



HKSCAN

**Interim Report
Q3/2020**

HKScan's Interim Report 1 January – 30 September 2020

HKScan's profit improvement continued, the third quarter comparable EBIT was the best quarterly result in five years

July–September 2020

- HKScan's net sales totalled EUR 438.3 (439.4) million.
- EBIT improved by EUR 3.2 million to EUR 7.7 (4.5) million.
- Comparable EBIT improved by EUR 3.7 million to EUR 8.2 (4.5) million.
- All market areas achieved a positive comparable EBIT.
- The Covid-19 pandemic slowed down the profit improvement; the strongest impact was seen in Finland.
- Comparable EBIT was HKScan's best quarterly result since the last quarter of 2015.
- On an annual level (rolling 12 months), comparable EBIT rose to EUR 10.6 million.
- Cash flow from operating activities decreased by EUR 5.9 million to EUR 2.8 (8.7) million.

January–September 2020

- HKScan's net sales increased by 2.1 per cent to EUR 1,308.1 (1,280.6) million.
- EBIT improved by EUR 20.5 million to EUR 3.8 (-16.7) million.
- Comparable EBIT improved by EUR 12.9 million to EUR 4.9 (-8.0) million.
- EBIT was strengthened by commercial improvements seen in all the market areas. Retail sales clearly increased due to the pandemic while the food service sales were significantly down from the comparison period.
- Cash flow from operating activities improved by EUR 12.7 million to EUR 23.3 (10.6) million.
- Interest-bearing net debt was EUR 323.1 (308.8) million and net gearing 103.2 (90.1) per cent. The figures include the Vantaa plot of land investment of EUR 37.7 million.

The figures in parentheses refer to the comparison period, i.e. the same period in the previous year, unless otherwise mentioned. The figures in this report are unaudited.

Outlook 2020

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

Key figures, net sales

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Net sales	438.3	439.4	1 308.1	1 280.6	1 744.4
Finland	190.0	190.2	563.4	559.1	770.6
Sweden	162.2	161.4	477.6	478.6	652.1
Baltics	44.1	43.9	132.0	125.5	168.5
Denmark	42.0	43.9	135.1	117.3	153.3

Key figures, EBIT

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
EBIT	7.7	4.5	3.8	-16.7	-23.2
- % of net sales	1.7	1.0	0.3	-1.3	-1.3
Comparable EBIT	8.2	4.5	4.9	-8.0	-2.2
- % of net sales	1.9	1.0	0.4	-0.6	-0.1
Comparable EBIT, Finland	1.4	1.3	-4.3	-4.3	-1.7
- % of net sales	0.7	0.7	-0.8	-0.8	-0.2
Comparable EBIT, Sweden	5.9	3.6	11.7	5.6	12.0
- % of net sales	3.6	2.3	2.5	1.2	1.8
Comparable EBIT, Baltics	1.8	1.7	3.8	3.5	5.1
- % of net sales	4.2	3.8	2.8	2.8	3.0
Comparable EBIT, Denmark	1.0	-0.1	1.7	-4.3	-5.3
- % of net sales	2.3	-0.3	1.3	-3.6	-3.5

Key figures, other

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Profit before taxes	5.6	1.8	-2.9	-25.6	-34.5
- % of net sales	1.3	0.4	-0.2	-2.0	-2.0
Profit for the period	3.7	0.4	-6.4	-26.9	-37.5
- % of net sales	0.9	0.1	-0.5	-2.1	-2.2
EPS, EUR	0.03	-0.01	-0.10	-0.41	-0.52
Comparable EPS, EUR	0.03	-0.01	-0.09	-0.29	-0.26
Cash flow from operating activities	2.8	8.7	23.3	10.6	59.2
Cash flow after investing activities	-5.2	3.2	-47.9*	-13.8	27.6
Return on capital employed (ROCE) before taxes, %			0.1	-2.6	-3.1
Interest-bearing net debt			323.1	308.8	275.8
Net gearing, %			103.2	90.1	84.8

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

HKScan's CEO Tero Hemmilä

HKScan's July-September 2020 comparable EBIT was the company's best quarterly result since the last quarter of 2015. Prior to July-September 2020, a better comparable EBIT for the third quarter was achieved in 2012. I am pleased with the company's performance, taking into account how markets have been affected by the very serious, ongoing Covid-19 pandemic and African swine fever detected in Germany at the end of the review period. Our profitability is, of course, at an insufficient level and we continue our goal-oriented work to significantly improve it.

In July-September, the Group's net sales were at the comparison period level and the comparable EBIT was EUR 8.2 million, which is nearly EUR 4 million higher than in the comparison period. Due to the temporary increase in stocks, cash flow from operating activities decreased by EUR 5.9 million from the comparison period.

In January-September, the Group's net sales increased by over 2 per cent and the comparable EBIT improved by nearly EUR 13 million from the comparison period. Cash flow from operating activities strengthened by EUR 12.7 million. On an annual basis, rolling 12 months, comparable EBIT rose to nearly EUR 10.6 million at the end of September.

All our Business Units managed to improve their comparable EBIT during the third quarter from the comparison period, although both direct and indirect impacts of the pandemic weakened our EBIT through the changes in demand and market prices. Sweden and Denmark were the best profit improvers. In the Baltics, our operational business showed strong development. In Finland, the performance slightly improved from the comparison period. The key factors for the moderate profit improvement in Finland were the change in sales structure caused by the pandemic and continued challenges seen in the Rauma poultry unit. We have seen progress in Rauma but as a whole, we have not reached the target level, which underlines the need for the previously decided investment in the front end of the process. The investment in Rauma will largely be realised in the early part of 2021. All the Business Units managed to keep the direction of profit improvement right through commercial measures, improved production efficiency and good control of costs.

In January-September, the strong growth in retail sales of HKScan's poultry products continued. In addition, our sales strengthened in the categories of red meat and meat products. Growth has been moderate in the ready meals category and we have not yet reached the targeted growth level. The company has expanded into new product categories through partnerships. Boltsi Oy established with Leivon Leipomo and the cooperation agreement signed with Hes-Pro (Finland) Oy in plant-based protein products create the basis for growth in new product categories and new raw materials.

During the third quarter, consumer demand in retail remained strong, while demand in the food service channel continued to be weaker than normal in all our home market areas. Regulatory restrictions on food service companies resulting from the coronavirus pandemic clearly affected our sales, and thus also the review period's net sales and cumulative gross margin. The strongest impact was seen in Finland but our other home markets were clearly affected as well.

