



HKSCAN
Annual report
2019

HKScan in brief

We are a food company operating in the Baltic Sea region. With over 100 years of experience, we make tasty, healthy and responsibly produced food responding to the needs of consumers and customers.

Our strategic target is to grow profitably into a versatile food company and to have a stronger presence in consumers' food moments. For us at HKScan, responsibility includes the development of food production throughout the value chain, from farms to consumers.

Our home markets cover Finland, Sweden, Denmark and the Baltics. Our nearly 7,000 HKScan professionals ensure a tastier - today and tomorrow.

Our diverse product portfolio includes poultry, pork and beef, as well as meat products and meals. Our strong brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose®.



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**HKSCAN
Business
2019**



Our year 2019

The year 2019 was significant for HKScan. We worked successfully on many fronts. Our key actions were related to stabilising our financial position and reversing the company's direction. At the beginning of the year, we launched the three-year Turnaround programme to improve the company's profitability, and now our cash flow and profitability are clearly better. The successful share issue and negotiated restructuring of bank loans strengthened our financial position and provided a solid foundation for our efforts to significantly improve profitability.

At the end of 2019, we published the Group's new strategy, which focuses on the successful implementation of the Turnaround programme and on our growth into a versatile food company. We want to have a stronger presence in consumers' food moments and strengthen our market position in evolving sales channels together with our customers.



We want to have a stronger presence in consumers' food moments.

Key figures

Net sales

+1.7%

EUR 1,744.4 million

Comparable EBIT

+44.1 EUR million

EUR -2.2 million

Cash flow from operating activities

+73.5 EUR million

EUR 59.2 million

Net gearing

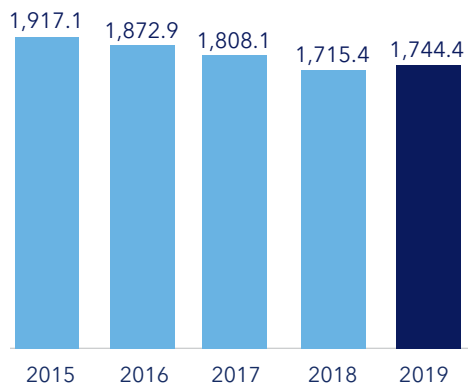
84.8%

	2019	2018
Net sales, EUR million	1,744.4	1,715.4
EBIT, EUR million	-23.2	-48.3
% of net sales	-1.3	-2.8
Comparable EBIT, EUR million	-2.2	-46.3
% of net sales	-0.1	-2.7
Profit for the period, EUR million	-37.5	-51.3
EPS, EUR	-0.52	-1.00
Cash flow from operating activities, EUR million	59.2	-14.3
Return on capital employed (ROCE) before taxes, %	-3.1	-6.7
Net gearing, %	84.8	103.3
Investments, EUR million	31.7	41.0

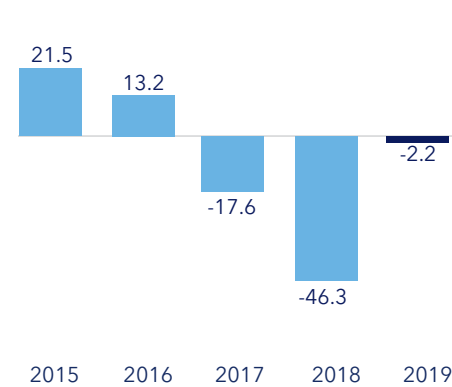




Net sales, EUR million

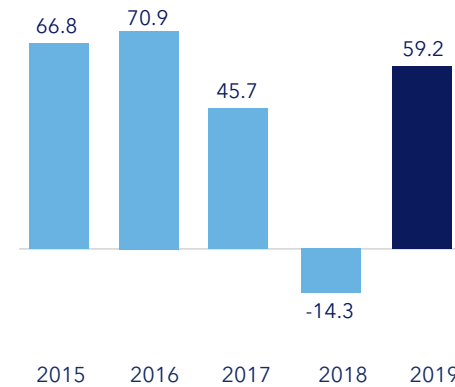


Comparable EBIT, EUR million



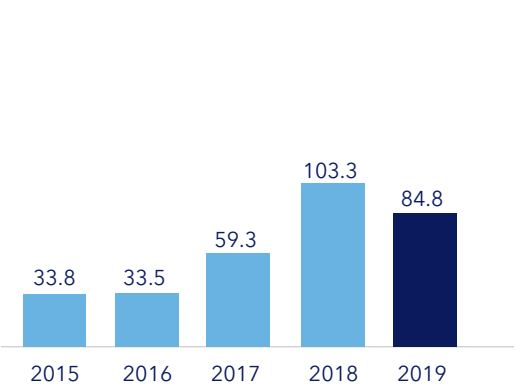
Figures for the years 2015-2017 are not adjusted for IFRS 16

Cash flow from operating activities, EUR million



Figures for the years 2015-2017 are not adjusted for IFRS 16

Net gearing, %



Figures for the years 2015-2017 are not adjusted for IFRS 16

Year 2019



	Q1	Q2	Q3	Q4
EBIT	+ 8 EUR million	+ 22 EUR million	+ 36 EUR million	+ 44 EUR million
Cash flow	+ 25 EUR million	+ 33 EUR million	+ 57 EUR million	+ 74 EUR million

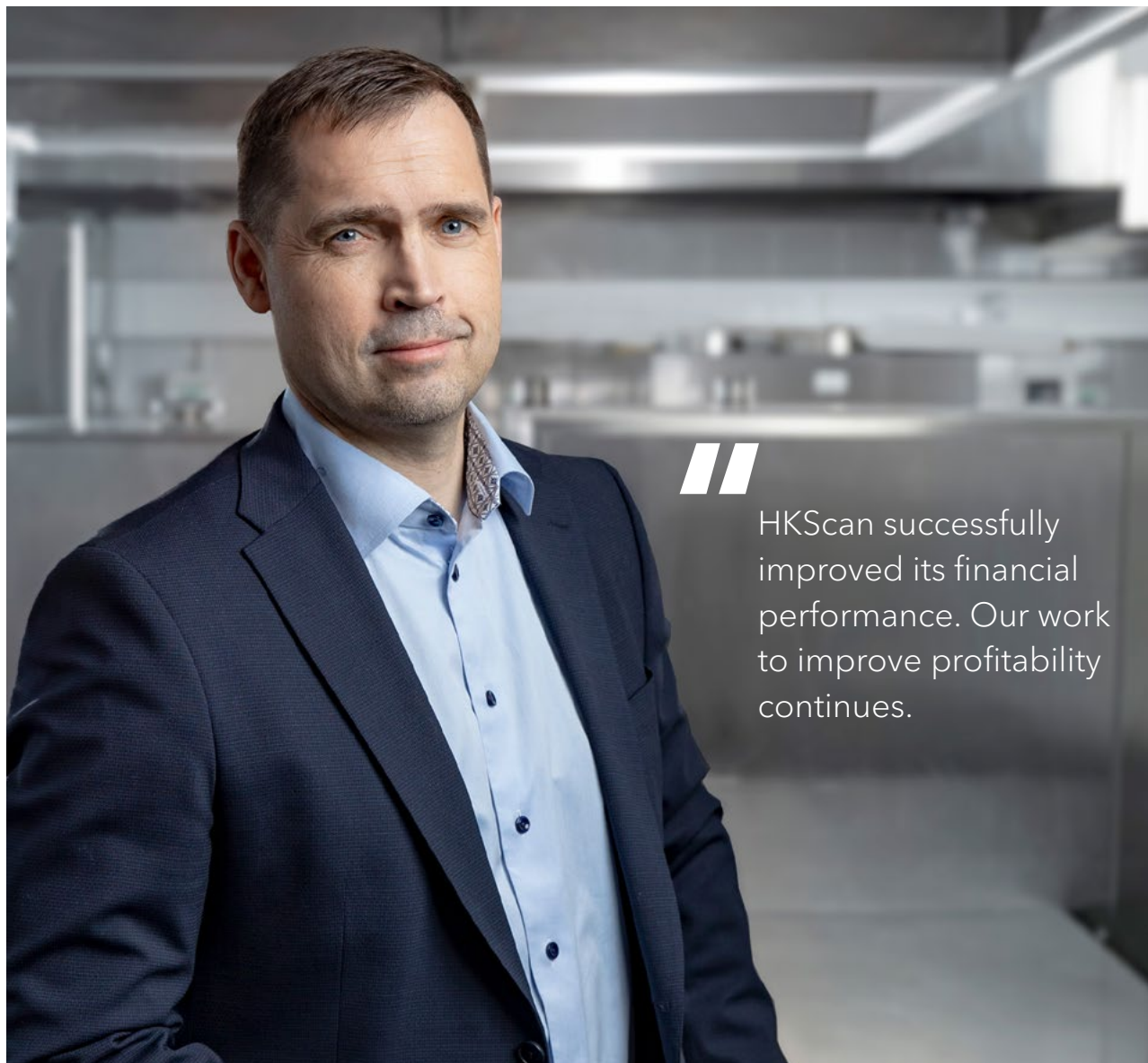
<p>Renewed BoD starts</p> <p>New CEO starts</p>	<p>Implementation of the Turnaround programme starts</p> <p>Statutory negotiations are completed in Finland</p>	<p>Share issue</p> <p>New credit agreement replacing earlier bank loans</p>	<p>New Group strategy</p> <p>New Group CR programme</p>	<p>New Group-wide operating model</p>
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EBIT = Cumulative improvement of comparable EBIT, EUR million
 Cash flow = Cumulative improvement of cash flow from operating activities, EUR million

CEO's review

The year 2019 was significant for HKScan in many ways. At the beginning of the year, we launched our Turnaround programme to significantly improve the company's profitability. In the first year, we successfully improved both the company's cash flow and profitability. We are continuing the implementation of the Turnaround programme in the years ahead. We published the Group's new strategy, which focuses on the successful implementation of the Turnaround programme and our growth into a versatile food company.

Our key actions in 2019 were related to the change of the company's direction as, at the beginning of the year, our financing situation was difficult and debt servicing capacity was weakening rapidly in the light of key figures. The successful share issue and negotiated restructuring of our bank loans strengthened our financial position and provided a solid basis for the implementation of the Turnaround programme, aiming at significantly improving profitability in 2019-2021.



HKScan successfully improved its financial performance. Our work to improve profitability continues.

Our direction is now right, and I am pleased with our profit improvement in 2019. Naturally, the Group's profitability is not yet at a satisfactory level, but we will continue our goal-oriented, systematic work to improve it to a healthy level together with the entire personnel.

EBIT improved significantly and cash flow strengthened

EBIT and cash flow are the key performance indicators in HKScan's Turnaround programme. The Group's comparable EBIT improved by over EUR 44 million from the comparison year, but was still EUR -2.2 million negative. Cash flow from operating activities strengthened by almost EUR 74 million, and was EUR 59.2 million positive.

In 2019, all HKScan's market areas improved their comparable EBIT. Finland and the Baltics were the best performers, and Sweden also showed clear improvement. Due to a clearly stronger second half in 2019, Denmark achieved better comparable EBIT compared to the previous year.

The factor that contributed most to the full-year profit improvement was the good performance of the Finnish poultry business, which was mainly due to the improvements seen in the profitability and delivery capability of the Rauma unit. In addition, commercial successes, cost control consistent with objectives and efficiency improvement measures improved the results in all our market areas.

HKScan's net sales increased by 1.7 per cent, totalling EUR 1,744.4 million. In comparable figures, growth was seen in all market areas and in all product categories.

HKScan's pork exports from Finland to China increased with volumes in line with targets. We will continue to work closely with the authorities in our home markets to obtain export licenses also for poultry and beef in China.

Strong growth in poultry meat consumption continued

In HKScan's market areas, strong growth in poultry meat consumption continued while pork and beef consumption showed a decline. Total meat consumption in Finland and Sweden was slightly down, which we estimate was partly due to the rise in consumer prices of meat. According to our own estimates, total meat consumption in the Baltics continued to grow in poultry, pork and beef. In Denmark, poultry meat consumption continued to grow.

We expect the strong increase in poultry meat consumption to continue in all our home markets in the coming years. During the second half of the year, we became the market leader of the Finnish poultry category and Kariniemen® gained a market leadership position in branded products.

In February 2020, after the review period, we published our decision to invest some EUR 6 million in a new slaughter process in the Rauma poultry unit. With the investment, raw material yields, productivity



HKScan's strategic target is to grow into a versatile food company.

and operational reliability will further improve, and the capacity of the whole unit can be significantly increased to meet the strongly growing demand for poultry meat in the following years. The investment will be implemented in stages at the end of 2020.

New strategy guiding our growth into a versatile food company

At the beginning of November, we published the Group's new strategy. From 2020 to 2021, HKScan's key strategic target is to successfully lead the Turnaround programme. Our longer-term strategic goal is to grow profitably into a versatile food company. With poultry and meals as growth drivers, responsibly produced pork and beef as well as processed meat will remain at the core of our operations.

We are also actively looking into new product categories and raw materials. In addition, we want to have a stronger presence in consumers' food moments and strengthen our market position in evolving sales channels together with our customers.

The first indication of the strategy implementation is the strategic partnership with Hes-Pro (Finland) Oy published in November. HKScan will sell and market HesPro's plant protein products under its own product brands in the retail and food service channels in selected markets.

An important part of the implementation of the new strategy is our new Group-wide operating model launched in early 2020. Its aim is to strengthen market area level profit responsibility and performance management, and our customer and consumer-driven way of operating.

On our way towards carbon neutrality

HKScan's new responsibility programme is an essential part of the Group's new strategy. The new responsibility programme is based on the management and promotion of sustainability throughout our long value chain, from farms to consumers. With our responsibility work, we help consumers to make their food choices with a good conscience. We are also on our way towards carbon neutrality.

Our responsibility work evolves as a systemic change regarding our entire business and guiding everything we do. Our goal is to promote sustainable development by enhancing our operating model and structures. Together with our partners, we are building the Agrofood Ecosystem® network across our value chain, which improves profitability and sustainability footprint.

We will continue to emphasise the role of meat as part of a healthy diet and the importance of responsible Northern livestock production in ensuring national food security in our home markets.

Thank you all!

I would like to thank HKScan's personnel, owners, financiers, producers, customers, consumers and our other partners for the good cooperation in 2019. The continuous improvement of collaboration with all our stakeholders provides us with an opportunity to further enhance our operations and to better take into consideration the needs of our customers and consumers.

Our goal is to make HKScan an attractive company that rewards its owners and is among the leading operators in its field.

Tero Hemmilä

CEO

HKScan Corporation



Strategy

At the core of HKScan's new Group strategy, Tastier life - today and tomorrow, are the Turnaround programme focused on improving the company's profitability, and profitable growth into a versatile food company. Successful implementation of the Turnaround programme forms a strong financial foundation for the company's future growth.

