HKSCAN

Interim Report Q1 2022

HKScan's Interim Report 1 January – 31 March 2022

HKScan's EBIT down on the comparison period as expected, with the outlook for 2022 unchanged

January-March 2022

- HKScan's net sales totalled EUR 437.2 (427.5) million. In comparable figures, net sales increased by almost four per cent. Net sales increased in all the company's home markets. Clear increase in food service sales and retail sales of meals and meal components.
- The Group's EBIT totalled EUR -8.9 (-1.1) million.
- The Group's comparable EBIT weakened as expected from the comparison period, totalling EUR -8.5 (-1.1) million. Negative performance in the Baltics caused the biggest deviation in the Group's EBIT.
- High cost inflation in all HKScan's home markets, starting in late 2021, and the war in Ukraine further accelerating it, have pushed energy, grain and other production input prices to record high levels. To secure the sufficiency of meat raw material essential for its business, HKScan has raised producer prices for meat raw material faster than expected.
- HKScan's costs rose significantly and exceptionally fast. Due to the structural delay in pricing, increased sales prices and production efficiency measures did not fully compensate for strongly increased costs.
- The South Korean market with its strong purchasing power opened up for Finnish poultry products in January.
- Cash flow from operating activities was EUR -34.4 (3.3) million. In addition to a weaker EBIT than in the comparison period, cash flow was lowered by changes in working capital, the largest of which was the usual seasonal fluctuation in trade payables.
- Interest-bearing net debt was EUR 355.0 (308.0) million and net gearing 110.6 (95.6) per cent.
- With the war in Ukraine, the Group's operational focus has been shifted to short-term measures to minimise the negative impacts on performance and to ensure profit development in a rapidly changing operating environment.
- HKScan's outlook for 2022 remains unchanged and the company is confident in its ability to strengthen its performance over the rest of the year.

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

Outlook for 2022

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

Key figures, net sales

(EUR million)	1-3/2022	1-3/2021	2021
Net sales	437.2	427.5	1 815.3
Finland	182.6	179.8	772.3
Sweden	163.9	161.8	700.4
Denmark	49.4	45.4	172.7
Baltics	41.2	40.5	170.0

Key figures, EBIT

(EUR million)	1-3/2022	1-3/2021	2021
EBIT	-8.9	-1.1	17.9
- % of net sales	-2.0	-0.3	1.0
Comparable EBIT	-8.5	-1.1	14.5
- % of net sales	-1.9	-0.3	0.8
Comparable EBIT, Finland	-1.2	-0.5	8.5
- % of net sales	-0.7	-0.3	1.1
Comparable EBIT, Sweden	0.2	2.4	22.9
- % of net sales	0.1	1.5	3.3
Comparable EBIT, Denmark	0.5	0.0	0.0
- % of net sales	1.0	-0.1	0.0
Comparable EBIT, Baltics	-4.9	0.7	-5.1
- % of net sales	-11.8	1.7	-3.0

Key figures, other

(EUR million)	1-3/2022	1-3/2021	2021
EBITDA	5.9	14.7	78.1
Profit before taxes	-10.7	-5.7	6.6
- % of net sales	-2.4	-1.3	0.4
Profit for the period	-10.9	-6.2	-1.2
- % of net sales	-2.5	-1.5	-0.1
EPS, EUR	-0.12	-0.07	-0.06
Comparable EPS, EUR	-0.11	-0.07	-0.10
Cash flow from operating activities	-34.4	3.3	54.6
Cash flow after investing activities	-38.5	69.6*	81.2*
Return on capital employed (ROCE) before taxes, %	2.5	4.3	3.6
Interest-bearing net debt	355.0	308.0	314.5
Net gearing, %	110.6	95.6	95.2

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

HKScan's CEO Tero Hemmilä

HKScan's net sales increased during the first quarter of 2022. The performance weakened as expected from the comparison period. Comparable EBIT was EUR -8.5 million, while in the comparison period it was EUR -1.1 million. The reasons for this are clear. The strong cost inflation in all our market areas, already starting towards the end of last year, accelerated by the war in Ukraine, pushed production input prices to record high levels. HKScan's costs rose significantly and exceptionally fast. The company was not able to fully compensate the sharp rise in costs by increasing sales prices and by production efficiency measures, despite the fact that the increase in sales prices and the measures to improve production efficiency were higher than in the comparison period.

Net sales increased in all the company's home markets

The Group's January-March net sales increased by almost four per cent in comparable figures from the comparison period. With the gradual removal of pandemic restrictions, sales growth was particularly strong in the food service channel, with an increase of some 22 per cent. Food service sales growth is expected to strengthen further towards the end of the year, supporting the Group's positive profit development. Also, rise in sales prices partly increased net sales.

The meat and grain market situation completely exceptional

The comparable EBIT was lower than in the comparison period in all our Business Units except Denmark. In Denmark, we have managed to implement our strategy in a challenging operating environment and we improved our comparable EBIT. I am really pleased with our development in Denmark. Through our product portfolio development, sales channel choices and production efficiency measures, we have been able to build a more stable and profitable foundation for the business, for now and for the future. In Finland and Sweden, we were not able to increase sales prices at the same pace with cost increases and the comparable EBIT declined from the comparison period in both markets. The clearest decline in performance was seen in the Baltics. The completely exceptional price situation in the meat and grain markets challenged our long local value chain and business model in the Baltics. Pork prices increased significantly in Europe towards the end of the review period and are expected to rise further, which will significantly strengthen the competitive position of our own operations in the Baltics. At the same time, rising grain and energy prices continue to put pressure on our performance.

With the war in Ukraine, the Group's operational focus has been shifted to short-term measures to minimise the negative impacts on performance and to ensure profit development in a rapidly changing operating environment. This involves determined efforts to pass costs up the chain to sales prices, while emphasising systematic cost management.

Expansion into vegetables supports strategic journey to become a versatile food company

As a key part of our Food Company strategy, we announced after the review period a partnership with Vihannes-Laitila Oy, Finland's leading vegetable trading company. We founded a joint venture, Kasviskonttori Oy, to develop and launch fresh added-value vegetables. New products will be introduced to the consumer market within a year. The vegetable use is expected to continue to grow and in particular the consumption of fresh vegetables with higher added value is expected to increase with new products to be introduced to the consumer market. High-quality vegetable products will complement HKScan's existing product range to respond to consumer needs, creating width and diversity of offering, also strengthening our commercial operations and our role as a versatile food company for consumers.

During the review period, we conducted statutory negotiations in accordance with the Act on Co-operation to develop the Group's operating model. The change will further clarify the responsibilities between the Group functions and Business Units. The change emphasises the Business Units' profit responsibility and the Group's role in the overall management of strategy and of good corporate governance of a listed company. The new responsibilities between the Group and Business Units also allowed us to rationalise and improve the Group's cost efficiency.

Unstable geopolitical situation bringing changes to food supply chains

The unstable geopolitical situation is increasing business challenges and changing the market in a way that is strengthening the role of domestic raw materials and already familiar and safe products in consumer demand. Consumer food prices will rise significantly, affecting both retail selections and consumer demand. In this respect too, HKScan has a good market position and the situation is creating new opportunities for the company. At the same time, we will see developments where major food players will seek greater reliability and supply security in their international supply chains. This is an opportunity also for HKScan to strengthen existing customer relationships and find new ones.

With the war in Ukraine, we are facing new types of business risks related to the availability and price of Russian energy and increased cyber risk. As a company, we are well prepared for energy risks and we have prepared plans that are well underway to eliminate these risks. Cyber risk preparedness has been high on our agenda for quite some time.

