



# HKSCAN Annual Report 2020

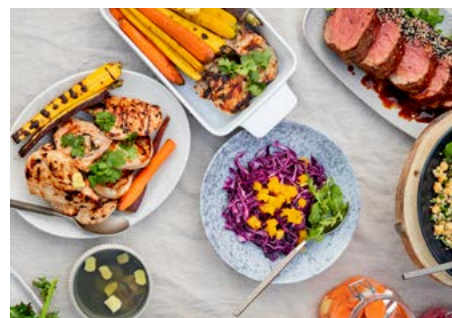
*We make  
life tastier*  
- today and tomorrow

# HKScan in brief

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



# Content



<b>Year 2020</b>	<b>5</b>	<b>Corporate Responsibility</b>	<b>23</b>	<b>Governance</b>	<b>57</b>	<b>Report of the Board of Directors and Financial Statement</b>	<b>81</b>
CEO's review	6	Responsibility at the core of HKScan's strategy	24	Corporate Governance Statement 2020	58	Report of the Board of Directors	80
HKScan's year 2020	8	Corporate Responsibility Programme Targets	25	Remuneration Report 2020	72	Financial Statement	100
Performance in 2020	10	Environment	28			Auditor's report	176
HKScan's strategy	14	Healthy food	34				
Turnaround programme	17	Farmers	38				
This is how HKScan created value in 2020	18	Personnel	40				
Operating environment	19	Animal welfare	45				
		Management approach and GRI Index	49				



**HKSCAN**  
**Year 2020**



## CEO's review: From deep losses to a profit in two years

The Turnaround programme, launched to resolve the company's deep financial and operational crisis at the beginning of 2019, proceeded as planned and successfully despite the demanding circumstances in 2020. We have been able to cumulatively improve the comparable EBIT by over 63 million euros in two years. The company's cash flow from operating activities improved cumulatively by 78 million euros during the same period. In addition, our net gearing is at a level that allows a controlled continuation of our Turnaround programme.

HKScan has in two years progressed from a serious financial situation to a profitable company. We raised the company's net result for the 2020 financial year to a profit of nearly EUR 5 million. Our net result was profitable for the first time since 2015.

I am pleased with the company's strong development and result achieved in the very exceptional operating environment. The strong cornerstone of our success has been our employees' attitude and expertise. In the achieved profit improvement, I see the significance and achievements of the strong work of all our employees.

Despite the significant improvement, the company's level of profitability is still, of course, insufficient. We will continue the determined promotion of ongoing development programmes and the full utilisation of new business opportunities.

### All Business Units showed improvement

HKScan's net sales continued to grow. We were able to increase the company's net sales by more than 2 per cent to EUR 1,781 million. Growth was seen in all the market areas and in all the key product categories. Net sales growth was particularly strong in Denmark, where our strategy to increase added value progressed well. In all of our home markets, retail sales grew strongly while sales in the food service channel declined significantly due to the Covid-19 pandemic.

In 2020, all HKScan's home market areas, except the Baltics, improved their comparable EBIT. Profit improvement was clear in Finland, Sweden and Denmark. In Denmark, comparable EBIT turned profitable after 7 loss-making years. The Baltics showed very strong operational business development. However, due to lower meat market prices in Europe, the fair value of biological assets in the Baltic business decreased significantly, which resulted in lower comparable EBIT than in the comparable year.

Our pork exports from Finland to China increased from the comparison year and the volume of exports was in line with our target. Our export to China is an important channel balancing our home market. In China, demand is forecasted to remain strong although China's own pork production has shown clear growth. I see China interesting in terms of the exports of other meat types as well. We continue to work closely with the Finnish authorities to obtain export licenses also for poultry and meat products.

### **The appreciation of locally produced food strengthened**

Changes in meat consumption varied between our home markets. In general, we can say that the strong demand for poultry meat continued while the consumption of pork and beef slightly weakened in our home markets, with the exception of the Baltics. According to our estimate, the consumption of processed meat products was stable. It is clear that the appreciation of domestic meat and meat products produced locally has clearly strengthened during the pandemic.

As a whole, 2020 was exceptionally demanding with the very serious, ongoing pandemic and animal diseases detected in Europe, e.g. African swine fever found in Germany in September and avian flu in several European countries at the end of the year.

### **Responsibility and growth in consumers' food moments at the core of our strategy**

Changes in consumer behaviour emphasise the need for renewal in line with our strategy on our journey to a versatile food company. The key target of our strategy is growth in consumers' food moments. In the strategy, the focus is on the strengthening of our position in the existing and in new product categories and sales channels. Renewing ways and channels of food production and supply, combined with rapidly growing digitalisation, confirm the need to renew our operations. Partnerships are also a key part of our strategy.

At HKScan, responsibility is a key part of the company's strategy, covering the entire food chain from farms to consumers. Through its advanced responsibility work, the company responds to the change in operating environment, works long-term with the goal of being the most responsible player of the food industry in its home markets and increases competitiveness throughout the value chain.

Environmental efforts, such as active work to mitigate climate change, play a key role in our corporate responsibility work. Consumers, customers, financiers, capital markets, job seekers, our own employees and many other HKScan's important stakeholders are

increasingly evaluating us as a company based on our responsibility work.

We advance our corporate responsibility work to become increasingly consistent, goal-oriented and transparent. We promote the systemic change that integrates responsibility into our business model and financial reporting. Responsibility and its impact on our business will play a greater role in the company's reporting. Responsibility work remains in the key role on the top management's agenda.

### **Thank you - our journey to a versatile food company continues**

We aim to make HKScan an even more interesting, versatile food company that rewards its owners.

I want to thank our shareholders, personnel, customers, contract farmers, financiers and all stakeholders for very good and profitable collaboration in 2020.

#### **Tero Hemmilä**

CEO

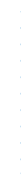
HKScan Corporation

# HKScan's year 2020

In 2020, the strategy implementation with the Turnaround programme at its core proceeded as planned.

**+63 M€**

Cumulative improvement of comparable EBIT in 2019-2020 from the 2018 level.



**+78 M€**

Cumulative improvement of cash flow from operating activities during the same period.

- Turnaround programme proceeded and strong profit improvement continued.
- Our profit improvement slowed down due to the Covid-19 pandemic and animal diseases detected in Europe.
- Our retail sales increased significantly while food service sales decreased significantly as a result of the pandemic.
- Poultry category was driving the growth in the company's key home market areas.
- In beef, pork and processed meat products, our sales strengthened particularly in branded retail products.
- In Finland, we expanded into new plant-based categories through partnerships, e.g. Hes-Pro (Finland) and Boltsi Oy.
- We decided on our new Food Solutions Unit, which will develop and commercialise the concept business in all of our home markets.
- We purchased the plot of land of our strategically important Vantaa production unit.
- We made good progress in all the key areas of our responsibility programme and throughout the food chain.

2019	2020			
	Q1	Q2	Q3	Q4
<b>EBIT</b> <b>+ 44 M€</b>	<b>+ 50 M€</b>	<b>+ 53 M€</b>	<b>+ 57 M€</b>	<b>+ 63 M€</b>
<b>+ 74 M€</b> <b>Cash Flow</b>	<b>+ 84 M€</b>	<b>+ 92 M€</b>	<b>+ 86 M€</b>	<b>+ 78 M€</b>

EBIT = Cumulative improvement of comparable EBIT, EUR million  
 Cash flow = Cumulative improvement of cash flow from operating activities, EUR million



# Key events in 2020



Decision to invest in Rauma poultry unit

# -35%

HKScan's Finnish beef carbon footprint is 35 per cent lower than in Europe



Launch of a new plant-based protein product line, HK Vihreät™



Entire HKScan team celebrated European Week for Safety and Health at Work



HKScan and Apetit agreed to start commercial co-operation in Sweden

New Group-wide operating model taken into use

Firm actions initiated to save the personnel from Covid-19 and minimise the impacts of the pandemic

Purchase of land for the strategically important Vantaa unit

HKScan joined the Danish Alliance for Responsible Soy

## Better Together

New Group-wide well-being at work programme launched. Read more on pages 41-43.

Hackathon teams transforming Agrofood Ecosystem® data into consumer-friendly format

Zero Carbon climate plan completed

## Q1

## Q2

## Q3

## Q4



Biolan joined HKScan's Agrofood Ecosystem® network



HKScan and Leivon Leipomo set up a joint venture to promote the growth of the plant-based Boltsi® product family



New sustainable primary production methods were piloted at our 27 Finnish and 13 Swedish contract farms

Carbon footprint of the Kariniemen® pilot farms is smaller than international average

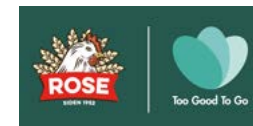
Investments made in value-added products in Denmark



Rakvere unit, Estonia, celebrated 130 years

Jouni T. Laine appointed EVP for the new Food Solutions Unit

Cornerstone laid for the new Baltic logistics centre



Too Good To Go - collaborative project in Denmark to reduce food waste

Lars Appelqvist appointed EVP of Business Unit Sweden

# 100%

### package recyclability by the end of 2025

Aiming to reduce millions of kilos of plastic



HKScan and foodora delivered Christmas meals to Swedish homes

# Performance in 2020

HKScan’s key economic, environmental and social responsibility aspects and results show the company’s strong progress in the key areas of its operations. More information about our environmental work and social responsibility is available in the Corporate Responsibility section of this Annual Report. For more information regarding finance, see the Report of the Board of Directors and the Financial Statement section.



Advanced corporate responsibility work is increasingly closely linked to business profitability.



Environmental responsibility:

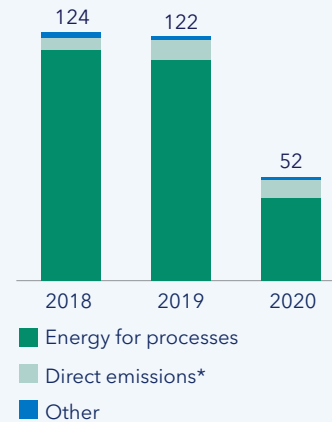
# Corporate responsibility programme started successfully

Environmental work is a key part of our corporate responsibility programme launched in 2020, with 2019 as the initial level. We do goal-oriented work to reduce the environmental impact of our own industrial production and across the food chain from farms to consumers together with our partners. We meet the needs of our stakeholders with responsibly produced food that can be eaten in good conscience. Furthermore, we promote the responsibility, continuity and competitiveness of local food production.

In 2020, we drew up our Zero Carbon climate plan, published in early 2021. Our goal is carbon-neutral food production by the end of 2040 and carbon neutrality of our own industrial production by the end of 2025.

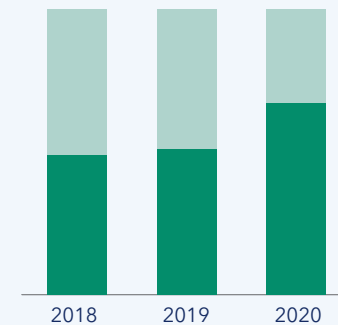
In addition to lower climate impacts, we work to promote material efficiency. We promote energy efficiency and reduce water use and the environmental impact of our packaging. In the autumn 2020, we announced our packaging strategy, which aims at 100% recyclable packaging and 20% smaller carbon footprint of packaging and 20% less packaging plastic by the end of 2025.

Climate emissions from own production (Scope 1 & 2), thousand tonnes CO<sub>2</sub>e



\* Leakage of refrigerants and CO<sub>2</sub> for packaging gases, freezing and stunning

Energy sources, %



<sup>1)</sup> Electricity from renewable sources, district heating from renewable sources, biogas, wood pellets  
<sup>2)</sup> District heating from non-renewable sources, natural gas, LPG, oil

Climate emissions from the entire food chain 2.3 megatonnes CO<sub>2</sub>e in 2020. Our target is carbon neutrality throughout the food chain by the end of 2040 and carbon neutrality of our own industrial production by the end of 2025.

**70%**  
of packaging recyclable in 2020  
Target: 100%

**-7%**  
less packaging plastic in 2020  
Target: -20%

**Social responsibility:**  
**Wellbeing across our community**

Our own community is comprised of our employees and our farmers. Our community is united by responsibly and locally produced food for which we have worked together for over 100 years.

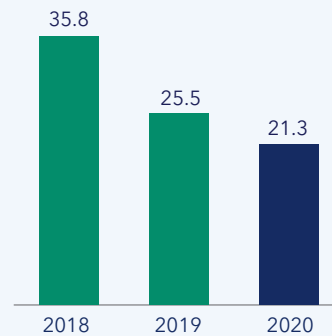
HKScan employs some 7,000 food industry professionals. We advance safety at work and our employees' wellbeing through our Group-wide Safety First and Better Together programmes, which we have launched in all of our units.

HKScan has some 7,500 contract farmers as well as own farms in Estonia. Almost 100 per cent of the meat used in our products is produced in our home markets. In order to secure the continuity, competitiveness and sustainability of local food production, we are developing permanent, responsible operating models together with our farmers and other partners. We are piloting new practices and will scale the best practices in all of our home markets.



We are gradually moving on to the next development phase of our contract farming, with increasingly integrated corporate responsibility.

**Lost time accidents /million working hours**



**We advance the wellbeing of our personnel**

- Employees' willingness to recommend HKScan as an employer (eNPS) 5/10
- Absences 5.5% of theoretical working hours

**We ensure the continuity of local meat production**

- Our training programme for young farmers, Next Generation, already involves 70 farmers in Finland and Sweden
- The programme aims to enhance the competitiveness and continuity of primary production and to support networking of young farmers

**We develop more sustainable agriculture through our Agrofood Ecosystem® and Gårdsinitiativet projects**

- We are piloting new practices on nearly 60 farms in Finland and Sweden
- We make use of the latest know-how and technology on the farms together with our partner companies and research institutes



In 2020, HKScan made its first profitable net result since 2015.

#### Financial development:

## HKScan's strong profit improvement continued in 2020

In 2020, the second year of HKScan's three-year Turnaround programme focusing on profitability improvement proceeded as planned and the company's strong profit improvement continued.

The company has in two years progressed from a serious financial situation to a profitable company. In 2020, the company's net result rose to nearly EUR 5 million. The net result was profitable for the first time since 2015. The achieved profit improvement gives the company a solid foundation to continue its work in line with the strategy and growth into a versatile food company.

All HKScan's home market areas, except the Baltics, improved their comparable EBIT. Profit improvement was clear in Finland, Sweden and Denmark. Operational business development in the Baltics was very strong, but the fair value of biological assets decreased significantly, which resulted in lower comparable EBIT than in the comparison year.

The Covid-19 pandemic and animal diseases detected in Europe formed an exceptionally challenging market situation, which slowed down profit improvement despite the strong progress. The pandemic affected the structure of sales: retail sales increased clearly while food service sales declined significantly.

#### Net sales

# +2.1%

EUR 1,781.0 million

#### Comparable EBIT

# +19.2 M€

EUR 17.0 million

#### Cash flow from operating activities

# +4.5 M€

EUR 63.7 million

#### Net gearing

# 91.0%

*We make  
life tastier*  
- today and tomorrow

## HKScan's strategy

At the core of HKScan's Group strategy are the Turnaround programme aiming to improve the company's profitability as well as profitable growth into a versatile food company. Successful implementation of the Turnaround programme creates a strong financial foundation for future growth. In our strategy, we emphasise the customer and consumer needs as well as the systematic development of sustainability throughout the food chain.

Our strategic goal is to grow into a versatile food company and to strengthen our position in evolving markets together with our customers. We invest in strengthening and growing our position in existing and new product categories and sales channels, with evolving retail and the growing food service channel as our key sales channels. In addition, exports play an important role for us.

### **We are present in consumers' versatile food moments**

It is very important for us to be strongly present in consumers' food moments. We want consumers to be able to enjoy our products in good conscience, knowing where the food we make comes from, how it is produced and how it affects our environment.

We develop the entire food chain by working in close collaboration with our farming community, customers and other partners. We provide consumers with an increasingly diverse selection of tasty and healthy food for various food moments.

### **Values guide our everyday work**

Our values; Inspire, Lead, Care and Deliver form the basis for everything we do and they guide us in our decision-making.



# We are growing into a versatile food company

**Growth in consumers' food moments**

- Delicious food
- Sales channels and categories
- New concepts and digital solutions

**Performance excellence**

- Profitability improvement and renewal of business processes

**Turnaround**

- Solid financial basis
- Prerequisite for future growth

**Operating model**

- Profit responsibility
- Customer and consumer satisfaction

**Partnerships**

- Renewal
- Agility

**Advanced responsibility work**

- Environment
- Healthy food
- Personnel and farmers
- Animal welfare

**Competitive farming community**

- Quality of raw material
- Farming supplies
- Responsibility as part of contract production

## Our strategic priorities

In line with our strategy, we focus on the determined development of the following key priorities:

- leading our successful Turnaround programme,
- growing in consumers' food moments in current and new product categories and in evolving sales channels and exports,
- developing and renewing the performance excellence in the key business processes,
- leading responsibility throughout our food chain from farms to consumers,
- developing the competitiveness of farming community, and
- promoting the operating model based on partnerships as part of our renewal and growth.

Establishing the operating model based on business unit structure throughout the Group has progressed well. In addition, we examine the positioning of different market areas as part of the Group's operations.

### Renewal by listening consumers

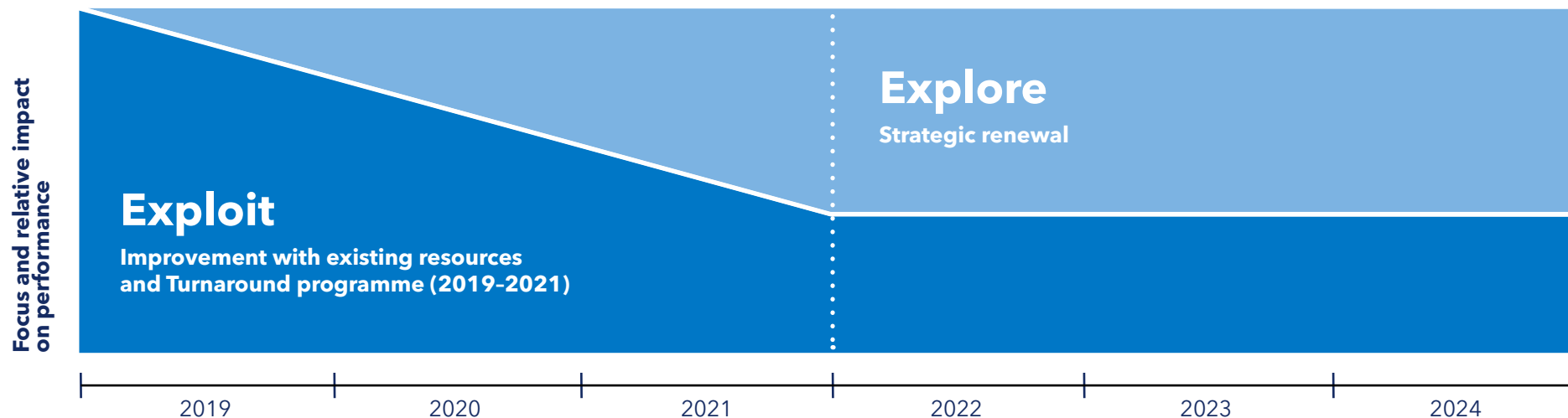
Changes in consumer behaviour emphasise the need for renewal in line with our strategy on our journey to a versatile food company. Furthermore, evolving ways and channels of food production and supply, combined with rapidly growing digitalisation, emphasise the need for renewal. The Covid-19 pandemic has changed consumer behaviour and thus our operations. Some of these changes are expected to remain permanent,

such as the stronger anchoring of digitalisation to the purchase of food. Digitalisation will have a greater weight in the implementation of our strategy.

Strategic renewal includes the category- and sales channel-specific development, which we do by reflecting the changing consumption habits. The long-standing and strong growth of poultry consumption is a key driver of our growth, and we have successfully grown in all of our home markets. In processed meat products and meal components, we focus on increasing added value. In addition, growth in ready meals is our key strategic target.

# Our journey into a versatile food company

Successful Turnaround creates strong financial basis and enables strategic renewal



Strong partnerships are an important part of our strategy. Through partnerships, we further expand our operations to new strategically interesting product categories and sales channels. The cooperation agreements related to plant-based protein products signed in 2019 and 2020 represent a good example of this.

Our current, strongly product and category driven business will be complemented by commercial concepts serving customers and consumers and the digital solutions supporting these concepts. As part of our strategy implementation, we established a new Food Solutions Unit. Based on our current strengths, the new unit will develop and commercialise the concept business generating added value in all HKScan's key market areas.

## Our long-term financial targets remain unchanged:

EBIT over  
**4%**  
of net sales

Return on capital  
employed (ROCE) over  
**12%**

Net gearing less than  
**100%**

Dividend more than  
**30%**  
of net profit



# Turnaround programme



At the beginning of 2019, we launched our Turnaround programme aimed at turning the company's profitability to a healthy level between 2019 and 2021. This creates a foundation for our profitable growth to a versatile food company. The programme's goal-oriented implementation is led centrally and evaluated systematically for all Business Units and functions.

In 2019, we strengthened our balance sheet through a successful share issue and renegotiated our bank loans. In addition, we streamlined our organisation to clarify the roles and responsibilities and to improve cost competitiveness. Our new Group strategy was published at the end of 2019.

At the beginning of 2020, we changed from a matrix organisation to country-specific organisations where each Business Unit has a clear profit responsibility. Through strong local responsibilities we are improving customer and consumer satisfaction. In our operating model, the key Group-level functions ensure clear processes and effective utilisation of Group synergies.

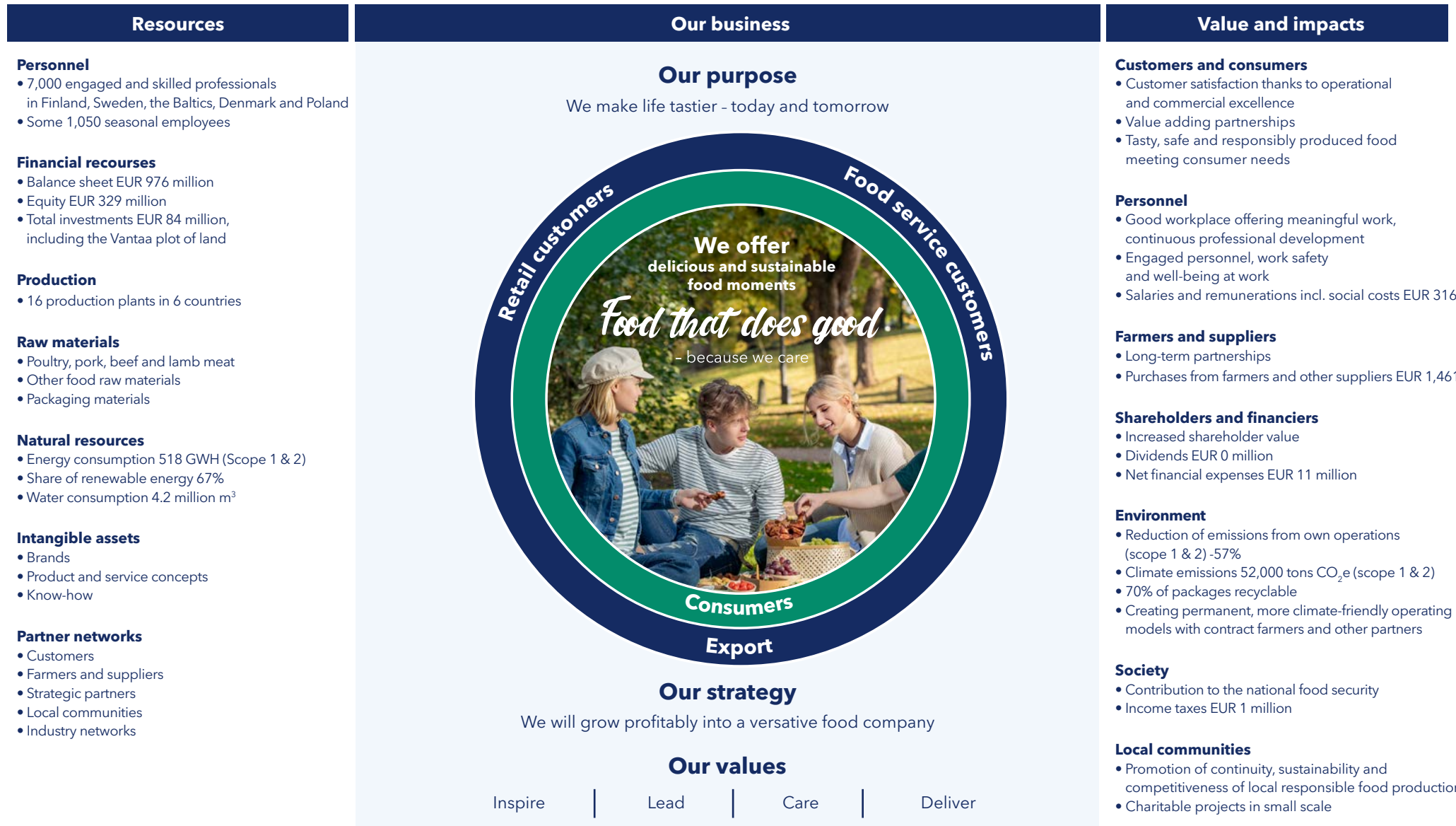
The cumulative improvement in the comparable EBIT achieved in 2019-2020 from the 2018 level was over EUR 63 million at the end of December 2020. The company's cash flow from operating activities improved cumulatively by EUR 78 million during the same period. Net gearing is at a level that allows a controlled implementation of the Turnaround programme.

In 2020, the progress of our Turnaround programme slowed down because of the negative change in sales structure due to the Covid-19 pandemic and additional costs caused by the pandemic.



HKScan has in two years progressed from a serious financial situation to a profitable company.

# This is how HKScan created value in 2020



# Operating environment

HKScan's tasty and responsibly produced food is present in consumers' varied food moments in our Baltic Sea region home markets: Finland, Sweden, the Baltics and Denmark as well as in our export markets. We are an international food company and our operations are affected by global megatrends, consumer trends, changes in the global economy and politics as well as unforeseen pandemics and animal diseases. By proactively identifying external factors that influence our operations, we can best respond to the opportunities and challenges they bring.

Our customers include companies in retail and food service sectors, export customers and other food industry players. Our home markets are in the Baltic Sea region, but many of the phenomena and trends influencing our business are international, some even global.

## Megatrends shaping the food market

Global megatrends, changes in the world economy and politics as well as international and national regulation affect our operations, as food is an integral part of the daily lives of consumers all over the world. In recent years, we have seen that climate change, sustainability throughout the food chain, urbanisation, demographic changes and digitalisation have changed consumers' values and attitudes and their consuming and purchasing behaviour.

We want to have a stronger presence in consumers' food moments and strengthen our market position in evolving sales channels together with our customers. Therefore, we closely monitor and analyse changes in the consumer interface and consider the effects of different scenarios on our operations in both short and longer term. We want to develop our products, services and concepts to meet the needs of consumers in ways they consider relevant. Through strategic partnerships, we have expanded our operations into new product categories and plant-based raw materials in line with our target.



### Sales channels under disruption

In addition to the changes in consumer behaviour, we follow industry-specific trends in the local and international food industry and agricultural production as well as the development of our customers in the retail and food service.

Food production related technological developments as well as digitalisation both in the consumer interface and in industry play an increasingly strong role in our operations.

The disruption in retail is continuing. The boundaries between retail stores and restaurants are dissolving and the ongoing Covid-19 pandemic has accelerated the change in consumers' purchasing behaviour. In addition to ordering food from retail stores, there has been a growing trend to order and pick up food from food service companies. At the same time, retailers have expanded their offering in stores by building restaurants, cafés and take-away food counters.

### Preparing for and adapting to exceptional situations

Unforeseen changes, such as pandemics, animal diseases, natural disasters and political trade barriers may significantly influence our prerequisites to run our business. The effects they cause can be reduced through good risk management processes and contingency plans.

Through comprehensive contingency planning, we do our part to ensure the functioning of the domestic food chains in our home markets. Our risk management processes cover all the key functions of the company's value chain, such as animal and material procurement, production and logistics, customer cooperation, sales and support functions.

The Covid-19 pandemic started in 2020 is an example of a global unforeseen change. The pandemic has caused clear changes in our key sales channels and sales structure. With the pandemic, meals are largely eaten at home, which has clearly increased retail sales of food. For the same reason, food service sales have significantly decreased throughout our home markets. Online food sales and deliveries directly to consumers' homes have increased.

The pandemic has clearly increased consumers' awareness of the significance of domestic food and food security as well as strengthened the appreciation of local primary production. In 2020, this was seen in increased share of domestic meat consumed. The popularity of our own branded products in retail also increased.

Unforeseen changes may lead to imbalances in demand, supply, volumes and price levels. For example in 2020, price volatility clearly increased in the international meat market, when demand in the food service sector declined creating imbalances not only in our home markets but across Europe and in our export markets. The pandemic has also led to temporary closures of production plants of several meat industry companies, causing market

disruption. Despite the pandemic, our delivery capability was good in all our home markets in 2020.

Animal diseases, for example African swine fever detected in Germany last year, clearly decreased the market prices of pork in Europe. In addition, avian flu detected in many European countries restricted exports of poultry products outside the EU to third countries, leading to an increase in supply in the EU.





**Examples of megatrends and changes affecting our business**

**Globalisation, urbanisation and demographic changes**

- Population growth
- Aging population
- Increase of single-person households

**Digitalisation**

- Service concepts supporting value creation
- Growing customer and consumer orientation
- Transparency
- Traceability
- Sales channel disruption

**Climate change**

- Carbon neutrality
- Circular economy
- Minimising food waste
- Ecologically sustainable packaging

**Conscious and responsible consumption and investment**

- Environmental responsibility
- Social and economic responsibility
- Animal welfare

**Changes in consumers' ideology and consumption habits**

- Ethical questions
- Convenience
- Availability
- Healthiness
- Food as part of identity

**Competition on consumer's plate**

- Competing protein sources
- Other product categories, such as beverages

**Food sales channels under disruption**

- Evolving retail
- Growing food service sector
- New channels

**Strengthened position of customers and consumers**

- Increased bargaining power
- Consumers engaged in product development, marketing and communication

**Changes in primary production**

- New technologies
- Digitalisation
- Competitiveness

**Economic and political uncertainty**

- Development of the world economy
- Geopolitical tensions
- Trade barriers

**National and international regulation**

- Compliance
- Cost effects of regulation

**Unforeseen changes**

- Pandemics
- Animal diseases
- Natural disasters



### Examples of consumer trends influencing our daily work

- Conscious and responsible consumption has become the new normal. A growing share of consumers take into account the health and environmental impacts of food, transparency of the food chain, social responsibility and animal welfare when making food choices.
- Consumers’ concern about climate change, in particular, is global and its impacts can also be seen in all of our home markets. Consumers make critical assessments of the environmental impacts of the food industry, which challenges both the food industry and its customers to active climate work. Reduction of food waste and development of ecologically sound packaging solutions are playing an increasingly important role.
- Food is eaten every day, it is seen as important and it is discussed a lot. Food is already part of the identity of consumers. Food experiences are shared on social media channels, which enables communal consumption and influence.
- Digitalisation has opened doors for a closer dialogue with consumers. Consumers expect more transparent and up-to-date information from companies. We will respond to this even better in the future by producing and utilising new types of information and by processing it into easily accessible, consumer-driven service concepts, e.g. related to the sustainability of food production.
- Health awareness continues to grow, which is visible also in consumers’ food baskets. Eating habits have diversified and the consumption of fruit, vegetables and berries is growing strongly.
- Changes in meat consumption are twofold. Consumers may reduce meat eating but at the same time, they can invest in higher quality. The strong growth in poultry meat continues.
- Food moments are diversifying and the concept of meal is changing. Some of the traditional food moments are substituted with snacks easy to consume in the hectic daily life. On weekdays, people often look for quick food solutions, whereas during the weekend, time and effort is spent on cooking.
- The strengthened buying power of consumers and versatile food offering enable people to follow individual tastes and different diets. Consumption is becoming more fragmented even within households.



**HKSCAN**  
**Corporate Responsibility**  
**2020**

## Responsibility at the core of HKScan's strategy

Advanced responsibility work is one of the key priorities in HKScan's strategy. For us, responsibility means genuine action throughout the food chain and continuous improvement. We make healthy food that contains naturally good nutrients, promote the wellbeing of our personnel, develop responsibility with our partners and advance animal welfare together with our farmers. We are on the journey towards carbon-neutral food production.

HKScan's corporate responsibility programme is called Food that does good. Based on an extensive stakeholder analysis, we defined four themes for the programme in the autumn 2019. In 2020, working groups comprised of experts in all our markets prepared goals for the themes and the direction for our work. The Group's Executive Team approved the goals at the end of 2020.





# Corporate Responsibility programme targets

## HKSCAN

*Food that does good*  
- because we care

### Healthy food

- 60% of new products with increased nutritional quality
- 100% of raw materials in line with our sustainable procurement principles in 2025
- Zero recalls

### Environment

- Carbon-neutral food production..... 2040
- Carbon-neutral own production..... 2025
- Water usage -25%\*..... 2030

Packaging

- 100 % recyclable packages .... 2025
- 20 % packaging plastic\*..... 2025
- 20 % carbon footprint of packages ..... 2025

\*indexed to production volume

### Our community

**Farmers**

- Ensuring the continuity of local meat production
- 100% of raw materials from contract production in line with HKScan's new sustainable farming operating model in 2030

**Personnel**

- Continuous improvement in employee wellbeing
- Systematic work towards zero accidents

### Animal welfare

- Continuous improvement in key animal welfare aspects in line with HKScan AWCheck\* model
- Zero animal welfare breaches in our food chain

\*animal welfare development model

All targets to be reached by the end of the years mentioned.

## Value chain



**Feed Genetics**



**Farmers**



**Sourcing Production**



**Brands Concepts**



**Customer Channels**



**Consumers**

### Support

- Support our farming community in the transformation towards an environmentally sustainable and economically viable food system
- Animal welfare

### Improve

- Lead in transparency and data sharing
- Work towards achieving positive environmental impacts through reducing climate impact and improving material efficiency
- Responsible procurement
- Personnel wellbeing and work safety

### Serve

- Healthy, safe, high-quality and responsibly produced food
- Help people make better food choices

### Work across the food chain

Our responsibility work covers the entire food chain from farms to consumers. In co-operation with our partners, we build permanent, responsible operating models in primary production and procurement as well as together with our customers. We meet the needs of consumers with our healthy, responsibly produced and tasty products of high quality. It is important for us that our products can be eaten in good conscience.

### Material themes

We have defined the priorities of our corporate responsibility programme through a stakeholder analysis. In 2019, we carried out an extensive stakeholder analysis in all our home market areas. Based on the analysis, we prepared a materiality analysis on the key responsibility themes for our operations. In our responsibility work, we focus on the environment, healthy food, our community and animal welfare.

In 2020, we organised StrategyLive events for our employees to increase common understanding on our strategy and to discuss the priorities of responsibility. Our employees consider environmental issues and animal welfare to be particularly important responsibility themes.

## Stakeholder dialogue

Stakeholder group	Interaction channels	Key discussion topics in 2020
<b>Customers</b>	Continuous interaction with customers, meetings, customer satisfaction surveys and questionnaires	Impact of Covid-19 pandemic, animal welfare, environmental impact, social responsibility, responsibility of soy in the food chain, new product launches and campaigns, consumer trends, joint projects
<b>Consumers</b>	Consumer service, social media	Animal welfare, packaging, product quality and safety, sustainability, health
<b>Personnel and potential employees</b>	Continuous interaction with personnel, performance dialogues, personnel survey, pulse survey, information and cooperation meetings, intranet, info-TV, recruitment events and recruitment processes, social media, cooperation with universities	Personnel survey observations, strategy, impact of Covid-19 pandemic, financial result, job opportunities, career development, well-being at work, product news
<b>Farmers</b>	Meetings, cooperation groups, seminars and other events, newsletters, magazine for farmers, social media, blog	Development of cooperation and productivity, impact of Covid-19 pandemic, domestic food production, reduction in environmental impact, promotion of animal welfare
<b>Partners (e.g. subcontractors, suppliers, research institutes)</b>	Meetings, cooperation projects, joint forums	Development of operations and cooperation in line with stakeholder expectations, environment and animal welfare
<b>Shareholders, investors, financiers</b>	Releases, financial publications, investor section on the website, dialogue with shareholders, investors, analysts and financiers, Annual General Meetings and management meetings	Progress of Turnaround programme, strategy implementation, investments, impact of Covid-19 pandemic, financing
<b>Authorities and decision-makers</b>	Continuous collaboration with authorities and industry associations, meetings: interaction between legislators and industry	Legislative reforms related to industry from the perspective of companies and industry, interpretation of legislation, product safety, animal welfare, biosecurity, promoting exports
<b>Media</b>	Media contacts, meetings, interviews, media conferences, releases, social media, websites	Progress of Turnaround programme, strategy implementation, impact of Covid-19 pandemic, corporate responsibility, domestic food production, consumer trends, exports, product novelties



# Environment

## Targets and results 2020

Climate		Water		Packaging	
Target	Result	Target	Result	Target	Result
Zero Carbon, carbon-neutral food production: <ul style="list-style-type: none"> <li>• Carbon neutrality of own industrial production (Scope 1 &amp; 2) by the end of 2025</li> <li>• Carbon neutrality throughout the food chain from farms to consumers (Scope 1 - 3) by the end of 2040</li> </ul>	<ul style="list-style-type: none"> <li>• Climate emissions from own production -57%</li> <li>• Climate emissions from the entire food chain 2.3 megatonnes of CO<sub>2</sub>e</li> </ul>	Reduce water usage by 25% in own production by the end of 2030	Water usage 4.2 mill. m <sup>3</sup> . Water usage almost at the same level as in 2019 due to the changes in production methods and an increased cleansing	Packaging, targets by the end of 2025: <ul style="list-style-type: none"> <li>• 100% recyclable packaging</li> <li>• 20% less packaging plastic</li> <li>• 20% lower carbon footprint of packaging</li> </ul>	<ul style="list-style-type: none"> <li>• 70% of packaging recyclable</li> <li>• 7% less packaging plastic</li> <li>• We developed the reporting of packaging carbon footprints together with the packaging material suppliers</li> </ul>

# Zero Carbon

## Towards carbon-neutral food production

Climate work and material efficiency are at the core of our environmental responsibility. We determinedly reduce the environmental impact of our own industrial production and throughout the food chain from farms to consumers together with our partners. In 2020, we calculated the climate impact of our food chain and made our Zero Carbon climate plan that aims for carbon-neutral food production.

At the beginning 2021, we set the goal for the carbon neutrality of the company's own industrial production by the end of 2025 and the carbon neutrality of the entire food chain from farms to consumers by the end of 2040 at the latest. We promote the work in line with our Zero Carbon climate plan in all our home market areas.

Before setting the climate target, we carried out extensive research and planning work. In 2020, we examined and calculated the emissions throughout our food chain in line with the GHG Protocol. KPMG experts specialised in carbon footprint calculation validated our methods and results of the calculation.

HKScan's emissions totalled 2.3 megatonnes of CO<sub>2</sub>e in 2020. The figure includes the emissions from the entire food chain from farms to consumers in all our home market areas in Finland, Sweden, the Baltics and Denmark as well as in our production unit in Poland. Our own industrial production accounts for some five per cent of the emissions. The rest of the emissions are mainly generated from the field farming and land use related to animal feeds on the contract farms and the company's own farms in Estonia, and from logistics and packaging materials - these account for about 95% of all emissions.

More information on our Zero Carbon climate plan on our website at [www.hkscan.com/en/responsibility/environment2/zero-carbon/](http://www.hkscan.com/en/responsibility/environment2/zero-carbon/).



We have reduced the climate emissions from our own production by almost 80% since 2014.

### More environmentally friendly production

We do goal-oriented work to reduce the environmental impact of our operations in our almost 20 production units and offices in the Baltic Sea region. The work is based on the measuring, analysing and continuously improving of our environmental impact.