At the end of the quarter, African swine fever detected in Germany led to a sharp fall in the pork market prices in Europe and had an immediate indirect effect on the profit due to the impairment of biological assets of our Baltic operations. In addition, the decrease in European pork prices affected our net sales due to lower industrial sales prices.

Export volumes to China clearly increased from the comparison period and nearly reached the target level. As a result of the pandemic, and now also African swine fever, volatility has increased in the international meat market and in Europe. In Europe, particularly the market price level of pork has fallen. Due to African swine fever, exports from Germany to China have been suspended for the time being, and German pork remains on the European market. This indirectly affects the price level in our home markets.

In these exceptional times of the pandemic, we have been able to keep the operations of our supply chain at a good level with no disruptions. For this, special thanks to all our employees. I would also like to thank our farmers and other partners. The appreciation of domestic food production has clearly increased in all our home markets, which can be seen, for example, in a strong increase in the share of domestic meat in relation to total meat consumption.

The Turnaround programme at the core of our strategy was launched at the beginning of 2019. The pandemic changed the sales structure and led to additional costs, which slowed down the progress of the programme. The cumulative improvement in the comparable EBIT achieved through the Turnaround programme was already close to EUR 57 million at the end of September 2020. The company's cash flow from operating activities improved cumulatively by over EUR 86 million during the same period. Net gearing is at a level that allows a controlled implementation of the Turnaround programme.

As part of our strategy implementation, we are establishing a new Food Solutions unit. Its goal is to develop new concepts and create added value to our current product and category based business. The development of commercial digital solutions is an integral part of the Food Solutions unit's responsibilities.

The pandemic will have a profound and likely long-term impact on the way the food market operates. This accelerates the need to implement changes in line with our strategy on our way towards a versatile food company. Renewing ways and channels of food production and supply, combined with increasing digitalisation, strengthen our need to renew our operations in a controlled and result-oriented manner.

Our operating environment in the middle of the pandemic is challenging and African swine fever is causing instability in the European meat market. We have successfully implemented preventive precautionary measures to ensure the health of our personnel and thus the continuity of our operations during the pandemic. This work continues, and we do our utmost to secure the company's operations under the exceptional circumstances.

HKScan's continued profit improvement gives the company a solid foundation to continue working in line with the strategy.

Group net sales and EBIT

July–September

Net sales

HKScan's net sales totalled EUR 438.3 (439.4) million. The development of the net sales was affected by the decrease in food service sales, which the increased retail sales could not fully compensate. Food service sales during the review period remained significantly lower than in the comparison period, even though sales had clearly improved from the review period of April–June.

In comparable figures, HKScan's net sales remained stable in Finland, Sweden and the Baltics. Denmark's net sales decreased from the comparison period. The positive impact of the exchange rate change of the Swedish krona, i.e., the conversion of net sales made in local currency into euro, on net sales was EUR 4.5 million.

During the review period, the export volume was at the target level and clearly higher than in the comparison period. The pandemic continued to have an impact on exports and their profitability. The export volume to China clearly increased and nearly achieved the target level.

EBIT

The Group's EBIT improved by EUR 3.2 million to EUR 7.7 (4.5) million. The comparable EBIT improved by EUR 3.7 million and was EUR 8.2 (4.5) million. The effect of the exchange rate change of the Swedish krona on EBIT was EUR 0.2 million.

Non-recurring items affecting the EBIT recognized during the review period totalled EUR -0.6 million. The comparable EBIT does not include non-recurring items. Items affecting comparability are described in more detail in the Tables section of this report.

EBIT was strengthened by commercial improvements, improved operational efficiency and the lower administrative costs generated by adjustment measures carried out in 2019. All market areas achieved a profitable comparable EBIT during the review period. The impact of exports on the EBIT was minor.

The Covid-19 pandemic continued to affect the Group's comparable EBIT due to, e.g., higher production costs. We were unable to realise the earlier estimates concerning the recovery of our food service channel sales to the level seen prior to the pandemic and sales for the review period remained clearly lower than in the comparison period. The greatest impact was seen in Business Unit Finland. Efforts to prevent the risks brought on by the pandemic also affected the capacity of the business units to realise efficiency measures and investments as planned.

January–September

Net sales

HKScan's net sales increased by 2.1 per cent, totalling EUR 1,308.1 (1,280.6) million. Net sales were increased by commercial improvements and clear growth in retail sales as a result of the pandemic. Sales through the food service channel were significantly lower than in the comparison period due to the pandemic.

In comparable figures, HKScan's net sales grew in all the market areas. The impact of the exchange rate change of the Swedish krona, i.e., the conversion of net sales made in local currency into euro, on net sales was EUR 0.2 million.

EBIT

The Group's EBIT improved by EUR 20.5 million to EUR 3.8 (-16.7) million. The comparable EBIT improved by EUR 12.9 million to EUR 4.9 (-8.0) million. The effect of the exchange rate change of the Swedish krona on the EBIT was EUR 0.1 million.

During the review period, non-recurring items affecting the EBIT were EUR -1.1 million. The comparison period EBIT included non-recurring items amounting to EUR -8.7 million. Items affecting comparability are described in more detail in the Tables section of this report.

The EBIT was strengthened by commercial improvements in all market areas. Retail sales clearly increased as a result of the pandemic, while food service sales were significantly lower than in the comparison period. Sweden, the Baltics and Denmark delivered a profitable comparable EBIT. Finland's comparable EBIT was negative.

The pandemic had a clearly negative impact on the Group's EBIT. The strongest impact was seen in the Business Unit Finland, where the importance of the food service channel is the biggest. The impact was also evident in the company's other home market areas and in exports. Responding to the sudden growth in retail sales and ensuring customer satisfaction led to rising costs and additional production costs.

Balance sheet, cash flow and financing

At the end of September, the company's balance sheet total was EUR 942.4 (937.8) million. The Group's interest-bearing debt at the end of September was EUR 338.3 (325.0) million including an IFRS 16 lease liability of EUR 34.3 (46.3) million. Net debt was EUR 323.1 (308.8) million. It increased by EUR 14.3 million from the comparison period and by EUR 47.3 million from the year-end. The net gearing was affected by the investment of EUR 37.7 million in the Vantaa plot. The net gearing ratio was 103.2 (90.1) per cent at the end of September. The upward impact of the IFRS 16 lease liability on the net gearing ratio was approximately 11 percentage points, which is on the comparison period level.