Securing the availability of domestic meat raw material is also in the interest of the consumer

The most significant near-term risk in our home markets is related to the availability of meat raw material, especially at the end of this year and next year, as the value chain for primary production is long also in terms of time. Food chain companies, especially industry and trade, will be required to react much more quickly to cost changes, as their speed and magnitude could threaten the operation of the whole food chain and domestic food production through their negative impact. It is expected that the volatility of commodity prices on world markets will continue to be higher also in the coming years. The need for the change now underway is well understood and the scale of the financial changes required is exceptional. Passing on cost increases up the chain is the basis of a meat producer's economy. This inevitably means a clear rise also in consumer prices.

So far, the most critical issue has been to try to secure liquidity of farms. There is still a long way to go to reach a producer price level that will bring farm profitability up to the required level. For this reason, active discussion with customers to pass on costs up the chain will continue to play an important role also over the rest of the year. This is the only way to create continuity for the production of domestic meat raw material and food, because the current producer price level does not allow for this at current production input prices. I believe that all food chain companies understand the seriousness of the situation and are ready to take decisions that will not break the basis for domestic food production but strengthen it. I believe that this is also in the interests of consumers in the unstable geopolitical situation.

In the current situation, it is difficult to anticipate changes in the operating environment. Nevertheless, we are confident in our ability to strengthen our profit development over the rest of the year. Food always matters, especially in unstable times. Our strategic target is to grow into a versatile food company that creates strong shareholder value.

Key events in January–March 2022

HKScan expanding into the growing market of value-added vegetable products together with Vihannes-Laitila

HKScan and Vihannes-Laitila founded a joint venture in April after the review period. Kasviskonttori Oy will respond to growing consumer demand and renew the supply of fresh vegetable products. Within a year, the joint venture will launch ready-to-use and ready-to-cook fresh vegetable products with higher added value. The collaboration will promote HKScan's strategic target to grow into a versatile food company.

For HKScan, partnership with Finland's leading vegetable trading company is a natural part of the company's strategy to expand into new raw materials and product categories. The use of vegetables has been strongly growing and the added value of products has been on average very low. The new partnership will provide an excellent platform to create added value for vegetable products, develop the selection and drive growth. Fresh vegetable products made from trusted raw materials will complement HKScan's product portfolio consisting of a wide variety of meat products, snacks and meals.

HKScan holds 80 per cent and Vihannes-Laitila 20 per cent of the joint venture Kasviskonttori Oy. New vegetable products will be manufactured at HKScan's production unit in Eura.

Impacts of the war in Ukraine on HKScan

HKScan condemns Russia's attack towards the people of Ukraine and the independent Ukrainian state. HKScan has no business operations in Russia or Belarus. Since the sanctions imposed by Russia in 2014, HKScan has had no food exports to Russia. In addition, the company has suspended its minor exports to Belarus as a result of the war in Ukraine. HKScan has terminated cooperation agreements with companies with significant Russian ownership. So far, the war in Ukraine has had no impact on HKScan's service level.

The most significant effects of the war in Ukraine on HKScan are related to cost inflation and rising meat raw material prices. The availability of energy has also become a risk, especially for the company's Baltic business. HKScan has critically reviewed its energy sources and identified alternatives to Russian energy, which accounts for a relatively small proportion of the energy used by the Group. The company is building back-up systems to replace natural gas and is developing energy solutions for its production units so that it will switch away from Russian energy in about six months at an exceptionally fast pace for a large company. At the same time, HKScan will ensure the energy supply of its production units also in case of possible exceptional situations and will increase the flexibility of energy solutions. During the spring, the company has already moved away from a significant part of its Russian energy by investing in new energy solutions and through supplier selection.

The war in Ukraine has increased uncertainty in the international grain market, leading to sharply higher prices and uncertainty about the availability of grain. In addition, the situation has affected the availability and price of other inputs used by farms, in particular fertilisers. These effects have already materialised and are expected to continue in 2023.

HKScan's product range in Sweden more diverse than before

In March 2022, HKScan's strong and valued Scan brand was expanded to include plant-based products with five new plant-based alternatives for the popular Scan classics, made from Swedish raw materials. Easy-to-use, high-quality and tasty products respond to the growing consumer demand for local plant-based food and contribute to HKScan's strategy to grow into a versatile food company. The first reactions to the products from retailers and consumers have been positive.

HKScan's collaboration with Scandinavian Aquasystems on Gårdsfisk fish products deepened. Sales of Gårdsfisk products were transferred to HKScan in March, benefiting from HKScan's strong commercial platform. Consumer-packaged fresh fish products and frozen fish balls sold under the Gårdsfisk brand are now available in Swedish retail stores. The products have been well received by customers.

Finnish poultry products approved for export to South Korea

In January, the South Korean market opened up to Finnish poultry products. HKScan's export of poultry products to the South Korean market with strong purchasing power has started.

Food that does good

As a major food company, HKScan has a great responsibility to ensure local food security and security of supply in its home markets in Finland, Sweden, Denmark and the Baltics. The costs of food production have risen exceptionally sharply since the end of 2021, while profitability of meat production has declined significantly. The war in Ukraine has intensified cost increases and undermined global food security. At the same time, the importance of a local, functioning food chain as part of responsible business has been highlighted. HKScan works closely with the entire food chain to promote local food safety and to secure the supply of local meat raw material essential for its business.

Zero Carbon

HKScan is advancing its Zero Carbon climate plan with the goal of a carbon-neutral food chain by the end of 2040. At the end of 2021, nearly 70 per cent of the energy used by the HKScan Group was already renewable. As a result of the war Russia started in Ukraine, the company is looking for alternatives to Russian fossil energy sources. However, in the short term, Russian energy can only be partially replaced by renewable or low-emission energy. In an exceptional geopolitical situation, HKScan's priority is to ensure the uninterrupted continuity of its own operations in its home markets.

Safety First

HKScan works in a goal-oriented way towards zero accidents at work through its Safety First programme. In January and February, HKScan's accident frequency was record low, and the overall 12-month rolling average of accidents showed positive development. The company continued to promote a preventive culture of safety at work, and in the early part of the year, employees made 60 per cent more safety observations than a year earlier. Based on the observations, ways of working, processes and working environment were developed to make them safer.

Several of HKScan's production units have worked long without a single lost time accident. In Jelgava, Latvia, there has been no lost time accidents in more than three years, in Halmstad Sweden, in almost two years and in Mikkeli Finland, in a year. In April, after the review period, Vinderup in Denmark achieved one year without any lost time accidents.

Strategy

During its Turnaround programme completed at the end of 2021, HKScan rose from a deep financial crisis to a situation where the company's financial base is significantly more stable. However, the profit improvement achieved is not sufficient and the company will therefore continue to strengthen its financial base by focusing on improving the profitability of the core businesses before a more comprehensive implementation of the strategy.

In line with its strategy, HKScan is growing into a versatile food company. Implementing the strategy requires both new expertise and financial flexibility. It is therefore essential for the company to broaden the competences and continue to systematically develop its activities. Furthermore, within its financial resources, HKScan is looking for new growth and actively pursuing new business opportunities that implement the company's strategy.

To achieve a significant food company transformation, HKScan will need a stronger balance sheet as it builds new food businesses and ways to face market changes alongside its current business strongly based on poultry, pork and beef products. To increase financial flexibility, the position of each business within the Group is continuously assessed.

