HKSCAN

Financial Statements Bulletin 2022

HKScan's Financial Statements Bulletin 1 January – 31 December 2022

HKScan's 2022 EBIT from continuing operations positive despite strong cost inflation

October-December 2022

- On 13 December 2022, HKScan announced that it had signed an agreement to sell its Baltic business. The transaction is expected to be closed in the second half of 2023 and it is subject to approval by the competition authorities in Estonia and Latvia. The transaction changes HKScan's structure and financial key figures. HKScan discloses the Baltic business as discontinued operations and the company's financial reporting will focus on continuing operations, which comprise the businesses in Finland, Sweden and Denmark. The classification of the Baltic Business Unit as assets and liabilities held for sale and its valuation at fair value based on the purchase price resulted in an impairment of EUR 30.6 million. Further information on assets and liabilities held for sale and discontinued operations can be found in Note 7 to the Financial Statements.
- HKScan's net sales from continuing operations increased by 14.8 per cent to EUR 513.6 (447.5) million. In the review period, sales prices were significantly higher than in the comparison period, as higher costs due to strong inflation had been passed on to product sales prices, especially in April-September. Net sales increased in all sales channels and in all of the company's home markets. Especially food service sales increased clearly.
- The Group's EBIT from continuing operations totalled EUR 5.1 (11.6) million.
- The EBIT from discontinued operations, Business Unit Baltics, totalled EUR -35.4 (-4.0) million.
- The Group's comparable EBIT from continuing operations was EUR 3.1 (11.3) million. The main reasons for the decline in comparable EBIT were significantly higher energy and logistics costs and weakened consumer demand in the home markets.
- Cash flow from operating activities was EUR 37.1 (42.1) million.

January-December 2022

- HKScan's net sales from continuing operations increased by 11.5 per cent to EUR 1,833.8 (1,645.3) million.
- The Group's EBIT from continuing operations totalled EUR 10.1 (21.4) million.
- The Group's comparable EBIT from continuing operations was EUR 9.7 (17.9) million. To secure the availability of domestic meat raw material essential for its business, HKScan increased producer prices for meat raw material faster than sales prices due to structural pricing delays. Sales price increases and efficiency improvements in own operations gradually offset the impact of strong cost inflation in the early part of the year towards the summer. The sharp rise in energy and logistics costs, accelerated in the third quarter, could only be partly covered by sales price increases.
- Business Unit Finland's comparable EBIT was EUR 3.4 (8.5) million.
- Business Unit Sweden's comparable EBIT was EUR 16.6 (22.9) million.
- Business Unit Denmark's comparable EBIT was EUR 1.4 (0.0) million.
- The EBIT from discontinued operations, Business Unit Baltics, totalled EUR -60.8 (-3.6) million.
- Cash flow from operating activities was EUR 18.9 (54.6) million. The lower cash flow than in the comparison period was due to a decline in EBITDA and an increase in working capital. The increase in working capital was due to cost inflation.
- Interest-bearing net debt was EUR 347.2 (314.5) million and net gearing 124.4 (95.2) per cent.
- The Board of Directors proposes to the Annual General Meeting that no dividends be paid for 2022.

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

Outlook for 2023

In 2023, HKScan expects the Group's comparable EBIT from continuing operations to improve compared to 2022. The full-year performance will be significantly affected by inflation and the development of consumer purchasing power in the company's home markets. On the other hand, in the beginning of 2023, energy and logistics costs are on a more moderate level than in the peak of 2022.

Key figures, net sales, continuing operations

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Net sales	513.6	447.5	1 833.8	1 645.3
Finland	250.4	209.7	868.3	772.3
Sweden	208.9	196.7	745.1	700.4
Denmark	54.3	41.0	220.4	172.7

Key figures, EBIT, continuing operations

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
EBIT	5.1	11.6	10.1	21.4
- % of net sales	1.0	2.6	0.5	1.3
Comparable EBIT	3.1	11.3	9.7	17.9
- % of net sales	0.6	2.5	0.5	1.1
Comparable EBIT, Finland	1.4	5.2	3.4	8.5
- % of net sales	0.5	2.5	0.4	1.1
Comparable EBIT, Sweden	4.3	8.7	16.6	22.9
- % of net sales	2.0	4.4	2.2	3.3
Comparable EBIT, Denmark	0.4	1.0	1.4	0.0
- % of net sales	0.8	2.4	0.6	0.0

Key figures, other

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
EBITDA, continuing operations	14.8	25.0	55.8	71.4
Profit before taxes, continuing operations	-1.8	9.2	-0.9	10.3
- % of net sales	-0.4	2.0	0.0	0.6
Profit for the period, continuing operations	-2.7	4.9	-4.9	2.5
- % of net sales	-0.5	1.1	-0.3	0.2
EPS, EUR, continuing operations	-0.05	0.03	-0.11	-0.02
Comparable EPS, EUR, continuing operations	-0.07	0.03	-0.11	-0.06
Cash flow from operating activities, incl. discontinued operations	37.1	42.1	18.9	54.6
Cash flow after investing activities, incl. discontinued operations	13.6	21.2	-21.9	81.2*
Return on capital employed (ROCE) before taxes, %, incl. discontinued operations			-6.5	3.6
Interest-bearing net debt			347.2	314.5
Net gearing, %			124.4	95.2

* Includes the sale of Vantaa property (land and buildings) for EUR 76.1 million.

HKScan’s interim CEO Juha Ruohola

In 2022, HKScan’s net sales increased strongly as a result of sales price increases due to cost inflation. HKScan’s net sales from continuing operations increased by 11.5 per cent to EUR 1 833.8 (1 645.3) million. Net sales from continuing operations increased in all home markets and sales channels. Particularly strong growth was seen in the food service channel, where sales increased by 25 per cent. In Denmark, retail sales of branded products grew by 36 per cent. Retail sales also increased in Finland and Sweden.

On the other hand, the Group’s EBIT from continuing operations was down from the comparison period and totalled EUR 10.1 (21.4) million and comparable EBIT was EUR 9.7 (17.9) million. HKScan’s profitability from continuing operations is not satisfactory and improving the profitability is one of our key priorities in 2023.

At the beginning of 2022, HKScan’s own operations were still partially subject to restrictions related to the Covid-19 pandemic. The instability in Europe caused by Russia’s invasion of Ukraine accelerated the sharp rise in production costs and interest rates.

Over the past year, we worked determinedly to improve the cost efficiency of our operations. We covered the increased costs by raising sales prices in all our home markets. Despite the net sales growth, the comparable EBIT for the company’s continuing operations was well below the comparison period. The exceptionally high increase in energy and logistics costs could not be fully covered by sales price increases and cost savings. Rising housing and interest costs put the brakes on overall consumer spending and affected consumer demand for HKScan's products and our sales mix. HKScan has been able to respond to the change of consumer behaviour, as the company’s position in basic foods is strong and its consumer brands are well-known. HKScan’s wide product portfolio offers products at the right price to meet changing consumer needs.

The Business Unit Denmark continued its strong performance throughout the year and improved its comparable EBIT. In Finland and Sweden, the comparable EBIT was positive, but exceptionally high cost inflation, especially energy price increases, exceeded all forecasts and weakened the EBIT.

In December, we reported that HKScan had signed an agreement to sell its Baltic business to the Estonian AS Maag Grupp. The divestment of the Baltic business will improve HKScan's profitability and strengthen its balance sheet, and will enhance the company's ability to improve production efficiency and implement its long-term strategy. The transaction changes HKScan’s structure and financial key figures. The Baltic business is disclosed as discontinued operations in HKScan’s 2022 Financial Statements and reporting will focus on the continuing operations in Finland, Sweden and Denmark.

In 2022, we updated our responsibility programme and continued to build a carbon-neutral food chain in line with our Zero Carbon climate plan. The objectives of our responsibility programme relate to the wellbeing of nature and people: to climate, packaging, biodiversity and the safety and wellbeing of employees. We achieved good results in work safety, with a 25 per cent reduction in the accident frequency rate in HKScan's continuing operations and an increase of up to 94 per cent in the number of safety observations made by our personnel, thanks to our goal-oriented Safety First programme. Our focus is on promoting a proactive safety culture.

The unstable geopolitical situation is increasing business challenges while at the same time shortening supply chains by strengthening demand for domestic raw materials and familiar products in all our home markets. Ensuring security of supply is important. Rapid response to cost changes will continue to be required from industry and trade to create continuity in the production of food based on domestic raw materials and the availability of products made from them.

The effective use of the potential of our core business and the development of a sustainable, local food chain are crucial to HKScan's success. In an exceptional and rapidly changing operating environment, HKScan is focused on profitability improvement. We focus on the core business and aim to minimise any negative effects on the company's performance and to ensure that our results develop in line with our target. Throughout the Group, the key issues are tight cost control, increasing productivity in production, optimising the product portfolio in response to changing consumer demand and our commercial activities.

Key events in 2022

HKScan signed an agreement to sell its Baltic business

On 13 December 2022, HKScan announced that it has signed an agreement to sell its Baltic business to the Estonian AS Maag Grupp. The debt-free purchase price is EUR 90 million, of which EUR 20 million is conditional on the combined results of the separately defined meat business to be sold and Maag Grupp's Baltic meat business in 2024-2026. The transaction is expected to be closed in the second half of 2023 and it is subject to approval by the competition authorities in Estonia and Latvia. Further information on assets and liabilities held for sale and discontinued operations can be found in Note 7 to the Financial Statements.

In connection with the divestment of the Baltic business, HKScan started a written procedure in December to seek approval for a temporary waiver from the covenant in the terms and conditions of a EUR 90 million bond issued in March 2021. The temporary waiver was approved in a written procedure before Christmas. Further details are given in the company's stock exchange releases published on 13 December 2022 and 20 December 2022.

New bank loan to repay the bond and an increase in credit facilities

In June 2022, HKScan agreed on a new EUR 39.5 million bank facility to repay the bond maturing in September 2022. Additionally, in early October, the company agreed on an increase of EUR 45.0 million in credit facilities.