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

The Group's liquidity remained good. Committed credit facilities on 30 September 2020 stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 73.6 (15.0) million.

Net financial expenses were EUR -2.6 (-3.3) million in July–September and EUR -8.2 (-9.2) million in January–September.

Cash flow from operating activities was EUR 2.8 (8.7) million in July–September and EUR 23.3 (10.6) million in January–September. Cash flow after investments in the third quarter was EUR -5.2 (3.2) million and EUR -47.9 (-13.8) million in January–September including the Vantaa plot investment.

Investments

The Group's investments totalled EUR 8.2 (5.7) million in July–September. Investments for January–September were EUR 68.9 (24.5) million. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 0.8 (1.9) million in July–September and EUR 3.7 (8.6) million in January–September.

In July–September, HKScan's investments in all its market areas were targeted at maintaining the existing capacity and improving productivity. In Sweden, the modernisation of the production facilities of the Kristianstad production unit proceeded as planned. In Finland, HKScan took a new bag pack line into use for its minced meat products. The new line utilises significantly less packaging plastic.

In June 2020, HKScan and Leivon Leipomo set up a company that aims for strong and profitable growth of Boltsi® product family.

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

In January 2020, HKScan announced it would invest some EUR 6 million in a new slaughter process in the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability while ensuring the capacity needed to respond to the strongly growing demand. Preparations for the investment in Rauma have proceeded according to plan and the investment will largely be realised in the early part of 2021.

In 2020, HKScan increased its investments from the previous year as part of its Turnaround programme. Improving productivity and supporting the implementation of the Group's strategy are key goals when planning investments for the coming years.

Operating environment

Changes in key sales channels and product categories

In July–September, changes in HKScan's sales channels and sales structure, caused by the Covid-19 pandemic, could be clearly seen in all the company's home markets. Growth in retail food sales continued to be strong in all HKScan's home market areas, but demand in the food service channel remained weaker than normal despite some recovery. Online food sales and deliveries directly to consumers' homes continued in the third quarter to be at a clearly higher level than before the pandemic. The pandemic increased the amount of home cooking during the summer season as well.

The share of domestic meat in terms of total meat consumption increased in HKScan's home markets. The popularity of branded products within retail sales increased. The pandemic has increased consumers' awareness of the significance of domestic food and food safety, thereby increasing the appreciation of local primary production in all the company's home markets.

Changes in the international meat market

As a result of the pandemic, price volatility has clearly increased in the international meat market. During the review period, weak demand in the food service channel has created market imbalances, not only in our home markets but also throughout Europe and HKScan's export markets in Asia. Furthermore, the detected cases of African swine fever in Germany clearly reduced the market price of pork in Europe.

The pandemic has also led to the shutdown of production facilities throughout Europe and in other markets, thereby causing market disruptions within many markets.

Within the export markets, the Chinese price level has increased slightly, and the market is typically stronger in the autumn. China's own pork production is growing, but the demand for imported pork remains high.

Actions and effects caused by the Covid-19 pandemic

HKScan takes the exceptional situation caused by the pandemic extremely seriously. Throughout this period, the company has been able to keep its supply chain operations on a good level with no disruptions and has continued to implement its own preventive operating procedures unconditionally in all its home markets and units. The company's primary focus is to safeguard the health and safety of personnel and consumers and to ensure the disturbance-free activities of production, business and the entire food chain.

In all its production units, HKScan has, e.g., minimised the physical interaction between different departments and continued to recommend that white-collar employees should work remotely. Furthermore, the units comply with strict hygiene practices and use proper protective equipment. The pandemic has generated additional costs for the production units within the company.

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

HKScan anticipates the impacts of the pandemic on consumer behaviour to the best of its ability and takes into account the effects of different scenarios on the company's operations in both the short and longer term. The company has also diversified its export structure with the aim of balancing out exports and avoiding market risks.

Business Unit Finland

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Net sales	190.0	190.2	563.4	559.1	770.6
EBIT	1.4	1.3	-4.3	-5.4	-10.3
- EBIT margin, %	0.7	0.7	-0.8	-1.0	-1.3
Comparable EBIT	1.4	1.3	-4.3	-4.3	-1.7
- EBIT margin, %	0.7	0.7	-0.8	-0.8	-0.2

July–September

In Finland, net sales totalled EUR 190.0 (190.2) million. Sales increased in retail and branded products while sales in the food service channel decreased clearly due to the Covid-19 pandemic. Increased cooking and eating at home increased especially the demand for poultry products and meal components in retail.

EBIT totalled EUR 1.4 (1.3) million and comparable EBIT was EUR 1.4 (1.3) million. The pandemic had a clear direct effect on comparable EBIT as the growth in retail sales could not compensate for the weakened food service sales. Performance of the Finnish poultry business improved slightly from the comparison period but fell clearly short of the target level. The review period depreciations were slightly higher than in the comparison period.

Sales for Boltsi®, a product family of the company established in June by HKScan and Leivon Leipomo, began in July and developed as planned. Plant-based HK Vihreät™ product range was launched during the review period.

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

January–September

Net sales totalled EUR 563.4 (559.1) million. The net sales increase resulted from the increase in retail sales during the pandemic from March onwards. Before the effects of the pandemic, especially the food service channel was developing in line with targets. However, since March the channel's sales were well behind the comparison period. Sales in the food service channel recovered towards the end of the review period, but were still clearly lower than in the comparison period.

EBIT totalled EUR -4.3 (-5.4) million and comparable EBIT was EUR -4.3 (-4.3) million. The direct impact of the pandemic on comparable EBIT was significant as strong retail sales could not fully compensate for weakened food service demand. Measures related to the pandemic risk management clearly increased costs.

Business Unit Sweden

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Net sales	162.2	161.4	477.6	478.6	652.1
EBIT	5.9	3.6	11.6	4.2	7.1
- EBIT margin, %	3.6	2.3	2.4	0.9	1.1
Comparable EBIT	5.9	3.6	11.7	5.6	12.0
- EBIT margin, %	3.6	2.3	2.5	1.2	1.8

July–September

In Sweden, net sales totalled EUR 162.2 (161.4) million. Retail sales increased slightly while food service sales were somewhat lower due to the pandemic. The impact of the pandemic on our business in Sweden was minor, due to the significant share of retail sales. Commercial improvements in retail sales increased net sales. Especially retail sales of domestic branded red meat developed well.

In comparable figures, net sales remained at the comparison period level in local currency. The exchange rate change of the Swedish krona increased net sales by EUR 4.5 million. Net sales were decreased by the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark last year.