We acquired Guarantees of Origin of renewable energy for all the electricity we use. In the Baltics and Denmark, we switched to renewable electricity confirmed with Guarantees of Origin in 2020. In Finland and Sweden, we have used renewable electricity for several years already. As we started to use renewable electricity also in the Baltics and Denmark, the climate emissions from our own production decreased significantly from 2019.

In 2020, we joined the material efficiency commitment of the food industry sector in Finland; it aims to reduce the environmental impact of food and food packaging across the industry.

We take environmental issues into account in all our investment decisions. For example, the new cooling equipment in the Paimio unit significantly reduces carbon dioxide emissions. In Sweden, we were able to shorten the transport distances thanks to the new animal transport system. In addition, we introduced the first biogas truck in our product deliveries in Sweden.

### **We reduce environmental impact of meat production through cooperation**

HKScan's contract farms have long worked successfully to reduce the climate impact, for example by increasing the circular use of manure, introducing solar power and promoting resource efficiency in feed production.

To reduce the climate impact from primary production, we need diverse expertise, so we work together with our contract farmers as well as other companies and expert and research organisations. In Finland, we promote responsibility in contract farming through the Agrofood Ecosystem® network and in Sweden, through the Gårdsinitiativet project. Almost 60 pilot farms are involved already and together, we will look into new ways to reduce climate impacts and scale good practices across our home markets with an ecosystem-based operating model.



#### **Examples of our climate work in primary production in 2020**

- We studied the carbon sequestration in fields with different field crops and growth conditions.
- Together with the John Nurminen Foundation, we studied the reduction of point nutrient load caused by manure phosphorus.
- We worked together with Yara and Biolan on fertilisation optimisation and development of recycled fertilisers.
- Together with Gasum, we studied how to convert the Huittinen biogas plant to run on manure-based feedstock.
- In spring 2020, we launched Scan Hållbarhetsgrisen products. The products are from the Halla Gård farm that makes innovative use of the circular economy.
- We calculated the carbon footprints from the farm to the production unit for Kariniemen® poultry, HK® Ehta beef and Scan® Hållbarhetsgrisen pork.

## Packaging strategy guiding the packaging development

In 2020, we made a packaging strategy that outlines the responsibility priorities of our packaging. By the end of 2025 at the latest, all our packaging will be recyclable i.e. recycle ready. At the same time, we will decrease the carbon footprint of packaging by 20 per cent and the amount of packaging plastic by 20 per cent from the 2019 level.

We take responsibility into account in all our packaging renewals. The primary function of packaging is to protect foods and we comprehensively develop the responsibility of packaging, also taking into account the shelf-life of food and the functionality of packaging.

In the autumn 2020, we launched HK® minced meat products in Finland in new bag packs that contain 71 per cent less plastic than conventional box packages. Earlier in 2020, the amount of plastic was reduced by 20 per cent for most part of HK® mettwurst packaging.

In Sweden, we renewed the packaging of Scan® Falukorv classic sausage. We tested the packaging in the autumn 2020 in selected stores and launched it more widely in January 2021. The paper-based packaging made of fully renewable materials reduces the amount of packaging plastic by some 22 tonnes per year. Carbon footprint of the new packaging is 70 per cent smaller compared to the plastic packaging used before.

## Climate risks and opportunities according to TCFD

In 2020, we conducted a survey in line with TCFD (Task Force on Climate related Financial Disclosures) on the risks and opportunities of climate change on HKScan's operations. The survey was part of the preparation of our Zero Carbon climate plan. We will deepen our TCFD climate analysis during 2021.

### Longer-term risks

Exceptional weather conditions and climate change may affect, for example, energy prices and the availability and prices of raw materials. The effects may be seen, for example, in lower yields and higher prices for feed grain and grass and in increased need to use imported raw materials in feeds.

Our operations are affected by consumer behaviour changes, possibly declining demand for red meat and the continuing strong growth seen in poultry demand. We adapt and renew our operations by anticipating consumer needs and by determinedly reducing the climate emissions from our food chain in line with our Zero Carbon plan. We also continue our strategy-based growth into a versatile food company.

We identify possible environmental non-compliances as risks in our production. We manage them as part of the environmental management system ISO 14001.

### Longer-term opportunities

Consumers are increasingly interested in the origin and climate impact of food. We determinedly reduce the climate impact throughout our food chain ensuring that our products meet consumer needs. We increase the transparency of our food chain, for example through our Agrofood Ecosystem® network, and we actively communicate our development.

The Baltic Sea region is well suited for food and meat production, because the farming conditions are expected to remain favourable as global climate change progresses. Together with our contract farmers, we develop and pilot advanced farming methods that can significantly reduce the emissions from, e.g. feed farming and animal production.

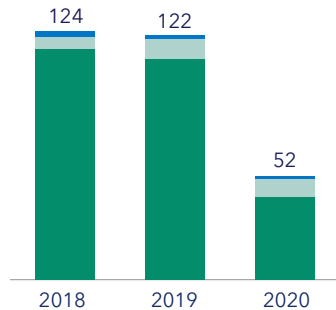
We see emission reductions from our own industrial production, transport and packaging as opportunities. We promote the circular economy together with other companies. In line with our strategy, we will grow into a versatile food company and expand into new categories and raw material bases.

## Environmental performance 2020

**-57%**

climate emissions from own production from 2019

Climate emissions from own production (Scope 1 & 2), thousand tonnes CO<sub>2</sub>e



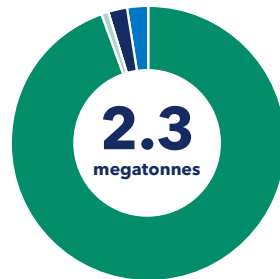
- Energy for processes
- Direct emissions\*
- Other

\* Leakage of refrigerants and CO<sub>2</sub> for packaging gases, freezing and stunning

**2.3**

megatonnes climate emissions from HKScan's food chain in 2020

Climate emissions from the entire food chain (Scope 1 - 3)

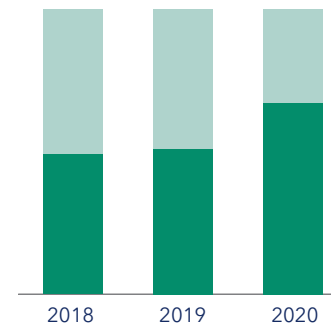


- Primary production (Scope 3)
- Packaging (Scope 3)
- Waste generated in operations (Scope 3)
- Logistics (Scope 3)
- Emissions from own production (Scope 1 & 2)

**100%**

renewable electricity

Energy sources, %



- Renewable<sup>1)</sup>
- Non-renewable<sup>2)</sup>

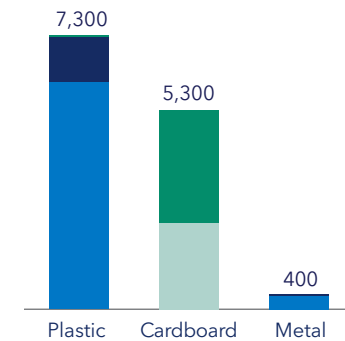
<sup>1)</sup> Electricity from renewable sources, district heating from renewable sources, biogas, wood pellets

<sup>2)</sup> District heating from non-renewable sources, natural gas, LPG, oil

**70%**

recyclable packages

Packaging materials, tonnes



- Non-renewable material, virgin origin
- Non-renewable material, recycled origin (e.g. rPET)
- Renewable material, virgin origin
- Renewable material, recycled origin

	2020	2019	2018
<b>Energy consumption, GWh</b>	518	524	526
<b>Water consumption, million m<sup>3</sup></b>	4.2	4.1	4.7
<b>Waste disposal method, tonnes</b>	114,820	101,650	116,480
- Recycling	1,840	1,610	1,770
- Energy recovery	18,520	12,360	12,908
- Biogas and biodiesel	81,290	73,060	88,585
- Compost and farm fields	13,030	14,460	13,040
- Landfill waste	0	60	51
- Hazardous waste	60	100	117
- Material recovery	80		



Our ambitious goals require systematic environmental work.





## Case

### Gårdsinitiativet gathered 100 climate actions for farms

At the beginning of 2020, we launched the Gårdsinitiativet project in Sweden, which involved some 30 pilot farms. Together with contract farmers, we aim to reduce the climate impact of meat production, to promote diversity and animal welfare and to reduce water use and eutrophication.

At the heart of Gårdsinitiativet, there is a list of 100 climate actions that help farmers promote the responsibility of meat production. Out of the 100 actions, farmers can choose the ones that suit them best. We provide the pilot farms with guidance, sharing best practices and monitoring the impact of actions. The pilot stage of the project will end in 2021, and after that, we will further expand the project on the basis of experience gained.



## Case

### Less packaging plastic in the Baltics

Packaging renewals and reducing of plastic do not always require new packaging lines or other investments. In the Baltics, we have examined on a product-by-product basis whether the plastic in current products could be reduced, for example by making thinner packaging. With many products, the reduction of the amount of packaging plastic has been possible using the existing packaging lines. In all packaging renewals, we always ensure product safety.

We have equipped the renewed packaging of our Rakvere® and Tallegg® products with “Less plastic, cleaner environment” labels so that consumers can easily identify the packages that are environmentally friendlier.

In 2020, we reduced the use of packaging plastic by some five per cent in the Baltics.



Our goal is to create permanent, more climate-friendly operating models in cooperation with our contract farmers and other partners.



# Healthy food

## Targets and results 2020

Healthiness		Responsible procurement		Product safety	
Target	Result	Target	Result	Target	Result
60% of our new products with increased nutritional quality	44 (2019: 38) % of our new products with increased nutritional quality	100% of raw materials in line with our sustainable procurement principles by the end of 2025	<ul style="list-style-type: none"> <li>• We will update our principles of responsible procurement in 2021</li> <li>• 77 (2019: 75) % of the suppliers committed to the Supplier Guidelines</li> <li>• 100% of animals purchased according to animal sourcing principles</li> </ul>	Zero recalls	1 (2019: 12) recall



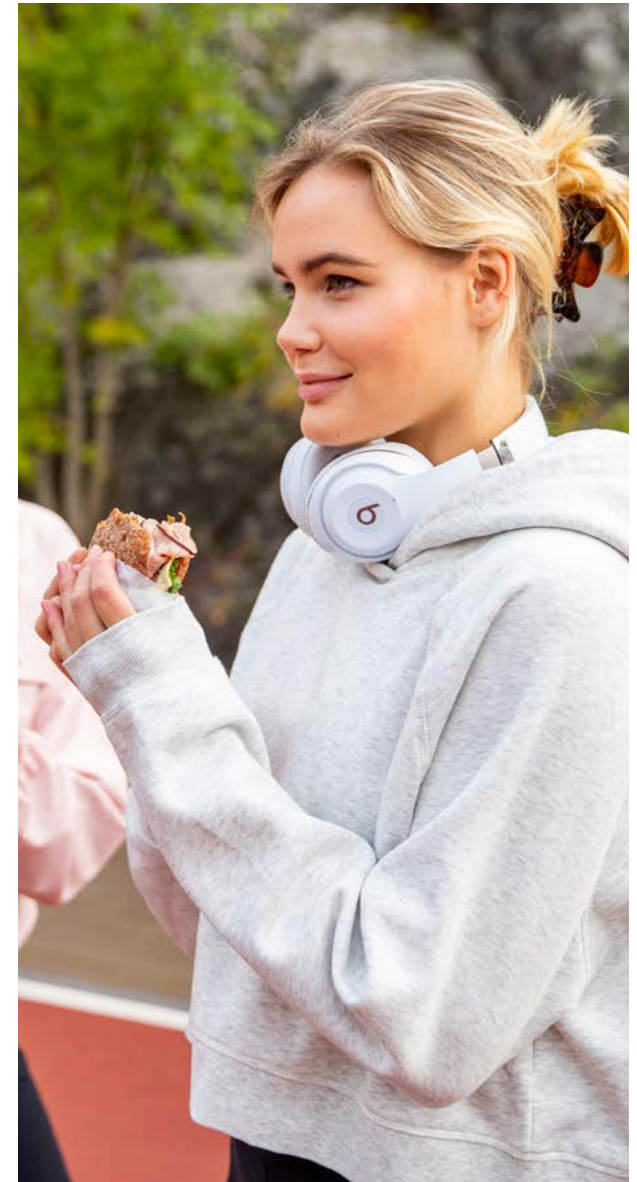
Our goal is to have increased nutritional quality in novelties.

## Healthy food for varied food moments

Our food fits for a varied diet and versatile food moments. In line with nutritional guidelines, we emphasise the significance of the whole and moderation: varied and balanced choices help us feel well.

HKScan's growth into a versatile food company continued in 2020. In addition to responsibly produced meat, we want to provide consumers with an increasingly diverse selection of tasty and healthy food for various food moments. In the autumn 2020, we launched plant-based HK® Vihreät products in Finland. In the summer 2020, we established Boltsi Oy together with Leivon Leipomo and continued the development of the Boltsi® product family based on oat and seed raw material. Our Pärsons® brand is the market leader in vegetarian cold cuts in Sweden.

In the Baltics, we launched several smaller packages in Rakvere® sausages and Tallegg® poultry products. Smaller pack sizes are suitable for smaller households and encourage people to consider the size of food portions. We reduced salt in several Rakvere® and Tallegg® products and launched low-fat novelties.





### What does increased nutritional quality mean?

**Our goal is to annually have 60 per cent of our new products with increased nutritional quality.**

**For us, nutritional quality refers to the product as a whole: packaging and its content.**

**Our emphasis is on the following:**

- National criteria for healthy food, e.g. the Heart Symbol and the Keyhole Symbol
- Adding vegetables or other ingredients in meat products and development of plant-based protein products
- Renewing products to be healthier, e.g. reducing salt, improving quality of fat and removing allergens
- Rypsiporsas® products that are not high in salt or have a health claim
- Removal or reduction of additives, e.g. nitrate and phosphate
- Healthy diet education and tips on packaging, e.g. a reminder of a varied diet, healthy recipes and a plate model
- Smaller-than-normal pack sizes that help with portion size thinking and reduce food waste



All our production units are certified.

### Product safety as a priority

Product safety is of primary importance for us. We ensure product safety through systematic work from procurement to customers. All of HKScan's production plants are certified in accordance with the Global Food Safety Initiative (GFSI) standards (FSSC 22000, IFS or BRC).

We aim to minimise the risks related to product safety so that the quality and safety of our products is always first class and no recalls need to be made. In 2020, we made one recall in Finland due to the incomplete labelling.

Nearly  
**100%**

local meat raw materials

**90%**

of other raw materials, packaging and services locally procured

**Trusted raw materials**

We purchase nearly 100 per cent of animals locally in our home markets from our contract farmers and in Estonia from our own farms. We comply with the Group's policies in all our animal purchasing.

In 2021, we will update our responsible procurement principles and our goal is that all our suppliers commit to compliance with the principles by the end of 2025. Our previous goal was to commit our suppliers (excluding contract farmers) to our Supplier Guidelines. At the end of 2020, 77 per cent of our suppliers were compliant with our Supplier Guidelines.

In the summer 2020, we joined the Danish Alliance for Responsible Soy and committed to a gradual transition to responsible soy use by 2025.

In the HKScan's Finnish and Swedish value chains, we have used responsibly produced certified soy already for many years. In January 2021, we announced the Group-wide soy policy, according to which we will move to responsible soy use in the Baltics by the end of 2025. We use only certified, responsibly produced palm oil.



Case

**Reducing salt in the Baltics**

In 2020, we introduced an extensive project to reduce salt in our key product categories in the Baltics. We reduce salt in such a way that the taste of the products remains as familiar as possible. This means that consumers can enjoy familiar products in a healthier way.

During the year, we went through the recipes of Rakvere® sausages, frankfurters and ready minced meat products, and those of Tallegg® cold cuts. We managed to reduce the amount of salt by almost 40,000 kilos. We will continue this work by product group in the coming years.



Case

**Ready meals with the plate model**

In the spring 2020, we launched HK® Lautasmalli (Plate Model) ready meals in Finland. They make it easier to follow a healthy and varied diet in line with the plate model. Three high-protein flavour options are particularly suitable for the elderly and others who appreciate easy and healthy alternatives.

A plate model style meal is healthy and nutritious. The plate model means that half of the plate is for vegetables, one quarter for protein, such as meat or fish, and one quarter for carbohydrates, such as potato or pasta. The roots of the plate model are at the HKScan Group as it was invented by Britt-Marie Dahlin who worked in the Scan's product development in the 1970s



# Farmers

Our community

## Targets and results 2020

Continuity of meat production		Sustainable farming	
Target	Result	Target	Result
<p>Ensuring the continuity of local meat production:</p> <ul style="list-style-type: none"> <li>• Implementation and further development of the Next Generation programme in Finland and Sweden</li> <li>• Development of the continuous cooperation with the current and potential farmers in Denmark</li> <li>• Effective process for the recruitment of future agricultural experts in the Baltics</li> </ul>	<ul style="list-style-type: none"> <li>• Next Generation programme conducted in Finland, 45 young farmers involved. In Sweden, the launch of a similar programme in the autumn 2020, 25 farmers involved</li> <li>• Cooperation and discussion events on poultry production in Denmark</li> <li>• Cooperation with schools and universities to increase the appeal of food production in the Baltics</li> </ul>	<p>100% of raw materials from contract production in line with HKScan’s new sustainable farming operating model by the end of 2030</p>	<p>We developed our new operating model and piloted farming practices supporting sustainable development</p>

## Farmers are an important part of our community

Local, trusted raw materials are the basis of our tasty products of high quality. We work closely together with our farmers to develop production and responsibility as well as to promote the competitiveness of local meat production.

Competitive farming community is one of the key priorities in our strategy. Together with our farmers, we ensure the continuity of domestic food production in all of our home markets in the Baltic Sea region, maintain the vitality of the countryside and guarantee the national security of supply. We procure animals from our contract farmers in Finland, Sweden and Denmark. In Estonia, we raise poultry and pigs on our own farms but procure cattle from our partners. HKScan has some 7500 contract farmers.

### We are developing the next phase of contract farming

In order to secure local food production, we are developing permanent, responsible operating models together with our farmers. We are gradually moving to the next evolution phase of contract farming, where responsibility work will be more closely integrated into contract farming. We do this work together with our farmers. We are building a new operating model

for sustainable farming to which we will commit our contract farmers in stages. We are piloting new practices through the Agrofood Ecosystem® and Gårdsinitiativet projects in Finland and Sweden, and we will scale the best practices in our home market areas.

During 2020, our Agrofood Ecosystem® network expanded and new business partners and contract farmers joined in Finland. In the network, there are already nearly 30 pilot farms where we tested and examined the measures decreasing environmental impact and increasing animal welfare.

In Sweden, we launched the Gårdsinitiativet project with some 30 contract farms. The aim of the project is to inspire farmers' responsible practices and to share the best practices for the benefit of all.

You can read more about the environmental projects carried out together with the farmers in the Environment section of this report.



We have been cooperating with our contract farmers for over 100 years.

### Next Generation supporting continuity

In Finland, we launched our Next Generation training programme in 2019 with the aim to enable the competitiveness and continuity in primary production. The programme also promotes networking between young farmers.

The themes of the mainly digitally conducted lectures and meetings were, for example, agricultural entrepreneurs' financial management, leadership, crop farming, environmental impacts as well as consumer communication and social media.

The Next Generation programme continued in 2020 and new young farmers will join the programme in 2021. We also started a similar programme in Sweden in the autumn 2020 and it had an enthusiastic reception.



# Personnel

Our community

## Targets and results 2020

Wellbeing at work		Safety at work	
Target	Result	Target	Result
Continuous improvement in employee wellbeing	Personnel's willingness to promote HKScan as an employer (eNPS) 5/10	Systematic work towards zero accidents	Lost time accidents 21.3/million working hours (25.5)



Lost time accidents decreased for the third year in a row.



*Safety First* | *Better Together*

## Personnel safety and wellbeing at work as priorities

HKScan employs some 7,000 food industry professionals in Finland, Sweden, the Baltics, Denmark and Poland. A committed and skilful personnel who feel well and enjoy their work plays a key role in the implementation of the company's strategy. We promote the occupational safety, wellbeing and competence of our employees in many ways.

Principles concerning our employees are recorded in the HKScan's Code of Conduct available on the company's website. In 2020, we prepared an online course on HKScan's Code of Conduct. It was introduced to our white-collar employees in Finland, Sweden and the Baltics, where 96% of white-collar employees completed the training during 2020. Other employees participated in the training in early 2021. The training strengthens employees' skills in areas such as labour rights and duties, environmental matters, human rights and principles against corruption and bribery.

In addition to permanent employments, we offer plenty of seasonal job opportunities in all of our operating countries. Through seasonal work, many young people get their first job and become familiar with the industry. With the help of our seasonal workers, we ensure uninterrupted production and deliveries to customers also during high seasons. In 2020, HKScan had some 1,050 seasonal workers.

### Focus on promoting wellbeing at work

At the end of 2020, we launched our Better Together workplace wellbeing programme, which aims to promote responsible management, a committed work community as well as workplace wellbeing and workability. To develop wellbeing at work, we drew up plans at the country and local levels; the realisation of the plans will be monitored at the Group-level. The long-term programme was launched in Finland, Sweden and the Baltics. In Denmark and Poland, the Better Together programme started at the beginning of 2021.

### Personnel survey provides a direction for development

In the autumn 2020, we carried out an employee engagement survey Voice to find out how working in our organisation and in our teams works, how people see HKScan's corporate culture and how the company is seen as an employer.

We had the results at the end of 2020 and they were discussed in the Group Executive Team and Business Unit Management Teams. The results were published to all employees in early 2021, and a three-level development work was started based on the results. Work is being done at the Group level, in Business Units and in all the teams.

Based on the results, one of our greatest strengths is that our personnel have a positive attitude towards the recent development of our company and that our people are committed to their employer HKScan. The company's new strategy and operating model as well as the implementation of the Turnaround programme inspire confidence among the personnel. One of our most significant areas of improvement is inappropriate behaviour that some of our people have encountered. We do not accept inappropriate behaviour and will take steps to ensure that HKScan is a good and safe workplace for each of us.

The coverage of our performance and development dialogues improved significantly in 2020 and based on the Voice survey, our employees find them useful. Through development dialogues, we are able to promote the value-based culture, set targets and develop the expertise of our personnel.

### **Pandemic accelerated new ways of working**

In the summer 2020, we studied how our office workers experienced working in exceptional circumstances as they had largely moved to work remotely. We got encouraging results in the pulse questionnaire carried out in all our countries.

As many as 97 per cent of respondents thought that the pandemic situation had been handled well at HKScan. They also felt that the pandemic situation had been sufficiently communicated. Our employees felt they had adapted well to the exceptional circumstances and learnt new ways of working. There was also room for improvement in the support received from the superior, in contact with one's own team and in the control of workload, especially in supervisory positions. In order to support our superiors in the exceptional situation, we provided them with several webinars on the remote work management. We also continued their training programme License to Lead.

### **Familiar with the new strategy**

HKScan's new strategy was published at the end of 2019. The operating model change from a matrix

organisation to the country-specific profit centre based organisation at the beginning of 2020 supports the target achievement. According to the personnel survey, our employees considered the organisation change to be successful.

Our strategy was implemented in many ways during the year. In the autumn, we organised StrategyLive events for our white-collar workers in all of our home markets. In the StrategyLive events, conducted on a digital dialogue platform, our employees had an opportunity to discuss various themes of the strategy and to talk about their views in the pulse surveys related to the themes. The personnel gave excellent feedback for the StrategyLive events, which increased understanding of our strategy.

We organised monthly HUGaMUG remote meetings for our white-collar employees to have discussions and to hear the company's top management views about topical issues. Attendance at the events was high. The events increased the dialogue between our personnel and management during the exceptional Covid-19 period.

### **Accidents continued to decline**

HKScan's target is to be a safe workplace for the company's personnel and for our partners working in our units. Work safety is promoted through the Group's Safety First programme, which is a systematic and practical model for the management, development and reporting of occupational safety.

In 2020, HKScan's productive work towards zero accidents continued: the number of lost time accidents declined for the third year in a row. The company's top management is highly committed to the continuous promotion of occupational safety. All our Business Units and production units have their own occupational safety action plans and our employees regularly review safety issues.

At the beginning of 2020, we introduced a new reporting tool for safety at work in all our Business Units. It enabled, for example, more systematic analysis of accidents and near misses, better targeting at root causes as well as risk assessment and process management. We promoted workplace safety through guidance, communication and risk assessments, among other things.

In the autumn, we participated in the European Week for Safety and Health at Work, during which we communicated safety issues more effectively to all our employees. In addition, HKScan's Group Executive Team made their personal workplace safety and well-being commitments, which they promote in their own work. The commitments were published at the company's website.

In 2020, there were no lost time accidents in our Eura production unit in Finland, Jelgava unit in Latvia and logistics centre in Riga. The production units in Mikkeli, Rauma and Jelgava as well as the Riga logistics centre showed the highest accident reductions during the year.



## Case

### Towards better occupational wellbeing in Forssa

In the HKScan's Forssa production unit, wellbeing at work has been systematically developed since 2019, so the Better Together programme continues the long-term, successful work. The Forssa unit's absences have significantly declined due to the development of occupational wellbeing.

In Forssa, wellbeing at work has been promoted comprehensively and by listening to employees. The unit has focused on, for example, effective cooperation between different personnel groups and an open negotiation culture.

Meeting practices and information flow have been developed systematically, which has enabled the smooth flow of information as well as genuine listening between employees and management.

The Forssa production unit has also set up continuous improvement teams that have activated the suggestion scheme and the collection of work safety observations. Work flow and wellbeing have been enhanced, for example by developing the employee induction process and by increasing job rotation between departments. Employees have also made use of workload assessments and the expertise of an occupational physiotherapist.



## Case

### Increased work safety in Mikkeli

In our Mikkeli production unit, employees have shown that excellent results can be achieved through systematic development of work safety. Three years ago, there was at least one lost time accident every month. In 2020, there were only two lost time accidents.

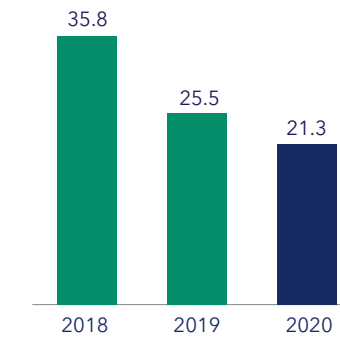
All employees deserve credit for the good progress and commitment to the goal of zero accidents. As the number of lost time accidents has declined, the Mikkeli unit has moved on to analyse minor incidents, near miss cases and safety observations, and systematically removed their root causes.

## Personnel data

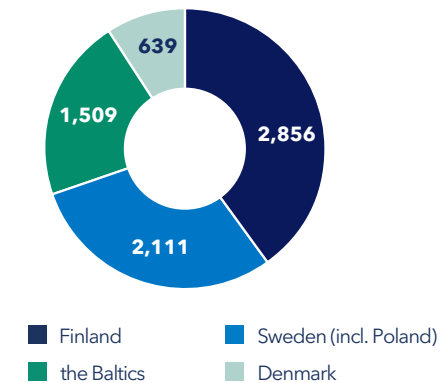
	2020	2019	2018
<b>Personnel in the end of the year</b>	7,116	6,928	7,179
- Permanent %	89	88	86
- Fixed-term %	11	12	14
- Full-time %	96		
- Part-time %	4		
Blue-collars / white collars %	84/16	82/18	81/18
Supervisors of personnel %	6		
Internal recruitments, white-collars %	33		
Women / men %	40/60	40/60	41/60
Difference in promotion opportunities between women and men* %	0		
Female / male supervisors %	35/65		
Women / men in the Group Executive Team %	11/89	11/89	55/45
Women / men in the Board of Directors %	25/75	25/75	13/87
<b>Absences, % of theoretical working hours</b>	5.5	5.6	5.9
Finland	5.1	5.8	6.0
Sweden	6.9	5.8	6.3
The Baltics	5.6	5.0	5.3
Denmark	5.0	5.8	5.5
Poland	5.5	7.7	5.9
Average length of employment, years	10		
<b>Collective agreement coverage of personnel, %</b>			
Finland	89		
Sweden	100		
The Baltics	7		
Denmark	89		
Poland	23		
<b>Personnel by age, %</b>			
<30	18		
30-55	61		
55<	22		

\* Difference in the level of promotion, when the job level, employment length and performance are standardised. The figure concerns white-collars.

### Lost time accidents /million working hours



### Personnel by market areas, on average in 2020





# Animal welfare

## Targets and results 2020

Animal welfare development		Compliance	
Target	Result	Target	Result
Continuous improvement in key animal welfare aspects in line with HKScan AWCheck* model	We built the HKScan AWCheck model in co-operation with animal welfare experts in our home markets. The first phase of the HKScan AWCheck model will be completed and measures will get underway through co-operation with our contract farmers during 2021	Zero animal welfare breaches in our operations	1 (2019: 0) breach

\* Animal welfare development model

## Continuous promotion of animal welfare

We are committed to the continuous promotion of animal welfare in co-operation with our contract farmers. In 2020, we initiated the building of the new HKScan AWCheck operating model, which enables expanding best practices to all our home markets. The objective of HKScan AWCheck is to assure the continuous promotion of animal welfare. The laws regulating animal welfare in our countries of operation, particularly in Finland and Sweden, are among the strictest in the world.

We source animals from our contract farmers in Finland, Sweden and Denmark and from our partners in Estonia. In Estonia, we raise poultry and pigs on our own farms. We ensure and promote animal health and welfare together with our contract farmers, experts, veterinarians and other partners. Due to our close co-operation with farmers, we know the origin of our meat and the growth conditions of the animals.

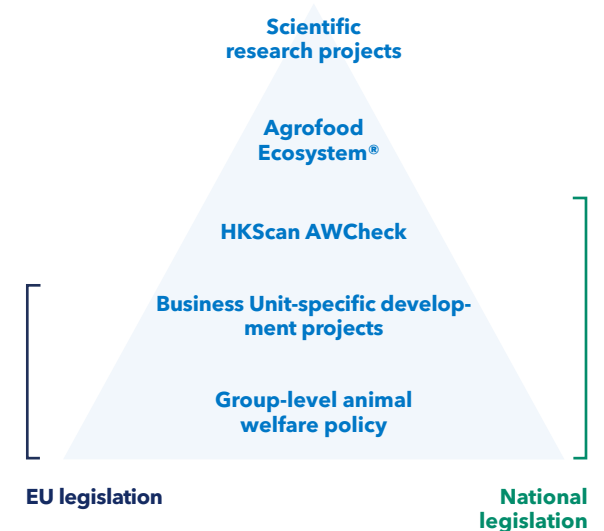
Strict laws and regulations guide animal welfare in our countries of operation within the Baltic Sea region. Additionally, we have established our own animal welfare policy and guidelines, and we require our farmers to comply with them.

During 2020, one animal welfare breach was observed in our activities. We were fined in Denmark because of a violation of poultry transport regulations. The necessary corrective measures have already been taken.



In Sweden and Finland, the animal welfare laws are the strictest in the world.

### We advance animal welfare on many levels



## HKScan AWCheck as a tool for development

During 2020, we initiated the building of the Group-wide HKScan AWCheck model to ensure animal welfare. The AW abbreviation in the model's name comes from the words Animal Welfare. HKScan AWCheck is a new, practical development model to advance animal welfare.

HKScan AWCheck concerns all measures related to animal health and welfare as well as development work on farms and in animal transportation and production facilities. We specify country-specific measures to promote the welfare of each animal species. These measures are put into practice on the farms through co-operation with our contract farmers. The best practices are shared with the entire Group. The first phase of the HKScan AWCheck model will be completed during 2021, and we will continue our development work by taking the new animal welfare measures into use through co-operation with our contract farmers.

We develop the HKScan AWCheck model and our operating methods within the company's own animal welfare task forces which are comprised of experts on different animal species in all our markets. The task forces facilitate the efficient sharing of information as well as reporting and comparison of internal welfare indicators. Our own veterinarians are responsible for the holistic development of animal welfare at all stages of our production chain. The animal welfare working groups initiated their activities in early 2020.

## Continuous development work

The promotion of animal welfare is an ongoing process that involves the continuous development of operating methods. In 2020, we installed monitoring cameras in our poultry houses in Estonia. In Denmark, our contract farmers piloted the introduction of a slower-growing breed of chicken alongside our current breed.

In Finland, we advanced the welfare of pigs by e.g. examining their tail health, and in Estonia, we developed new enrichment materials and increased the space available to the pigs. The operational approach of our contract farmer on the Halla Gård farm in Sweden enabled its pigs to graze freely, also outdoors. In terms of cattle, we focused on promoting more comfortable bedding in Finland and improving transport conditions in Estonia.

We contribute to scientific studies related to animal health and welfare in co-operation with universities, research institutes and other companies. These studies provide us with the latest information on ways to improve animal welfare. The studies are primarily realised locally, but any information gained from the studies is shared with the entire Group. During 2020, we were involved in studies that examined, among other things, the development of disease prevention, animal feeding, welfare indicators and loose farrowing.



### Priorities of the HKScan AWCheck model

- Species-specific behaviours
- Living conditions
- Health and disease protection
- Animal feeding
- Transport and slaughterhouse activities

## Healthy animals don't need medication

Animals grow healthy in conditions that promote good disease prevention and well-being. Healthy animals don't need medication, and antibiotics are not utilised at all in our food chain for growth promotion or disease prevention. The use of hormones for growth promotion is also forbidden.

Our commitment to the health and welfare of animals is reflected in the extremely minimal use of antibiotics on our own farms and those of our contract farmers. Animals are treated with antibiotics only when they are ill, and only under the prescription and supervision of a veterinarian.

Read more about animal welfare:

[www.hkscan.com/en/responsibility/animal-welfare/](http://www.hkscan.com/en/responsibility/animal-welfare/)

### Case



## Cameras and artificial intelligence used to monitor animal welfare

We develop animal welfare and the monitoring thereof with the help of artificial intelligence used to observe Kariniemen® chickens at the Kiiski farm in Finland. As part of the pilot project, we utilised cameras for modelling and observing the behaviour and well-being of the farm's chickens. A human eye is always necessary to ensure animal welfare, but this new technology, when used optimally, offers a new perspective. For example, the cameras enable us to observe the chickens and conditions also at times when the farmer is not present.

At the end of 2020, a weekly progress report was published in Finnish on Kariniemen® website. One of the aims of the project is to increase transparency and provide consumers with information about how the health and welfare of the chickens is being nurtured on our farms.



## Management approach

Material themes	Environment	Healthy food	Our community		Animal welfare	
	Environmental impacts	Healthy products	Responsible procurement	Farmers	Personnel	Meat production
<b>Target of management approach</b>	At HKScan, our responsible approach concerns the entire food chain, from the feed for production animals to consumers. Responsible activities are supported by HKScan's values: Inspire, Lead, Care and Deliver. Advanced corporate responsibility work is one of key priorities of HKScan's strategy.					
	Reduction of environmental impacts and promotion of the sustainable use of natural resources.	A wide variety of products that correspond to the needs of consumers and contribute to a healthy diet. Assurance of product safety.	Ensuring responsible procurement and smooth co-operation from the procurement of raw materials and services up to the consumer level.	Ensuring the continuity and competitiveness of local food production in all home markets.	Advancement of personnel well-being and safety at work.	Promotion of the key factors for animal health and welfare on farms, during transport and at slaughterhouses.
<b>Policies and commitments</b>	HKScan's activities are guided by the Group's Code of Conduct.					
	HKScan's environmental work is guided by the company's environmental policy and target for carbon-neutral food production by the end of 2040. In Finland, HKScan is committed to the Energy Efficiency Agreement and Material Efficiency Commitment of the Food and Drink Industry. In Sweden, HKScan is a member of the Haga Initiative.	Nordic and national nutritional guidelines are taken into consideration as part of product development. HKScan has made five nutritional commitments in the Society's Commitment to Sustainable Development initiative in Finland. Product safety and quality are implemented in accordance with the quality and product safety policy.	Procurement is guided by the company's internal procurement policy, Supplier Guidelines and animal purchase policy. HKScan has committed to the use of responsibly produced soy throughout its entire production chain by 2025.	Meat production is guided by contracts between HKScan and farmers.	HR management and personnel development are based on the company's internal policies and principles related to, among other areas, recruitment, management, remuneration and occupational health and safety.	At HKScan, activities related to animal health and welfare are guided by the Group's animal welfare policy. The basis for animal welfare is compliance with EU and local legislation as well as the guidelines and operating methods of the company and industry in general.
<b>Targets</b>	The key targets for responsibility work have been defined in HKScan's responsibility programme and they are specified in the Corporate Responsibility section of the Annual Report by theme: environment, healthy food, own community and animal welfare.					

Material themes	Environment	Healthy food	Our community		Animal welfare	
	Environmental impacts	Healthy products	Responsible procurement	Farmers	Personnel	Meat production
<b>Organisation of corporate responsibility</b>	The Board of Directors of HKScan approves the Group strategy. Progress concerning the implementation of the Group’s responsibility work, key events and possible challenges related to the company’s responsibility are reported to the Board of Directors. The Board approves HKScan’s report on non-financial information. HKScan’s Group Executive Team approves the targets of the responsibility programme and guides and monitors the implementation of the programme. The Director of Corporate Responsibility manages the Group’s responsibility work, oversees the implementation of the programme targets and monitors the related indicators. As mandated by the Group Executive Team, the Corporate Responsibility team develops all guidelines, programmes and action plans related to corporate responsibility. Each responsibility theme has its own working group that coordinates development projects. The Corporate Responsibility team manages the activities of the task forces.					
<b>Responsibilities and resources</b>	The strategic development of environmental work is handled by the HESQ function as it concerns own production and by the Group’s primary production strategic development function as it concerns primary production. The Business Units have the operational responsibility for the environmental work.	The Business Units are responsible for the nutritional quality of the products. The strategic management of product safety falls within the sphere of the HESQ function, but the operational realisation of product safety is overseen by the Business Units.	The procurement function responsible for HKScan’s sourcing is a Group-wide function.	Strategic development of co-operation with farmers is carried out on the Group level, while the operational management and animal sourcing are handled by the Business Units.	Personnel management is handled by the Group’s HR function. Strategic management of occupational safety of the Group-wide HESQ function.	The strategic development of primary production and animal welfare is carried out on the Group level. Operational responsibility for animal sourcing and animal welfare is handled by the Business Units.
<b>Feedback mechanisms</b>	HKScan has a Fair Way channel for company stakeholders to use as a means of anonymously reporting suspicions of unethical conduct in HKScan’s activities. HKScan has established and functional practices for engaging with stakeholders.					
<b>Projects and initiatives</b>	The key projects and initiatives related to responsibility work in 2020 are presented in the Responsibility section of the Annual Report by theme: environment, healthy food, own community and animal welfare.					
<b>Assessment of management approach</b>	The Board of Directors assesses the primary responsibilities and commitments related to corporate responsibility. The Group Executive Team manages and monitors the advancement of the responsibility programme. The material responsibility themes were assessed in 2019.					
	Environmental impacts are measured regularly and reported annually.	The management of product safety is based on risk assessments of the products and related production processes and on the company’s risk management system. System functionality is verified through internal and external audits.	Responsibility in terms of procurement is assessed using internal and external indicators. Responsibility factors are also taken into consideration as part of the supplier assessment process.	Co-operation with farmers is assessed by, among other methods, questionnaires and assessments drawn up by the relevant working groups, and by examining the realisation of strategic targets and animal production results.	The well-being at work, commitment and operational culture of the personnel are assessed through personnel surveys. Personal performance and development dialogues are held twice a year.	Animal welfare is assessed through the company’s internal and external indicators.