Juha Ruohola started as interim CEO on 29 September 2022

The Board of Directors of HKScan Corporation and CEO Tero Hemmilä jointly agreed that Hemmilä would leave his position as HKScan's CEO on 29 September 2022. HKScan's Board of Directors appointed Juha Ruohola as interim CEO of the company. As a member of the Group Executive Team, Juha Ruohola has been responsible for the Business Unit Baltics, the Polish business, the Group's meat balance, and exports and imports. At the same time, Markus Kirsberg was appointed to the Group Executive Team as interim EVP for Business Unit Baltics.

HKScan promoted cost efficiency in Finnish operations and clarified the Group's operating model

HKScan's goal is to clearly improve the cost efficiency and competitiveness of production. In 2022, HKScan conducted statutory negotiations in the Rauma and Eura production units of its Finnish poultry business and in the Forssa unit of its meat business. In Forssa, an investment of more than EUR 5 million in production development will be carried out. The changes in the poultry business are expected to generate annual savings of more than EUR 3 million in 2023. In Forssa, the measures are expected to generate annual savings of more than EUR 2 million, estimated to be realised after the completion of the investment in 2024 at the latest.

In addition, HKScan's Group operations in Finland conducted statutory negotiations in the spring and autumn to streamline and clarify the operating model. The change in the operating model and other efficiency measures are expected to result in total annual savings of approximately EUR 3 million, which are expected to be realised after the first quarter of 2023.

HKScan improved its energy efficiency and prepared for possible exceptional situations

Since early spring, HKScan prepared for exceptional situations in the energy market and secured the energy supply to its production units by increasing the flexibility of its energy solutions. The company introduced an energy-saving programme to improve energy efficiency through operational changes and investments.

Strategy

HKScan's long-term strategic target is to grow into a versatile food company. In the current exceptional and rapidly changing operating environment, the company is focusing on strengthening its financial base and improving the profitability of its core businesses. Meat, processed meat products and ready-made foods, such as meals, meal components and snacks, are HKScan's core business. Within its financial resources, HKScan is looking for new growth and actively pursuing new business opportunities promoting its strategy.

To advance its long-term strategy, HKScan will need a stronger balance sheet. To increase financial flexibility, the company is constantly assessing the position of its businesses within the Group.

The key drivers of value creation in HKScan's business are growth in the core business by increasing the added value of products and by strengthening the value creation capabilities of the company's own brands. The target is to grow in meals, snacks and new product categories and to strengthen in growing and new sales channels. 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.

Group net sales and EBIT

October-December

Net sales

HKScan's net sales from continuing operations increased by 14.8 per cent to EUR 513.6 (447.5) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 16.7 million. In the review period, sales prices were significantly higher than in the comparison period as higher costs due to strong inflation had been passed on to product sales prices, especially in April-September.

Food service sales increased clearly in value and also in volume, but the growth slowed down from the beginning of the year. Sales of meal components grew particularly well in the food service channel. Retail sales value grew clearly, driven by higher sales prices. Sales volumes in HKScan's retail products were at the comparison period's level in Sweden and in Denmark. In Finland, retail sales volumes were below the comparison period.

EBIT

HKScan's EBIT from continuing operations totalled EUR 5.1 (11.6) million. The comparable EBIT from continuing operations was EUR 3.1 (11.3) million. The comparable EBIT was positive in all home markets, but below the comparison period. The negative impact of the exchange rate change of the Swedish krona on EBIT was EUR 0.3 million.

During the review period, an item affecting comparability of EUR 2.0 million was recorded in continuing operations. EBIT from continuing operations in the comparison period included items affecting comparability of EUR +0.3 million. Items affecting comparability are described in more detail in the Tables section of this report.

Cost inflation remained high in all of HKScan's home markets during the review period. The main reasons for the decline in comparable EBIT were significantly higher energy and logistics costs and weakened consumer demand in the home markets. The sharp rise in energy and logistics costs, which accelerated in the third quarter, could only be partly covered by sales price increases in October-December.

January-December

Net sales

HKScan's net sales from continuing operations increased by 11.5 per cent to EUR 1,833.8 (1,645.3) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 36.6 million. Gradual increases in sales prices increased net sales while volumes remained at the comparison period's level.

Net sales from continuing operations increased in all home markets and sales channels. Particularly strong growth was seen in the food service channel, where sales increased by 25 per cent. In Denmark, retail sales of branded products increased by 36 per cent. Retail sales also grew in Finland and Sweden.

EBIT

HKScan's EBIT from continuing operations totalled EUR 10.1 (21.4) million. The comparable EBIT from continuing operations was EUR 9.7 (17.9) million. The negative impact of the exchange rate change of the Swedish krona on EBIT was EUR 0.9 million.

During the review period, an item affecting comparability of EUR 0.3 million was recorded in continuing operations. The comparison period EBIT included items affecting comparability of EUR +3.5 million. Items affecting comparability are described in more detail in the Tables section of this report.

The main reasons for the EBIT decline were the sharp rise in energy and logistics costs, accelerated in the third quarter, the considerable increase in the prices of other inputs, and the proactive producer price increases to secure the availability of meat raw material. HKScan's costs increased considerably and exceptionally fast, and the realised sales price increases were not sufficient to cover the increased costs.

In the Finnish poultry business, the depreciation period for machinery and equipment at the Rauma production unit has been extended from ten years to fifteen years due to re-evaluation of economic lifetime from the beginning of 2022. This has a positive annual impact of some EUR 3 million on the performance of the poultry business.

Balance sheet, cash flow and financing

At the end of the year, HKScan's balance sheet total was EUR 968.1 (985.6) million. The Group's interest-bearing debt at the end of the year was EUR 364.5 (341.9) million including an IFRS 16 lease liability of EUR 101.7 (113.4) million. The company's net debt increased from the comparison period by EUR 32.7 million to EUR 347.2 (314.5) million. HKScan's net gearing ratio was 124.4 (95.2) per cent. The impact of the IFRS 16 lease liability on the net gearing ratio was 36.4 percentage points.

At the end of the year 2022, the company had, on 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 per cent per annum until the first redemption date. The hybrid bond is treated as equity. The hybrid bond does not have a specified maturity date, but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date in 2023, and subsequently, on each annual coupon interest payment date. In September, an interest of EUR 2.1 million was paid for the hybrid loan, treated as equity, from the retained earnings.

In September 2017, HKScan issued a EUR 135.0 million 2.625 per cent fixed-rate, unsecured and senior bond with an outstanding amount of EUR 39.5 million. The bond matured on 21 September 2022 (FI4000278536). In June 2022, HKScan agreed on a new EUR 39.5 million bank facility to repay the bond maturing in September 2022. Additionally, in early October, the company agreed on an increase of EUR 45.0 million in credit facilities, expiring on 30 June 2023. After the review period, an agreement has been reached with financiers to extend the validity of the increase to the end of February 2024.

The Group's liquidity position was satisfactory. The EUR 200 million commercial paper programme had been drawn to the amount of EUR 15.0 (75.5) million. Committed credit facilities at the end of the year 2022 stood at EUR 145.0 (100.0) million and had been drawn to the amount of EUR 100.0 (0.0) million.

Net financial expenses from continuing operations were EUR -6.2 (-3.1) million in October-December and EUR -16.3 (-14.6) million in January-December. The increase of net financial expenses was due to the arrangement costs of the loans as well as the general rise of interest rates.

Cash flow from operating activities in October-December was EUR 37.1 (42.1) million. Cash flow decreased due to lower profitability and higher financial expenses, and working capital was released slightly less than in the comparison period. In January-December, cash flow from operating activities was EUR 18.9 (54.6) million. The decline was due to lower profitability and a strong increase in working capital, especially in the first quarter of the year. Cash flow after investments totalled EUR 13.6 (21.2) million in October-December. In January-December, cash flow after investments was EUR -21.9 (81.2) million. Cash flow after investments for the comparison period’s January-December was exceptional, as it included the sale of the Vantaa property for EUR 76.1 million.

In connection with the divestment of the Baltic business, HKScan started a written procedure in December to seek approval for a temporary waiver from the covenant in the terms and conditions of a EUR 90 million bond issued in March 2021. The temporary waiver was approved in a written procedure before Christmas. Further details are given in the company's stock exchange releases published on 13 December 2022 and 20 December 2022.

HKScan’s covenants for bank loans and revolving credit facilities are the net gearing ratio and the ratio of net debt to EBITDA. The EBITDA includes the share of profits from associates and joint ventures.

In December 2022, in connection to the sale of the Baltic business, the company negotiated temporary waivers to the net gearing covenants of the revolving credit facilities, the bank loan, and certain export credit agreements and the bond. The waivers are valid until the closing of the sale, but expire at the latest on 1 January 2024. The temporary limit on the net gearing ratio is 140 per cent for the bank loans and 145 per cent for the bond. At the end of 2022, the company’s net gearing ratio was 124.4 per cent. Once the transaction of the Baltic business is closed, the net gearing covenant will decrease by 15 percentage points, and at the same time the Group's net gearing will decrease accordingly.

The covenant limit for the net debt to EBITDA ratio is 6.0. At the end of 2022, the net debt to EBITDA ratio was 5.6. From the beginning of April 2023, the limit will be 5.5, from the beginning of July 2023, 5.0 and from the beginning of October 2023, 4.0. HKScan’s management has assessed the cash flow forecasts of the business over the next 12 months, which indicates that the covenants will not be breached, assuming that the divestment of the Baltic businesses is closed by the end of September 2023. In case of unforeseen changes in the business environment or a delay in the approval by the competition authorities, a breach of the covenants would seem to be apparent, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms. Further information is available under the headline Assumption of ability to continue as a going concern in the accounting policies of the Financial Statements Bulletin.