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

Advanced corporate responsibility work is an increasingly solid basis for HKScan's business. It is the new normal in the operating environment, and its role in leading the profit and balance sheet is increasingly important. Ability to operate within the carrying capacity of the environment and nature and to build a strong social foundation for the company's operations, enables HKScan to perform well and create responsible prosperity in its home markets. HKScan continues its goal-oriented climate work through the Zero Carbon programme aiming at a carbon-neutral food chain by the end of 2040.

After the end of the review period, HKScan announced that it had founded a joint venture, Kasviskonttori Oy, with Finland's leading vegetable trading company Vihannes-Laitila. It aims to develop and launch fresh added-value vegetables. The new company will make use of Vihannes-Laitila's extensive raw material base and HKScan's commercial and operational platform. Vegetable products will complement HKScan's existing product range and diversify the company's food business in line with its Food Company strategy.

Read more about HKScan's strategy in the Annual and Responsibility Report 2021 on the company's website www.hkscan.com.

Group net sales and EBIT

Net sales

HKScan’s net sales totalled EUR 437.2 (427.5) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 5.9 million. Sales clearly increased in food service and in product categories with higher added value, such as meals and meal components. Retail sales decreased slightly from comparison period.

EBIT

HKScan’s EBIT was EUR -8.9 (-1.1) million. Comparable EBIT was EUR -8.5 (-1.1) million. The change in the Swedish krona exchange rate had no impact on EBIT.

The main reasons for the decline in EBIT were the rapid and significant increase in the price of energy and other commodities, such as packages, and the faster-than-expected increase in producer prices during the review period to secure the availability of meat raw material HKScan’s costs rose significantly and exceptionally fast. The company was not able to fully compensate for the sharp rise in costs either by increasing sales prices or by the production efficiency measures.

In Finland and Sweden, sales volumes were unchanged, even though last year’s Easter sales were mainly seen in the first quarter figures. In Denmark, comparable EBIT was positive. Denmark’s progress in line with the strategy, both in terms of value added and volume growth, improved the EBIT despite higher input prices. In the Baltics, the meat and grain market continued to be challenging and the war in Ukraine played its part in complicating progress in improving profit, particularly in the Baltics.

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.

Items affecting comparability of EUR -0.4 million were recorded in the review period. The comparison period’s EBIT includes no items affecting comparability. Items affecting comparability are described in more detail in the Tables section of this report.

Balance sheet, cash flow and financing

At the end of March, HKScan's balance sheet total was EUR 990.1 (970.2) million. The Group's interest-bearing debt at the end of March was EUR 365.0 (345.9) million including IFRS 16 lease liability EUR 112.0 (110.4) million. The company’s net debt increased by EUR 47.0 million from the comparison period to EUR 355.0 (308.0) million. From the turn of the year, the seasonal growth in the net debt was EUR 40.5 million. HKScan’s net gearing ratio was 110.6 (95.6) per cent. The impact of the IFRS 16 lease liability on the net gearing ratio was 34.9 percentage points.

At the end of March 2022, the company had, in its balance sheet, a hybrid bond that was issued in 2018 and amounted to EUR 25.9 million. The coupon interest of the hybrid bond is fixed at 8 per cent per annum until the first redemption date. The hybrid bond is treated as equity. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date in 2023, and subsequently, on each annual coupon interest payment date.

The Group's liquidity remained good. Committed credit facilities at the end of March 2022 stood at EUR 100.0 (100.0) million and had been drawn to the amount of EUR 15.0 (0.0) million. The EUR 200 million commercial paper programme had been drawn to the amount of EUR 86.0 (78.0) million. Net financial expenses in the first quarter were EUR -3.1 (-5.4) million.

Cash flow from operating activities was EUR -34.4 (3.3) million. Cash flow after investments totalled EUR -38.5 (69.6) million. EUR 36.9 million more working capital was tied up than in the comparison period. Inventories increased especially in value, but also to some extent in volume. Working capital was also clearly increased by the lower level of accounts payable at the end of the review period. The cash flow after investments for the comparison period was exceptional as it included the sale of the Vantaa property for EUR 76.1 million.

Disputes and pending legal proceedings

In March 2022, HKScan received a request for arbitration from the Arbitration Committee of the Central Chamber of Commerce in Finland. This is an arbitration proceeding initiated by HKScan's contract partner in relation to an alleged breach of contract, for which the company has not yet received final claims. It is expected to be decided by the Arbitral Tribunal within approximately one year. HKScan denies its contractual partner's claims of breach of contract as completely unfounded.

The Danish tax authorities have conducted an audit of energy taxes covering the period 2011–2020 in HKScan Denmark A/S, which is a subsidiary of the Group. At the end of 2020, the Danish tax authorities issued their decision, according to which the company has been obliged to repay past refunds of energy taxes amounting to 24.7 million Danish krone (ca. EUR 3.3 million) in the pending matter. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S has submitted an appeal concerning the decision. HKScan recorded the expense in the last quarter of 2020 and paid the amount to the authorities in the first quarter of 2021.

Investments

HKScan's investments totalled EUR 6.3 (9.9) million in January-March. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 1.5 (77.6) in January-March. The comparison period includes the lease agreement for the Vantaa production unit and the extended lease agreement for the logistics centre in Sweden.

In Sweden, investments to improve productivity continued. At the Skara production unit, an investment was made to significantly increase the level of automation in the production of frozen hamburger patties. At the Linköping production unit, a major automation of the packaging and palletising line for consumer-packaged meat was introduced.

In Finland, the strategic investment in the multifunctional snack products line at the Eura production unit progressed as planned. The snacks line will be operational in the summer 2022.

Two new bacon production lines were put into operation in the Polish production unit to meet the strong food service demand growth in both the local and distant markets. One of the new lines will produce long shelf-life products with packaging of suitable size and easy handling for the food service sector. The other investment doubled the production capacity of bacon packaged on ready-to-bake sheets and responds to the increase in demand.

In Estonia, the Tabasalu production unit increased its front-end processing capacity, which responds to the growing demand for the poultry products in the Baltics.

In Latvia, the Jelgava production unit put into operation the second phase of the expansion of the dumplings production. The expansion investment responds to the demand growth in the Baltic and Central European markets.

Operating environment

Changes in consumer behaviour

In January-March, the impact of the Covid-19 pandemic on household demand continued to be reflected in the strong position of the retail market. During the review period, demand for added-value products making everyday life easier continued to grow in retail, and meals and meal components even saw double-digit growth figures during the review period. The food service market recovered in HKScan's all home markets to almost pre-pandemic levels.

While some consumers were willing to pay a price premium for high quality and convenience, others were switching to more affordable products in their shopping basket. The change is due to the prolonged pandemic and strong cost inflation that together have weakened households' purchasing power. There were differences between market areas and consumption was also polarised within markets. The importance of promotions and campaigns was highlighted.

In food retail sales, the tensions resulting from the war in Ukraine were also reflected in increased demand for canned and dry goods during the review period. There were also challenges in the availability of some imported food products, which strengthened demand for domestic substitutes and increased consumer awareness of the importance of self-sufficiency.

Finland

During the review period, the total retail market in Finland continued to grow slightly in terms of value. In terms of volume, the market remained unchanged. There were significant differences in the development of different product categories. The total market for red meat declined and a slight downward trend was also seen in poultry meat and sausages. A slight increase was seen in charcuterie, while demand for meals and meal components showed a significant increase. HKScan's position and development in different product categories corresponded well with the development of the overall market. In cold cuts, bacon products, meals and meal components, the company clearly outperformed the market.