EBIT totalled EUR 5.9 (3.6) million and comparable EBIT was EUR 5.9 (3.6) million. EBIT strengthened as a result of commercial improvements and lower administrative costs. Consumer demand for locally produced meat remained good and there was a shortage of locally produced pork and beef in Sweden. This was seen in higher consumer prices. The effect of the exchange rate change of the Swedish krona on the EBIT was EUR 0.2 million.

January–September

Net sales totalled EUR 477.6 (478.6) million. Retail sales continued to grow, but at the end of the review period, food service sales remained clearly lower than in the comparison period due to the pandemic. In comparable figures, net sales increased by 2.0 per cent in local currency. The exchange rate change of the Swedish krona increased net sales by EUR 0.2 million. The comparison period net sales include some EUR 11 million sales of Danish poultry meat sold in Sweden. Its sales responsibility transfer to the Business Unit Denmark was implemented in 2019.

EBIT totalled EUR 11.6 (4.2) million and comparable EBIT was EUR 11.7 (5.6) million. EBIT strengthened as a result of commercial improvements and lower administrative costs. The pandemic had an effect on the demand of locally produced meat, which resulted in higher consumer prices. The effect of the exchange rate change of the Swedish krona on the EBIT was EUR 0.1 million.

Business Unit Baltics

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Net sales	44.1	43.9	132.0	125.5	168.5
EBIT excluding biological asset revaluation	2.5	1.6	4.9	1.9	2.7
Biological asset revaluation	-0.7	0.0	-1.5	1.6	2.3
EBIT	1.8	1.7	3.4	3.4	5.0
- EBIT margin, %	4.2	3.8	2.6	2.7	3.0
Comparable EBIT excluding biological asset revaluation	2.5	1.6	5.3	2.0	2.9
Biological asset revaluation	-0.7	0.0	-1.5	1.6	2.3
Comparable EBIT	1.8	1.7	3.8	3.5	5.1
- EBIT margin, %	4.2	3.8	2.8	2.8	3.0

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

July–September

In the Baltics, net sales totalled EUR 44.1 (43.9) million. Net sales increased due to commercial improvements, which resulted in an increase in retail sales. Exports of processed value-added products also increased. Due to the pandemic, sales in the food service channel remained clearly at a lower level than in the comparison period.

EBIT excluding the change in the fair value of biological assets totalled EUR 2.5 (1.6) million. Similarly, comparable EBIT was EUR 2.5 (1.6) million. EBIT strengthened due to commercial improvements, enhancement of production in our production units and in primary production as well as good control of costs. Declined food service sales weakened the EBIT. The change in the fair value of biological assets in the balance sheet was EUR -0.7 (0.0) million.

January–September

Net sales increased by well over 5 per cent to EUR 132.0 (125.5) million. Net sales increased through commercial improvements, such as the positive development of sales in retail and in branded products and continued strong growth in exports of processed meat products. Difficulties in the food service channel due to the pandemic decreased net sales from the comparison period.

EBIT excluding the change in the fair value of biological assets totalled EUR 4.9 (1.9) million. Similarly, comparable EBIT was EUR 5.3 (2.0) million. EBIT strengthened through commercial improvements, enhancement of production in our production units and in primary production as well as good control of costs. The change in the fair value of biological assets in the balance sheet totalled EUR -1.5 (1.6) million.

Business Unit Denmark

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Net sales	42.0	43.9	135.1	117.3	153.3
EBIT	0.4	-0.1	1.2	-8.8	-9.8
- EBIT margin, %	1.0	-0.3	0.9	-7.5	-6.4
Comparable EBIT	1.0	-0.1	1.7	-4.3	-5.3
- EBIT margin, %	2.3	-0.3	1.3	-3.6	-3.5

July–September

In Denmark, net sales totalled EUR 42.0 (43.9) million. Market changes caused by the pandemic reduced the net sales of exports. The decline in food service sales remained clear. Net sales were increased by the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark last year.

In Denmark, EBIT improved clearly, totalling EUR 0.4 (-0.1) million. Comparable EBIT was EUR 1.0 (-0.1) million. EBIT strengthened through commercial improvements, sales growth of poultry products sold fresh and good control of costs.

January–September

Net sales increased by over 15 per cent, amounting to EUR 135.1 (117.3) million. Sales of poultry products to Danish retailers increased by some 30 per cent from the comparison period. Net sales also increased due to the transfer of sales responsibility for Danish poultry sold in Sweden to Business Unit Denmark in 2019.

EBIT totalled EUR 1.2 (-8.8) million and comparable EBIT was EUR 1.7 (-4.3) million. EBIT strengthened through commercial improvements, especially with sales focusing on poultry products sold fresh and cooked in our home markets, and good control of costs.

Strategy

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

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

The Covid-19 pandemic has already changed consumer behaviour and thus, our operations. As the situation normalises, it is quite unlikely that we will fully return to the pre-pandemic operating environment. As regards the key targets of the Group strategy, there is no need for change, but other aspects raised by the pandemic will be assessed and implemented.

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

Turnaround programme progressing

The Turnaround programme at the core of our strategy was launched at the beginning of 2019. The pandemic changed the sales mix and led to additional costs, which slowed down the progress of the programme. The cumulative improvement in the comparable EBIT achieved through the Turnaround programme was already close to EUR 57 million at the end of September 2020. The company's cash flow from operating activities improved cumulatively by over EUR 86 million during the same period. Net gearing is at a level that allows a controlled implementation of the Turnaround programme.

Poultry driving growth among categories

Growth in poultry products is at the core of HKScan's strategy. This year, the company has grown strongly in the poultry category in all of its home markets, driven by our Business Units in Finland, the Baltics and Denmark. Consumption of poultry meat has shown strong growth, which is expected to continue in the future.

This year, HKScan's sales has strengthened in beef, pork and processed meat products, especially in the branded retail products. The red meat market as a whole has been declining. The company aims to strengthen its position in beef and pork and in processed meat products through its advanced responsibility work, strong brand portfolio and partner network.

New product categories through partnerships

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

So far, HKScan has expanded into new product categories through partnerships. Boltsi Oy, established with Leivon Leipomo in June 2020, focuses on the development of the Boltsi® product family and business, based on oat and seed raw material. The cooperation has already been taken forward in Finland with existing products and by investing in the new product development. The company is examining the opportunities to expand the Boltsi product family sales to its other home markets.