Disputes and pending legal proceedings

As previously reported in the 2022 financial reports, HKScan received a Request for Arbitration from the Arbitration Institute of the Finland Chamber of Commerce in March 2022, and the counterparty’s Statement of Claim in June 2022. These were arbitration proceedings initiated by HKScan's contractual partner regarding an alleged breach of contract, which did not involve claims for damages against HKScan, but claims for declaratory relief relating to the interpretation of the agreements between the parties and the alleged breach of those agreements. In August 2022, HKScan responded to the claims set out in the Statement of Claim and, in its Statement of Defence, denied the claims of breach of contract made by its contractual partner as completely unfounded. On 31 January 2023, the Arbitral Tribunal issued an arbitral award dismissing the claim against HKScan. The arbitral award is final and cannot be appealed.

The Danish tax authorities 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 in continuing operations totalled EUR 21.7 (15.1) million in October-December. In January-December, investments were EUR 37.4 (40.1) million. IFRS 16 additions to right-of-use assets amounted to EUR 5.5 (1.6) million in October-December and EUR 9.0 (80.7) million in January-December. The comparison period's January-December investments include the lease agreement for the Vantaa production unit and the extended lease agreement for the logistics centre in Sweden.

During 2022, HKScan invested particularly in improving production efficiency. In Sweden, Linköping and Skara implemented investments to increase production efficiency and automation levels. In Kristianstad, product packaging technology was modernised. In Finland, a new snack product line was introduced in Eura and the level of automation in sausage packaging was increased in Vantaa. In Poland, investments were made to increase the efficiency and capacity of bacon production.

During 2022, all HKScan's home markets implemented investments to prepare for exceptional energy situation. The investments increased the flexibility of energy solutions and prepared for possible exceptional situations.

Operating environment

Changes in consumer behaviour

Changes in HKScan's business environment were clearly reflected in consumer behaviour in 2022. In the first quarter of the year, restrictions related to the Covid-19 pandemic were removed, allowing consumers to move more freely and normalise their purchasing behaviour. The food service market recovered to near pre-pandemic levels in all of HKScan's home markets and volume growth in retail sales levelled off. The food service market showed significant growth, both in terms of volume and value. However, the positive effects of pandemic relief were short-lived as the changed security situation in Europe created new challenges for the market.

Russia's invasion of Ukraine caused geopolitical tensions in Europe, pushed up energy prices and created instability in financial markets. Cost inflation and rising interest rates weakened consumer purchasing power. In the first half of the year, the effects of the war were seen in the retail sector in the form of increased demand for canned, frozen and dry goods. There were also challenges in the availability of some imported food products and prices rose, further strengthening demand for domestic products and increasing consumer awareness of the importance of self-sufficiency.

The effects of cost inflation were reflected in consumer behaviour in all of HKScan's home markets and intensified towards the end of the year. In retail, the importance of promotions and campaigns was particularly evident in the second half of the year. In retail, the focus of consumption shifted within product categories from more expensive value-added products towards more affordable products. Retail volumes of pork and beef declined, particularly in the higher-priced categories, somewhat offset by strong growth in food service sales. The strong demand for familiar basic ingredients used in home cooking, such as minced meat, poultry and sausages, which characterised the period throughout the pandemic, continued from the second quarter onwards. The reasons for the strong demand were, however, related to the weakened purchasing power of consumers.

Clear market-specific differences in consumption trends towards lower-priced products could be seen in the second and third quarters of the year, but the differences narrowed by year-end. Consumption polarised within markets as well. While some consumers chose cheaper basic products in their shopping basket, others continued to follow consumption patterns that had changed during the pandemic, favouring ready meals, meal components, premium cold cuts and restaurant-level retail meals. The increase in snacking already seen in previous years continued in the year under review, with a more diversified product range in the category.

In the second half of the year, retail sales in HKScan's home markets saw a slight decline in volume as food service sales increased. Despite the decline in overall retail volumes and last year's high comparison figures, the value of sales developed positively, in particular due to higher food prices. Demand for ready-to-eat meals and salads, meal components and snacks continued to grow, but at a slower pace.

Changes in the international meat market

Rising production input and energy prices widely affect the value chain of food production in Europe.

Demand for poultry meat in Europe continued to grow and is expected to do so despite rising consumer prices. Beef consumption is expected to continue to fall, further increasing demand for poultry products. Increased beef prices are not expected to increase beef production in EU countries.

Pork production in the EU has been in decline and is expected to continue to fall in 2023. Pork imports from the EU increased, especially to Japan, Korea and other Asian countries. Export to China, on the other hand, fell as the country increased its self-sufficiency. Pork prices are expected to remain high in the EU, but profitability of production remains weak due to high input prices.

Export

In 2022, exports of HKScan's consumer products continued to grow and materialised as planned. The opening of the food service market after the Covid-19 pandemic increased demand for meat in HKScan's export markets. In a challenging global logistics chain, HKScan has been able to secure transport to its export customers in five continents.

In January 2022, HKScan's Rauma unit received an export approval for Finnish poultry products from the South Korean authorities. An export licence for beef from Finland to Japan was obtained at the end of December. HKScan will start exporting beef from Finland to Japan in early 2023.

Business Unit Finland

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Net sales	250.4	209.7	868.3	772.3
EBIT	3.7	5.8	5.6	12.1
- EBIT margin, %	1.5	2.8	0.6	1.6
Comparable EBIT	1.4	5.2	3.4	8.5
- EBIT margin, %	0.5	2.5	0.4	1.1

October-December

In Finland, net sales totalled EUR 250.4 (209.7) million. Net sales increased mainly due to the impact of price increases made before the review period. Food service sales continued to grow, with the strongest growth in strategically important meal components. Retail sales volumes were below the comparison period. Demand for pork and beef in Finland weakened, leading to a significant increase in exports of pork in particular.

EBIT was EUR 3.7 (5.8) million. Comparable EBIT was EUR 1.4 (5.2) million. HKScan made an impairment reversal of EUR 2.3 million in its Eura production unit due to higher utilisation rate and an improved outlook, which was recorded under the items affecting comparability. Energy and logistics costs were higher than in the comparison period, which weakened the comparable EBIT despite hedging measures for the exchange electricity price. The comparable EBIT was also negatively impacted by weakened consumer demand for meat in the Finnish retail, which led to an increase in exports. Continued high inflation was partly passed on to sales prices in the review period.

HKScan's product range expanded into new raw materials in line with the strategy. Kasviskonttori Oy, a joint venture founded by HKScan and Vihannes-Laitila in April 2022, launched Via Kasvimaa products in Finland in October. The ready-to-use and ready-to-cook vegetable products renew the offering of fresh vegetable products, add value to vegetables and complement HKScan's product range. The products are made at HKScan's production unit in Eura.

January-December

In Finland, net sales increased to EUR 868.3 (772.3) million as a result of price increases. Net sales increased in all sales channels, with food service and export sales showing the strongest growth. Sales volumes slightly increased from the comparison year. Food service volumes increased clearly, with particularly strong growth in meal components. Consumer demand for pork and beef decreased in the Finnish retail, which led to an increase in exports of pork in particular.

EBIT was EUR 5.6 (12.1) million. Comparable EBIT was EUR 3.4 (8.5) million. The review year's EBIT included a positive item of EUR 2.1 million affecting comparability. HKScan made an impairment reversal of EUR 2.3 million in its Eura production unit due to higher utilisation rate and an improved outlook. EBIT for the comparison year included a positive item of EUR 3.6 million affecting comparability.

The EBIT was affected by high cost inflation. Due to a structural pricing delay, sales price increases were able to offset the negative impact of cost increases from the second quarter onwards, but the exceptionally sharp rise in energy prices weakened the EBIT from July onwards. In addition, higher logistics costs had a negative impact on the EBIT at the end of the year. The increase in pork and beef exports weakened the EBIT.

HKScan continued its growth in meals and snacks in line with the strategy. Meal sales increased clearly in retail. In September, HKScan launched Via Pizzas, produced on a new multifunctional snack line at the production unit in Eura.

HKScan's goal is to clearly improve the cost efficiency and competitiveness of production. During the review year, HKScan conducted statutory negotiations in the Rauma and Eura production units of its Finnish poultry business and in the Forssa unit of its meat business. In Forssa, a significant investment in production development will be carried out. The measures are aimed at achieving a clear improvement in profitability.

HKScan began monitoring climate impacts on the farm level with a new Zero Carbon tool, which enables the monitoring of the effectiveness of climate measures and the reduction of emissions. By the end of the year, the tool was available for use on Finnish contract poultry and pig farms and some cattle farms.

Business Unit Sweden

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Net sales	208.9	196.7	745.1	700.4
EBIT	4.3	8.4	16.6	22.6
- EBIT margin, %	2.0	4.3	2.2	3.2
Comparable EBIT	4.3	8.7	16.6	22.9
- EBIT margin, %	2.0	4.4	2.2	3.3

October-December

In Sweden, net sales increased to EUR 208.9 (196.7) million. Net sales clearly increased at comparable exchange rates. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 16.7 million. The impact of cost inflation was partly offset by sales price increases, which increased net sales. The recovery in food service sales continued and increased net sales.

HKScan maintained its market position and retail sales volumes were at the comparison period level. In addition to the volume growth in food service sales, meat export volumes increased from the comparison period.

EBIT weakened to EUR 4.3 (8.4) million. Comparable EBIT was EUR 4.3 (8.7) million. The effect of the exchange rate change on EBIT was EUR -0.3 million. In the review period, EBIT was negatively affected by exceptionally high energy and logistics costs and general cost inflation, which was partly offset by higher sales prices. In addition, EBIT was negatively impacted by the weaker demand for higher value meat products.

HKScan continued to promote sustainable food production and started a partnership with the Agronod platform. Agronod aims to develop the responsibility and profitability of Swedish agriculture through digital data solutions.

January-December

In Sweden, net sales increased to EUR 745.1 (700.4) million. At comparable exchange rates, net sales increased clearly, with the negative effect of the exchange rate change of the Swedish krona on net sales amounting to EUR 36.6 million. Net sales grew in retail due to price increases and sales volumes were at the comparison year level. Food service sales clearly increased as a result of price increases and volume growth. Meat exports also increased considerably.