The strategy's focus is on the needs of customers and consumers and on developing responsibility throughout the value chain

According to its new Group strategy, HKScan focuses on:

- leading the successful Turnaround programme,
- establishing the profit centre-based operating model throughout the Group,
- growth in consumers' food moments in current and new product categories and in evolving sales channels, also in exports,
- developing performance excellence in key business processes,
- the systemic management of responsibility throughout the value chain, from farms to consumers,
- developing the competitiveness of the farming community,
- promoting the operating model based on partnerships,
- assessing the position of market areas as part of the strategy.



Turnaround programme



Turnaround programme

In early 2019, HKScan launched its Turnaround programme, which aims to turn the company's profitability to a healthy level between 2019 and 2021. The profit improvement goal is spread across all market areas and key actions throughout the value chain. Programme implementation is centrally managed and regularly evaluated.

Successful implementation of the Turnaround programme will lay the foundation for the company's future growth. At the end of 2019, HKScan was preparing the operating model, launched in early 2020, which strengthens the market area level profit responsibility and performance management, and the company's customer

and consumer-driven way of operating. The operating model renewal is central in the implementation of the company's new strategy.

Strong partnerships are part of the company's strategy. They are the key in building our position in the food market and they enable growth in both evolving sales channels and new categories.

HKScan continues to strategically assess the company structure and reviews the positioning of different market areas as part of the Group's operations.



Successful implementation of the Turnaround programme will lay the foundation for the company's future growth.

Our strategic priorities



1. Create growth in consumers' food moments



2. Drive performance excellence



3. Lead advanced corporate responsibility work



4. Develop competitive farming community

Lead the Turnaround programme

Implement the new operating model and partnership strategy

Strategic priorities

Growth in consumers' food moments

HKScan's strong, innovative poultry range as well as meals and meal components are the company's growth drivers. Responsibly produced pork and beef as well as meat products are at the core of our operations and will continue to play a major role in the future. We are also looking into expanding our business into new product categories and raw materials.

In the short term, we will strengthen our market position by focusing on growth opportunities in the existing product categories and sales channels.

We will strengthen our position in the evolving retail and in the growing food service channel. New commercial concepts and digital solutions are driving growth alongside our growing product portfolio.

Increasing our exports, especially to Asia, is important for the company. We will continue our efforts to strengthen our market position in key export markets. The share of added value products in exports has increased, although the export of surplus volumes is still a significant part of exports.

We will build partnerships enabling our growth in evolving sales channels and new product categories.

Performance excellence

We promote our performance excellence through effective knowledge management and by developing all of our key business processes. For example, we are developing our commercial processes and our ability to create value for customers and consumers and thus, for our own business. We develop and strengthen our operational capabilities to improve productivity and cost efficiency and to create a foundation for growth. Development of the personnel's wellbeing and competence to meet the demands set by the new strategy is at the heart of our process development.

Advanced responsibility work

Responsibility work covering the whole value chain, from farms to consumers, is an essential part of our strategy and at the heart of our daily work. Our extensive responsibility work strengthens confidence in our products and operations, and increases the transparency of our production chain. We manage responsibility as a systemic change throughout our value chain and make advanced responsibility work one of our key competitive advantages. With systemic responsibility work, we aim to strengthen our position as one of the leading operators in the food industry, both at the Group and brand level.

Competitive farming community

HKScan is committed to developing its farming community together with meat producers. This is how we can ensure high-quality, domestic and responsibly produced raw material. With our development work, we aim to promote sustainability in the meat chain, increase transparency and improve the competitiveness of the farming community's production. We develop contract production together with farmers, and take it to the next development level so that it creates and meets the needs of customers and consumers.

Long-term financial targets

HKScan's long-term financial targets remain unchanged. HKScan estimates that it will take a few years after the successful implementation of the Turnaround programme to achieve the goals.

HKScan's purpose is to make life tastier - today and tomorrow

We are strongly present in consumers' food moments. In addition to natural, responsibly produced meat, we want to provide consumers with an increasingly diverse selection of tasty and healthy food for various food moments.

Consumers can enjoy our products with a good conscience. For us, it is important that consumers know where our food 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 and other partners.

Our long-term financial targets remain unchanged

EBIT above
4%
of net sales

Return on capital
employed (ROCE)
above
12%

Net gearing
less than
100%

Dividend more than
30%
of net profit

Our values



Our values create the foundation for all our work and guide our decision-making.

Inspire

We strive to inspire consumers and our customers with new food experiences.

We make the world of food more interesting with our products, concepts and digital solutions.

Our inspiration derives from our continuous curiosity to learn more and to build our knowledge to the level that enables us to serve our markets with new consumer and customer experiences.

Lead

We are proud of being one of the food industry leaders in the Nordics.

We work actively to develop our leadership position, in good collaboration with our stakeholders.

We professionally manage our long value chain, from farms to consumers, enabling locally produced, responsible food.

We develop good leadership practices to have motivated, committed and result-oriented people.

Care

We focus on safety at work, healthy and sustainable food, animal welfare, environmental aspects and the well-being of our people.

Our responsibility work is based on good collaboration with our stakeholders.

Through our responsibility work, we help consumers to make their food choices with a good conscience.

We want to create an environment of care, trust and respect.

Deliver

We take accountability for our work and get things done.

We reach good results by knowing our numbers and paying attention to our everyday performance. We understand the connection between our work and the company's financial result.

We perform above expectations by taking initiative and by always working in line with HKScan's targets.

We ensure quality and high professional standards in everything we do.

Business environment

Our home markets are in the Baltic sea region, but many of the phenomena and trends affecting our business are international or even global. Climate change, responsibility throughout the value chain, animal welfare, urbanisation and demographic changes and digitalisation are changing consumer attitudes and needs as well as consuming and purchasing behaviour. HKScan actively develops responsibility in its entire value chain from farms to consumers.

HKScan's goal is to grow profitably into a versatile food company. We want to establish an even stronger presence in the varying food moments of consumers' lives. We are also considering expanding into new product categories and raw materials to better answer customer and consumer demand. Our goal is to strengthen our market position in the changing markets together with our customers.

Trends relating to responsibility have gained momentum in recent years. Consumers are more and more interested in the health impacts of food as well as animal welfare. Consumers' concern about climate change is global, and its impacts can also be seen in HKScan's home markets. Consumers make more critical assessments of different forms of energy, travel-related emissions and the climate impacts of different industries, including the food industry.



Trends driving our strategic choices



Changes in consumers' ideology and consumption habits



Sales channels under disruption

New product categories challenging meat

Cross-border competition on the plate

Healthiness and sustainability of food

Changes in primary production

In addition to the changes in consumer behaviour, trends that guide HKScan's strategic choices include the disruption of distribution channels, the growing supply of plant-based protein products, competition for consumers' food choices across traditional industry boundaries as well as growing awareness of healthy and sustainably produced food. Changes in primary production and its structures also affect HKScan's operations.

Changing consumer behaviour

Particularly in cities, consumers look to balance their hectic work life with experiences in their free time and want eating to be easy. Consumers want to spend less time cooking, which has increased the demand for ready meals and convenience foods that make cooking easier, as well as eating out.

Food moments are diversifying and the concept of meal is changing. Some of the traditional meal times are substituted with snacks that are easy to consume in the hectic day-to-day life. On weekdays, consumers may look for quick food solutions, whereas during the weekend, time and effort is spent on cooking.

Consumption is becoming more fragmented even within households. The strengthened buying power of consumers and versatile food offering enable people to follow individual tastes and different diets.

Conscious and responsible consumption is here to stay. 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.

Food is seen as important and discussed a lot. Digitalisation enables communal consumption. The new generation is introducing new attitudes and demands, which is reshaping eating habits. For example, according to a 2019 Suomi Syö (Finland eats) study, more than half of the population recognises that they are changing their eating habits somewhat or considerably. The same study also finds that there are many traditional values associated with food. The five most important expectations Finnish consumers had for food were traditional: good taste, domestic origin, healthiness, familiarity, supporting a versatile diet.



Sales channels developing strongly

The disruption in retail is continuing. The boundaries between retail stores and restaurants are dissolving at an accelerated rate, which is significantly changing buying behaviour. Consumers can buy take-away food from restaurants while retail stores contain restaurants, cafés and take-away food counters.

The impacts of climate change, natural disasters and animal diseases such as the African swine fever increase the appreciation of and demand for domestic food. The disruption offers opportunities for HKScan and its customers.

Domestic food products are seen as locally produced and compared to imported products.

Environmental awareness challenges both the food industry and its customers to develop ecologically sustainable packaging solutions and recycling systems. The use of packages made from recycled and renewable raw materials is increasing. Demands to reduce food waste have increased, as well.

Digitalisation has a strong impact on the operations of HKScan and its customers. In addition to ordering food from retail stores, people order home-delivered food from restaurants, which is a growing trend.

Digitalisation is also opening doors for a closer dialogue with consumers. It is more and more important that companies in the food value chain are able to produce and use new kinds of data and refine it into accessible, consumer-centric information on, for example, the sustainability of food production.



Poultry meat consumption continues to grow

The awareness of consumers is evident in their grocery shopping. The plate model affects consumers' buying behaviour. Eating habits have diversified and the consumption of vegetables, fruit and berries is growing strongly.

Changes in meat consumption are twofold. People are eating less meat, but reducing consumption is only impacting certain categories. As pork consumption is declining, poultry meat consumption has increased strongly. On a global scale, meat consumption is increasing, impacted most by population growth.

In HKScan's market areas, the strong growth of poultry meat consumption continued, but the consumption of pork and beef declined. In Finland and Sweden, total meat consumption decreased slightly. In our estimation, the rise in consumer prices of meat has contributed to the consumption decline. According to our own estimates, total meat consumption continued to grow in the Baltics, in pork, beef and poultry. In Denmark, poultry consumption continued to grow. HKScan expects the clear increase in poultry to continue in all our home markets in the coming years.



The demand for poultry products continues its strong growth.



The improved productivity and delivery capability of the Rauma unit as well as the strong position of the Kariniemen brand supported our significant result improvement.

Jari Leija, EVP Business Unit Finland

Market area Finland

HKScan is a significant food industry player in Finland, employing close to 2,800 people. Our product categories include poultry meat, pork and beef and products made from them, such as cold cuts, nuggets, meatballs and sausages. Meals are also an important and growing part of our product offering in Finland. Consumers recognise us best from our iconic brands: HK®, Kariniemen®, Via®, Kivikylän® and Tamminen®. Our customers are retail trade, the food service channel and other food industry as well as export customers.

Key events in 2019

Net sales in Finland increased from the comparison year due to poultry sales as well as increased demand for pork and meals. The sales of processed meat also developed well. The increase in net sales was driven by the improvement in the delivery capability and efficiency of the Rauma poultry unit, supported also by the strengthened Kariniemen brand, which boosted the entire poultry meat market in Finland. The positive development of subsidiaries Tamminen and Kivikylän also contributed to the strengthening of our

brand portfolio and market position. Pork exports from Finland to China increased and proceeded as planned.

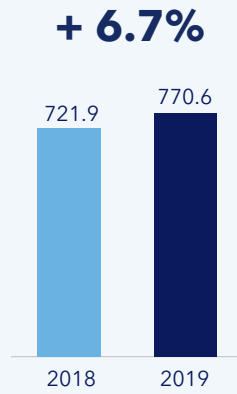
Comparable EBIT improved from the comparison period by EUR 33.9 million mainly as a result of the positive performance of the poultry business, improved operational efficiency and tight cost control. The positive development in sales of red meat and meals as well as commercial successes boosted full-year profitability, as well.

Strong partnerships are part of the company's new strategy and form a basis for reaching our targets. HKScan entered a strategic partnership with Hes-Pro (Finland) Oy to launch plant-based protein products in Finland under its own product brands in the food service channel and retail.

After the review period, a strategically important, approximately EUR 6 million investment in a new slaughter process at the Rauma poultry unit was announced. The investment will ensure that we can respond to the continuously increasing poultry product demand in the coming years.



Net sales, EUR million



Comparable EBIT, EUR million



Key brands



- Head office
- Production facility

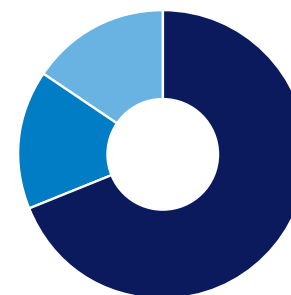


Categories



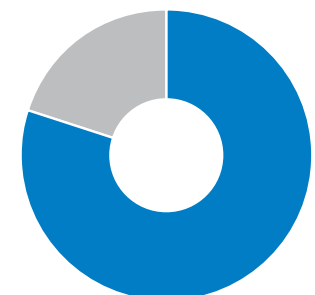
- Red meat
- Poultry
- Processed meat
- Meals

Key channels



- Retail
- Food service
- Other

Personnel



- White-collar
 - Blue-collar
- On average during the year (agency contract workers not included).



The demand for domestic meat increased and the international demand-driven meat market situation created a positive tone on the market as a whole.

Denis Mattsson, EVP Business Unit Sweden

Market area Sweden

In Sweden, HKScan is the leading company in the meat industry, employing over 2,000 people. Our product categories include pork, beef and lamb and products made from them, such as cold cuts, meatballs and other processed meat products. The poultry products sold by HKScan in Sweden are produced in Denmark, as the company has no contract production of poultry meat in Sweden. Information related to HKScan's production unit in Poland is reported as a part of market area Sweden.

The Scan®-brand is one of Sweden's best-known food brands and its popularity is increased by its promise of 100 per cent domesticity. Parsons® is another brand valued by consumers. Our customers are retail trade, the food service channel and other food industry as well as export customers.

Key events in 2019

In Sweden, net sales decreased slightly from the comparison year mainly due to the weakening of the Swedish krona. In local currency, retail and food service sales increased clearly. Net sales decreased also due to the transfer

of the sales responsibility of Danish poultry sold in Sweden to market area Denmark, which reduced net sales by EUR 15.8 million. Adjusted for these effects, sales increased.

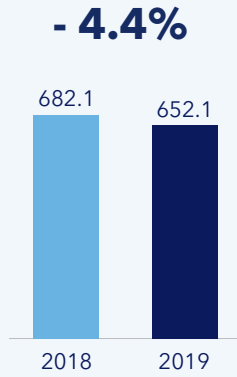
Both retail sales of branded products and food service sales improved. Swedish consumers' appreciation for domestic meat strengthened, supporting full-year sales. In the last quarter, the shortage of Swedish pork weakened sales.

Comparable EBIT increased from the comparison period by EUR 2.7 million despite the unfavourable exchange rate development. The result improvement was driven by commercial successes, improved operational efficiency and lower administration costs. Stock levels remained below the previous year's level throughout the year.

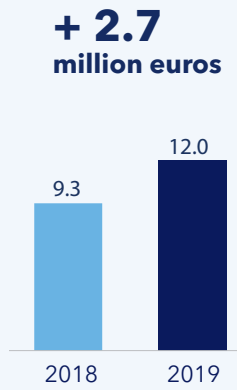
In Sweden, we carried out sustainability actions in many areas of corporate responsibility. Completed investments in our production units supported the reduction of greenhouse gas emissions. We also stopped using unrecyclable plastic packaging in our branded products.