Opening of the food service market reflected in double-digit growth. HKScan's food service sales developed well and were almost in line with the market development. Demand for pork, beef, poultry and processed meat products in the food service channel showed significant growth.

Sweden

In Sweden, retail sales of pork and beef remained almost unchanged despite the remarkably high comparison value last year. HKScan's sales outperformed the overall market in terms of both value and volume. Demand for sausages, charcuterie and frozen meal components fell slightly after significant growth during the pandemic period. Demand for meatballs, in the growth of which HKScan played a strong role, differed from this trend.

In Sweden, the return of the focus of consumption from eating at home during the pandemic to eating at work and in restaurants increased food service sales and reduced retail sales. Online retail sales also decreased from the comparison period.

Denmark

In Denmark, the market for poultry products is strong. Demand continued to grow in food service channel. The total market for value-added products, such as cooked ready-to-eat poultry products and chicken minced meat grew the strongest, with HKScan accounting for a significant share of the overall growth in these categories. In the more traditional product categories, HKScan's share of total sales developed in line with the market growth.

The Danish food service channel as a whole recovered to pre-pandemic levels, with HKScan's food service sales outperforming the overall market. During the avian flu, HKScan has successfully reduced its dependence on exports of chicken products outside the EU.

Baltics

In the Baltics, the development of food demand between product categories strongly reflected market price developments and the availability of meat raw materials. Beef consumption declined during the review period, reflecting the sharp price increases already seen in 2021 and the scarcity of beef. Pork consumption increased and its price level recovered towards the end of the review period. Poultry meat consumption continued to show strong growth in the Baltics. Demand for charcuterie remained unchanged, while demand for premium products weakened as consumption shifted to more affordable charcuterie. Demand for ready meals also declined as consumers reduced their food expenditure and prepared more of their meals by themselves due to high cost inflation. In the Baltics, the importance of promotions and special offers has increased compared to HKScan's other home markets.

Retail sales in the Baltics declined during the review period as the sales focus shifted to less expensive products. The Baltic food service channel recovered at the end of the review period to pre-pandemic levels.

Changes in the international meat market

In early 2022, the international meat market has been simultaneously affected by a number of different factors, which have had significant impacts on cost structures throughout the long value chain from farms to consumers. The impacts have been immediate and are expected to continue through 2023.

In Europe, demand for poultry meat continued to grow and is expected to do so despite higher consumer prices due to higher production input and energy prices. The supply of Ukrainian poultry meat to the EU has stopped as a result of the war between Russia and Ukraine. Ukraine is the world's eighth largest poultry exporter and its absence from the market will lead to a redistribution of meat flows. In Europe, demand is mainly met by imports from outside the EU. EU beef consumption is expected to decline slightly in 2022, further increasing demand for poultry products.

In the EU, beef production is expected to fall by almost one per cent this year, which will increase imports of beef from outside the EU. The year 2022 will be very bipolar as beef production volumes in Germany and France, two of the EU's big beef producing countries, are falling by several per cent. At the same time, Irish beef production is expected to rise significantly. Beef prices are expected to remain high throughout the year. If feed prices remain high or even rise, beef production volumes may continue to decline.

In the EU, pork production is on the decline and is expected to fall by as much as around 3 per cent this year. The reasons for the fall in production are rising costs and challenges in production profitability. Among the major producing countries, volumes in Denmark are expected to remain at current levels, while Spanish pork production volumes may slightly increase. EU pork prices have been on the rise since the beginning of the year, but profitability of production remains weak due to high input prices.

In China, pork prices have not yet risen at the pace of the world market price changes and are still around half of their 2020-2021 peak. As China pursues greater self-sufficiency in all types of meat, its dependence on foreign feed, soy, maize and grain will increase. As a result, price pressure on pork prices in China will increase for the rest of the year. EU exports to China declined in 2021 and are expected to fall further in 2022.

Export

In January 2022, the South Korean market opened for Finnish poultry products. HKScan’s long-term work in promoting sustainable agricultural production and animal welfare, as well as the transparency and reliability of the entire food chain had an influence on gaining the export approval. The export of poultry products to the Korean market with purchasing power has started.

Exports of consumer products, showing strong growth in 2021, continued on a good growth track during the first quarter of 2022. Gradual opening of the food service market will increase demand for meat in all export markets.

In a challenging global logistics landscape, HKScan has been able to secure all its shipments to export customers in the local and long-distance markets.

Business Unit Finland

(EUR million)	1-3/2022	1-3/2021	2021
Net sales	182.6	179.8	772.3
EBIT	-1.4	-0.5	12.1
- EBIT margin, %	-0.8	-0.3	1.6
Comparable EBIT	-1.2	-0.5	8.5
- EBIT margin, %	-0.7	-0.3	1.1

Finland's first quarter net sales totalled EUR 182.6 (179.8) million. Recovery of the food service sales increased net sales. Exceptional cost inflation could be partly passed on to sales prices, which contributed to the increase in net sales. Sales of strategically important meals and snacks increased. Meal sales were boosted by ready-to-eat salads and new products increased snack sales. The later date of Easter sales compared to the comparison period reduced the net sales of the review period.

EBIT was EUR -1.4 (-0.5) million. Comparable EBIT was EUR -1.2 (-0.5) million. There were no items affecting comparability during the comparison period. The exceptionally strong rise in farm feed costs was responded to by increasing producer prices. This enabled the operation of the meat raw material production chain. EBIT was also weakened by a rapid and significant increase in energy and other input prices which, together with the increase in producer prices, could not be passed on to sales prices at the same pace. Investments in brand marketing increased costs.

In January, HKScan's Rauma unit received an export approval for Finnish poultry products from the South Korean authorities. Exports of broiler wings and feet started immediately after the export licence was granted.

HKScan is expanding into fresh vegetable products with Vihannes-Laitila through the joint venture founded in April after the review period. The joint venture Kasviskonttori Oy will respond to growing consumer demand and will launch, within a year, ready-to-use and ready-to-cook fresh vegetable products with higher added value. New vegetable products will be manufactured at HKScan's production plant in Eura.

In early 2022, HKScan launched HK Fresh Meals, a range of consumer-packaged meals, that meet the growing demand for premium fresh meals and support the company's strategy to grow in ready meals. HK Fresh Meals are prepared by chefs in a modern, restaurant-level kitchen, which was opened in HKScan's Vantaa unit in autumn 2021. The kitchen is also used to prepare, for example, the Vietävä products developed by chef Kape Aihinen. The products have been available at the retail service counters since the autumn.

Business Unit Sweden

(EUR million)	1-3/2022	1-3/2021	2021
Net sales	163.9	161.8	700.4
EBIT	0.2	2.4	22.6
- EBIT margin, %	0.1	1.5	3.2
Comparable EBIT	0.2	2.4	22.9
- EBIT margin, %	0.1	1.5	3.3

In Sweden, net sales totalled EUR 163.9 (161.8) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 5.9 million. Sweden's net sales increased at comparable exchange rates. Recovery of the food service sales clearly increased net sales. Exceptional cost inflation could be partly passed on to sales prices, which contributed to the increase in net sales.

HKScan maintained its market position and sales volumes increased. In addition to food service sales growth, retail sales of products sold under the Scan brand continued to grow. The appreciation of domestic meat remained strong.