EBIT was EUR 16.6 (22.6) million. Comparable EBIT was EUR 16.6 (22.9) million. The effect of the exchange rate change on EBIT was EUR -0.9 million. At the start of the year, sales pricing could not yet respond to the strong cost inflation, but the situation was corrected during the second and third quarters. After the summer, the exceptionally high cost inflation and in particular the increased energy costs had a negative impact on EBIT.

HKScan's collaboration with Scandinavian Aquasystems on Gårdsfisk fish products was expanded. Sales of Gårdsfisk products transferred to HKScan in March.

HKScan's plant-based Scan products, launched in the spring, gained a strong foothold in the market. Plant-based alternatives to the popular Scan classics respond to the growing consumer demand for local plant-based food.

HKScan increased its cattle procurement in northern Sweden by deepening its cooperation with a local partner. The cooperation will secure HKScan's animal sourcing in northern Sweden in the long-term.

HKScan deepened its cooperation with a local retail customer with the aim of developing consumer demand for Swedish pork and pork products. The long-term and high-volume cooperation also includes responsibility initiatives related to nature and the farming community.

Business Unit Denmark

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Net sales	54.3	41.0	220.4	172.7
EBIT	0.4	1.0	1.4	0.0
- EBIT margin, %	0.8	2.4	0.6	0.0
Comparable EBIT	0.4	1.0	1.4	0.0
- EBIT margin, %	0.8	2.4	0.6	0.0

October-December

In Denmark, net sales totalled EUR 54.3 (41.0) million. In Denmark, demand for poultry products remained strong and sales volumes increased. Sales for Danish poultry products in the Swedish retail continued to grow strongly. Food service sales increased clearly to Denmark and Sweden, with volumes up in Denmark and at the same level in Sweden as in the comparison period.

Denmark's EBIT was EUR 0.4 (1.0) million. There were no items affecting comparability during the review period and comparison period. In the comparison period, EBIT of the Business Unit Denmark was exceptionally accrued towards the end of the year. EBIT was lower than in the comparison period due to strong cost inflation. Sales of higher value-added poultry products continued to grow.

January-December

Net sales increased by 28 per cent to EUR 220.4 (172.7) million, mainly due to higher sales prices. The retail sales of the Rose brand increased by 36 per cent. Sales increased in all channels, with food service sales in particular showing a clear increase. Sales for Danish poultry products also increased clearly in Sweden.

EBIT was EUR 1.4 (0.0) million. There were no items affecting comparability during the review period and comparison period. The impact of exceptionally high cost inflation could be passed on to sales prices. The positive EBIT development was also due to the sales channel choices in line with the strategy and on increasing added value through improved sales mix as well as by continuing efforts to improve production efficiency.

The Rose brand, well-known in Denmark for its high-quality and responsible poultry products, celebrated its 70th anniversary in September. HKScan implements its strategy by increasing sales of fresh and cooked products of higher added value.

Report on non-financial information

HKScan is a Northern European food company that makes tasty and responsibly produced food for consumers' various food moments. The company's long-term strategic target is to grow into a versatile food company. HKScan's continuing operations' home markets are Finland, Sweden and Denmark. The company's well-known brands include HK, Kariniemen, Via, Scan, Pärsons and Rose. HKScan's Report on non-financial information covers the Group's continuing operations.

Responsibility work is the basis of HKScan's strategy and its focus is on the company's business needs and the expectations and requirements of key stakeholders. In June 2022, HKScan's Executive Team approved the company's updated responsibility programme, with material themes defined on the basis of a stakeholder analysis and a materiality assessment.

The targets of HKScan Group's responsibility programme relate to the wellbeing of nature and people: to climate, packaging, biodiversity and the safety and wellbeing of employees. In 2022, a commitment to increasing biodiversity in the company's long food chain was added to the programme. Other key responsibility themes for the company include animal welfare, safe food and a competitive farmer community. These themes are promoted within the Business Units as they are subject to local regulation and stakeholder expectations vary across markets.

The progress of HKScan's responsibility work will be reported in more detail in the Annual and Responsibility Report based on the GRI Standards framework to be published in week 11/2023. The report will describe in more detail HKScan's environmental work, such as waste and water impacts, and social responsibility with regard to employees and society.

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'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 responsibility programme. Progress towards the Sustainable Development Goals related to health and wellbeing (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 Group's responsibility programme.

HKScan is committed to setting climate targets under the Science Based Targets (SBTi) initiative. In 2022, the company proceeded with the definition and validation of science-based climate targets under the SBTi process.

External recognitions

HKScan improved its results in independent annual ESG ratings (Environment, Social, Governance). In the ESG assessment of ISS (Institutional Shareholder Services), published in July, HKScan ranked in the top 20 per cent of international food companies. In September, Sustainalytics rated HKScan in the top 8 per cent of nearly 600 international food companies in terms of responsibility risk management. Among packaged food producers, HKScan was ranked in the top 4 per cent in the same assessment.

HKScan's listed A-shares are included in 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.

In May, HKScan was included in the Financial Times' European Climate Leaders list for the second year in a row. The Financial Times has listed some 400 European companies that have reduced climate emissions from their own production most in relation to net sales between 2015 and 2020.

EU taxonomy

EU taxonomy is the EU's sustainable finance classification system, which defines environmentally sustainable economic activities. The introduction of the taxonomy regulation is proceeding in stages, starting with the EU Commission’s publication of technical criteria for climate change mitigation and adaptation for the sectors with the greatest climate impact.

HKScan monitors the development of the EU taxonomy and reports the data in accordance with the EU Commission’s guidance. At the end of 2022, the company’s sector, the manufacture and sale of food products, did not have an industry classification (NACE) in the EU taxonomy. In line with the EU Commission's guidance, companies must report for 2022 the activities eligible for the taxonomy classification system in terms of net sales as well as capital and operating expenditure.

Net sales

HKScan’s continuing operations’ net sales of EUR 1,833.8 (1,645.3) million consist almost entirely of sales of food products manufactured by the company, for which there is no industry classification in the EU taxonomy. The company therefore has no taxonomy-eligible net sales and, as a result, no taxonomy-aligned net sales. In relation to net sales, a significant part of HKScan’s continuing operations’ costs arises from the purchase of meat raw material from contract farmers. The EU’s taxonomy criteria for the primary production of meat are under preparation and their final content and impact on HKScan's reporting under the taxonomy regulation is still uncertain. The table on net sales in accordance with the Taxonomy Regulation will be published in the Report of the Board of Directors in week 11/2023.

Capital and operating expenses

As HKScan has no taxonomy-eligible net sales, it accordingly has no taxonomy-eligible or taxonomy-aligned capital or operating expenses. The tables on capital and operating expenditure in accordance with the Taxonomy Regulation will be published in the Report of the Board of Directors in week 11/2023.

Environment

In 2022, HKScan promoted its Zero Carbon climate plan with a goal of carbon-neutral food chain (scope 1–3) from farms to consumers 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.

In the climate work in its own production, HKScan focused in particular on improving energy efficiency and saving energy. In August, the company launched a Group-wide energy-saving programme, which led to an improvement in energy efficiency. The company also made investments to improve energy efficiency. Due to the geopolitical situation in Europe, HKScan made changes in the energy solutions of its production units, increased the flexibility of its energy systems and prepared for possible energy-related exceptional situations.

HKScan continued to study ways to reduce the climate impact of meat production together with its contract farmers and other partners on 80 pilot farms in Finland, Sweden and Denmark. In Finland, the company introduced a Zero Carbon tool to help farms monitor their climate impact. By the end of the year, the tool was available for use on Finnish contract poultry and pig farms and some cattle farms. The tool provides HKScan with information on the climate impact of its contract farmers and allows farms to target their climate actions on the most impactful issues. The Zero Carbon tool enables the monitoring of the effectiveness of the measures and the reduction of emissions. In Sweden and Denmark, HKScan is involved in national climate calculation projects.

HKScan added a new target of increasing biodiversity in the company's food chain to its responsibility programme, which was updated in summer 2022. HKScan promotes biodiversity on farms and in its own production as well as through responsible procurement practices. The company will later define more specific indicators to promote biodiversity.

In all the home markets of its continuing operations, HKScan continued to promote the recyclability of packaging and development work to increase renewable packaging materials. In addition, the company continued to optimise the use of packaging materials and to make plastic materials thinner.

HKScan's value chain generates climate emissions, and the company is working systematically to reduce them. HKScan has assessed the risks and opportunities related to climate change and their financial impact in line with the Task Force on Climate-Related Financial Disclosure (TCFD) model. Key risks relate to issues such as legislation, the availability of lower emission technologies, energy costs, consumer behaviour and attractiveness as an employer and as an investment opportunity. An updated description of risks and opportunities will be published in HKScan's Annual and Responsibility Report in week 11/2023.

The effectiveness and impact of HKScan's 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 2022, there were no significant environmental deviations. Environmental risks at HKScan's production units have been identified as part of the ISO 14001 environmental management system, and the most significant ones are related to wastewater and possible chemical leaks. Environmental risks are controlled and managed at the unit level through, for example, preventive maintenance and monitoring equipment. Personnel are trained on environmental matters and encouraged to make environmental observations and to report any deviations observed.

Social responsibility and HR matters

At the end of 2022, HKScan's continuing operations had a total of 5,390 (5,354) employees. In addition, the Business Unit Baltics, which is reported as discontinued operations, had 1,445 (1,538) employees. In 2022, HKScan's salaries and remunerations for continuing operations, including social costs, totalled EUR 301.7 (302.7) million. In addition, HKScan's continuing operations' value chain includes some 6,400 contract farmers, with whom the company works closely to develop production and responsibility and to ensure the competitiveness of local meat production.

Personnel in continuing operations	1-12/2022	1-12/2021
Personnel on average*	5,390	5,354
Finland	2,747	2,755
Sweden**	1,978	1,945
Denmark	664	655
Women / men %	35 / 65	36 / 64
Women / men of superiors %	26 / 74	25 / 73

* Figures include persons employed by HKScan converted to full-time equivalents (FTE).
** Including Polish personnel.

