps and will expand into new product categories, such as plant-based products, early this year.

In Finland, we have a strong position in processed meat products, meal components and poultry products. We aim to grow further in poultry products, meals and snacks. Together with our strong offering and subsidiaries – Kivikylän, Tamminen and Boltsi – our strategic target is to be increasingly consumer-engaging and a more appealing retail partner. Cooperation with our associate company, Mäkitalon Maistuvat ready-to-eat salads, will strengthen.

At the end of 2021, restaurant-level fresh meals were launched for retail service counters in Finland with the Vietävä concept. The investment in the production of snack products decided last summer is progressing as planned and new products will be available in the autumn 2022. The investment will enable our growth in the profitable snack market in Finland.

We will continue to implement our strategy to strengthen our market position in Denmark and Sweden with fresh and ready-to-eat poultry products as well as processed products.

In the Baltics, our business capability has not weakened, even though we have not been able to secure our results and adapt in a very exceptional market situation. The profitability of our Baltic poultry business and processed meat products is at a better level than in other product categories and our market position is strong, especially in poultry.

We determinedly continue the implementation of our Zero Carbon programme with the target of a carbon-neutral food chain by the end of 2040. In addition to developing our own production, we are focusing on the climate issues in primary production. We will continue to scale up good practices to reduce emissions and increase carbon sinks together with contract farmers and partners.

Challenges in the value chain of meat business continuing

The value chain of HKScan’s meat business is facing fundamental questions. The weak financial situation of meat farms is a result of the surplus in the European pork market, the sharp rise in feed and other production input prices and scarce grain harvests on farms. Increased prices for feeds and other production inputs, both on farms and in HKScan’s own operations, has widely increased costs.

We have already increased producer prices to secure the profitability of meat production and availability of meat raw material. Prices will continue to rise in the markets where the profitability of farms is particularly weak. Clear pressure for higher consumer prices for meat products will continue.

Our focus is firmly on 2022. This year, we will develop HKScan’s business comprehensively and focus on improving profitability. Our strategic target is to grow into a versatile food company creating strong shareholder value.

Strategy

HKScan's three-year Turnaround programme ended at the end of 2021. During the programme, the company has risen from a deep financial crisis to a position where its financial base is significantly more stable. The Group's comparable EBIT improved cumulatively by some EUR 61 million during the Turnaround. However, the profit improvement achieved is not sufficient and Turnaround will therefore be followed by a phase in which the company's financial base will be further strengthened by focusing on improving the profitability of the core businesses before a more comprehensive implementation of the strategy.

In line with its strategy, HKScan is growing into a versatile food company. Implementing the strategy requires both new expertise and financial flexibility. It is therefore essential for the company to broaden the competences and continue to systematically develop its activities. Strong customer relationships and commercial renewal, as well as improved productivity and cost efficiency in the core business based on pork and beef products, processed meat products, meal components, meals and poultry products, will create the financial and operational basis for business expansion and diversification. It is also crucial to strengthen the consumer engagement through our well-known brands. Strengthening the consumer-oriented approach is central as understanding and responding to changes in consumer behaviour and customer interface are at the core of the company's strategy.

At the same time, HKScan is looking for new growth and actively pursuing new business opportunities within its financial resources, in line with the company's strategic target to grow into a versatile food company. On its transformation journey, the company wants to maintain its current strengths. New growth and profitability will be built systematically taking localness into account. The partnership strategy plays a significant role in this. Through partnerships, HKScan expands quickly and flexibly to new business areas. The aim is to scale up new businesses by taking advantage of the company's broad commercial and production platform. Examples of long-standing partnerships include Kivikylän and Tamminen and more recently Hes-Pro, Boltsi and Mäkitalon Maistuvat in Finland, and Gårdsfisk and Maten é klar in Sweden.

To achieve a significant food company transformation, HKScan will need a stronger balance sheet as it builds new food businesses and ways to face market changes alongside its current business strongly based on poultry, pork and beef products. To increase financial flexibility, the position of each business within the Group is continuously assessed. The completed Turnaround period will be followed by a phase in which the company's balance sheet will be actively strengthened through various means to enable a more effective food company transformation.

Advanced corporate responsibility work is as an increasingly solid basis for HKScan's business. It is the new normal in the operating environment, and its role in leading the profit and balance sheet is increasingly important. Ability to operate within the carrying capacity of the environment and nature and to build a strong social foundation for the company's operations, enables HKScan to perform well and create responsible prosperity in its home markets. HKScan continues its goal-oriented climate work through the Zero Carbon programme aiming at a carbon-neutral food chain by the end of 2040. In addition to its own production, the company will focus on climate issues in primary production and scalable ways to reduce emissions and increase carbon sinks together with the contract farmers and partners.

The key drivers of value creation in HKScan's business are growth in the core business by increasing the added value of products and strengthening the value creation capabilities of the company's own brands. In addition, the aim is to grow in meals, snacks, new food businesses and by taking advantage of new raw material bases. Strengthening in growing and in new sales channels is central. Food service channel has long been growing and evolving, which is further reinforced by the Covid-19 pandemic. This offers HKScan interesting opportunities to build new business models. Increasing productivity in all business processes is an important driver of value creation. Building responsibility as a value-creating basis for business plays a key role in creating differentiating value in the market.

Key events in 2021

HKScan started cooperation with Gårdsfisk in Sweden

HKScan and Scandinavian Aquasystems AB signed a cooperation agreement for the sale of fish products under the Gårdsfisk brand and the production of meal components made from fish in Sweden. At the same time, HKScan became a minority shareholder with a stake of slightly more than 10 per cent. Sales of Gårdsfisk fish products transferred to HKScan's Swedish organisation at the beginning of 2022.

The Gårdsfisk brand produces fish responsibly, in close cooperation with Swedish farms. HKScan's own network of contract farmers in Sweden provides a good basis for scaling up the concept.

HKScan invested in the restaurant-level fresh meals in Finland

In the autumn 2021, a modern restaurant-level kitchen was completed in HKScan's Vantaa unit where chefs prepare premium-level fresh meals. Sales of fresh meals under the Vietävä concept, developed by chef Kape Aihinen, will reach full speed in Finland in early 2022.

New logistics centre in the Baltics started operations

The first orders from HKScan's new logistics centre near Tallinn, Estonia, were delivered to customers in September 2021. Serving the entire Baltic market, the logistics centre enables faster and more flexible customer service.

Denmark raising added value in line with the strategy

In Denmark, HKScan's strong focus on adding value in poultry products resulted in a clear retail sales increase in 2021. HKScan has successfully shifted sales from low-margin frozen export products to fresh and ready-to-eat poultry products. A strategic shift in sales focus towards products with higher added value has partly reduced the negative effects of avian flu on Danish unit's business profitability.

HKScan acquired a minority share in Mäkitalon Maistuvat Oy and strengthened in plant-based meals

In June 2021, HKScan acquired 24.9 per cent of Mäkitalon Maistuvat Oy. The collaboration between HKScan and Mäkitalon Maistuvat started in April 2021 with a sales and distribution partnership. Sales of ready-to-eat salads sold under the Mäkitalon Farmi brand have grown rapidly.

HKScan invested in snacks in Finland

In the summer 2021, HKScan decided to invest in new manufacturing technology that will enable strengthening in the growing snack product category. The snack product line will be built in the HKScan's Eura production unit. New snacks will be available in Finland in the autumn 2022.

HKScan implemented a significant investment to improve the Rauma poultry unit's productivity

HKScan's investment of some EUR 6 million in Rauma poultry unit's new slaughter process was completed in March 2021. The investment enables the unit to significantly improve its raw material yield, productivity and operational reliability, and will create a good basis for further development of the entire production process. HKScan's investment responds to the strong growth in demand for Kariniemen poultry products.

HKScan expanded its financing base

HKScan issued a new senior unsecured bond of EUR 90 million in March 2021. The four-year bond will mature on 24 March 2025. The company used the proceeds from the bond offering for the partial repurchase of fixed-rate unsecured senior notes due on 21 September 2022. In connection with the Vantaa real estate transaction, HKScan repaid in full the EUR 74.3 million bank loan maturing in 2022.

HKScan sold the land and buildings of its Vantaa property

In February, HKScan sold the land and buildings of its Vantaa property to a real estate investor, Sagax Finland Asset Management Oy. The transaction price was EUR 76.1 million. With the lease signed in connection with the transaction, HKScan can continue and develop its business on a long-term basis in Vantaa for the following 20 years. The agreement also includes an option for additional years.

Group net sales and EBIT

October-December

Net sales

HKScan's net sales increased by 4.0 per cent for a total of EUR 491.6 (472.9) million. The impact of the exchange rate change of the Swedish krona on net sales was EUR 2.5 million positive.

Net sales increased as a result of higher food service sales following the gradual removal of restaurant restrictions in all home markets and growth in sales of higher value-added products. Clear sales growth continued in meals and meal components sold under the company's own brands.

EBIT

HKScan's EBIT was EUR 7.6 (17.5) million. Comparable EBIT was EUR 7.3 (12.1) million. The effect of the exchange rate change of the Swedish krona on EBIT was EUR 0.1 million positive.

In Finland, comparable EBIT weakened by EUR 5.2 million. The main reason for the decline was the rapid and significant increase in energy and other commodity prices, that was not possible to pass on to sales prices in the middle of the retail sales period. In the Baltics, comparable EBIT weakened by EUR 4.8 million; the price pressure from imports and the domestic market continued, while rising costs in primary production significantly weakened EBIT. Denmark's comparable EBIT improved by EUR 1.7 million. In Denmark, strategic progress in both volume growth and increased added value improved EBIT. In Sweden, comparable EBIT improved by EUR 1.5 million.

Items affecting comparability of EUR +0.3 million were recorded in the review period. The comparison period EBIT included items affecting comparability of EUR +5.4 million. Items affecting comparability are described in more detail in the Tables section of this report.