Net sales, EUR million



Comparable EBIT, EUR million



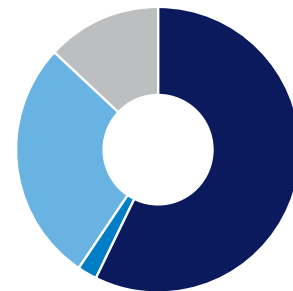
Key brands



- Sales office
- Production facility

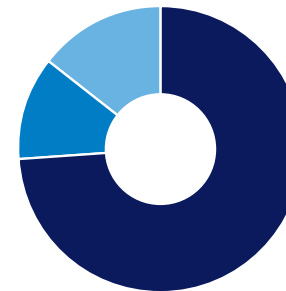


Categories



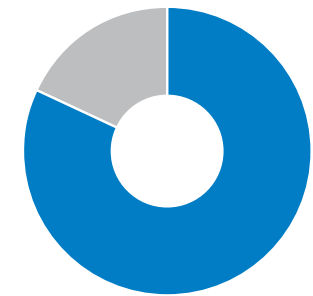
- Red meat
- Poultry
- Processed meat
- Meals

Key channels



- Retail
- Food service
- Other

Personnel



- White-collar
- Blue-collar

On average during the year (agency contract workers not included). Also includes personnel located in Poland.



After the weak beginning of the year, commercial successes in the second half of the year turned sales to a growth track.

Jukka Nikkinen, EVP Business Unit Denmark

Market area Denmark

HKScan is one of the leading companies in the poultry meat market in Denmark, employing over 600 people. In Denmark, our focus is on poultry meat, which we sell as fresh and frozen. In addition, our offering includes cooked chicken products. Danish retail customers recognise us from our Rose® brand. Our customers are retail trade, the food service channel and other food industry as well as export customers. The share of export from Denmark's net sales is clearly largest compared to HKScan's other home markets.

Key events in 2019

After the weak beginning of the year, domestic sales improved during the second half of the year. The transfer of sales responsibility for Danish poultry sold in Sweden from Sweden to Denmark increased net sales by EUR 15.8 million. Net sales also increased due to strengthened export and industrial sales as well as improved poultry sales to Sweden. Price competition remained fierce throughout the year particularly in retail sales.

Comparable EBIT improved from the corresponding period but was still clearly negative. Financial performance was burdened by changes in customer portfolio and sales mix as well as increased raw material costs in the first half of the year. Commercial successes clearly improved profitability in the second half of the year.

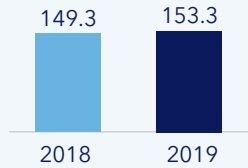
In Denmark, important corporate responsibility work was carried out by, among other things, promoting work safety. In the Vinderup unit, consistent work to improve safety culture continued with a visible internal campaign, as a result of which the number of lost-time accidents in the unit was halved from 2018.

Our sustainability actions were also seen by consumers in retail trade, as we renewed the packaging of all our Rose branded products and began using packaging made from recycled raw materials.



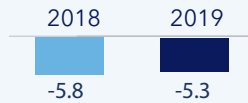
Net sales, EUR million

+ 2.7%



Comparable EBIT, EUR million

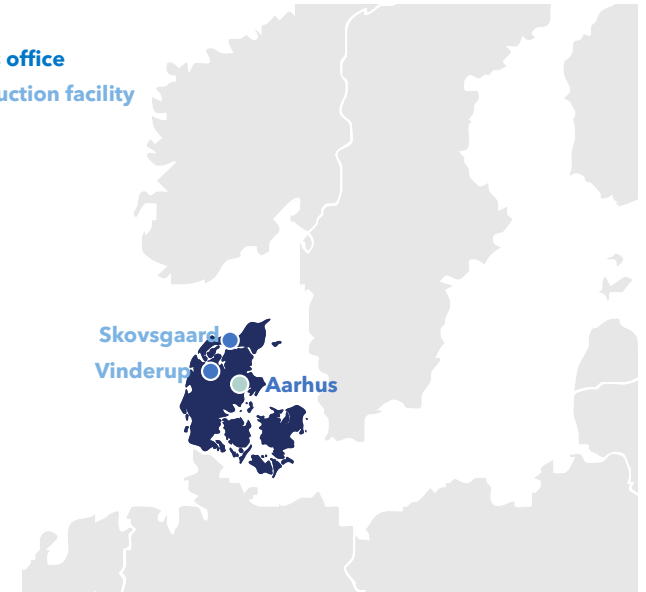
+ 0.5 million euros



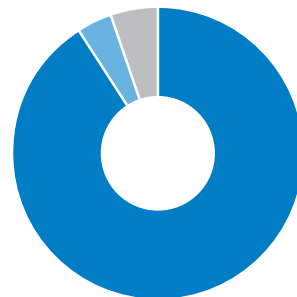
Key brands



- Sales office
- Production facility

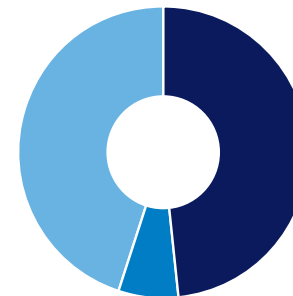


Categories



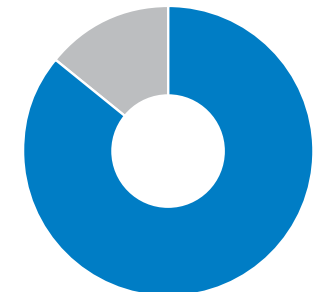
- Red meat
- Poultry
- Processed meat
- Meals

Key channels



- Retail
- Food service
- Other

Personnel



- White-collar
 - Blue-collar
- On average during the year (agency contract workers not included).



Our investment in meal production in Rakvere, completed in June 2019, has strengthened our position in the growing meals business.

Anne Mere, EVP Business Unit Baltics

Market area Baltics

In the Baltics, HKScan is the market leader in all its product categories. We employ over 1,500 people, the majority of whom work in Estonia. Our product categories include pork, beef and poultry meat and products made from them, such as cold cuts, meatballs, nuggets and cutlets. Our offering also includes meals, the demand for which continues to increase. Our best-known brands are Rakvere® and Tallegg® in Estonia, Rīgas Miesnieks® in Latvia and Klaipedos Maistas® in Lithuania. Our customers are retail trade, the food service channel and other food industry as well as export customers.

Key events in 2019

In the Baltics, net sales increased in all main sales channels and were boosted particularly by continued growth in domestic retail and industrial sales, positive sales price development and improved sales mix.

Comparable EBIT improved by EUR 5.8 million from the previous year especially due to the good development of pork market prices and improved sales prices.

The EBIT was also strengthened by operational efficiency measures and lower administration costs. The change of biological asset revaluation amounted to EUR 2.3 (-0.7) million.

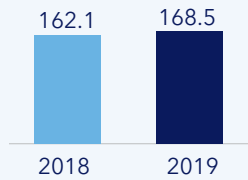
The investment project related to meals production capacity expansion in Rakvere, Estonia was completed as planned and the rebuilt sections of the unit were taken into use in June. The investment enables the launch of new, innovative products and packaging solutions. The investment also improved productivity and environmental performance.

In the Baltics, HKScan has worked for three years to reduce antibiotics use in its poultry production. In 2019, no antibiotics were used in poultry production. This was a result of close cooperation between experts and farms, a transparent way of working, tightened animal health criteria and research.



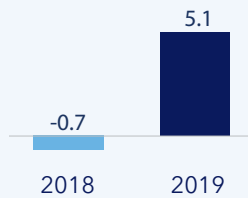
Net sales, EUR million

+ 3.9%



Comparable EBIT, EUR million

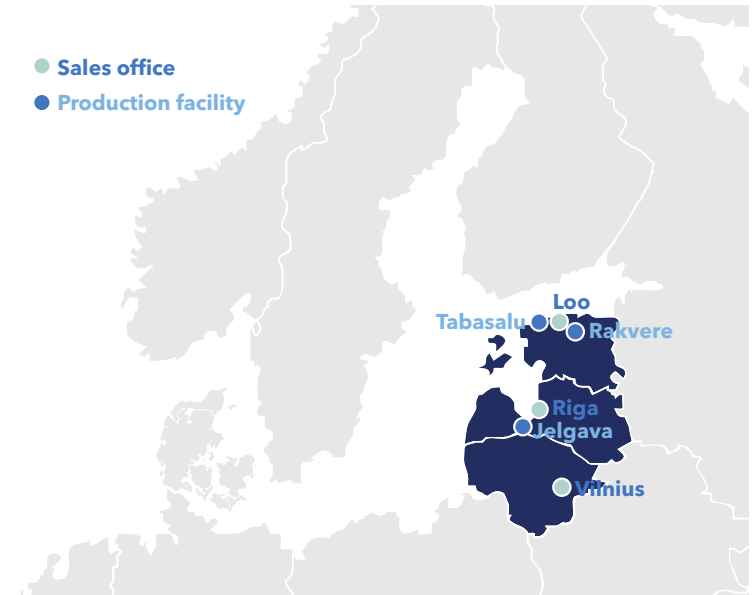
+ 5.8 million euros



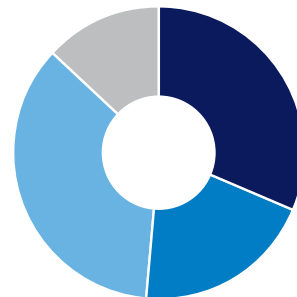
Key brands



- Sales office
- Production facility

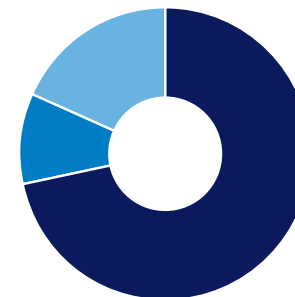


Categories



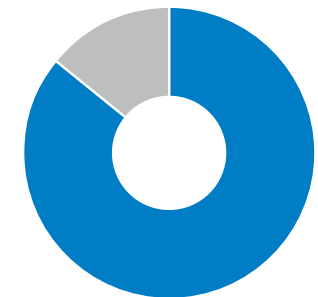
- Red meat
- Poultry
- Processed meat
- Meals

Key channels



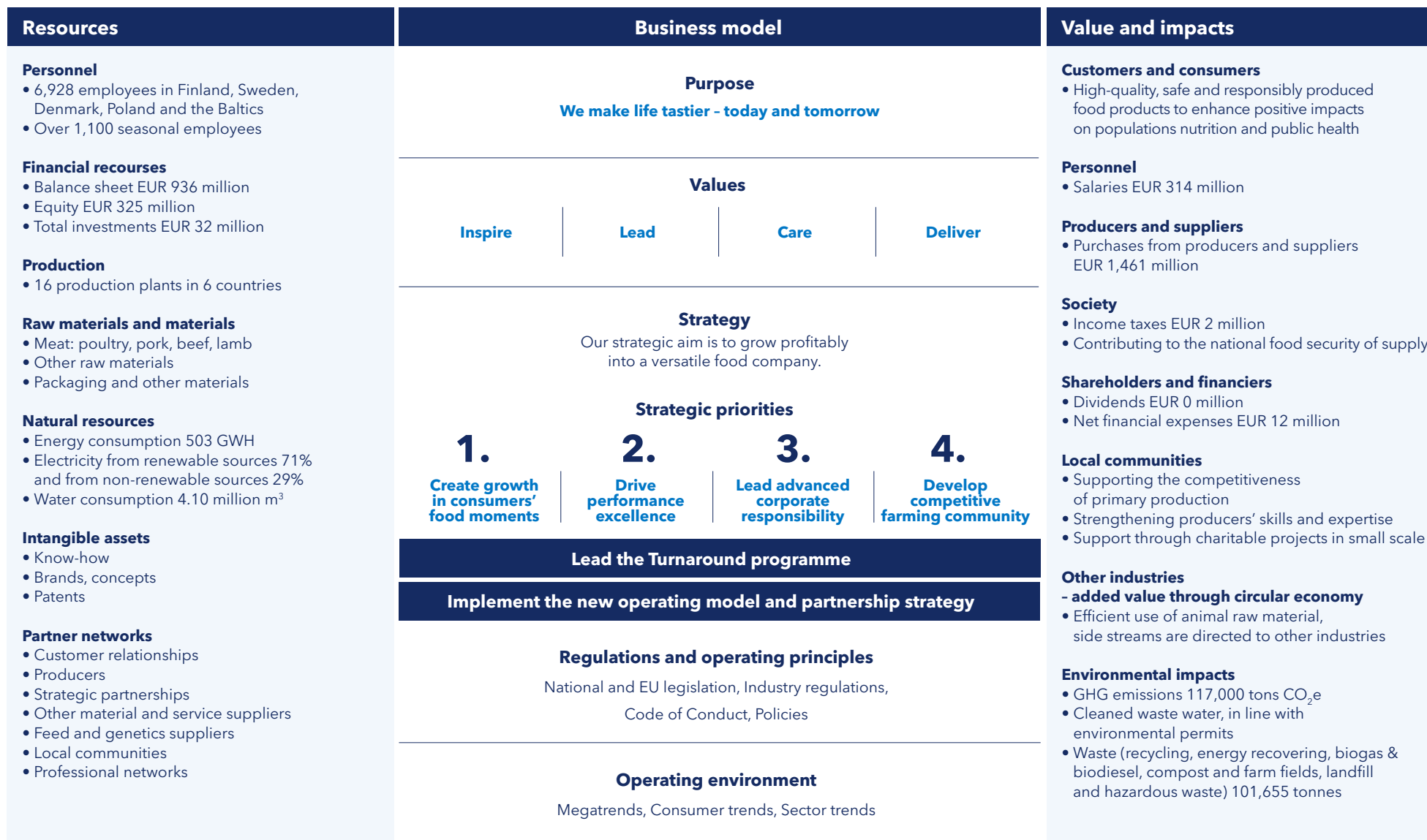
- Retail
- Food service
- Other

Personnel



- White-collars
 - Blue-collars
- On average during the year (agency contract workers not included).

This is how HKScan created value in 2019



HKScan as an investment

Key share information

Listed in: Nasdaq Helsinki

Trading code: HKSAV

ISIN code: FI0009006308

Sector: Food & Beverage

Number of shares:

93,551,781 (A shares, quoted)

5,400,000 (K shares, not quoted)

Listing date: 6 February 1997

Shares

HKScan Corporation completed a directed share issue of new series A shares in June 2019. The share issue was based on the authorisation of the Extraordinary General Meeting on 29 May 2019. A total of 44,917,607 new series A shares subscribed for in the offering were registered in the trade register on 24 June 2019. In connection with the registration, the Company cancelled the series A shares in possession of the Company, totalling 992,348 series A shares. Following the registration of the new shares and the cancellation of treasury shares, the total number of registered series A shares in HKScan is 93,551,781.