The commercial implementation of the cooperation agreed with Hes-Pro (Finland) Oy in November 2019, focusing on the sale of plant-based protein products in the food service channel, was postponed due to the pandemic. In the autumn 2020, HKScan launched new HK Vihreät™ product family in Finland. The company is examining opportunities to expand the sales of plant-based protein products to its other home markets. In Sweden, HKScan has sold vegetarian Pärsons® products already since 2016. The Pärsons vegetarian product range includes, for example, cold cuts and sausages. Pärsons is the market leader in vegetarian cold cuts in Sweden.

Partnerships with Hes-Pro and Leivon Leipomo create the basis for the company's growth in new product categories and expansion into new raw material bases. At the same time, they support HKScan's strategic target to grow into a versatile food company.

New Food Solutions unit focusing on concept business

As part of its strategy implementation, HKScan decided to establish a new Food Solutions unit in September. The unit's task is to develop and commercialise concepts that create growth and added value to the company's current business, which is strongly based on product and category development. The Food Solutions unit will be also responsible for the development of commercial digital solutions. The unit will start operations at the beginning of January 2021.

Long-term financial targets

HKScan's long-term financial targets are: EBIT over 4 per cent of net sales, return on capital employed (ROCE) over 12 per cent, net gearing less than 100 per cent, and dividends more than 30 per cent of net profit.

Corporate responsibility

HKScan's responsibility programme has four priorities: healthy food, the environment, our community and animal welfare. The company promotes related action plans in all of its home markets. During the review period, HKScan's environmental work focused on packaging development and the company's new packaging strategy was approved.

HKScan's goal is to have all the packaging recycle-ready by the end of 2025 at the latest. At the same time, HKScan will reduce the carbon footprint of packaging by 20 per cent and decrease the amount of packaging plastic by 20 per cent compared to 2019.

With environmentally friendly packaging, HKScan responds to consumers' will to make responsible grocery shopping choices. The company takes many aspects into account in its packaging development. In addition to the key goals, i.e. recyclability and the reduction of plastic and carbon footprint, the company considers, for example, the shelf life of food, functionality and attractiveness of packaging, renewability of material, as well as packaging and recycling costs. The primary function of packaging remains the same, to protect foods, which is part of ensuring quality and product safety.

As one of the largest food companies in the Baltic Sea region, HKScan's actions have an impact. The company has already reduced the amount of packaging plastic by some 1.5 million kg from 2017 to 2019. In addition, HKScan has decreased the amount of plastic in several of its consumer packages in 2020.

Research and development

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

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

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

Personnel and Group management

HKScan employed 6,969 (6,645) people at the end of September 2020. The average number of employees in the review period was 7,151 (7,005). Of that number, 40.4 (40.3) per cent were located in Finland, 29.5 (29.0) per cent in Sweden, 21.1 (21.8) per cent in the Baltics and 9.0 (8.9) per cent in Denmark. The increase in the number of personnel from the comparison period was caused by the company taking over the responsibility for production facility maintenance in two production units in Finland. The figures also include seasonal and fixed-term employees, who were hired to ensure the continuity of supply throughout the Covid-19 pandemic.

In June, HKScan announced the appointment of Lars Appelqvist as both EVP for Business Unit Sweden and as a member of the Group Executive Team. Appelqvist will take up his new position on 16 November 2020. He comes to HKScan from the company Löfbergs, where he serves as CEO.

In September, HKScan appointed Jouni T. Laine as EVP of the company's new Food Solutions unit and as a member of the Group Executive Team. Laine will join HKScan from his position as CEO at the Clewer Group, part of Salmela-Yhtiöt. Laine will take up his new position on 1 January 2021 at the latest.

Salaries and remunerations to employees, including social costs, totalled EUR 77.5 (77.0) million in July–September and EUR 239.8 (237.1) million for the period of January–September.

Shares and shareholders

At the end of September, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The 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.

At the end of September, the company held 2,000,000 (0) A shares as treasury shares, corresponding to 2.02 per cent of the company's total number of shares and 1.0 per cent of the total number of votes.

The market value of HKScan's shares at the end of September stood at EUR 180.9 (162.3) million. The market value of the Series A shares was EUR 170.8 (153.4) million and unlisted Series K shares EUR 10.1 (8.9) million.

In January–September, a total of 22,047,531 (12,612,833) of the company's shares were traded with a total value of EUR 45,605,940 (20,721,749). In the period under review, the highest price quoted was EUR 2.85 (2.48) and the lowest EUR 1.60 (1.48). The average price was EUR 2.07 (1.64). At the end of September, the closing price was EUR 1.87 (1.64).

Share-based long-term incentive plan

On 7 February 2018, HKScan announced that the Board of Directors of HKScan Corporation approved a share-based long-term incentive plan for the Group's top management and selected key employees. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure. The incentive plan consists of annually commencing plans. The commencing of each plan requires a separate decision from the Board of Directors.

The first plan (PSP 2018–2020) commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in spring 2021, if the performance targets set by the Board of Directors are reached. The potential rewards will be paid in series A shares of HKScan. At the time of commencement of the PSP 2018–2020 plan, approximately 30 individuals were eligible to participate in it.

The complementary Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year vesting period. After the vesting period, the allocated restricted share rewards will be paid to the participants in series A shares of HKScan. The first Restricted Share Plan (RSP 2018–2020) commenced at the beginning of 2018 and the potential share rewards thereunder will be paid in spring 2021. At the time of commencement of the RSP 2018–2020 plan, eleven individuals belonging to the top management were eligible to participate in it.

On 8 May 2019, HKScan announced that the Board of Directors of HKScan Corporation has approved the commencing of new plans within the share-based long-term incentive scheme for HKScan's key employees. The Board approved the commencement of a new plan period, PSP 2019–2021, within the Performance Share Plan structure. Eligible to participate in PSP 2019–2021 are the Group Executive Team members, in total a maximum of 10 individuals. The payment of the share rewards thereunder is conditional on the achievement of the performance targets set by the Board of Directors. The potential rewards will be paid in series A shares of HKScan in two tranches, the first in spring 2022 and the second in spring 2023.

The Board also approved the commencement of a new plan period, RSP 2019–2021, within the Restricted Share Plan structure. The potential share rewards thereunder will be paid in series A shares of HKScan in two tranches, the first in spring 2022 and the second in spring 2023. The Board has set a Group-level financial criterion for RSP 2019–2021, the fulfilment of which is a precondition for the payment of the share rewards under the plan. Eligible to participate in RSP 2019–2021 are the participants of the PSP 2019–2021 plan.