January-December

Net sales

HKScan's net sales totalled EUR 1,815.3 (1,781.0) million. The effect of the exchange rate change of the Swedish krona on net sales was EUR 22.1 million positive.

Net sales increased as a result of sales growth in retail and, in particular, sales of the company's own branded products in higher value-added product categories. Food service sales increased from the comparison year.

In Finland, stronger sales, especially in higher value-added product categories, reduced the need for more cyclical and less profitable exports. Sweden has been able to create added value for locally produced meat. In the Baltics, net sales were lower due to pressure on sales prices caused by cheaper meat raw material imported from abroad and lower sales volumes of pork products in relation to the comparison year. Sales of meal components and poultry, on the other hand, progressed as planned. In Denmark, strategy implementation progressed well, but avian flu cases had a clear negative impact on exports outside the EU.

EBIT

The Group EBIT totalled EUR 17.9 (21.3) million. Comparable EBIT was EUR 14.5 (17.0) million. The effect of the exchange rate change of the Swedish krona on EBIT was EUR 0.7 million positive.

In the Baltics, EBIT weakened significantly. Overproduction of pork in Europe put strong downward pressure on market prices, while rapid and significant increases in feed and energy prices increased costs. In Denmark, export restrictions due to avian flu cases had a significant negative impact on EBIT, offset by strategic progress in other business areas. Exceptionally high and rapid increases in energy and other commodity prices weakened EBIT in all the home markets. Recovery in food service sales improved EBIT.

Items affecting comparability of EUR +3.3 million were recorded in the review period. The comparison period EBIT included items affecting comparability of EUR +4.4 million. Items affecting comparability are described in more detail in the Tables section of this report.

Balance sheet, cash flow and financing

At the end of the year, HKScan's balance sheet total was EUR 985.6 (975.9) million. The Group's interest-bearing debt at the end of the year was EUR 341.9 (346.4) million including IFRS 16 lease liability EUR 113.4 (35.6) million. The increase in lease liability was due to the lease liabilities generated by the rental of the property in Vantaa as agreed on in connection with the sale of the property, the extension of the logistics centre lease in Sweden and the Baltics new logistics centre which was taken into use. Net debt increased by EUR 14.9 million and totalled EUR 314.5 (299.6) million.

HKScan issued a new senior unsecured bond of EUR 90 million in March 2021. The four-year bond will mature on 24 March 2025. It carries a fixed annual interest at the rate of 5.0 per cent and has an issue price of 100.0 per cent. The company used the proceeds from the bond offering for the partial repurchase of fixed-rate unsecured senior notes due on 21 September 2022. After the repurchase, the remaining amount of notes total EUR 39.5 million.

In April, HKScan entered into a new revolving credit facility agreement of EUR 100.0 million with its financing banks, which will mature in 2024. It replaced the previous revolving credit facility agreement maturing in 2022. HKScan linked the new credit agreement with its responsibility targets, on which the company's comprehensive corporate responsibility work provided a strong basis.

HKScan's net gearing ratio was 95.2 (91.0) percent at the end of the year. The impact of the IFRS 16 lease liability on the net gearing ratio was 34.3 percentage points.

At the end of the year, the company had, in its balance sheet, a hybrid bond that was issued in 2018 and amounted to EUR 25.9 million. The coupon interest of the hybrid bond is fixed at 8 percent 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. In September, an interest of EUR 2.1 million was paid for the hybrid loan, treated as equity, from the retained earnings.

The Group's liquidity remained good. Committed credit facilities on 31 December 2021 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 75.5 (72.0) million.

Net financial expenses were EUR -3.2 (-2.7) million in October-December and EUR -14.7 (-11.0) million in January-December. The net financial expenses were higher than during the comparison period as a result of non-recurring costs related to financing arrangements.

Cash flow from operating activities was EUR 42.1 (40.5) million in October-December and EUR 54.6 (63.7) million in January-December. Cash flow after investments was EUR 21.2 (26.5) million in October-December and EUR 81.2 (-21.4) million in January-December. Cash flow from investments includes the positive effect of EUR 76.1 million from the sale of the Vantaa property.

Pending processes with the authorities

The Danish tax authorities have conducted an audit of energy taxes covering the period 2011–2020 in HKScan Denmark A/S, which is a subsidiary of the Group. At the end of 2020, the Danish tax authorities issued their decision, according to which the company has been obliged to repay past refunds of energy taxes amounting to 24.7 million Danish krone (ca. EUR 3.3 million) in the pending matter. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S has submitted an appeal concerning the decision.

HKScan recorded the expense in the last quarter of 2020 and paid the amount to the authorities in the first quarter of 2021.

Investments

HKScan's investments totalled EUR 18.6 (14.6) million in October-December and in January-December, EUR 48.2 (83.5) million. The comparison year includes an investment to the plot of the Vantaa unit EUR 37.7 million. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 2.4 (3.4) million in October-December and EUR 89.2 (7.2) million in January-December. These include the lease agreement for the Vantaa production unit, the extended lease agreement for the logistics centre in Sweden and the new logistics centre in the Baltics.

HKScan's investments support the company's strategic targets. The investments to be made relate to the company's transformation into a versatile food company with new products and product concepts, improving profitability by developing operational excellence through automation and technology investments and other investments improving resource efficiency. The company also carries out investments that ensure long-term continuity of operations and maintenance investments to maintain the service level of existing production units in the domestic and export markets.

Key strategic investments in 2021

Poultry

The investment in the new slaughter process of Rauma poultry unit was taken into use at the end of March. With the investment, the unit significantly improved its raw material yield, productivity and operational reliability. In addition, the investment created a good basis for further development of the entire production process and significantly reduced the use of utilities such as water and district heating.

In Denmark, the strategic shift from frozen poultry products to fresh and ready-to-eat products continued. Vinderup production unit invested in new technology that enables ready-to-eat poultry products responding to consumer needs and improves raw material yield and productivity.

Pork and beef

In Sweden, inter-unit arrangements continued in pork and beef production and investments were made to improve efficiency. The production of barbeque products was transferred from the Skara unit to Kristianstad. The investment reduced raw material waste and decreased the transport of pork, the main raw material for barbeque products, between the production units. A new cutting and packaging line for consumer packed meat was introduced in Linköping.

Processed meat products and meal components

In Sweden, an investment was made in a new packaging line for the iconic Scan Falukorv sausage, which enabled the shift to a more environmentally friendly paper-based packaging material. Automation changes in the production of grilled sausages were implemented during the first half of the year and an efficient line was in operation for the 2021 barbeque season.

In Finland, HKScan's subsidiary Kivikylän Kotipalvaamo took a new meatball production line into use in the summer. The investment made the production of meatballs more efficient and responded to growing demand.

HKScan's production unit in Poland specialises in bacon. In June, to respond to the growing demand for bacon products in all its home markets, HKScan took a new slicing and packaging line into use in Poland to increase the production unit capacity and improve productivity. In December, a new investment in additional capacity was approved to meet increased demand from export markets.

Exports of dumplings and traditional Asian dim sum products made in Latvia to Central Europe grew strongly. HKScan has invested in dumpling manufacturing capacity at its Jelgava production unit in 2020 and 2021.

Meals

In the autumn, a modern restaurant-level kitchen was completed in HKScan's Vantaa unit where chefs prepare premium-level fresh meals. Sales of the Vietävä fresh meals concept, developed by chef Kape Aihinen, will be in full speed in early 2022. New high-quality, delicious fresh meals will be sold at retail service counters and as packaged products.

The former poultry unit in Eura is becoming increasingly important as HKScan invests in growth in consumers' changing food moments. Fresh ready-to-eat salads from Mäkitalon Maistuvat Oy in the Eura unit have established their place in the Finnish food moments. In the summer, HKScan invested in the Eura unit's new packaging line to meet highly developed sales and the production of new types of products. In June, HKScan acquired a share of 24.9 per cent in Mäkitalon Maistuvat Oy.

In July, HKScan announced to invest in a snack product line in Eura. The investment will bring the company a whole new technology for the production of snack products. The new production line is scheduled to start in the summer 2022.

Supply chain

A new logistics centre was taken into use in August and the first orders were delivered to customers in September. The new logistic centre is located in Estonia, near Tallinn. The logistics centre serving the entire Baltic market area provides customers with faster and more flexible service. HKScan centralises the operations of its assembly centres in Rakvere and Riga in the new logistics centre. HKScan has a long-term lease agreement with Astlanda Ehitus, the company that built the logistics centre.

The new logistics centre is a model example of how environmental issues are taken into account in investments. Solar panels installed on the roof of the centre will reduce energy emissions by some 30 per cent. Carbon dioxide emissions will also be significantly reduced, as transport will be cut by about 400,000 kilometres per year with the optimised location.

Operating environment

Changes in key sales channels and product categories

The nearly two-year-long Covid-19 pandemic is continuing to have an impact on business in all HKScan's home markets. Changes can be seen in the company's key sales channels and sales development in different product categories.

Due to the pandemic and resulting restaurant, assembly and travel restrictions, consumers had shifted focus nearly entirely to home cooking during the first half of 2021, which meant that food sales were strongly centralised to retail trade, as was the case in the previous year. At the same time, demand in the food service channel remained notably low. During the third quarter of 2021, demand in the food service market began to recover and this positive development continued strongly throughout the last quarter. HKScan's food service sales developed clearly better than the market in general during the last quarter.

Despite the exceptionally high comparison figures for retail trade in 2020, HKScan's share of the development in retail sales was good during 2021. On the whole, HKScan's own sales developed more strongly than the market in general.

Due to travel and assembly restrictions, the purchase power of consumers strengthened in retail trade, which was reflected in their purchasing behaviour. Growth in the trends of consumer awareness concerning quality, responsibility and an appreciation for domestic origin increased the demand for domestic branded products and was also reflected in consumers' shift to higher quality, more convenient and ready-to-eat products.