**GRI Index**

Disclosure	Disclosure title	Location	Comments and/or SDG
<b>GRI 102: General disclosures</b>			
<b>Organisational profile</b>			
102-1	Name of the organisation	HKScan in brief	
102-2	Activities, brands, products, and services	HKScan in brief	
102-3	Location of headquarters	GRI Index	Turku, Finland
102-4	Location of operations	HKScan in brief	
102-5	Ownership and legal form	Report of the Board of Directors / Shares and shareholders	
102-6	Markets served	HKScan in brief	
102-7	Scale of the organisation	Personnel, This is how HKScan created value	
102-8	Information on employees and other workers	Personnel	
102-9	Supply chain	Healthy food, Value chain	
102-10	Significant changes to the organisation and its supply chain	Report of the Board of Directors	No significant changes
102-11	Precautionary Principle or approach	Report on non-financial information	
102-12	External initiatives	Management approach	
102-13	Membership of associations	Stakeholder dialogue	
<b>Strategy</b>			
102-14	Statement from senior decision-maker	CEO's review	
102-15	Key impacts, risks, and opportunities	Business environment, Environment, Report on non-financial information	Analysis on climate risks and opportunities in line with TCFD in the Environment section
<b>Ethics and integrity</b>			
102-16	Values, principles, standards, and norms of behavior	HKScan's strategy, Management approach	
102-17	Mechanisms for advice and concerns about ethics	Report on non-financial information	HKScan's Fair Way channel

Disclosure	Disclosure title	Location	Comments and/or SDG
<b>GRI 102: General disclosures</b>			
<b>Governance</b>			
102-18	Governance structure	Corporate Governance Statement, Management approach	
102-19	Delegating authority	Management approach	
102-20	Executive-level responsibility for economic, environmental, and social topics	Management approach	
102-22	Composition of the highest governance body and its committees	Corporate Governance Statement	
102-23	Chair of the highest governance body	Corporate Governance Statement	
102-24	Nominating and selecting the highest governance body	Corporate Governance Statement	
102-25	Conflicts of interest	Corporate Governance Statement	
102-26	Role of highest governance body in setting purpose, values, and strategy	Management approach	
102-33	Communicating critical concerns	Management approach	
102-35	Remuneration policies	Remuneration Report	
102-36	Process for determining remuneration	Remuneration Report, Corporate Governance Statement	
<b>Stakeholder engagement</b>			
102-40	List of stakeholder groups	Stakeholder dialogue	
102-41	Collective bargaining agreements	Personnel	
102-42	Identifying and selecting stakeholders	Stakeholder dialogue	
102-43	Approach to stakeholder engagement	Stakeholder dialogue, Personnel	
102-44	Key topics and concerns raised	Stakeholder dialogue	
<b>Reporting practice</b>			
102-45	Entities included in the consolidated financial statements	Notes to the financial statement, Related Party Transactions	
102-46	Defining report content and topic Boundaries	Responsibility at the core of HKScan's strategy	
102-47	List of material topics	Responsibility at the core of HKScan's strategy, GRI Index	

Disclosure	Disclosure title	Location	Comments and/or SDG
<b>GRI 102: General disclosures</b>			
102-48	Restatements of information	<a href="#">GRI Index</a>	Climate emissions from own production and energy consumption in 2019 have been specified.
102-49	Changes in reporting	<a href="#">GRI Index</a>	GHG emissions reporting include now also Scope 3 emissions in line with GHG Protocol.
102-50	Reporting period	<a href="#">GRI Index</a>	The report covers the year 2020.
102-51	Date of most recent report	<a href="#">GRI Index</a>	Responsibility report 2019 was published in March 2020.
102-52	Reporting cycle	<a href="#">GRI Index</a>	The responsibility report is published annually.
102-53	Contact point for questions regarding the report	<a href="#">GRI Index</a>	communications@hkscan.com
102-54	Claims of reporting in accordance with the GRI Standards	<a href="#">GRI Index</a>	The report has been prepared in accordance with the GRI Standards (2016) Core level.
102-55	GRI content index	<a href="#">GRI Index</a>	
102-56	External assurance	<a href="#">GRI Index</a>	No external assurance
<b>GRI 103: Management approach</b>			
103-1	Explanation of the material topic and its Boundary	<a href="#">GRI Index</a>	The report covers all the Group's units.
103-2	The management approach and its components	<a href="#">Management approach</a>	
103-3	Evaluation of the management approach	<a href="#">Management approach</a>	
<b>Economic impacts</b>			
<b>GRI 201: Economic performance</b>			
201-1	Direct economic value generated and distributed	<a href="#">This is how HKScan created value, Report of the Board of Directors, Financial Statement</a>	Payments to government not listed by country in the financial statement. No material community investments.
201-3	Defined benefit plan obligations and other retirement plans	<a href="#">Financial Statement/Note 21. Pension obligations</a>	Percentage of salary contributed by employee or employer: Not presented but employer's contribution is visible in the income statement and related notes
201-4	Financial assistance received from government	<a href="#">Financial Statement/Note 2. Grants, Report of the Board of Directors / Shares and shareholders</a>	Government presentation in the shareholding structure
<b>GRI 203: Indirect economic impacts</b>			
203-2	Significant indirect economic impacts	<a href="#">This is how HKScan created value</a>	

Disclosure	Disclosure title	Location	Comments and/or SDG
<b>GRI 204: Procurement practices</b>			<b>SDG 8:</b> Decent work and economic growth <b>SDG 15:</b> Life on land
204-1	Proportion of spending on local suppliers	Healthy food	
G4 - Food Processing Sector 1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	Healthy food	<ul style="list-style-type: none"> <li>• Animal sourcing: % of purchasing according to animal sourcing practices</li> <li>• Percentage of other purchased volume from suppliers committed to HKScan's Supplier Guidelines</li> </ul>
G4 - Food Processing Sector - 2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard	Healthy food	The use of certified palm oil and soy by country.
<b>GRI 205: Anti-corruption</b>			
205-2	Communication and training about anti-corruption policies and procedures	Report on non-financial information	
205-3	Confirmed incidents of corruption and actions taken	Report on non-financial information	There were no confirmed corruption cases in 2020
<b>Environmental impacts</b>			<b>SDG 12:</b> Responsible consumption and production <b>SDG 13:</b> Climate action <b>SDG 15:</b> Life on land
<b>GRI 301: Materials</b>			
301-1	Materials used by weight or volume	Environment	Packaging materials reported
301-2	Recycled input materials used	Environment	Packaging materials reported
<b>GRI 302: Energy</b>			
302-1	Energy consumption within the organisation	Environment	Used calculation unit MWh
302-4	Reduction of energy consumption	Environment	
<b>GRI 303: Water</b>			
303-5	Water withdrawal by source	Environment	Reported water from municipal water supplies or from own dwell
<b>GRI 304: Biodiversity</b>		<a href="http://www.hkscan.com/en/responsibility/agro-food-ecosystem/">www.hkscan.com/en/responsibility/agro-food-ecosystem/</a>	HKScan aspect: cattle and sheep grazing, feed cultivation

Disclosure	Disclosure title	Location	Comments and/or SDG
<b>GRI 305: Emissions</b>			
305-1	Direct (Scope 1) GHG emissions	Environment	HKScan reports greenhouse gas emissions in line with the GHG protocol. HKScan discloses its Scope 1 (direct) and Scope 2 (indirect) GHG emissions, whereby the control approach is the operational control approach. For calculating Scope 2 emissions, HKScan has chosen the Market-based method. The following emission sources are included: <ul style="list-style-type: none"> <li>• Energy for processes, heat production (Scope 1)</li> <li>• Purchased electricity (Scope 2)</li> <li>• Purchased district heating, cooling, steam (Scope 2)</li> <li>• Leakage of refrigerants (Scope 1)</li> <li>• CO<sub>2</sub> for packaging gases, freezing, stunning (Scope 1)</li> <li>• Car travel (Scope 1)</li> <li>• In-house transport: Trucks, site cars, tractors (Scope 1)</li> </ul>
305-2	Energy indirect (Scope 2) GHG emissions		
305-3	Other indirect (Scope 3) GHG emissions	Environment	<ul style="list-style-type: none"> <li>• Purchased raw materials and goods: local and imported meat (primary production), packaging materials</li> <li>• Waste generated in operations</li> <li>• Business travel: flights</li> <li>• Transportation and distribution</li> </ul>
305-5	Reduction of GHG emissions	Environment	
<b>GRI 306: Effluents and waste</b>			
306-2	Waste by type and disposal method	Environment	
<b>GRI 307: Environmental compliance</b>			
307-1	Non-compliance with environmental laws and regulations	GRI Index	In Estonia, HKScan was fined for the manure storage site not marked on the environmental permit. In Sweden, the company got a notice on the environmental claim in the TV commercial.
<b>Social impacts</b>			
<b>GRI 403: Occupational health and safety</b>			<b>SDG 3:</b> Good health and well-being <b>SDG 8:</b> Decent work and economic growth
403-2	Hazard identification, risk assessment, and incident investigation	Personnel	HKScan got two fines related to accidents at work, one in Denmark and one in Sweden.
403-9	Work-related injuries	Personnel	Reported lost time injuries
405-1	Diversity of governance bodies and employees	Personnel	
<b>GRI 413: Local communities</b>		Farmers Environment	Farming community and impacts on local communities via farmers  <b>SDG 3:</b> Good health and well-being <b>SDG 13:</b> Climate action

Disclosure	Disclosure title	Location	Comments and/or SDG
<b>GRI 414: Supplier social assessment</b>			
414-2	Negative social impacts in the supply chain and actions taken	Healthy food	Sourcing volumes from risk countries very low, process created to mitigate negative impacts
<b>GRI 416: Customer health and safety</b>			<b>SDG 3: Good health and well-being</b>
416-1	Assessment of the health and safety impacts of product and service categories	Healthy food	
G4 - Food Processing Sector 6	Percentage of total sales volume of consumer products, by product category, that are lowered saturated fat, trans fats, sodium and added sugar	Healthy food	Reported: percentage of total product development in line with HKScan's criteria for increased nutritional value
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Healthy food	Reported product recalls. In Sweden, a fine related to hygiene of the slaughterhouse.
G4 - Food Processing Sector 5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognised food safety management system standards	Healthy food	Reported: FSSC 22000, IFC, BRC
<b>Animal health and welfare</b>			<b>SDG 3: Good health and well-being</b>
G4 - Food Processing Sector 10	Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic	<a href="http://www.hkscan.com/en/responsibility/animal-welfare/">www.hkscan.com/en/responsibility/animal-welfare/</a>	Practices described by species
G4 - Food Processing Sector 11	Percentage and total of animals raised and/or processed, by species and breed type, per housing type	<a href="http://www.hkscan.com/en/responsibility/animal-welfare/">www.hkscan.com/en/responsibility/animal-welfare/</a>	Practices described by species
G4 - Food Processing Sector 12	Policies and practices on antibiotic, anti-inflammatory, hormone, and/or growth promotion treatments, by species and breed type	Animal welfare	Reported general practices concerning all species
G4 - Food Processing Sector 13	Total number of incidents of significant non-compliance with laws and regulations, and adherence with voluntary standards related to transportation, handling, and slaughter practices	GRI Index	In Denmark, HKScan was fined for violating poultry transport regulations.





**HKSCAN**  
**Governance**  
**2020**

# Corporate Governance Statement 2020



## Compliance with the Corporate Governance Code

Corporate governance in HKScan Corporation ("HKScan" or the "Company") is based on Finnish legislation, EU-level regulations, HKScan's Articles of Association, the Finnish Corporate Governance Code 2020 (the "Code") issued by the Securities Market Association, as well as HKScan Group's Code of Conduct and Governance Policy. HKScan furthermore complies with the rules and regulations of Nasdaq Helsinki Ltd and the Finnish Financial Supervisory Authority. This corporate governance statement has been drafted in accordance with the above-mentioned Code, which entered into effect on 1 January 2020, and with Chapter 7:7 of the Finnish Securities Markets Act. The corporate governance statement is issued separately from the Report of the Board of Directors 2020.

HKScan's corporate governance statement may be viewed on the Company's website at [www.hkscan.com](http://www.hkscan.com) under Investors. The website also gives access to a list of the Company's largest shareholders, the notifications of changes in holdings submitted to the Company and the Company's Articles of Association. The Code is available for review on the Securities Market Association website at <http://cgfinland.fi/en/>.

## Board of Directors

The Board of Directors is responsible for the administration and the proper organization of the operations of the Company. The duties and accountability of the Board are determined primarily under the Articles of Association and the Finnish Limited Liability Companies Act. The Board's meetings procedure and duties are described in the charter adopted by the Board for each year.

Board members are elected annually by the Annual General Meeting ("AGM") based on a proposal put forward by the Board's Nomination Committee (until 10 June 2020). The AGM on 10 June 2020 decided to establish a Shareholders' Nomination Board, which will in future be responsible for preparing the proposals to the AGM for the election and remuneration of the members and deputy members of the Board of Directors. The Articles of Association contain no mention of any special order of Board member appointments.

Based on the Articles of Association, the Company's Board of Directors comprises between five and eight (5–8) members. In addition, a maximum of three (3) deputy members may be elected to the Board of Directors. All Board members possess the competence and independence consistent with the position. The Board members are proposed by the Shareholders' Nomination Board taking into account the diversity principles determined by the Company in accordance with Recommendation 9 of the Code.

The Company has determined the following diversity principles:

- both genders should be represented in the Board;
- the Board members should have a versatile professional and educational background that benefits the Company's business;
- the Board members should have experience of international tasks; and
- the Board members should represent a varied age range.

The composition of the Board of the Company in 2020 represented well the Company's diversity principles.

The term of the Board members begins at the end of the General Meeting at which they were elected and ends at the end of the Annual General Meeting first following their election. The Board of Directors elects a Chair and Deputy Chair from among its number.

The Board conducts an annual evaluation of the independence of its members in accordance with Recommendation 10. A member of the Board is required to submit to the Company the information necessary to conduct the evaluation of independence. A Board member is also required to notify the Company of any changes in information relating to independence.

**The Annual General Meeting held on 10 June 2020 elected the following persons to the Board:**



**Reijo Kiskola** (b. 1954)

Chair of the Board since 11/2018,  
Dairy Engineer

Shareholding at HKScan on  
31 December 2020: 20,341

Independent of the Company and its  
significant shareholders.

More detailed CVs of the Board members can be found on the Company's website.



**Jari Mäkilä** (b. 1970)

Deputy Chair of the Board since 2019,  
Agricultural technician

Shareholding at HKScan on 31 December  
2020: 11,934 (direct ownership) and  
97,499 (through Mäkilän Tila Oy)

Not independent of the Company due to  
his significant supplier relationship with the  
company, not independent of significant  
shareholders due to his position in LSO  
Cooperative.



**Anne Leskelä** (b. 1962)

Member of the Board since 2019,  
M.Sc. (Business Administration)

Shareholding at HKScan on  
31 December 2020: 9,878

Independent of the Company  
and its significant shareholders.



**Per Olof Nyman** (b. 1956)

Member of the Board since 2017,  
M.Sc.  
(Industrial & Management Engineering)  
President & CEO, Lantmännen ek. för.

Shareholding at HKScan on 31 December  
2020: 15,214 (nominee-reg.)

Independent of the Company, but not  
independent of its significant shareholders  
due to his position as CEO of  
Lantmännen ek. för.

**The Annual General Meeting held on 10 June 2020 elected the following persons to the Board:**



**Harri Suutari** (b. 1959)

Member of the Board since 2019,  
B.Sc. (Engineering)  
Chair of the Board, Componenta Oyj

Shareholding at HKScan on  
31 December 2020: 9,628

Independent of the Company and its  
significant shareholders.

More detailed CVs of the Board members can be found on the Company's website.



**Carl-Peter Thorwid** (b. 1964)

Deputy member of the Board since 2017,  
M.Sc.  
(Industrial Engineering and Management)  
CEO Lantmännen Cerealia AB

Shareholding at HKScan on  
31 December 2020: -

Independent of the Company, but  
not independent of its significant  
shareholders due to his position as CEO  
of Lantmännen Cerealia AB.



**Terhi Tuomi** (b. 1966)

Member of the Board since 2019,  
M.Sc. (Econ.)  
CFO, Boreal Plant Breeding Ltd

Shareholding at HKScan on  
31 December 2020: 8,378

Independent of the Company, but  
not independent of its significant  
shareholders due to her position in  
LSO Cooperative.



**Ilkka Uusitalo** (b. 1968)

Deputy member of the Board since 2019,  
Farm entrepreneur

Shareholding at HKScan on  
31 December 2020: 105,000

Not independent of the Company due  
to his significant supplier relationship  
with the Company, not independent  
of significant shareholders due to his  
position in LSO Cooperative.

During 2020, the Board held 19 meetings. The average attendance rate of Board members and deputy members was 99.3 per cent. The Board constitutes a quorum when more than half of its members are present. Besides the members and deputy members, the Group's CEO, the CFO and the EVP Administration as secretary to the Board also regularly attended the Board meetings.

### Charter of the Board

According to the charter, the following key matters are among those to be resolved by the Board of Directors at HKScan:

- appointments and dismissals of the CEO and senior executives, and decisions on the terms of employment of management;
- terms of employment of Managing Directors of HKScan Group companies and senior management;
- HKScan Group management's and personnel's incentive schemes and bonus criteria;
- HKScan Group and organization structure, commencement of new business, changes in and discontinuation of central business;
- HKScan Group strategy, business plan and performance targets for the following year, and related underlying assumptions;
- HKScan Group's significant investments, as well as company, business and real estate arrangements, and sales and outsourcing of significant equipment and machinery;
- other significant contracts of the HKScan Group;
- dividend policy and division proposal to the Annual General Meeting;

- principles of risk management and communication related to HKScan Group's business as well as follow up of the legality of business operations;
- approving of investment plans and approval of relevant investments deviating from the plan;
- taking out HKScan Group loans and giving securities;
- giving procuration and other representative rights of the Company.

The meetings of the Board of Directors follow the annually agreed management calendar. Extra meetings may be convened if required. The chair of the Board convenes the Board meetings and prepares the meeting agenda together with the CEO.

### Performance evaluation of the Board

The Board conducts an annual evaluation of its performance and working methods in the interest of enhancing its operations. The evaluation addresses the composition and processes of the Board, the quality of the Board's performance, cooperation between the Board and operative management, and the expertise and participation of Board members.

### Board Committees

Four committees (five until 10 June 2020) have been set up in HKScan to streamline the preparation and management of matters for the consideration of the Board.

The Board selects the members and chairs of the committees among its members or deputy members, except for the Nomination Committee

(until 10 June 2020), to which members could be selected from outside the Board to bring additional knowledge and expertise to bear on key appointments within the Company. With respect to the Nomination Committee, the Company deviated from Recommendation 15 of the Code.

### Audit Committee

The Board elects at least three members of the Audit Committee from among its members or deputy members. At least one of the members must possess particular expertise in the fields of accounting, bookkeeping or auditing. The majority of the members of the Audit Committee shall be independent of the Company and at least one member shall be independent of significant shareholders. The CEO of the Company or other persons in the Group Executive Team of the Company may not be elected to the Audit Committee.

The Audit Committee assists the Board by preparing matters within its remit for the consideration of the Board and by submitting proposals or recommendations for Board resolution. The duties of the Audit Committee have been determined in its charter adopted by the Board, in keeping with Recommendation 16 of the Code. The tasks of the Audit Committee of HKScan's Board of Directors include, among other things, the following:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal auditing and risk management system;

- to evaluate and review the corporate governance statement covering the internal control and risk management related to the financial reporting process;
- to monitor and evaluate how the related party agreements and other transactions fulfil the requirements of belonging in the ordinary course of business and arms-length principle;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of auditors and the provision of related ancillary services to the Company in particular; and
- to prepare the proposal for decision on the election of the auditors.

The Audit Committee reports on its work to the Board at the Board meeting first following the meeting of the Committee and submits for the information of the Board the minutes of the Committee's meeting.

The Audit Committee was chaired by Anne Leskelä, and its other members were Reijo Kiskola, Terhi Tuomi and Carl-Peter Thorwid.

The Audit Committee held five meetings during 2020. The average attendance rate of Committee members was 100 per cent. Committee meetings were also regularly attended by the Company's CEO, the CFO, the internal auditor and the external auditors. The chair of the Audit Committee prepares the agenda for the meeting based on a proposal made by the CFO and convenes the meetings, under normal circumstances with at least one week's notice.

### **Nomination Committee (until 10 June 2020)**

There were three members in the Nomination Committee. The members of the Committee needed not be Board members. The CEO of the Company or other persons in the management team of the Company could not be elected to the Nomination Committee.

The duties of the Nomination Committee were defined in its charter adopted by the Board. The Committee was tasked with preparing the proposals to be presented to the General Meeting of Shareholders concerning the number, appointment and remuneration of Board members.

The members of the Nomination Committee were Jari Mäkilä (Chair), Per Lindahl and Reijo Kiskola.

The Nomination Committee held one meeting during 2020. The average attendance rate of Committee members was 100 per cent.

Introduction:

#### **Per Lindahl** (b. 1964)

Chair of the Board of Lantmännen Farmer, Kristianstad, Sweden

### **Compensation Committee**

The Board elects at least three members of the Compensation Committee from among its members or deputy members. The majority of the members of the Compensation Committee must be independent of the Company. The CEO of the Company or other persons in the management team of the Company may not be elected to the Compensation Committee.

The duties of the Compensation Committee are defined in its charter adopted by the Board of Directors. The Compensation Committee is tasked with preparing matters pertaining to the Company's compensation schemes, such as CEO compensation, other management compensation, the Company's incentive and benefit plans and review of other arrangements or agreements between the Company and the CEO or other persons in the management team of the Company. The Compensation Committee also prepares the Remuneration Policy and the Remuneration Report for governing bodies.

The Compensation Committee convenes at least twice a year and reports on its work to the Board following the meeting of the Committee and submits for the information of the Board the minutes of the Committee's meetings.

The Committee was chaired by Per Olof Nyman and its other members were Harri Suutari and Ilkka Uusitalo and Reijo Kiskola as of 10 June 2020.

The Compensation Committee held six meetings during 2020. The average attendance rate of Committee members was 100 per cent. The Compensation Committee has used external consultants in its work.

**Working Committee**

Within the Working Committee, the Board considers matters without the presence of the operative management of the Company.

The duties of the Working Committee are defined in its charter adopted by the Board of Directors. The Working Committee is tasked with promoting the efficient accomplishment of the duties of the Company's Board of Directors. The aim of the Committee is to advance compliance with the Finnish Corporate Governance Code in HKScan.

All members and deputy members of the Board are members of the Working Committee. The Chair of the Board, Reijo Kiskola, acts as the Committee's Chair. The Working Committee held seven meetings during 2020. The average attendance rate of Committee members was 100 per cent.

**Special Committee**

The Board elects in its annual convening meeting at least three members from among its members or deputy members to the Committee. The CEO of the Company attends the meetings and prepares the agenda and minutes.

The purpose of the Committee is to efficiently support the Board of the Company in potential M&A or divestment activities of HKScan. In addition, the Committee assists the Board and the management of the Company in other duties related to the Committee's work as specified by the Board.

The Committee is chaired by Reijo Kiskola and the other members are Jari Mäkilä and Harri Suutari.

The Special Committee held seven meetings during 2020 and the average attendance rate was 100 per cent.

**Shareholders' Nomination Board**

The Annual General Meeting on 10 June 2020 decided to establish a Shareholders' Nomination Board. The Shareholders' Nomination Board is responsible for preparing annually proposals to the Annual General Meeting for the election and remuneration of the members and deputy members of the Board of Directors. The main purpose of the Nomination Board is to ensure that the Board of Directors and its members and deputy members maintain and represent a sufficient level of expertise, knowledge and competence for the needs of the Company.

The Nomination Board consists of at most four members, of which three represent the Company's largest shareholders who, on the last business day of June preceding the next Annual General Meeting, hold the largest number of votes calculated of all shares in the Company. In addition, the Chairman or the Deputy Chairman of the Board is a member of the Nomination Board.

The largest shareholders of the Company on the last business day of June are determined based on the shareholders' register of the Company held by Euroclear Finland Ltd. Pursuant to this shareholding, the Chairman of the Board of Directors shall request the three largest

shareholders of the Company each to nominate one member to the Nomination Board. Holders of nominee registered shares shall be taken into account in the appointment process to the extent possible. If a shareholder who has distributed his/her holdings, for example, into several funds and has an obligation under the Finnish Securities Markets Act to take these holdings into account when disclosing changes in share of ownership, makes a written request to such shareholder's holdings in several funds or registers will be combined when calculating the share of votes, which determines the nomination right. Should a shareholder not wish to use its nomination right, the right may be transferred by the Chairman of the Board of Directors to the next largest shareholder, who would otherwise not have a nomination right.

The Chairman of the Board of Directors convenes the first meeting of the Nomination Board and acts as a Chairman of the Nomination Board until the Nomination Board has convened and elected a Chairman amongst its members. The representative of the largest shareholder shall be nominated as the Chairman of the Nomination Board, unless otherwise decided by the Nomination Board. The Chairman of the Nomination Board convenes the meetings thereafter. The term of office of the members of the Nomination Board expires annually when the new Nomination Board has been appointed.



## Chief Executive Officer (CEO)

The CEO and the possible deputy CEO are appointed by the Company's Board of Directors. The CEO is tasked with managing HKScan Group's business activities and administration in accordance with the Articles of Association, the Finnish Limited Liability Companies Act and instructions provided by the Board of Directors. The CEO is accountable to the Board of Directors for the implementation of the objectives, plans, procedures and goals laid down by the Board.

The Company's CEO does not serve on the Board but attends its meetings and provides monthly reports to the Board on HKScan Group's financial performance, financial position, solvency and market position. The CEO also presents the materials of the financial statements and interim reports to the Board. The CEO furthermore reports to the Board on the implementation of the Board's resolutions and on the measures and outcomes to which these have given rise.

Tero Hemmilä, M.Sc. (agr. econ.), has acted as CEO of HKScan Corporation as of 4 February 2019.

## Meeting attendance of the board and its committees

	Board	Audit Committee	Nomination Committee	Compensation Committee	Working Committee	Special Committee
Reijo Kiskola <sup>1)</sup>	19/19	5/5	1/1	4/4	7/7	7/7
Jari Mäkilä	19/19		1/1		7/7	7/7
Anne Leskelä	19/19	5/5			7/7	
Terhi Tuomi	19/19	5/5			7/7	
Harri Suutari	19/19			6/6	7/7	7/7
Per Olof Nyman	18/19			6/6	7/7	
Carl-Peter Thorwid	19/19	5/5			7/7	
Ilkka Uusitalo	19/19			6/6	7/7	
Per Lindahl			1/1			

<sup>1)</sup> Member of the Compensation Committee as of 10.6. Between 10.6.-31.12.2020 the Compensation Committee had 4 meetings.

**Group Executive Team**

The Group Executive Team ("GET") of HKScan assists the CEO in the management of the Group, in the preparation of matters such as business plans, strategy, policies and other matters of importance, as well as in the implementation of the strategic and operative targets. The members of the GET are appointed by the Board.

**The Group Executive Team on 31 December 2020:**

**Tero Hemmilä** (b. 1967)  
CEO  
M.Sc. (Agr. & Econ.)  
Shareholding at HKScan on 31 Dec 2020:  
35,000



**Lars Appelqvist** (b. 1974)  
from 16 November 2020 onwards  
EVP, Business Unit Sweden  
B.Sc. (Econ.)  
Shareholding at HKScan on 31 Dec 2020:  
-



**Mika Koskinen** (b. 1972)  
EVP, Strategic Business Development  
and Investments  
M.Sc. (Chem. Eng.)  
Shareholding at HKScan on 31 Dec 2020:  
19,000



**Jouni T. Laine** (b. 1964)  
from 1 January 2021 onwards  
EVP, Food Solutions Unit  
eMBA  
Shareholding at HKScan on 1 Jan 2021:  
-



**Jari Leija** (b. 1965)  
EVP, Business Unit Finland  
Shareholding at HKScan on 31 Dec 2020:  
-



**Anne Mere** (b. 1971)  
EVP, Business Unit Baltics  
MBA  
Shareholding at HKScan on 31 Dec 2020:  
18,018

**The Group Executive Team on 31 December 2020:**

**Jukka Nikkinen** (b. 1962)  
EVP, Business Unit Denmark  
M.Sc. (Econ.)  
Shareholding at HKScan on 31 Dec 2020:  
15,657



**Jyrki Paappa** (b. 1965)  
CFO  
M.Sc. (Econ.)  
Shareholding at HKScan on 31 Dec 2020:  
20,000 (Airisto Capital Oy)



**Juha Ruohola** (b. 1965)  
EVP, Export & Import and Meat balance  
M.Sc. (Agr.), eMBA  
Shareholding at HKScan on 31 Dec 2020:  
-



**Markku Suvanto** (b. 1966)  
EVP, Administration  
LL.M, trained on the bench  
Shareholding at HKScan on 31 Dec 2020:  
1,855

Denis Mattsson worked as HKScan's interim EVP for the Business Unit Sweden and a member of the Group Executive Team until 16 November 2020, when Lars Appelqvist started as EVP, Business Unit Sweden and a member of the Group Executive Team.

On 4 September 2020 Jouni T. Laine was appointed EVP, Food Solutions, and member of the Group Executive Team. He started in his new position on 1 January 2021.

## Main features of the internal control and risk management systems pertaining to the financial reporting process

### Internal control framework

HKScan Group's ("the Group") internal control framework is within the remit of the Board of Directors. The Group's management is responsible for maintaining and further developing effective internal control. Internal control aims to ensure compliance with laws and regulations as well as the Group's values, policies and guidelines. The internal control system has the further objective of supporting activities in line with HKScan Group's strategy. The reliability of financial reporting and measures in the service of this goal are an integral component in the Group's internal control framework.

### Control environment

HKScan Group's values, guidelines and policies form the basis for the internal control environment.

The Board of Directors and the Audit Committee in particular monitor the Group's financial position and the quality of the financial reporting. The Board carries out this duty by, among other things, adopting HKScan Group's risk management policy and determining the objectives and principles of internal control. The CEO and CFO are responsible for maintaining and further developing an effective control environment relating to financial reporting.

At HKScan Group, the internal audit is a management tool for carrying out supervision. The Head of Internal Audit reports to the CFO and the Board of Directors.

In addition to this, the EVP Administration especially ensures that all operations are lawful. He reports directly to the CEO.

The aims of internal auditing are integrally linked with the Group's management system, which is based on a principle of continuous improvement. The implementation of corrective and preventative measures is a key part of the entire process.

### Risk management

The aim of risk management within HKScan Group is to safeguard the conditions to achieve business objectives and enable uninterrupted business operations. The risks faced by the Group are by nature strategic (e.g. acquisitions), operative (e.g. animal diseases), financial (e.g. currency exchange rates, interest rates, tax related risks) and risks of damage (e.g. accidents and interruptions in production).

The Board of Directors and the CEO have responsibility for the strategy and principles of risk management within the Group, and for managing issues that might risk the achievement of strategic intents. Operative risks are the responsibility of the managers of the respective business and Group entities. The CFO is responsible for the management of financial risks and the Group's insurance policies.

HKScan Group uses a systematic Enterprise Risk Management (ERM) process, which contains consistent principles and systematic practices for risk management. The aim of the ERM process is to promote the Group's

risk awareness, effective risk management and to ensure that the Group's management and the Board of Directors are in possession of sufficient information on risks to support their decision-making. The ERM process is an integral component of the management system and strategy process. The risk management policy is applied in all companies in HKScan Group which carry out business operations.

Risk management is a key element in the financial reporting process. At the Group level, HKScan strives to identify and assess, at least once a year, all significant risks inherent in material balance sheet and income statement items and to determine the main control mechanisms for risk prevention.

## Control measures

Control measures are designed to ensure that

- the Group's business is managed efficiently and profitably,
- the Group's financial reporting is accurate, transparent and reliable and
- the Group complies with laws and regulations and all internal principles.

Control measures can take the form of manual or automated system controls. Examples of controls to ensure the reliability of financial reporting include reconciliations, approvals, reviews, analyses and the elimination of high-risk combinations of duties. HKScan Group also uses an anonymized channel through which personnel and partners can report potential unethical behavior.

HKScan Group's financial administration has determined, via risk assessment, key controls to the financial reporting process. The implementation and effectiveness of the controls is the responsibility of financial administration in the business segments. The Group has in place a self-evaluation process, which seeks to ensure the functioning and effectiveness of controls relating to financial reporting. In addition to ensuring control effectiveness, the self-evaluation also seeks to locate possible gaps and areas for further development in the controls.

## Monitoring

HKScan Group's earnings performance is monitored in meetings of the Board and the Group Executive Team with the help of monthly reporting. The Audit Committee evaluates, and the Board approves all interim reports and financial statements prior to their release to the market. HKScan Group's Internal Auditor provides the Audit Committee with an internal audit plan annually and regularly reports internal audit observations. In addition, the external auditors provide the Audit Committee with an annual report on their audit plans and interim and full-year report on their audit observations and the functioning of internal control. The Audit Committee in turn conducts an annual evaluation of the performance and independence of the auditors.

In 2020, the development of the internal control framework continued among other things by introducing new HKScan Group guidelines, especially relating to information security and data privacy

## Related party transactions

HKScan Group has identified its related parties and maintains a list of them in accordance with Recommendation 27 of the Code. The Group has defined its related parties according to the definitions of the IAS 24.9 standard. The Group is engaged in transactions with its related parties and evaluates and monitors such transactions in accordance with Recommendation 27 and the Group's internal guidelines for related party transactions.

As a general principle, all transactions with the related parties shall relate to the Group's normal business operations (e.g. sale and purchase of animals) and be in line with the purpose of the Group and executed on market or market equivalent terms and practices. To ensure that possible conflicts of interest are appropriately taken into account in the decision-making process, the Company's Board of Directors ultimately decides upon execution of any related party transactions that are considered to be material to the Group, deviate from the Group's normal business operations or are not made on market or market equivalent terms.

The principle defined in the Group's internal guidelines is that the Internal Auditor regularly monitors transactions concluded between the Group and its related parties and reports to the Board's Audit Committee.

## Insider administration

The Board of Directors of HKScan Corporation has approved the insider guidelines including rules and regulations on the Company's insiders, trading restrictions, insider lists, notification obligation related to the top managers' and their closely associated persons' transactions and supervision of insider matters. The purpose of the guidelines is to summarize the most important rules and restrictions regarding inside information and the use and management thereof, of which all employees of the Company should be aware. Regardless of the insider guidelines, each person is always personally responsible for complying with the laws, regulations and guidelines concerning inside information. Each person must in each case personally assess whether the information he or she possesses constitutes inside information. This obligation applies always regardless of whether the person is entered into an insider list and from whom or in which way he or she has obtained the information, and whether he or she has received general or specific instructions in the matter.

The top managers of the Company include the members of the Board of Directors, the CEO and other members of HKScan Group's Executive Team. The Company's top managers have an obligation to notify transactions relating to the financial instruments of the Company to the Company promptly on the day of the transaction. The top managers also have an obligation to notify the Finnish Financial Supervisory Authority of the transactions, but the Company will deliver the notifications received from the top managers to the Finnish Financial

Supervisory Authority on the top managers' behalf based on an authorization given by each of the top managers. The notification obligation also applies to persons closely associated with the top managers. The Company will deliver notifications regarding the notification obligation to closely associated persons and preserve the said notifications on the top manager's behalf. The top manager in turn has an obligation to inform the Company of changes in his or her closely associated persons or alternatively to deliver the said notifications to the new closely associated persons him/herself as the top manager is ultimately responsible for delivering such notifications.

Trading in the Company's financial instruments is always prohibited, when the person is in possession of inside information related to the Company or its financial instruments. The Company's top managers are always prohibited from trading in the Company's financial instruments during 30 days before the publication of an interim report and a financial statements bulletin, including the day of publication (the so-called closed window), regardless of whether the person possessed inside information that time. During other times, i.e. as of the day following the publication of interim reports and financial statement bulletin, there is the so-called open window during which top managers are allowed to trade provided that they do not possess inside information at such time and that they have gone through the internal checking process. The closed window also applies to persons who participate in the preparation and drafting of interim reports and financial statements bulletins. A person entered into a project-specific insider list must not trade in the financial instruments issued

by the Company or disclose inside information to a person outside the project during the project.

The Company ensures compliance with insider holding guidelines by regularly reminding insiders of permitted trading windows. HKScan's Group administration maintains and manages the insider lists. Insider administration uses the system maintained by Euroclear Finland Ltd.

## Auditors

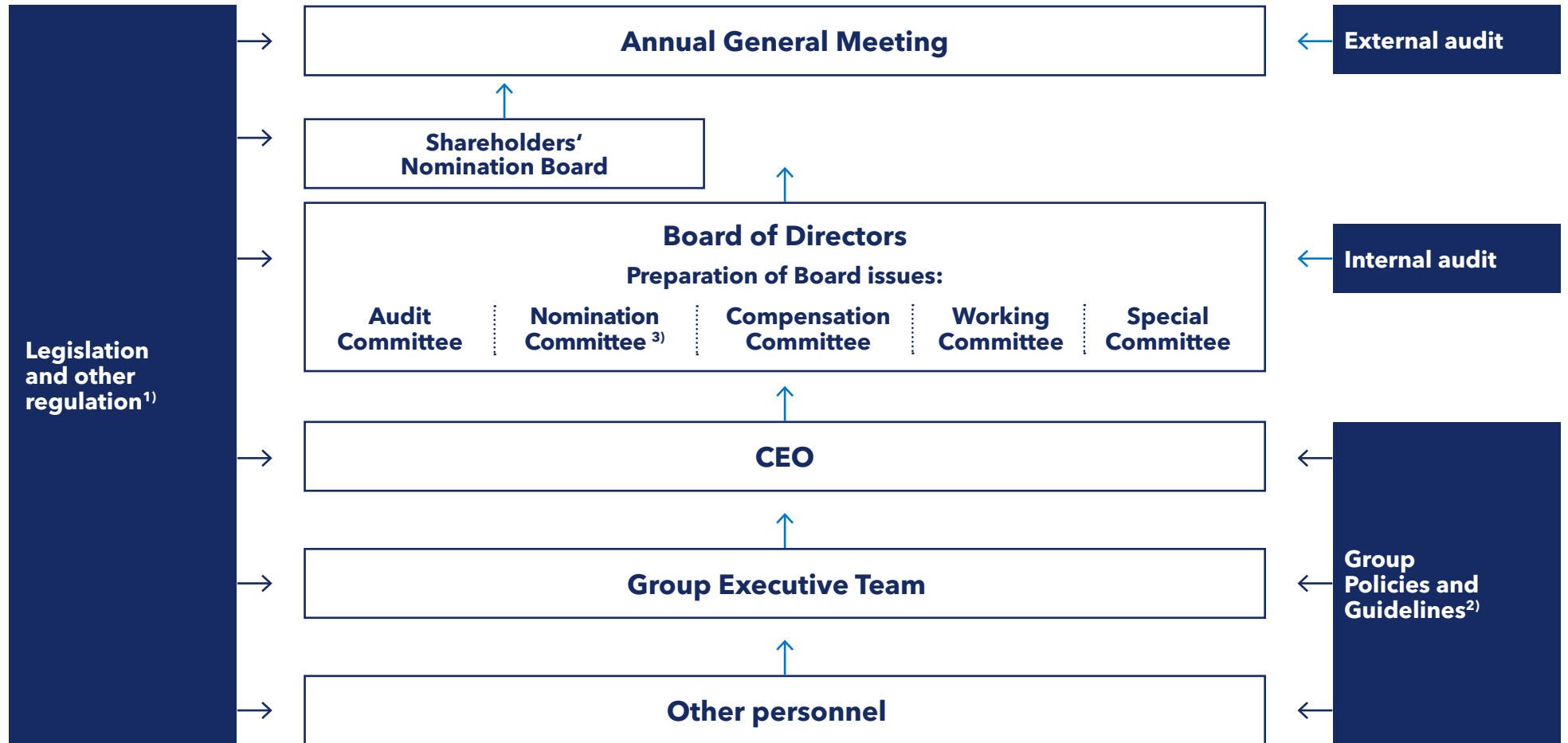
The external auditors are nominated annually by the Annual General Meeting. The AGM 2020 elected Ernst & Young Oy, the firm of authorized public accountants, with APA Erkka Talvinko as responsible auditor of HKScan until the closing of the next AGM.

The Group's audit fees paid to independent auditors are presented in the table below. The fees are in respect of the audit of the annual accounts and legislative functions closely associated therewith. Other expert services include tax consulting and advisory services in general labor & employment law issues.