HKScan works in a goal-oriented way towards zero accidents at work with the Safety First principle, with a particular focus on promoting a preventive safety culture. In 2022, the emphasis was on increasing safety awareness and observation. Personnel made on average 1.89 safety observations per year, which is 94 per cent more than in the comparison year. The company has set a target of two safety observations per employee per year. Safety observations, near misses and accidents were systematically addressed and used to improve the safety of practices, processes and work environment. Safety culture is also promoted through careful risk assessments and process management.

In 2022, HKScan's accident frequency fell by 25 per cent and days of absences due to accidents decreased by 4 per cent from the comparison year. The Blue Rules online training on safe working to avoid life-threatening accidents was launched to white collars at the end of the year. Blue collar workers will complete the Blue Rules training in early 2023. In October, the European Occupational Health and Safety Week was held across the Group, with the theme of psychological safety and preventive occupational safety.

HKScan continued to promote wellbeing at work with the Group-wide programme Better Together, which aims to promote responsible leadership, employee engagement and wellbeing. Action plans for wellbeing at work have been drawn up for each production unit and Business Unit.

HKScan defined its leadership principles with the aim of promoting a good employee experience, strengthening values-based culture and developing leadership practices throughout the organisation. The leadership principles will be rolled out in the Business Units and included in the evaluation of managerial work in 2023.

Competence of HKScan employees was supported by introducing the Learning Point learning and training platform, which brings together all training courses HKScan offers to its employees. HKScan started the High Five Rewards programme to recognise the work and achievements of teams in line with their targets.

HKScan's human resource risks relate to the availability of skilled and committed personnel, work safety and the attractiveness of the food industry and HKScan as an employer. In addition, any legal or illegal strikes in HKScan's value chain and in its operations may cause business risks. HKScan has zero tolerance for any kind of inappropriate treatment of its personnel, which is ensured by the Group's guidelines on inappropriate treatment and the Fair Way whistleblowing channel. The risks are reduced by developing cooperation and the competence and wellbeing of employees. Work safety risks are managed through the systematic promotion of work safety.

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. In its operations, HKScan also takes into consideration the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. HKScan does not accept corruption or bribery.

The online training on HKScan's Code of Conduct was updated. All employees complete the training every two years. The training strengthens employees' competence on issues such as human rights and the principles against corruption and bribery.

HKScan has Supplier Guidelines, which commit suppliers to comply with the company's principles on human rights, anti-corruption and anti-bribery. In 2022, HKScan started updating its Supplier Guidelines and continued to develop its responsible procurement processes.

HKScan's stakeholders can use the company's anonymised Fair Way whistleblowing channel to report suspicions of unethical conduct. In 2022, the company received 20 (8) reports of suspected negligence or misconduct through the Fair Way channel. The reports mainly concerned suspicions of inappropriate behaviour or management challenges. Most of the reports were resolved through HR processes during 2022. Based on the reports, internal policies and management development were revised and reviewed.

In 2022, HKScan started a human rights impact assessment process for people working in its own production units. HKScan's risks concerning human rights are related to 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, other internal control processes and personnel training. Potential risks related to human rights and corruption in the supply chain are managed through procurement risk assessments, standard requirements and by requiring a commitment to the Supplier Guidelines. The implementation of these principles is monitored through internal audit and third-party audits. In 2022, no deviations from the principles on human rights, bribery and corruption were detected.

Food safety

Food safety is of key importance in the long food production chain of the food industry. HKScan ensures product safety through systematic work from procurement to the customer. All HKScan's production units are certified in accordance with the Global Food Safety Initiative (GFSI) standards (FSSC 22000, IFS or BRC).

The company carries out systematic food safety risk management at all stages of its value chain. Risk assessment in the production units is based on the HACCP (Hazard Analysis Critical Control Point) process. Its operational level 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 any 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 related risks, HKScan Group has a risk assessment model covering the whole chain.

Animal welfare

HKScan is committed to promoting animal welfare with the company's contract farmers in Finland, Sweden and Denmark. Animal health and welfare is based on compliance with the 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 shown, for example, in the very low use of antibiotics. HKScan requires that antibiotics are not used as a preventive measure or to promote growth, but only when an animal becomes ill, on the prescription and under the supervision of a veterinarian and in compliance with precautionary periods.

Risks related to animal diseases are managed by continuously monitoring the animal disease situation and by working closely together with authorities, veterinarians and farmers. There are national programmes for the prevention of animal diseases, and farms follow disease prevention guidelines and good hygiene practices. HKScan's production units have contingency plans in place for animal disease situations. However, the possibility of animal diseases cannot be fully excluded. For example, African swine fever and avian flu cases in European countries have already reduced the export potential of meat outside the EU.

Key targets and results

Target	Corporate Governance	Results for continuing operations 2022
NATURE		
Environment		
Zero Carbon • carbon-neutral own production (scope 1 & 2) by the end of 2025 • carbon-neutral food chain (scope 1 - 3) by the end of 2040	Action plan towards carbon neutrality	• Climate impacts of own production (scope 1 and 2) 35,000 (36,000)* tCO_2e, carbon intensity 0.06 (0.06)* tCO_2e / sold product tonne • Climate impact of the whole food chain (scope 1–3) 2.2 (2.2)* $MtCO_2e$, carbon intensity 3.99 (3.97)* tCO_2e / sold product tonne • Energy consumption 0.75 (0.74)* MWh / sold product tonne
Responsible packaging • 100% recyclable packaging by the end of 2030 • 80% renewable or recycled packaging materials by the end of 2030	Business Units' plans towards targets	• 73 (72)% of packaging recyclable • 59 (48)% renewable or recycled materials
We commit to increasing biodiversity in our food chain	Part of climate work. Biodiversity management approach, targets and indicators defined later.	Target added to the programme in 2022. Biodiversity promoted on farms as part of Zero Carbon climate work.
PEOPLE		
Social and HR matters		
Determined work towards zero accidents	Safety First programme to promote work safety	• Accidents at work resulting in at least one day's absence 15.6 (20.9) /million working hours • Days of absence due to accidents 1848 (1919)
Continuous promotion of personnel wellbeing at work	Better Together programme for promotion of wellbeing at work	• Personnel satisfaction eNPS -3 (5) • Absences 8.0 (6.8) % of working hours
Human rights and measures against bribery and corruption		
• Human rights impact assessment for people working in HKScan's production units • 100% of personnel completed the Code of Conduct training	• Human rights impact assessment • Personnel training on compliance with HKScan's policies	• Phase 1 of the human rights impact assessment work started • 95% of white-collars completed the Code of Conduct training updated in 2022 • 78 (70)% of the entire personnel completed the Code of Conduct training

Results of HKScan's responsibility work will be described in more detail in the Annual and Responsibility Report 2022 based on the GRI Standards framework to be published in week 11/2023.
** Revised calculation of figures to be completed for the Annual and Responsibility Report 2022.*

Group management

Mika Koskinen, HKScan's EVP, strategic business development, investments, procurement, exports and imports and member of the Group Executive Team, moved to a new position outside the company at the end of June 2022. The transfer of his responsibilities was carried out through internal arrangements within the company.

HKScan's CEO Tero Hemmilä left his position on 29 September 2022. The HKScan Board of Directors appointed Juha Ruohola as interim CEO. As a member of the Group Executive Team, Juha Ruohola had previously been responsible for the Business Unit Baltics, the Polish business and the Group's meat balance as well as exports and imports. At the same time, Markus Kirsberg was appointed to the Group Executive Team as interim EVP for Business Unit Baltics.

Jouni T. Laine, HKScan's EVP for Food Solutions Unit and member of the Group Executive Team, moved to a new position outside the company in the beginning of 2023. Jouni T. Laine's term as a member of the Group Executive Team ended on 18 November 2022.

Shares and shareholders

At the end of December 2022, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The company's issued shares totalled 98,951,781 and 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 payment of the rewards for the Group's Restricted Share Plan 2019-2021 and Performance Share Plan 2018 for the performance periods 2018-2020 and 2019-2021. On 4 March 2022 a total of 236,269 HKScan Corporation's series A shares owned by the company was transferred without consideration to the participants of the share-based incentive plan in accordance with the terms 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 1,621,795 (1,858,064) A shares as treasury shares, corresponding to 1.64% of the company's total number of shares and 0.8% of the total number of votes.

The calculational market value of HKScan's shares at the end of December stood at EUR 84.6 (161.2) million. The market value of the Series A shares was EUR 79.9 (152.2) million and the calculational market value of the unlisted Series K shares was EUR 4.7 (9.0) million.

In January-December a total of 16,990,679 (32,515,203) of the company's shares were traded with a total value of EUR 22,060,625 (67,774,266). The highest price quoted was EUR 1.71 (2.52) and the lowest EUR 0.86 (1.57). The average price was EUR 1.31 (2.08). At the end of December, the closing price was EUR 0.87 (1.66).

Annual General Meeting 2022

HKScan Corporation's Annual General Meeting was held on 30 March 2022 in Turku under special arrangements due to the Covid-19 pandemic. The AGM adopted the parent company's and consolidated financial statements for the financial period 1 January 2021–31 December 2021 and discharged the members of the Board of Directors and the CEO from liability. The AGM resolved that a dividend of EUR 0.04 be paid for each share for the year 2021.

The decisions of the AGM have been published in their entirety in a stock exchange release on 30 March 2022, and the minutes are available in Finnish on the company website at www.hkscan.com.

Share-based long-term incentive plan

On 7 April 2021, HKScan announced changes to the payment schedules of both the Performance Share Plan (PSP) and Restricted Share Plan (RSP) to ensure relative alignment with the company's long-term performance and shareholder returns. 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 on the basis of the achievement of minimum targets set by the Board of Directors for total shareholder return (TSR) and profitability. The Board of Directors has set a ceiling on the cost of the deferred reward.

Part of the shares earned based on the achievement of the performance targets in the 2018-2020 PSP were paid out in spring 2021 according to the original payment schedule and part of the rewards were paid out in spring 2022 according to the new payment schedule. Part of the shares earned based on the achievement of the performance targets in the 2019-2021 PSP and meeting the financial indicator of the 2019-2021 RSP were paid out in spring 2022 according to the original payment schedule.