During the past year, there was a shift in retail trade between different product categories. Over the first half of the year, the demand for familiar basic raw materials, such as minced meat and poultry meat, as well as traditional processed meat products, such as sausages, increased strongly. As the pandemic continues, consumers have been more interested in trying new food solutions that seek to make dining faster, easier, more diverse and healthier. In the latter half of the year, ready meals, meal components and restaurant-quality ready meals increased their share of retail sales even further. The range of choices at retail service counters diversified, and completely new service counter concepts were introduced to the retail.

Consumers' approach to meals has already long been changing, but the exceptional conditions of the past year have further accelerated this development. It is becoming less common to eat main meals during the day and warm meals are being replaced by snacks. On-the-go eating has increased and food options must be available wherever people are going.

Shopping for holidays is characterised by the higher quality of products. Quality appears to be replacing quantity, as people are seeking to create special moments in their homes to compensate for events and travel. These changes in consumer behaviour offer new and interesting opportunities for HKScan, as the company diversifies its product range to meet the consumers' varied needs in evolving food moments.

The grocerant trend that combines traditional grocery stores and restaurants strengthened in all HKScan's home markets during the year. Both retail and other food industry companies have increased their range of restaurant-quality meals and concepts. This development increases competition in relation to companies that focus on home deliveries of restaurant meals. Deliveries from retail shops to consumers' homes also increased notably during the past year.

The increase in retail product selection over the past two years has decreased manufacturing batch sizes, which, in turn, reduces the life cycle of the products. Examples of fragmenting factors include the strengthening position of private labels, retail's need to differentiate, the fragmentation of consumers' purchase behaviour and the continuing reduction in the size of households. HKScan is monitoring the development and responding to it through its own product development and branding work.

Changes in the international meat market

The strong increase in the price of pork in Europe during early 2021 turned to a clear decline in June. The low price level of pork continued in Europe until the end of the year as impacted by the continued pandemic, the increased own pork production in China and the oversupply of pork within the EU. The producer and sales prices of pork declined in China from the start of the year by nearly half as a result of low demand and increased local availability. The export of pork to China is not expected to recover during the start of 2022, which will slow the recovery of the price level of pork in Europe.

In the EU, production volumes of poultry are gradually recovering from the drop caused by cases of avian flu. In 2021, less poultry meat was available than in the comparison year. The continued growth in the demand has raised the price level of poultry towards the upper end of the long-term fluctuation range. Cases of avian flu detected in several European countries are still limiting the export of poultry products outside the EU.

Export of consumer products

HKScan’s long-term work and results related to the promotion of sustainable farming and animal welfare as well as the transparency and reliability of the entire food chain create a solid foundation for confidence among customers and consumers within the export markets. A strong trust and ability to meet customers’ needs have strengthened HKScan’s customer relationships in the export markets.

During 2021, HKScan invested particularly in increasing the export of consumer products. The share of consumer products exports value increased during 2021 by nearly 10 percentage points to approximately 20 per cent of the total value of exports, even though the Covid-19 pandemic limited sales work. The export of dumplings, bacon and other processed meat products developed particularly well.

The export of consumer products improves the utilisation rate of HKScan’s capacity and balances the seasonal peaks in demand within the home markets. The gradual opening of the food service market in all HKScan’s key home and export markets will improve future demand within the export markets.

Due to the challenges of global logistics, transport costs increased clearly during summer 2021. We estimate that the rise in costs will continue during the first half of 2022. HKScan has secured its transports for customer deliveries to close and remote markets.

Business Unit Finland

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Net sales	209.7	208.9	772.3	772.4
EBIT	5.8	15.0	12.1	10.7
- EBIT margin, %	2.8	7.2	1.6	1.4
Comparable EBIT	5.2	10.4	8.5	6.0
- EBIT margin, %	2.5	5.0	1.1	0.8

October-December

In Finland, net sales totalled EUR 209.7 (208.9) million. Clear sales growth continued in strategically important products with higher added value, such as meal components and processed meat products. Sales growth was strong in meals, boosted by good sales growth seen in Mäkitalon Maistuvat ready-to-eat salads. The need to export pork was clearly reduced by the growth of products with higher added value and increased sales by subsidiaries.

EBIT was EUR 5.8 (15.0) million. Comparable EBIT was EUR 5.2 (10.4) million. EBIT was weakened by a rapid and considerable increase in energy and other production input prices. It was not possible to pass on cost increases to sales prices in the middle of the contract period.

Rauma poultry unit's productivity development progressed, but profit development of the poultry business was below target. In 2022, we will focus strongly on productivity improvements and commercial actions.

January-December

Net sales totalled EUR 772.3 (772.4) million. Especially retail sales of own brand products of higher added value continued to clearly grow. Food service sales increased from the comparison year. Stronger home market sales, especially in meals and meal components, decreased the need for more cyclical and less profitable exports.

In Finland, EBIT improved by EUR 1.4 million to EUR 12.1 (10.7) million. Comparable EBIT improved by EUR 2.5 million to EUR 8.5 (6.0) million. EBIT improved as a result of growth in retail sales, especially in higher added-value products, food service sales and improved operational efficiency. Rapid and considerable increases in prices of energy and other production inputs had a clear negative impact on EBIT.

Strategic investments in new product categories clearly improved the outlook for the Eura production unit. HKScan made an impairment reversal of EUR 3.0 million, which was recorded in items affecting comparability. In the comparison year, EUR 4.7 million of items affecting comparability were recorded. Items affecting comparability are described in more detail in the Tables section of this report.

HKScan's investment of approximately EUR 6 million in the Rauma poultry unit's new slaughter process was taken into use in March. The investment has enabled the unit to significantly improve its raw material yield, productivity and operational reliability.

The collaboration between HKScan and Mäkitalon Maistuvat started in April with a sales and distribution partnership, and HKScan's product range expanded to include ready-to-eat salads.

In the autumn, a modern restaurant-level kitchen was completed in the HKScan's Vantaa unit where chefs prepare premium-level fresh meals. In the summer, HKScan also decided to invest in a snack line in Eura. New snacks will be available in the autumn 2022.

Business Unit Sweden

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Net sales	196.7	184.6	700.4	662.1
EBIT	8.4	7.5	22.6	19.1
- EBIT margin, %	4.3	4.1	3.2	2.9
Comparable EBIT	8.7	7.2	22.9	19.0
- EBIT margin, %	4.4	3.9	3.3	2.9

October-December

In Sweden, net sales totalled EUR 196.7 (184.6) million. 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 2.5 million positive. Net sales for Sweden increased also in local currency. Retail sales of products sold under the Scan brand continued to grow. Food service sales also increased clearly.

EBIT improved by EUR 0.9 million to EUR 8.4 (7.5) million. Comparable EBIT was EUR 8.7 (7.2) million. The effect of the exchange rate change on EBIT was EUR 0.1 million positive. EBIT strengthened as a result of commercial improvements especially in locally produced beef, growth of food service sales and improved operational efficiency. EBIT was weakened by rapid and considerable increases in prices of energy and other production inputs.

In November, HKScan and Scandinavian Aquasystems AB signed a cooperation agreement on the sales of fish products under the Gårdsfisk brand, and HKScan became the minority shareholder of the company with a stake of slightly over 10 per cent. HKScan started the sales of fish products sold under the Gårdsfisk brand at the beginning of 2022. In addition, HKScan's product range in Sweden has expanded to include meal components made from Gårdsfisk's raw materials. Scandinavian Aquasystems aims to extend fish farming on farms in the coming years. HKScan's own network of contract farmers in Sweden provides a good basis for scaling up the concept.

At the end of the year, HKScan signed a commercial cooperation agreement related to Maten é klar meal concept. The cooperation started at the beginning of 2022. The Maten é klar concept includes healthy, high-quality meals.

HKScan's valued and strong Scan brand will expand early in the year to new product categories, such as plant-based products.

January-December

Net sales totalled EUR 700.4 (662.1) million. The effect of the exchange rate change of the Swedish krona on net sales was EUR 22.1 million. Retail sales of products sold under the Scan brand increased. Net sales for pork exports increased, driven by an increase in the volume of by-products. Food service sales increased as a result of the removal of Covid-19 restrictions.

EBIT improved by EUR 3.5 million to EUR 22.6 (19.1) million. Comparable EBIT was EUR 22.9 (19.0) million. The effect of the exchange rate change on EBIT was EUR 0.7 million positive. EBIT strengthened as a result of commercial improvements in locally produced beef, growth of food service sales and improved operational efficiency.

HKScan's product range expanded in the summer to include delicious and high-quality Scan Korvmakarna premium sausages. Plant-based balls and patties complementing the Pärsons brand product range were also launched.

Sweden's commercial organisation was renewed at the beginning of September. The renewal will enhance the development of core business and customer relationships and drive improvements in profitability and efficiency. The organisation renewal will also promote the use of new strategic business opportunities.

HKScan continued to cooperate with Foodora during the summer barbeque season and Christmas. HKScan expanded into a new sales channel where consumers can order on-the-go meals of the Korv & Bread and Korv & Carve concepts at travel and ski destinations via a mobile app. This has increased the visibility of the Scan brand.

Business Unit Baltics

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Net sales	44.1	43.0	170.0	175.0
EBIT excluding biological asset revaluation	-4.1	0.8	-5.0	5.7
Biological asset revaluation	-0.4	-0.5	-0.4	-2.0
EBIT	-4.5	0.3	-5.4	3.7
- EBIT margin, %	-10.1	0.6	-3.2	2.1
Comparable EBIT excluding biological asset revaluation	-4.1	0.8	-4.8	6.1
Biological asset revaluation	-0.4	-0.5	-0.4	-2.0
Comparable EBIT	-4.5	0.3	-5.1	4.0
- EBIT margin, %	-10.1	0.6	-3.0	2.3

Biological assets are farmed animals in the company's own primary production.