EUR thousand	2020	2019
Audit fees	-500	-542
Tax consultation	-10	-2
Other fees	-53	-102
<b>Audit fees, total</b>	<b>-563</b>	<b>-646</b>

Ernst & Young Oy was paid in total 52,280.27 euros during the financial year 2020 for non-audit services to entities of HKScan.

# HKScan Group governance and control system



→ Compliance    → Reporting

<sup>1)</sup> Limited Liability Companies Act, Securities Markets Act, Auditing Act, Accounting Act, EU-level regulations, Financial Supervisory Authority’s regulations, Rules of the Stock Exchange, Corporate Governance Code, industry-related legislation, Market abuse regulation/MAR

<sup>2)</sup> Articles of Association, other internal policies, guidelines and operating procedures

<sup>3)</sup> Nomination Committee was operative until 10 June 2020.

# Remuneration Report 2020





## Greetings from the Chairman of the Compensation Committee

The Remuneration Report 2020 for HKScan includes our remuneration principles for the Members of the Board of Directors and the CEO and provides a description of how the remuneration policy has been put into practice. The report also discloses payments made to the Members of the Board of Directors and CEO during the year 2020.

As a company we are committed to fair and responsible remuneration. We regularly evaluate the purposefulness and alignment of our remuneration policies and practices with HKScan's strategic objectives. We observe the following principles in our remuneration: the remuneration programs are linked to the company's strategy and financial performance, support value-based behaviours, encourage individual and team accountability, and reward competitively and fairly.

The Compensation Committee of HKScan has reviewed the remuneration policy and ensured that the remuneration practices were aligned with the company's policy principles.

We are convinced that our current remuneration policy is fair and competitive. The remuneration framework will remain in place. This ensures that the remuneration includes all the key elements for engaging and promoting the performance of existing employees and for attracting new talent to the company and retaining them, which is essential for the implementation of the strategy.

The wellbeing and engagement of our employees are our core assets to execute the company strategy. In 2021, we focus on planning and implementing actions to further drive employee engagement, health and wellbeing with internal projects covering the entire HKScan Group. We believe that highly engaged and wellbeing employees will also build the best customer and consumer experience in the industry.

As a company we are committed to developing and maintaining a trusted relationship with our shareholders. Our goal is to make HKScan an increasingly interesting and versatile food company that rewards its owners and employees.



**Per Olof Nyman**

Chairman of the Compensation Committee

# Remuneration Report 2020

## 1. Introduction

This Remuneration Report 2020 presents the remuneration of the members of the Board of Directors (Board) and the CEO of HKScan Corporation (HKScan) for the financial year 2020.

This Report will be addressed and submitted for adoption at the Annual General Meeting (AGM). It has been prepared in accordance with the requirements set forth in the Finnish Limited Liability Companies Act, Decree of the Ministry of Finance on the remuneration policy and remuneration report of a share issuer, the Finnish Corporate Governance Code and Securities Markets Act.

## Application of the Remuneration Policy in 2020

The remuneration for the Board of Directors and the CEO during the financial year 2020 was executed in accordance with the adopted Remuneration Policy published in a Stock Exchange Release on 13 March 2020 and at the AGM's advisory resolution on approval on 10 June 2020. The policy remains fit for purpose and achieves the guiding principles and objectives of attraction, retention and performance motivation of our employees.

No temporary deviations from the Remuneration Policy have been made and no remuneration of the CEO nor the Board has been reclaimed or restated (clawback and malus provisions) during the financial year 2020.

The amount of the annual remuneration payable to the members of the Board of Directors was increased as follows: to a Board member EUR 30,000 (previously 27,625), to the Vice Chairman of the Board EUR 37,500 (previously 33,875) and to the Chairman of the Board EUR 70,000 (previously 67,750). An annual remuneration of EUR 15,000 (previously 13,810) was paid to a deputy member of the Board of Directors. The annual remuneration was paid entirely in cash.

The annual remuneration of Chairmen of the Board committees was as follows: to the Chairman of the Audit Committee EUR 7,500 (previously 5,000) and to the Chairmen of the Compensation, Working and Special Committees EUR 5,000. A compensation of EUR 600 (previously 550) per meeting was paid to all the Board members for each attended Board and Board committee meeting, and a compensation of EUR 300 for a meeting or occasion, which requires participation as a member of the Board of Directors. Travel expenses of the members of the Board of Directors were compensated according to the Company's travel policy.

## Alignment with company performance and long-term sustainability goals

HKScan Turnaround programme for 2019-2021 is systematic and goal-oriented, targeting to strengthen the company's financial performance. For each year, the company has defined clear, market-specific goals and measures as well as their systematic implementation and follow-up. The Turnaround programme provides a solid foundation and is a prerequisite for growth into a versatile food company. The company has strengthened its balance sheet with a successful share issue, reduced financial risk and taken extra efforts to increase its profitability to a healthy level. Incentive plans have focused mainly on profitability and return-related financial measures.

## Annual incentive plans

The structure of the annual incentive plan for key roles in the year ending 31 December 2020 remained broadly the same, with 70% based on financial measures and 30% on individual business objectives. The EBITDA measure (in absolute numbers) was used as a financial measure in recognition of the criticality of profitability performance in the current challenging market conditions. The short-term incentive plan for 2020 provided a bonus opportunity payable entirely in cash. The Compensation Committee makes a proposal to the Board whether to adjust annual incentive payouts to ensure they appropriately reflect underlying business performance and the experience of shareholders. Any discretionary adjustments will be detailed in the following year's annual report on remuneration.

## Long-term incentives

The Remuneration Committee remains confident that the mix of performance shares and restricted shares is an appropriate long-term incentive for the business leaders. Long-term incentives provide executives an additional stretch to be achieved and value to be delivered. This further strengthens the alignment between the interests of executives and shareholders. Awards are calculated on the basis of a cumulative Group Cash Flow from operating activities and Return on Capital Employed.

Share plans remain a majority practice within HKScan's peer group, against which the company needs to remain competitive in order to attract and retain talented people. The Committee will keep under review the targets for outstanding long-term incentive awards defined in 2019 to ensure they remain appropriate.

All LTI plans include the requirement of continuance of service upon award payment in order to be qualified to receive the potential award. Also, the CEO should retain at least 50% of all shares received as award until the value of their ownership corresponds to his annual base salaries, during the validity of service.

## Remuneration of current Board members over the last five financial years

Board member, Position	Annual remuneration, euros				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Kiskola Reijo, Chairman			38,400*	107,900*	108,900
Mäkilä Jari, Vice Chairman	7,000	7,400	25,100	60,300*	57,700
Leskelä Anne, Member				36,600*	54,700
Nyman Per Olof, Member		26,600*	42,900*	49,100*	52,000
Suutari Harri, Member				47,700*	51,700
Tuomi Terhi, Member				44,000*	47,000
Thorwid Carl-Peter, Deputy Member		19,600	27,500	30,900	32,400
Uusitalo Ilkka, Deputy Member				31,400	33,000

## Remuneration of former Board members over the last five financial years

Former Board member	Annual remuneration, euros				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Nikula Mikko	119,100*	108,000*	85,400*		
Väliäho Pirjo	46,300*	49,500*	14,700		
Onnela Marko	28,600	41,400*	51,500*		
Palomäki Riitta		37,100*	47,300*		
Salusjärvi Tuomas		30,000*	39,200*		
Kemppi Veikko		17,400	8,300		
Gunnarsson Bengt-Olov		700	700		
Borup Niels	55,600*	17,400			
Treschow Henrik	45,400*	14,500			
Andersen Teija	45,000*	12,500			
Nilsson Per	23,400	6,600			
Åsheim Lena	600	1,700			
Hemmilä Tero	14,600				
Gustafsson Lars	1,400				
Lindahl Per			600	600	1,100 <sup>1</sup>

\*The annual fees were partly paid in Company shares and partly in cash so that 20 per cent of the remuneration is in Company shares acquired on the market on the Board members' behalf, and the rest was paid in cash.

<sup>1</sup> Member of Nomination Committee 12 April 2018-10 June 2020

## Remuneration of the CEO over the last five financial years

	Annual remuneration, euros								
	FY 2016 <sup>2</sup>		FY 2017		FY 2018 <sup>3</sup>		FY 2019 <sup>4</sup>		FY 2020
<b>CEO</b>	1,251,100	302,800	382,600	807,400	1,191,400	56,800	52,500	907,400	1,101,300
	Kottonen	Laiho	Latvanen	Latvanen	Latvanen	Kiskola	Kiskola	Hemmilä	

## Company performance over the last five financial years

Company Measure	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Average employee salary, euros <sup>5</sup>	45,800	46,500	46,000	47,000	46,500
Net Sales, euros	1,873,000,000	1,808,000,000	1,715,000,000	1,744,000,000	1,781,000,000
Comparable EBIT, euros	13,200,000	-17,600,000	-47,500,000	-2,200,000	17,000,000

<sup>2</sup> Kottonen Hannu 1 January–20 January 2016; Laiho Aki 21 January–30 October 2016; Latvanen Jari 31 October–31 December 2016

<sup>3</sup> Latvanen Jari 1 January–27 November 2018; Kiskola Reijo 28 November–31 December 2018

<sup>4</sup> Kiskola Reijo 1 January–3 February 2019; Hemmilä Tero 4 February–31 December 2019

<sup>5</sup> Personnel cost (incl. social costs) divided by headcount; excluding rented personnel



## 2. Remuneration of the Board of Directors

### Board remuneration as resolved by the AGM 2020

Position	Annual base fee in 2020, euros
Chairman of the Board	70,000
Deputy Chair of the Board	37,500
Board Member	30,000

Committee	Annual fee of Chair, euros	Meeting fee, euros
Audit Committee	7,500	600
Compensation Committee	5,000	600
Nomination Committee	5,000	600
Working Committee	5,000	600
Special Committee	5,000	600

### Board remuneration in 2020

Board member	Annual committee fee, euros	Total remuneration, euros
Kiskola Reijo, Chairman	9,950	108,900
Mäkilä Jari, Vice Chairman	4,650	57,700
Leskelä Anne	8,200	54,700
Nyman Per Olof	7,600	52,000
Suutari Harri	7,600	51,700
Tuomi Terhi	7,000	47,000
Thorwid Carl-Peter, Deputy	7,000	32,400
Uusitalo Ilkka, Deputy	7,600	33,000

Travel expenses of the members of the Board of Directors were compensated according to the Company's travel policy.

## 3. Remuneration of the CEO

The remuneration of the CEO consists of fixed components, such as base salary and fringe benefits, variable components, such as short- and long-term incentives and a defined contribution pension.

### The CEO's total remuneration, euros and shares:

	2020, euros	Due remuneration: to be paid in 2021
Base salary	704,500 <sup>6</sup>	
Short-term incentives	262,500 <sup>7</sup>	100,500 <sup>8</sup> euros
Long-term incentives	-	0-170,000 shares <sup>9</sup>
Pension contribution	134,400	
<b>Total</b>	<b>1,101,000</b>	

<sup>6</sup> Fixed total compensation includes the following benefits and their tax values in euros: phone 240 euros, housing 10,928 euros, and car 15,840 euros.

<sup>7</sup> Short-term incentive paid in spring 2020 based on 2019 performance.

<sup>8</sup> Estimated short-term incentive to be paid in spring 2021 based on 2020 performance.

<sup>9</sup> Board will confirm the outcome during Q1/2021.

In FY 2020, the relative share of the incentives was 37% of the base salary.

The retirement age of the CEO is 63.

In addition to the Finnish statutory pension plan, the CEO is covered by a supplementary defined contribution pension plan, which provides a retirement benefit based on the accrued savings capital. The supplementary pension plan is financed in full by the employer and the contribution is 20% of annual salary. If the CEO's contract ends before retirement age, he is entitled to retain the accrued savings.

### Short- and long-term incentives

#### Short-term incentives paid in 2020

The short-term incentive maximum was 60% of the CEO's base salary in FY2019 and the incentive was paid to the CEO in spring 2020. The performance measures applied were Group EBIT, Group Cash Flow, and Individual targets. The incentive paid in spring 2020 was approximately at the targeted level.

#### Short-term incentives payable in 2021

The payout is in April 2021. The performance measures applied were Group EBITDA excl. NRI, and Individual targets. The individual targets focused on employee engagement, strategy implementation, corporate responsibility and strategic renewal-based measures. The due remuneration for 2020 is between the threshold and targeted level.

**Long-term Incentive Plan 2018-2020**

HKScan long-term incentive plan is based on the turnaround situation in HKScan.

HKScan's long-term incentive plan 2018-2020 was a performance share plan (PSP) with one one-year performance period (2018) and one two-year performance period (2019-2020). The earning criteria for performance period 2018 were EBIT and EPS. These criteria were not met and thus, there was no pay-out from this period. For the performance period 2019-2020 the performance measure was cumulative Cash Flow from operating activities. The achievement level of this two-year period is confirmed by the Board during Q1/2021. The main structure was complemented with a Restricted Share Plan (RSP) 2018-2020 with one three-year vesting period, and the plan included a financial criterion that is measured based on the average achievement of a three-year period ROCE. The cumulative ROCE was not positive and thus, there was no payout from RSP 2018-2020.

**Long-term Incentive Plan 2019-2021**

For the period 2019-2021, there is both a Performance Share Plan and a Restricted Share Plan. The Performance Share Plan 2019-2021 has one two-year performance period (2019-2020) and one one-year performance period (2021). The main structure is complemented with a Restricted Share Plan 2019-2021 with one three-year vesting period. After the whole performance period, an evaluation of the overall payout of the plans will take place.

		2018	2019	2020	2021
Plan 2018-2020	PSP				
	RSP				
					Pay-out

**Long term incentive plan shares reserved for the CEO, subject to Board approval:**

Role	Name of plan	Performance period	Performance criteria	Grant date*	Vesting date**	Reserved, shares	Vested
CEO	2018 PSP & RSP	2018-2020	EBIT and EPS excl. NRI, Group Cumulative Cash Flow from operating activities, Average ROCE	26 June 2019	31 March 2021	170,000	0
CEO	2019 PSP & RSP	2019-2021	Group Cumulative Cash Flow from operating activities, Average ROCE	26 June 2019	31 March 2022 (50%), 31 March 2023 (50%)	604,800	0

\* Board of Directors decided on the grants

\*\* Estimated vesting date at the latest



**HKSCAN**

**Report of the Board of Directors  
and Financial Statement 2020**

# HKScan Report of the Board of Directors and Financial Statement

<b>Report of the Board of Directors</b>	<b>81</b>
<b>Financial Statement</b>	<b>100</b>
<b>Auditor's report</b>	<b>176</b>





# Report of the Board of Directors for the financial year 2020

## Group net sales and EBIT

### Net sales

HKScan's net sales increased by 2.1 per cent for a total of EUR 1,781.0 (1,744.4) million. Growth was seen in all home market areas and all key product categories.

The development of net sales was affected by the growth in retail sales and reduction in food service sales. The increase in retail sales was realised through commercial improvements. The restrictions that countries' authorities put in place in response to the pandemic weakened sales through the food service channel for the entire duration of the pandemic. The shift in demand to the retail sales channel partly compensated for the reduction in sales seen in the food service channel. Animal diseases detected in Europe during the year weakened net sales, forced a reorientation of sales and caused a significant regional oversupply.

In comparable figures, HKScan's net sales grew in all home market areas. The impact of the exchange rate change of the Swedish krona, i.e. the conversion of net sales made in local currency into euros, on net sales was EUR 6.8 million positive.

The pandemic affected HKScan's exports. The volume of exports was down from the comparison year. However, export volumes to China increased and were in line with the target. Exports were at the planned level, and the company does not need to significantly increase its export volume, as sales in the home markets have so far developed well.

### EBIT

The Group's EBIT improved by EUR 44.5 million, totalling EUR 21.3 (-23.2) million. Comparable EBIT improved by EUR 19.2 million to EUR 17.0 (-2.2) million. The effect of the exchange rate change of the Swedish krona on EBIT was EUR 0.3 million positive.

Recognised non-recurring items affecting the EBIT totalled EUR +4.4 million. The comparison year EBIT included non-recurring items amounting to EUR -21.0 million. In the last quarter, the most significant recorded items included the reversals of impairment loss of EUR +3.1 million in Finland and EUR +4.1 million in Denmark as a result of improved profit development and specified plans. In addition, EUR -3.5 million was recorded related to the repayment of energy tax refunds in Denmark. Items affecting comparability are described in more detail in the Tables section of this report.

All business units delivered a profitable comparable EBIT. The EBIT strengthened through commercial improvements in all the home market areas and good control of sales, marketing and administrative costs. Retail sales saw a clear increase as a result of the pandemic, but food service sales were significantly lower than during the comparison year. The streamlining measures carried out in 2019 resulted in lower administrative costs.

The pandemic had a clearly negative impact on the Group's EBIT. The impact was strongest in the Business Unit Finland, where the importance of the food service channel is the greatest. 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 increased costs and additional production costs. Risk mitigation measures brought on by the pandemic also affected the capacity of the business units to realise efficiency measures and investments to the full extent in planned schedule.

## Balance sheet, cash flow and financing

At the end of the year, the company's balance sheet total was EUR 975.9 (935.6) million. The Group's interest-bearing debt at the end of the year was EUR 346.4 (313.3) million including IFRS 16 lease liability EUR 35.6 (46.3) million. Interest-bearing net debt was EUR 299.6 (275.8) million and it increased by EUR 23.8 million from the comparison year. The net gearing was affected by the investment of EUR 37.7 million in the Vantaa plot. The net gearing ratio was 91.0 (84.8) per cent. The impact of IFRS 16 lease liability on net gearing ratio was approximately 11 percentage points. Cash flow from operating activities was EUR 63.7 (59.2) million in January-December. Cash flow after investments was EUR -21.4 (27.6) million including the Vantaa plot investment.

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. In September, an interest of EUR 2.1 million was paid for the hybrid loan, treated as equity, from the retained earnings.

The Group's liquidity remained good. Committed credit facilities on 31 December 2020 stood at EUR 100.0 (100.0) million and had been drawn to the amount of EUR 10.0 (0.0) million. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 72.0 (35.0) million.

Net financial expenses were EUR -11.0 (-11.7) million including fair value change for interest rate derivatives to the amount of EUR 2.2 (2.4) million.

## Pending processes with the authorities

The Danish tax authorities have conducted an audit of energy taxes covering the period 2011-2020 in HKScan Denmark A/S, which is a subsidiary of the Group. The Danish tax authorities have on 23 December 2020 issued their decision, according to which the company should repay past refunds of energy taxes amounting to 24.7 million Danish crown (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 will appeal the decision issued to it.

In the last quarter of 2020, HKScan recorded an item of EUR -3.5 million affecting comparability, which includes the EUR -3.3 million repayment of energy tax refunds as well as related legal and consulting expenses.

## Investments

Investments were EUR 83.5 (31.7) million. The investments in 2020 included a EUR 37.7 million investment in land for the Vantaa production unit. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 7.2 (11.3) million.

In 2020, HKScan realised investments in all its home market areas. The emphasis was on investments aimed at improving production efficiency by raising the level of automation and optimising work distribution between the different production units.

In the autumn, a cooking line for poultry products was taken into use at the Skovsgaard production unit in Denmark; a move that advances the shift to ready-to-eat value-added products in line with the strategy. In Estonia, investments were made in the hall capacity of the chicken hatcheries as a means of supporting the increase in demand for poultry products.

In terms of investments related to product and packaging solutions, special focus was placed on the multifunctional use of new machines for different material solutions. The company's goal is to have 100% recyclable packaging by the end of 2025.

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

In April 2020, HKScan announced its 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 corresponds to the offer LSO Osuuskunta received for the plot of land from a third party. 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 at 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. The realisation of the investment in Rauma has proceeded according to plan and the investment will be taken into use in early part of 2021.

Investments that advance the implementation of the Group's strategy and improve productivity are the key goals in terms of investment planning for the coming years.

(EUR million)	2020	2019
<b>Investments</b>		
Finland		
Gross capital expenditure on PPE	54.8	9.7
Additions in right-of-use assets	3.0	8.6
Investments total	57.8	18.2
Sweden		
Gross capital expenditure on PPE	17.4	8.4
Additions in right-of-use assets	1.7	1.9
Investments total	19.1	10.4
Baltics		
Gross capital expenditure on PPE	4.9	11.6
Additions in right-of-use assets	0.9	0.3
Investments total	5.8	11.9
Denmark		
Gross capital expenditure on PPE	6.4	2.0
Additions in right-of-use assets	1.6	0.6
Investments total	8.0	2.6
<b>Total</b>	<b>90.7</b>	<b>43.0</b>

## Operating environment

### Changes in key sales channels and product categories

The changes that the Covid-19 pandemic caused during the period of March-December were clearly visible in HKScan's key sales channels and sales structure. Retail food sales continued to be strong, but sales through the food service channel were significantly weaker than normal in all the company's home markets. Online food sales and deliveries directly to consumers' homes grew and are at a clearly higher level than before the pandemic. Home cooking has become even more popular as a result of the pandemic.

The share of domestic meat in terms of total meat consumption increased in HKScan's home markets. The popularity of HKScan's own branded products within retail sales increased as well. The pandemic has increased consumers' awareness of the significance of domestic food and food security, as well as 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 in the international meat market saw a clear increase. Weak demand in the food service channel 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 declined the market price of pork in Europe.

The avian flu reported in Denmark and certain other European countries during the autumn limited the exports of poultry products to third countries outside of the EU. The result was an increase in the supply of poultry products within the EU area.

Within the export markets, the Chinese price level strengthened slightly, and the market is typically stronger at the end of the year. China's own pork production is growing, but the demand for imported pork has remained at a good level.

The pandemic has led to the shutdown of several meat industry production facilities throughout Europe and in other markets, thereby causing market disruptions.

### HKScan's activities during the exceptional situation caused by the pandemic

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

As part of its arrangements for the exceptional situation, HKScan has minimised the physical interaction between employees working in different departments in all its production units and continued to recommend that white-collar employees should work remotely. Furthermore, the production units comply with strict hygiene practices and use proper protective equipment. The pandemic has generated additional costs for the company.

The significance of domestic food production and the long food chain has been further emphasised by 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 HKScan's value chain, such as animal and material procurement, production and logistics, customer cooperation, sales and support functions.

The company anticipates the impacts of the pandemic on consumer behaviour as well as possible and takes into account the effects of different scenarios on the company's operations in both the short and longer term. The company has also diversified its export structure as a means of mitigating market risks.

## Review by market area

(EUR million)	2020	2019
<b>Net sales</b>		
Finland	772.4	770.6
Sweden	662.1	652.1
Baltics	175.0	168.5
Denmark	171.5	153.3
Group total	1 781.0	1 744.4
<b>EBIT</b>		
Finland	10.7	-10.3
Sweden	19.1	7.1
Baltics	3.7	5.0
Denmark	1.0	-9.8
Segments total	34.4	-8.0
Group administration costs	-13.2	-15.2
<b>Group total</b>	<b>21.3</b>	<b>-23.2</b>

## Items affecting comparability

(EUR million)	2020	2019
Comparable EBIT	<b>17.0</b>	<b>-2.2</b>
Termination of employment, Sweden <sup>1)</sup>	-	-2.0
Impairment of assets, Finland <sup>2)</sup>	3.1	-7.3
Termination of employment, Group Management <sup>1)</sup>	-	-1.6
Termination of employment, Finland <sup>1)</sup>	-	-1.3
Termination of employment, Baltics <sup>1)</sup>	-	-0.1
Impairment of assets, Baltics <sup>3)</sup>	-0.3	-
Impairment of assets, Denmark <sup>2)</sup>	4.1	-4.5
Impairment of assets, Group Management <sup>2)</sup>	-	-1.3
Impairment of associated company balances, Sweden <sup>3)</sup>	0.1	-2.9
Legal dispute and settlement, Denmark <sup>3)</sup>	-0.7	-
Energy tax provision, Denmark <sup>3)</sup>	-3.5	-
Environmental provision, Finland <sup>4)</sup>	0.9	-
Gain on sale of property, Finland <sup>4)</sup>	0.6	-
<b>EBIT</b>	<b>21.3</b>	<b>-23.2</b>

<sup>1)</sup>Included in the Income Statement in the item "Employee benefit expenses"

<sup>2)</sup>Included in the Income Statement in the item "Depreciation and amortization"

<sup>3)</sup>Included in the Income Statement in the item "Other operating expenses"

<sup>4)</sup>Included in the Income Statement in the item "Other operating income"

## Business Unit Finland

Net sales totalled EUR 772.4 (770.6) million. The net sales increase was a result of the good development in retail sales. Food service sales before the pandemic developed in line with the targets, but from March, sales were clearly down from the comparison year. Recovery of the food service channel in the early autumn was short-lived due to the acceleration of the pandemic.

EBIT totalled EUR 10.7 (-10.3) million and comparable EBIT was EUR 6.0 (-1.7) million. The direct impact of the pandemic on the comparable EBIT was significant, as strong retail sales could not fully compensate for the weakened demand in the food service channel. Measures to prevent the pandemic risks and to ensure the business continuity increased costs. Performance of the Finnish poultry business improved from the comparison period, but clearly fell short of the target level.

The investment need for the Rauma slaughter line has been specified. As a result, the reversal of an impairment loss of EUR +3.1 million was made in the last quarter of the year under review.

## Business Unit Sweden

Net sales totalled EUR 662.1 (652.1) million. In the review year, retail sales increased while food service sales were clearly down from the comparison year due to the pandemic. The pandemic increased the demand for domestic meat, which increased competition for domestic meat raw material and resulted in higher consumer prices.

In terms of comparable figures, net sales increased by 2.5 per cent in local currency. The change in the exchange rate of the Swedish krona increased net sales by EUR 6.8 million. The comparison year net sales include some EUR 13 million in sales of Danish poultry meat sold in Sweden. Its sales responsibility transfer to the Business Unit Denmark was completed in 2019.

EBIT totalled EUR 19.1 (7.1) million and comparable EBIT was EUR 19.0 (12.0) million. The positive effect of the exchange rate change on EBIT was EUR 0.3 million. EBIT was strengthened by commercial improvements and lower administrative costs. The improvement was partially offset by the negative impact of the pandemic.

## Business Unit Baltics

Net sales increased by almost 4 per cent, amounting to EUR 175.0 (168.5) million. Net sales increased through commercial improvements and especially through well-developed retail sales and continued strong growth in exports of meat products. Difficulties in the food service channel due to the pandemic decreased net sales from the comparison year.

EBIT excluding the change in the fair value of biological assets totalled EUR 5.7 (2.7) million. Comparable EBIT excluding the change in the fair value of biological assets totalled EUR 6.1 (2.9) million. EBIT was strengthened by commercial improvements and production efficiency improvements both in production units and in primary production. The change in the fair value of biological assets in the balance sheet totalled EUR -2.0 (2.3) million.

## Business Unit Denmark

Net sales increased by almost 12 per cent, amounting to EUR 171.5 (153.3) million. Retail sales of poultry products in Denmark and sales in Sweden clearly increased from the comparison year. Net sales also increased due to the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark in 2019. The Covid-19 pandemic clearly decreased food service sales.

EBIT totalled EUR 1.0 (-9.8) million and comparable EBIT was EUR 1.1 (-5.3) million. Comparable EBIT was profitable for the first time since 2012.

EBIT was strengthened by commercial improvements, especially with sales focusing on fresh and cooked poultry products sold in our home markets, and good control of costs. Avian flu detected in November limited product sales to areas outside of the EU and caused price pressure in the EU, which clearly weakened EBIT.

The EUR +4.1 million reversal of an impairment loss as a result of improved profitability development reflected in the impairment testing as well as EUR -3.5 million related to the repayment of energy tax refunds were recorded in the items affecting comparability.

## Strategy

HKScan's strategy focuses on the implementation of Turnaround programme to improve the company's profitability in 2019-2021. 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 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 exports.

Changes in consumer behaviour emphasise the need for renewal in line with the strategy on our journey to a versatile food company. Renewing ways and channels of food production and supply, combined with rapidly advancing digitalisation, strengthen the need to renew our operations. The Covid-19 pandemic has already changed consumer behaviour and thus, our operations. Some of the changes caused by the pandemic are expected to remain permanent, such as the much stronger anchoring of digitalisation to the purchase of food. The pandemic has not caused the need to change the key targets of the Group strategy, but for example digitalisation will have a greater weight in the strategy implementation.

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 from the 2018 level, was already over EUR 63 million at the end of December 2020. The company's cash flow from operating activities improved cumulatively by EUR 78 million during the same period. Net gearing is at a level that allows a controlled implementation of the Turnaround programme.

### Poultry products driving growth

Growth in poultry products is at the core of HKScan's strategy. In 2020, the company grew strongly in the poultry category in all its home markets, driven by the Business Units Finland, the Baltics and Denmark. Poultry meat consumption has been growing strongly and is expected to continue strong in the future.

In beef, pork and meat products, HKScan's sales strengthened in 2020, particularly in branded retail products. The red meat market as a whole has been declining. The company aims to strengthen its position in beef, pork and meat products through its advanced responsibility work, strong brand portfolio and partner network.

In processed meat products and meal components, HKScan has been able to strengthen its position, which plays a key role in increasing the added value of meat raw material. For ready-to-eat meals, growth will focus on the coming years, but will already start during 2021.

**New product categories through partnerships**

Strong partnerships are a 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.

In 2019 and 2020, HKScan has extended into new product categories through partnerships. The company is looking into opportunities to expand sales of plant-based protein products to the home markets. Partnerships create the basis for the company's growth in new product categories and for its expansion into new raw material bases. At the same time, they support HKScan's strategic target to grow into a versatile food company.

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 been taken forward in Finland with existing products and by investing in the new product development.

The commercial implementation of the cooperation agreed with Hes-Pro (Finland) Oy in November 2019, focusing on the sale of plant-based protein products, was postponed due to the pandemic. In the autumn 2020, HKScan launched a new plant-based HK Vihreät™ product family for retail sales in Finland.

In Sweden, HKScan has sold vegetarian Pärsons® products already since 2016. The range includes, for example, cold cuts and sausages. Pärsons is the market leader in vegetarian cold cuts in Sweden.

**New Food Solutions unit focusing on concept business**

As part of its strategy implementation, HKScan established a new Food Solutions unit, which started operations at the beginning of 2021. The new unit will develop and commercialise HKScan's concept business in all the company's key market areas. The Food Solutions unit will also create value to the company's current, product and category driven business. With changing consumer behaviour, commercial concepts serving customers and consumers and the digital solutions supporting these concepts play a key role in the implementation of HKScan's strategy. New commercial concepts will utilise everything from the company's traditional strengths to the latest digital solutions.

**Long-term financial targets**

HKScan's long-term financial targets are as follows: 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.



## Report on non-financial information

HKScan makes tasty, healthy and responsibly produced food with over a hundred years of experience. The company's strategic target is to grow into a versatile food company and its operations are guided by HKScan's purpose defined in 2019: "We make life tastier - today and tomorrow".

HKScan operates in the Baltic Sea region and the company's home markets are Finland, Sweden, the Baltics and Denmark. Our diverse product portfolio includes poultry, pork and beef products, as well as meat products and meals. The company's well-known brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose™.

At HKScan, advanced corporate responsibility work is a key part of the company's strategy covering the entire food chain from farms to consumers. In its responsibility work, the company focuses on four themes: environment, healthy food, own community and animal welfare. The themes are defined based on the extensive stakeholder survey carried out in 2019.

Through its advanced responsibility work, the company responds to the changing operating environment, works on a long-term basis with a goal of being the most responsible player in the food industry in its home markets, utilises responsibility in new business models and increases competitiveness throughout the value chain.

HKScan's corporate responsibility work in 2020 will be described in more detail in the Annual Report published in week 11/2021.

### Most important commitments, policies and principles

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

Group-level policies guiding HKScan's operations are the quality, product safety, disclosure, environment and animal sourcing policies and the animal welfare policy.

In addition to these, there are several internal policies and operating guidelines guiding operations.

As part of its corporate responsibility programme, HKScan is committed to the UN Sustainable Development Goals (SDGs). The progress to achieve the selected goals related to health, work, responsible consumption, climate and biodiversity is monitored through indicators in the corporate responsibility programme.

### Environment

HKScan continued its goal-oriented work towards carbon neutrality. The focus of the company's environmental work is on reducing climate impacts in its own operations and in primary production as well as promoting material efficiency, which includes, for example, reducing the environmental impact of packaging. In the Agrofood Ecosystem® model in Finland and in the similar Gårdsinitiativet model in Sweden, HKScan determinedly examine and pilot new solutions to reduce environmental impacts in the primary production together with its farmers and other partners.

In 2020, HKScan set a target of a carbon-neutral food chain. As for its own production (scope 1 and 2), the company's target is to be carbon-neutral by the end of 2025 and for the entire food chain (scope 3), at the end of 2040. The company calculated the initial level of climate emissions of the entire value chain from farms to consumers: in 2019, climate impacts totalled 2.4 megatonnes CO<sub>2</sub>e. The company's own production accounted for about 5 per cent of the emissions and the primary production, packaging and logistics for about 95 per cent.

In 2020, HKScan switched to using renewable electricity in its Baltic and Danish operations. The company has guarantees of origin for its green electricity. In Finland and Sweden, the company has been using renewable electricity for several years. The transition to renewable electricity reduced greenhouse gas emissions from the company's own operations significantly from 2019.

The effectiveness and impact of the environmental work on the company's own production is assessed by internal and external ISO 14001 audits, with the exception of the Danish production units. In 2020, no significant environmental deviations were observed. The environmental risks of HKScan's production plants have been identified as part of the ISO 14001 environmental management system, and they are related to, for example, wastewater and possible chemical leaks. Environmental risks are controlled and managed on a plant-by-plant basis through, for example, preventive maintenance and monitoring equipment. In addition, exceptional weather conditions and climate change may affect, for example, energy prices as well as the availability and prices of raw materials. HKScan describes the risks related to climate change in more detail in the Corporate Responsibility Report, published as part of the Annual Report.

### **Social and HR matters**

At the end of December 2020, HKScan employed a total of 6,987 (6,784) people. There were an average of 7,116 (6,928) employees: of them, 40.1 (40.0) per cent were in Finland, 29.7 (29.1) per cent in Sweden, 21.2 (21.8) per cent in the Baltic countries and 9.0 (9.1) per cent in Denmark. The production unit in Poland has 242 (227) employees who are reported as part of Business Unit Sweden. The figures include also rented personnel.

Salaries and remunerations, including social costs, totalled EUR 315.6 (313.7) million.

In 2020, HKScan launched its Better Together workplace wellbeing programme, which aims to promote responsible management, a committed work community as well as workplace wellbeing and performance. In order to develop well-being at work, the company makes action plans at the local and national levels, and the plans are monitored at the Group level. The programme was launched in Finland, Sweden and the Baltics. In Denmark and Poland, the Better Together programme started at the beginning of 2021.

Safety at work was promoted through the Group's Safety First programme. The determined work towards zero accidents continued and accidents decreased for the third consecutive year. A new workplace safety reporting tool was introduced

at the beginning of 2020 in all the markets. It enabled, for example, more systematic analysis of accidents and near miss cases, better targeting of development actions at root causes, risk assessment and process management. Workplace safety was promoted through guidance, communication and risk assessments, among other things. In addition, HKScan's Group Executive Team made their personal workplace safety and wellbeing commitments, which were published during the European Week for Safety and Health at Work.

HKScan works closely with meat producers to further develop production and responsibility and to ensure the competitiveness of local food production. In 2020, the company continued its Next Generation programme developing skills and knowledge of young producers in Finland and launched a similar programme in Sweden.

Risks related to HKScan's personnel include the availability of skilled and committed personnel and the attractiveness of the food industry and HKScan as an employer. In addition, any legal or illegal strike in HKScan's value chain and its own production may cause business risks. The risks are reduced by developing cooperation and employees' competence and wellbeing. In addition, risks can be reduced by alternative supply chain structures and processes.

### **Human rights and measures against bribery and corruption**

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

The company prepared an online training on HKScan's Code of Conduct. Its implementation began late 2020 for white-collar employees in Finland, Sweden and the Baltics. Other employees participate in the training in early 2021. The training strengthens employees' competence in human rights and the principles against corruption and bribery.

HKScan requires all its suppliers to sign and commit to compliance with its Supplier Guidelines, which cover the suppliers' commitment to follow human rights, corruption and bribery principles.

HKScan's stakeholders can use the company's anonymised Fair Way channel to report suspicions of unethical conduct. In 2020, the company received 9 reports of suspected negligence or misconduct through the Fair Way channel. The reports were mainly related to suspicions of inappropriate behaviour and they were examined and dealt with through HR processes.

HKScan's risks concerning human rights are related to work safety and inappropriate treatment of personnel throughout the value chain. Safety risks at work are managed through the systematic promotion of work safety. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Risks related to corruption or bribery are prevented and managed through clearly defined approval processes and other internal control processes. Potential risks related to human rights and corruption in the supply chain are managed through a procurement risk assessment, standard expectations and by requiring a commitment to the Supplier Guidelines. The realization of the principles is monitored in an internal audit. In 2020, no deviations from the human rights, bribery and corruption principles were observed. HKScan has not carried out a human rights impact assessment.

### **Healthiness and safety of products**

HKScan's strategic target is to grow into a versatile food company where tasty products are made of trusted and safe raw materials. Healthy diet is built on varied and balanced choices. The company's long-term work to develop the product healthiness is based on nutritional guidelines. Many of the products have been recognised for their healthiness with the Heart Symbol in Finland, and the Keyhole symbol in Sweden and Denmark. HKScan ensures the product safety through systematic work from procurement to production.

All of HKScan's production plants are certified in accordance with the Global Food Safety Initiative (GFSI) standards (FSSC 22000, IFS or BRC).

The company performs systematic food safety risk management in all stages of the value chain. Risk assessments in the production units are based on the HACCP (Hazard Analysis Critical Control Point) process, which is verified annually by several internal and external audits. We also require our subcontractors to have food safety management systems and we monitor their implementation.

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

### **Animal welfare**

HKScan is committed to promoting animal welfare together with its contract farmers in Finland, Sweden and Denmark and on the company's own farms in Estonia. Animal health and welfare is based on compliance with EU and local legislation as well as HKScan's own guidelines. The monitoring of animal welfare is systematic, and any deviations are addressed immediately. In HKScan's production, the use of antibiotics is limited to the treatment of illnesses, and adequate withdrawal periods ensure that the products contain no antibiotic residues.

Animal diseases that spread easily, such as African swine fever and avian flu, pose a risk to the company's business. There are national prevention programmes for animal diseases. Animal disease risks are managed by continuously monitoring the animal disease situation and by working together with authorities, veterinarians and producers. At the farm-level, guidelines for animal disease control and high hygiene standards are followed.