Annual General Meeting 2020

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

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

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

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

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

Short-term risks and uncertainty factors

The Covid-19 pandemic is a significant uncertainty factor for HKScan's business. The company's primary approach to the exceptional situation caused by the pandemic is to secure the health and safety of personnel and consumers and to ensure the disturbance-free operations of the entire food chain, from farms to consumers. As well as following strict hygiene processes and the instructions given by the authorities, HKScan has also implemented numerous contingency actions of its own. The disruption of production due to personnel potentially falling ill poses a significant risk for the company. In addition, if the pandemic is prolonged, it may impact the availability and prices of some raw materials, production inputs, packaging materials and protective equipment. If the pandemic continues, it may also affect the price and volume development of certain products in sales channels in which demand has significantly declined due to the pandemic. This applies to the company's home markets as well as export markets. Direct and indirect effects through the international meat raw materials market in both the domestic and export markets may be unpredictable as the pandemic continues. The effects may be longer-lasting and extend to the end of this year and, possibly, into the coming year. The pandemic may also cause unexpected delays in the implementation of investments, which may affect the company's Turnaround programme.

Other significant uncertainty factors in HKScan's business are related to the availability, price and quality of key production inputs as well as to raw material and sales prices. The cases of African swine fever detected in Germany and the resulting dramatic decrease in the price of pork bring instability to the European meat market. The growth in the pork supply in Europe also increased the price risk within HKScan's home markets.

In the food industry's long production chain, food safety is essential. The possibility of animal diseases, such as the African swine fever, cannot be fully excluded. The cases reported in Germany serve as an example of this. Furthermore, the impact of possible international or regional food scandals on consumption behaviour cannot either be excluded. The discussion surrounding climate change may play a role in impacting the consumer demand for meat products.

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

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

Webcast for analysts and media

In connection with its Interim Report for January-September 2020, HKScan will hold a webcast in Finnish for analysts, institutional investors and media representatives on 5 November 2020 at 10 am, Finnish time. You can follow the Finnish webcast at: <https://hkscan.videosync.fi/2020-q3-tulokset>. HKScan's CEO Tero Hemmilä and CFO Jyrki Paappa will present the Interim Report.

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

Financial reports

HKScan's Financial Statements Bulletin for 2020 will be published on 4 February 2021.

Turku, 5 November 2020

HKScan Corporation

Board of Directors

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

DISTRIBUTION:
Nasdaq Helsinki
Main media
www.hkscan.com

Consolidated Interim Report 1 January – 30 September 2020

Consolidated income statement

(EUR million)		7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Net sales		438.3	439.4	1 308.1	1 280.6	1 744.4
Cost of goods sold	1.	-409.9	-413.1	-1 236.3	-1 225.0	-1 668.2
Gross profit		28.4	26.3	71.8	55.6	76.2
Other operating items total	1.	0.3	0.8	3.2	4.5	4.9
Sales and marketing costs	1.	-8.8	-8.6	-30.5	-28.3	-38.5
General administration costs	1.	-12.2	-14.0	-40.8	-48.5	-65.8
Operating profit		7.7	4.5	3.8	-16.7	-23.2
Financial income		0.5	0.4	1.7	1.8	2.2
Financial expenses		-3.1	-3.7	-9.9	-10.9	-13.9
Share of profit/loss in associates and joint ventures		0.5	0.5	1.5	0.3	0.4
Profit/loss before taxes		5.6	1.8	-2.9	-25.6	-34.5
Income tax		-1.8	-1.4	-3.5	-1.4	-3.0
Profit/loss for the period		3.7	0.4	-6.4	-26.9	-37.5
Profit/loss for the period attributable to:						
Equity holders of the parent		3.0	-0.4	-8.2	-28.4	-39.9
Non-controlling interests		0.7	0.8	1.8	1.5	2.3
Total		3.7	0.4	-6.4	-26.9	-37.5
Earnings per share calculated on profit attributable to equity holders of the parent:						
EPS, undiluted, continuing operations, EUR/share		0.03	-0.01	0.10	-0.41	-0.52
EPS, diluted, continuing operations, EUR/share		0.03	-0.01	-0.10	-0.41	-0.52

Consolidated statement of comprehensive income

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Profit/loss for the period	3.7	0.4	-6.4	-26.9	-37.5
OTHER COMPREHENSIVE INCOME (after taxes):					
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translating foreign operations	-0.8	-1.4	-1.5	-3.9	-1.6
Cash flow hedging	0.7	-0.2	-2.5	-3.1	-4.2
Items that will not be reclassified to profit or loss					
Actuarial gains or losses		-		-	-4.2
TOTAL OTHER COMPREHENSIVE INCOME	-0.1	-1.5	-3.9	-7.0	-10.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	3.7	-1.2	-10.3	-33.9	-47.5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	2.9	-1.9	-12.1	-35.4	-49.8
Non-controlling interests	0.7	0.8	1.8	1.5	2.3
Total	3.7	-1.2	-10.3	-33.9	-47.5

Consolidated balance sheet

(EUR million)	Note	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
ASSETS				
Intangible assets	2.	143.7	135.1	136.4
Tangible assets	3.4	444.4	452.2	439.1
Holdings		32.6	32.3	32.5
Deferred tax asset	5.	41.8	42.5	43.4
Other non-current assets		5.4	4.3	3.5
TOTAL NON-CURRENT ASSETS		667.8	666.5	654.9
Inventories	6.	133.0	130.8	115.5
Current receivables		126.4	124.3	127.6
Cash and cash equivalents		15.2	16.2	37.5
TOTAL CURRENT ASSETS		274.6	271.3	280.6
TOTAL ASSETS		942.4	937.8	935.6
EQUITY AND LIABILITIES				
EQUITY		313.0	342.9	325.1
Non-current loans, interest-bearing	4.	250.9	262.5	262.7
Non-current liabilities, non-interest-bearing		61.5	58.1	67.0
TOTAL NON-CURRENT LIABILITIES		312.4	320.6	329.8
Current loans, interest-bearing	4.	87.4	62.5	50.6
Current liabilities, non-interest-bearing		229.5	211.7	230.1
TOTAL CURRENT LIABILITIES		316.9	274.2	280.7
TOTAL EQUITY AND LIABILITIES		942.4	937.8	935.6