October-December

In the Baltics, net sales totalled EUR 44.1 (43.0) million. The net sales increase resulted from the growth of poultry products and food service sales. The market price of pork remained low, putting pressure on sales prices and reducing net sales.

EBIT excluding the change in the fair value of biological assets totalled EUR -4.1 (0.8) million. Comparable EBIT excluding the change in the fair value of biological assets totalled EUR -4.1 (0.8) million. The change in the fair value of biological assets in the balance sheet was EUR -0.4 (-0.5) million. The low market price of pork had a clear negative impact on EBIT. Exceptionally high increases in feed and energy prices increased HKScan's costs throughout the vertically integrated production chain.

The development of European pork market prices and changes in feed and energy prices have a significant impact on the profit development of the Baltics. Higher levels of feed prices will last at least until the new harvest season.

January-December

Net sales totalled EUR 170.0 (175.0) million. Net sales were clearly decreased by the declined prices and volumes of pork, particularly in industrial sales. Food service sales were down from the comparison period, but increased towards the end of the review period. Sales volumes of poultry products sold under the Tallegg brand continued to grow. Sales of meal components grew especially in retail and exports.

EBIT excluding the change in the fair value of biological assets totalled EUR -5.0 (5.7) million. Comparable EBIT excluding the change in the fair value of biological assets totalled EUR -4.8 (6.1) million. The change in the fair value of biological assets in the balance sheet was EUR -0.4 (-2.0) million.

As a relatively small market area, the Baltics is sensitive to import price pressure, and defending the market position weakened the EBIT. Exceptionally high increases in feed and energy costs could not be passed on to sales prices in the current situation of surplus pork production in Europe. On the other hand, the profitability is clearly better in the Baltic poultry business and processed meat products than in other product categories.

In September, the first orders were delivered to customers from the new logistics centre near Tallinn, Estonia. The logistics centre serving the entire Baltic market area enables faster and more flexible customer service.

In Estonia, new products of higher added value were launched under the Tallegg and Rakvere brands. Exports of dumplings and traditional Asian dim sum products made in Latvia to Central Europe showed a clear increase.

Business Unit Denmark

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Net sales	41.0	36.4	172.7	171.5
EBIT	1.0	-0.2	0.0	1.0
- EBIT margin, %	2.4	-0.4	0.0	0.6
Comparable EBIT	1.0	-0.7	0.0	1.1
- EBIT margin, %	2.4	-1.8	0.0	0.6

October-December

In Denmark, net sales totalled EUR 41.0 (36.4) million. Retail sales increased clearly. The growth was clear in both the Danish and Swedish markets. Strategy implementation progressed as planned, and sales in ready-to-eat poultry products increased.

Denmark's EBIT totalled EUR 1.0 (-0.2) million and comparable EBIT was EUR 1.0 (-0.7) million.
In Denmark, avian flu affecting the whole industry and the resulting restrictions on exports outside the EU continued to have a negative impact on EBIT. By successfully implementing our strategy, we were able to compensate the negative impacts of avian flu on our operations.

The progress of the strategy was reflected in commercial improvements, with growth in both sales volumes and the share of products with higher added value. These had a clearly positive impact on EBIT. Energy prices continued to rise during the review period, which increased HKScan's costs.

January-December

Net sales totalled EUR 172.7 (171.5) million. The sales focus on strategically important products increased net sales, and sales were significantly higher in ready-to-eat poultry products. Retail sales and particularly sales under the company's own Rose brand clearly increased. Export restrictions due to avian flu had a clear negative impact on net sales.

EBIT totalled EUR 0.0 (1.0) million and comparable EBIT was EUR 0.0 (1.1) million. Avian flu cases affecting the whole industry had a clear negative impact on EBIT. Exceptionally high increases in energy prices increased HKScan's costs.

In Denmark, HKScan has shifted sales from low margin frozen export products to fresh and ready-to-eat products that meet consumer needs. This has clearly improved EBIT. The strategic shift in focus towards higher added-value products will reduce the negative impact of possible animal diseases, such as avian flu, on business performance in the long term.

HKScan has a lot of potential in Denmark, for example for the sales of minced chicken meat and ready-to-eat poultry products. Sweden also shows clear potential for growth.

In an extensive customer satisfaction survey covering the Danish food industry, HKScan was ranked first in the category of companies producing fresh and frozen food products. All retail chains in Denmark responded to the survey. HKScan scored highest for reliability and responsibility.

Report on non-financial information

HKScan is a Northern European food company that makes tasty, healthy and responsibly produced food for consumers' various food moments. The company's strategic target is to grow into a versatile food company. HKScan's home markets are Finland, Sweden, the Baltics and Denmark. The company's well-known brands include HK, Kariniemen, Via, Scan, Pärsons, Rakvere, Tallegg and Rose.

Advanced responsibility work is the basis of HKScan's strategy. The company's business aims to create comprehensive, responsible prosperity within the boundaries of a strong social foundation and environmental ceiling. The Group's responsibility programme defines the targets and activities of its responsibility work. The focus of the responsibility programme is on nature and people, with relevant themes defined on the basis of the materiality assessment.

HKScan's responsibility work will be described in more detail in the Annual and Responsibility Report 2021, which is based on the GRI Standards framework and will be published in week 10/2022.

Key commitments, policies and principles

HKScan's values and ethical guidelines (Code of Conduct) form the foundation of the company's way of working. HKScan requires all its suppliers and subcontractors to commit to compliance with its Supplier Guidelines.

HKScan's operations are guided by, for instance, Group-level policies on corporate governance, information security, data privacy, disclosure, remuneration, risk management, environment, work health and safety, food safety and quality as well as animal welfare. In addition to these, the company has a number of internal policies and guidelines relating to ethical conduct.

HKScan is a member of the UN Global Compact sustainability initiative and has integrated its sustainable business principles into the company's Code of Conduct. In addition, HKScan is committed to the UN Sustainable Development Goals (SDGs) as part of the Group's corporate responsibility programme. Progress towards the Sustainable Development Goals related to health and well-being (SDG 3), gender equality (SDG 5), work (SDG 8), responsible consumption (SDG 12), climate (SDG 13) and terrestrial ecosystems (SDG 15) is monitored through the indicators of the corporate responsibility programme.

External recognitions

HKScan's systematic development of responsibility work has been recognised by independent international sustainability rating companies. HKScan clearly improved its results in annual ESG (Environment, Social, Governance) ratings. In the ESG ratings of Sustainalytics and ISS (Institutional Shareholder Services), HKScan was ranked within the top fifth among hundreds of international food companies. In the Sustainalytics assessment, HKScan was ranked in the top 10 per cent among producers of packaged food.

At the end of 2021, HKScan was added to the Nasdaq OMX Sustainability Finland index, which includes a number of Finland's leading companies in terms of sustainability. The company has been a Nasdaq Transparency Partner for several years in recognition of its transparent responsibility reporting.

The Financial Times published a listing of Europe's Climate Leaders in May 2021. The list included 300 European companies that have reduced climate emissions from their own production the most in relation to net sales between 2014 and 2019. HKScan was the only food company on the list in the Baltic Sea region.

EU taxonomy

The EU taxonomy is the EU's sustainable finance classification system defining sustainable economic activities with regard to the environment. The introduction of the taxonomy regulation will be carried out in stages. In the first phase, the EU Commission has published technical criteria for climate change mitigation and adaptation for the sectors with the greatest climate impact.

HKScan has started to prepare for reporting in line with the EU Taxonomy Regulation. In line with the EU Commission's guidance, the company reports for 2021 the activities eligible for the taxonomy classification system in terms of net sales, investments and operating expenditure. HKScan will monitor the development of the EU taxonomy and from 2022 will also report on the alignment of its activities for the taxonomy classification system.

Net sales

HKScan’s net sales of EUR 1,815.3 million consist almost entirely of sales of food products manufactured by the company, for which there is no industry classification (NACE) in the EU taxonomy. The company therefore has no taxonomy-eligible net sales. Set in proportion to net sales, a significant part of the company’s costs arises from the procurement of animal raw material from contract farmers and HKScan’s own farms in Estonia. The EU taxonomy criteria for “Agriculture, forestry and fishing/Livestock production” is under preparation and its final content and impact on HKScan's reporting under the Taxonomy Regulation is still uncertain.

Investments and operating expenses

HKScan has no taxonomy-eligible net sales and therefore no taxonomy-eligible investments or operating expenses.

Environment

In early 2021, HKScan published its Zero Carbon climate plan with a goal of carbon-neutral food chain by the end of 2040. For its own production (scope 1 and 2), the company’s target is carbon-neutrality by the end of 2025. Mitigating climate change and responding to it play an important role in the company’s business and its development. Climate change affects the entire food chain and the attitudes and choices of consumers and customers.

In 2021, the company committed to setting climate targets in line with the Science Based Targets initiative (SBTi). Science-based climate targets, validated by a panel of experts, will be integrated into HKScan’s Zero Carbon climate plan. The targets will support the company’s journey towards carbon-neutral food chain.

During 2021, HKScan promoted its Zero Carbon climate plan across the food chain: in its production units, in primary production, in logistics and in packaging development. The company focused its climate work primarily on measures with the greatest impact. HKScan prepared Zero Carbon plans for each of its production units, defining the actions towards the carbon neutrality in the company’s own production by the end of 2025.

HKScan examined and piloted new solutions to reduce the climate impact in primary production together with its contract farmers and other partners on 80 pilot farms in Finland, Sweden and Denmark. In Finland, carbon sequestration measurements carried out in the summer set a target of 500 kg CO_2e per hectare per year for carbon sequestration in fields. The company also examined the optimisation of fertilising using satellite technology. In addition, farm-specific carbon footprints were calculated in Finland, Sweden and the Baltics. The company scaled up climate-friendly farming practices to wider use through training and webinars in Finland and Sweden.