## Key targets and results

Target	Corporate Governance	Results 2020
<b>Environment</b>		
Carbon-neutral food chain <ul style="list-style-type: none"> <li>• own production (scope 1 &amp; 2) by the end of 2025</li> <li>• primary production and other external impacts (scope 3) by the end of 2040</li> </ul>	Action plan towards carbon neutrality	<ul style="list-style-type: none"> <li>• Climate impacts of own production (scope 1 &amp; 2) CO<sub>2</sub>e -55% from 2019</li> <li>• Scope 3 CO<sub>2</sub>e emissions will be reported in the annual report.</li> </ul>
Packaging, targets 2025 <ul style="list-style-type: none"> <li>• 100% recyclable packaging</li> <li>• 20% less plastic</li> <li>• 20% lower carbon footprint</li> </ul>	Operations in line with the packaging strategy	<ul style="list-style-type: none"> <li>• 70% of packaging recyclable</li> <li>• Amount of packaging plastic -7%</li> <li>• We are developing the reporting of packaging carbon footprint together with packaging material suppliers.</li> </ul>
<b>Social and HR matters</b>		
Zero lost time accidents	Uniform work safety indicators and risk assessment models in all markets	<ul style="list-style-type: none"> <li>• Lost time accident frequency: 21.4 (25.5) /million working hours</li> </ul>
Promotion of wellbeing at work	Better Together programme to promote work well-being; country- and location-specific action plans	<ul style="list-style-type: none"> <li>• Personnel work satisfaction eNPS 5, excl. the Baltics</li> <li>• Absences 6.2% of working time</li> </ul>
Promoting continuity and competitiveness of primary production in all markets	Next Generation programme to develop young farmers' skills, work of Agrofood Ecosystem® and Gårdsinitiativet networks	Next Generation programme implemented in Finland; planning and launch of the programme in Sweden
<b>Human rights and measures against bribery and corruption</b>		
<ul style="list-style-type: none"> <li>• 100% of suppliers committed to the Supplier Guidelines, excl. contract farmers</li> <li>• 100% of animal purchases according to animal sourcing principles</li> <li>• 100% of personnel completed the training on the Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>• Principles of responsible procurement</li> <li>• Animal sourcing principles</li> <li>• Personnel training on the compliance of HKScan's policies</li> </ul>	<ul style="list-style-type: none"> <li>• 77 (75)% of suppliers committed to Supplier Guidelines</li> <li>• 100% of animal purchases according to animal sourcing principles</li> <li>• 96% of Finland's, Sweden's and Baltic's white-collar employees completed the training on the Code of Conduct</li> </ul>
<b>Healthiness and safety of products</b>		
<ul style="list-style-type: none"> <li>• 100% certified production units</li> <li>• Zero recalls</li> <li>• Nutritional recommendations considered in the product development</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with product safety standards</li> <li>• Compliance with product safety processes</li> </ul>	<ul style="list-style-type: none"> <li>• All HKScan's production units certified</li> <li>• 1 (12) product recall</li> </ul>
<b>Animal welfare</b>		
<ul style="list-style-type: none"> <li>• Increasing of animals' natural behaviours</li> <li>• Continuous development of disease protection</li> <li>• Avoidance of painful procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Systematic development of animal welfare together with producers</li> <li>• Prevention of animal diseases</li> </ul>	Continuous development efforts to promote animal health and welfare

## Group management

Lars Appelqvist took up his new position as EVP for Business Unit Sweden and member of the Group Executive Team on 16 November 2020. He came to HKScan from Löfbergs, where he served as CEO. Denis Mattsson served as the interim EVP for Business Unit Sweden and member of the Group Executive Team for the period 20 November 2019-15 November 2020.

Jouni T. Laine took up his new position as EVP of the company's new Food Solutions unit and member of the Group Executive Team on 1 January 2021. Laine joined HKScan from his position as CEO at the Clewer Group, part of Salmela-Yhtiöt.

### Group Executive Team 1 January 2021

Tero Hemmilä, CEO; Jari Leija, EVP for Business Unit Finland; Lars Appelqvist, EVP for Business Unit Sweden; Anne Mere, EVP for Business Unit Baltics; Jukka Nikkinen, EVP for Business Unit Denmark; Jyrki Paappa, CFO, Markku Suvanto, EVP for Administration; Juha Ruohola, EVP for Export, Import and Meat Balance; Mika Koskinen, EVP for Strategic Business Development and Investments; and Jouni T. Laine, EVP for Food Solutions.

## 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.

## Shares and shareholders

At the end of December, 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.

At the end of December, the company held 2,000,000 (2,000,000) 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 calculational market value of HKScan's shares at the end of December stood at EUR 194.1 (267.6) million. The market value of the Series A shares was EUR 183.5 (252.7) million and calculational market value of unlisted Series K shares was EUR 10.6 (14.9) million.

During the period of January-December, a total of 27,000,172 (26,948,127) of the company's shares were traded with a total value of EUR 54,911,336 (55,238,860). In the period under review, the highest price quoted was EUR 2.85 (2.88) and the lowest EUR 1.60 (1.48). The average price was EUR 2.03 (2.05). At the end of December, the closing price was EUR 1.96 (2.76).

At the end of 2020, the shareholders maintained by Euroclear Finland Ltd included 15 333 (13 942) shareholders. Nominee-registered foreign shareholders held 15.5 (16.5) per cent of the company's shares.

At the end of 2020, members of the Board of Directors and the company's President and CEO and his deputy, as well as their related parties owned a total of 200 159 A Shares, corresponding to 0.2 per cent of the total number of shares and 0.1 per cent of the votes.

### Ownership breakdown by amount of share on 31 December 2020

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of share capital
1-100	3,748	24.44	181.459	0.18
101-500	5,132	33.47	1,498.638	1.51
501-1000	2,567	16.74	2,049.901	2.07
1001-5000	3,056	19.93	6,953.405	7.03
5001-10000	444	2.90	3,283.598	3.32
10001-50000	305	1.99	5,977.970	6.04
50001-100000	31	0.20	2,261.830	2.29
100001-500000	30	0.20	6,963.981	7.04
500001-	19	0.12	68,988.054	69.72
On common accounts	0	0.00	127.945	0.13
On waiting list	1	0.01	665.000	0.67
<b>Total</b>	<b>15,333</b>	<b>100</b>	<b>98,951.781</b>	<b>100</b>

### Shares by share series 31 December 2020

Share series	Number of shares	% of shares	% of votes
A Shares	93,551.781	94.54	46.42
K Shares	5,400.000	5.46	53.58
<b>Total</b>	<b>98,951.781</b>	<b>100</b>	<b>100</b>

### Ownership breakdown by sector on 31 december 2020

	Share of owners %	Share of shares %	Share of votes %
Corporates	3.52	42.07	65.29
Finance and insurance companies	0.16	9.86	4.84
Public entities	0.03	11.44	5.62
Households	95.68	21.84	10.72
Non-profit organizations	0.38	5.72	2.81
Abroad	0.24	9.07	10.72
<b>All sectors, total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## 20 Largest shareholders on 31 December 2020

	A shares	K shares	Of total shares, %	Of total votes, %
1 LSO Osuuskunta	25,083.884	4,735.000	30.13	59.43
2 Lantmännen ek. För	6,869.750	665.000	7,61	10.01
3 Keskinäinen työeläkevakuutusyhtiö Varma	4,846.806		4.90	2.40
4 Apteekkien Eläkekassa	3,581.889		3.62	1.78
5 Maa- ja metsätaloustuottajain Keskusliitto MTK ry	2,711.414		2.74	1.35
6 Keskinäinen Työeläkevakuutusyhtiö Elo	2,392.830		2.42	1.19
7 HKScan Oyj	2,000.000		2.02	0.99
8 Suomen Kulttuurirahasto	1,536.621		1.55	0.76
9 Oy Etra Invest Ab	1,500.000		1.52	0.74
10 Jocer Oy Ab	1,175.000		1.19	0.58
11 Suhonen Jyrki	1,105.951		1.12	0.55
12 Tiiviste-Group Oy	1,000.000		1.01	0.50
13 Petter ja Margit Forsströmin säätiö Karl ja Olivia Forsströmin muistolle	1,000.000		1.01	0.50
14 Sinituote Oy	1,000.000		1.01	0.50
15 Pivosto Oy	582.190		0.59	0.29
16 K. Hartwall Invest Oy Ab	550.000		0.56	0.27
17 Sijoitusrahasto Taaleritehdas Arvo Markka Osake	500.000		0.51	0.25
18 Ab 2011 Fruitgum Company Oy	435.923		0.44	0.22
19 Hallqvist AB	405.000		0.41	0.20
20 VR Eläkesäätiö	400.000		0.40	0.20
<b>Other shareholders</b>	<b>34,874.523</b>	<b>0</b>	<b>35.24</b>	<b>17.30</b>
<b>Total</b>	<b>93,551.781</b>	<b>5,400.000</b>	<b>100</b>	<b>100</b>

Source: Euroclear Finland

## 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](http://www.hkscan.com).

## 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.

## 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 uninterrupted operations of the entire food chain, from farms to consumers. HKScan follows strict hygiene processes and authority guidelines and has implemented numerous contingency actions of its own. Disruption of production due to potential illness of personnel 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 home and export markets may be unpredictable as the pandemic continues. The effects may be longer-lasting and extend throughout the current 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. This also concerns the price development in terms of feed used in animal farming.



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 increases the price risk within HKScan's home markets. The avian flu detected in certain European countries, including Denmark, has already weakened poultry meat export opportunities to areas outside of the EU and increased the supply in Europe. As a result, the price risk has also increased 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 ever be fully excluded. The African Swine Fever detected in Germany and the avian flu detected in certain European countries are examples 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 profitability, 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.

## Events after the reporting period

### HKScan aiming at carbon-neutral food production

In January 2021, the company set the goal of carbon neutrality for its own industrial production by the end of 2025 and carbon neutrality for its entire food chain from farms to consumers by the end of 2040 at the latest. Climate work is carried out in all of the company's home market areas in Finland, Sweden, the Baltics and Denmark. Achieving the targets requires both a significant reduction of emissions and an increase in carbon sinks together with contract farmers and other partners.

The Zero Carbon climate plan shows the stepping stones for HKScan to achieve carbon neutrality as one of the major food companies in the Baltic Sea region. The company has determined and calculated the emissions of its entire value chain together with KPMG specialising in carbon footprint calculation. In 2019, the total emissions were some 2.4 megatonnes of carbon dioxide equivalent (CO<sub>2</sub>e) of which the company's own industrial production accounted for some five per cent.

The Zero Carbon climate plan is a key part of HKScan's responsibility work and business leadership. At the same time, the company is also creating the conditions for its contract farmers' future competitiveness and for consumers to be able to enjoy responsibly produced meat products in good conscience as part of a varied diet. It is important for HKScan to work long-term and create permanent, more climate-friendly operating models. With its climate work, HKScan wants to assume responsibility for achieving the important climate goals of societies. Further information: [www.hkscan.com](http://www.hkscan.com).

## Board of Directors' proposal on the distribution of profit

The parent company's distributable equity stands at EUR 290.9 (274.7) million including the reserve for invested unrestricted equity, which holds EUR 215.1 (215.1) million. The Board of Directors recommends that no dividends be paid for 2020.

## Outlook 2021

HKScan estimates that the Group's comparable EBIT in 2021 will improve compared to 2020.

## Annual General Meeting 2021

HKScan's Annual General Meeting is planned to be held on Thursday, 8 April 2021 in Turku, Finland. The invitation to the meeting will be announced later.

## Key figures

Financial indicators	2020	2019	2018	2017	2016
Net sales, EUR million	1,781.0	1,744.4	1,715.4	1,808.1	1,872.9
Operating profit/loss (EBIT), EUR million**	21.3	-23.2	-48.3	-40.3	9.7
% of net sales**	1.2	-1.3	-2.8	-2.2	0.5
Comparable operating profit/loss, EUR million**	17.0	-2.2	-46.3	-17.6	13.2
% of net sales**	1.0	-0.1	-2.7	-1.0	0.7
Profit/loss before taxes, EUR million**	12.3	-34.5	-58.5	-45.5	0.9
% of net sales**	0.7	-2.0	-3.4	-2.5	0.0
Return on equity (ROE), %**	1.5	-11.5	-15.2	-10.4	-0.9
Return on capital employed before taxes (ROCE), %**	3.9	-3.1	-6.7	-6.3	2.1
Equity ratio, %**	33.7	34.8	33.3	36.9	47.9
Net gearing ratio, %**	91.0	84.8	103.3	59.3	33.5
Gross capital expenditure on PPE, EUR million	83.5	31.7	41.0	125.5	97.6
Additions in right-of-use assets, EUR million**	7.2	11.3	11.2	-	-
Investments total, EUR million**	90.7	43.0	52.2	125.5	97.6
% of net sales**	5.1	2.5	3.0	6.9	5.2
R&D expenses, EUR million	4.9	5.8	8.6	6.5	6.6
% of net sales	0.3	0.3	0.5	0.4	0.4
Employees, average	7,116	6,928	7,179	7,292	7,319

Per share data	2020	2019	2018	2017	2016
Earnings per share (EPS), undiluted, EUR**	-0.01	-0.52	-1.00	-0.79	-0.10
Earnings per share (EPS), diluted, EUR**	-0.01	-0.52	-1.00	-0.79	-0.10
Comparable earnings per share, EUR**	-0.05	-0.26	-0.96	-0.37	-0.03
Equity per share, EUR**	3.19	3.18	5.73	6.23	7.31
Dividend paid per share, EUR	0.00*	0.00	0.00	0.09	0.16
Dividend payout ratio, undiluted, %	0.0*	0.0	0.0	-11.4	-160.4
Dividend payout ratio, diluted, %	0.0*	0.0	0.0	-11.4	-160.4
Effective dividend yield, %	0.0*	0.0	0.0	2.9	5.0
Price-to-earnings ratio (P/E)					
undiluted**	-381.8	-5.3	-1.4	-4.0	-32.0
diluted**	-381.8	-5.3	-1.4	-4.0	-32.0
Lowest trading price, EUR	1.60	1.48	1.29	2.96	2.89
Highest trading price, EUR	2.85	2.88	3.23	3.60	3.89
Middle price during the period, EUR	2.03	2.05	2.40	3.24	3.19
Share price at the end of the year, EUR	1.96	2.76	1.42	3.13	3.19
Market capitalisation, EUR million	190.0	267.6	76.7	169.1	172.3
Trading volume (1 000)	27,000	26,948	11,400	10,426	13,313
% of the average volume	27.8	33.7	21.1	19.3	24.7
Adjusted number of outstanding shares (1 000)					
average during financial period	96,952	79,943	54,030	54,018	54,006
at the end of financial period	96,952	96,952	54,034	54,018	54,018
fully diluted	96,952	96,952	54,034	54,018	54,018

\* Based on the Board of Directors' proposal.

\*\* Years 2016-2017 are not IFRS 16 restated.

## 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.

<b>Return on equity (%)</b>	$\frac{\text{Profit}}{\text{Total equity (average)}} \times 100$
<b>Return on capital employed (ROCE) before tax (%)</b>	$\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}} \times 100$
<b>Equity ratio (%)</b>	$\frac{\text{Total equity}}{\text{Balance sheet total - advances received}} \times 100$
<b>Gearing ratio (%)</b>	$\frac{\text{Interest-bearing liabilities}}{\text{Total equity}} \times 100$
<b>Net gearing ratio (%)</b>	$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$
<b>Earnings per share*</b>	$\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares during period}}$
<b>Equity per share</b>	$\frac{\text{Equity attributable to holders of the parent}}{\text{Number of outstanding shares at end of period}}$
<b>Dividend per share</b>	$\frac{\text{Dividend distribution}}{\text{Number of outstanding shares at end of period}}$
<b>Dividend payout ratio (%)</b>	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Items affecting comparability and related APMs are disclosed to better reflect the operational business performance and to enhance comparability between periods.

<b>Effective dividend yield (%)</b>	$\frac{\text{Dividend per share}}{\text{Closing price on the last trading day of the financial year}} \times 100$
<b>P/E ratio</b>	$\frac{\text{Closing price on the last trading day of the financial year}}{\text{Earnings per share}}$
<b>Market capitalization</b>	The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year
<b>Cash flow before debt service</b>	Cash flow after investment activities - financial items
<b>Employee numbers</b>	Average of workforce figures calculated at the end of calendar months
<b>Items affecting comparability</b>	One-time charges, which are not related to the normal continuing operations and materially affect company's finance. Examples of such expenses are: capacity adjustment (restructuring), redundancy, legal costs relating to restructuring or similar, one-time expenses related to efficiency / reorganization programmes, significant compensations or penalties paid out due to legal verdict or settlement, transaction fees / expenses related to business acquisitions (consultation, advisory, legal, due diligence, registration etc.) and gains/losses of business disposals.
<b>Comparable EBIT</b>	Operating profit - items affecting comparability
<b>Comparable earnings per share*</b>	$\frac{\text{Profit for the period attributable to equity holders of the parent - items affecting comparability}}{\text{Average number of outstanding shares during period}}$
<b>Interest-bearing net debt</b>	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.

# Financial Statement 2020

## Financial Statement

Consolidated income statement	101
Consolidated statement of comprehensive income	101
Consolidated balance sheet	102
Consolidated cash flow statement	103
Statement of changes in consolidated equity	104
Notes to the financial statements	105
Notes to income statement	117
Notes to the balance sheet	128
Parent company income statement	159
Parent company balance sheet	160
Parent company cash flow statement	161
Notes to the parent company's financial statements	162
Notes to the parent company's income statement	164
Notes to the parent company's balance sheet	166
Signatures to the Financial Statement and report of the Board of Directors	175
Auditor's note	175
<b>Auditor's report</b>	<b>176</b>



**Consolidated income statement for 1 January - 31 December**

(EUR million)	Note	2020	2019
Net sales	1.	1,781.0	1,744.4
Other operating income	2.	7.2	6.7
Materials and services	3.	-1,215.5	-1,209.1
Employee benefits expenses	4.	-315.6	-313.7
Depreciation and amortisation	5.,13.	-56.7	-80.4
Other operating expenses	6.	-179.1	-171.0
<b>EBIT</b>		<b>21.3</b>	<b>-23.2</b>
Financial income	7.	2.2	2.2
Financial expenses	7.,13.	-13.2	-13.9
Share of associates' and joint ventures' results		1.9	0.4
<b>Profit/loss before taxes</b>		<b>12.3</b>	<b>-34.5</b>
Income tax	8.	-7.5	-3.0
<b>Profit/loss for the period</b>		<b>4.8</b>	<b>-37.5</b>
Profit/loss for the period attributable to:			
Equity holders of the parent		1.2	-39.9
Non-controlling interests		3.6	2.3
<b>Total</b>		<b>4.8</b>	<b>-37.5</b>
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-0.01	-0.52
EPS, diluted, continuing operations, EUR/share	9.	-0.01	-0.52

The notes 1-28 form an integral part of the consolidated financial statements.

**Consolidated statement of comprehensive income  
1 January - 31 December**

(EUR million)	2020	2019
Profit/loss for the period	4.8	-37,5
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	2.8	-1,6
Cash flow hedging	-1.7	-4,2
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-0.3	-4,2
<b>Total other comprehensive income</b>	<b>0.8</b>	<b>-10,0</b>
<b>Total comprehensive income for the period</b>	<b>5.6</b>	<b>-47,5</b>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	1.9	-49,8
Non-controlling interests	3.6	2,3
<b>Total</b>	<b>5.6</b>	<b>-47,5</b>

The notes 1-28 form an integral part of the consolidated financial statements.

**Consolidated balance sheet on 31 December**

(EUR million)	Note	31 Dec. 2020	31 Dec 2019
Intangible assets	10.	76.2	65.8
Goodwill	11.	71.8	70.7
Tangible assets	12.,13.	458.7	439.1
Shares in associates and joint ventures	14.	21.6	20.8
Other receivables	15.	6.2	3.5
Other shares and holdings	15.	12.2	11.7
Deferred tax asset	16.	40.9	43.4
<b>Non-current assets</b>		<b>687.7</b>	<b>654.9</b>
Inventories	17.	119.0	115.5
Trade receivables	18.	105.3	111.3
Other receivables	18.	17.1	16.2
Income tax receivable	18.	-	0.2
Cash and bank	19.	46.8	37.5
<b>Current assets</b>		<b>288.2</b>	<b>280.6</b>
<b>Assets</b>		<b>975.9</b>	<b>935.6</b>
Share capital	20.	66.8	66.8
Share premium reserve	20.	72.9	72.9
Treasury shares	20.	-4.8	-4.8
Hybrid loan	20.	25.9	25.9
Fair value reserve and other reserves	20.	224.9	226.7
Translation differences	20.	-10.6	-13.4
Retained earnings	20.	-66.4	-66.2

Equity attributable to equity holders of the parent		308.8	307.9
Non-controlling interests		20.3	17.2
<b>Equity</b>		<b>329.1</b>	<b>325.1</b>
Deferred tax liability	16.	19.0	16.6
Non-current interest-bearing liabilities	13.,23.	249.2	262.7
Non-current non-interest-bearing liabilities	23.	1.8	3.1
Non-current provisions	22.	5.2	6.2
Pension obligations	21.	43.1	41.1
<b>Non-current liabilities</b>		<b>318.3</b>	<b>329.8</b>
Current interest-bearing liabilities	13.,23.	97.2	50.6
Trade and other payables	23.	219.4	222.0
Refund liabilities	23.	7.4	6.3
Income tax liability	23.	1.0	0.1
Current provisions	22.	3.5	1.7
<b>Current liabilities</b>		<b>328.5</b>	<b>280.7</b>
<b>Equity and liabilities</b>		<b>975.9</b>	<b>935.6</b>

The notes 1-28 form an integral part of the consolidated financial statements.

**Consolidated cash flow statement**

(EUR million)	2020	2019
Profit/Loss for the period	4.8	-37.5
Adjustments	73.9	95.8
Cash flow before change in net working capital	78.7	58.3
Change in net working capital	-7.9	1.1
Other changes	6.6	12.1
Interest paid	-12.1	-13.0
Other financial expenses paid	-10.1	-6.5
Interest received	1.8	1.7
Other financial income received	7.1	6.2
Dividends received	1.0	1.0
Income taxes paid	-1.4	-1.6
<b>Cash flow from operating activities (A)</b>	<b>63.7</b>	<b>59.2</b>
Total investments	-83.6	-31.8
Total sales of assets	1.7	0.6
Acquisition of subsidiary, net of cash acquired	0.1	0.0
Loan receivables, borrowings and repayments	-3.3	-0.4
<b>Cash flow from investing activities (B)</b>	<b>-85.1</b>	<b>-31.6</b>

Share issue	-	43.7
Share issue costs	-	-3.0
Purchase of own shares	-	-4.7
Hybrid loan	-2.1	-2.1
Proceeds from external borrowings	48.7	74.3
Repayment of external borrowings	-5.7	-114.7
Payment of lease liabilities	-10.3	-11.6
Dividends paid	-0.7	-0.6
<b>Cash flow from financing activities (C)</b>	<b>30.0</b>	<b>-18.8</b>
<b>Net cash flow (A+B+C)</b>	<b>8.6</b>	<b>8.9</b>
Cash and cash equivalents, end balance	46.8	37.5
Cash and cash equivalents, opening balance	37.5	29.4
Effect of changes in exchange rates	0.6	-0.8
<b>Change</b>	<b>8.6</b>	<b>8.9</b>

The notes 1-28 form an integral part of the consolidated financial statements.

**Statement of changes in consolidated equity**

(EUR million)	Share capital	Share premium reserve	Revaluation reserve	Reserve for invested unrestricted equity (RIUE)	Hybrid loan	Other reserves	Translation differences	Treasury shares	Retained earnings	Equity holders of the parent	Non-controlling interests	Total
EQUITY ON 1 Jan. 2020	66.8	72.9	1.0	215.4	25.9	10.3	-13.4	-4.8	-66.2	307.9	17.2	325.1
Result for the financial period	-	-	-	-	-	-	-	-	1.2	1.2	3.6	4.8
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-	-	-	-	2.8	-	-	2.8	-	2.8
Cash flow hedging	-	-	-1.7	-	-	-	-	-	-	-1.7	-	-1.7
Actuarial gains or losses	-	-	-	-	-	-	-	-	-0.3	-0.3	-	-0.3
Total comprehensive income for the period	-	-	-1.7	-	-	-	2.8	-	0.8	1.9	3.6	5.6
Direct recognitions	-	-	-	-	-	0.0	-	-	1.1	1.0	-	1.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.7	-0.7
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	0.1	0.1
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
<b>EQUITY ON 31 Dec. 2020</b>	<b>66.8</b>	<b>72.9</b>	<b>-0.8</b>	<b>215.4</b>	<b>25.9</b>	<b>10.3</b>	<b>-10.6</b>	<b>-4.8</b>	<b>-66.4</b>	<b>308.8</b>	<b>20.3</b>	<b>329.1</b>
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	-	-	-	-	-	-	-	-	-39.9	-39.9	2.3	-37.5
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-	-	-	-	-1.6	-	-	-1.6	-	-1.6
Cash flow hedging	-	-	-4.2	-	-	-	-	-	-	-4.2	-	-4.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-4.2	-4.2	-	-4.2
Total comprehensive income for the period	-	-	-4.2	-	-	-	-1.6	-	-44.1	-49.8	2.3	-47.5
Direct recognitions	-	-	-	-	-	0.0	-	-	1.0	1.0	-	1.0
Share issue	-	-	-	71.9	-14.1	-	-	-	-3.8	54.0	-	54.0
Purchase of own shares	-	-	-	-	-	-	-	-4.7	-	-4.7	-	-4.7
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.6	-0.6
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
<b>EQUITY ON 31 Dec. 2019</b>	<b>66.8</b>	<b>72.9</b>	<b>1.0</b>	<b>215.4</b>	<b>25.9</b>	<b>10.3</b>	<b>-13.4</b>	<b>-4.8</b>	<b>-66.2</b>	<b>307.9</b>	<b>17.2</b>	<b>325.1</b>

The notes 1-28 form an integral part of the consolidated financial statements.



# Notes to the financial statements for 2020

## Basic information about the entity

HKScan Corporation is a Finnish public limited company established under the law of Finland. The company is domiciled in Turku.

HKScan Corporation and its subsidiaries (together 'the Group') produce, sell and market high-quality and responsibly-produced pork, beef, poultry and lamb products, processed meats and convenience foods under strong brand names. Its customers are the retail, food service, industry and export sectors. The Group is active in Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark, Russia, Germany and China. HKScan Corporation's A share has been quoted on Nasdaq Helsinki since 1997.

HKScan Corporation is a subsidiary of LSO Osuuskunta and part of the LSO Osuuskunta Group. LSO Osuuskunta is domiciled in Turku.

The Board of Directors of HKScan Corporation approved the publication of these financial statements at its meeting on 3 February 2021. Under the Finnish Companies Act, shareholders may approve or reject the financial statements at the Annual General Meeting held subsequent to their publication. The Annual General Meeting can also modify the financial statements.

A copy of the HKScan Group's consolidated financial statements is available on the company's website at [www.hkscan.com](http://www.hkscan.com) or in the parent company's head office at Lemminkäisenkatu 48, FI-20520 Turku, Finland. The LSO Osuuskunta Group's consolidated financial statements are also available at the same address.

## Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have consistently been applied to all the years presented, unless otherwise stated.

### Basis of preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the IAS standards and SIC and IFRIC interpretations effective on 31 December 2020. 'International Financial Reporting Standards' refers, in the Finnish Accounting Act and in the provisions given thereupon, to the standards approved for application within the EU according to the procedure as established in EU Regulation (EC) No. 1606/2002 and the interpretations thereof. The notes to the financial statements also conform to Finnish accounting and corporate legislation supplementing IFRS requirements.

The consolidated financial statements have been prepared under the historical cost convention except for some financial instruments and biological assets, which have been measured at fair value.

The accounting policies in respect of subsidiaries have been changed to correspond to those of the parent company if required.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the accounting policies under critical accounting estimates and judgements.

Unless otherwise stated, the information in the consolidated financial statements is given in millions of euros. Consequently, some totals may not agree with the sum of their constituent parts.

The consolidated financial statements have been prepared in compliance with the same accounting policies as in 2019 except for the adoption of new standards.

### **New and amended standards adopted by the group**

There have been no new standards, amendments or interpretations, which are effective for the financial year beginning on 1 January 2020 that affect Group's accounting policies or any of the disclosures.

### **Comparability with previous years**

The years 2020 and 2019 are comparable with each other.

### **Consolidation subsidiaries**

The consolidated financial statements include the accounts of the parent company HKScan Corporation and its subsidiaries. Subsidiaries are entities over which the Group exercises control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value, or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Recorded goodwill is originally the sum of consideration transferred, interest of non-controlling shareholders in the acquiree and previously held interest in the acquiree minus the fair value of the acquired net assets. If the consideration is smaller than the fair value of the subsidiary's acquired net assets, the difference is recognised through profit or loss.

Subsidiaries acquired are consolidated from the date the Group acquires a controlling interest in them. All intragroup transactions, receivables and liabilities, and intragroup profit distribution, have been eliminated upon preparation of the consolidated financial statements.

A previous shareholding in a sequential acquisition is measured at the fair value and any profit or loss derived from this is recorded in the income statement as either profit or loss. When the Group loses control in a subsidiary, the remaining investment is measured at the fair value of the date of the expiry of control and the difference derived from this is recognised through profit and loss.

Distribution of profit for the period between holders of the parent and non-controlling interests is presented in the separate income statement, and the distribution of comprehensive income between holders of the parent and non-controlling interests is presented in the statement of comprehensive income. Comprehensive income is allocated to the parent company shareholders and non-controlling interests, even if this should mean that the share held by non-controlling interests becomes negative. The share of equity owing to non-controlling interests is presented as a separate item on the balance sheet under equity. Changes in the parent company's shareholding in a subsidiary, which do not lead to loss of control, are treated as equity-related transactions. The difference between fair value of any consideration paid, and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### **Associates**

Associates are companies over which the Group exercises a significant influence which usually arises when the Group holds 20-50 per cent of a company's voting rights. Associates have been consolidated using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. If the Group's share of the losses of an associate exceeds the investment's carrying amount, the investment is recognized as having no value and, unless the Group is committed to meeting the obligations of associates, no losses exceeding the carrying amount are consolidated. Investments in associates include the goodwill arising on their acquisition. Dividends received from associates have been eliminated in the consolidated financial statements. The associates mentioned below in Note 27, 'Related Party Transactions' have been consolidated into the consolidated financial statements. Share of associates' results is presented below EBIT.

The Group's share in associates' changes recognised in other items of comprehensive income are recognised in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2019 - 2020 financial periods.

### **Joint ventures**

A joint venture is a company in which the Group exercises joint control with another party. Joint ventures are consolidated using the equity method.

More detailed information about holdings in Group companies and associates and joint ventures is presented in Note 27, 'Related party transactions'.

### **Foreign Currency Translation**

The items included in the financial statements of the Group companies are valued in the currency of the main operating environment for that company (functional currency). The consolidated financial statements are presented in euros, the parent company's functional and reporting currency.

The assets and liabilities of foreign subsidiaries, and the foreign joint venture, are translated into euros at the closing exchange rates confirmed by the European Central Bank on the balance sheet date. The income statements are translated into euros using the average rate for the period. A translation difference arises from translating the result for the period and the comprehensive result at different rates in the income statement and comprehensive income statement and the balance sheet. The difference is recognised under equity. The change in the translation difference is recognised in other comprehensive income. The translation differences arising from eliminating the acquisition cost of foreign subsidiaries, and the joint venture, and from the translation of equity items accrued after the acquisition, are recognised in translation differences in the Group's equity, and the change is recognised in items of comprehensive income.

Group companies recognise transactions in foreign currencies at the rate prevailing on the day of the transaction. Trade receivables, trade payables, and loan receivables denoted in foreign currencies, and foreign currency bank accounts, have been translated into the operational currency at the exchange rates quoted on the balance sheet date. Exchange rate gains and losses on loans denoted in foreign currencies are included in financial income and expenses below EBIT. As a rule, exchange rate gains and losses related to business operations are included in the corresponding items above EBIT.

## Property, plant and equipment

Property, plant and equipment have been measured at cost less accumulated depreciation and any impairment. Depreciation of assets is made on a straight-line basis over the expected useful life. No depreciation is made on land.

The expected useful lives are as follows:

Buildings and structures	25-50 years
Building machinery and equipment	8-12,5 years
Machinery and equipment	2-10 years

The residual value and useful life of assets are reviewed in each financial statement and if necessary adjusted to reflect changes taking place in expected useful life.

Depreciation on property, plant and equipment ends when an item is classified as being for sale. Gains and losses arising on the disposal and discontinuation and assignment of property, plant and equipment are included either in other operating income or expenses.

Maintenance and repair costs arising from normal wear and tear are recognized as an expense when they occur. Major refurbishment and improvement investments are capitalised and depreciated over the remaining useful life of the main asset to which they relate.

## Government grants

Government grants, such as grants from the State or the EU relating to PPE acquisitions, have been recognized as deductions in the carrying amounts of PPE when receipt of the grants and the Group's eligibility for them is reasonably certain. The grants are recognised as income in the form of lower depreciations over the useful life of the item. Grants received in reimbursement of expenses incurred are recognised as income in the income statement at the same time as the costs relating to the object of the grant are recognised as an expense. Grants of this kind are reported under other operating income.

## Intangible assets

### Goodwill

Goodwill arises on the acquisition of subsidiaries or business operations, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree, and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the segment level.

Goodwill impairment reviews are undertaken annually, or more frequently, if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill and other intangible items that have an unlimited useful life are not subject to regular depreciation, being instead tested yearly for impairment. For this reason, goodwill is allocated to CGUs or, in the case of an associate, included in the acquisition cost of the associate concerned. Goodwill is measured according to the historical cost convention less impairments. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of goodwill are not reversed. See, 'Impairment' and 'Impairment testing'.

#### **Research and development costs**

Research and development costs are charged as incurred and are included in other operating expenses in the income statement.

#### **Other intangible rights and assets**

An intangible asset is recognised on the balance sheet only if its acquisition cost can be reliably determined and it is likely that the company will reap the expected economic benefit of the asset. Intangible rights include trademarks and patents, while items such as software licenses are included in other intangible assets. Patents and software licenses are recognised on the balance sheet at cost and are depreciated on a straight-line basis during their useful life, which varies from five to 10 years. No depreciation is made on intangible assets with an unlimited useful life.

Brands have been estimated to have an unlimited useful life. The good recognition of the brands and analyses performed support the view of management that the brands will affect cash flow generation for an indeterminate period of time.

### **Impairment of non-financial assets**

Intangible assets that have an indefinite useful life, or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

See 'Critical accounting estimates and judgements' and 'Goodwill'.

### **Inventories**

Raw materials are measured at weighted average cost. The cost of finished goods and work in progress comprises raw materials, direct labor costs, other direct costs and a systematically allocated proportion of variable and fixed production overheads. In determining the acquisition cost, standard cost accounting is applied and standard costs are reviewed regularly and changed if necessary. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Inventories are shown net of a reserve for obsolete and slow-moving inventories. A reserve is established and a corresponding charge is taken to profit and loss in the period in which the loss occurs based upon an assessment of obsolescence and related factors.

## Biological assets

Biological assets, which in the case of the HKScan Group means living animals, are recognised on the balance sheet at fair values less estimated sales-related expenses. The Group's live slaughter animals are measured at market price. Animals producing slaughter animals (sows, boars, breeding hens) have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

Biological assets are included in inventories on the balance sheet and changes in the fair value are included in material costs in the income statement. Animals producing slaughter animals are included in fixed assets.

## Leases

### The group as lessee

The Group recognises a right-of-use asset and related lease liability from all lease for all leases with term of more than 12 months. Less than 12 months agreements and assets of low value are excluded by the Group. Office equipment such as printers, coffee machines, phones and computers are considered assets of low value. Initial recognition is based on discounted present value of the lease payments. The discount rate is a rate from the agreement, or if not available, the interest rate for additional loan. Discounted present value of the lease payments include expected payable residual value guarantee, price of purchase or continuation option if likely that the Group will utilise option and expected payments from the ending of the agreement. Lease agreements without end date (with short notice period) are based on management judgement considered with two years duration which is renewed when the time expires. Also, other justified duration based on management judgment can be used. Depreciations from right-of-use assets and interest expense on lease liability are recorded to income statement instead of the lease expense. Right-of-use assets are depreciated with straight-line method during the lease period. Lease payments are divided into interest expense and lease liability amortisation with effective interest rate method. Right-of-use assets are included in tangible assets and lease liabilities in interest bearing debts in the balance sheet.

When an arrangement enters into force, the Group uses its factual content to determine whether the arrangement is a lease agreement or whether it includes one. A lease agreement exists if the following conditions are met: there is an identified asset, customer has the right to obtain substantially all of the economical benefits from the use of the asset throughout the period of use, customer has the right to direct how and for what purpose the asset is used throughout the period of use, or if the use is predetermined, customer operates the asset or has designed the asset.

### The Group as lessor

The Group's leased assets whose risks and rewards of ownership have essentially been transferred to the lessee are recognised as receivables on the balance sheet. Receivables are initially recognised at their present value. Financing income is recognised during the term of the lease so as to achieve a constant rate of return on the outstanding net investment over the term of lease.

Other assets leased under other operating leasing agreements are included in property, plant and equipment on the balance sheet. They are depreciated over their useful lives in the same way as corresponding property, plant and equipment in the company's own use are. Rental income is recognised in the income statement on a straight-line basis over the lease term.

## Employee benefits

### Pension obligations

Pension plans are classified as defined benefit plans and defined contribution plans. In defined contribution plans, the Group makes fixed payments to a separate entity. The Group is under no legal or actual obligation to make additional payments in the event that the entity collecting pension payments is unable to meet its obligations to pay the pension benefits in question. Any pension plan that does not meet these criteria is a defined benefit plan.

Statutory pension cover for Finnish Group companies has been arranged through pension insurance. Pension plans in respect of companies outside Finland have been made in accordance with local practice.

In defined contribution plans, such as the Finnish employment pension scheme (TyEL) and the Swedish ITP-plan, pension plan contributions are recognised in the income statement during the financial period in which they are incurred.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, curtailments and settlements.

Past-service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are charged or credited to equity in other comprehensive income in the period in which they arise.

### Share-based payments

Based on IFRS2, the fair value of share based incentives is determined at the grant date and the fair value is expensed until vesting. If the share reward is paid as a combination of shares and cash, the fair value determination is divided into equity-settled and cash-settled portions. The equity-settled portion is booked into equity and cash-settled into liabilities. The fair value of equity-settled portion is the fair value of Company share at the grant date deducted with expected dividends to be paid before the reward payment. Furthermore, the share purchase and ownership requirement in the performance period is taken into account by deducting the estimated financing costs of the share purchases from the fair value. The fair value of the cash-settled portion is recalculated on each reporting date until the reward payment.

## Provisions

A provision is recognised when the Group has a legal or actual obligation as the result of a past event, it is likely that the payment obligation will be realised and the magnitude of the obligation can be reliably estimated.

A restructuring provision is made when the Group has compiled a detailed restructuring plan and launched its implementation or announced the plan. No provision is made for expenses relating to the Group's continuing operations.

A provision for environmental obligations is made when the Group has an obligation, based on environmental legislation and the Group's environmental responsibility policies, which relates to site decommissioning, repairing environmental damage or moving equipment from one place to another.

## Taxes and deferred taxes based on taxable income for the period

The income tax expense in the income statement consists of tax based on taxable income and deferred tax. Taxes are recognised in the income statement, except when related to items recognised directly in equity, or the statement of comprehensive income, in which event the tax is also recognised in the said items. Tax based on taxable income in the financial period is calculated from taxable income on the basis of the tax law of the domicile of each company. Taxes are adjusted with any taxes relating to previous financial periods.

Deferred tax assets and liabilities are calculated on temporary differences in bookkeeping and taxation using the tax rate valid at the balance sheet date or expected date the tax is paid. The most significant temporary differences arise from measurement to fair value of derivative instruments, defined benefit pension plans, unclaimed tax losses and measurements to fair value in connection with acquisitions. No deferred tax is recognised on non-deductible goodwill. Deferred tax assets are recognised for the amount which it is likely that taxable profit will be generated in the future, against which the temporary difference can be utilised.

Deferred taxes are calculated using the tax rates which have been enacted or which in practice have been adopted by the reporting date.

The deferred tax liability relating to the retained earnings of the Baltic Group companies has not been recognised, as the assets are used to safeguard the foreign companies' own investment needs. The parent company has control over the dividend distribution policy of the Baltic subsidiaries, and there are no plans to distribute said earnings within the foreseeable future.

## Revenue recognition policies

Net sales is presented as revenue from the sales of products and services measured at fair value and adjusted for indirect taxes, discounts and translation differences resulting from sales in foreign currencies.

The Group sells food products, feed, animals and to a small extent slaughtering and transport services. The Group fulfils its performance obligation and recognises revenue when the product is delivered, and service is performed. Food products have limited shelf life, so quality and warranty issues realise quickly. There is no additional warranty provision recorded for the delivered products. Product and service prices and quantities do not include significant judgement. Variable discount periods are typically short, value is low, and usually end at year end so they can be reliably estimated. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service is short.



## Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operation is a material part of the Group that has been disposed of or classified as held for sale. Profit from discontinued operations is disclosed as a separate item in the other comprehensive income statement.

## Financial assets and liabilities

### Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

### Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and loan receivables under current and non-current financial assets.

### Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as financial income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group elected to classify irrevocably its non-listed equity investments under this category.

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

### Derecognition

Financial assets are derecognised from the balance sheet when the Group's contractual right to the cash flows has expired or when the risks and rewards of ownership have to a significant degree been transferred outside the Group.

**Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash, demand deposits and other highly liquid short-term investments which are easily exchangeable for a previously known amount of cash assets, and whose risk of a change in value is minimal. Items classified in cash and cash equivalents have a maturity of less than three months from the date of acquisition. Credit accounts relating to the Group accounts are included in current financial liabilities, and they are recognized as setoffs, as the Group has an agreement-based legal right to settle or otherwise eliminate the amount to be paid to the creditor in full or in part.

**Financial liabilities**

The Group's financial liabilities are classified into the following categories: financial liabilities recognised at fair value through profit or loss, and other financial liabilities at amortised cost.

Financial liabilities recognised at fair value through profit or loss are initially and subsequently measured at fair value with the same principles as corresponding financial assets. Derivative financial liabilities are included in this category. Other financial liabilities are initially recognised at fair value and transaction costs are included in the original carrying amount. Financial liabilities, except for derivative contract liabilities, are subsequently measured at amortised cost using the effective interest method. Financial liabilities are included in current and non-current liabilities. Financial liabilities are classified as current unless the Group has an unconditional right to defer payment for at least 12 months from the reporting date.

Borrowing costs directly attributable to the acquisition, construction or manufacture of a qualifying asset are capitalised as a part of the cost of the said asset when it is likely that these will generate future economic benefits, and when the costs can be measured reliably. During the financial years presented, the Group did not have any qualifying investments.

Other borrowing costs are recognised as an expense in the period in which they are incurred. Credit fees related to loan commitments are recognised as transaction costs in proportion to the extent that it is probable that the total loan commitment or a part of it will be raised. Credit fees are recognised on the balance sheet until the loan is raised. In connection with the drawdown, the credit fee related to loan commitments is recognised as part of the transaction costs. To the extent that it is probable that the loan commitment will not be raised, the credit fee is recognised as a prepaid expense in respect of the liquidity-related services and is accrued for the period of the loan commitment.

## Derivatives and hedge accounting

Derivative contracts are initially accounted for at fair value on the date on which the Group becomes a party to the contract and subsequently continue to be measured at fair value. Gains and losses arising from the measurement at fair value are treated in the income statement in the manner determined by the purpose of the derivative. The impacts on profit or loss arising from changes in the value of derivative contracts to which hedge accounting applies and which are effective hedges, are presented in a manner consistent with the hedged item. When derivative contracts are entered into, the Group treats the derivatives, as in the case of interest rate risk, as cash flow hedges, cash flow hedges of a highly probable forecast transaction, or derivatives that do not satisfy the criteria for applying hedge accounting. The Group documents the hedge accounting at the beginning of the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management and the hedging strategy applied. When initiating the hedge and thereafter when publishing all financial statements, the Group documents and assesses the effectiveness of the hedging relationships by examining the ability of the hedging instrument to nullify changes in the fair value of the hedged item or changes in cash flows.

### Cash flow hedging

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised under other comprehensive income and reported in the hedging reserve (included in Fair value reserve and other reserves). Gains and losses accrued from the hedging instrument are transferred to the income statement when the hedged item affects profit or loss. The ineffective portion of the hedging instrument's profit or loss is recognised as financial income or expenses (interest rate derivatives) or other operating expenses (commodity derivatives).

When a hedging instrument acquired to hedge cash flow matures or is sold, or when the criteria for hedge accounting are no longer satisfied, the profit or loss accrued from the hedging instrument remains in equity until the forecast transaction is carried out. Nevertheless, if the forecast hedged transaction is no longer expected to be realised the profit or loss accrued in equity is recognised immediately in the income statement.

### Other hedging instruments where hedge accounting is not applied

Despite the fact that some hedging relationships satisfy the Group's risk management hedging criteria, hedge accounting is not applied to them. Derivatives hedging against currency and interest risk fall into this category. In accordance with the Group's recognition policy, changes in the fair value of foreign exchange contracts hedging commercial flows are recognised in other operating income and expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations. On the balance sheet, derivatives relating to currency-denominated trade receivables or trade payables are presented in other current receivables or liabilities. Changes in the fair value of interest rate derivatives are recognised in financial items. On the balance sheet the fair value of interest rate derivatives is presented in current and non-current liabilities according to maturity.

Changes in the hedging reserve are presented in Note 19. 'Notes relating to equity' under 'Revaluation reserve'.

## Equity

All company shares are reported as share capital. Any repurchase of its own shares by the company is deducted from equity.

## Dividend

The dividend proposed to the Annual General Meeting by the Board of Directors is not deducted from distributable equity until approved by the AGM.

## EBIT

The concept of EBIT is not defined in IAS 1: Presentation of Financial Statements. The Group employs the following definition: EBIT is the net sum arrived at by adding other operating income to net sales, deducting from this purchase costs as well employee benefit expenses, depreciation and impairment losses, if any, and other operating expenses. All other income statement items are presented below EBIT.

Where necessary, major gains and losses on disposal, impairment and recognitions of discontinuations, reorganisations of operations or significant compensations or penalties paid out due to the legal verdict or settlement, recorded as items affecting comparability, as well as comparable EBIT may be presented separately in interim reports and financial statement bulletins.

## Critical accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions affecting the content and to exercise judgement in applying the accounting policies. The most important of these estimates affect the possible impairment of goodwill and other assets as well as provisions. Actual results may differ from these estimates.

The estimates made in preparation of the financial statements are based on the best judgement of management on the reporting date. The estimates are based on historical experience and assumptions regarding the future seen as most likely on the balance sheet date. Such assumptions are related to the expected development of the Group's financial operating environment in terms of sales and cost levels. The estimations and judgements are reviewed regularly.

The most important areas in which the estimations and judgement have been used are presented below.

The assumptions made by the management regarding the taxable income of the Group companies in the coming reporting periods are taken into account when estimating the amount of recognised deferred tax assets.

### Measurement to fair value of assets acquired in business combinations

Where possible, Management has used available market values as the basis of determining the fair value of the net assets acquired in a business combination. When this is not possible, measurement is principally based on the historic return from the asset item and its intended use in business operations. Measuring the intangible right at fair value has required the Management to make estimations on the future cash flows. Valuations are based on discounted cash flows as well as estimated disposal and repurchase prices and require Management's estimates and assumptions about the future use of assets and the effect on the company's financial position. Changes in the emphasis and direction of business operations may result in changes to the original measurement in the future.

In addition, both intangible and tangible assets are reviewed for any indications of impairment on each reporting date at the least.

### Impairment testing

The Group tests goodwill annually for possible impairment. The recoverable amounts of cash generating units are determined in calculations based on value in use. The preparation of these calculations requires the use of estimates. Although the assumptions used are appropriate according to the Management, the estimated recoverable amounts may differ substantially from those realised in future. The assumptions used in the impairment calculation involve judgement that the Management has used in estimating the development of different factors. The sensitivity analysis emphasises that the factors related to revenue growth are the most central sources of uncertainty in the methods, assumptions and estimates used in the calculations. This sensitivity derives from the challenging estimation of the future development of the previously mentioned factors.

**Deferred tax**

Deferred tax assets are recognised for the amount which it is likely that taxable profit will be generated in the future, against which the temporary difference can be utilised. The Group assesses the principles for recognising deferred tax in connection with the financial statements. To this end, it has assessed how likely subsidiaries are to have recoverable taxable income against which the unused tax losses or unused tax credits can be utilised.

**Valuation of inventories**

Management's principle is to recognise an impairment loss for slowly moving and outdated inventories based on the management's best possible estimate of possibly unusable inventories in the Group's possession at the reporting date. The Group has valuation policy for inventories which is approved by the Management. Management bases its estimates on systematic and continuous monitoring and evaluations. Also, biological assets' fair value includes Management's judgement.

**Application of new and revised IFRS norms**

There are no new IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Notes to income statement

**1. Business segments**

The Group's operational activities are the responsibility of the Group's CEO assisted by the Group Management Team. The division into business segments is based on the reports used by the Group Management Team for the allocation of resources and assessment of performance.

The Group Management Team monitors business performance by geographical area. The geographical segments monitored are Sweden, Finland, Denmark and the Baltics.

All the geographical segments manufacture, sell and market meat products, processed meat products and convenience foods. In addition to this the Group sells to a small extent slaughtering and transport services.

The net sales and EBIT for specific segments do not include intercompany sales and margins. Segments report external sales and cost of the external sales.

The assets and liabilities of the segments are items that are either directly or fairly allocated to the business of the relevant segment. Segment assets include tangible and intangible assets, shares in associates, inventories and non-interest bearing receivables. Segment liabilities include current non-interest bearing liabilities. Unallocated items include financial and tax items and items common to the entire Group.

Year 2020	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group administration	Eliminations	Unallocated	Group total
<b>Income statement information</b>									
Net sales	662.1	772.4	171.5	175.0	1,781.0	-	-	-	1,781.0
EBIT	19.1	10.7	1.0	3.7	34.4	-13.2	-	-	21.3
Share of associates' results	0.2	1.2	0.5	-	1.9	-	-	-	1.9
Financial income and expenses								-11.0	-11.0
Income taxes								-7.5	-7.5
<b>Result for the period</b>									<b>4.8</b>
<b>Balance sheet information</b>									
Segment assets	268.0	430.8	63.2	136.7	898.7	61.4	-65.1	-	894.9
Shares in associates	2.6	13.7	4.4	-	20.6	1.0	-	-	21.6
Unallocated assets	-	-	-	-	-	-	-	59.4	59.4
<b>Total assets</b>	<b>270.6</b>	<b>444.4</b>	<b>67.5</b>	<b>136.7</b>	<b>919.3</b>	<b>62.3</b>	<b>-65.1</b>	<b>59.4</b>	<b>975.9</b>
Segment liabilities	134.5	111.6	24.4	22.7	293.1	16.4	-5.1	-	304.4
Unallocated liabilities	-	-	-	-	-	-	-	342.4	342.4
<b>Total liabilities</b>	<b>134.5</b>	<b>111.6</b>	<b>24.4</b>	<b>22.7</b>	<b>293.1</b>	<b>16.4</b>	<b>-5.1</b>	<b>342.4</b>	<b>646.8</b>

<b>Other information</b>									
Sales, goods	662.1	769.1	171.5	174.6	1,777.4	-	-	-	1,777.4
Sales, services	0.0	3.2	-	0.4	3.6	-	-	-	3.6
Investments	19.1	56.2	8.0	5.8	89.1	1.6	-	-	90.7
Depreciation and amortisation	-12.9	-34.1	-4.9	-10.6	-62.6	-1.4	-	-	-63.9
Impairment	-	3.1	4.1	-	7.2	-	-	-	7.2
Goodwill	29.9	19.8	-	22.2	71.8	-	-	-	71.8
Cash flow before debt service	13.6	-28.3	-3.7	10.3	-8.1	2.5	-	-	-5.7

**Cash flow before debt service reconciliation  
Group total**

Cash flow from operating activities	63.7
Financial items (-)	12.3
Cash flow from investing activities	-85.1
Loan receivables Borrowings and repayments (-)	3.3
<b>Cash flow before debt service</b>	<b>-5.7</b>

<b>Year 2019</b>	<b>Swedish operations</b>	<b>Finnish operations</b>	<b>Danish operations</b>	<b>Baltic operations</b>	<b>Business segments, total</b>	<b>Group administration</b>	<b>Eliminations</b>	<b>Unallocated</b>	<b>Group total</b>
<b>Income statement information</b>									
Net sales	652.1	770.6	153.3	168.5	1,744.4	-	-	-	1,744.4
EBIT	7.1	-10.3	-9.8	5.0	-8.0	-15.2	-	-	-23.2
Share of associates' results	-0.3	0.5	0.3	-	0.4	-	-	-	0.4
Financial income and expenses								-11.7	-11.7
Income taxes								-3.0	-3.0
<b>Result for the period</b>									<b>-37.5</b>

<b>Balance sheet information</b>									
Segment assets	260.2	409.5	55.0	142.0	866.7	57.1	-67.9	-	855.9
Shares in associates	2.6	13.4	3.8	-	19.8	1.0	-	-	20.8
Unallocated assets	-	-	-	-	-	-	-	58.8	58.8
<b>Total assets</b>	<b>262.8</b>	<b>422.9</b>	<b>58.8</b>	<b>142.0</b>	<b>886.6</b>	<b>58.0</b>	<b>-67.9</b>	<b>58.8</b>	<b>935.6</b>
<b>Other information</b>									
Segment liabilities	129.5	124.8	20.7	24.4	299.5	18.5	-5.7	-	312.2
Unallocated liabilities	-	-	-	-	-	-	-	298.2	298.2
<b>Total liabilities</b>	<b>129.5</b>	<b>124.8</b>	<b>20.7</b>	<b>24.4</b>	<b>299.5</b>	<b>18.5</b>	<b>-5.7</b>	<b>298.2</b>	<b>610.5</b>
Sales, goods	652.1	767.4	153.3	168.0	1,740.8	-	-	-	1,740.8
Sales, services	0.0	3.1	-	0.5	3.6	-	-	-	3.6
Investments	10.4	16.3	2.6	11.9	41.2	1.9	-	-	43.0
Depreciation and amortisation	-13.0	-34.3	-7.9	-10.5	-65.7	-1.5	-	-	-67.3
Impairment	-	-7.3	-4.5	-	-11.8	-1.3	-	-	-13.1
Goodwill	28.7	19.8	-	22.2	70.7	-	-	-	70.7
Cash flow before debt service	18.7	21.1	-1.2	0.7	39.4	-0.7	-	-	38.7
<b>Cash flow before debt service reconciliation to Group total</b>									
Cash flow from operating activities									59.2
Financial items (-)									10.6
Cash flow from investing activities									-31.6
Loan receivables Borrowings and repayments (-)									0.4
<b>Cash flow before debt service</b>									<b>38.7</b>



**2. Other operating income**

	2020	2019
Rental income	1.3	1.5
Gain on disposal of non-current assets	1.0	0.3
Exchange rate gains related to foreign exchange derivatives	0.8	0.9
Insurance compensation	0.0	0.0
Government grants	0.2	-
Other operating income	3.9	4.0
<b>Other operating income</b>	<b>7.2</b>	<b>6.7</b>

**3. Materials and services**

	2020	2019
Purchases during the financial period	-1,051.4	-1,041.3
Increase/decrease in inventories	-18.4	-18.3
Work performed for own use and capitalised	0.0	0.0
<b>Materials and supplies</b>	<b>-1,069.7</b>	<b>-1,059.5</b>
External services	-145.8	-149.6
<b>Materials and services</b>	<b>-1,215.5</b>	<b>-1,209.1</b>

**4. Employee benefit expenses**

	2020	2019
Salaries and fees	-245.0	-242.4
Share-based payments	-1.2	-1.0
Pension expenses, defined contribution plans	-27.4	-27.5
Pension expenses, defined benefit plans	-1.8	-2.4
Total pension expenses	-29.3	-29.8
Other social expenses	-40.1	-40.4
<b>Employee benefit expenses</b>	<b>-315.6</b>	<b>-313.7</b>
<b>Key management personnel compensation:</b>		
Short-term employee benefits	-3.8	-3.7
Post-employment benefits	-0.5	-0.4
Termination benefits	-	-1.7
<b>Key management salaries, fees and benefits</b>	<b>-4.2</b>	<b>-5.8</b>
Average number of employees during financial year (incl. rented)		
Clerical employees	1,139	1,181
Workers	5,977	5,747
<b>Total</b>	<b>7,116</b>	<b>6,928</b>

<b>Members of Board of Directors:</b>	<b>Salaries and fees</b>	<b>Post employment benefit</b>
Reijo Kiskola, Chairman	0.109	-
Jari Mäkilä, Debuty Chairman	0.058	-
Per Olof Nyman	0.052	-
Harri Suutari	0.052	-
Terhi Tuomi	0.047	-
Anne Leskelä	0.055	-
Carl-Peter Thorwid	0.032	-
Ilkka Uusitalo	0.033	-
<b>Total</b>	<b>0.437</b>	<b>-</b>
<b>CEO</b>		
Tero Hemmilä	0.967	0.134

The Finnish members of the Group Leadership Team are covered by a contribution-based additional pension insurance. The contribution is 20 per cent of the insured person's annual pay. The retirement age according to the pension agreements is 63 years.

## Share-based payments

### Long-term incentive scheme 2018-2020

On 7 February 2018, HKScan announced that the Board of Directors had approved a share based incentive scheme for the Group's key management. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure. Each Plan covers a three-year period. The earning opportunity of the participants within these plans is capped.

### PSP 2018-2020

The potential share rewards under PSP 2018-2020, performance period 2018-2020, will be paid partly in the Company's A series shares and partly in cash in spring 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. As a main rule, no reward will be paid, if the key employee's employment or service ends before reward payment. The performance targets based on which the potential share reward under PSP 2018 - 2020 will be paid are the comparable EBIT (operating profit) and comparable EPS (earnings per share) of HKScan for year 2018 and HKScan operative cash flow for years 2019-2020.

The plan is directed to approximately 30 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 910 400 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the three-year plan exceeds three times its start value, the exceeding value of the reward will be cut and will not be paid.

**RSP 2018-2020**

The potential share rewards under RSP 2018-2020 will be paid partly in the Company's A series shares and partly in cash in spring 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee's employment or service ends before reward payment. In addition to the afore-mentioned employment precondition, the Board has for RSP 2018 – 2020 set a company level financial criterion, the fulfilment of which is a precondition for the payment of the share reward under the plan. This criterion is based on the average comparable ROCE (return on capital employed) before taxes.

The plan is directed to approximately 11 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 44 200 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the plan exceeds three times its start value, the exceeding value of the reward will be cut and will not be paid.

**PSP 2019-2021**

The potential share rewards under PSP 2019-2021, performance period 2019-2021, will be paid partly in the Company's A series shares and partly in cash in two tranches, the first in the spring 2022 and the second in the spring 2023. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. As a main rule, no reward will be paid, if the key employee's employment or service ends before reward payment. The performance criterion based on which the potential share rewards under PSP 2019-2021 will be paid is the operative cash flow of HKScan.

Eligible to participate in PSP 2019-2021 are the Group Management Team members, in total maximum of 10 individuals. The rewards to be paid on basis of the performance period are a maximum approximate total of 1322 200 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the three-year plan exceeds four times its start value, the exceeding value of the reward will be cut and will not be paid.

**RSP 2019-2021**

The potential share rewards under RSP 2019-2021 will be paid partly in the Company's A series shares and partly in cash in two tranches, the first in the spring 2022 and the second in the spring 2023. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee's employment or service ends before reward payment. In addition to the afore-mentioned employment precondition, the Board has for RSP 2019 – 2021 set a company level financial criterion, the fulfilment of which is a precondition for the payment of the share reward under the plan. This criterion is based on the average comparable ROCE (return on capital employed) before taxes.

Eligible to participate in RSP 2019-2021 are the Group Management Team members, in total maximum of 10 individuals. The rewards to be paid on basis of the performance period are a maximum approximate total of 881 500 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs. If the end value of the class A share of HKScan within the plan exceeds four times its start value, the exceeding value of the reward will be cut and will not be paid.

More specific information of the performance share plan grants are presented in the tables below.

**Share based incentives during the reporting period 1 Jan. 2020 - 31 Dec. 2020**

<b>Instrument</b>	<b>PSP 2019-2021 (2 tranche)</b>	<b>RSP 2019-2021 (2 tranche)</b>	<b>PSP 2019-2021 (1 tranche)</b>	<b>RSP 2019-2021 (1 tranche)</b>	<b>PSP 2018-2020</b>	<b>RSP 2018-2020</b>	<b>TOT/WA</b>
Initial amount, pcs	661,100	440,750	661,100	440,750	910,400	44,200	3,158,300
Initial allocation date	26/06/2019	26/06/2019	26/06/2019	26/06/2019	05/03/2018	05/03/2018	
Vesting date / payment approximately	31/03/2023	31/03/2023	31/03/2022	31/03/2022	31/03/2021	31/03/2021	
Maximum contractual life, yrs	3.7	3.7	2.7	2.7	3.0	3.0	3.1
Remaining contractual life, yrs	2.3	2.3	1.3	1.3	0.3	0.3	1.3
Vesting conditions	Operative Cash flow, Employment precondition	ROCE, Employment precondition	Operative Cash flow, Employment precondition	ROCE, Employment precondition	2018: EBIT (50%), EPS (50%); 2019-2020 Operative Cash flow, Employment precondition	ROCE, Employment precondition	
Number of persons at the end of the reporting year	8	8	8	8	32	7	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	
<b>Changes during the period 2020</b>							
	<b>PSP 2019-2021 (2 tranche)</b>	<b>RSP 2019-2021 (2 tranche)</b>	<b>PSP 2019-2021 (1 tranche)</b>	<b>RSP 2019-2021 (1 tranche)</b>	<b>PSP 2018-2020</b>	<b>RSP 2018-2020</b>	<b>Total</b>
1 Jan. 2020							
Outstanding at the beginning of the reporting period, pcs	661,100	440,750	661,100	440,750	592,272	41,600	2,837,572
Changes during the period							
Granted	0	0	0	0	168,533	0	168,533
Forfeited	11,150	7,450	11,150	7,450	70,467	2,400	110,067
Exercised	0	0	0	0	0	0	0
Expired	0	0	0	0	0	0	0
31 Dec. 2020							
Outstanding at the end of the period	649,950	433,300	649,950	433,300	690,339	39,200	2,896,039

**Fair value determination**

Based on IFRS2 standard, the fair value of share based incentives is determined at grant date and the fair value is expensed until vesting. The fair value is booked to equity and possible social security contributions to liability. The fair value of the equity is the fair value of Company share at grant date deducted with expected

dividends to be paid before reward payment; unless dividends are compensated within the plan. The fair value of the liability is recalculated on each reporting date until reward payment.

The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

**Valuation parameters for instruments granted during period**

Share price at grant, euros	1.76
Share price at reporting period end, euros	1.96
Maturity, years	1.0
Expected dividends, euros	0.00
Fair value at grant, euros	295,945
Fair value 31 Dec. 2020, euros	223,491

**Effect of share-based incentives on the result and financial position during the period**

Expenses for the financial year, share-based payments, euros	1,184,915
Expenses for the financial year, share-based payments, equity-settled, euros	1,167,916
Liabilities arising from share-based payments 31 Dec. 2020, euros	89,638
Estimated amount of cash to be paid to the tax authorities under the plans which have not yet been delivered	2,204,421

**5. Depreciation and impairment**

	2020	2019
Depreciation according to plan	-53.8	-55.8
Depreciation expense of right-of-use assets	-10.1	-11.4
Impairment	7.2	-13.1
<b>Total</b>	<b>-56.7</b>	<b>-80.4</b>

In 2019 an impairment loss amounting to EUR 6.9 million was recorded to Rauma factory slaughtering line that was planned to be replaced. In 2020 a reversal of impairment loss amounting to EUR 3,1 million was recorded as the plans have specified.

In 2019 an impairment loss amounting to EUR 4.5 million was recorded to buildings in Denmark segment due to impairment testing. In 2020 a reversal of impairment loss amounting to EUR 4.1 million was recorded as result impairment testing and improved profitability development.

**6. Other operating expenses**

	2020	2019
Rents/leases	-1.7	-2.0
Losses on disposal of non-current assets	-0.1	0.0
R&D costs	-4.9	-5.8
Non-statutory staff costs	-10.7	-10.1
Energy	-38.8	-37.5
Maintenance	-39.6	-43.2
Advertising, marketing and entertainment costs	-13.7	-12.6
Service, information management and office costs	-28.0	-24.2
Exchange rate losses related to foreign exchange derivatives	-1.5	-1.1
Other expenses	-39.9	-34.4
<b>Total other operating expenses</b>	<b>-179.1</b>	<b>-171.0</b>

**Audit fees**

The Group's audit fees paid to independent auditors are presented in the table below. The audit fees are in respect of the audit of the annual accounts and legislative functions closely associated therewith. Other expert services include tax consulting and advisory services in corporate arrangements.

	2020	2019
Audit fees	-0.5	-0.5
Tax consultation	0.0	0.0
Other fees	-0.1	-0.1
<b>Audit fees, total</b>	<b>-0.6</b>	<b>-0.6</b>

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total 52 thousand euros during the financial year 2020.

**7. Financial income and expenses**

<b>Financial income</b>	2020	2019
Dividend income	0.4	0.5
Interest income		
Interest income from loans and receivables	1.8	1.7
Other financial income	0.0	0.0
<b>Total</b>	<b>2.2</b>	<b>2.2</b>
<b>Financial expenses</b>		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-8.6	-8.6
Interest expenses from interest derivatives	-2.7	-3.1
Interest expenses from lease liabilities	-1.2	-1.4
Other financial expenses		
Change in fair value of interest rate derivatives	2.2	2.4
Other financial expenses	-2.9	-3.0
Exchange gains and losses from loans and other receivables	-0.1	0.0
Exchange gains and losses from derivative instruments	0.0	-0.2
<b>Total</b>	<b>-13.2</b>	<b>-13.9</b>
<b>Total financial income and expenses</b>	<b>-11.0</b>	<b>-11.7</b>

**8. Income taxes**

<b>Income taxes</b>	<b>2020</b>	<b>2019</b>
Income tax on ordinary operations	-2.4	-1.7
Tax for previous financial periods	0.0	0.1
Change in deferred tax liabilities and assets	-5.1	-1.4
<b>Income tax on ordinary operations</b>	<b>-7.5</b>	<b>-3.0</b>

**Cumulative tax rate reconciliation**

Accounting profit/loss before taxes	12.3	-34.5
Deferred tax at parent company's tax rate	-2.5	6.9
Effect of different tax rates applied to foreign subsidiaries	-0.3	0.4
Share of associates' results	0.4	0.1
Tax-exempt income	0.1	0.1
Non-deductible expenses	-0.1	-0.1
Unrecognised tax on the losses for the financial period	-5.7	-10.4
Tax for previous financial periods	0.0	0.1
Adjustments concerning previous financial periods	0.6	0.0
<b>Tax expenses in the income statement</b>	<b>-7.5</b>	<b>-3.0</b>

**9. Earnings per share**

	<b>2020</b>	<b>2019</b>
Profit for the period attributable to equity holders of the parent	1.2	-39.9
Hybrid loan issue costs and calculational interest	-2.0	-2.0
<b>Total</b>	<b>-0.9</b>	<b>-41.9</b>
Weighted average number of outstanding shares in thousands	96,952	79,943
Weighted average number of outstanding shares adjusted for dilution effect	96,952	79,943
Undiluted earnings per share (EUR/share)	-0.01	-0.52
Earnings per share adjusted for dilution effect (EUR/share)	-0.01	-0.52

## Notes to the balance sheet

### 10. Intangible assets

	2020	2019
Opening balance, cumulative acq cost	98.9	96.5
Translation differences	2.4	-1.1
Additions	5.4	0.7
Disposals	-0.2	-0.1
Reclassification between items	7.1	2.8
Closing balance, cumulative acq cost	113.7	98.9
Opening balance, cumulative depreciations	-33.2	-30.2
Translation differences	-0.2	0.0
Accumulated depreciation on disposals and reclassifications	0.1	0.1
Depreciation for the financial period	-4.3	-3.1
Closing balance, cumulative depreciations	-37.5	-33.2
<b>Intangible assets on 31 Dec.</b>	<b>76.2</b>	<b>65.8</b>

The trademarks included in the Swedish business operations, carrying amount EUR 54.4 (52.2) million, are tested for impairment each year. The Group has estimated that their useful life is unlimited. These are well known trademarks with a long history, high business and profitability impact and it is expected to be so also in the future. An impairment test is made on the segment level and it covers all the segment's assets, see detailed description in note 11. Remaining balance includes IT-software, other trademarks and connection fees.

### 11. Goodwill

	2020	2019
Opening balance	70.7	71.2
Translation differences	1.2	-0.5
<b>Closing balance</b>	<b>71.8</b>	<b>70.7</b>

#### Allocation of goodwill

All acquisitions resulting in the Group recognising goodwill have concerned the acquisition of net assets or business by an individual CGU and goodwill has been allocated to said CGU separately in respect of each acquisition. Goodwill has been allocated to a total of four CGUs.

Specification of goodwill	2020	2019
Finland	19.8	19.8
Sweden	29.9	28.7
Denmark	-	-
Baltics	22.2	22.2
<b>Total</b>	<b>71.8</b>	<b>70.7</b>

In addition to goodwill, trademarks related to Swedish business operations, carrying amount EUR 54.4 (52.2) million, have unlimited useful life. These are tested for impairment each year.

#### Impairment testing

The company tests for impairment each year. The key assumptions in testing are the growth prospects of the business, cost trends, and the discount rate employed.

Management reviews the business performance based on business segments and it has identified Sweden, Finland, Denmark and the Baltics as the main cash generating units. Goodwill is monitored by the Management at the CGU level.



In impairment testing all the CGU's assets are tested against the recoverable amounts in the future. The recoverable amounts of the CGUs' are based on value-in-use calculations. The cash flow estimates employed are based on management's financial plans. The cash flow for terminal period is extrapolated using a cautious growth factor (1.5 per cent in Baltics and others 0.5 per cent). The growth factors of the CGUs for the period following the forecast period do not exceed the long-term historical growth of the CGUs.

The interest rate has been defined as the weighted average cost of capital (WACC). Calculation of the interest rate is based on market information on companies operating in the same field (control group). In addition, the risks in each market area have been taken into account in the calculation. The higher risk related in the Finnish and Danish operations are reflected in the discount factor of the CGU. The anticipated impact of the Covid-19 and the animal diseases have been incorporated in the management's financial plans. The uncertainty related to the long-term impact of the pandemic and animal diseases on the market has been incorporated in the discount rates. The interest rates used before taxes are 9.0 (9.3) per cent in Sweden, 7.6 (8.5) per cent in Finland, 10.3 (10.1) per cent in Denmark and 7.3 (7.5) per cent in the Baltic countries.

The sensitivity of each CGU to impairment is tested by varying the discount rate and future cash flow before debt service. Based on the sensitivity analyses conducted, an increase of 1 percentage point in WACC would result in impairment amounting to EUR 4 million in Denmark and EUR 14 million in the Baltics. If EBITDA in testing would be 10 % smaller, impairment loss amounting to EUR 10 million in Denmark and EUR 29 million in the Baltics would have to be booked. Following discount rate increases in percentage points would not cause any impairment, provided that other factors remained unchanged: Sweden 3.4, Finland 1.7, Denmark 0.0 the Baltics 0.2. Recoverable amounts in testing exceeded the assets values by EUR 0 million in Denmark and EUR 4 million in the Baltics.

The following table presents EBITDA in EUR million used in testing.

	2019	2020	2021	terminal
Sweden	20.8	28.9	33.0	33.0
Finland	29.3	33.9	38.4	52.4
Denmark	1.8	6.5	5.9	8.8
Baltics	13.9	13.9	16.6	17.6

As far as Management is aware, reasonable changes in assumptions used in respect of other factors do not necessitate impairment for the goodwill of Sweden or Finland. Sudden, and other than reasonably possible changes in the business environment of cash generating unit, may result in an increase in capital costs or in a situation where a cash generating unit is forced to assess clearly lower cash flows. Recognition of an impairment loss is possible in such situations.

An impairment testing performed resulted in recognition of reversal of impairment amounting to EUR 4.1 million in Denmark. The reversal of impairment was done to buildings which had an impairment amounting to EUR 4.5 million recorded in the previous year.

**12. Tangible assets**

<b>Tangible assets 2020</b>	<b>Land and water</b>	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Other property, plant and equipment</b>	<b>Pre-payments and work in progress</b>	<b>Total</b>
Opening balance, cumulative acq cost	10.5	529.9	764.2	20.3	19.6	1,344.5
Translation differences	0.1	2.4	7.3	0.0	0.5	10.3
Additions	37.8	1.3	4.4	0.9	33.7	78.1
Disposals	-0.1	-6.0	-6.9	-0.9	0.0	-13.9
Reclassification between items	0.1	4.2	21.7	0.1	-33.2	-7.1
Closing balance, cumulative acq cost	48.4	531.8	790.8	20.4	20.5	1,411.8
Opening balance, cumulative depreciations	0.0	-332.0	-600.4	-17.4	-	-949.8
Translation differences	-	-2.6	-5.7	0.0	-	-8.2
Accumulated depreciation on disposals and reclassifications	-	6.4	7.2	0.2	-	13.8
Depreciation for the financial period	-	-13.6	-35.0	-0.9	-	-49.5
Impairment charge reversals	-	4.1	3.1	-	-	7.2
Closing balance, cumulative depreciations	0.0	-337.7	-630.7	-18.1	-	-986.5
<b>Tangible assets on 31 Dec. 2020</b>	<b>48.4</b>	<b>194.1</b>	<b>160.1</b>	<b>2.3</b>	<b>20.5</b>	<b>425.3</b>
Right-of-use assets (Note 13)	2.2	15.6	15.6	-	-	33.3
<b>Tangible assets total on 31 Dec. 2020</b>	<b>50.5</b>	<b>209.7</b>	<b>175.6</b>	<b>2.3</b>	<b>20.5</b>	<b>458.7</b>

<b>Tangible assets 2019</b>	<b>Land and water</b>	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Other property, plant and equipment</b>	<b>Pre-payments and work in progress</b>	<b>Total</b>
Opening balance, cumulative acq cost	10.6	526.1	742.9	19.4	25.0	1,324.0
Translation differences	0.0	-1.2	-3.1	0.0	-0.2	-4.5
Additions	-	1.0	4.4	1.1	24.5	31.0
Disposals	-	-0.2	-2.3	-0.6	-	-3.1
Impairment losses	-	-	-	-	-1.8	-1.8
Reclassification between items	-	4.2	22.3	0.5	-28.0	-1.1
Closing balance, cumulative acq cost	10.5	529.9	764.2	20.3	19.6	1,344.5
Opening balance, cumulative depreciations	0.0	-315.1	-560.2	-16.2	-	-891.6
Translation differences	-	1.2	2.3	0.0	-	3.5
Accumulated depreciation on disposals and reclassifications	-	0.2	2.3	-0.1	-	2.4
Depreciation for the financial period	-	-13.8	-37.8	-1.1	-	-52.7
Impairment losses	-	-4.5	-6.9	-	-	-11.4
Closing balance, cumulative depreciations	0.0	-332.0	-600.4	-17.4	-	-949.8
<b>Tangible assets on 31 Dec. 2019</b>	<b>10.5</b>	<b>197.9</b>	<b>163.8</b>	<b>2.9</b>	<b>19.6</b>	<b>394.7</b>
Right-of-use assets (Note 13)	10.0	18.7	15.7	-	-	44.3
<b>Tangible assets total on 31 Dec. 2019</b>	<b>20.5</b>	<b>216.6</b>	<b>179.5</b>	<b>2.9</b>	<b>19.6</b>	<b>439.1</b>

Other property, plant and equipment include EUR 1.0 (1.3) million biological assets. These are animals producing slaughter animals and they have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

### 13. Right-of-use assets and lease liabilities

The company leases land, premises, machinery and equipment. Lease durations vary from few years for machinery and equipment up to decades for land. An expense amounting to EUR -1.7 (-2.0) million has been recognised in other operating expenses from short term and items of low value leases.

The disposal of land and water in 2020 was due to acquisition of Vantaa plot. The addition of land and water in 2019 was due to extension of minimum rental period of Vantaa plot.

In the end of 2021, the company starts to use new logistics center in Estonia. A 10-year lease agreement has been made from the site. The use of site will increase of right-of-use asset and lease liability by approximately EUR 8 million.

	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2020	10.0	18.7	15.7	44.3	46.3
Translation differences	-	0.2	0.1	0.3	0.3
Additions	0.3	2.0	4.9	7.2	7.2
Disposals	-7.7	-0.2	-	-8.0	-7.9
Depreciation for the financial period	-0.4	-4.6	-5.1	-10.1	-
Reclassification between items	-	-	-	-	0.0
Other changes	-	-0.4	0.0	-0.4	-
Payments	-	-	-	-	-10.3
<b>Closing balance on 31 Dec. 2020</b>	<b>2.2</b>	<b>15.6</b>	<b>15.6</b>	<b>33.3</b>	<b>35.6</b>

	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2019	6.4	19.7	20.0	46.1	46.8
Translation differences	-	-0.2	-0.1	-0.2	-0.2
Additions	4.8	3.2	3.3	11.3	11.3
Disposals	-	0.4	0.0	0.4	-
Depreciation for the financial period	-1.3	-4.4	-5.8	-11.4	-
Reclassification between items	-	0.0	-1.8	-1.8	0.0
Payments	-	-	-	-	-11.6
<b>Closing balance on 31 Dec. 2019</b>	<b>10.0</b>	<b>18.7</b>	<b>15.7</b>	<b>44.3</b>	<b>46.3</b>

	2020	2019
Depreciation expense of right-of-use assets	-10.1	-11.4
Interest expense on lease liabilities	-1.2	-1.4
<b>Total amounts recognised in profit or loss</b>	<b>-11.3</b>	<b>-12.8</b>

Maturity of lease liabilities is disclosed in note 24 regarding interest bearing loans.

## 14. Shares in associates and joint ventures

	2020	2019
Opening balance	20.8	21.1
Translation differences	0.1	-0.1
Additions	0.0	0.0
Impairment losses	-	-0.2
Disposals	-0.6	-
Closing balance	20.3	20.9
Share of associates' and joint ventures' results	1.9	0.4
Dividend from associates and joint ventures	-0.7	-0.5
<b>Shares in associates on 31 Dec.</b>	<b>21.6</b>	<b>20.8</b>
<b>Effect on the Group's earnings:</b>		
Associates	0.9	-0.1
Joint ventures	1.0	0.5
<b>Total</b>	<b>1.9</b>	<b>0.4</b>
<b>Book value in the Group's balance sheet:</b>		
Associates	9.9	9.9
Joint ventures	11.6	10.9
<b>Total</b>	<b>21.6</b>	<b>20.8</b>

Associated companies and joint ventures consolidated in the Group's financial statements are listed in note 27. The Group has no single material associated companies or joint ventures. The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services.

There are no contingent liabilities relating to the Group's interest in the associates and joint ventures.

## 15. Financial assets and liabilities

### Financial instruments by category 2020

	Assets and liabilities at fair value through profit and loss	Financial assets at amortised cost	Equity instruments at fair value through OCI	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
<b>Assets as per balance sheet</b>								
Non-current trade and other receivables	-	6.2	-	-	-	6.2	-	-
Other shares and holdings	-	-	12.2	-	-	12.2	12.2	3.0
Trade and other receivables *	-	116.1	-	-	-	116.1	-	-
Derivative financial instruments	-	-	-	-0.1	-	-0.1	-0.1	2
Cash and bank	-	46.8	-	-	-	46.8	-	-
<b>Total</b>	<b>0.0</b>	<b>169.1</b>	<b>12.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>181.3</b>	<b>-</b>	<b>-</b>

\* Trade and other receivables balance sheet amount of EUR 122.4 million euros includes derivative financial instruments amounting to EUR -0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 6.0 million euros.

<b>Liabilities as per balance sheet</b>								
Non-current interest-bearing liabilities	-	-	-	-	249.2	249.2	-	-
Non-current non-interest bearing liabilities	-	-	-	-	0.0	0.0	-	-
Current interest-bearing liabilities	-	-	-	-	97.2	97.2	-	-
Derivative financial instruments *	5.3	-	-	-	-	5.3	5.3	2
Trade and other payables *	-	-	-	-	222.7	222.7	-	-
<b>Total</b>	<b>5.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>569.1</b>	<b>574.5</b>	<b>-</b>	<b>-</b>

\* Trade and other payables balance sheet amount of EUR 226.8 million euros includes derivative financial instruments amounting to EUR 3.6 million euros and advance payments that are not financial instruments amounting to EUR 0.5 million euros.