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2020	66.8	72.9	1.0	215.4	25.9	10.3	-13.4	-4.8	-66.2	307.9	17.2	325.1
Result for the financial period	-	-	-	-	-	-	-	-	-8.2	-8.2	1.8	-6.4
Other comprehensive income (+) / expense (-)												
Transl. diff.	-	-	-	-	-	-	-1.5	-	-	-1.5	-	-1.5
Cash flow hedging	-	-	-2.5	-	-	-	-	-	-	-2.5	-	-2.5
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total compreh. income for the period	-	-	-2.5	-	-	-	-1.5	-	-8.2	-12.1	1.8	-10.3
Direct recognitions	-	-	-	-	-	-	-	-	0.9	0.9	-	0.9
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.7	-0.7
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	0.1	0.1
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 30 Sept. 2020	66.8	72.9	-1.5	215.4	25.9	10.3	-14.9	-4.8	-75.6	294.6	18.4	313.0

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2019	66.8	72.9	5.1	143.5	40.0	10.3	-11.9	0.0	-17.2	309.5	15.4	325.0
Result for the financial period	-	-	-	-	-	-	-	-	-28.4	-28.4	1.5	-26.9
Other comprehensive income (+) / expense (-)												
Transl. diff.-	-	-	-	-	-	-	-3.9	-	-	-3.9	-	-3.9
Cash flow hedging	-	-	-3.1	-	-	-	-	-	-	-3.1	-	-3.1
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-3.1	-	-	-	-3.9	-	-28.4	-35.4	1.5	-33.9
Direct recognitions	-	-	-	-	-	0.0	-	-	0.3	0.4	-	0.4
Share issue	-	-	-	71.9	-14.1	-	-	-	-3.8	54.0	-	54.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.4	-0.4
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 30 Sept. 2019	66.8	72.9	2.0	215.4	25.9	10.3	-15.8	0.0	-51.1	326.4	16.5	342.9

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)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Cash flow before change in net working capital	23.5	21.5	53.1	38.3	58.3
Change in net working capital	-15.9	-9.0	-21.0	-20.1	13.2
Financial items and taxes	-4.8	-3.7	-8.8	-7.5	-12.2
CASH FLOW FROM OPERATING ACTIVITIES	2.8	8.7	23.3	10.6	59.2
Cash flow from investing activities	-8.0	-5.6	-71.1	-24.4	-31.6
CASH FLOW AFTER INVESTING ACTIVITIES	-5.2	3.2	-47.9	-13.8	27.6
Hybrid loan	-2.1	-2.1	-2.1	-2.1	-2.1
Share issue	-	-	-	43.7	43.7
Share issue costs	-	-0.9	-	-3.0	-3.0
Change in loans	0.5	-5.4	28.7	-37.0	-52.0
Purchase of own shares	-	-	-	-	-4.7
Dividends paid	-	-0.2	-0.7	-0.4	-0.6
CASH FLOW FROM FINANCING ACTIVITIES	-1.6	-8.7	26.0	1.2	-18.8
NET CASH FLOW	-6.8	-5.5	-21.9	-12.6	8.9
Cash and cash equivalents at beginning of period	22.0	22.2	37.5	29.4	29.4
Translation differences	0.0	-0.5	-0.4	-0.6	-0.8
Cash and cash equivalents at end of period	15.2	16.2	15.2	16.2	37.5

Financial indicators

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Earnings per share (EPS), undiluted, EUR	-0.10	-0.41	-0.52
Earnings per share (EPS), diluted, EUR	-0.10	-0.41	-0.52
Equity per share, EUR	3.04	3.30	3.18
Equity ratio, %	33.2	36.6	34.8
Adjusted average number of outstanding shares, mill.	97.0	74.0	79.9
Gross capital expenditure on PPE, EUR mill.	68.9	24.5	31.7
Additions in right-of-use assets, EUR mill.	3.7	8.6	11.3
Depreciation, EUR mill.	49.2	54.9	80.4
Employees, end of month average	7,151	7,005	6,928

Calculation of financial indicators

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

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

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

Notes to the Interim report

Accounting policies

HKScan Corporation's Interim report for 1 January–30 September 2020 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 2019. 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 2019. The interim report is unaudited.

Analysis by segment

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
NET SALES					
- Finland					
Sales, goods	189.3	189.4	561.1	556.8	767.4
Sales, services	0.7	0.8	2.3	2.3	3.1
- Sweden					
Sales, goods	162.2	161.4	477.6	478.6	652.1
Sales, services	0.0	0.0	0.0	0.0	0.0
- Baltics					
Sales, goods	44.0	43.7	131.7	125.1	168.0
Sales, services	0.1	0.2	0.3	0.4	0.5
- Denmark					
Sales, goods	42.0	43.9	135.1	117.3	153.3
Sales, services	0.0	0.0	0.0	0.0	0.0
Group total	438.3	439.4	1 308.1	1 280.6	1 744.4
EBIT					
- Finland	1.4	1.3	-4.3	-5.4	-10.3
- Sweden	5.9	3.6	11.6	4.2	7.1
- Baltics	1.8	1.7	3.4	3.4	5.0
- Denmark	0.4	-0.1	1.2	-8.8	-9.8
Segments total	9.5	6.5	11.8	-6.6	-8.0
Group administration costs	-1.8	-2.0	-8.0	-10.1	-15.2
Group total	7.7	4.5	3.8	-16.7	-23.2
INVESTMENTS					
- Finland					
Gross capital expenditure on PPE	2.3	2.1	48.9	7.0	9.7
Additions in right-of-use assets	0.3	1.6	1.4	6.4	8.6
Investments total	2.6	3.7	50.3	13.4	18.2
- Sweden					
Gross capital expenditure on PPE	4.0	0.9	11.6	6.4	8.4
Additions in right-of-use assets	0.1	0.1	1.0	1.5	1.9
Investments total	4.1	1.0	12.6	7.9	10.4
- Baltics					

Gross capital expenditure on PPE	0.8	2.5	3.6	10.3	11.6
Additions in right-of-use assets	0.3	0.1	0.7	0.1	0.3
Investments total	1.1	2.5	4.2	10.4	11.9
- Denmark					
Gross capital expenditure on PPE	1.1	0.2	4.8	0.9	2.0
Additions in right-of-use assets	0.0	0.1	0.7	0.5	0.6
Investments total	1.1	0.3	5.5	1.4	2.6
Total	9.0	7.6	72.6	33.1	43.0
AVERAGE NUMBER OF EMPLOYEES					
- Finland			2 888	2 823	2 774
- Sweden			2 110	2 030	2 013
- Baltics			1 505	1 527	1 512
- Denmark			647	625	628
Total			7 151	7 005	6 928