Read more in HKScan’s 2021 Financial Statements Bulletin and Remuneration Report. The company will publish its Remuneration Report for 2022 in week 11/2023.

Short-term business risks

Financial operating environment and risks related to financing

The war in Ukraine is causing uncertainty in the European energy market and disturbances particularly in the supply chains of grains and vegetable oils. High inflation in the euro area is expected to continue due to the unstable geopolitical situation. In the fourth quarter of 2022, inflation in the euro area remained high, especially due to rapidly rising energy, food and transport prices. Inflation pressures have also spread to the prices of other commodities and services. The uncertainty related to the increased cost inflation in 2023 has decreased in late 2022 and January 2023. Especially the uncertainty related to energy and electricity prices has been reduced for 2023, based on electricity price forecasts at the end of the year 2022 and after the financial year, from a very unstable and highly volatile market price situation in the second half of 2022.

There is still uncertainty for 2023 related to the evolution of consumer demand in the environment of high inflation and high interest rates. If consumer demand weakens significantly and the company's sales volumes fall considerably, this will negatively affect the company's profitability. The developments described above or a delay in the closing of the sale of the Baltic business would lead to a breach of the covenants. The covenants will remain close to their limits for the full year. In case of unforeseen changes in the business environment or a delay in the approval by the competition authorities, a breach of the covenants would seem to be apparent, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms. If management cannot negotiate new terms, banks have the right to mature the loans. The circumstances described above indicate a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Further information is available under the headline Assumption of ability to continue as a going concern in the accounting policies of the Financial Statements Bulletin.

If the Group’s financial performance does not improve as planned or if long-term interest rates continue to rise, the risk of impairment losses will increase and may affect the company's economic and financial position.

Price increase and availability of production inputs and raw materials

Especially energy price volatility in Europe remains significant. This will continue to put pressure on the cost of packaging materials and other production inputs.

Feed prices have remained high. Uncertainty about the availability and price of production inputs may continue to be reflected in production costs. Increases in producer prices have eased the liquidity and profitability crisis on farms. If the crisis is prolonged, the situation may weaken the availability of local meat raw material or the company’s profitability if it fails to raise the sales prices of its products to its customers to cover higher costs in the production chain, alongside measures to improve production efficiency.

In the global meat raw material market, changes in the trade relations between major meat importing and exporting countries may lead to significant local price fluctuations. The effects of these price fluctuations are partly unpredictable and affect also HKScan's home markets. In an unstable geopolitical situation, the role of global supply chains is weakening, while the importance and potential of regional supply chains and local food production are increasing.

Changes in consumer behaviour

With the sharp rise in food prices following the rise in food chain costs, consumer purchasing behaviour is expected to change clearly. Depending on the purchasing power of consumers in HKScan’s different home markets, consumer demand for food will focus on lower-priced products and product groups. For HKScan's sales volumes, this may be seen as a weakening in more expensive products and a strengthening in basic foods. In the unstable geopolitical situation, demand for basic foods is expected to remain strong.

The impact of possible international or local food scandals on consumer behaviour cannot be excluded. The discussion surrounding climate change may also affect the consumer demand for meat products. In addition, unexpected actions taken by pressure groups may impact business and consumer demand.

Other business risks

Food safety is of key importance in the long production chain of the food industry. The possibility of animal diseases cannot be fully excluded. African Swine fever and avian flu cases in European countries have reduced the export potential of meat outside the EU.

Pandemics are a business risk and the Covid-19 situation is closely monitored.

The risk of cyber-attacks is higher than before due to the unstable geopolitical situation. If realised, cyber-attacks could have a significant negative impact on HKScan’s operations.

The weakened functioning of global logistics chains may pose risks to the company’s ability to execute its investment within the planned timeframes and costs, and may affect the availability of capital goods used in HKScan's value chain. In its planning, HKScan takes into account the potential impact of cost and scheduling risks on the execution of its investments.

As a company that is critical for security of supply, HKScan is prepared for regional electricity supply restrictions through advance planning, contingency plans and recovery plans. The company has negotiated with the electricity distribution network companies on how to operate in possible electricity shortage situations. Restrictions on electricity supply, if realised, could significantly harm the company’s operations.

Board of directors’ proposal on the distribution of profit

The parent company's distributable equity is EUR 265.4 (282.5) million, including the reserve for invested unrestricted equity of EUR 216.0 (215.4) million and the profit for the financial year 2022 of EUR -13.9 million. The Board of Directors proposes to the Annual General Meeting that no dividends be paid for 2022. The remaining distributable assets will be retained in equity.

Annual general meeting 2023

HKScan’s Annual General Meeting is planned to be held in Turku on Thursday, 20 April 2023.
The invitation will be published later.

Turku, 9 Februay 2023

HKScan Corporation
Board of Directors

Webcast

In connection with its Financial Statements Bulletin 2022, HKScan will hold a webcast in Finnish for analysts, institutional investors and media on 9 February 2022 at 10 am EET. You can follow the Finnish webcast at https://hkscan.videosync.fi/2022-tilinpaatos and the recording will be available at www.hkscan.com later during the same day. HKScan's interim CEO Juha Ruohola and CFO Jyrki Paappa will present the 2022 result.

To arrange investor calls, please contact executive assistant Julia Hautamäki, tel. +358 40 846 7156 or julia.hautamaki@hkscan.com.

Financial reports

HKScan will publish the following financial reports in 2023:

- Interim Report for January-March 2023 on Wednesday 10 May 2023, at about 8:30 EET
- Half-Year Financial Report 2023 on Wednesday 9 August 2023, at about 8:30 EET
- Interim Report for January-September 2023 on Wednesday 8 November 2023, at about 8:30 EET

For further information

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With 110 years of experience, we at HKScan make life tastier – today and tomorrow. Our strategic target is to grow into a versatile food company. Our home markets are Finland, Sweden and Denmark, where around 5,400 of our professionals make responsible and locally produced food for consumers' well-known brands include HK®, Kariniemen®, Via®, Scan®, Pärsons® and Rose®. We are developing a more climate-friendly way of producing food and our Zero Carbon target is a carbon-neutral food chain by the end of 2040. HKScan is a publicly listed company, and in 2022, our net sales from continuing operations totalled over EUR 1.8 billion. www.hkscan.com

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Consolidated Financial Statements 1 January – 31 December 2022

Consolidated income statement

(EUR million)		10-12/2022	10-12/2021	1-12/2022	1-12/2021
Continuing operations:					
Net sales		513.6	447.5	1 833.8	1 645.3
Cost of goods sold	1.	-485.8	-415.4	-1 736.3	-1 535.2
Gross profit		27.9	32.1	97.4	110.1
Other operating items total	1.	2.6	3.6	7.9	7.8
Sales and marketing costs	1.	-12.1	-11.7	-43.7	-43.3
General administration costs	1.	-13.3	-12.4	-51.5	-53.2
Operating profit		5.1	11.6	10.1	21.4
Financial income		0.8	0.6	2.9	2.7
Financial expenses		-7.0	-3.7	-19.2	-17.2
Share of profit/loss in associates and joint ventures		-0.7	0.6	5.4	3.4
Profit/loss before taxes		-1.8	9.2	-0.9	10.3
Income tax		-0.8	-4.3	-4.0	-7.8
Profit/loss for the period, continuing operations		-2.7	4.9	-4.9	2.5
Profit/loss for discontinued operations		-35.4	-4.1	-61.1	-3.7
Profit/loss for the period		-38.1	0.8	-66.0	-1.2
Profit/loss for the period attributable to:					
Equity holders of the parent		-40.0	-0.4	-69.7	-4.5
Non-controlling interests		1.9	1.2	3.7	3.2
Total		-38.1	0.8	-66.0	-1.2
Earnings per share calculated on profit attributable to equity holders of the parent:					
EPS, undiluted, continuing operations, EUR/share		-0.05	0.03	-0.11	-0.02
EPS, diluted, continuing operations, EUR/share		-0.05	0.03	-0.11	-0.02
EPS, undiluted, discontinued operations, EUR/share		-0.36	-0.04	-0.63	-0.04
EPS, diluted, discontinued operations, EUR/share		-0.36	-0.04	-0.63	-0.04
EPS, undiluted, EUR/share		-0.42	-0.01	-0.73	-0,06
EPS, diluted, EUR/share		-0.42	-0.01	-0.73	-0,06

Consolidated statement of comprehensive income

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Profit/loss for the period	-38.1	0.8	-66.0	-1.2
OTHER COMPREHENSIVE INCOME (after taxes):				
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translating foreign operations	-1.3	-0.7	-7.2	-2.0
Cash flow hedging	-11.3	1.9	15.2	7.4
Items that will not be reclassified to profit or loss				
Actuarial gains or losses	14.1	2.9	14.1	2.9
TOTAL OTHER COMPREHENSIVE INCOME	1.5	4.1	22.2	8.3
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-36.6	4.9	-43.8	7.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:				
Equity holders of the parent	-38.5	3.7	-47.4	3.9
Non-controlling interests	1.9	1.2	3.7	3.2
Total	-36.6	4.9	-43.8	7.1

Consolidated balance sheet

(EUR million)	Note	31 Dec. 2022	31 Dec. 2021
ASSETS			
Intangible assets	2.	113.8	144.2
Tangible assets	3.4	378.6	459.7
Holdings		41.1	38.5
Deferred tax asset	5.	31.8	36.3
Other non-current assets		12.2	7.3
TOTAL NON-CURRENT ASSETS		577.5	686.0
Inventories	6.	115.9	131.1
Current receivables		155.5	141.3
Cash and cash equivalents		17.2	27.2
TOTAL CURRENT ASSETS		288.6	299.6
Assets of disposal group classified as held for sale	7.	101.9	-
TOTAL ASSETS		968.1	985.6
EQUITY AND LIABILITIES			
EQUITY		279.1	330.3
Non-current loans, interest-bearing	4.	333.9	210.1
Non-current liabilities, non-interest-bearing		40.7	63.5
TOTAL NON-CURRENT LIABILITIES		374.6	273.6
Current loans, interest-bearing	4.	30.6	131.8
Current liabilities, non-interest-bearing		243.3	249.8
TOTAL CURRENT LIABILITIES		273.9	381.7
Liabilities of disposal group classified as held for sale	7.	40.4	-
TOTAL EQUITY AND LIABILITIES		968.1	985.6