**Financial instruments by category 2019**

	Assets and liabilities at fair value through profit and loss	Financial assets at amortised cost	Equity instruments at fair value through OCI	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
<b>Assets as per balance sheet</b>								
Non-current trade and other receivables	-	3.2	-	-	-	3.2	-	-
Other shares and holdings	-	-	11.7	-	-	11.7	11.7	3.0
Trade and other receivables *	-	118.2	-	-	-	118.2	-	-
Derivative financial instruments	-	-	-	0.6	-	0.6	0.6	2
Cash and bank	-	37.5	-	-	-	37.5	-	-
<b>Total</b>	<b>0.0</b>	<b>158.9</b>	<b>11.7</b>	<b>0.6</b>	<b>0.0</b>	<b>171.2</b>	<b>-</b>	<b>-</b>
*) Trade and other receivables balance sheet amount of EUR 124.7 million euros includes derivative financial instruments amounting to EUR 0.4 million euros and prepayments and other items that are not financial instruments amounting to EUR 8.9 million euros.								
<b>Liabilities as per balance sheet</b>								
Non-current interest-bearing liabilities	-	-	-	-	262.7	262.7	-	-
Non-current non-interest bearing liabilities	-	-	-	-	-0.1	-0.1	-	-
Current interest-bearing liabilities	-	-	-	-	50.6	50.6	-	-
Derivative financial instruments *	6.4	-	-	-	-	6.4	6.4	2
Trade and other payables *	-	-	-	-	224.8	224.8	-	-
<b>Total</b>	<b>6.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>538.0</b>	<b>544.4</b>	<b>-</b>	<b>-</b>
*) Trade and other payables balance sheet amount of EUR 228.2 million euros includes derivative financial instruments amounting to EUR 3.2 million euros and advance payments that are not financial instruments amounting to EUR 0.3 million euros.								

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value. Change in value between year is due to translation difference. The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Fair value of financial instruments, other than those recorded at fair value (hierarchy 2), is close to the balance sheet value and therefore they are not separately disclosed. EUR 125.4 million bond that has a balance sheet value of EUR 124.2 million has a market value of EUR 120.7 million at the end of 2020.

## 16. Deferred tax assets and liabilities

### Specification of deferred tax assets

	1 Jan. 2020	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2020
Pension benefits	8.3	0.3	0.0	0.1	8.6
Other timing differences	2.7	0.0	-0.9	-	1.9
Postponed tax depreciations	9.9	-	-	-	9.9
Non-deductible interest expense	4.5	-	-	-	4.5
Adopted losses	18.2	-	-2.4	-	15.8
Arising from hedge accounting	-0.2	0.0	-	0.3	0.1
<b>Total</b>	<b>43.4</b>	<b>0.3</b>	<b>-3.2</b>	<b>0.4</b>	<b>40.9</b>

### Specification of deferred tax liabilities

	1 Jan. 2020	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2020
Depreciation difference	3.0	0.1	2.0	-	5.1
Other timing differences	1.2	0.0	-0.1	-	1.1
Arising from consolidation	12.4	0.5	0.0	-	12.8
<b>Total</b>	<b>16.6</b>	<b>0.6</b>	<b>1.9</b>	<b>-</b>	<b>19.0</b>

### Specification of deferred tax assets

	1 Jan. 2019	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2019
Pension benefits	7.1	-0.1	0.2	1.1	8.3
Other timing differences	3.9	0.0	-1.2	-	2.7
Postponed tax depreciations	9.9	-	-	-	9.9
Non-deductible interest expense	4.5	-	-	-	4.5
Adopted losses	18.8	-	-0.6	-	18.2
Arising from hedge accounting	-0.9	0.0	-	0.7	-0.2
<b>Total</b>	<b>43.3</b>	<b>-0.1</b>	<b>-1.5</b>	<b>1.8</b>	<b>43.4</b>



**Specification of deferred tax liabilities**

	1 Jan. 2019	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2019
Depreciation difference	2.8	0.0	0.2	-	3.0
Other timing differences	1.4	0.0	-0.2	-	1.2
Arising from consolidation	12.7	-0.2	-0.1	-	12.4
<b>Total</b>	<b>16.9</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>16.6</b>

EUR 30.2 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 the turnaround programme takes effect.

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 well. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2022 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 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.

In 2020, the company was able to utilize some of the tax losses as a result of improved operational result and deferring tax depreciation. As a result, EUR 2.3 (1.0) million deferred tax asset was used and recognized as a tax expense in 2020. Unrecognized Finnish deferred tax asset at the end of 2020 was EUR 16.6 million. The losses in taxation in Finland expire with the following schedule: EUR 21.5 million in 2023, EUR 10.2 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027, EUR 27.5 million in 2028 and EUR 10.3 million in 2029.

Deferred tax liability has not been recognized in respect of retained profits of subsidiaries, amounting to EUR 19.3 (21.6) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2020, the Group had EUR 31.5 (26.1) million of unrecognized deferred tax asset.

**17. Inventories**

	2020	2019
Materials and supplies	59.8	59.3
Unfinished products	4.6	4.7
Finished products	47.5	41.8
Other inventories	0.5	0.2
Prepayments for inventories	1.5	1.9
Biological assets	5.2	7.5
<b>Total inventories</b>	<b>119.0</b>	<b>115.5</b>

Fair value hierarchy level of the biological assets is 2. There were no transfers between any levels during the year. Fair value of live animals is derived from the quoted market price for slaughtered animals by using historical yield. The change in the fair value of the biological assets amounted to EUR -2.0 (2.3) million.

**18. Trade and other current receivables**

	2020	2019
Trade receivables from associates	0.8	1.3
Other receivables from associates	0.4	0.2
Current receivables from associates	1.1	1.5
Trade receivables	104.5	110.0
Loan receivables	0.0	0.0
Other receivables	9.2	5.0
Current receivables from others	113.7	115.0
Current derivative receivables	-0.1	0.4
Interest receivables	1.6	1.8
Other prepayments and accrued income	6.0	8.7
Current prepayments and accrued income	7.6	10.5
Trade and other receivables	122.4	127.4
Tax receivables (income taxes)	-	0.2
<b>Total current receivables</b>	<b>122.4</b>	<b>127.6</b>

### Age breakdown of trade receivables and items recognised as impairment losses

	2020	Expected loss rate	Impairment losses	Net 2020
Unmatured	101.4	0,01 % - 0,1 %	-0.10	101.3
Matured:				
Under 30 days	3.6	0,01 % - 0,1 %	0.0	3.6
30-60 days	0.2	30 % - 35 %	-0.1	0.2
61-90 days	0.0	30 % - 35 %	0.0	0.0
over 90 days*	0.6	50 % - 55 %	-0.4	0.2
<b>Total</b>	<b>105.9</b>		<b>-0.6</b>	<b>105.3</b>

\*Comprise among other receivables to be set off against payments for animals.

	2019	Expected loss rate	Impairment losses	Net 2019
Unmatured	104.9	0.01 % - 0.1 %	-0.03	104.9
Matured:				
Under 30 days	5.7	0.01 % - 0.1 %	0.0	5.7
30-60 days	0.4	30 % - 35 %	-0.1	0.3
61-90 days	0.1	30 % - 35 %	-0.1	0.0
over 90 days*	1.1	50 % - 55 %	-0.7	0.4
<b>Total</b>	<b>112.2</b>		<b>-1.0</b>	<b>111.3</b>

\*Comprise among other receivables to be set off against payments for animals.

Expected loss rates used by the company represent long term average bad debt history adjusted with management judgment and estimate of the future. In addition, netting right related to animal sales receivables is considered. As result over 90 days old receivable are not fully written down. Covid-19 pandemic has not significantly impacted realised or expected credit losses.

### The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2020	2019
Opening loss allowance at 1 January	1.0	0.8
Receivables written off during the year as uncollectible	-0.3	-2.4
Allowance exceeded	0.0	1.6
Increase in loss allowance recognised in profit or loss during the year	0.6	1.0
Unused amount reversed	-0.7	0.0
Closing loss allowance at 31 December	0.6	1.0

### 19. Cash and cash equivalents

The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Cash and cash equivalents according to the cash flow statement are as follows:

	2020	2019
Cash and bank	46.8	37.5
Short-term money market investments	-	-
Other financial instruments	-	-
<b>Total cash and cash equivalents</b>	<b>46.8</b>	<b>37.5</b>

There are no significant concentrations of credit risk associated with cash and cash equivalents.

## 20. Notes relating to equity

The effects of changes in the number of outstanding shares are presented below.

	Number of outstanding shares (1000)	Share capital (EUR million)	Share premium reserve (EUR million)	RIUE (EUR million)	Treasury shares (EUR million)	Total (EUR million)
1 Jan. 2019	54,034	66.8	72.9	143.5	0.0	283.1
31 Dec. 2019	96,952	66.8	72.9	215.4	-4.8	350.3
1 Jan. 2020	96,952	66.8	72.9	215.4	-4.8	350.3
31 Dec. 2020	96,952	66.8	72.9	215.4	-4.8	350.3

The shares have no nominal value. All issued shares have been paid up in full.

The company's stock is divided into Series A and K shares, which differ from each other in the manner set out in the Articles of Association. Each share gives equal entitlement to a dividend. K Shares produce 20 votes and A Shares 1 vote each. A Shares are numbered 93 551 791 and K Shares 5 400 000.

### The equity reserves are described below:

#### Share premium reserve

In share issues, decided while the earlier Finnish Companies Act (29.9.1978/734) was in force, payments in cash or kind obtained on share subscription, less transaction costs, were recognised under equity and the share premium reserve in accordance with the terms of the arrangements.

#### Reserve for invested unrestricted equity

The reserve for invested unrestricted equity (RIUE) contains other investments of an equity nature and share issue price inasmuch as this is not recognised under equity pursuant to an express decision to that effect.

#### Treasury shares

At the beginning and in the end of the financial year 2020, HKScan held 2 000 000 treasury A shares. At the end of the year, they had a market value of EUR 3.9 million and accounted for 2.02 per cent of all shares and 1.0 per cent of all votes. The acquisition cost is presented in the balance sheet as a deduction from equity.

#### Translation differences

The translation differences reserve includes exchange differences arising on the translation of foreign units' financial statements, as well as gains and losses arising on the hedging of net investments in foreign units, when hedge accounting requirements are satisfied.

#### Revaluation reserve and other reservest

These reserves are for changes in the value of available-for-sale financial assets and changes in the fair value of derivative instruments used in cash flow hedging. The revaluation reserve includes EUR 0.6 million (EUR 0.6 million) other than hedging instrument related items. The following is an itemisation of events in the hedging instruments reserve during the financial period.

Hedging instruments reserve	2020	2019
Fair value reserve and hedging instruments reserve on 1 Jan.	0.4	4.6
Amount recognised in equity in the financial period (effective portion), commodity derivatives	-1.9	-4.5
Share of deferred tax asset of changes in period	0.1	0.3
Fair value reserve and hedging instruments reserve on 31 Dec.	-1.3	0.4

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR 0.2 (3.6) million from commodity derivatives.

#### Dividends

Dividend of EUR 0.00 (0.00) per share, totaling EUR 0.0 (0.0) million, was distributed in 2020. Since the reporting date, the Board of Directors has proposed that no dividend will be paid from the previous financial year.

**Hybrid loan**

In September 2018 the Group issued a EUR 40 million hybrid bond to strengthen the company's capital structure. After the conversions carried out in the context of the share issue in June 2019, the outstanding amount is EUR 25.9 million. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date, but the Group is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date. An interest payment obligation is set up if the Annual Shareholders' Meeting decides to distribute dividends. If no dividend is distributed, the company can decide upon the payment of interest separately. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.6. The payment of interest is recorded from retained earnings.

**21. Pension obligations**

	2020	2019
Pension liability/receivable in balance sheet		
Defined benefit plans	42.2	40.3
Other long-term employee benefits	0.9	0.8
<b>Pension liability (+)/receivable (-) in balance sheet</b>	<b>43.1</b>	<b>41.1</b>

The Group's defined benefit plans consist of the pension liability for the former CEO of the parent company which is unfunded and the Swedish pension programme which is funded. The company's pension commitment in respect of the defined benefit relating to the former CEO was EUR 2.5 million on 31 December 2020. The remaining pension liability relates to the Swedish pension programme. Through its defined benefit plans the Group is exposed to a number of risks such as changes in discount rate, salary increases, inflation and life expectancy. Expected contribution into the plans for 2021 is EUR 1.8 million.

The defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. HKScan has a pension foundation in Sweden to secure obligations relating to retirement pensions for white-collar workers in accordance with the ITP2 plan. Only new white-collar

employees born before, or in 1979 have the possibility to choose the ITP2 solution. Pension foundation has employer and employee representatives in the board. The plan assets are invested in various funds in accordance with a distribution that is determined by the foundation's Board of Directors. Swedish companies can secure new pension obligations through pension insurance, balance-sheet provisions or pension-fund contributions. A credit insurance policy must be taken out for the value of the obligations. Special pension tax is applicable for the pension plan in Sweden.

<b>Summary of provision for post-employment benefits, defined benefit plans</b>	2020	2019
Obligations	-108.3	-104.5
Fair value of plan assets	76.5	74.3
Special pension tax	-7.7	-7.3
<b>Net provision for funded post-employment benefits</b>	<b>-39.7</b>	<b>-37.6</b>
Provision for unfunded post-employment benefits	-2.5	-2.7
<b>Total provision for post-employment benefits, defined benefit plans</b>	<b>-42.2</b>	<b>-40.4</b>

<b>Pension costs in the income statement</b>	2020	2019
Current year service costs	-1.0	-1.2
Interest costs	-1.5	-2.3
Interest income	1.0	1.6
Early retirement pensions	0.0	-0.1
Special pension tax	-0.3	-0.4
<b>Pension costs for defined benefit plans</b>	<b>-1.8</b>	<b>-2.4</b>
Pension costs for defined contribution plans	-28.0	-27.5
<b>Total pension costs for the period</b>	<b>-29.8</b>	<b>-29.8</b>

<b>Pension costs in other comprehensive income</b>	2020	2019
Changes in actuarial assumptions	-0.3	-4.3
Special pension tax	-0.1	-1.0
Income tax effect	0.1	1.1
<b>Total pension costs in other comprehensive income after taxes</b>	<b>-0.3</b>	<b>-4.2</b>

The following information is about the funded defined benefit plan the Group has in Sweden:

<b>Obligations</b>	<b>2020</b>	<b>2019</b>
Obligations opening balance	-104.5	-101.5
Current year service costs	-1.0	-1.2
Interest costs	-1.5	-2.3
Early retirements	0.0	-0.1
Remeasurements:		
Effect of changes in financial assumptions	-3.0	-7.3
Effect of experience adjustments	0.7	0.8
Exchange rate translation	-4.3	1.9
Benefits paid	5.2	5.1
<b>Obligations closing balance</b>	<b>-108.3</b>	<b>-104.5</b>
<b>Fair value of plan assets</b>	<b>2020</b>	<b>2019</b>
Plan assets opening balance	74.3	75.7
Interest income	1.0	1.6
Remeasurements (experience adjustments)	2.0	2.2
Exchange rate translation	3.1	-1.4
Settlement paid	-3.8	-3.8
<b>Plan assets closing balance</b>	<b>76.5</b>	<b>74.3</b>

<b>Assumptions applied for actuarial calculations, %</b>	<b>2020</b>	<b>2019</b>
Discount rate	1.00	1.40
Expected salary increase	1.80	2.00
Inflation	1.5	1.7
Personnel turnover rate	4	4
Life expectancy	DUS 14	DUS 14

<b>Plan assets by category %</b>	<b>2020</b>	<b>2019</b>
Interest funds	69	70
Equity instrument funds	31	30

<b>Sensitivity analysis 2019, effect on obligation (+decrease/-increase), EUR million</b>	<b>Change</b>	<b>Used value</b>	<b>Change</b>
Discount rate	-0.50%	1.00%	0.50%
	-8.3	-108.3	7.4
Salary increase	-0.50%	1.80%	0.50%
	0.9	-108.3	-1.1
Inflation	-0.50%	1.50%	0.50%
	6.6	-108.3	-7.3
Life expectancy	-1 year	DUS 14	1 year
	5.0	-108.3	-5.1

Average duration of the obligation is 14 years.

**22. Provisions**

	1 Jan. 2020	Translation difference	Increase in provisions	Exercised in financial period(-)	Reversals of provisions	Reclassification between items	31 Dec. 2020
Non-current provisions	6.2	0.0	-	-0.1	-0.9	-	5.2
Current provisions	1.7	0.0	3.3	-1.5	-	-	3.5
<b>Total</b>	<b>7.9</b>	<b>0.0</b>	<b>3.3</b>	<b>-1.6</b>	<b>-0.9</b>	<b>0.0</b>	<b>8.7</b>

	1 Jan. 2019	Translation difference	Increase in provisions	Exercised in financial period (-)	Reversals of provisions	Reclassification between items	31 Dec. 2019
Non-current provisions	7.0	0.0	-	-0.1	-	-0.6	6.2
Current provisions	0.7	0.0	1.9	-1.6	-	0.6	1.7
<b>Total</b>	<b>7.6</b>	<b>0.0</b>	<b>1.9</b>	<b>-1.7</b>	<b>0.0</b>	<b>0.0</b>	<b>7.9</b>

In 2020 a current provision amounting to EUR 3.3 million has been recorded due to decision by the Danish tax authorities, according to which the company should repay past refunds of energy taxes. 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 will appeal the decision issued to it.

In 2017 a lot restoration provision amounting to EUR 5.0 million has been recorded as part of the acquisition cost of Rauma facility into non-current provisions. The amount is based on an estimate. Provision has been capitalized as part of the building's value and it is depreciated during the lot rental agreement.

**Legal matters**

A number of Group companies are, and will likely continue to be subject to various legal proceedings and investigations that arise from time to time. As a result, the Group may incur substantial costs that may not be covered by insurance and could affect business and reputation. While Management does not expect any of these legal proceedings to have a material adverse effect on the Group's financial position, litigation is inherently unpredictable and the Group may in the future incur judgments, or enter into settlements, that could have a material adverse effect on the results of operations and cash flows.

**23. Liabilities**

	2020	2019
<b>Non-current liabilities</b>		
Interest-bearing		
Bond	124.2	123.5
Bank loans	90.6	94.2
Pension loans	6.4	8.6
Non-current lease liabilities	26.4	36.5
Other liabilities	1.6	-
<b>Non-current interest-bearing liabilities</b>	<b>249.2</b>	<b>262.7</b>
Non-interest-bearing		
Other liabilities	0.0	-0.1
Derivatives	1.8	3.2
<b>Non-current non-interest-bearing liabilities</b>	<b>1.8</b>	<b>3.1</b>
Non-current provisions	5.2	6.2
Deferred tax liability	19.0	16.6
Pension obligations	43.1	41.1
<b>Non-current liabilities</b>	<b>318.3</b>	<b>329.8</b>
<b>Current interest-bearing liabilities</b>		
Commercial paper	71.6	34.9
Pension loans	2.1	2.1
Bank loans	13.6	3.6
Current lease liabilities	9.2	9.8
Other liabilities	0.6	0.2
<b>Current interest-bearing liabilities</b>	<b>97.2</b>	<b>50.6</b>

	2020	2019
<b>Trade and other payables</b>		
Advances received	0.5	0.3
Trade payables	117.6	128.1
Refund liabilities	7.4	6.3
Accruals and deferred income		
Short-term interest payable	2.0	2.0
Matched staff costs	61.0	55.8
Other short-term accruals and deferred income	25.5	22.8
Derivatives	3.6	3.2
Other liabilities	9.2	9.7
<b>Trade and other payables</b>	<b>226.8</b>	<b>228.3</b>
Income tax liability	1.0	0.1
Current provisions	3.5	1.7
<b>Current liabilities</b>	<b>328.4</b>	<b>280.7</b>
<b>Liabilities</b>	<b>646.8</b>	<b>610.5</b>

Amounts of the Group's interest-bearing liabilities and their contractual re-pricing periods are as follows:

	31 Dec. 2020	31 Dec. 2019
Under 6 months	184.4	132.7
6-12 months	0.2	10.9
1-5 years	126.2	123.5
Over 5 years	-	-
<b>Total</b>	<b>310.8</b>	<b>267.1</b>



**Interest-bearing net debt reconciliation**

	2020	2019
Cash and cash equivalents	46.8	37.5
Liquid investments	0.0	0.0
Lease liabilities due within 1 year	-9.2	-9.8
Lease liabilities due after 1 year	-26.4	-36.5
Borrowings due within one year (including overdraft)	-87.9	-40.8
Borrowings due after one year	-222.8	-226.3
<b>Interest-bearing net debt</b>	<b>-299.6</b>	<b>-275.8</b>

	Other assets		Liabilities from financing activities				Total
	Cash/bank overdraft	Liquid investments	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
Interest-bearing net debt on 1 Jan 2019	29.4	0.2	-9.9	-36.8	-77.0	-241.5	-335.6
Cash flows	8.1	-0.2	11.1	0.5	36.2	15.2	70.9
Acquisitions - leases	-	-	-1.9	-9.4	-	-	-11.3
Reclassification between items - leases	-	-	-9.1	9.1	-	-	0.0
Foreign exchange adjustments	-	-	0.1	0.2	0.0	-	0.2
<b>Interest-bearing net debt on 31 Dec 2019</b>	<b>37.5</b>	<b>0.0</b>	<b>-9.8</b>	<b>-36.5</b>	<b>-40.8</b>	<b>-226.3</b>	<b>-275.8</b>
Cash flows	9.3	0.0	10.3	0.0	-47.1	3.4	-24.2
Acquisitions - leases	-	-	-2.5	-4.7	-	-	-7.2
Disposals - leases	-	-	1.2	6.7	-	-	7.9
Other changes - leases	-	-	-0.2	0.2	-	-	0.0
Reclassification between items - leases	-	-	-8.1	8.1	-	-	0.0
Foreign exchange adjustments	-	-	-0.1	-0.2	-	-	-0.3
<b>Interest-bearing net debt on 31 Dec 2020</b>	<b>46.8</b>	<b>0.0</b>	<b>-9.2</b>	<b>-26.4</b>	<b>-87.9</b>	<b>-222.8</b>	<b>-299.6</b>

## 24. Financial risk management

The duty of Group Treasury in the HKScan Group is to ensure cost-effective funding and financial risk management for Group companies and to attend to relations with financiers. The treasury policy approved by the Board provides the principles for financial risk management in the Group. The policy is supplemented by separate guidelines and instructions, as well as approval practices.

Financial risks mean unfavourable movements taking place in the financial markets that may erode accrual of the company's result or reduce cash flows. Financial risk management aims to use financial means to hedge the company's intended earnings performance and equity, and to safeguard the Group's liquidity in all circumstances and market conditions.

External funding of the Group's operations and financial risk management is centralised to the Group Treasury operating under the Group Treasurer. Group Treasury identifies and assesses the risks and acquires the instruments required for hedging against the risks, in close co-operation with the operational units.

Risk management may employ various instruments, such as currency forwards and options, interest-rate or currency swaps, foreign currency loans and commodity derivatives. Derivatives are used for the sole purpose of hedging, not for speculation. Funding of the Group's subsidiaries is managed mainly through the parent company. The subsidiaries may not accept new external funding, nor may they give guarantees or pledges without the permission of the Group Treasury in the parent company.

### Foreign exchange risk

The Group's domestic market consists of Finland, Sweden, Denmark and the Baltic countries. Customers are in retail, food service, industry and export sectors. Meat products are mainly produced for domestic markets which reduces the overall currency risk in the Group.

Transaction risk arises when the Group companies engage in foreign currency denominated import and export both outside and within the Group. The aim of transaction risk management is to hedge the Group's business against foreign exchange rate movements and allow the business units time to react and adapt to fluctuations in exchange rates. Foreign exchange risk exposures, which include sales, purchases (balance sheet items and committed cash flows), financing related contractual cash flows, and highly probable forecasted cash flows, are hedged through forward contracts made with the parent company. The business units report their balance sheet risk exposures, forecasted foreign currency sales and purchases and hedging levels to the Group Treasury on a regular basis.

According to Treasury Policy, subsidiaries must hedge balance sheet items in full amount and committed cash flows from 50 to 100 per cent. In addition, forecasted, highly probable cash flows are hedged at 0 - 50 per cent for up to 12 months into the future. Group Treasury can use currency forwards, options and swaps as hedging instruments. Treasury targets to hedge fully its significant foreign exchange risk exposures. Those include commercial exposures, external financing and internal financing which is given in the subsidiary's home currency. All the forward contracts mature within one year. Hedge accounting is not applied currently. Nevertheless, all hedging instruments are done for hedging purposes.

Translation risk arises from the consolidation of equity into the basic currency in subsidiaries whose operational currency is not the euro. The largest foreign currency denominated equities of the Group companies are in Swedish krona and Danish krone and Polish zloty. Fluctuations of exchange rates affect the amount of consolidated equity, and translation differences are generated in connection with the consolidation of equity in accounting. Group Treasury identifies and manages foreign exchange translation risks according to Treasury Policy. HKScan Group is not hedging translation risk currently.

The equities of the Group's non-euro-denominated subsidiaries and associates are presented in the following table in million euros.

Currency	2020	2019
	Exposure	Exposure
SEK	87.8	89.2
PLN	6.9	5.0
DKK	-5.1	-2.4

The parent company's functional currency is the euro. The following net positions (USD, NZD, SEK, JPY) include sales receivables, payables, interest bearing loans and receivables, cash reserves and committed commercial flows in the most significant foreign currencies. The reported amounts are translated into euros at the exchange rates of the reporting date:

	2020				2019			
	USD	NZD	SEK	JPY	USD	NZD	SEK	JPY
Net position before hedging	0.9	5.6	16.8	0.6	2.8	4.5	24.2	0.9
Hedging of balance sheet items	-0.1	-3.6	-14.0	-0.3	-0.6	-1.7	-10.2	-0.5
Hedging of committed items	-0.3	-2.3	-1.5	-0.4	-0.5	-2.5	-12.1	-0.4
Open position	0.5	-0.2	1.3	-0.1	1.6	0.3	2.0	-0.1

The following table analyses the strengthening or weakening of the euro against the US dollar, New Zealand dollar, Swedish krona and Japanese yen, all other factors remaining unchanged. Sensitivity analysis is based on assets, liabilities and committed cash flows denominated in foreign currencies at the reporting date. The effects of currency derivatives, which offset the effects of changes in exchange rates, are also taken into account in sensitivity analysis. Net investments in foreign units and the instruments used to hedge these have been excluded from sensitivity analysis.

In respect of the foreign currencies, the effect would mainly be due to changes in the exchange rates applicable to foreign currency denominated trade receivables and payables.

	2020				2019			
	USD	NZD	SEK	JPY	USD	NZD	SEK	JPY
Movement (+/-), %	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Effect on profit before taxes	0.0	0.0	0.1	0.0	0.1	0.0	0.2	0.0

The following assumptions were used in calculating sensitivity to currency risks: Forecast future cash flows have not been taken into account in the calculation except for committed cash flows. Financial instruments such as forward contracts used to cover these positions are included in the analysis.

The calculation and estimates of reasonably possible changes in exchange rates are based on the assumption of ordinary market and business conditions.

**Interest rate risk**

The Group's main exposure to interest rate risk arises through interest-bearing liabilities. The goal of interest rate risk management is to reduce the fluctuation of interest expenses in the income statement, minimize debt servicing costs and improve the predictability. The Group's short-term money market investments expose it to cash flow interest rate risk, but the impact is not significant as these investments are targeted to keep in minimum. Group revenues and operative cash flows are mainly independent of fluctuations in market rates.

Interest rate risk is measured by the effect of interest rate movements on the total forecasted debt portfolio.

To manage interest rate risks, Group borrowings are spread across fixed and variable interest instruments. The company may borrow at fixed or variable interest rates and use interest rate derivatives to achieve a result that is in line with the Treasury policy. The goal of the policy is to keep the fixed interest term of the loans between 12 and 48 months. On the balance sheet date the fixed interest term was 13 months.

The Group monitors and analyses its interest rate risk position on a regular basis. The Group has determined sensitivity limits for interest rate movements. The sensitivity of net financial expenses on the balance sheet date to change of one per cent in interest rates, all other things being equal, was approximately EUR 1.3 (1.2) million for interest increase and approximately EUR -0.8 (-1.0) million for interest decrease before taxes over the next 12 months. The sensitivity analysis was prepared based on the amounts and maturities of interest-bearing liabilities and interest rate derivatives on the balance sheet date.

**Counterparty risk**

Financial counterparty risk refers to the risk that counterparty may fail to fulfill its contractual obligations. The risks are mostly related to investment activities and counterparty risks in derivative contracts. Banks that finance the Group are used as counterparties whenever possible, as well as a few other specified counterparties. Cash may be invested in bank deposits, certificates of deposit, municipal papers, and the commercial paper programmes of certain specified companies listed on

the main list of the Nasdaq Helsinki, and to certain state-owned companies.

Because of the limited extent of the investment activities, the resulting counterparty and price risks are not significant.

**Commodity risk**

The Group is exposed to commodity risks that are related to the availability and price fluctuations of commodities. In addition to meat raw materials, physical electricity consumption is one of the most significant commodity risks in the Group companies. The subsidiaries can hedge against fluctuation in market prices for electricity and other commodities by procuring fixed-price products or through derivative contracts with the Group Treasury. The companies may use external parties to assist them in commodity risk management.

The Group uses electricity derivatives in Finland, Sweden, Denmark and Estonia to level out energy costs. Electricity derivatives do not result in physical electricity delivery, but instead the difference between fixed and variable price is realised as cashflow. The price risk of electricity is analysed in five year time span so that next year's hedge ratio is between 50-100 per cent. Subsequent years are hedged with reducing hedge ratio. Acquired electricity derivatives' nominal value is 463 GWh and 193 GWh is allocated for the next 12 months. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases. Maturity table for electricity derivatives is presented later in this note.

Sensitivity analysis has been made with expected annual consumption of 254 GWh. Change in electricity price and derivatives maturing in less than 12 months impact income statement and derivatives maturing after 12 months impact balance sheet. If the market price of electricity changed by +/-10 percentage points from the balance sheet date, the impact would be as follow, calculated before tax:

EUR million	2020	2019
Electricity - effect in income statement	+/- 0,2	+/- 0,2
Electricity - effect in equity (price + 10%)	1.2	0.2
Electricity - effect in equity (price - 10%)	0.4	-0.6

**Credit risk**

The Group's Treasury Policy and related guidelines specify the credit quality requirements and investment principles applied to customers and counterparties to investment transactions and derivative contracts. The Group Treasury is responsible for defining the principles for credit management within the Group and updating the Credit Policy as well as instructing the Group's subsidiaries in credit management.

Credit risk results from a customer's possible failure to fulfil its payment obligations. The Group's trade receivables are spread among a wide customer base, the most important customers being central retail organisations in the various market areas. The creditworthiness, payment behaviour and credit limits of the clients are monitored systematically. As a main principle some type of securing is needed for all credit granted. The security can be credit insurance, a bank guarantee, or a security deposit. In addition, the Group is exposed to minor credit risk in remaining financing investments of primary production contract producers.

The amount of impairment losses recognised through profit or loss in the financial period was EUR -0.3 (-2.4) million. The Group's maximum exposure to credit risk equals the carrying amount of financial assets at year-end. The age breakdown of trade receivables is presented in Note 18.

**Liquidity and refinancing risk**

The Group constantly assesses and monitors the amount of funding required for operations by means such as preparation and analysis of cash flow forecasts. The Group maintains adequate liquidity under all circumstances to cover its business and financing needs in the foreseeable future.

The availability of funding is ensured by spreading the maturity of the borrowing portfolio, financing sources and instruments. In general, cash and cash equivalents are targeted to be kept at a minimum. The Group also has revolving credit facilities with banks, bank borrowings, current accounts with overdraft facilities and the short-term EUR 200 million Finnish commercial paper programme. Liquidity risk is managed by retaining long-term liquidity reserves and by exceeding short-term liquidity requirements. The Group's liquidity reserve includes cash and cash equivalents, money market investments and long-term unused committed credit facilities.

Short-term liquidity requirements include the repayments of short- and long-term debt within the next 12 months, expected dividends as well as a specifically defined strategic liquidity requirement, which covers the operative funding needs.

The Group's liquidity together with funding profile and maturity structure remained good in 2020. Committed credit facilities on 31 December 2020 stood at EUR 100.0 (100.0) million and had been drawn to the amount of EUR 10.0 (0.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 17.5 (17.4) million. The overdraft facility agreements are in force until further notice. At year end, the company's EUR 200 million commercial paper programme had been drawn to the amount of EUR 72.0 (35.0) million. Similar to previous year, cash and cash equivalents were above the normal level amounting EUR 46.8 (37.5) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 3.5 (3.7) per cent at the balance sheet date.

The company's current bank loan agreements are subject to the net gearing ratio financial covenant 125%. Financiers are provided with quarterly reports on the observance of the financial loan covenant. Outstanding unsecured bond maturing in September 2022 have the net gearing ratio covenant level of 130%. If the Group is in breach of the covenant, the creditor may demand accelerated loan repayment. Management monitors the fulfillment of the loan covenant on a regular basis. Breaches of covenants could result in a default of an essential part of loans. Due to successful share issue and improved financial result risks for breaching loan agreement covenants have significantly reduced. IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 36 million. With this increase the net gearing increased by some 11 percentage points.

Group Management has identified no significant concentrations of liquidity risk in financial assets or sources of funding.

## The number of the Group's commitments on the balance sheet date by type of credit

### 2020

Credit type	Size	In use	Available
Overdraft facility	17.5	-	17.5
Committed credit limit	100.0	10.0	90.0
<b>Total</b>	<b>117.5</b>	<b>10.0</b>	<b>107.5</b>

### 2019

Credit type	Size	In use	Available
Overdraft facility	17.4	-	17.4
Committed credit limit	100.0	-	100.0
<b>Total</b>	<b>117.4</b>	<b>0.0</b>	<b>117.4</b>

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity analysis only applies to financial instruments and statutory liabilities are therefore excluded. The amounts also include interest on financial liabilities and margin on loan.

## 31 Dec. 2020 Maturity of financial liabilities

Credit type	Balance sheet 31 Dec. 2020	Cashflows sum	Cashflows					
			2021	2022	2023	2024	2025	>2025
Bond	124.2	130.8	3.3	127.5	-	-	-	-
Bank loans	104.2	108.9	16.3	79.7	3.7	3.7	3.7	1.8
Pension loans	8.6	8.7	2.2	2.2	2.2	2.2	-	-
Commercial paper programme	71.6	72.0	72.0	-	-	-	-	-
Lease liabilities	35.6	40.8	9.9	8.6	5.6	3.6	2.5	10.6
Other borrowing	2.2	2.4	0.6	0.5	0.4	0.4	0.4	-
Trade and other payables	222.7	222.7	222.7	-	-	-	-	-
<b>Total</b>	<b>569.1</b>	<b>586.3</b>	<b>327.1</b>	<b>218.4</b>	<b>12.0</b>	<b>9.9</b>	<b>6.6</b>	<b>12.4</b>

## 31 Dec. 2019 Maturity of financial liabilities

Credit type	Balance sheet 31 Dec. 2019	Cashflows sum	Cashflows					
			2020	2021	2022	2023	2024	>2024
Bond	123.5	133.4	3.3	3.3	126.8	-	-	-
Bank loans	97.8	105.2	6.9	81.6	3.8	3.7	3.7	5.5
Pension loans	10.7	10.9	2.2	2.2	2.2	2.2	2.2	0.0
Commercial paper programme	34.9	35.0	35.0	-	-	-	-	-
Lease liabilities	46.3	52.3	11.2	9.0	7.6	6.2	4.6	13.7
Other borrowing	0.2	0.2	0.2	-	-	-	-	-
Trade and other payables	224.8	224.8	224.8	-	-	-	-	-
<b>Total</b>	<b>538.1</b>	<b>561.7</b>	<b>283.5</b>	<b>96.1</b>	<b>140.3</b>	<b>12.1</b>	<b>10.5</b>	<b>19.2</b>

The following table presents the nominal value and fair values (EUR million) of derivative instruments. The derivatives mature within the next 12 months except for interest rate derivatives and commodity derivatives, the maturity of which are presented separately.

	2020	2020	2020	2019	2020	2019
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
<b>Interest rate derivatives</b>	-	-3.5	-3.5	-5.8	99.9	98.5
matured in 2020	-	-	-	-	-	-
matures in 2021	-	-0.9	-0.9	-1.6	25.0	25.0
matures in 2022	-	-1.4	-1.4	-2.6	44.9	44.1
matures in 2023	-	-1.3	-1.3	-1.6	29.9	29.4
matures in 2024	-	-	-	-	-	-
matures in >2024	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-
<b>Foreign exchange derivatives</b>	0.2	-0.6	-0.3	-0.4	59.2	56.7
of which defined as net investment hedging instruments	-	-	-	-	-	-
<b>Commodity derivatives</b>	0.3	-1.8	-1.5	0.5	13.4	12.9
matured in 2020	-	-	-	0.2	-	5.9
matures in 2021	0.1	-1.0	-1.0	0.2	5.8	4.1
matures in 2022	0.1	-0.6	-0.6	0.1	4.6	2.3
matures in 2023	0.1	-0.2	0.0	0.0	2.4	0.6
matures in 2024	0.0	0.0	0.0	-	0.7	-
of which defined as cash flow hedging instruments	0.3	-1.8	-1.5	0.5	13.4	12.9



**Derivatives to which hedge accounting applies**

Changes in the fair values of the effective portions after taxes of commodity derivatives, designated as hedges of cash flow amounting to EUR -1.7 (-4.2) million, are recognised under other comprehensive income. The hedged highly probable transactions are estimated to occur at various dates during the next 60 months. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of commodity risk hedge amounting to EUR 0.0 (0.0) million are recognised under other operating expenses in the income statement.

**Capital management**

The purpose of capital management in the Group is to support business through an optimal capital structure by safeguarding a normal operating environment and enabling organic and structural growth. An optimal capital structure also generates lower costs of capital.

Capital structure is influenced by controlling the amount of working capital tied up in the business and through reported profit/loss, distribution of dividend and share issues. The Group may also decide on the disposal of assets to reduce liabilities.

The tools to monitor the development of the Group's capital structure are the equity ratio and net gearing ratio. Equity ratio refers to the ratio of equity to total assets. Net gearing ratio is measured as net liabilities divided by equity. Net liabilities include interest-bearing liabilities less interest-bearing short term receivables and cash and cash equivalents.

On the balance sheet date the equity ratio is 33.7 per cent. The official financial target in respect of net gearing ratio is below 100 per cent. On the balance sheet date, the net gearing ratio was 91.0 per cent. With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 36 million. With this increase the net gearing increased some 11 percentage points.

**Net gearing ratio**

	<b>2020</b>	<b>2019</b>
Interest-bearing liabilities	346.4	313.3
Interest-bearing short-term receivables	0.0	0.0
Cash and bank	46.8	37.5
Interest-bearing net liabilities	299.6	275.8
Equity	329.1	325.1
Net gearing ratio	91.0%	84.8%

## 25. Fair values of financial assets and liabilities

### The fair value determination principles applied by the group on all financial instruments

When determining the fair values of the financial assets and liabilities, the following price quotations, assumptions and measurement models have been used.

#### Other shares and holdings

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value.

#### Derivatives

The fair values of currency forward contracts 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 rate or other market information at the reporting date. If the market value given by a counterparty is used, the Group also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the Group would have to pay or would obtain if it were to terminate a derivative instrument.

#### Bank loans

The fair values of liabilities are based on the discounted cash flows. The rate used for measurement is the rate at which the Group could obtain corresponding credit from a third party on the reporting date. The overall rate consists of a risk free rate and a risk premium (margin on loan) for the company.

#### Bonds

The fair values of bonds are based on the quoted market prices.

#### Finance lease liabilities

The fair value is measured by discounting future cash flows by an interest rate which corresponds to the interest rate of future leases.