At the end of December 2019, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The Corporation's total number of shares issued, 98,951,781, 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%). 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 2019, the company held 2,000,000 (992,348) A shares as treasury shares, corresponding to 2.02 per cent of the company's total number of shares and 1.0 per cent of the total number of votes.

The market cap of HKScan's shares at the end of December 2019 stood at EUR 267.6 (76.7) million. Series A shares had a market value of EUR 252.7 (69.1) million, and the unlisted Series K shares a calculational value of EUR 14.9 (7.7) million.

In January–December, a total of 26,948,127 (11,399,917) of the company's shares were traded with a total value of EUR 55,238,860 (27,366,358). In the period under review, the highest price quoted was EUR 2.88 (3.23) and the lowest was EUR 1.48 (1.29). The average price was EUR 2.05 (2.40). At the end of December 2019, the closing price was EUR 2.76 (1.42).

Debt investors

More detailed information for HKScan's debt investors is provided at www.hkscan.com/en/investors-information/financials/Debtinvestors/.

Analyst coverage

To review an updated list of analysts covering HKScan, please visit our website: <https://www.hkscan.com/en/investors-information/share/Analysts/>.

HKScan's investor relations

HKScan's investor relations strive to offer transparent, timely and reliable information about the company and its operating environment to the capital markets, enabling stakeholders to form a realistic picture of HKScan as an investment.

HKScan aims to ensure that all stakeholder groups are on an equal footing and have sufficient and correct information about the company, and that information is published in a timely manner and without delay. In its communications, HKScan observes the Finnish legislation, rules and regulations of Nasdaq Helsinki and the regulations and guidelines of the European Securities and Markets Authority and the Financial Supervisory Authority.

For more information, please visit our web site for [investors](#).

Silent period

HKScan observes a 30-day silent period in its communication with investors and the media. The silent period precedes the publication of the financial statements release and any interim financial report.

During the silent period, results or factors affecting them are not discussed with the capital markets or representatives of the media.

Financial calendar 2020

Financial statements release for 2019 on

Thursday, 6 February 2020

January–March 2020 interim report on

Thursday, 7 May 2020

Half-year financial report 2020 on

Thursday, 16 July 2020

January–September 2020 interim report on

Thursday, 5 November 2020

Annual General Meeting

HKScan’s Annual General Meeting will be held on

Wednesday, 15 April 2020 in Turku, Finland.

For information about our Annual General Meeting,

please visit our website: www.hkscan.com

IR contacts

Jyrki Paappa, CFO

Heidi Hirvonen, EVP Communications

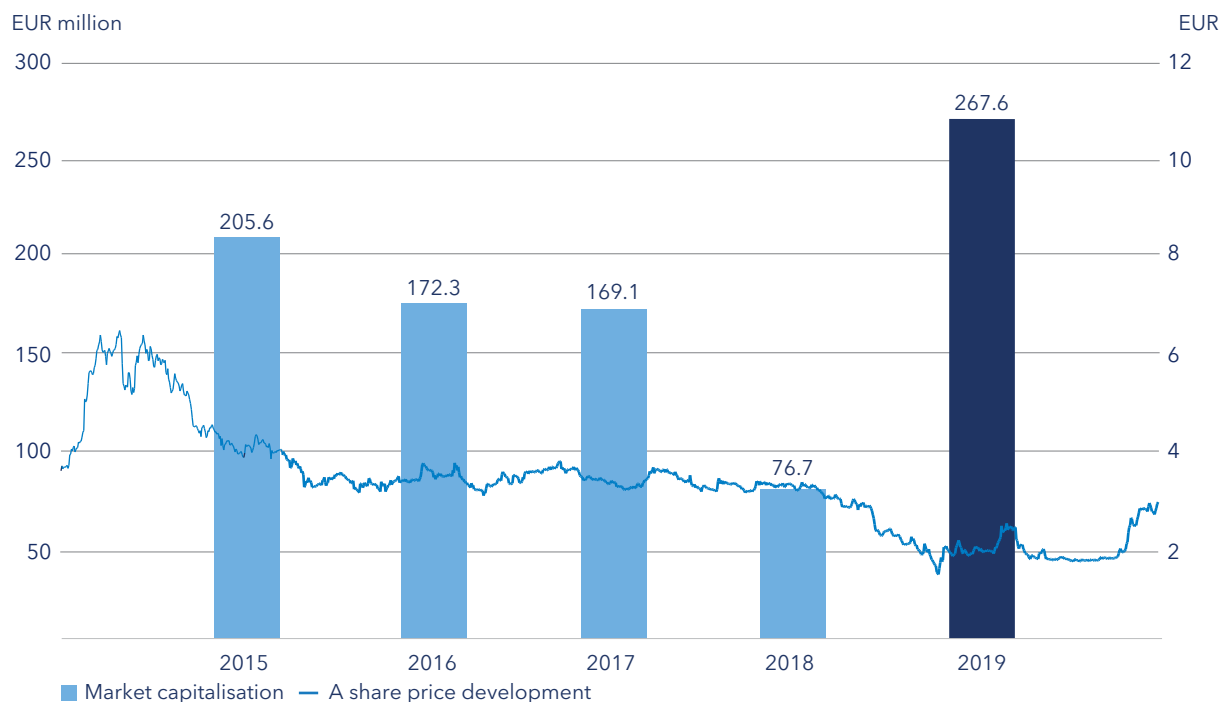
Email: firstname.lastname@hkscan.com

tel: +358 10 570 100

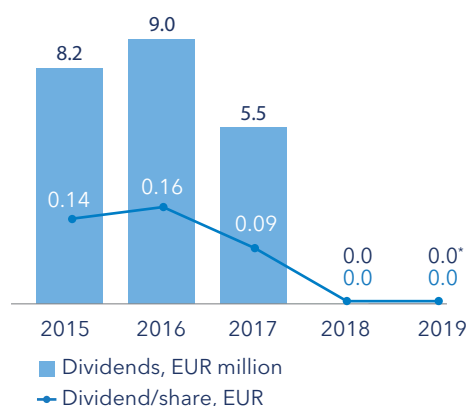
For more information: www.hkscan.com

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Share price development and market capitalisation

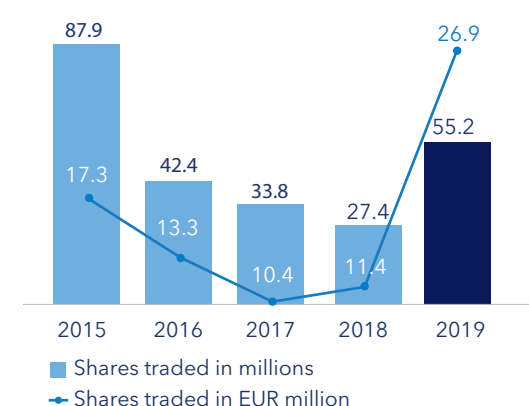


Dividends and dividend/share



*Board's proposal to AGM.

Shares traded





HKSCAN
Corporate responsibility
2019



Our journey toward carbon neutrality continues.

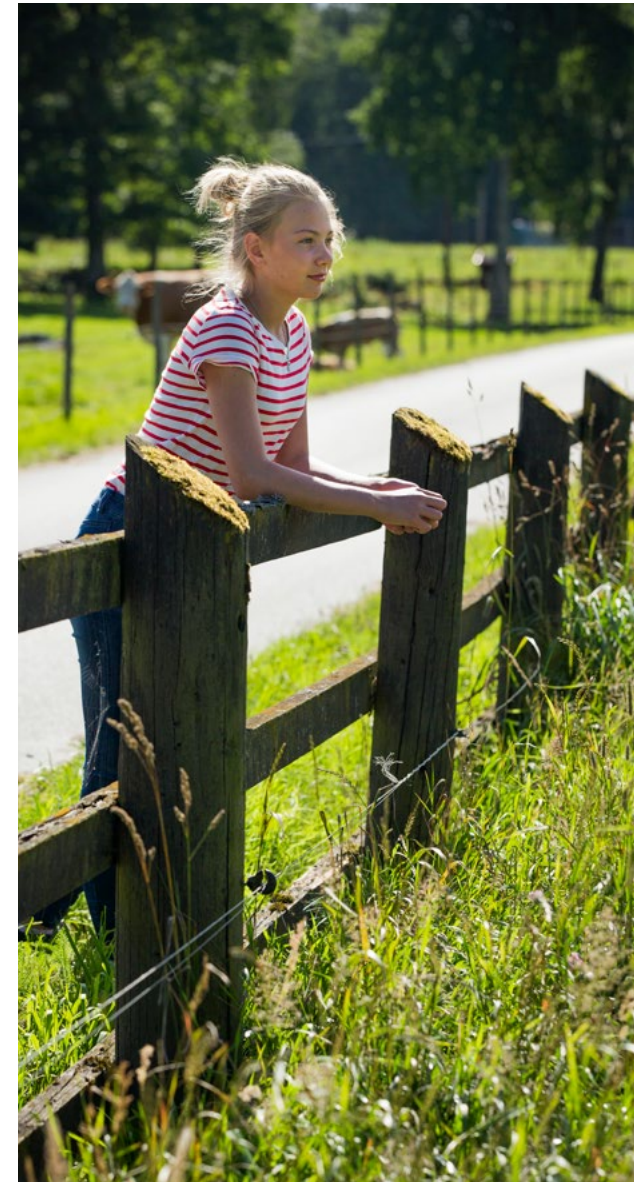
Corporate responsibility at HKScan

A sustainable way of operating is the foundation of our business. We develop corporate responsibility throughout our entire value chain. Our aim is to build HKScan into a versatile food company known for its target-oriented and proactive corporate responsibility work. Our updated corporate responsibility programme is a key part of our new Group strategy published in autumn 2019. We take accountability – from farms to consumers.

For us, responsibility means continuous work that enables us to offer consumers healthy, safe and responsibly produced food. Responsibility throughout the value chain is at the core of HKScan's strategy and guides our everyday activities. We want to meet the responsibility requirements of our stakeholders and society and at the same time develop our competitiveness by extending our responsibility work deeper within our own operations and the most critical parts of our value chain. Corporate responsibility is also a key premise in the development of new business models. The goal of new business models is to increase productivity, transparency and sustainability.

New corporate responsibility programme – Food that does good

In line with our new Group strategy, published in autumn 2019, we also updated our corporate responsibility programme. *Food that does good* defines the focus areas of our work going forward: animal welfare, community of producers and employees, wide-ranging environmental responsibility, and sustainable and healthy food.



Priorities of HKScan’s responsibility programme



1. Animal welfare



2. Community of farmers and employees



3. Wide-ranging environmental responsibility



4. Sustainable and healthy food

We are developing our responsibility work throughout our value chain as a systematic change

The focus areas of our responsibility work are based on the extensive stakeholder survey we carried out in autumn 2019 to help us determine our key stakeholders’ views. The materiality analysis made on the basis of the survey results confirmed the above noted key focus areas of the Group’s new corporate responsibility programme. Read more about our [stakeholder survey](#).

Responsible and goal-oriented actions across the entire value chain

HKScan’s corporate responsibility programme is based on managing and promoting responsibility work in all

operations throughout the value chain, from farms to consumers. Our corporate responsibility work evolves as a systemic change affecting all of our business operations and it guides everything we do.

The goal of the new corporate responsibility programme is to respond to changes in the operating environment, position HKScan as one of the most responsible players in its sector, leverage corporate responsibility in new business models and increase competitiveness across the value chain. Our goal is to work with our collaboration partners to build a food production ecosystem enhancing productivity and the sustainability footprint

across the entire value chain. Additionally, we want to meet consumer and customer needs with healthy, high-quality, responsibly produced products that taste good. It is important to us that consumers can enjoy our products with a good conscience.

The expertise of HKScan’s personnel extends deeply across the entire food production chain. All phases of the value chain, from animal and feed production to collaboration with customers and consumers, are part of our everyday work. The premise of our operations is to produce added value for all parts of the value chain.

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 to drive industry-wide change
- Work towards achieving positive environmental development through reducing climate impact and improving material efficiency
- Employee wellbeing

Serve

- Provide healthy, safe and high-quality food and information of it
- Help people make better food choices

A key element of our responsibility work is close collaboration with our farming community. One of our operational priorities is to support the economic and production efficiency of our producer partners and to continuously improve eco-efficiency. Additionally, we improve animal welfare through diverse collaboration.

In HKScan's operations, the wellbeing, motivation, and development of our own personnel are critical priorities of corporate responsibility.

In our production, the corporate responsibility focus is on e.g., product safety and quality the sustainable

development of packaging solutions, and the continuous reduction of environmental impacts.

Towards carbon neutrality

One of the important focus areas of our environmental work is the reduction of climate impacts. Our journey toward carbon neutrality continues. We are systematically reducing greenhouse gas emissions as well as water and energy consumption. The aim of material efficiency in our production is to continuously reduce food production waste and to efficiently recycle and process waste.

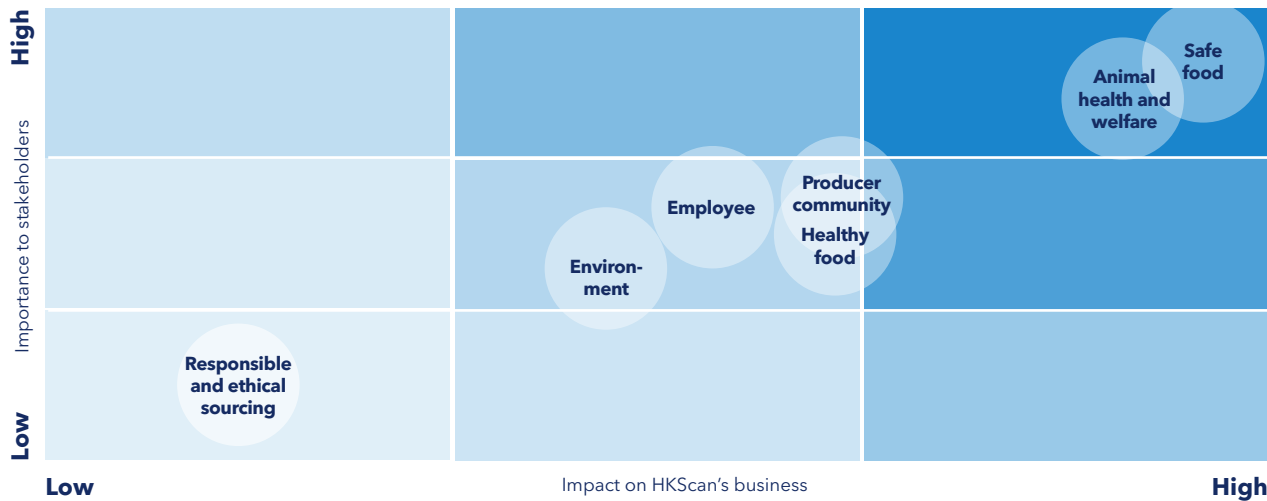
In addition to sustainable products and solutions, our corporate responsibility work is visible to our customers and consumers through our more open and transparent way of operating. We aim to help consumers with their everyday food-related decisions by increasing awareness about product nutrition and healthiness, product quality, and the environmental impacts of products. We also aim to increase public awareness about a balanced and healthy diet and to promote the reduction of food waste.