HKScan reduced the climate impact of logistics through better optimised driving routes and the use of biogas trucks in product transports. The new logistics centre in the Baltics, opened in August, uses solar energy and significantly reduces transport kilometres.

In all home markets, HKScan made its packaging more responsible by promoting recyclability, reducing plastic and increasing the use of renewable packaging materials. In Finland and the Baltics, plastic was reduced by replacing boxes with bag packs. In Sweden, the packaging of the popular Scan Falukorv was modified to suit cardboard recycling and in Denmark, recycled material from plastic bottles is used for box packs.

The effectiveness and impact of the environmental work on the company's own production is assessed by internal and external ISO 14001 audits, with the exception of the Danish production units. In 2021, no significant environmental deviations occurred. The environmental risks of HKScan's production units have been identified as part of the ISO 14001 environmental management system, and the most significant risks are related to wastewater and possible chemical leaks. Environmental risks are controlled and managed on a unit-level basis through, for example, preventive maintenance and monitoring equipment. Personnel are trained in environmental matters and encouraged to make environmental observations and to report any deviations observed.

HKScan describes risks related to climate change in more detail in its Annual and Responsibility Report in line with the Task Force on Climate-Related Financial Disclosure (TCFD) model. Exceptional weather conditions affect the availability and prices of the company’s key raw materials and energy prices.

Social and HR matters

At the end of 2021, HKScan had a total of 7,061 (6,998) employees. The company made investments supporting growth and ensured its service level during the pandemic. This resulted in increased personnel in all the home markets.

In 2021, HKScan’s salaries and remunerations, including social costs, totalled EUR 333.5 (315.6) million.

	1-12/2021	1-12/2020
Personnel on average*	6,892	6,741
Finland	2,755	2,684
Sweden**	1,945	1,899
The Baltics	1,538	1,528
Denmark	655	629
Women / men %	40 / 60	40 / 60
Women / men of supervisors %	36 / 64	35 / 65

* Reporting of personnel figures revised from 1 January 2021; figures include persons employed by HKScan converted to full-time equivalents (FTE). Comparative figures updated accordingly.
** Including personnel in Poland.

HKScan works in a goal-oriented way towards zero accidents at work and promotes a safety culture in many ways through its Safety First programme. In 2021, the accident frequency remained at the 2020 level. However, absences due to accidents decreased significantly, as the number of more serious accidents clearly decreased. In the autumn, the company published new safe working guidelines for all the personnel.

Employees were encouraged to report their safety observations. Safety observations, near miss cases and accidents are systematically dealt with and corrective actions are specifically targeted at root causes. Safety culture is also promoted through careful risk assessments and process management.

HKScan promotes wellbeing at work with its Group-wide programme Better Together, which aims to promote responsible management, personnel commitment, workplace wellbeing and performance. The action plans for workplace wellbeing have been prepared at production unit and country level. During 2021, there was a particular focus on themes arising from the personnel survey Voice, such as promoting mental wellbeing and working against inappropriate behaviour.

At the end of 2021, HKScan prepared a hybrid working model, combining face-to-face and remote work. The model applies to the whole Group and was launched at the end of the year, taking into account the pandemic situation.

Risks related to HKScan's personnel include the availability of skilled and committed personnel, work safety and the attractiveness of the food industry and HKScan as an employer. During the Covid-19 pandemic, disruption of production due to personnel becoming ill is a significant risk for the company, which is reduced by the expansion of the vaccination coverage. In addition, any legal or illegal strikes in HKScan’s value chain and its own operations may cause business risks. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment as well as Fair Way whistleblowing channel. Risks are reduced by developing cooperation, employee competence and well-being at work and pandemic-related contingency measures. Work safety risks are managed through the systematic promotion of work safety.

HKScan works together with meat producers to further develop production and responsibility and to ensure the competitiveness of local food production. In 2021, the company continued its Next Generation programme developing competence of young farmers in Finland and in Sweden.

Human rights and measures against bribery and corruption

HKScan respects and supports international human rights agreements, the UN Convention on the Rights of the Child, and the International Labour Organization's core conventions. Additionally, HKScan takes into consideration in its operations the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. HKScan does not accept corruption or bribery.

Online training on HKScan's Code of Conduct was extended to the whole personnel. The training strengthens employees' competence in human rights and the principles against corruption and bribery, for example.

HKScan obliges all its suppliers of goods and services to commit to and sign the company's Supplier Guidelines. Suppliers commit to comply with the company's principles on human rights, anti-corruption and anti-bribery. In 2021, HKScan started to prepare the principles of responsible procurement.

HKScan's stakeholders can use the company's anonymised Fair Way whistleblowing channel to report suspicions of unethical conduct. In 2021, the company received 11 (9) reports of suspected negligence or misconduct through the Fair Way channel. The reports mainly concerned suspicions of inappropriate behaviour and the interpretation of and compliance with guidelines. These were resolved through HR processes and were used as a basis to revise internal guidelines.

HKScan's risks concerning human rights are related to inappropriate treatment of employees throughout the value chain. Corruption and bribery risks associated with the company's own activities are prevented and managed through clearly defined approval processes and other internal control processes. Potential risks related to human rights and corruption in the supply chain are managed through procurement risk assessment, standard requirements and by requiring a commitment to the Supplier Guidelines.
The realisation of the principles is monitored in an internal audit. In 2021, no deviations from the human rights, bribery and corruption principles were detected. HKScan has not carried out a human rights impact assessment but will conduct it during 2022.

Healthiness and safety of products

HKScan's strategic target is to grow into a versatile food company with tasty products made from trusted and safe raw materials. Through its activities, the company promotes healthy diet built on varied and balanced choices. HKScan's long-term work to develop the healthiness of products is based on nutritional recommendations and the company has defined its own criteria for healthier alternatives. A large part of products are healthy alternatives in their own categories and meet the criteria of the Heart Symbol in Finland as well as the Keyhole criteria in Sweden and Denmark.

HKScan ensures product safety through systematic work from procurement to the customer. All HKScan's production plants are certified in accordance with the Global Food Safety Initiative (GFSI) standards (FSSC 22000, IFS or BRC).

The company performs systematic food safety risk management in all stages of the value chain. Risk assessment in the production units is based on the HACCP (Hazard Analysis Critical Control Point) process, which is verified annually by several internal and external audits. HKScan also requires its raw material suppliers and subcontractors to have food safety management systems in place and monitors their implementation. The company regularly organises food safety training for its personnel and partners and encourages them to make food safety observations and to react to deviations.

With the globalisation of the food chain, food fraud and deliberate sabotage have become central themes alongside other food safety risks. To identify and prevent risks related to them, HKScan Group has created a separate risk assessment model covering the whole chain.

Animal welfare

HKScan is committed to promoting animal welfare with its contract farmers in Finland, Sweden, the Baltics and Denmark and on the company's own farms in Estonia. Animal health and welfare is based on compliance with EU and local legislation as well as HKScan's own guidelines. The monitoring of animal welfare is systematic, and any deviations are addressed immediately. The focus on animal health and welfare is seen in the very low use of antibiotics on the company's contracted and owned farms.
In HKScan's food chain, antibiotics are not used as preventive measure or to promote growth.

On a Finnish poultry farm, HKScan developed animal welfare monitoring using cameras and artificial intelligence, which enabled more accurate monitoring of animal behaviour and testing of new stimuli.
In Denmark, HKScan launched its product concept focusing on animal welfare. Retailers and consumers have welcomed the product range sold under the Rose brand and the company aims to expand the range.

Animal diseases that spread easily, such as African swine fever and avian flu, are a risk to the company's business. There are national programmes for the prevention of animal diseases. Risks related to animal diseases are managed by continuously monitoring the animal disease situation and by working closely together with authorities, veterinarians and farmers. At the farm-level, guidelines for animal disease control and high hygiene standards are followed. HKScan's production units have contingency plans in place for animal disease situations.

Key targets and results

Target	Corporate Governance	Results 2021
NATURE		
Environment		
Carbon-neutral food chain • own production (scope 1 and 2) by the end of 2025 • primary production and other external impacts (scope 3) by the end of 2040	Action plan towards carbon neutrality	• Climate impacts of own production (scope 1 and 2) 58,000 (55,000)* tCO_2e, carbon intensity 0.09 (0.09)* tCO_2e / sold product tonne • Climate impacts of the entire food chain (scope 1-3) 2.4 (2.4)* $MtCO_2e$, carbon intensity 3.8 (3.9)* tCO_2e /sold product tonne • Energy use 0.97 (0.94)* MWh / sold product tonne
100% of raw materials from contract production in line with HKScan's sustainable farming operating model by the end of 2030	Work in the Agrofood Ecosystem project to promote the responsibility in primary production	Agrofood Ecosystem network involves 80 pilot farms; scaling up of sustainable farming practices started
Water consumption -25% / sold product tonne by the end of 2030 (vs. 2019)	Promoting water efficiency in production units	• Water consumption 6.79 (6.82)* m^3 / sold product tonne • Water consumption +2.1%* / sold product tonne vs. 2019
Packaging, targets 2025 • 100% recyclable packaging • 20% less plastic / sold product tonne (vs. 2019)	Operations in line with the packaging strategy	• 70% of packaging recyclable • Amount of packaging plastic 9,900 t • Packaging data management system renewed to cover collected data more comprehensively 2021
Animal welfare		
• Zero animal welfare breaches in own production • Continuous improvement of key animal welfare aspects	Systematic development of animal welfare together with farmers	• 0 (1) animal welfare breaches in own production • Continuous development activities to promote animal health and welfare
PEOPLE		
Social and HR matters		
Determined work towards zero accidents	Safety First programme to promote safety at work	Accidents at work leading to at least one day's absence 21.2 (21.1) /million working hours
Continuous promotion of wellbeing at work, eNPS over 10	Better Together programme for promotion of well-being at work	• Personnel satisfaction eNPS -3 (5, comparison figure not incl. the Baltics) • Absences 6.6 (6.2)% of working hours
Promoting the continuity of primary production in home markets	Next Generation programme to develop young farmers' competence	• 70 young farmers in Next Generation programme in Finland and in Sweden • Cooperation with schools and universities in the Baltics
Human rights and measures against bribery and corruption		
• 100% of raw materials procured in line with the responsible procurement principles 2025 • 100% of personnel completed the Code of Conduct training	• Supplier Guidelines • Personnel training on the compliance of HKScan's policies	• 100% of the raw material suppliers committed to Supplier Guidelines (excl. animal procurement) • Development of responsible procurement principles started • 74% of personnel completed the Code of Conduct training
Healthiness and safety of products		
• Annually, 60% of new and renewed products healthier alternatives in their own categories • 100% certified production units • Zero recalls	• Nutritional recommendations considered in the product development • Compliance with product safety standards • Compliance with product safety processes	• 35 (44)% of new and renewed products healthier alternatives in their own categories • All HKScan's production units certified according to GFSI approved standard • 6 (1) product recalls