EBIT was EUR 0.2 (2.4) million. There were no items affecting comparability during the review period and comparison period. The change in the Swedish krona exchange rate had no impact on EBIT. The strong rise in feed costs on farms was responded to by increasing producer prices. This was done to secure the availability of domestic meat raw material. EBIT was also weakened by a rapid and significant increase in energy and other input prices which, together with the increase in producer prices, could not be passed on to sales prices at the same pace.

In March 2022, HKScan's strong and valued Scan brand was expanded to include plant-based products with five new plant-based alternatives for the popular Scan classics, made from Swedish raw materials. Easy-to-use, high-quality and tasty products respond to the growing consumer demand for local plant-based food and contribute to HKScan's strategy to grow into a versatile food company. The first reactions to the products from retailers and consumers have been positive.

HKScan's collaboration with Scandinavian Aquasystems on Gårdsfisk fish products deepened. Sales of Gårdsfisk products were transferred to HKScan in March, benefiting from HKScan's strong commercial platform. Consumer-packaged fresh fish products and frozen fish balls sold under the Gårdsfisk brand are now available in Swedish retail stores. The products have been well received by customers.

At the end of 2021, HKScan agreed on a commercial cooperation related to Maten é klar meal concept. The sale of Maten é klar premium ready meals was transferred to HKScan in January. The high-quality meals complement well HKScan's product portfolio and have seen a clear increase in sales.

Business Unit Denmark

(EUR million)	1-3/2022	1-3/2021	2021
Net sales	49.4	45.4	172.7
EBIT	0.5	0.0	0.0
- EBIT margin, %	1.0	-0.1	0.0
Comparable EBIT	0.5	0.0	0.0
- EBIT margin, %	1.0	-0.1	0.0

In Denmark, net sales totalled EUR 49.4 (45.4) million. Recovery of the food service sales increased net sales. Strategy implementation progressed as planned, and sales in ready-to-eat poultry products continued to grow. Sales prices were raised during the review period to cover cost inflation, which contributed to the increase in net sales.

With the restrictions on exports outside the EU caused by avian flu, Denmark has systematically grown exports within the EU. Sales in Danish poultry products increased in Sweden and sales growth is expected to continue.

Denmark’s EBIT was EUR 0.5 (0.0) million. There were no items affecting comparability during the review period and comparison period. The stronger EBIT is the result of a strategic focus on value-added product development and sales channel choices, as well as a determined effort to improve production efficiency. Stronger profitability has enabled the business to build a more financially stable base. The strategic progress was reflected in higher sales volumes and an increased share of products of higher added value. Increased energy and other input prices led to a clear increase in costs.

Business Unit Baltics

(EUR million)	1-3/2022	1-3/2021	2021
Net sales	41.2	40.5	170.0
EBIT excluding biological asset revaluation	-6.5	-0.2	-5.0
Biological asset revaluation	1.6	0.9	-0.4
EBIT	-4.9	0.7	-5.4
- EBIT margin, %	-11.8	1.7	-3.2
Comparable EBIT excluding biological asset revaluation	-6.5	-0.2	-4.8
Biological asset revaluation	1.6	0.9	-0.4
Comparable EBIT	-4.9	0.7	-5.1
- EBIT margin, %	-11.8	1.7	-3.0

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

In the Baltics, net sales for the review period totalled EUR 41.2 (40.5) million. Net sales was mainly increased by the growth in food service sales. Exceptional cost inflation could be partly passed on to sales prices, which contributed to the increase in net sales.

EBIT excluding the change in the fair value of biological assets totalled EUR -6.5 (-0.2) million. There were no items affecting comparability during the review period and comparison period. The change in the fair value of biological assets in the balance sheet was EUR 1.6 (0.9) million. EBIT was also weakened by a rapid and significant increase in energy and other input prices which, together with the increase in producer prices, could not be passed on to sales prices at the same pace. Costs increased throughout HKScan’s vertically integrated production chain.

The development of European pork market prices and changes in feed and energy prices have a significant impact on the performance of the Baltics. Market price for pork in Europe has clearly strengthened during the review period. The price of feed used in HKScan's own primary production is fixed until the coming harvest season.

The operations of the Latvian distribution centre in Riga were transferred to a new logistics centre near Tallinn in Estonia in March 2022. The new logistics centre, opened in September 2021 and serving the entire Baltic market area, is now fully operational and enables faster and more flexible service to customers.

Russian energy is of relatively little importance to HKScan as a whole, but is more significant in the Baltic countries. Investments have been made at the Baltic production units to increase the flexibility of energy solutions and ensure energy supply even in the event of exceptional circumstances. The investments are proceeding well, and for example the Tabasalu and Loo units have already moved away from the use of Russian natural gas.

Personnel

HKScan Group's operating model was streamlined in the statutory negotiations held in February-March. The negotiations concerned HKScan's Group functions and Business Unit Finland. As a result, 20 positions were reduced in the Group functions. Some of the positions were terminated or transferred to the Business Units and the vacant positions were not filled. The new organisation became effective on 1 April 2022.

In line with the streamlined operating model, the Group functions will focus more closely on HKScan's key strategic development projects and management as well as on activities that ensure the good corporate governance of a listed company. The Business Units will focus on managing the operational business with an emphasis on profit responsibility and strategy execution. Exports will continue to be a centralised function serving all Business Units.

HKScan has hired dozens of Ukrainian refugees for various positions in its production units in different Business Units.

	1-3/2022	1-3/2021	2021
Personnel on average*	6,631	6,666	6,892
Finland	2,623	2,583	2,755
Sweden**	1,920	1,895	1,945
Denmark	644	612	655
The Baltics	1,443	1,577	1,538
Women / men %			40 / 60
Women / men of supervisors %			36 / 64

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

Shares and shareholders

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

The Board of Directors of HKScan Corporation resolved on a directed share issue without consideration related to the 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 March, the company held 1,621,795 (2,000,000) 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 March stood at EUR 142.3 (222.0) million. The market value of the Series A shares was EUR 134.4 (209.7) million and the calculational market value of unlisted Series K shares was EUR 7.9 (12.4) million.

During the period of January–March, a total of 7,593,994 (10,243,681) of the company's shares were traded with a total value of EUR 11,769,349 (22,362,101). In the review period, the highest price quoted was EUR 1.71 (2.48) and the lowest EUR 1.34 (1.90). The average price was EUR 1.55 (2.18). At the end of March, the closing price was EUR 1.46 (2.29).

Annual General Meeting 2022

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

The current Board members Reijo Kiskola, Anne Leskelä, Jari Mäkilä, Per Olof Nyman, Harri Suutari and Terhi Tuomi were re-elected until the end of the Annual General Meeting 2023. Ilkka Uusitalo was re-elected as deputy Board member and Ove Conradsson was elected as new deputy Board member until the end of the Annual General Meeting 2023. At the organizational meeting after the AGM, the Board re-elected Reijo Kiskola as Chairman and re-elected Jari Mäkilä as Vice Chairman.

The auditing firm Ernst & Young Oy was elected as auditor of the company until the end of the next Annual General Meeting. Maria Onniselkä, Authorized Public Accountant, was elected as the lead audit partner.

The AGM authorised the Board of Directors to decide on a share issue as well as on the issue of option rights and other special rights entitling to shares, and on the acquisition and/or the acceptance as pledge of the company's own Series A shares. The authorisations are effective until 30 June 2023 and they revoke the authorisations given by the 2021 AGM to the Board of Directors.

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 the 2021 Financial Statements Bulletin and Remuneration Report.