Stakeholders participate in defining HKScan's corporate responsibility work

We carried out an extensive stakeholder survey in autumn 2019 in all our market areas; nearly 1,300 people responded to it. The previous survey of this kind was carried out in 2014. The survey helped us to determine our key stakeholders' expectations and views about the importance of different areas of responsibility. There were no significant changes in the expectations of HKScan's stakeholders. We conducted a materiality analysis based on the survey results and defined the focus areas of our corporate responsibility programme.

The following stakeholder groups responded to the survey: HKScan employees, meat producers, consumers, customers (retail, food services, industry and exports), suppliers and other business partners, representatives of the education and research sector, media, advocacy groups and trade associations, NGOs, and government officials and authorities.

HKScan's materiality matrix



The vertical axis reflects the level of importance our stakeholders place on the different areas of responsibility. The horizontal axis reflects HKScan management's view of the impact the different areas have on HKScan's business.

The focus areas included the following themes and statements

Producer community

- Origin of meat, local meat production
- Wellbeing of farmers in primary production (social and economical)
- Contribution to national food supply in emergency situations
- Maintain vitality of rural areas
- Mitigation of environmental impacts at farm level

Safe food

- Safe and high-quality products ensured through transparent supply chain

Employee

- Responsible employer: employee wellbeing, work safety, competence development
- Human rights respected by employee and employer
- Labour relations and trade union freedom in local and HKScan Group level
- HKScan employees' participation in volunteering

Animal health and welfare

- Well-bred and healthy animals
- Live animal transportation and slaughter conditions and good handling
- Animal health and welfare validated by third party

Environment

- Mitigation of environmental impacts in HKScan's operations
- Fossil-free operations
- Help consumers to reduce food waste
- Mitigation of eutrophication of the Baltic Sea

Healthy food

- Products' positive impact on nutrition
- Consumer information about healthy diet
- Meat as part of a versatile diet

Responsible and ethical sourcing

- Responsibly produced soy
- Prevention of human rights violations in supply chain

Stakeholder collaboration

HKSCAN



HKScan's stakeholder expectations

We engage in active and transparent collaboration with our stakeholders. Open dialogue ensures that we are aware of our stakeholders' expectations and that we also develop our own business operations actively. The figure above summarises examples of the expectations of HKScan's stakeholders.

HKScan's key stakeholder groups are consumers, customers, producers, employees, shareholders, investors, financiers, business partners, authorities, media and opinion leaders.

HKScan has well-established practices for conducting dialogue with its stakeholders, making it easy for representatives of various groups to pose questions, make proposals, and give feedback to the company. Examples of interaction channels include customer and other stakeholder meetings and country-specific consumer services. HKScan also gains valuable insights through customer satisfaction surveys and brand reputation surveys.

We have a whistleblower channel through which both internal and external parties can report, for example, any suspected violations of the Code of Conduct.

HKScan participates in key industry organisations and advocacy groups. These include trade and labour organisations, organisations specialising in animal health and welfare and groups advocating the interests of agricultural producers. HKScan is also a member of the European Meat Network.

Animal welfare

Animal welfare is one of the focus areas of HKScan's new corporate responsibility programme. Our goal is to work with our producers to develop the good care and treatment of animals, increase natural behaviours and improve protection against animal diseases.

Animal welfare creates a foundation for our activities

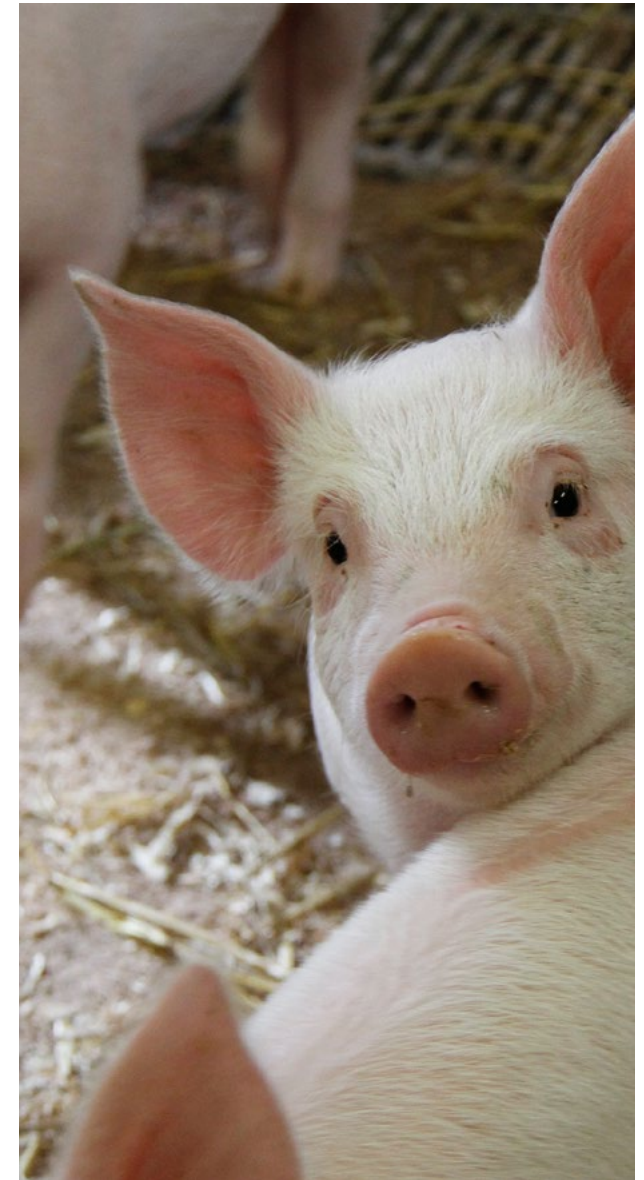
HKScan expects that animals grow in good living conditions in the right type of environment and that they receive good treatment. We continuously develop animal health and welfare in collaboration with contract producers, experts, veterinarians and other partners. The scope of development work covers animal genetics, feeding and rearing conditions, animal health and welfare, care and handling, animal transports and slaughterhouse operations.

We ensure animal health at farms with high-level biosecurity practices

Animal health and wellbeing is the foundation for a meat producer's work and HKScan's business. We maintain animal health with high-level biosecurity practices at farms,

good production hygiene, and the continuous monitoring of animal health and welfare. The prevention of highly contagious animal diseases, like African swine fever and avian influenza, is essential on the part of producers and HKScan. Authorities also support this work by e.g. taking samples, imposing bans on keeping animals in the open, and by providing general guidelines or restrictions when needed.

Good biosecurity practices also prevent other animal diseases, like salmonella and campylobacter. For example, salmonella infections are rare at our contract farms. Salmonella samples are taken regularly at the farms, so possible infections are identified quickly and their spread can be prevented. In 2019, there were only individual cases of salmonella detected at HKScan's contract producer farms, and the farms were disinfected. In HKScan's chain, the meat from salmonella-positive animals is not used for food products.





I expect HKScan to participate in the public discussion related to animal welfare by offering information about animal rearing and related concerns, and by clearing up any misunderstandings.

A consumer, HKScan's Stakeholder Survey

To further improve HKScan's animal disease protection, we adopted the Biocheck.UGent, a biosecurity scoring system for animal farms developed at Ghent University in Belgium. The scoring is performed during a farm visit by a veterinarian or advisor with Biocheck training, and the producer is able to make targeted improvements to their own farm's biosecurity based on the results.

Healthy animals do not need medicine

Animals grow healthy as a result of good biosecurity and optimum rearing conditions. As healthy animals do not need medicine, the use of antibiotics at farms is minimal. At HKScan, antibiotics are used only when ordered by a veterinarian for a diagnosed need, and their use is closely monitored.

Read more about animal welfare. Descriptions by animal species are on our website at <https://www.hkscan.com/en/responsibility/animal-welfare/>

Case



Ten years of antibiotic-free animal rearing

Kariniemen chickens are raised on the floor, cage-free, on top of clean peat litter. Kariniemen family-farm producers ensure that the conditions, like the temperature and humidity in the henhouse, are appropriate for the age of the chickens. The good conditions are also reflected in the world-class results of the footpad health of the chickens. The chickens always have access to feed and water. The henhouses also have various enrichments and most have roosts. Good conditions combined with balanced feeding, stringent biosecurity, and an "all-in, all-out*" approach produce healthy chickens. Kariniemen's broiler production in Finland has not used antibiotics for ten years.

* Chickens arrive at the farm, are raised there, and leave the farm at the same time. The entire henhouse is emptied, cleaned and disinfected between rearing batches.

Case



Estonian team recognised for advancing animal health

Minimising the use of antibiotics requires determined efforts. The three-year development work of HKScan's Estonian team was awarded in 2019 with the achievement of antibiotic-free broiler rearing in Estonia. Just a few years ago, half of the broiler flocks were treated with antibiotics. The work of HKScan's Estonian team was recognised at HKScan's 2019 Awards ceremony in the corporate responsibility category.

Farmers as part of the HKScan community

One of the focus areas of HKScan's new corporate responsibility programme is support and promotion of the farming community's sustainable business. The corporate responsibility work HKScan does with the farming community focuses on increasing the wellbeing and expertise of producers, supporting the entrepreneurship of the next generation of producers, and promoting sustainable agriculture.

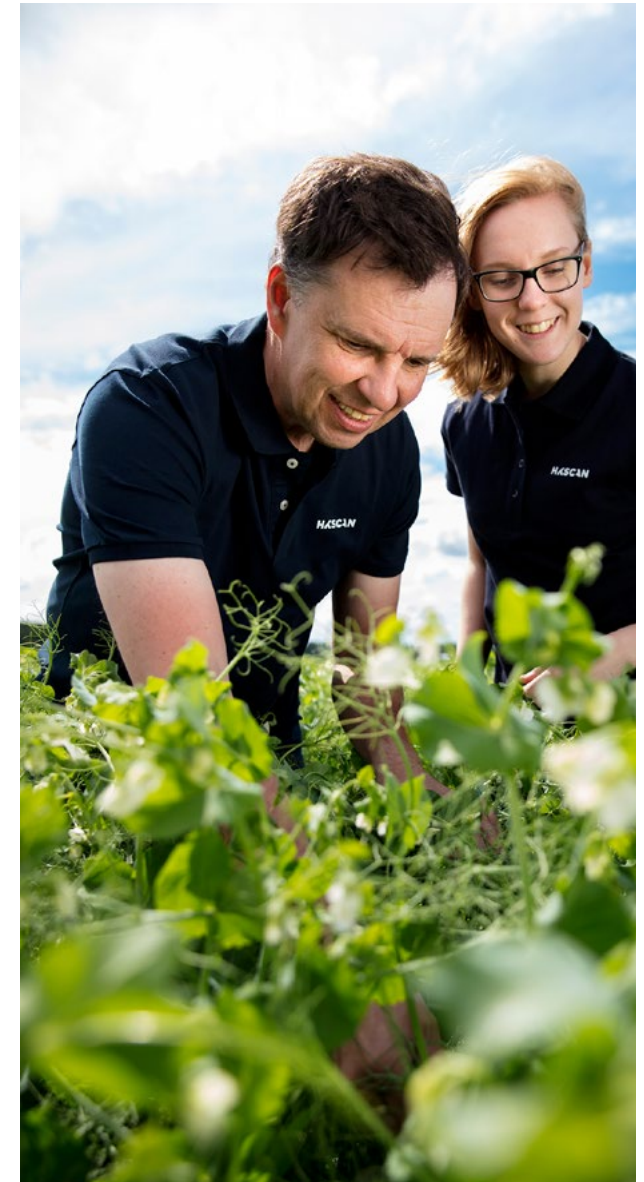
Diverse producer services support entrepreneurship

Animal sourcing at HKScan is based on collaboration agreements made with our meat producers in Finland, Sweden and Denmark, and on our own meat production in Estonia. In line with our strategy, we engage in close cooperation with our contract producers.

We offer our contract producers expert services and training related to primary production to strengthen their professional skills and expertise as well as to support their business development. Training and advisory services are offered e.g. for the planning of animal feeding, farm management, animal healthcare and the design of new

animal production facilities, e.g. stables. We also arrange collaboration and networking events to support producers' wellbeing and coping with work.

A significant part of HKScan's producer services is focused on reducing the environmental impacts of farms. We support producers in reducing their carbon footprint by adopting new cultivating techniques, increasing energy efficiency, and improving manure processing methods. Read more about our environmental work with our producer partners in the [Environment section](#).





HKScan should communicate about the projects the company is involved in and the actions it is taking. I expect a proactive approach to issues – by the company and producers together.

Researcher, HKScan's Stakeholder Survey

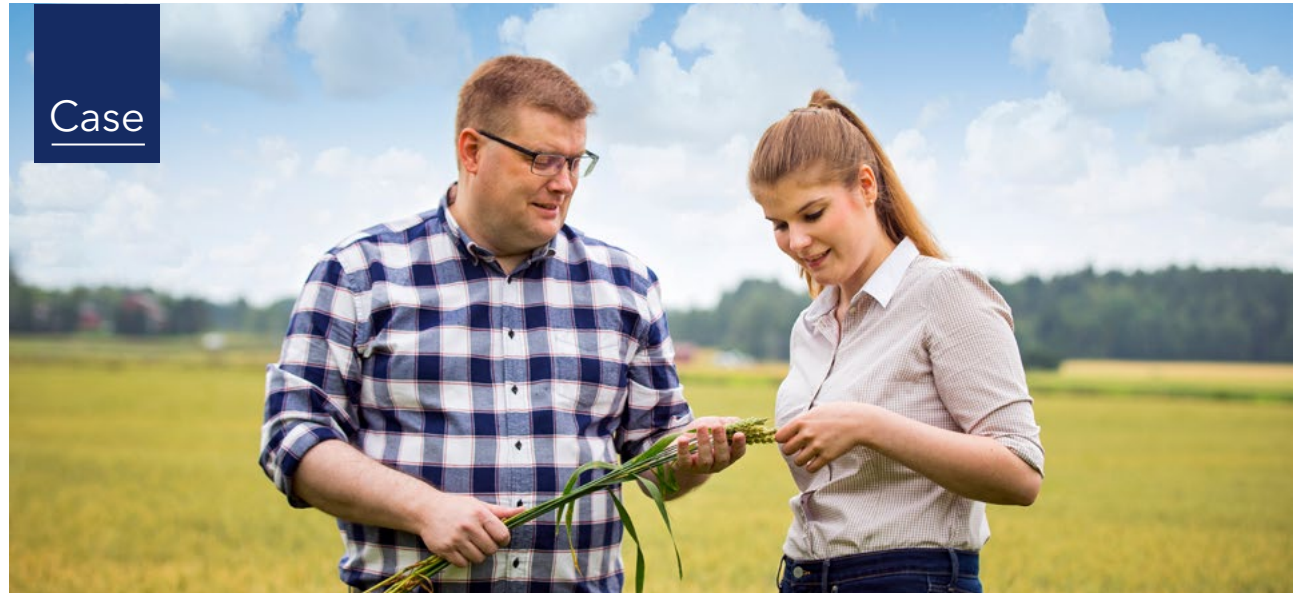
We are building sustainable primary production

We started building the Agrofood Ecosystem network in Finland in autumn 2019. The goal of the Agrofood Ecosystem development work is to promote responsibility in the meat chain, increase transparency, improve the productivity of food chain players and ensure competitiveness. We are building a collaboration network in which knowledge, expertise and best practices can be shared and used widely to meet customer and consumer needs in HKScan's market areas.