The results of HKScan's responsibility work will be reported in more detail in the Annual and Responsibility Report 2021, which is based on the GRI Standards framework and will be published in week 10/2022.
** Subsidiaries Kivikylän and Tamminen have been added to reporting of environmental figures retroactively from 2019.*
The environmental figures related to tonnes of products sold do not include HKScan's own farms in Estonia. A revision of the figures will be completed in the Annual and Responsibility Report 2021.

Group Management

At the beginning of January 2021, Jouni T. Laine began as EVP for HKScan's new Food Solutions unit and a member of the Group Executive Team. He joined HKScan from the CEO position at the Clewer Group, part of Salmela-Yhtiöt.

Anne Mere, EVP Business Unit Baltics and a member of the Group Executive Team, left her position on 13 August 2021. In the same connection, Juha Ruohola, a Group Executive Team member, was appointed as the new EVP Business Unit Baltics. He continues to be responsible for HKScan's Polish business, the Group's biotech business and meat balance.

Mika Koskinen, the Group Executive Team member responsible for the Group's strategic business development and investments took over responsibility for the Group's exports and imports, which were until 13 August 2021 the responsibility of Juha Ruohola.

Shares and shareholders

At the end of December 2021, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The company's issued shares totalled 98,951,781, which were divided into two share series as follows: A shares, 93,551,781 (94.54% of the total number of shares) and K shares, 5,400,000 (5.46% of the total number of shares). The A shares are quoted on Nasdaq Helsinki Ltd. The K shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of K shares of LSO Osuuskunta and Lantmännen ek. för.

The Board of Directors of HKScan Corporation resolved on a directed share issue without consideration related to the Group's share-based incentive plan 2018, payment of the rewards for the performance period 2018-2020. On 7 May 2021, a total of 141,936 HKScan Corporation's A shares owned by the company was transferred without consideration to the participants of the share-based incentive plan in accordance to the terms and conditions of the plan. The transfer of own shares by a directed share issue without consideration is based on the Board's authorization granted by the Annual General Meeting on 8 April 2021.

At the end of December, the company held 1,858,064 (2,000,000) A shares as treasury shares, corresponding to 1.88% of the company's total number of shares and 0.9% of the total number of votes.

The calculational market value of HKScan's shares at the end of December stood at EUR 161.2 (190.0) million. The market value of the Series A shares was EUR 152.2 (179.4) million and the calculational market value of unlisted Series K shares was EUR 9.0 (10.6) million.

During the period of January–December, a total of 32,515,203 (27,000,172) of the company's shares were traded with a total value of EUR 67,774,266 (54,911,336). In the review period, the highest price quoted was EUR 2.52 (2.85) and the lowest EUR 1.57 (1.60). The average price was EUR 2.08 (2.03). At the end of December, the closing price was EUR 1.66 (1.96).

Annual General Meeting 2021

HKScan Corporation's Annual General Meeting was held on 8 April 2021 in Turku, Finland, 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 2020 and discharged the members of the Board of Directors and the CEO from liability for the year 2020. The AGM resolved that a dividend of EUR 0.03 be paid for each share for the year 2020.

The decisions of the AGM have been published in their entirety in a stock exchange release on 8 April 2021, and the minutes are available in Finnish on the company website at www.hkscan.com.

Share-based long-term incentive plan

On 7 February 2018, HKScan announced that the Board of Directors of HKScan Corporation had 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 commencement of each plan requires a separate decision from the Board of Directors.

At the time of commencement of the PSP 2018–2020 plan, approximately 30 individuals were eligible to participate in it. Part of the shares earned based on the achievement of performance targets were paid out in spring 2021, in line with the original PSP payment schedule.

On 8 May 2019, HKScan announced that the Board of Directors of HKScan Corporation had approved the commencing of new plans within the share-based long-term incentive scheme for HKScan's key employees. The Group Executive Team members, in total a maximum of 10 individuals are eligible to participate in PSP 2019–2021. According to the original PSP reward payment schedule, the rewards for this plan would be paid in two tranches, the first in spring 2022 and the second in spring 2023 based on the achievement of the performance targets.

The performance periods 2019–2020 of PSP 2018–2020 and PSP 2019–2021 ended on 31 December 2020. The rewards are paid in series A shares of HKScan. The 2021 performance period of the PSP 2019-2021 ended on 31 December 2021.

The Restricted Share Plan complementing the main structure 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.

On 8 May 2019, HKScan announced the commencement of a new plan, RSP 2019–2021, within the Restricted Share Plan structure. Eligible to participate in the RSP 2019–2021 were the participants of the PSP 2019–2021. According to the original RSP reward payment schedule, the rewards for this plan would be paid in two tranches, the first in spring 2022 and the second in spring 2023 based on the fulfilment of the Group-level financial criterion set by the Board.

On 7 April 2021, HKScan announced amendments to the payment schedules for both the PSP and RSP plans. According to the new payment schedule, part of the rewards earned will be paid during 2021–2023 and the remaining portion of the Group Executive Team rewards is deferred and will be paid during 2024–2025. The deferred rewards will be paid based on the achievement of minimum level of the performance targets. A maximum amount for the cost of deferred reward has been set.

Short-term business risks

Price increase in production inputs and raw materials

As the economy in the euro area grows and the deficit spending continues, general inflationary pressure continues to rise. Additionally, the price of energy has been strongly rising in Europe. This continues to create cost pressures in packaging materials and other production inputs. The significant price increase for feed grains, caused by the weak grain harvest in Europe, has led, with delay, to a continuing rise in meat raw material prices. The situation poses a considerable risk for HKScan's profitability, if the company is unable to increase its production efficiency and the sales prices of its products to offset the increase in costs. If, in particular, the market price of pork does not rise fast enough and the extremely poor profitability situation of the farmers continues, the risk may be the weakened availability of local meat raw material and an increase in the credit losses related to the feed trading services.

Covid-19 pandemic

The prolonged Covid-19 pandemic continues to be a significant uncertainty factor for HKScan's business. The pandemic situation within HKScan's home markets can change rapidly and the market-specific risks also change with the situations. At HKScan, the development of the pandemic is being monitored closely and any necessary reactions are being taken. The company's primary aim is to safeguard the health and safety of its personnel and to ensure disturbance-free activities throughout the entire food chain. Disruption of production due to personnel becoming ill is a significant risk for the company. In addition to strict hygiene practices and compliance with guidelines issued by the authorities, the company has implemented numerous contingency measures of its own in response to the pandemic. These will continue until the company can assess their gradual elimination in accordance with the pandemic situation in its different market areas.

Other business risks

In the food industry's long production chain, food safety is essential. However, the possibility of animal diseases cannot be fully excluded. Furthermore, the impact of possible international or regional food scandals on consumption behaviour cannot either be excluded.

African Swine Fever has increased strong price fluctuations within the international meat market. This has also affected HKScan's home markets. New cases of avian flu detected in Denmark and several other European countries further weaken the export possibilities for poultry products outside the EU and have increased supply within Europe. On the other hand, avian flu has also led to a significant decrease in poultry production in certain European countries. This situation causes, in part, unpredicted price fluctuations, the effects of which also extend to HKScan's home markets.

The international meat raw material market is more global than before, and, as a result, changes within international trade relations between major meat import and export countries may locally cause large price fluctuations.

The discussion related to climate change may affect the consumer demand for meat products. Unexpected actions taken by pressure groups may also impact business and consumer demand. Cyber attacks are an increasing risk and, in the worst- case scenario, they may significantly harm the company's activities. In addition, HKScan's potential involvement in juridical proceedings may pose risks.

The risks related to impairment of assets will increase and 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 profitability, the risk for breaching the financial covenants of loan agreements has clearly decreased.

The weakened global logistics chains may pose a risk in terms of the realisation of the company's investments within their planned timetable. Delivery times for machinery and equipment have lengthened and prices have risen. Corresponding scheduling and costs pressures have also been recognised in the building of production facilities. As part of its planning process, HKScan particularly considers the possible impacts that the cost and scheduling risks may have on the realisation of its investments.

Unstable geopolitical situation may have a negative impact on HKScan's business and its development, especially in the Baltics.

Events after the reporting period

HKScan to start Finnish poultry meat exports to South Korea

On 21 January 2022, HKScan announced that its Rauma unit had received an export approval for Finnish poultry meat from the South Korean authorities. Exports of poultry meat from Finland to South Korea will start as soon as possible. The export licence for poultry meat is an important step for HKScan's exports, as the Rauma unit has invested in growth in recent years, also with a view to exports.