Short-term business risks

Price increase and availability of production inputs and raw materials

The European Central Bank is planning to reduce its debt relief in the autumn, which is likely to result in slowing economic growth.

The inflationary pressure has increased significantly due to the unstable geopolitical situation. Energy prices, in particular, have been rising sharply in Europe. This will continue to create cost pressures in packaging materials and other production inputs.

The significant price increase in feed grains due to Europe's poor 2021 grain harvest has led, with delay, to a continuing rise in meat raw material prices. The situation poses a considerable risk for HKScan's profitability if the company is unable to increase its production efficiency and the sales prices of its products to offset the increase in costs. If producers' liquidity and profitability crisis is prolonged, this could lead to a reduction in the availability of local meat raw material and an increase in the risk of credit losses related to the feed trading services.

The international meat raw material market is more global than before, and, as a result, changes within international trade relations between major meat import and export countries may locally cause large price fluctuations. The effects of these partly unpredicted price fluctuations also extend to HKScan's home markets. As the geopolitical situation becomes more difficult, it is likely that the importance and opportunities for local food production will also increase.

The war in Ukraine may affect not only prices but also the availability of inputs used in HKScan's value chain. The harvest in the coming growing season will have a significant impact on the availability and price of both feed and meat raw material. Uncertainty about energy supplies from Russia due to the war in Ukraine is also a risk for the company. HKScan has good plans and investments, already at the implementation stage, to minimise dependency on Russian energy and to allow exit from it in about six months.

Changes in consumer behaviour

Consumer purchasing behaviour is expected to change considerably with the sharp rise in food prices that follows the increase in costs. Depending on the purchasing power of HKScan's different home markets, consumer demand for food may focus on more affordable products and product groups. At HKScan, this may be seen in the form of weaker sales of more expensive products and stronger sales of basic foods. On the other hand, HKScan has a strong position also in basic foods through its familiar consumer brands. However, in the unstable geopolitical situation, demand for basic foods is expected to remain strong, even if consumer uncertainty increases.

The impact of possible international or local food scandals on consumption 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.

Covid-19 pandemic

The prolonged Covid-19 pandemic continues to be a significant uncertainty factor for HKScan's business. Despite the calmer pandemic situation, HKScan is closely following the development of the pandemic and reacting quickly if necessary. The company's primary aim is to safeguard the health and safety of its personnel and to ensure disturbance-free activities throughout the entire food chain.

Other business risks

In the food industry’s long production chain, food safety is essential. However, the possibility of animal diseases cannot be fully excluded. African Swine fever and avian flu cases detected in various European countries have already weakened the export possibilities for meat outside the EU.

The risk of cyber attacks has increased recently and the unstable geopolitical situation means that the risk is even higher than before. If realised, cyber attacks could have a significant negative impact on the company's operations.

Risks related to impairment of assets will increase and affect the financial position of the company if the Group is not able to improve its financial performance as planned.

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

Events after the reporting period

Media release on 9 May 2022: HKScan planning to improve the competitiveness and cost efficiency of its poultry business in Finland

HKScan aims to improve the competitiveness and cost efficiency of its poultry business in Finland. The company plans to increase production efficiency, reorganise operations and renew working methods in the poultry units of Rauma and Eura to meet the market and competitive situation and to continue to secure its strong position in the strategically important and growing category of poultry products.

Related to the plan, HKScan will start statutory negotiations at the Rauma and Eura units of its poultry business. The negotiations concern a total of approximately 600 persons. The planned measures may affect up to 210 employment contracts in the Rauma unit, either through termination of employment or through substantial changes in the terms of employment. With the planned measures, HKScan aims to achieve annual savings of more than EUR 3 million. The savings are expected to be realised during 2023.

Turku, 10 May 2022

HKScan Corporation
Board of Directors

Information meeting for analysts and the media

HKScan will organise an information meeting related to the January-March Interim Report for analysts, institutional investors and the media in the auditorium of the Hotel Haven (address: Eteläranta 16, Helsinki, Finland) on 10 May 2022 at 10 am. Breakfast serving will start at 9:30 am. The event will be held in Finnish. The Interim Report will be presented by Tero Hemmilä, CEO, and Jyrki Paappa, CFO.

To arrange an investor call in English, please contact Heidi Hirvonen, SVP Communications,
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For further information

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Financial reports

- Half-Year Financial Report 2022 will be published on Wednesday 20 July 2022.
- Interim Report for January-September 2022 will be published on Thursday 3 November 2022.

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

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

Food that does good:
Targets and results of the Group's responsibility programme

TARGETS	RESULTS 2021 Complemented with selected Q1/2022 figures
NATURE	
Environment	
Zero Carbon: carbon-neutral own production (scope 1 and 2) by the end of 2025	**Energy consumption Q1/2022: 0.88 (0.89*) MWh /sold product tonne**** **Carbon intensity Q1/2022: 0.08 (0.08*) tCO_2e /sold product tonne**** 2021: Climate impacts of own production (scope 1 and 2) 55,000 (55,000) tCO_2e, carbon intensity 0.09 (0.09) tCO_2e /sold product tonne**
Zero Carbon: carbon-neutral food chain from farms to consumers (Scope 1 - 3) by the end of 2040	2021: Climate impacts of the entire food chain (scope 1–3) 2.4 (2.4) $MtCO_2e$, carbon intensity 3.8 (3.9) tCO_2e / sold product tonne
Water consumption -25% / sold product tonne in own production by the end of 2030 (vs. 2019)	**Water consumption Q1/2022: 5.94 (6.11) m^3/ sold product tonne**** 2021: Water consumption 6.84 (6.86) m^3 / sold product tonne** 2021: Water consumption +2.6% / sold product tonne vs. 2019
Packaging, targets by the end of 2025 • 100% recyclable packaging • 20% less packaging plastic / sold product tonne (vs. 2019)	Results 2021: • 70% of packaging recyclable • Amount of packaging plastic 9,900 t, 0.02 t / sold product tonne • Packaging data management system renewed to cover collected data more comprehensively 2021
Animal welfare	
Continuous improvement of key animal welfare aspects	Continuous development activities to promote animal health and welfare
Zero animal welfare breaches in own production	2021: 0 (1) animal welfare breaches in own production
PEOPLE	
Personnel	
Determined work towards zero accidents	**Accidents at work leading to at least one day's absence (LTIR) 4/2021–3/2022: 19.0 (4/2021–3/2022: 22.6) / million working hours** 2021: 21.2 (21.1) /million working hours Absence days due to accidents Q1/2022: 347 (840) days
Continuous promotion of wellbeing at work, eNPS over 10	**Personnel absences 4/2021–3/2022: 7.4% (4/2020–3/2021: 6.2)** Personnel's willingness to promote HKScan as an employer (eNPS) -3 (5, comparison figure excl. the Baltics))
Healthy food	
Annually, 60% of new and renewed products healthier alternatives in their own categories	2021: 35 (44)% of new and renewed products healthier alternatives in their own categories
100% of raw materials procured in line with the responsible procurement principles 2025	• 100% of the raw material suppliers committed to Supplier Guidelines (excl. animal procurement) • Development of responsible procurement principles started
Farming community	
Ensuring the continuity of local meat production	• 70 young farmers in Next Generation programme in Finland and in Sweden • Cooperation with schools and universities in the Baltics
100% of raw materials from contract production in line with HKScan's sustainable farming operating model by the end of 2030	Agrofood Ecosystem network involves 80 pilot farms; scaling up of sustainable farming practices started