We implemented our first pilot projects to reduce the carbon footprint of meat production in the Kariniemen poultry chain and in the HK Omega-3 pork chain. Our goal is more efficient management of the environmental impacts of primary production and the food value chain as well as more responsible food production.

Development areas in primary production include domestic protein crop production, energy efficiency, improving soil health, and optimised plant nutrition. The development of HKScan's Agrofood Ecosystem network is part of Business Finland's Food from Finland programme.

Case



Next Generation training programme supports young producers

The number of farms in our home markets continues to decline. It is no longer self-evident that the new generation will continue operating our contract farms. In 2019, we launched the Next Generation training programme targeting young producers in Finland. The programme aims to ensure the competitiveness and continuity of primary production and promote networking among young producers.

At the beginning of 2019, a total of 46 young producers started in the three-year programme.

During the year they focused on agricultural entrepreneurs' financial management and investments, feeding of various production animals, and crop production. Upcoming topics include agricultural entrepreneurship and social media, animal welfare, environmental impacts and carbon footprint of agriculture and ways to reduce them, managing a big farm entity, new technology solutions, and an excursion to Central Europe.

Personnel as part of the HKScan community

Important focus areas for HKScan as an employer include wellbeing, work safety and competence development. These are also important components of the company's corporate responsibility programme.

HKScan employs close to 7,000 skilled and dedicated food industry professionals. Having competent employees is one of our most important strategic strengths.

In 2019, HKScan went through an extensive change: new appointments to the top management were made, organisational structures were revised to support profitability improvement, and the number of employees was adjusted.

In spring, HKScan initiated a three-year Turnaround programme to improve profitability. The programme emphasises continuous improvements and cost-efficiency in all activities. A new Group strategy and operating model were introduced at the end of the year.



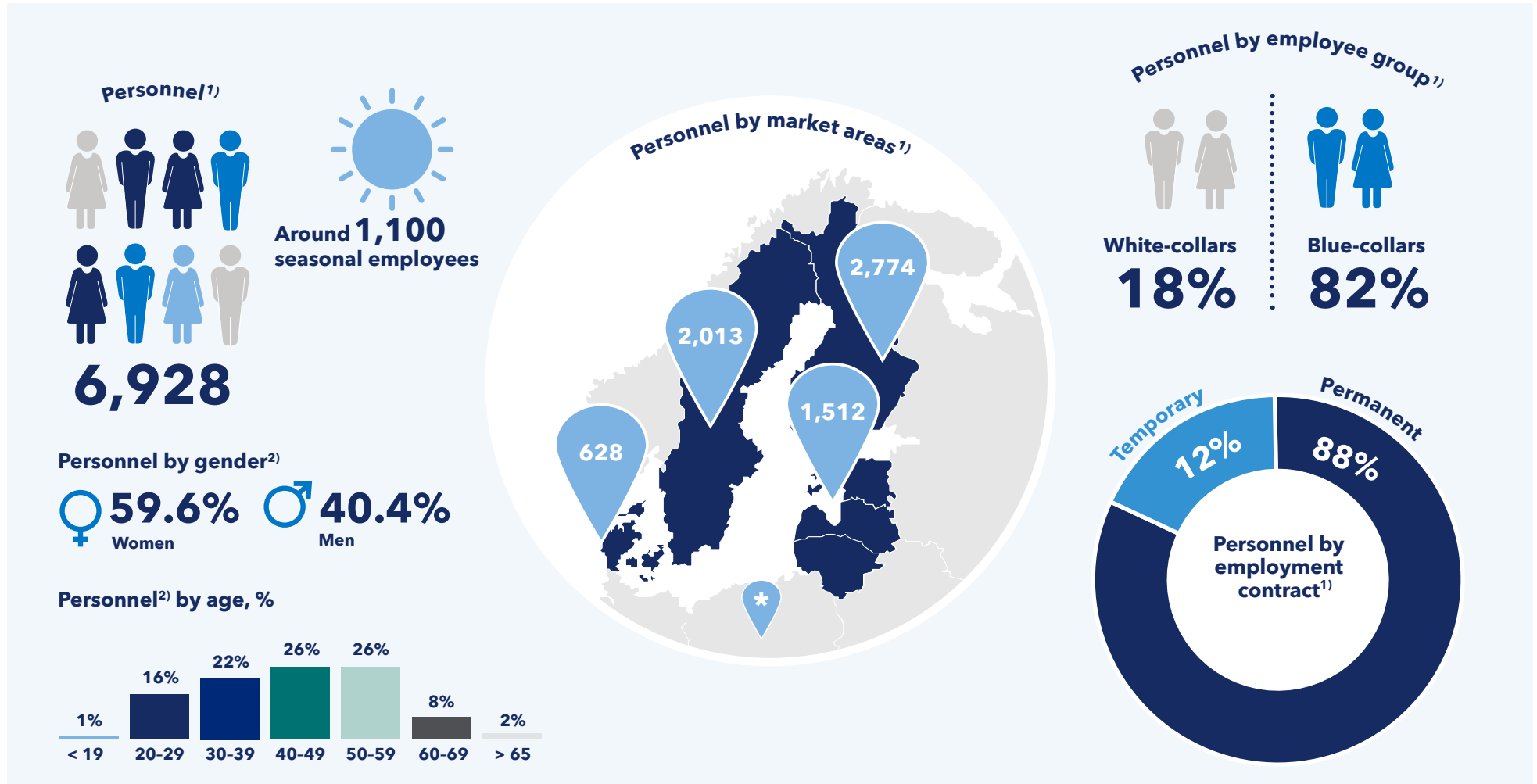
Everyone is responsible for safety and taking others into account in their daily work, and there can be no compromises in this.

Employee, HKScan's stakeholder survey

During the first year of the Turnaround programme, employees achieved good results in improving work safety and profitability and in advancing corporate responsibility. We wanted to recognise the work done well in these areas and encourage the development of operations also in the future. Therefore, the best achievements were rewarded by HKScan's internal Awards recognition in January 2020.



Our personnel 2019



¹⁾ On average during the year (agency contract workers not included).

²⁾ At the end of 2019

* There are 277 employees working in HKScan's production facility in Poland. Poland's personnel numbers are reported as part of market area Sweden.

HKScan as an employer

We offer an equal and diverse work environment where employees have the opportunity to further develop their skills.

Healthy and competent employees are the company's most important asset. HKScan aims for an inspiring work atmosphere and wants to take care of the physical and mental wellbeing of personnel.

HKScan observes equal treatment in all its operations and has forbidden the use of child labour. HKScan complies with existing laws and collective agreements, pays wages in line with collective agreements or local legislation, and takes care of employer and other fees appropriately. We work in good collaboration with employee representatives, and we promote the dialogue between employees and employer.

In addition to permanent job opportunities, HKScan offers seasonal work in all its operating countries. Seasonal work is a first-job opportunity for many young individuals and enables them to learn more about the industry. Seasonal workers help us to ensure uninterrupted production and deliveries to customers also during peak seasons.

We inspire, lead, care and deliver

Our everyday work is guided by our values: Inspire, Lead, and Care. In conjunction with the 2019 strategy work, we introduced a new value, Deliver, alongside our existing values.

Deliver means being accountable and getting things done in a way that ensures the connection between the work and the company's financial result.

Implementation of the value surveys and value workshops that were started in 2018, continued in 2019. Workshops were arranged for employees particularly in Finland, Sweden and the Baltics during the spring. Workshops for Denmark and Poland were held in 2018.

From a matrix organisation to country-based P&L units

As part of the profitability improvement programme, in spring 2019 HKScan implemented a reorganisation that resulted in a planned headcount reduction of about ten per cent on the comparison year. Some personnel reductions will materialise in 2020.

The Group's operating model and strategy were renewed in late 2019. In line with its new operating model, at the beginning of 2020 HKScan moved from a matrix organisation to country-based business unit-level profit and loss management, with Finland, Sweden, the Baltics and Denmark forming the reporting business units. The key Group-level functions will ensure business synergies and good governance.

Employee competence development continues

The importance of high-standard everyday leadership practices and capabilities continues to increase. During the year, HKScan started the Group-wide License to Lead programme for production supervisors.

Performance excellence is one of the focus areas of our new strategy. For employees, this means competence development that supports the new strategy. For example, expanding to new product categories and sales channels requires new competences.

Focus on work safety

We are proud of the work done at all organisation levels to improve work safety. We aim to offer HKScan employees and the collaboration partners working in our units a safe and respected workplace.

The new work safety programme that HKScan adopted in 2019 aims for zero lost time injuries. Concrete results were reached already during the first year of implementation of this programme. The number of lost time injuries decreased by over 30 per cent. There were 114 fewer lost time injuries than in the previous year.

In Vinderup, Denmark, the number of lost time injuries in 2019 was halved from 2018. Employee commitment and the injury prevention work were awarded by HKScan Awards. In the Vantaa unit in Finland, the number of safety observations increased by 40 per cent and lost time injuries decreased by 40 per cent from 2018.

Building wellbeing together

Good leadership practise is needed to maintain a good work atmosphere and wellbeing at work. In managerial work, we have focused on inclusion and a coaching style of leading employees, where the active interaction between manager and employee is emphasised.

If an employee's ability is potentially jeopardised, support is offered at an early phase. This creates a caring and open atmosphere at HKScan and reduces illness-related absences and premature retirement.

Conditions that support a good job performance can improve an employee's wellbeing and strengthen motivation. Employees are encouraged to impact their own career advancement through continuous improvement and an active initiative practice.

Giving feedback, highlighting successes, and adequate challenges increase self-confidence, which supports a good job performance. Every HKScan employee contributes to their work community and, through it, to the wellbeing of the entire organisation.

Case

Active development reduced lost time injuries by more than 30 per cent

The work safety programme launched in 2019 aims for zero work injuries leading to an absence. Success in this requires every HKScan employee to be constantly committed to the safety culture and to the development of a safe work environment.

Implementation of the new safety programme led to concrete improvements. The number of lost time injuries decreased by over 30 per cent, and there were 114 fewer lost time injuries than in the previous year. Close collaboration and the open sharing of best practices contributed to the good results.

There are still differences between practices in different countries and locations, but we have started a long-term project to standardise the work safety-related ways of operating.

We put special focus on clarifying responsibilities and on training. We started weekly management meetings to review work injuries. Additionally, we adopted uniform metrics and started the development of a new reporting tool. The tool was rolled out in January 2020. We also standardised the risk assessment model.

Wide-ranging environmental work

One of the most important focus areas of HKScan's new corporate responsibility programme is wide-ranging environmental work, meaning systematically reducing climate impacts and improving material efficiency. HKScan's direct environmental impacts originate in local production facilities from the consumption and use of energy, water and chemicals, and from wastewater and other waste and side streams generated in production.

We affect the climate by reducing greenhouse gas emissions – for example, by decreasing energy consumption and increasing energy efficiency, and by transitioning to renewable energy sources. We are improving material efficiency by decreasing production waste and by boosting the efficiency of waste recycling, waste management and disposal practices. We are working systematically also in packaging development, and we are utilising animal raw materials efficiently.

We are reducing the climate impacts of our operations

We reduced our environmental footprint and our climate impacts by e.g. boosting the efficiency of our energy and water consumption.

The Group's total greenhouse gas emissions decreased from 2014 to 2019 by 51 (48) per cent, or 121,000 (115,000) tonnes. In 2019 the Group's greenhouse gases were 117,000 (124,000) tonnes of carbon dioxide equivalent (CO₂e). HKScan's energy consumption was 503 (526) GWh, and water consumption 4.10 (4.17) million m³. The share of renewable energy sources was 51 per cent and the share of renewable electricity sources 71 per cent.

In the Forssa unit, for example, we optimised the amount and temperature of the water used for washing the production areas and lines. The investments made in Poland in brine filtration as well as production line and equipment cleaning also reduced water consumption.





Environmental impacts must be minimised in all functions where at all possible so that our planet is habitable for future generations. It is often also economical.

Consumer, HKScan stakeholder survey

In Sweden, we made development investments in the Kristianstad slaughter lines, in flue gas cleaning in Halmstad, in the smoking ovens in Linköping, and in the freezing facility in Skara.

All the measures implemented contributed to the reduced climate impacts. Improving energy efficiency at our production plants is continuous work. At our production units in Finland, Sweden and Poland, we use renewable electricity purchased by acquiring Guarantees of Origin.

We are improving our material efficiency

We promote material efficiency to reduce our environmental impacts and to increase the sustainable use of natural resources. The circular economy concept creates many opportunities to develop our food system in which resources are used in a more sustainable manner.

Once a natural resource is used, we aim to keep it in circulation whenever possible.

The recycling of waste and side streams and their utilisation, and the utilisation of animal raw material are examples of material efficiency. Also the development of packaging from the perspective of eco-efficiency in material used and minimisation of food waste are part of our material-efficient operations. Additionally, we minimise the generation of production waste and we recycle waste materials.

Utilising side streams: We promote circular economy business operations and create added value for side streams generated in production by selling them to other industry sectors, such as the leather, pet food and biopharmaceutical industries. The remaining animal raw material is used to produce biogas. HKScan's R&D is continuously pursuing new targets for the utilisation of side streams.

Eco-efficient packaging: The most important function of packaging is to protect food products. The right kind of a packaging is part of ensuring product quality and product safety. Additionally, packaging can reduce the food waste generated in final consumption. HKScan has systematically reduced the amount of plastic packaging during recent years. For example, the amount of plastics used in Sweden has decreased by about 920,000 kg and in Finland by about 500,000 kg compared to 2017. The share of renewable materials (virgin and recycled raw material) used in packaging was 41 per cent of the total, which represents a three per cent increase compared to 2017.



Development of packaging for better material efficiency

In Finland and Sweden, we advanced material efficiency and recycling by discontinuing the use of non-recyclable black plastic in the packaging of our branded products. In Sweden, we discontinued the use of all non-recyclable black plastic packaging. In Finland, we stopped using black plastic trays. We also developed packaging that uses less material and is suitable for recycling and as secondary material. In Denmark, we renewed all product packaging of the Rose® branded products and started using packaging made from recycled raw materials. We also improved packaging labels. In Finland, we started including written instructions on our product packaging to help consumers with recycling and sorting.