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2022	**66.8**	**72.9**	**6.6**	**215.4**	**25.9**	**10.4**	**-12.6**	**-4.8**	**-72.4**	**308.3**	**22.1**	**330.3**
Result for the financial period	-	-	-	-	-	-	-	-	-69.7	-69.7	3.7	-66.0
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	0.0	-	-	-	-7.2	-	-	-7.2	-	-7.2
Cash flow hedging	-	-	15.2	-	-	-	-	-	-	15.2	-	15.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	14.1	14.1	-	14.1
Total other comprehensive income / expense	-	-	15.3	-	-	-	7.2	-	14.1	22.2	-	22.2
Total compreh. income for the period	**-**	**-**	**15.3**	**-**	**-**	**-**	**7.2**	**-**	**-55.5**	**-47.4**	**3.7**	**-43.8**
Direct recognitions	-	-	-	-	-	-	-	-	-0.3	-0.3	-	-0.3
Transfer of own shares	-	-	-	-	-	-	-	0.7	-0.7	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-3.9	-3.9	-1.4	-5.3
Founding of subsidiary	-	-	-	-	-	-	-	-	-	-	0.3	0.3
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2022	**66.8**	**72.9**	**21.9**	**215.4**	**25.9**	**10.4**	**-19.8**	**-4.1**	**-134.9**	**254.5**	**24.6**	**279.1**

(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 comprehensive 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**

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, incl. discontinued operations

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Cash flow before change in net working capital	10.7	22.8	53.2	75.1
Change in net working capital	29.4	21.6	-20.8	-2.9
Financial items and taxes	-3.0	-2.3	-13.5	-17.6
CASH FLOW FROM OPERATING ACTIVITIES	37.1	42.1	18.9	54.6
Cash flow from investing activities	-23.5	-20.9	-40.8	26.5
CASH FLOW AFTER INVESTING ACTIVITIES	13.6	21.2	-21.9	81.2
Hybrid loan	-	-	-2.1	-2.1
Change in loans	-1.5	-3.3	21.8	-93.9
Dividends paid	-	-	-5.3	-4.4
CASH FLOW FROM FINANCING ACTIVITIES	-1.5	-3.3	14.4	-100.3
NET CASH FLOW	12.1	17.9	-7.4	-19.2
Cash and cash equivalents at beginning of period	6.2	9.3	27.2	46.8
Translation differences	-0.5	0.0	-2.0	-0.4
Cash and cash equivalents at end of period	17.8	27.2	17.8	27.2

Financial indicators

(EUR million)	31 Dec. 2022	31 Dec. 2021
Earnings per share (EPS), undiluted, EUR, continuing operations	-0.11	-0.02
Earnings per share (EPS), diluted, EUR, continuing operationes	-0.11	-0.02
Equity per share, EUR	2.61	3.17
Equity ratio, %	28.8	33.5
Adjusted average number of outstanding shares, mill.	97.3	97.0
Gross capital expenditure on PPE, EUR mill., continuing operations	37.4	40.1
Additions in right-of-use assets, EUR mill., continuing operations	9.0	80.7
Depreciation and impairment, EUR mill., continuing operations	45.8	49.9
Employees, average, FTE, continuing operations	5,390	5,354

Calculation of financial indicators

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

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

** 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 Interim report

Accounting policies

HKScan Corporation's financial statements bulletin for 1 January–31 December 2022 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 2021, except change in depreciation schedule for equipment and machinery from ten to fifteen years in BU Finland's Rauma factory starting from the beginning of 2022. This has annual positive impact to comparable EBIT amounting to some EUR three milllion. 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 2021. The financial statements bulletin is unaudited.

Assumption of ability to continue as a going concern

The financial statement for the financial year 2022 has been prepared on the going concern basis, assuming that HKScan will be able to realise its assets and settle its liabilities in the foreseeable future as part of normal operations. In assessing the going concern principle, HKScan's management has taken into account the uncertainties and risks associated with the business environment, available funding sources and the cash flow estimates of the Group companies for the next 12 months.

HKScan's profitability weakened due to the exceptionally high cost inflation (raw material, energy and electricity) in 2022 and related weakening of consumer demand. As the company announced on 29 September 2022, the development of profitability was below the defined targets. The impact of cost inflation on profitability was only partially covered by the gradual increase in sales prices, production efficiency measures and cost savings implemented during 2022, which led to an unsatisfactory profitability development in 2022. In addition, HKScan's operative working capital has increased in 2022 due to cost inflation. The weak profitability development and increase in working capital have had a negative impact on cash flow and further on the net gearing and leverage, which are the company's covenants.

The uncertainty related to the increased cost inflation in 2023 has decreased in late 2022 and January 2023. Especially the uncertainty related to energy and electricity prices has been reduced for 2023, based on electricity price forecasts at the end of the year 2022 and after the financial year, from a very unstable and highly volatile market price situation in the second half of 2022.

There is still uncertainty for 2023 related to the evolution of consumer demand in the environment of high inflation and high interest rates. If consumer demand weakens significantly and the company's sales volumes fall considerably, this will negatively affect the company's profitability. This may also lead to a temporary increase in working capital, which would weaken the profitability and have a negative impact on the company's cash flow and asset values. This could lead to a breach of the covenants.

HKScan's covenants for bank loans and revolving credit facilities are the net gearing ratio and the ratio of net debt to EBITDA. The EBITDA includes the share of profits from associates and joint ventures.

In December 2022, in connection to the sale of the Baltic business, the company negotiated temporary waivers to the net gearing covenants of the revolving credit facilities, the bank loan, certain export credit agreements and the bond. The waivers are valid until the closing of the sale, but expire at the latest on 1 January 2024. The temporary limit on the net gearing ratio is 140 per cent for the bank loans and 145 per cent for the bond. At the end of 2022, the company's net gearing ratio was 124.4 per cent. Once the transaction of the Baltic business is closed, the net gearing covenant will decrease by 15 percentage points, and at the same time the Group's net gearing will decrease accordingly.

The covenant limit for the net debt to EBITDA ratio is 6.0. At the end of 2022, the net debt to EBITDA ratio was 5.6. From the beginning of April 2023, the limit will be 5.5, from the beginning of July 2023, 5.0 and from the beginning of October 2023, 4.0.

HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicates that the covenants will not be breached, assuming that the divestment of the Baltic businesses is closed by the end of September 2023. The covenants will remain close to their limits for the full year. In case of unforeseen changes in the business environment or a delay in the approval by the competition authorities, a breach of the covenants would seem to be apparent, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms.

If management cannot negotiate new terms, banks have the right to mature the loans. The circumstances described above indicate a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Should it prove in the foreseeable future that the preparation of financial statements on the going concern principle is not justified, the carrying values and/or classification of the company's assets and liabilities would have to be adjusted. This would result in an impairment of deferred tax assets and measurement of non-current assets at fair value.

Analysis by segment

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
NET SALES				
- Finland				
Sales, goods	249.4	208.8	864.4	769.0
Sales, services	1.0	0.9	3.9	3.3
- Sweden				
Sales, goods	208.9	196.7	745.1	700.3
Sales, services	0.0	0.0	0.1	0.1
- Denmark				
Sales, goods	54.3	41.0	220.4	172.7
Sales, services	0.0	0.0	0.0	0.0
Group total	513.6	447.5	1 833.8	1 645.3
EBIT				
- Finland	3.7	5.8	5.6	12.1
- Sweden	4.3	8.4	16.6	22.6
- Denmark	0.4	1.0	1.4	0.0
Segments total	8.4	15.2	23.5	34.7
Group administration costs	-3.3	-3.6	-13.4	-13.3
Group total	5.1	11.6	10.1	21.4
INVESTMENTS				
- Finland				
Gross capital expenditure on PPE	8.6	4.3	15.3	16.3
Additions in right-of-use assets	1.9	0.6	3.0	70.9
Investments total	10.5	4.9	18.3	87.1
- Sweden				
Gross capital expenditure on PPE	11.2	8.8	18.6	19.6
Additions in right-of-use assets	2.9	0.7	4.1	9.1
Investments total	14.1	9.5	22.7	28.6
- Denmark				
Gross capital expenditure on PPE	1.9	2.0	3.5	4.3
Additions in right-of-use assets	0.7	0.2	1.9	0.8
Investments total	2.6	2.2	5.4	5.1
Total	27.2	16.7	46.4	120.8

AVERAGE NUMBER OF EMPLOYEES, FTE				
- Finland			2 747	2 755
- Sweden			1 978	1 945
- Denmark			664	655
Total			5 390	5 354

Notes to the income statement

1. Items affecting comparability

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Comparable EBIT, continuing operations	**3.1**	**11.3**	**9.7**	**17.9**
Termination of employment, Group management 1)	-0.4	-	-1.8	0.2
Loss of prepayment, Finland 4)	-	-	-0.2	-
Impairment of assets, Sweden 2) 3)	-	-0.2	-	-0.2
Reversal of impairment of assets, Finland 2) 3)	2.3	0.1	2.3	3.1
Gain on sale of tangible assets, Finland 4)	-	0.5	-	0.5
EBIT, continuing operations	**5.1**	**11.6**	**10.1**	**21.4**

[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. 2022	31 Dec. 2021
Opening balance	144.2	148.0
Translation differences	-6.6	-1.8
Additions	2.0	1.6
Disposals	-	-0.7
Depreciation and impairment	-20.0	-4.6
Reclassification between items	1.3	1.6
Assets of disposal group classified as held for sale	-7.0	-
Closing balance	113.8	144.2

3. Changes in tangible assets

(EUR million)	31 Dec. 2022	31 Dec. 2021
Opening balance	459.7	458.7
Translation differences	-6.8	-1.7
Additions	53.2	135.9
Disposals	-1.0	-75.9
Depreciation and impairment	-51.9	-55.6
Reclassification between items	-1.3	-1.6
Assets of disposal group classified as held for sale	-73.3	-
Closing balance	378.6	459.7

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 Jan. 2022	2.2	92.1	15.3	109.5	113.4
Translation differences	-	-0.8	-0.2	-1.1	-1.1
Additions	0.1	3.7	5.8	9.6	9.6
Depreciation for the financial period	-0.1	-8.4	-5.5	-14.0	-
Payments	-	-	-	-	-12.1
Assets and liabilities of disposal group classified as held for sale	-	-6.3	-1.6	-7.9	-8.1
Closing balance on 31 Dec. 2022	2.2	80.3	13.8	96.3	101.7

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1 Jan. 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)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Depreciation expense of right-of-use assets, continuing operations	-3.3	-3.2	-12.6	-12.1
Interest expense on lease liabilities, continuing operations	-1.1	-1.2	-4.5	-4.1
Total amounts recognised in profit or loss, continuing operations	-4.4	-4.3	-17.1	-16.1

5. Deferred tax assets

Out of the total EUR 31.8 million, EUR 28.0 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 were 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 the current decade. Consideration is based on management's plans 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. 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 2022 was EUR 23.8 million.