** Subsidiaries Kivikylän Kotipalvaamo and Tamminen have been added to reporting of environmental figures retroactively from 2019.*
*** The environmental figures related to tonnes of products sold do not include HKScan's own farms in Estonia.*

Consolidated interim report 1 January – 31 March 2022

Consolidated income statement

(EUR million)		1-3/2022	1-3/2021	2021
Net sales		437.2	427.5	1 815.3
Cost of goods sold	1.	-421.0	-404.2	-1 701.4
Gross profit		16.2	23.3	113.8
Other operating items total	1.	1.4	1.5	7.7
Sales and marketing costs	1.	-11.5	-10.7	-47.7
General administration costs	1.	-14.9	-15.3	-56.0
Operating profit		-8.9	-1.1	17.9
Financial income		0.4	0.5	2.7
Financial expenses		-3.6	-5.8	-17.4
Share of profit/loss in associates and joint ventures		1.3	0.8	3.4
Profit/loss before taxes		-10.7	-5.7	6.6
Income tax		-0.2	-0.5	-7.8
Profit/loss for the period		-10.9	-6.2	-1.2
Profit/loss for the period attributable to:				
Equity holders of the parent		-11.1	-6.6	-4.5
Non-controlling interests		0.2	0.4	3.2
Total		-10.9	-6.2	-1.2
Earnings per share calculated on profit attributable to equity holders of the parent:				
EPS, undiluted, continuing operations, EUR/share		-0.12	-0.07	-0.06
EPS, diluted, continuing operations, EUR/share		-0.12	-0.07	-0.06

Consolidated statement of comprehensive income

(EUR million)	1-3/2022	1-3/2021	2021
Profit/loss for the period	-10.9	-6.2	-1.2
OTHER COMPREHENSIVE INCOME (after taxes):			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations	-0.9	-1.9	-2.0
Cash flow hedging	6.4	0.7	7.4
Items that will not be reclassified to profit or loss			
Actuarial gains or losses	-	-	2.9
TOTAL OTHER COMPREHENSIVE INCOME	5.5	-1.3	8.3
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-5.4	-7.5	7.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent	-5.6	-7.9	3.9
Non-controlling interests	0.2	0.4	3.2
Total	-5.4	-7.5	7.1

Consolidated balance sheet

(EUR million)	Note	31 March 2022	31 March 2021	31 Dec. 2021
ASSETS				
Intangible assets	2.	142.4	144.6	144.2
Tangible assets	3.4	452.9	454.4	459.7
Holdings		39.7	34.3	38.5
Deferred tax asset	5.	35.3	40.5	36.3
Other non-current assets		8.2	5.9	7.3
TOTAL NON-CURRENT ASSETS		678.5	679.7	686.0
Inventories	6.	148.7	124.6	131.1
Current receivables		153.0	128.1	141.3
Cash and cash equivalents		9.8	37.8	27.2
TOTAL CURRENT ASSETS		311.6	290.5	299.6
TOTAL ASSETS		990.1	970.2	985.6
EQUITY AND LIABILITIES				
EQUITY		320.9	322.1	330.3
Non-current loans, interest-bearing	4.	207.6	251.3	210.1
Non-current liabilities, non-interest-bearing		61.7	66.0	63.5
TOTAL NON-CURRENT LIABILITIES		269.3	317.3	273.6
Current loans, interest-bearing	4.	157.4	94.6	131.8
Current liabilities, non-interest-bearing		242.6	236.2	249.8
TOTAL CURRENT LIABILITIES		400.0	330.8	381.7
TOTAL EQUITY AND LIABILITIES		990.1	970.2	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	-	-	-	-	-	-	-	-	-11.1	-11.1	0.2	-10.9
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	-0.9	-	-	-0.9	-	-0.9
Cash flow hedging	-	-	6.4	-	-	-	-	-	-	6.4	-	6.4
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income / expense	-	-	6.4	-	-	-	-0.9	-	-	5.5	-	5.5
Total compreh. income for the period	**-**	**-**	**6.4**	**-**	**-**	**-**	**-0.9**	**-**	**-11.1**	**-5.6**	**0.2**	**-5.4**
Direct recognitions	-	-	-	-	-		-	-	-0.2	-0.2	-	-0.2
Dividend distribution	-	-	-	-	-	-	-	-	-3.9	-3.9	-	-3.9
EQUITY ON 31 March 2022	**66.8**	**72.9**	**13.0**	**215.4**	**25.9**	**10.4**	**-13.5**	**-4.8**	**-87.6**	**298.6**	**22.3**	**320.9**

(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	-	-	-	-	-	-	-	-	-6.6	-6.6	0.4	-6.2
Other comprehensive income (+) / expense (–)												
Transl. diff.-	-	-	-	-	-	-	-1.9	-	-	-1.9	-	-1.9
Cash flow hedging	-	-	0.7	-	-	-	-	-	-	0.7	-	0.7
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income / expense	-	-	0.7	-	-	-	-1.9	-	-	-1.3	-	-1.3
Total comprehensive income for the period	**-**	**-**	**0.7**	**-**	**-**	**-**	**-1.9**	**-**	**-6.6**	**-7.9**	**0.4**	**-7.5**
Direct recognitions	-	-	-	-	-	-	-	-	0.4	0.4	-	0.4
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-
EQUITY ON 31 March 2021	**66.8**	**72.9**	**-0.1**	**215.4**	**25.9**	**10.3**	**-12.6**	**-4.8**	**-72.6**	**301.4**	**20.7**	**322.1**

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

Cash flow statement

(EUR million)	1-3/2022	1-3/2021	2021
Cash flow before change in net working capital	6.9	14.3	75.1
Change in net working capital	-36.9	-4.0	-2.9
Financial items and taxes	-4.4	-7.0	-17.6
CASH FLOW FROM OPERATING ACTIVITIES	-34.4	3.3	54.6
Cash flow from investing activities	-4.1	66.3	26.5
CASH FLOW AFTER INVESTING ACTIVITIES	-38.5	69.6	81.2
Hybrid loan	-	-	-2.1
Change in loans	21.5	-78.0	-93.9
Dividends paid	-	-	-4.4
CASH FLOW FROM FINANCING ACTIVITIES	21.5	-78.0	-100.3
NET CASH FLOW	-17.1	-8.4	-19.2
Cash and cash equivalents at beginning of period	27.2	46.8	46.8
Translation differences	-0.3	-0.5	-0.4
Cash and cash equivalents at end of period	9.8	37.8	27.2

Financial indicators

(EUR million)	31 March 2022	31 March 2021	31 Dec. 2021
Earnings per share (EPS), undiluted, EUR	-0.12	-0.07	-0.06
Earnings per share (EPS), diluted, EUR	-0.12	-0.07	-0.06
Equity per share, EUR	3.07	3.11	3.17
Equity ratio, %	32.4	33.2	33.5
Adjusted average number of outstanding shares, mill.	97.2	97.0	97.0
Gross capital expenditure on PPE, EUR mill.	6.3	9.9	48.2
Additions in right-of-use assets, EUR mill.	1.5	77.6	89.2
Depreciation and impairment, EUR mill.	14.8	15.8	60.2
Employees, average, FTE	6,631	6,666	6,892

Calculation of financial indicators

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

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

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

Notes to the interim report

Accounting policies

HKScan Corporation's interim report for 1 January–31 March 2022 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the interim report 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 interim report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2021. The interim report is unaudited.