Each major company has a responsibility to take care of its environment. One good way of doing this is through renewable forms of energy.

Customer, HKScan's stakeholder survey

Waste utilisation and recycling: Of the waste material generated by HKScan, 72 per cent is of animal origin and is directed to the production of biogas or biodiesel. Manure and organic fractions (14 per cent of the total amount of waste) are composted or utilised as fertiliser at farms. Energy is recovered from the fractions that cannot be recycled or directed to biogas and biodiesel production (12 per cent of the total amount of waste.) Such fractions include those parts of the carcass that are in Category 1 of EU Regulation No. 1069/2009. About two per cent of the waste generated from operations is recyclable, such as plastics, metals, cardboard or paper. HKScan's landfill waste accounts for 0.06 per cent of the reported material.

The results of our environmental work are reported in the Environment key performance indicators chapter.

Case



Environmental work at the Halla Gård farm

At the Halla Gård farm in Sweden, a pilot project was launched in an effort to reduce the farm's environmental impacts. The measures target improvements in energy use, feed production, manure processing, and animal nutrition and rearing. The goal is to reduce the climate impacts of meat production. The project will expand further in 2020.

Case



Omega-3 pork is climate pork

In one of our Agrofood Ecosystem network pilot projects, we partnered with VTT Technical Research Centre Finland to develop a tool to calculate the climate impacts of Omega-3 pork production; the tool also takes the unique, farm-specific factors into account in the carbon footprint calculation. The tool enables farms to monitor the impact of development measures on climate emissions. The measured carbon footprint of Omega-3 pork at production farms is an average of 3.3 kg CO₂e per kg live weight. The tool is also being developed to measure the climate impacts of other species-specific production.

Sustainable and healthy food

Sustainable and healthy food is one of the focus areas of HKScan's new corporate responsibility programme. As the biggest food company in the Baltic Sea region, we have the opportunity to make an impact on the nutrition of the people in our home markets and thus also on public health. We offer healthy food solutions and we increase consumer awareness about a healthy diet. For us, sustainable food also means that our food is safe and that all the raw materials for our products have been produced responsibly and in an ethically sustainable way.

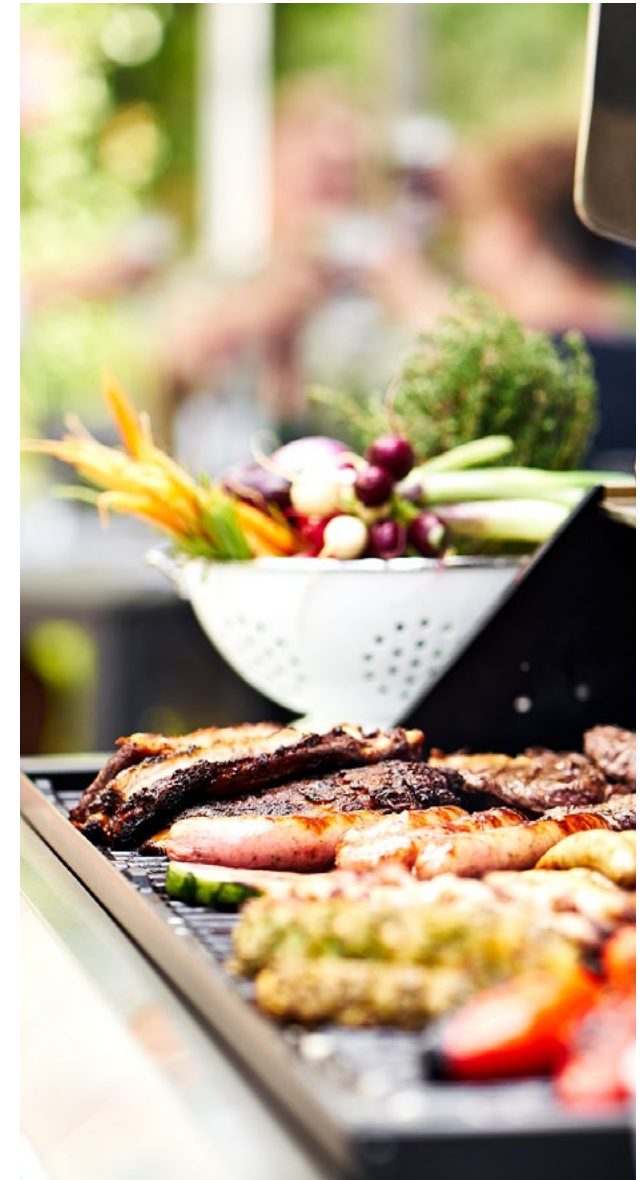
We offer products for a varied diet

Our goal at HKScan is to meet consumer and customer needs with healthy, high-quality, responsibly produced products that taste good. It is important to us that consumers can eat the food we produce with a good conscience.

At HKScan we have worked persistently to develop nutritionally high-quality and healthy products. We have paid attention to e.g. the amount and type of fat and the amount of sodium in our products. The unique Omega-3 pork concept is an example of the development of the fatty acid content of meat.

We've adjusted the composition of the meals we produce by increasing the amount of vegetables they contain, for example.

Diet is about the big picture. According to nutritional recommendations, meat is part of a varied diet together with vegetables, whole grains and vegetable fats. Meat also provides many necessary nutrients without the need for additional supplements.



We have an impact on public health

Health was an essential aspect of the product development in nearly 40 per cent of our product launches or product changes in 2019. Improvements included consideration of sodium content, improving the type of fat, adding vegetable alternatives, adding vegetables to meals, and reducing portion sizes.

HKScan has plenty of products that meet the criteria of national health labels: the Heart Symbol in Finland, and the Keyhole symbol in Sweden and Denmark. These symbols indicate that the specific product is a healthier alternative within its product category. In Denmark, among other places, about 90% of broiler meat products have the Keyhole symbol.

We started a project in Estonia in 2019 that aims to reduce the sodium content in our products. Our goal is to reduce the sodium content in four product categories every year. Targets have been set for the product categories: the sodium content in the sausage product category, for example, will be reduced by 8-15%.

The change in consumers' purchasing behaviour has increased the demand for plant-based protein products. In Finland, HKScan and Hes-Pro (Finland) Oy signed a cooperation agreement in 2019 to develop, produce, and launch plant-based protein products. In line with the cooperation agreement, during 2020 we will launch plant-based protein products in Finland, first in the food service channel and later in retail.

We comply with strict product safety standards

We reduce product safety risks throughout HKScan's production and delivery chain by following the strict requirements of our food safety management system. Product traceability is one part of this system. The traceability system ensures correctly timed measures in the event of a product recall. Our goal is to have zero recalls. In the event of a serious defect, a recall is part of HKScan's responsible way to operating. HKScan had a total of twelve recalls in 2019 (seven in 2018). The recalls were due to defects in package labelling, packaging or quality.

We comply with strict product safety standards throughout our production supply. All of HKScan's production facilities have a GFSI-approved product safety management system (IFS, BRC, FSSC 22000).

Our sourcing is sustainable

Nearly 100 per cent of the animals sourced by HKScan come from contract producers in each home market in Finland, Sweden and Denmark, and from our own farms in Estonia. Group-wide animal purchase principles are followed in all animal procurements. The origin of the meat and the living conditions of the animals are very well known to us.

We procure also other raw materials, products and services primarily locally from our home markets. In relation to the Group's total procurements,



As a major player, we have a responsibility for public health. This is supported by healthy products and the company's communications.

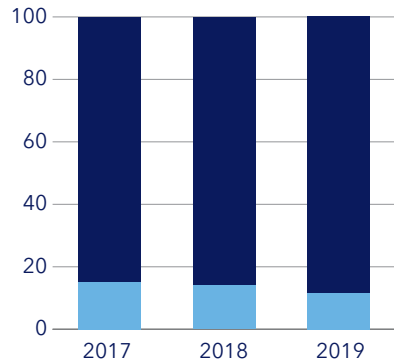
An employee, HKScan's Stakeholder Survey

about 70 per cent of our procurements are local. Our goal is that, as our supplier agreements are updated, 100 per cent of our suppliers commit to compliance with our Code of Conduct and procurement practices by the end of 2020. The percentage in 2019 was 75.

Personnel key performance indicators

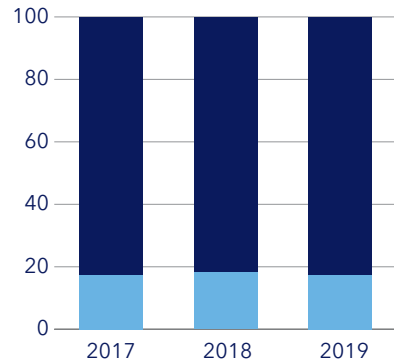


**Division of employees 2019 (2018)
permanent/temporary, %**



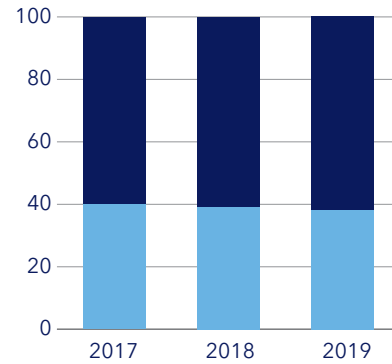
■ Permanent 88.4% (86.0%)
■ Temporary 11.6% (14.0%)

**Division of employees 2019 (2018)
blue-collars/white-collars, %**



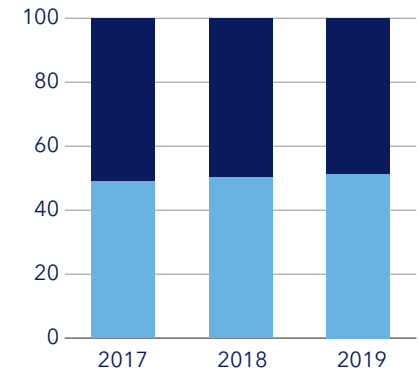
■ Blue-collars 82.4% (81.8%)
■ White-collars 17.6% (18.2%)

**Division of employees 2019 (2018)
by gender, blue-collars, %**



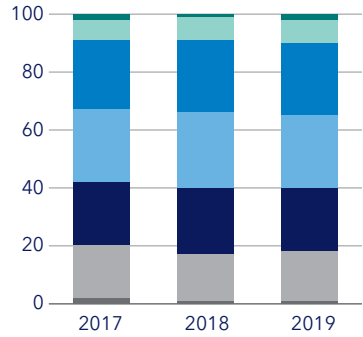
■ Men 61.8% (60.8%)
■ Women 38.2% (39.2%)

**Division of employees 2019 (2018)
by gender, white-collars, %**



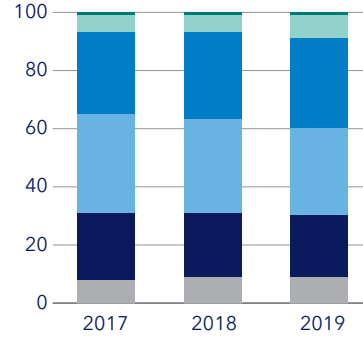
■ Men 48.7% (49.7%)
■ Women 51.3% (50.3%)

**Division of employees 2019 (2018)
by age, blue-collar, %**



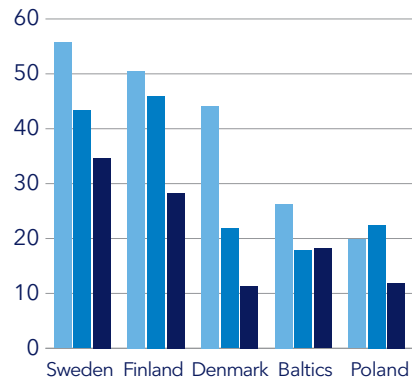
1 (1) % aged under 19
17 (16) % aged 20-29
22 (23) % aged 30-39
25 (26) % aged 40-49
25 (25) % aged 50-59
8 (8) % aged 60-64
2 (1) % aged over 65

**Division of employees 2019 (2018)
by age, white-collar, %**



0 (0) % aged under 19
9 (9) % aged 20-29
21 (22) % aged 30-39
30 (32) % aged 40-49
31 (30) % aged 50-59
8 (6) % aged 60-64
1 (1) % aged over 65

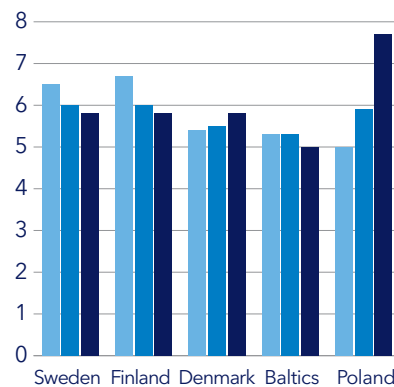
Lost time injury rate



2017 (42.8)
2018 (35.8)
2019 (25.5)

The comparison figures in parentheses represent annual averages for the whole Group.

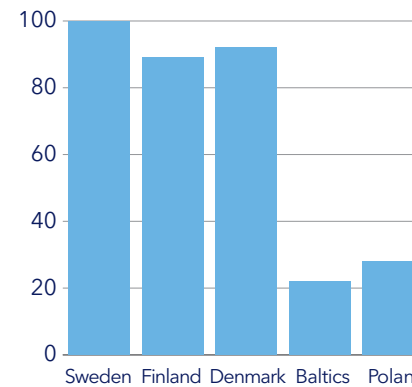
Absentee rate, %



2017 (6.2)
2018 (5.9)
2019 (5.6)

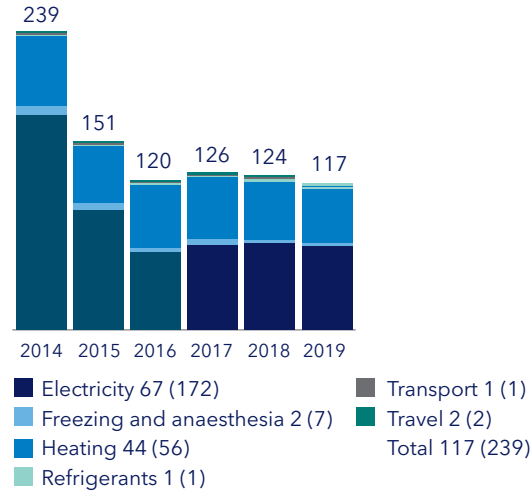
The comparison figures in parentheses represent annual averages for the whole Group.