The volume of exports is estimated at 3-5 million kilos for the first years. Products exported to South Korea will be chicken legs, wings and feet. Finnish poultry meat is responsibly produced and antibiotic-free. In addition, the animal disease situation is excellent in Finland and animal welfare and environmental efficiency of production are taken into account at all stages.

HKScan plans to streamline its operating model

On 3 February 2022, HKScan announced that the company is planning to streamline the operating model between the Group functions and Business Units. In the future, HKScan’s Group functions are planned to focus more closely on the Group’s key strategic development projects and leadership as well as activities that ensure good corporate governance of a listed company. Operational business will be more clearly focused on the Business Units.

Plans to streamline the operating model of HKScan’s Group functions and the Business Unit Finland will be discussed in Finland in statutory negotiations, which may lead to an estimated 20 job reductions or changes in the employment contracts. The statutory negotiations do not concern blue-collar workers or HKScan’s businesses in Sweden, the Baltics, Denmark and Poland. The aim is to complete the negotiations during March 2022.

Board of Directors’ proposal on the distribution of profit

The parent company's distributable equity is EUR 282.5 (290.9) million, including the reserve for invested unrestricted equity of EUR 215.4 (215.1) million and the profit for the financial year 2021 of EUR -5.8 million. The Board of Directors proposes to the Annual General Meeting that the company pays a dividend of EUR 0.04 per share, i.e. a total of EUR 3.9 million. The remaining distributable assets will be retained in equity.

Annual General Meeting 2022

HKScan’s Annual General Meeting is planned to be held in Turku on Wednesday, 30 March 2022. The invitation will be published later.

Turku, 10 February 2022

HKScan Corporation
Board of Directors

Webcast

In connection with its Financial Statements Bulletin 2021, HKScan will hold a webcast in Finnish for analysts, institutional investors and media on 10 February 2022 at 10 am, Finnish time. You can follow the Finnish webcast at: https://hkscan.videosync.fi/tilinpaatos-2021. HKScan's CEO Tero Hemmilä and CFO Jyrki Paappa will present the result.

To arrange an investor call in English, please contact Heidi Hirvonen, SVP Communications, tel. +358 10 570 6072 or by email heidi.hirvonen@hkscan.com.

For further information

Tero Hemmilä, CEO, tel. +358 10 570 2012
Jyrki Paappa, CFO, tel. +358 10 570 2512
Heidi Hirvonen, SVP Communications, tel. +358 10 570 6072

Financial reports

- The Annual and Corporate Responsibility Report for 2021 will be published online at www.hkscan.com in week 10/2022. The Annual and Corporate Responsibility Report will include the Report of the Board of Directors, Financial Statements, Remuneration Report and Corporate Governance Statement.
- Interim Report for January-March 2022 will be published on Tuesday 10 May 2022.
- Half-Year Financial Report 2022 will be published on Wednesday 20 July 2022.
- Interim Report for January-September 2022 will be published on Thursday 3 November 2022.

At HKScan, we make life tastier – today and tomorrow. Our strategic target is to grow into a versatile food company. Our responsibly produced, delicious products are part of consumers' varied food moments – both every day and on special occasions. We have some 7,000 HKScan professionals applying more than 100 years of experience to make locally produced food. For us at HKScan, responsibility means continuous improvements and concrete actions throughout the food chain. As part of our Zero Carbon programme, we are targeting a carbon-neutral food chain from farms to consumers by the end of 2040. Our home markets cover Finland, Sweden, the Baltics and Denmark. Our strong product brands include HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose™. Through our strategic partnerships, we are also known for Kivikylän®, Tamminen® and Boltsi brands. HKScan is a publicly listed company, and in 2021, our net sales totalled over EUR 1.8 billion.

The brands mentioned in the Financial Statements Bulletin - HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg®, Rose® and Vietävä® - are registered trademarks of HKScan Group.

Consolidated Financial Statements 1 January – 31 December 2021

Consolidated income statement

(EUR million)		10-12/2021	10-12/2020	1-12/2021	1-12/2020
Net sales		491.6	472.9	1 815.3	1 781.0
Cost of goods sold	1.	-461.4	-428.0	-1 701.4	-1 664.2
Gross profit		30.3	44.9	113.8	116.8
Other operating items total	1.	3.5	-1.4	7.7	1.8
Sales and marketing costs	1.	-13.0	-10.8	-47.7	-41.3
General administration costs	1.	-13.2	-15.2	-56.0	-56.0
Operating profit		7.6	17.5	17.9	21.3
Financial income		0.6	0.5	2.7	2.2
Financial expenses		-3.8	-3.2	-17.4	-13.2
Share of profit/loss in associates and joint ventures		0.6	0.4	3.4	1.9
Profit/loss before taxes		5.1	15.2	6.6	12.3
Income tax		-4.3	-4.0	-7.8	-7.5
Profit/loss for the period		0.8	11.2	-1.2	4.8
Profit/loss for the period attributable to:					
Equity holders of the parent		-0.4	9.4	-4.5	1.2
Non-controlling interests		1.2	1.8	3.2	3.6
Total		0.8	11.2	-1.2	4.8
Earnings per share calculated on profit attributable to equity holders of the parent:					
EPS, undiluted, continuing operations, EUR/share		-0.01	0.09	-0.06	-0.01
EPS, diluted, continuing operations, EUR/share		-0.01	0.09	-0.06	-0.01

Consolidated statement of comprehensive income

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Profit/loss for the period	0.8	11.2	-1.2	4.8
OTHER COMPREHENSIVE INCOME (after taxes):				
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translating foreign operations	-0.7	4.3	-2.0	2.8
Cash flow hedging	1.9	0.8	7.4	-1.7
Items that will not be reclassified to profit or loss				
Actuarial gains or losses	2.9	-0.3	2.9	-0.3
TOTAL OTHER COMPREHENSIVE INCOME	4.1	4.7	8.3	0.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4.9	15.9	7.1	5.6
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:				
Equity holders of the parent	3.7	14.1	3.9	1.9
Non-controlling interests	1.2	1.8	3.2	3.6
Total	4.9	15.9	7.1	5.6

Consolidated balance sheet

(EUR million)	Note	31 Dec. 2021	31 Dec. 2020
ASSETS			
Intangible assets	2.	144.2	148.0
Tangible assets	3.4	459.7	458.7
Holdings		38.5	33.8
Deferred tax asset	5.	36.3	40.9
Other non-current assets		7.3	6.2
TOTAL NON-CURRENT ASSETS		686.0	687.7
Inventories	6.	131.1	119.0
Current receivables		141.3	122.4
Cash and cash equivalents		27.2	46.8
TOTAL CURRENT ASSETS		299.6	288.2
TOTAL ASSETS		985.6	975.9
EQUITY AND LIABILITIES			
EQUITY		330.3	329.1
Non-current loans, interest-bearing	4.	210.1	249.2
Non-current liabilities, non-interest-bearing		63.5	69.1
TOTAL NON-CURRENT LIABILITIES		273.6	318.3
Current loans, interest-bearing	4.	131.8	97.2
Current liabilities, non-interest-bearing		249.8	231.3
TOTAL CURRENT LIABILITIES		381.7	328.5
TOTAL EQUITY AND LIABILITIES		985.6	975.9

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2021	**66.8**	**72.9**	**-0.8**	**215.4**	**25.9**	**10.3**	**-10.6**	**-4.8**	**-66.4**	**308.8**	**20.3**	**329.1**
Result for the financial period	-	-	-	-	-	-	-	-	-4.5	-4.5	3.2	-1.2
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	-2.0	-	-	-2.0	-	-2.0
Cash flow hedging	-	-	7.4	-	-	-	-	-	-	7.4	-	7.4
Actuarial gains or losses	-	-	-	-	-	-	-	-	2.9	2.9	-	2.9
Total other comprehensive income / expense	-	-	7.4	-	-	-	-2.0	-	2.9	8.3	-	8.3
Total compreh. income for the period	**-**	**-**	**7.4**	**-**	**-**	**-**	**-2.0**	**-**	**-1.5**	**3.9**	**3.2**	**7.1**
Direct recognitions	-	-	-	-	-	0.0	-	-	0.5	0.5	-	0.5
Dividend distribution	-	-	-	-	-	-	-	-	-2.9	-2.9	-1.4	-4.3
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2021	**66.8**	**72.9**	**6.6**	**215.4**	**25.9**	**10.4**	**-12.6**	**-4.8**	**-72.4**	**308.3**	**22.1**	**330.3**

(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	-	-	-	-	-	-	-	-	1.2	1.2	3.6	4.8
Other comprehensive income (+) / expense (–)												
Transl. diff.-	-	-	-	-	-	-	2.8	-	-	2.8	-	2.8
Cash flow hedging	-	-	-1.7	-	-	-	-	-	-	-1.7	-	-1.7
Actuarial gains or losses	-	-	-	-	-	-	-	-	-0.3	-0.3	-	-0.3
Total other comprehensive income / expense	-	-	-1.7	-	-	-	2.8	-	-0.3	0.8	-	0.8
Total comprehensive income for the period	**-**	**-**	**-1.7**	**-**	**-**	**-**	**2.8**	**-**	**0.8**	**1.9**	**3.6**	**5.6**
Direct recognitions	-	-	-	-	-	0.0	-	-	1.1	1.0	-	1.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.7	-0.7
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	0.1	0.1
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2020	**66.8**	**72.9**	**-0.8**	**215.4**	**25.9**	**10.3**	**-10.6**	**-4.8**	**-66.4**	**308.8**	**20.3**	**329.1**