6. Inventories

(EUR million)	31 Dec. 2022	31 Dec. 2021
Materials and supplies	66.2	72.2
Semi-finished products	6.1	5.4
Finished products	41.9	46.0
Other inventories	-	0.4
Inventories, advance payments	1.7	1.0
Biological assets	0.0	6.0
Total inventories	115.9	131.1

7. Assets and liabilities of disposal group classified as held for sale and discontinued operations

Group has on December 13th 2022 agreed on selling Baltics business unit to an Estonian AS Maag Grupp. The sale includes the whole segment. Because of this in the financial statement on December 31st 2022 the business unit has been classified as assets and liabilities held for sale and they are presented as discontinued operations. The debt-free purchase price is EUR 90 million, of which EUR 20 million is conditional on the combined performance of the separately defined meat business subject to the transaction and Maag Grupp's Baltic meat business in years 2024-2026. Of the EUR 70 million fixed purchase price, EUR 55 million will be paid at the closing of the transaction and the remainder over the next three years. The transaction is expected to be closed in the second half of 2023 and it is subject to regulatory approvals in Estonia and Latvia.

Assets and liabilities held for sale are measured at debt-free purchase price EUR 83.2 million deducted with transaction costs which led to EUR 30.6 million impairment in book value. EUR 6.6 million of the impairment was allocated to goodwill, EUR 0.4 million to other intangible assets and the rest to tangible assets. During financial year in Q2 an impairment amounting to EUR 15.6 million was recorded to Baltics goodwill. As result the whole year impairment to Baltics book value is EUR 46.2 million. Fair value measurement of assets and liabilities held for sale includes management consideration and estimate. Estimate includes transaction costs, post-closing purchase price discounting and an estimate on conditional EUR 20 million purchase price. Post-closing fixed purchase price has been discounted with 5 per cent and conditional purchase price with 9.7 per cent. Management has estimated the probability of earn-out realisation and estimate includes the uncertainty in development of profitability. EBITDA for the sold business required for realisation of earn-out is lower than the Group has previously used for valuation, because realization of earn-out is significantly impacted by development of buyer's meat business and synergies. The amount of conditional purchase price is estimated at 13.2 million and its carrying amount at fair value is 9.8 million.

The significant transactions between continuing and discontinued operations are Baltics' product sales and purchases with Group companies, Group's service fee from Baltics and Group's financial income from financing Baltics. Figures for continuing and discontinued operations represent external sales and its costs according to Group's segment reporting. Group service fee from Baltics has been reduced to post closing level agreed with the buyer. This improves the profit for discontinued operation and respectively reduces profit of continuing operations. Baltics' external financial expenses are shown as financial expenses for the discontinued operation.

Profit/loss for discontinued operations

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Net sales	52.1	44.1	195.7	170.0
Cost of goods sold	-56.5	-46.0	-222.7	-166.2
Other operating items total	-0.4	-2.1	-3.2	-7.3
Operating profit	-4.8	-4.0	-30.2*	-3.6
Financial income and expenses	-0.1	-0.1	-0.3	-0.1
Income tax	0.0	0.0	0.0	0.0
Profit/loss for the period	-4.9	-4.1	-30.5	-3.7
Impairment from fair-value measurement	-30.6	0.0	-30.6	0.0
Profit/loss for the period from discontinued operations	-35.4	-4.1	-61.1	-3.7

* Includes an impairment to goodwill amounting to EUR 15.6 million.

Cash flow of discontinued operations

(EUR million)	10-12/2022	10-12/2021	1-12/2022	1-12/2021
Cash flow from operating activities	-6.3	-10.6	-15.5	-2.0
Cash flow from investing activities	-1.7	-3.4	-5.7	-7.7
Cash flow from financing activities	-0.3	-0.3	-1.3	-0.9
Cash flow total	-8.3	-14.3	-22.5	-10.6

Assets and liabilities of disposal group classified as held for sale

(EUR million)	31 Dec. 2022
Intangible assets	-
Tangible assets	49.7
Inventories	34.4
Receivables	17.8
Total assets (A)	101.9
Lease liabilities	8.1
Trade payables and other liabilities	32.2
Total liabilities (B)	40.4
Net balance sheet value (A-B)	61.5

Key figures of continuing and discontinued operations 2021-2022

(EUR million)	Q1/2021	Q2/2021	Q3/2021	Q4/2021	2021	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022
Net sales										
- Finland	179.8	193.8	188.9	209.7	772.3	182.6	213.4	221.8	250.4	868.3
- Sweden	161.8	171.1	170.8	196.7	700.4	163.9	185.4	186.9	208.9	745.1
- Denmark	45.4	42.2	44.0	41.0	172.7	49.4	57.4	59.2	54.3	220.4
Group total, continuing operations	387.0	407.1	403.6	447.5	1 645.3	395.9	456.3	467.9	513.6	1 833.8
Discontinuing operations, Baltics	40.5	42.2	43.2	44.1	170.0	41.2	49.4	52.9	52.1	195.7
Group total	427.5	449.3	446.8	491.6	1 815.3	437.2	505.7	520.8	565.8	2 029.5

(EUR million)	Q1/2021	Q2/2021	Q3/2021	Q4/2021	2021	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022
EBIT										
- Finland	-0.5	3.8	3.1	5.8	12.1	-1.4	1.4	1.9	3.7	5.6
- Sweden	2.4	4.9	6.9	8.4	22.6	0.2	4.9	7.2	4.3	16.6
- Denmark	0.0	-1.1	0.1	1.0	0.0	0.5	0.3	0.2	0.4	1.4
- Group administration	-4.0	-3.8	-1.8	-3.6	-13.3	-3.6	-3.5	-3.0	-3.3	-13.4
Group total, continuing operations	-2.3	3.7	8.3	11.6	21.4	-4.4	3.1	6.3	5.1	10.1
Discontinuing operations, Baltics	1.1	0.0	-0.7	-4.0	-3.6	-4.5	-17.4	-3.6	-35.4	-60.8
Group total	-1.1	3.7	7.6	7.6	17.9	-8.9	-14.3	2.7	-30.3	-50.8

(EUR million)	Q1/2021	Q2/2021	Q3/2021	Q4/2021	2021	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022
Comparable EBIT										
- Finland	-0.5	0.7	3.1	5.2	8.5	-1.2	1.4	1.9	1.4	3.4
- Sweden	2.4	4.9	6.9	8.7	22.9	0.2	4.9	7.2	4.3	16.6
- Denmark	0.0	-1.1	0.1	1.0	0.0	0.5	0.3	0.2	0.4	1.4
- Group administration	-4.0	-3.8	-2.0	-3.6	-13.4	-3.4	-3.3	-1.9	-3.0	-11.6
Group total, continuing operations	-2.3	0.7	8.1	11.3	17.9	-4.0	3.3	7.3	3.1	9.7
Discontinuing operations, Baltics	1.1	0.0	-0.4	-4.0	-3.3	-4.5	-1.8	-3.6	-4.8	-14.6
Group total	-1.1	0.7	7.7	7.3	14.5	-8.5	1.5	3.8	-1.7	-4.9

Derivative instrument liabilities

(EUR million)	31 Dec. 2022	31 Dec. 2021
Nominal values of derivative instruments		
Foreign exchange derivatives	91.8	72.7
Interest rate derivatives	48.5	74.1
Electricity derivatives	-1.7	13.0
Fair values of derivative instruments		
Foreign exchange derivatives	0.7	0.2
Interest rate derivatives	0.3	-1.1
Electricity derivatives	23.8	7.0

The negative nominal value of electricity derivatives is the net value of purchase derivatives made against the increase in the price of electricity and sales derivatives related to partial closing of the position.

The nominal value is negative because sales derivatives are made at higher prices than purchase derivatives.

Consolidated other contingent liabilities

(EUR million)	31 Dec. 2022	31 Dec. 2021
Debts secured by pledges or mortgages		
- loans from financial institutions	39.5	-
On own behalf		
- Assets pledged	61.5	-
On behalf of others		
- guarantees and other commitments	2.6	6.4
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. 2022	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	0.3	-	0.3	-
- Foreign exchange derivatives	0.8	-	0.8	-
- Commodity derivatives	27.5	-	27.5	-
of which subject to cash flow hedging	27.5	-	27.5	-
Total	**28.6**	**-**	**28.6**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps		-		-
- Foreign exchange derivatives	0.0	-	0.0	-
- Commodity derivatives	-3.7	-	-3.7	-
of which subject to cash flow hedging	-3.7	-	-3.7	-
Total	**-3.7**	**-**	**-3.7**	**-**

(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**	**-**

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)	1-12/2022	1-12/2021
Sales to associates	14.9	9.8
Purchases from associates	45.4	37.0
Trade and other receivables from associates	2.0	1.7
Trade and other payables to associates	3.5	3.4