Notes to the income statement

1. Items affecting comparability

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Comparable EBIT	8.2	4.5	4.9	-8.0	-2.2
Termination of employment, Sweden 1)	-	-	-	-1.0	-1.5
Impairment of assets, Finland 2) 3)	-	-	-	-	-7.3
Termination of employment, Group Management 1)	-	-	-	-1.5	-1.6
Termination of employment, Sweden 2)	-	-	-	-0.4	-0.4
Termination of employment, Finland 1)	-	-	-	-0.8	-0.8
Termination of employment, Finland 2)	-	-	-	-0.2	-0.4
Termination of employment, Baltics 1)	-	-	-	-0.1	-0.1
Termination of employment, Baltics 2)	-	-	-	0.0	-0.0
Impairment of assets, Baltics 4)	-	-	-0.3	-	-
Impairment of assets, Denmark 2) 3)	-	-	-	-4.5	-4.5
Impairment of assets, Group Management 1) 3)	-	-	-	-	-1.3
Impairment of associated company balances, Sweden 1) 2) 4)	-	-	-0.1	-	-2.9
Legal dispute and settlement, Denmark 1) 4)	-0.6	-	-0.6	-	-
EBIT	7.7	4.5	-3.8	-16.7	-23.2

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Opening balance	136.4	137.5	137.5
Translation differences	-1.0	-3.5	-1.6
Additions	4.9	0.6	0.7
Depreciation and impairment	-3.2	-2.3	-3.1
Reclassification between items	6.5	2.8	2.8
Closing balance	143.7	135.1	136.4

3. Changes in tangible assets

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Opening balance	439.1	478.5	478.5
Translation differences	-1.2	-2.9	-1.2
Additions	67.7	32.5	42.3
Disposals	-8.7	-0.5	-0.3
Depreciation and impairment	-46.1	-52.6	-77.3
Reclassification between items	-6.5	-2.8	-2.8
Closing balance	444.4	452.2	439.1

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2020	10.0	18.7	15.7	44.3	46.3
Translation differences	-	-0.1	0.0	-0.1	-0.1
Additions	0.3	0.7	2.8	3.7	3.7
Disposals	-7.7	-0.4	0.0	-8.2	-7.9
Depreciation for the financial period	-0.4	-3.4	-3.8	-7.6	-
Reclassification between items	-	-	-	-	-
Payments	-	-	-	-	-7.7
Closing balance on 30 Sept. 2020	2.2	15.4	14.7	32.3	34.3

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2019	6.4	19.7	20.0	46.1	46.8
Translation differences	-	-0.3	-0.1	-0.4	-0.4
Additions	4.5	1.6	2.5	8.6	8.6
Depreciation for the financial period	-0.9	-3.2	-4.1	-8.2	-
Reclassification between items	-	0.0	-1.8	-1.8	-
Payments	-	-	-	-	-8.6
Closing balance on 30 Sept. 2019	10.0	17.7	16.5	44.2	46.3

(EUR million)	7-9/2020	7-9/2019	1-9/2020	1-9/2019	2019
Depreciation expense of right-of-use assets	-2.5	-2.9	-7.6	-8.2	-11.4
Interest expense on lease liabilities	-0.3	-0.4	-0.9	-1.1	-1.4
Total amounts recognised in profit or loss	-2.8	-3.2	-8.5	-9.3	-12.8

5. Deferred tax assets

EUR 34.9 million of the deferred tax asset arise from Group's operations in Finland and mostly from adopted losses, postponed depreciations and non-deductible interest expenses. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

The company has ability to mitigate the expiration risk of the tax losses by deferring use of tax depreciation. A gradual reduction of the asset is expected to take place when effects of the Turnaround programme takes effect. As a result of the successful share issue the expected decrease in interest expense will also positively affect on tax position.

Deferred tax assets are assumed to be used in less than 10 years. Consideration is based on current three years business plan of which implementation has so far proceeded according to original targeting. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2022 and beyond. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Postponed tax depreciations and non-deducted interest expense can be utilised indefinitely.

Unrecognized Finnish deferred tax asset at the end of September 2020 was EUR 14.9 million.

6. Inventories

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Materials and supplies	68.4	71.7	59.3
Semi-finished products	4.8	5.1	4.7
Finished products	52.1	45.4	41.8
Other inventories	0.4	0.2	0.2
Inventories, advance payments	1.8	1.5	1.9
Biological assets	5.5	6.9	7.5
Total inventories	133.0	130.8	115.5

Derivative instrument liabilities

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Nominal values of derivative instruments			
Foreign exchange derivatives	62.2	48.7	56.7
Interest rate derivatives	98.1	117.7	98.5
Electricity derivatives	13.1	11.8	12.9
Fair values of derivative instruments			
Foreign exchange derivatives	0.4	0.1	-0.4
Interest rate derivatives	-4.2	-7.2	-5.8
Electricity derivatives	-2.3	1.8	0.5

Consolidated other contingent liabilities

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Debts secured by pledges or mortgages			
- loans from financial institutions	74.3	-	-
On own behalf			
- Mortgages given	37.7	-	-
On behalf of others			
- guarantees and other commitments	7.0	11.4	7.8
Other contingencies			
Leasing and rental commitments	0.4	0.9	0.7

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

Derivatives

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

(EUR million)	30 Sept. 2020	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.4	-	0.4	-
- Commodity derivatives	0.1	-	0.1	-
of which subject to cash flow hedging	0.1	-	0.1	-
Total	0.5	-	0.5	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-4.2	-	-4.2	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-2.4	-	-2.4	-
of which subject to cash flow hedging	-2.4	-	-2.4	-
Total	-6.7	-	-6.7	-

(EUR million)	30 Sept. 2019	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.2	-	0.2	-
- Commodity derivatives	1.9	-	1.9	-
of which subject to cash flow hedging	1.9	-	1.9	-
Total	2.1	-	2.1	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-7.2	-	-7.2	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-0.1	-	-0.1	-
of which subject to cash flow hedging	-0.1	-	-0.1	-
Total	-7.4	-	-7.4	-

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)	1-9/2020	1-9/2019	2019
Sales to associates	7.5	13.7	17.7
Purchases from associates	25.6	27.1	35.5
Trade and other receivables from associates	1.0	3.0	1.6
Trade and other payables to associates	3.2	2.8	3.0