#### Trade and other receivables

The original carrying amounts of non-derivative based receivables are equal to their fair values, as discounting has no material effect taking into account the maturity of the receivables.

#### Trade and other payables

The original carrying amounts of trade and other payables are equal to their fair values, as discounting has no material effect taking into account the maturity of the payables.

Fair value hierarchy for financial assets and liabilities measured at fair value. Fair values at end of reporting period.

	31 Dec. 2020	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.2	-	0.2	-
Commodity derivatives	0.3	-	0.3	-
of which subject to cash flow hedging	0.3	-	0.3	-
<b>Total</b>	<b>0.5</b>	<b>0.0</b>	<b>0.5</b>	<b>0.0</b>
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-3.5	-	-3.5	-
Foreign exchange derivatives	-0.6	-	-0.6	-
Commodity derivatives	-1.8	-	-1.8	-
of which subject to cash flow hedging	-1.8	-	-1.8	-
<b>Total</b>	<b>-5.9</b>	<b>0.0</b>	<b>-5.9</b>	<b>0.0</b>

	31 Dec. 2019	Taso 1	Taso 2	Taso 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	0.0	-	0.0	-
Commodity derivatives	1.0	-	1.0	-
of which subject to cash flow hedging	1.0	-	1.0	-
<b>Total</b>	<b>1.0</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-5.8	-	-5.8	-
Foreign exchange derivatives	-0.4	-	-0.4	-
Commodity derivatives	-0.5	-	-0.5	-
of which subject to cash flow hedging	-0.5	-	-0.5	-
<b>Total</b>	<b>-6.7</b>	<b>0.0</b>	<b>-6.7</b>	<b>0.0</b>

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.

## 26. Conditional assets and liabilities and purchase commitments

Commitments and contingent liabilities	2020	2019
Loans secured by mortgages	84.3	-
<b>On own behalf</b>		
Mortgages given	37.7	-
Assets pledged	-	-
<b>On behalf of others</b>		
Guarantees	6.2	5.3
Other commitments	1.9	2.5
<b>Leasing commitments</b>		
Leasing commitments maturing in less than a year	0.2	0.6
Leasing commitments maturing in 1-5 years	0.0	0.1
Leasing commitments maturing in over 5 years	0.0	0.0
<b>Total</b>	<b>46.0</b>	<b>8.5</b>

In 2020 a current provision amounting to EUR 3.3 million has been recorded due to decision by the Danish tax authorities, according to which the company should repay past refunds of energy taxes. 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 will appeal the decision issued to it.

## 27. Related party transactions

Parties are considered related parties if one of the parties is able to exercise control, or a significant influence, over the other in decisions affecting its finances and business. The Group's related parties include the associates and joint ventures. Related parties also include the Supervisory Board and Board of Directors of the Group parent's parent entity (LSO Osuuskunta), the members of the Group's Board of Directors, the Group's CEO, the deputy CEO and their immediate family members, as well as the members of the Group Management Team. The Group strives to treat all parties equally in its business.

HKScan Corporation's principal owner, LSO Osuuskunta, is a cooperative of 900 Finnish meat producers. The cooperative fosters its members' meat production and marketing by exercising its power of ownership in HKScan. The HKScan Group applies pure market price principles to the acquisition of raw meat material.

In April 2020 the Group acquired from LSO Osuuskunta a lot of land in Vantaa housing the Group's factory and logistics centre. The purchase price of the land including taxes was EUR 37.7 million. The purchase price corresponds to the offer LSO received from a third party. Lot lease amounting to EUR 0.4 million in 2020 (EUR 1.4 million in 2019) has been paid by the Group to LSO. In addition, there are minor office services and EUR 5 million revolving credit facility to both directions between the Group and LSO. Related to this the Group had receivable amounting to EUR 4,2 million at year end. The sale of animals to the Group by members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta totalled EUR 17.1 million in 2020 (EUR 14.7 million in 2019). Said persons purchased animals from the Group with EUR 4.4 million in 2020 (EUR 4.5 million in 2019).

Information on employee benefits of management are presented in Note 4. More information on fees of the Board of Directors and management is available in the remuneration statement for 2020, which can be found on the Group's website [www.hkscan.com](http://www.hkscan.com).

Related party individuals are not otherwise in a material business relationship with the company.

Shares in subsidiaries	Owner %	Share of votes %
<b>Owned by the Group's parent company</b>		
HKScan Finland Oy, Finland	100.00	100.00
HKScan Sweden AB, Sweden	100.00	100.00
HKScan Denmark A/S, Denmark	100.00	100.00
AS HKScan Estonia, Estonia	100.00	100.00
UAB HKScan Lietuva, Lithuania	100.00	100.00
AS HKScan Latvia, Latvia	99.87	99.87
HKScan Asia Limited, Hong Kong**	100.00	100.00
<b>Owned by HKScan Finland Oy</b>		
Kivikylän Kotipalvaamo Oy, Finland	49.00*	49.00*
Lihatukku Harri Tamminen Oy, Finland	49.00*	49.00*
Paimion Teurastamo Oy, Finland	100.00	100.00
Kiinteistö Oy Väinö Tannerin tie 1, Finland	100.00	100.00
Boltsi Oy, Finland	48,00*	48,98*
<b>Owned by AS HKScan Estonia</b>		
Rakvere Farmid AS, Estonia	100.00	100.00
<b>Owned by HKScan Sweden AB</b>		
HKScan Real Estate AB, Sweden	100.00	100.00
HKScan International AB, Sweden**	100.00	100.00
HKScan Poland Sp.zo.o, Poland	100.00	100.00
Samfod S.A., Belgium**	100.00	100.00
<b>Owned by HKScan Real Estate AB</b>		
HKScan Real Estate Halmstad AB, Sweden	100.00	100.00
<b>Owned by HKScan Denmark A/S</b>		
Kreatina A/S, Denmark**	100.00	100.00

\* Control is based on shareholders' agreement / board selection.

\*\* Dormant

Shares and holdings in associated companies and joint ventures	Owner %	Share of votes %
<b>Owned by the Group's parent company</b>		
Nordic Lotus Food Co. Ltd, China*	35.00	35.00
<b>Owned by HKScan Finland Oy</b>		
Länsi-Kalkkuna Oy, Finland*	50.00	50.00
Pakastamo Oy, Finland	50.00	50.00
Honkajoki Oy, Finland*	50.00	50.00
Finnpig Oy, Finland	50.00	50.00
Oy LHP Bio-Carbon LTD, Finland	24.24	24.24
DanHatch Finland Oy, Finland	10.00	10.00
Mäkitalon Maistuvat Oy, Finland	24.90	24.90
<b>Owned by HKScan Sweden AB</b>		
Industrislakt Syd AB, Sweden	50.00	50.00
AB Tillväxt for svensk animalieproduktion, Sweden	25.00	25.00
Svenska Köttforetagen Holding AB, Sweden	23.52	23.52
<b>Owned by HKScan Denmark A/S</b>		
Tican-Rose GmbH, Germany	50.00	50.00
Farmfood A/S, Denmark	33.30	33.30

\*Joint venture

The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services. All commercial contracts are negotiated on market terms.

**The following transactions were carried out with related parties**

	<b>2020</b>	<b>2019</b>
Sales to associates	9.6	17.7
Sales of animals to related parties	4.4	4.5
Purchases from associates	34.0	35.5
Purchases of animals from related parties	17.1	14.7
<b>Open balances on 31 December</b>		
Trade and other receivables from associates	1.2	1.6
Trade and other payables to associates	2.6	3.0

**28. Events after the reporting date****HKScan aiming at carbon-neutral food production**

In January 2021, the company set the goal of carbon neutrality for its own industrial production by the end of 2025 and carbon neutrality for its entire food chain from farms to consumers by the end of 2040 at the latest. Climate work is carried out in all of the company's home market areas in Finland, Sweden, the Baltics and Denmark. Achieving the targets requires both a significant reduction of emissions and an increase in carbon sinks together with contract farmers and other partners.

The Zero Carbon climate plan shows the stepping stones for HKScan to achieve carbon neutrality as one of the major food companies in the Baltic Sea region. The company has determined and calculated the emissions of its entire value chain together with KPMG specialising in carbon footprint calculation. In 2019, the total emissions were some 2.4 megatonnes of carbon dioxide equivalent (CO<sub>2</sub>e) of which the company's own industrial production accounted for some five per cent.

The Zero Carbon climate plan is a key part of HKScan's responsibility work and business leadership. At the same time, the company is also creating the conditions for its contract farmers' future competitiveness and for consumers to be able to enjoy responsibly produced meat products in good conscience as part of a varied diet. It is important for HKScan to work long-term and create permanent, more climate-friendly operating models. With its climate work, HKScan wants to assume responsibility for achieving the important climate goals of societies. Further information: [www.hkscan.com](http://www.hkscan.com).

## Parent company income statement for 1 January - 31 December

(EUR)

	Note	2020	2019
Other operating income	1.	28,979,452.28	32,151,344.79
Employee costs	2.	-10,822,872.45	-16,712,272.38
Depreciation and impairment	3.	-397,166.09	-1,808,096.89
Other operating expenses	4.	-20,413,654.89	-22,258,392.91
<b>EBIT</b>		<b>-2,654,241.15</b>	<b>-8,627,417.39</b>
Financial income and expenses	5.	19,676,704.78	-28,107.44
<b>Profit/loss before appropriations and taxes</b>		<b>17,022,463.63</b>	<b>-8,655,524.83</b>
Appropriations	6.	19,665.00	14,729.00
Income taxes	7.	-822,253.50	-546,032.21
<b>Profit/loss for the period</b>		<b>16,219,875.13</b>	<b>-9,186,828.04</b>

**Parent company balance sheet 31 December****(EUR)**

	Note	2020	2019
<b>Assets</b>			
Intangible assets	8.	650,566.00	1,013,350.00
Tangible assets	8.	969,897.46	5,070,891.40
Financial assets	8.	448,658,619.90	448,675,293.11
<b>Non-current assets</b>		<b>450,279,083.36</b>	<b>454,759,534.51</b>
Non-current receivables	9.	325,526,971.96	274,958,632.30
Deferred tax asset	9.	10,453,904.71	11,246,159.82
Current receivables	10.	11,850,152.01	12,596,594.66
Cash and cash equivalents		43,082,372.19	32,618,562.79
<b>Current assets</b>		<b>390,913,400.87</b>	<b>331,419,949.57</b>
<b>Assets</b>		<b>841,192,484.23</b>	<b>786,179,484.08</b>
<b>Equity and liabilities</b>			
Share capital	11.	66,820,528.10	66,820,528.10
Share premium reserve	11.	73,420,363.20	73,420,363.20
Treasury shares	11.	-4,762,908.54	-4,762,908.54
RIUE	11.	215,121,053.79	215,121,053.79
Other reserves	11.	4,899,963.05	4,899,963.05
Retained earnings	11.	63,712,930.90	72,899,758.94
Profit/loss for the period	11.	16,219,875.13	-9,186,828.04
<b>Equity</b>		<b>435,431,805.63</b>	<b>419,211,930.50</b>

Accumulated appropriations	12.	57,013.00	76,678.00
Provisions	13.	2,492,263.00	2,643,766.00
Non-current interest-bearing liabilities	14.	248,364,378.97	254,124,083.83
Non-current non-interest-bearing liabilities	14.	2,974,318.49	3,055,970.02
Current interest-bearing liabilities	15.	138,669,118.49	92,595,218.24
Current non-interest-bearing liabilities	15.	13,203,586.65	14,471,837.49
<b>Liabilities</b>		<b>403,211,402.60</b>	<b>364,247,109.58</b>
<b>Equity and liabilities</b>		<b>841,192,484.23</b>	<b>786,179,484.08</b>



**Parent company cash flow statement****(EUR 1 000)**

	<b>2020</b>	<b>2019</b>
EBIT	-2,654	-8,627
Adjustments to EBIT	-71	4,921
Depreciation and impairment	397	1,808
Change in provisions	-152	-67
Change in net working capital	-483	1,447
Interest income and expenses	3,481	2,321
Dividends received	14,203	-
Taxes	-30	-34
<b>Cash flow from operating activities</b>	<b>14,692</b>	<b>1,769</b>
Purchases of shares in subsidiary	-48	-85
Purchase of other fixed assets	-1,555	-1,657
Disposals of other fixed assets	5,621	153
Repayments of loans receivable	-50,051	-8,687
<b>Cash flow from investing activities</b>	<b>-46,033</b>	<b>-10,276</b>
<b>Cash flow before financing activities</b>	<b>-31,341</b>	<b>-8,507</b>
Share issue	-	43,668
Share issue costs	-	-3,019
Proceed from external borrowings	41,804	74,300
Repayment of external borrowings	-	-88,453
Purchase of own shares	-	-4,724
<b>Cash flow from financing activities</b>	<b>41,804</b>	<b>21,772</b>

<b>Change in cash and cash equivalents</b>	<b>10,463</b>	<b>13,265</b>
Cash and cash equivalents on 1 Jan.	32,619	19,354
<b>Cash and cash equivalents on 31 Dec.</b>	<b>43,082</b>	<b>32,619</b>
Change in working capital:		
Increase (-) / decrease (+) in current operating receivables	746	534
Increase (+) / decrease (-) in current non-interest-bearing liabilities	-1,229	913
<b>Total</b>	<b>-483</b>	<b>1,447</b>

# Notes to the parent company's financial statements

## Basic information about the entity

HKScan Corporation is a Finnish public limited company established under the law of Finland. The Company is domiciled in Turku.

HKScan Corporation comprises Group management and Group administration.

HKScan Corporation's A Share has been quoted on the Nasdaq Helsinki since 1997.

HKScan Corporation is a subsidiary of LSO Osuuskunta and part of the LSO Osuuskunta Group. LSO Osuuskunta is domiciled in Turku.

Copies of HKScan Corporation's financial statements are available at the company's registered office at Lemminkäisenkatu 48, 20520 Turku.

## Accounting policies

### Basis of preparation

The parent company's financial statements have been prepared in compliance with valid Finnish Accounting Standards (FAS). The HKScan Group's consolidated financial statements have been prepared in compliance with the IFRS (International Financial Reporting Standards) and the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2020.

The amounts in the parent company's income statement and balance sheet are in euros and the amounts in the cash flow statement and notes are in thousands of euros.

### Non-current assets

Intangible and tangible assets have been measured at cost less accumulated depreciation and any impairment. Depreciation of assets is made on a straight-line basis over the expected useful life. Intangible assets are depreciated over 5-10 years and tangible assets over 2-10 years.

Holdings in subsidiaries and associated companies as well as other shares and holdings are measured at cost less any impairment.

### Transactions in foreign currency

Foreign currency denominated transactions are recognised at the exchange rates valid on the transaction date. Trade receivables, trade payables and loan receivables denoted in foreign currencies, and foreign currency bank accounts have been translated into the functional currency at the closing rate quoted by the European Central Bank on the balance sheet date. Gains and losses arising from business transactions in foreign currencies, and from the translation of monetary items, have been recognised in financial income and expenses in the income statement.

### Derivative contracts

HKScan Oyj makes all external derivative contracts for the Group. Derivatives that are made for subsidiaries are handled with intercompany derivative contracts. Because of this HKScan Oyj has all the external derivatives of the Group and these are partly for the parent company and partly for subsidiaries.

Outstanding derivatives in foreign currencies are measured at the forward exchange rate quoted on the balance sheet date. Hedge accounting is not applied and changes in the value of foreign exchange contracts hedging commercial flows are recognised through profit or loss in other operating income or expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations.

Commodity derivatives all relate to subsidiaries and intercompany derivatives have been made. There is no income statement effect as the cash flows from the derivatives are eliminated by the intercompany derivative contracts with subsidiaries. Hedge accounting is not applied. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

Hedge accounting is not applied on interest rate swaps for the part that they hedge parent company's interest risk. The fair values of the derivatives are recorded in the balance sheet and changes in the fair values are recorded in the income statement in financial items. Realised gains or losses on interest rate swaps hedging variable-interest loans are presented under financial items in the income statement. Hedge accounting is also not applied on external interest rate swaps that relate to subsidiaries and intercompany derivatives. Income statement effect is eliminated by the intercompany derivative contract with subsidiaries. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

The fair values of currency forward contracts 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 rate or other market information at the reporting date. If the market value given by a counterparty is used, the company also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the company would have to pay, or would obtain, if it were to terminate a derivative instrument.

#### **Pension plans**

HKScan Corporation employees' statutory pension provision has been organised through insurance in a pension insurance company. Statutory pension expenses have been charged in the year to which the contributions relate.

#### **Management retirement benefit obligations and severance payments**

The remuneration of the CEO consists of a fixed monthly salary, benefits, supplementary pension benefits and possible incentive awards under the company's incentive scheme. Under the terms of the CEO's executive agreement, the CEO's employment may be terminated by the company and the CEO at six months' notice. In the event that the company terminates the CEO's executive agreement, the CEO will receive an amount that equals 12 months' salary, in addition to the salary for the period of notice.

Detailed information about management compensation is available in group financial statement note 4.

#### **Income taxes**

Consolidated accounting principles are applied to income taxes and deferred tax assets and liabilities when allowed under Finnish accounting principles. The deferred tax liability on depreciation difference is disclosed as a Note.

#### **Leases**

All leasing payments have been treated as rent. Leasing payments based on unpaid leasing agreements are shown in contingent liabilities in the financial statements.

#### **Accumulated appropriations**

Accumulated appropriations consist of change in depreciation difference. The difference in depreciation according to plan and accounting depreciation, is shown as an appropriation in the income statement, and the accumulated difference in depreciation according to plan and accounting depreciation, is shown in the balance sheet as accumulated appropriations.

# Notes to the parent company's income statement

(EUR 1000)

## 1. Other operating income, total

	2020	2019
Other operating income	28,979	32,151
<b>Other operating income, total</b>	<b>28,979</b>	<b>32,151</b>

## 2. Staff costs

	2020	2019
Salaries and fees	-9,230	-13,994
Pension expenses	-1,194	-2,479
Other social expenses	-399	-239
<b>Staff costs</b>	<b>-10,823</b>	<b>-16,712</b>

Managing directors and their deputies	967	837
Members of the Board of Directors	438	409
<b>Management salaries, fees and benefits</b>	<b>1,405</b>	<b>1,246</b>

Employees, average	84	125
--------------------	----	-----

## 3. Depreciation and impairment

	2020	2019
Depreciation according to plan on non-current assets and goodwill	-397	-485
Impairment	-	-1,323
<b>Total depreciation and impairment</b>	<b>-397</b>	<b>-1,808</b>

## 4. Other operating expenses

	2020	2019
Rents/leases	-1,174	-1,316
Losses on disposal of fixed assets, tangible assets total	-	-105
<b>Losses on disposal of non-current assets</b>	<b>0</b>	<b>-105</b>
Audit fees, ordinary audit	-90	-140
Audit fees, other expert services	-1	-98
<b>Audit fees</b>	<b>-91</b>	<b>-238</b>
Non-statutory staff costs	-1,121	-1,262
Energy	-85	-101
Maintenance	-41	-32
Advertising, marketing and entertainment costs	-73	-619
Service, information management and office costs	-14,811	-15,487
Other expenses	-3,018	-3,098
<b>Total other operating expenses</b>	<b>-20,414</b>	<b>-22,258</b>

**5. Financial income and expenses**

	2020	2019
<b>Financial income</b>		
Dividends from Group companies	14,203	-
<b>Income from units</b>	<b>14,203</b>	<b>0</b>
Interest income from Group companies	17,354	14,248
Interest income from participating interests	-	1
Interest income from others	17	41
<b>Interest income from other non-current financial assets</b>	<b>17,371</b>	<b>14,290</b>
Other financial income from others	4,865	3,300
<b>Other financial income</b>	<b>4,865</b>	<b>3,300</b>
<b>Total financial income</b>	<b>36,439</b>	<b>17,590</b>
<b>Financial expenses</b>		
Interest expenses payable to Group companies	-106	-19
Interest expenses payable to others	-11,465	-12,846
<b>Total other interest and financial expenses</b>	<b>-11,571</b>	<b>-12,865</b>
<b>Unrealised losses on fair value assessment</b>	<b>1,602</b>	<b>1,423</b>
<b>Other financial expense from others</b>	<b>-6,793</b>	<b>-6,176</b>
Other financial expense	-6,793	-6,177
Total financial expenses	-16,762	-17,619
<b>Financial income and expenses, total</b>	<b>19,677</b>	<b>-29</b>

**6. Appropriations**

	2020	2019
Increase (-) or decrease (+) in depreciation difference	20	15
<b>Total appropriations</b>	<b>20</b>	<b>15</b>

**7. Direct taxes**

	2020	2019
Change in deferred tax liabilities and assets	-792	-512
Other direct taxes	-30	-34
<b>Income tax on ordinary operations</b>	<b>-822</b>	<b>-546</b>

# Notes to the parent company's balance sheet

(EUR 1 000)

## 8. Non-current assets

Intangible assets 2020	Intellectual property rights	Other long-term expenditure	Total
Acquisition cost on 1 Jan.	3,881	661	4,542
Transfers between items	9	-	9
<b>Acquisition cost on 31 Dec.</b>	<b>3,890</b>	<b>661</b>	<b>4,551</b>
Accumulated depreciation on 1 Jan.	-2,909	-620	-3,529
Depreciation for the financial period	-330	-41	-371
<b>Accumulated depreciation on 31 Dec.</b>	<b>-3,239</b>	<b>-661</b>	<b>-3,900</b>
<b>Carrying amount on 31 Dec.</b>	<b>651</b>	<b>0</b>	<b>651</b>

Intangible assets 2019	Intellectual property rights	Other long-term expenditure	Total
Acquisition cost on 1 Jan.	3,881	661	4,542
<b>Acquisition cost on 31 Dec.</b>	<b>3,881</b>	<b>661</b>	<b>4,542</b>
Accumulated depreciation on 1 Jan.	-2,558	-558	-3,116
Depreciation for the financial period	-351	-62	-413
<b>Accumulated depreciation on 31 Dec.</b>	<b>-2,909</b>	<b>-620</b>	<b>-3,529</b>
<b>Carrying amount on 31 Dec.</b>	<b>972</b>	<b>41</b>	<b>1,013</b>

Tangible assets 2020	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan.	1,166	381	5,005	6,552
Increase	-	-	1,554	1,554
Decrease	-7	-	-5,621	-5,628
Transfers between items	14	32	-54	-8
<b>Acquisition cost on 31 Dec.</b>	<b>1,173</b>	<b>413</b>	<b>884</b>	<b>2,470</b>
Accumulated depreciation on 1 Jan.	-1,113	-367	0	-1,480
Accumulated depreciation on disposals	7	-	-	7
Depreciation for the financial period	-22	-4	-	-26
<b>Accumulated depreciation on 31 Dec.</b>	<b>-1,128</b>	<b>-371</b>	<b>0</b>	<b>-1,499</b>
<b>Carrying amount on 31 Dec.</b>	<b>45</b>	<b>42</b>	<b>884</b>	<b>971</b>

Tangible assets 2019	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan.	1,152	381	4,839	6,372
Increase	-	-	1,503	1,503
Transfers between items	14	-	-14	0
Impairment	-	-	-1,323	-1,323
<b>Acquisition cost on 31 Dec.</b>	<b>1,166</b>	<b>381</b>	<b>5,005</b>	<b>6,552</b>
Accumulated depreciation on 1 Jan.	-1,041	-367	0	-1,408
Depreciation for the financial period	-72	-	-	-72
<b>Accumulated depreciation on 31 Dec.</b>	<b>-1,113</b>	<b>-367</b>	<b>0</b>	<b>-1,480</b>
<b>Carrying amount on 31 Dec.</b>	<b>53</b>	<b>14</b>	<b>5,005</b>	<b>5,072</b>

<b>Financial assets 2020</b>	<b>Holdings in Group companies</b>	<b>Holdings in associates</b>	<b>Receivables from associates</b>	<b>Other shares and holdings</b>	<b>Total</b>
Acquisition cost on 1 Jan.	447,709	950	0	16	448,675
Increase	-	-	-	48	48
Decrease	-65	-	-	-	-65
<b>Carrying amount on 31 Dec.</b>	<b>447,644</b>	<b>950</b>	<b>0</b>	<b>64</b>	<b>448,658</b>

<b>Financial assets 2019</b>	<b>Holdings in Group companies</b>	<b>Holdings in associates</b>	<b>Receivables from associates</b>	<b>Other shares and holdings</b>	<b>Total</b>
Acquisition cost on 1 Jan.	447,729	950	0	16	448,695
Increase	85	-	-	-	85
Impairment	-105	-	-	-	-105
<b>Carrying amount on 31 Dec.</b>	<b>447,709</b>	<b>950</b>	<b>0</b>	<b>16</b>	<b>448,675</b>

There is in China a joint venture company Nordic Lotus Co. Ltd owned by parent company. That company's equity was EUR 1.9 million in 2020 and profit/loss for the period was EUR -0.4 million. Owner% is 35 per cent.

	<b>2020</b>	<b>2019</b>
<b>Intangible assets</b>		
Intellectual property rights	651	972
Other long-term expenditure	-	41
<b>Intangible assets</b>	<b>651</b>	<b>1013</b>
<b>Tangible assets</b>		
Machinery and equipment	45	53
Other tangible assets	41	14
Payments on account and tangible assets in the course of construction	884	5,005
<b>Tangible assets</b>	<b>970</b>	<b>5,072</b>
<b>Financial assets</b>		
Holdings in Group companies	447,645	447,709
Holdings in associates	950	950
Other shares and holdings	64	16
Financial assets	448,659	448,675
<b>Total non-current assets</b>	<b>450,280</b>	<b>454,760</b>

**9. Non-current receivables**

	2020	2019
Non-current loan receivables	457	484
Non-current Group loan receivables	325,070	274,475
<b>Total</b>	<b>325,527</b>	<b>274,959</b>
Deferred tax assets	10,454	11,246

On 31 December 2020, the company had EUR 12.4 (13.5) million of losses, of which no deferred tax receivable has been recognized. The losses in taxation expire with the following schedule: EUR 11.3 million in 2023, EUR 4.9 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027, EUR 9.9 million in 2028 and EUR 11.0 million in 2019. Utilisation of deferred tax asset from losses is based on the same assumptions that are used in group note 16.

**10. Current receivables**

	2020	2019
Trade receivables	4	5
Short-term receivables (from others)	4	5
Short-term prepayments from accrued income (from others)	2,367	1,952
<b>Total</b>	<b>2,375</b>	<b>1,962</b>
<b>Receivables from group companies</b>		
Trade receivables	312	157
Loan receivables	8,710	9,807
Other receivables	453	671
<b>Total</b>	<b>9,475</b>	<b>10,635</b>
<b>Total current receivables</b>	<b>11,850</b>	<b>12,597</b>
<b>Main items included in prepayments and accrued income</b>		
Accrued financial items	218	32
Accrued interest receivables	1,274	1,533
Accrued staff costs	14	23
Other prepayments and accrued income	861	364
<b>Total</b>	<b>2,367</b>	<b>1,952</b>



**11. Equity**

<b>Equity in 2020</b>	<b>Share capital</b>	<b>Share premium reserve</b>	<b>Treasury shares</b>	<b>Fair value reserve</b>	<b>RIUE</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total</b>
Equity on 1 Jan.	66,820	73,420	-4,762	0	215,121	4,899	63,714	419,212
Profit for the period	-	-	-	-	-	-	16,220	16,220
<b>Equity on 31 Dec.</b>	<b>66,820</b>	<b>73,420</b>	<b>-4762</b>	<b>0</b>	<b>215,121</b>	<b>4,899</b>	<b>79,934</b>	<b>435,432</b>

<b>Equity in 2019</b>	<b>Share capital</b>	<b>Share premium reserve</b>	<b>Treasury shares</b>	<b>Fair value reserve</b>	<b>RIUE</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total</b>
Equity on 1 Jan.	66,820	73,420	-38	0	143,253	4,881	72,901	361,237
Increase	-	-	-4,724	-	-	18	-	-4,706
Share issue	-	-	-	-	71,868	-	-	71,868
Profit for the period	-	-	-	-	-	-	-9,187	-9,187
<b>Equity on 31 Dec.</b>	<b>66,820</b>	<b>73,420</b>	<b>-4762</b>	<b>0</b>	<b>215,121</b>	<b>4,899</b>	<b>63,714</b>	<b>419,212</b>

<b>Distributable equity</b>	<b>2020</b>	<b>2019</b>
Contingency reserve	621	621
Treasury shares	-4,763	-4,763
Reserve for invested unrestricted equity	215,121	215,121
Retained earnings	63,713	72,900
Profit/loss for the period	16,220	-9,187
<b>Distributable equity</b>	<b>290,912</b>	<b>274,692</b>

**12. Accumulated appropriations**

	2020	2019
Depreciation difference	57	77
<b>Total appropriations</b>	<b>57</b>	<b>77</b>

The unrecognised deferred tax liability on depreciation difference is EUR 49 000.

**13. Statutory provisions**

	2020	2019
Provisions for pensions	2,492	2,644
<b>Statutory provisions, total</b>	<b>2,492</b>	<b>2,644</b>

**14. Non-current liabilities**

	2020	2019
Hybrid loan	25,920	25,920
Bond	125,440	125,440
Loans from financial institutions	97,005	102,764
Other liabilities	2,974	3,056
<b>Total</b>	<b>251,339</b>	<b>257,180</b>
<b>Total non-current liabilities</b>	<b>251,339</b>	<b>257,180</b>
Interest-bearing		
Amounts owed to others	248,365	254,124
<b>Non-current interest-bearing liabilities</b>	<b>248,365</b>	<b>254,124</b>
Non-interest-bearing		
Amounts owed to others	2,974	3,056
<b>Non-current non-interest-bearing liabilities</b>	<b>2,974</b>	<b>3,056</b>
<b>Total non-current liabilities</b>	<b>251,339</b>	<b>257,180</b>

The company has EUR 125.4 million bond maturing in September 2022 with 2.625 percent coupon interest. In addition, company has issued a hybrid bond in 2018 amounting to EUR 40 million with 8 per cent coupon interest. After the conversions carried out in the context of the share issue in June 2019, the outstanding amount is EUR 25.9 million. Hybrid bond does not have specified maturity, but the company has right to redeem it on the fifth anniversary of the issue date and subsequently on each annual coupon interest payment date.

**15. Current liabilities**

	2020	2019
Loans from financial institutions	87,387	40,656
Trade payables	2,827	1,358
Accruals and deferred income	7,800	9,626
Other liabilities	2,503	3,375
<b>Total</b>	<b>100,517</b>	<b>55,015</b>
<b>Amounts owed to group companies</b>		
Trade payables	32	81
Accruals and deferred income	42	32
Other liabilities	51,282	51,939
<b>Total</b>	<b>51,356</b>	<b>52,052</b>
<b>Total current liabilities</b>	<b>151,873</b>	<b>107,067</b>
<b>Interest-bearing</b>		
Current amounts owed to Group companies	51,282	51,939
Amounts owed to others	87,387	40,656
<b>Current interest-bearing liabilities</b>	<b>138,669</b>	<b>92,595</b>
<b>Non-interest-bearing</b>		
Current amounts owed to Group companies	74	114
Amounts owed to others	13,130	14,358
<b>Current non-interest-bearing liabilities</b>	<b>13,204</b>	<b>14,472</b>
<b>Total current liabilities</b>	<b>151,873</b>	<b>107,067</b>

	2020	2019
<b>Main items (non-current and current) included in accruals and deferred income</b>		
Accrued staff costs	2,186	3,455
Accrued interest expenses	2,503	2,531
Accrued changes in value of derivatives	2,201	2,375
Other accruals and deferred income	910	1,265
<b>Total</b>	<b>7,800</b>	<b>9,626</b>
<b>Liabilities due in five years or more</b>		
Loans from financial institutions	1,808	5,425
<b>Liabilities due in more than five years</b>	<b>1,808</b>	<b>5,425</b>

## 16. Commitments and contingent liabilities

Commitments and contingent liabilities	2020	2019
<b>Debts secured by mortgages and shares</b>		
Loans from financial institutions	84,300	-
<b>Total</b>	<b>84,300</b>	<b>0</b>
<b>Security for debts of subsidiaries and other group companies</b>		
Guarantees	3,028	15,974
<b>Total</b>	<b>3,028</b>	<b>15,974</b>
<b>Security for debts of others</b>		
Guarantees	1,303	1,307
<b>Total</b>	<b>1,303</b>	<b>1,307</b>
<b>Leasing and rental commitments</b>		
Maturing in less than a year	1,098	1,711
Maturing in 1-5 years	3,865	4,107
Maturing in more than five years	949	1,885
<b>Total</b>	<b>5,912</b>	<b>7,704</b>
Other commitments	-	4
<b>Total other contingencies</b>	<b>5,912</b>	<b>7,708</b>

**17. Derivative instruments**

	2020	2020	2020	2019	2020	2019
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
<b>Interest rate derivatives</b>	1,322	-3,543	-2,220	-3,829	64,649	64,359
matured in 2020	-	-	-	-	-	-
matures in 2021	-	-850	-850	-1,634	25,000	25,000
matures in 2022	574	-1,424	-850	-1,634	25,000	25,000
matures in 2023	749	-1,269	-520	-561	14,949	14,359
matures in 2024	-	-	-	-	-	-
matures in >2024	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-
<b>Foreign exchange derivatives</b>	625	-583	42	-117	40,484	34,331
of which defined as net investment hedging instruments	-	-	-	-	-	-
<b>Commodity derivatives</b>	1,614	-1,614	-	-	-	-
matured in 2020	-	-	-	-	-	-
matures in 2021	945	-945	-	-	-	-
matures in 2022	579	-579	-	-	-	-
matures in 2023	49	-49	-	-	-	-
matures in 2024	42	-42	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-

Nominal values of external derivatives that are eliminated due to intercompany derivatives are netted to zero in the table above. The nominal values are EUR 18 756 (22 380) thousand foreign exchange derivatives, EUR 13 379 (12 871) thousand commodity derivatives, EUR 34 932 (34 145) thousand interest rate derivatives.

**Fair value hierarchy**

	<b>31 Dec. 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Derivatives, positive fair value				
Interest rate swaps	1,322	-	1,322	-
Foreign exchange derivatives	625	-	625	-
Commodity derivatives	1,614	-	1,614	-
<b>Total</b>	<b>3,561</b>	<b>-</b>	<b>3,561</b>	<b>-</b>
Derivatives, negative fair value				
Interest rate swaps	-3,543	-	-3,543	-
Foreign exchange derivatives	-583	-	-583	-
Commodity derivatives	-1,614	-	-1,614	-
<b>Total</b>	<b>-5,739</b>	<b>-</b>	<b>-5,739</b>	<b>-</b>

	<b>31 Dec. 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Derivatives, positive fair value				
Interest rate swaps	1,968	-	1,968	-
Foreign exchange derivatives	307	-	307	-
Commodity derivatives	533	-	533	-
<b>Total</b>	<b>2,808</b>	<b>-</b>	<b>2,808</b>	<b>-</b>
Derivatives, negative fair value				
Interest rate swaps	-5,797	-	-5,797	-
Foreign exchange derivatives	-424	-	-424	-
Commodity derivatives	-533	-	-533	-
<b>Total</b>	<b>-6,753</b>	<b>-</b>	<b>-6,753</b>	<b>-</b>

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 company 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.

## Signatures to the financial statement and report of the Board of Directors

Vantaa, 3 February 2021

**Reijo Kiskola**

Chairman of the Board, CEO

**Jari Mäkilä**

Deputy chairman of the Board

**Harri Suutari**

Member of the Board

**Per Olof Nyman**

Member of the Board

**Terhi Tuomi**

Member of the Board

**Anne Leskelä**

Member of the Board

**Tero Hemmilä**

CEO

## Auditor's note

A report on the audit carried out has been submitted today.

Vantaa, 3 February 2021

**Ernst & Young Oy**

Authorized Public Accountants

Erkka Talvinko

APA

# Auditor's report (Translation of the Finnish original)

To the Annual General Meeting of HKScan Corporation

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of HKScan Corporation (business identity code 0111425-3) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.



**Key Audit Matter****Revenue recognition**

We refer to the group's accounting policies and the note 1.

HKScan sells food products, feed, animals and minor amount of services. Revenue consists of product and service sales, which is adjusted with discounts and translation differences resulting from sales in foreign currencies. The Group fulfils its performance obligation and recognises revenue when the control over product or service has been transferred to the buyer.

Revenue recognition was key audit matter due to risk related to correct timing of revenue and discounts.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

**How our audit addressed the Key Audit Matter**

Our audit procedures to address the risk of material misstatement in respect of correct timing of revenue recognition included among others:

- We assessed the compliance of the group's accounting policies over revenue recognition with applicable accounting standards.
- We assessed the group's controls over timing of revenue recognition and over the calculation of discounts and credits.
- We tested using analytical procedures and transaction level testing the underlying calculations of discounts and credits, the correct timing of their recognition and compliance with the contract terms.
- We tested the timing of revenue with analytical procedures and testing on a transaction level either side of the balance sheet date as well as credit notes prepared after the balance sheet date.
- We considered the appropriateness of the group's disclosures in respect of revenues.

**Valuation of goodwill, intangible and tangible assets**

We refer to the group's accounting policies and the notes 5, 10, 11, 12 and 13.

At the balance sheet date, the value of tested goodwill, intangible and tangible assets amounted to 607 M€ representing 62% of the total assets and 184% of the total equity. Valuation of goodwill, intangible and tangible assets was a key audit matter because the impairment testing imposes estimates and judgment. The group management uses assumptions in respect of determining discount rate as well as future market and economic conditions such as economic growth, expected inflation rates, expected market share and revenue and profitability developments.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

Our audit procedures to address the risk of material misstatement in respect of valuation of goodwill, intangible and tangible assets included among others:

- We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the group. Audit focused among others to those relating to the forecasted profitability, volume of replacement investments and discount rates used.
- We focused on analysing by cash generating unit how the profitability has been derived from the historical performance and the budget prepared by the management
- We assessed the historical accuracy of the management's estimates.
- We tested the mathematical accuracy of the calculation.
- We considered the appropriateness of the group's disclosures in respect of impairment testing.

**Key Audit Matter****Valuation of deferred tax asset**

We refer to the group's accounting policies and the notes 8 and 16.

Deferred tax asset arising from tax losses carried forward, deferred tax depreciation and deferred interest expenses subject to interest deduction limit can be recognized when IAS 12 Income Taxes - standard's recognition criteria are met.

Valuation of deferred tax asset was a key audit matter because the management's assessment regarding the utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deductions involves management's assumptions and judgement.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

**How our audit addressed the Key Audit Matter**

Our audit procedures to address the risk of material misstatement in respect of valuation of deferred tax asset included among others:

- We assessed the compliance of the group's accounting policies over the recording deferred tax assets with applicable accounting standards.
- We evaluated the estimates made by management with respect to utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deduction.
- We considered the appropriateness of the group's disclosures about the deferred tax assets.

**Valuation of inventory**

We refer to the group's accounting policies and the note 17.

At the balance sheet date, the value of inventory amounted to 119 M€. The valuation of the inventory was a key audit matter as the amount of inventory in the financial statements is material and imposes management judgement. The valuation of finished and semi-finished goods is based on cost accounting imposing estimates.

We performed, among others, the following audit procedures:

- We assessed the group's accounting principles related to the valuation of inventories.
- We tested using analytical procedures and testing the underlying analyses and calculations prepared by the management relating to the costing of finished and semi-finished goods and determining the net realizable value. We familiarized ourselves regarding the relevant controls and processes
- We also considered the appropriateness of the group's disclosures in respect of balance sheet values and the accounting principles concerning the valuation of inventories.

### **Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Reporting Requirements

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 12 April 2018, and our appointment represents a total period of uninterrupted engagement of 3 years.

### Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Opinions based on assignment of the Annual General Meeting**

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable equity shown in the balance sheet for the parent company is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Directors of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 3.2.2021

Ernst & Young Oy, Authorized Public Accountant Firm  
Erkka Talvinko, Authorized Public Accountant

**HKSCAN**

[www.hkscan.com](http://www.hkscan.com)