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)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Cash flow before change in net working capital	23.1	25.6	75.3	78.7
Change in net working capital	21.4	19.8	-3.1	-1.3
Financial items and taxes	-2.3	-4.9	-17.6	-13.7
CASH FLOW FROM OPERATING ACTIVITIES	42.1	40.5	54.6	63.7
Cash flow from investing activities	-20.9	-13.9	26.5	-85.1
CASH FLOW AFTER INVESTING ACTIVITIES	21.2	26.5	81.2	-21.4
Hybrid loan	-	-	-2.1	-2.1
Change in loans	-3.3	4.0	-93.9	32.7
Dividends paid	-	-	-4.4	-0.7
CASH FLOW FROM FINANCING ACTIVITIES	-3.3	4.0	-100.3	30.0
NET CASH FLOW	17.9	30.5	-19.2	8.6
Cash and cash equivalents at beginning of period	9.3	15.2	46.8	37.5
Translation differences	0.0	1.1	-0.4	0.6
Cash and cash equivalents at end of period	27.2	46.8	27.2	46.8

Financial indicators

(EUR million)	31 Dec. 2021	31 Dec. 2020
Earnings per share (EPS), undiluted, EUR	-0.06	-0.01
Earnings per share (EPS), diluted, EUR	-0.06	-0.01
Equity per share, EUR	3.17	3.19
Equity ratio, %	33.5	33.7
Adjusted average number of outstanding shares, mill.	97.0	97.0
Gross capital expenditure on PPE, EUR mill.	48.2	83.5
Additions in right-of-use assets, EUR mill.	89.2	7.2
Depreciation and impairment, EUR mill.	60.2	56.7
Employees, average, FTE	6,892	6,741

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 Financial Statements Bulletin

Accounting policies

HKScan Corporation's financial statements bulletin for 1 January–31 December 2021 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 2020. Due to the rounding of the figures to the nearest million euros in the financial statements bulletin, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2020. The financial statements bulletin is unaudited.

Analysis by segment

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
NET SALES				
- Finland				
Sales, goods	208.8	208.0	769.0	769.1
Sales, services	0.9	0.9	3.3	3.2
- Sweden				
Sales, goods	196.7	184.6	700.3	662.1
Sales, services	0.0	0.0	0.1	0.0
- Baltics				
Sales, goods	44.1	42.9	169.6	174.6
Sales, services	0.0	0.1	0.4	0.4
- Denmark				
Sales, goods	41.0	36.4	172.7	171.5
Sales, services	0.0	0.0	0.0	0.0
Group total	491.6	472.9	1 815.3	1 781.0
EBIT				
- Finland	5.8	15.0	12.1	10.7
- Sweden	8.4	7.5	22.6	19.1
- Baltics	-4.5	0.3	-5.4	3.7
- Denmark	1.0	-0.2	0.0	1.0
Segments total	10.8	22.6	29.3	34.4
Group administration costs	-3.1	-5.2	-11.4	-13.2
Group total	7.6	17.5	17.9	21.3
INVESTMENTS				
- Finland				
Gross capital expenditure on PPE	4.3	5.9	16.3	54.8
Additions in right-of-use assets	0.6	1.6	70.9	3.0
Investments total	4.9	7.5	87.1	57.8

- Sweden				
Gross capital expenditure on PPE	8.8	5.8	19.6	17.4
Additions in right-of-use assets	0.7	0.7	9.1	1.7
Investments total	9.5	6.5	28.6	19.1
- Baltics				
Gross capital expenditure on PPE	3.5	1.3	8.1	4.9
Additions in right-of-use assets	0.8	0.3	8.5	0.9
Investments total	4.3	1.6	16.7	5.8
- Denmark				
Gross capital expenditure on PPE	2.0	1.6	4.3	6.4
Additions in right-of-use assets	0.2	0.9	0.8	1.6
Investments total	2.2	2.5	5.1	8.0
Total	21.0	18.0	137.5	90.7
AVERAGE NUMBER OF EMPLOYEES, FTE				
- Finland			2 755	2 684
- Sweden			1 945	1 899
- Baltics			1 538	1 528
- Denmark			655	629
Total			6 892	6 741

Notes to the income statement

1. Items affecting comparability

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Comparable EBIT	**7.3**	**12.1**	**14.5**	**17.0**
Termination of employment, Baltics 1)	-	-	-0.2	-
Termination of employment, Group management 1)	-	-	0.2	-
Impairment of assets, Sweden 2) 3)	-0.2	-	-0.2	-
Impairment of assets, Finland 2) 3)	0.1	3.1	3.1	3.1
Impairment of assets, Baltics 4)	-	-	-	-0.3
Impairment of assets, Denmark 2) 3)	-	4.1	-	4.1
Impairment of associated company balances, Sweden 1) 2) 4)	-	0.3	-	0.1
Legal dispute and settlement, Denmark 1) 4)	-	-0.2	-	-0.7
Energy tax provision, Denmark 1) 4)	-	-3.5	-	-3.5
Environmental provision, Finland 2)	-	0.9	-	0.9
Gain on sale of tangible assets, Finland 4)	0.5	0.6	0.5	0.6
EBIT	**7.6**	**17.5**	**17.9**	**21.3**

[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. 2021	31 Dec. 2020
Opening balance	148.0	136.4
Translation differences	-1.8	3.4
Additions	1.6	5.4
Disposals	-0.7	0.0
Depreciation and impairment	-4.6	-4.3
Reclassification between items	1.6	7.1
Closing balance	144.2	148.0

3. Changes in tangible assets

(EUR million)	31 Dec. 2021	31 Dec. 2020
Opening balance	458.7	439.1
Translation differences	-1.7	2.3
Additions	135.9	85.3
Disposals	-75.9	-8.4
Depreciation and impairment	-55.6	-52.5
Reclassification between items	-1.6	-7.1
Closing balance	459.7	458.7

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 1.1.2021	2.2	15.6	15.6	33.3	35.6
Translation differences	-	-0.1	-0.1	-0.2	-0.2
Additions	0.1	84.1	5.3	89.4	89.3
Depreciation for the financial period	-0.1	-7.5	-5.4	-13.0	-
Payments	-	-	-	-	-11.3
Closing balance on 31 Dec. 2021	2.2	92.1	15.3	109.5	113.4

(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	-	0.2	0.1	0.3	0.3
Additions	0.3	2.0	4.9	7.2	7.2
Disposals	-7.7	-0.2	-	-8.0	-7.9
Depreciation for the financial period	-0.4	-4.6	-5.1	-10.1	-
Other changes	-	-0.4	0.0	-0.4	-
Payments	-	-	-	-	-10.3
Closing balance on 31 Dec. 2020	2.2	15.6	15.6	33.3	35.6

(EUR million)	10-12/2021	10-12/2020	1-12/2021	1-12/2020
Depreciation expense of right-of-use assets	-3.5	-2.6	-13.0	-10.1
Interest expense on lease liabilities	-1.2	-0.3	-4.2	-1.2
Total amounts recognised in profit or loss	-4.8	-2.8	-17.2	-11.3

5. Deferred tax assets

Out of the total EUR 36.3 million, EUR 28.2 million of the deferred tax asset arise from adopted losses, postponed depreciations and non-deductible interest expenses in Group's operations in Finland. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and 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 takes place as profitability improves.

Deferred tax assets are assumed to be used during current decade. Consideration is based on management's pland for the near future. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2026 and beyond. Covid-19 has only minor impact on the expected period of use. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and deductibility restrictions of interest expense can be used to speed up the utilisation of losses before they expire. Utilisation of postponed tax depreciations and non-deducted interest expense do not have a time limit. Unrecognized Finnish deferred tax asset at the end of December 2021 was EUR 20.7 million.

6. Inventories

(EUR million)	31 Dec. 2021	31 Dec. 2020
Materials and supplies	72.2	59.8
Semi-finished products	5.4	4.6
Finished products	46.0	47.5
Other inventories	0.4	0.5
Inventories, advance payments	1.0	1.5
Biological assets	6.0	5.2
Total inventories	131.1	119.0

Derivative instrument liabilities

(EUR million)	31 Dec. 2021	31 Dec. 2020
Nominal values of derivative instruments		
Foreign exchange derivatives	72.7	59.2
Interest rate derivatives	74.1	99.9
Electricity derivatives	13.0	13.4
Fair values of derivative instruments		
Foreign exchange derivatives	0.2	-0.3
Interest rate derivatives	-1.1	-3.5
Electricity derivatives	7.0	-1.5

Consolidated other contingent liabilities

(EUR million)	31 Dec. 2021	31 Dec. 2020
Debts secured by pledges or mortgages		
- loans from financial institutions	-	84.3
On own behalf		
- Mortgages given	-	37.7
On behalf of others		
- guarantees and other commitments	6.4	8.0
Other contingencies		
Leasing and rental commitments	0.2	0.2

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

Derivatives

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

(EUR million)	31 Dec. 2021	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	0.4	-	0.4	-
- Commodity derivatives	7.0	-	7.0	-
of which subject to cash flow hedging	7.0	-	7.0	-
Total	7.4	-	7.4	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-1.1	-	-1.1	-
- Foreign exchange derivatives	-0.2	-	-0.2	-
- Commodity derivatives	-	-	-	-
of which subject to cash flow hedging	-	-	-	-
Total	-1.3	-	-1.3	**-**

(EUR million)	31 Dec. 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	0.2	-	0.2	-
- Commodity derivatives	0.3	-	0.3	-
of which subject to cash flow hedging	0.3	-	0.3	-
Total	0.5	-	0.5	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-3.5	-	-3.5	-
- Foreign exchange derivatives	-0.6	-	-0.6	-
- Commodity derivatives	-1.8	-	-1.8	-
of which subject to cash flow hedging	-1.8	-	-1.8	-
Total	-5.9	-	-5.9	-

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)	1-12/2021	1-12/2020
Sales to associates	9.8	9.6
Purchases from associates	37.0	34.0
Trade and other receivables from associates	1.7	1.2
Trade and other payables to associates	3.4	2.6