Analysis by segment

(EUR million)	1-3/2022	1-3/2021	2021
NET SALES			
- Finland			
Sales, goods	181.8	179.0	769.0
Sales, services	0.8	0.8	3.3
- Sweden			
Sales, goods	163.9	161.8	700.3
Sales, services	0.0	0.0	0.1
- Denmark			
Sales, goods	49.4	45.4	172.7
Sales, services	0.0	0.0	0.0
- Baltics			
Sales, goods	41.2	40.5	169.6
Sales, services	0.0	0.0	0.4
Group total	437.2	427.5	1 815.3
EBIT			
- Finland	-1.4	-0.5	12.1
- Sweden	0.2	2.4	22.6
- Denmark	0.5	0.0	0.0
- Baltics	-4.9	0.7	-5.4
Segments total	-5.7	2.5	29.3
Group administration costs	-3.2	-3.6	-11.4
Group total	-8.9	-1.1	17.9
INVESTMENTS			
- Finland			
Gross capital expenditure on PPE	1.3	4.4	16.3
Additions in right-of-use assets	0.3	69.1	70.9
Investments total	1.6	73.5	87.1

- Sweden			
Gross capital expenditure on PPE	2.4	3.9	19.6
Additions in right-of-use assets	0.6	7.9	9.1
Investments total	3.1	11.9	28.6
- Denmark			
Gross capital expenditure on PPE	0.5	1.0	4.3
Additions in right-of-use assets	0.5	0.2	0.8
Investments total	1.0	1.3	5.1
- Baltics			
Gross capital expenditure on PPE	2.0	0.5	8.1
Additions in right-of-use assets	0.1	0.3	8.5
Investments total	2.1	0.8	16.7
Total	7.8	87.5	137.5
AVERAGE NUMBER OF EMPLOYEES, FTE			
- Finland	2 623	2 583	2 755
- Sweden	1 920	1 895	1 945
- Denmark	644	612	655
- Baltics	1 443	1 577	1 538
Total	6 631	6 666	6 892

Notes to the income statement

1. Items affecting comparability

(EUR million)	1-3/2022	1-3/2021	2021
Comparable EBIT	**-8.5**	**-1.1**	**14.5**
Termination of employment, Baltics 1)	-	-	-0.2
Termination of employment, Group management 1)	-0.2	-	0.2
Loss of prepayment, Finland 4)	-0.2	-	-
Impairment of assets, Sweden 2) 3)	-	-	-0.2
Impairment of assets, Finland 2) 3)	-	-	3.1
Gain on sale of tangible assets, Finland 4)	-	-	0.5
EBIT	**-8.9**	**-1.1**	**17.9**

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 March 2022	31 March 2021	31 Dec. 2021
Opening balance	144.2	148.0	148.0
Translation differences	-0.7	-1.7	-1.8
Additions	0.1	0.0	1.6
Disposals	-	-0.7	-0.7
Depreciation and impairment	-1.1	-1.1	-4.6
Reclassification between items	0.0	-	1.6
Closing balance	142.4	144.6	144.2

3. Changes in tangible assets

(EUR million)	31 March 2022	31 March 2021	31 Dec. 2021
Opening balance	459.7	458.7	458.7
Translation differences	-0.8	-1.6	-1.7
Additions	7.7	87.4	135.9
Disposals	0.0	-75.4	-75.9
Depreciation and impairment	-13.7	-14.7	-55.6
Reclassification between items	0.0	-	-1.6
Closing balance	452.9	454.4	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	-	-0.1	0.0	-0.1	-0.1
Additions	-	0.8	0.8	1.6	1.6
Depreciation for the financial period	0.0	-2.1	-1.3	-3.4	-
Payments	-	-	-	-	-2.9
Closing balance on 31 March 2022	2.1	90.8	14.7	107.6	112.0

(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	-	75.7	1.8	77.6	77.7
Depreciation for the financial period	0.0	-1.5	-1.4	-2.8	-
Payments	-	-	-	-	-2.7
Closing balance on 31 March 2021	2.1	89.8	16.0	107.9	110.4

(EUR million)	1-3/2022	1-3/2021	2021
Depreciation expense of right-of-use assets	-3.4	-2.8	-13.0
Interest expense on lease liabilities	-1.2	-0.6	-4.2
Total amounts recognised in profit or loss	-4.6	-3.4	-17.2

5. Deferred tax assets

Out of the total EUR 35.3 million, EUR 28.2 million of the deferred tax asset arise from adopted losses, postponed depreciations and non-deductible interest expenses in Group’s operations in Finland. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

The company has ability to mitigate the expiration risk of the tax losses by deferring use of tax depreciation. A gradual reduction of the asset takes place as profitability improves.

Deferred tax assets are assumed to be used during 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. Covid-19 has only minor impact on the expected period of use. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and deductibility restrictions of interest expense can be used to speed up the utilisation of losses before they expire. Utilisation of postponed tax depreciations and non-deducted interest expense do not have a time limit. Unrecognized Finnish deferred tax asset at the end of March 2022 was EUR 21.7 million.

6. Inventories

(EUR million)	31 March 2022	31 March 2021	31 Dec. 2021
Materials and supplies	88.8	67.3	72.2
Semi-finished products	5.0	4.9	5.4
Finished products	45.3	44.8	46.0
Other inventories	0.4	0.4	0.4
Inventories, advance payments	1.4	1.4	1.0
Biological assets	7.9	5.8	6.0
Total inventories	148.7	124.6	131.1

Derivative instrument liabilities

(EUR million)	31 March 2022	31 March 2021	31 Dec. 2021
Nominal values of derivative instruments			
Foreign exchange derivatives	74.7	68.9	72.7
Interest rate derivatives	54.5	99.2	74.1
Electricity derivatives	18.3	14.0	13.0
Fair values of derivative instruments			
Foreign exchange derivatives	-0.6	0.3	0.2
Interest rate derivatives	-0.6	-2.8	-1.1
Electricity derivatives	14.4	-0.7	7.0

Consolidated other contingent liabilities

(EUR million)	31 March 2022	31 March 2021	31 Dec. 2021
Debts secured by pledges or mortgages			
- loans from financial institutions	-	-	-
On own behalf			
- Mortgages given	-	-	-
On behalf of others			
- guarantees and other commitments	6.3	7,9	6.4
Other contingencies			
Leasing and rental commitments	0.2	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 March 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	-	-	-	-
- Foreign exchange derivatives	0.2	-	0.2	-
- Commodity derivatives	14.5	-	14.5	-
of which subject to cash flow hedging	14.5	-	14.5	-
Total	**14.7**	**-**	**14.7**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-0.6	-	-0.6	-
- Foreign exchange derivatives	-0.8	-	-0.8	-
- Commodity derivatives	-0.1	-	-0.1	-
of which subject to cash flow hedging	-0.1	-	-0.1	-
Total	**-1.5**	**-**	**-1.5**	**-**

(EUR million)	31 March 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	0.5	-	0.5	-
of which subject to cash flow hedging	0.5	-	0.5	-
Total	**0.9**	**-**	**0.9**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-2.8	-	-2.8	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-1.2	-	-1.2	-
of which subject to cash flow hedging	-1.2	-	-1.2	-
Total	**-4.1**	**-**	**-4.1**	**-**

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)	1-3/2022	1-3/2021	2021
Sales to associates	3.2	2.1	9.8
Purchases from associates	10.3	7.5	37.0
Trade and other receivables from associates	1.5	1.0	1.7
Trade and other payables to associates	2.9	1.8	3.4