Collective agreement coverage of personnel 2019, %



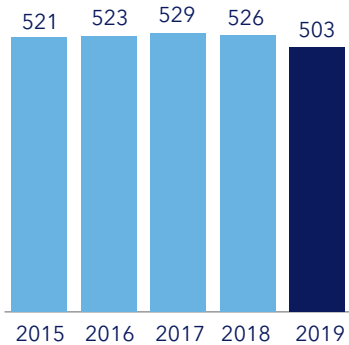
Environment key performance indicators

Greenhouse gas emissions 2019 (2014), thousand tonnes CO₂e

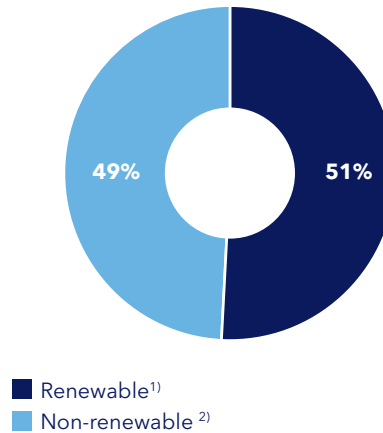


Direct (Scope 1) and indirect (Scope 2) GHG emissions according to the Greenhouse Gas Protocol

Energy consumption, GWh

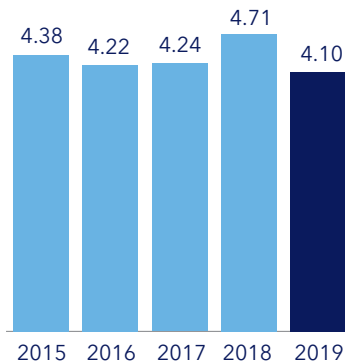


Energy sources in 2019: renewable/non-renewable, %

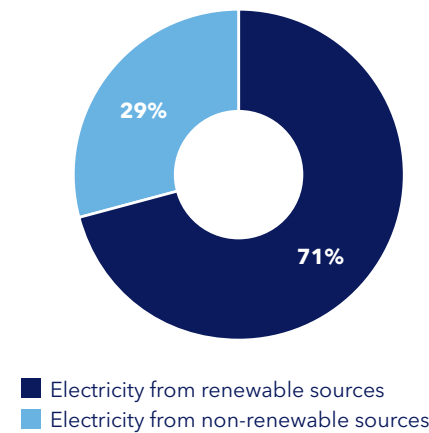


¹⁾ Electricity from renewable sources, District heating from renewable sources, Biogas, Wood pellets
²⁾ Electricity from non-renewable sources, District heating from non-renewable sources, Natural gas, LPG, Oil

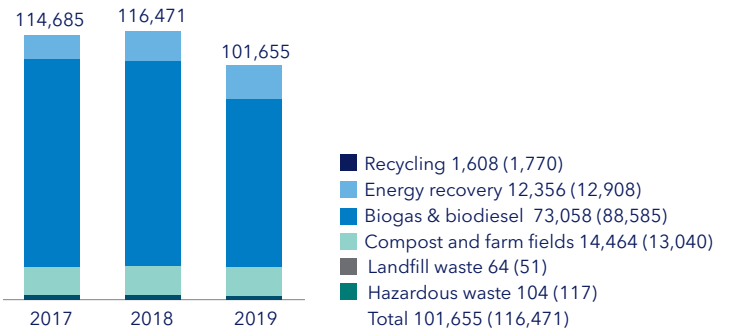
Water consumption, million m³



Electricity sources in 2019: renewable/non-renewable

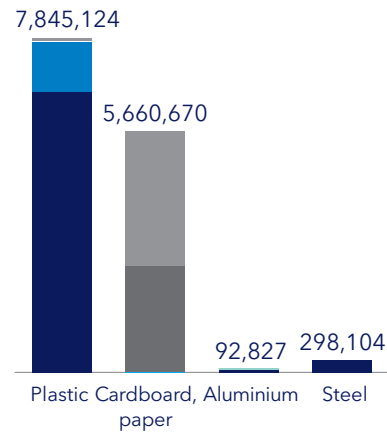


Waste disposal method 2019 (2018), tonnes



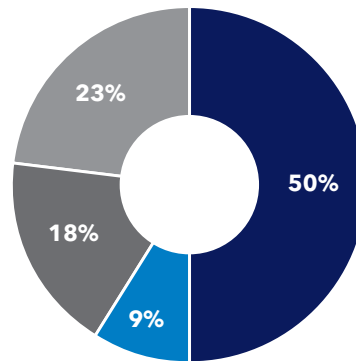


Packaging materials 2019, kilograms



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

Packaging materials 2019, %



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

Reporting principles

This corporate responsibility (CR) report is compiled in line with the Global Reporting Initiative GRI standards (2016).

The report has been prepared in accordance with the GRI SRS Core level. The reporting period is 1 January to 31 December 2019.

The corporate responsibility report provides information on all HKScan's market areas. The company reports on its responsibility based on the results of a materiality analysis, in terms of economic responsibility, social responsibility, environmental responsibility and animal health and welfare. Corporate responsibility themes are discussed in section Corporate Responsibility at HKScan. As a rule, HKScan's CR report covers all of its operations across the Group.

The work to create consistent indicators for corporate responsibility is still in progress and continues during the year 2020. The indicators to be included in the CR report will be developed further, and their number will be specified in line with the renewed CR programme.

Corporate governance-related content is not included in the Corporate Responsibility section but under the Governance section. This report has not been independently verified. It is published in Finnish and English as part of HKScan's annual report. The Annual Report for 2018 was published on 13 March 2019.

More information about CR reporting at HKScan is available from communications@hkscan.com.



Calculation principles

HKScan's calculations and reporting conform to the guidelines set out in **the Greenhouse Gas Protocol**.

The GHG Protocol is guided by the following principles: relevance, completeness, consistency, transparency and accuracy.

To help delineate direct and indirect emission sources, improve transparency, and provide utility for different types of target groups, three "scopes" are defined for GHG accounting and reporting purposes:

Scope 1 - Direct GHG Emissions: GHG emissions that occur from sources that are owned or controlled by the company, for example emissions from boilers and vehicles.

Scope 2 - Purchased electricity, direct heating, direct cooling and steam: GHG emissions from generation of purchased electricity, direct heating, direct cooling and steam used by the company.

Scope 3 - Other indirect GHG emissions: all other GHG emissions that occur as a consequence of the activities of the company. This scope includes 15 types of emissions, such as business travel, purchased transports and the use of sold products, which you can read more on our [website](#).

The categorisation of the scope depends on if the company chose to have a financial control approach or an operational control approach. For a lessee of a car, as an example, the GHG emissions when driving are

scope 3 with a financial control approach and scope 1 with an operational control approach. For the rental company it is the other way around.

Emissions in scope 2 can be calculated according to two different methods:

Market-based method: the CO₂e intensity of purchased electricity depends on the trading of guarantees of origin. This means that if the company purchases electricity with guarantees of origin of hydro power, the company shall calculate the emissions for electricity from the emission factor for hydro power. If the company purchases electricity that is unspecified the emission factor of the residual mix shall be used.

Location-based method: the CO₂e intensity of purchased electricity only depends on the total production mix of the grid. This means that the system of guarantees of origin is neglected.

The scope and premises of HKScan's calculations

HKScan discloses its scope 1 and scope 2¹⁾ GHG emissions, whereby the control approach is the "operational control approach".

For this reason the following emission sources are included:

- Boilers at the production sites and farms (scope 1)
- Purchased electricity (scope 2)
- Purchased district heating and steam (scope 2)
- Leakage of refrigerants (scope 1)
- Leakage of CO₂ when using CO₂ for freezing and anaesthesia (scope 1)
- Car travel (scope 1)
- In-house transports, for example forklift trucks (scope 1)

¹⁾For calculating scope 2 emissions, HKScan has chosen the "Market-based method".

Management approach

Materiality	Animal welfare	Our community		Environment	Sustainable and healthy food	
	Meat production	Farming community	Employees	Environmental impacts	Responsibly produced food	Responsible and ethical sourcing
Management approach	<p>HKScan’s responsible way of working covers the entire value chain, all the way from animal genetics and feed production to the consumer’s table. Values - Inspire, Lead, Care, Deliver - support HKScan’s sustainable operations. Through our strategy and operations, the HKScan Group is committed to the continuous and systematic development of sustainable business operations.</p>					
	<p>To improve animal health and welfare and ensure proper animal care and good handling and rearing conditions on farms, during transport and in slaughterhouse operations.</p>	<p>To ensure the continuity and the competitiveness of domestic food production in its home markets and contribute to the national security of supply.</p>	<p>To ensure employees’ health and safety at work, to provide a motivating work environment that enables employees to further develop their knowledge and skills.</p>	<p>To mitigate environmental impacts and to increase sustainable use of natural resources. Reduce environmental footprint and improve cost efficiency in the long term.</p>	<p>To enhance positive impacts on the population’s nutrition and public health. To ensure product safety.</p>	<p>To avoid ethical business risks. To ensure efficient and smooth cooperation from the procurement of raw materials and services all the way to the consumer’s shopping basket.</p>
Politics and commitments	<p>HKScan’s operations are guided by the ethical principles (Code of Conduct). We require that animals grow in good living conditions in the right type of environment and receive good treatment.</p>					
	<p>With regard to animal health and welfare, HKScan’s operations are guided by HKScan Group’s Animal Welfare Policy. Animal health and welfare are based on compliance with local laws and EU regulations, and on guidelines and operating methods adopted by the company and the industry that exceed statutory requirements.</p>	<p>The agreements between HKScan and the producers guide animal production.</p>	<p>Human resources and personnel development are based on the company’s internal policies and principles related to processes such as recruitment, performance management, remuneration, and occupational health and safety at work.</p>	<p>HKScan’s environmental work is driven by the company’s environmental policy, and among others by the guideline on committing to reductions in energy use. In Finland, HKScan has signed the food industry’s Energy Efficiency Agreement (EEA) for the period 2017-2025. In Sweden, HKScan is participating in the Haga Initiative project.</p>	<p>Nordic and national nutrition recommendations are taken into account in product development. In Finland, HKScan has made five nutrition commitments in the Commitment 2050 initiative, which promotes sustainable development. Product safety and quality are guided by quality and product safety policies.</p>	<p>Sourcing is guided by the company’s internal purchase policy. In addition, suppliers of goods and services are required to sign and comply with ethical Supplier Guidelines (Code of Conduct). Animal sourcing is guided by the animal purchase policy, which provides guidelines for business practices to be followed with animal producers, among other aspects. HKScan is committed to using responsibly produced soy in its value chain in Finland and in Sweden.</p>
Targets	<p>The key targets and achievements of the responsibility work in 2019 have been presented in sections: Animal welfare, Our community, Environment, Sustainable and healthy food.</p>					

Materiality	Animal welfare	Our community	Environment		Sustainable and healthy food	
	Meat production	Farming community	Employees	Environmental impacts	Responsibly produced food	Responsible and ethical sourcing
Organisation of Corporate Responsibility	HKScan's Board of Directors approves the Group's strategy and the Corporate Responsibility programme that is part of it. The Board receives progress reports on the implementation of the Group's responsibility work, as well as information about material events related to CR and potential challenges. The Board of Directors also assesses significant responsibilities and commitments related to corporate responsibility, as well as approves HKScan's report on non-financial information. HKScan's Group Management Team manages, oversees and guides the implementation of the Group's strategy and the related responsibility work. The Senior Vice President of Corporate Responsibility is responsible for HKScan's corporate responsibility-related target setting, implementation and reporting. With a mandate from the Group Management Team, the Corporate Responsibility team develops corporate responsibility-related programmes and procedures as well as operating plans. The CR team drives continuous improvement and secures related measurement of the CR performance.					
Responsibilities and resources	In 2019, activities related to animal health and well-being were managed at a Group level on farms as well as in slaughterhouses. From the beginning of 2020, HKScan's business units have had operational responsibility for animal sourcing and animal welfare on farms and in slaughterhouses. The strategic development of primary production and animal welfare has been centralised to the Group level.	In 2019, farmer cooperation and its development were the responsibility of a Group-level function responsible for animal sourcing and primary production. From the beginning of 2020, the strategic development of farmer cooperation has been the responsibility of a Group-level function, whereas business units are in charge of operational management and animal sourcing.	Personnel management is the responsibility of the HR function, which is part of Group administration. The Group-level HESQ function is responsible for the strategic development of work safety.	In 2019, development of environmental work was the responsibility of the director in charge of the company's production and the Group's Responsibility team. From the beginning of 2020, the Group's Responsibility team and HESQ function manage the development of environmental work together.	In early 2019, product portfolio development based on nutritional factors was managed by a Group-level development function specialised in categories and concepts. In 2020, business units have the responsibility for product development. Strategic management of product safety is the responsibility of a Group-level HESQ function, but on the operational level, product safety is managed by business units.	The procurement function responsible for HKScan's sourcing is a Group-level function.
Grievance mechanism	HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities in HKScan's operations. HKScan has a standard practice for conducting dialogue with its stakeholders.					
Projects and initiatives	The key projects and initiatives of the responsibility work in 2019 have been presented in sections: Animal welfare, Our community, Environment, Sustainable and healthy food.					
Evaluation of management approach	HKScan's Board of Directors approves the Group strategy and the corporate responsibility programme that is part of it. The Board reviews the significant corporate responsibility related responsibilities and commitments. Materiality of CR themes was evaluated in 2019.					
	HKScan actively identifies, evaluates, monitors and manages risks so that its operations do not deviate from its objectives. The company makes use of external expertise if the risk involves significant uncertainty or complexity.	Producer cooperation is assessed by means of producer surveys and assessments carried out by joint collaboration groups, in addition to the results of strategy implementation and animal production results, for example.	HKScan carries out studies concerning employee engagement, leadership and performance culture. Performance and development discussions between employees and supervisors are held twice a year.	Environmental impacts are measured regularly and reported annually.	Product safety management is based on risk assessments of products and their production processes and on the management system founded on these and their functionality is ensured through internal and third-party audits.	The management and responsibility of sourcing are monitored internally. HKScan has a supplier assessment process in place where suppliers are assessed with regard to criteria related to product safety, quality, the environment, operating methods and each procurement process.

GRI Index

Disclosure	Disclosure title	Location 2019	Comments and/or SDG
GRI 102: General disclosures			
Organisational profile			
102-1	Name of the organisation	HKScan in brief	
102-2	Activities, brands, products, and services	Market areas	
102-3	Location of headquarters	Market areas	
102-4	Location of operations	Market areas	
102-5	Ownership and legal form	Report of the Board of Directors/ Shares and shareholders	
102-6	Markets served	Market areas	
102-7	Scale of the organisation	Personnel as part of the HKScan community, Market areas, Our year 2019, This is how HKScan created value	
102-8	Information on employees and other workers	Personnel as part of the HKScan community, Responsibility key performance indicators	
102-9	Supply chain	Sustainable and healthy food, Report of the Board of Directors/Report on non-financial information	
102-10	Significant changes to the organisation and its supply chain	Personnel as part of the HKScan community, Report of the Board of Directors	
102-11	Precautionary Principle or approach	Risk management, Report of the Board of Directors/ Report on non-financial information	
102-12	External initiatives	Management approach	
102-13	Membership of associations	Corporate responsibility at HKScan/ Stakeholder collaboration	
Strategy			
102-14	Statement from senior decision-maker	CEO's review	
102-15	Key impacts, risks, and opportunities	Business environment, Strategy, Risk management	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior	Strategy/Our values, Management approach, Corporate responsibility at HKScan, Personnel as part of the HKScan community, Report of the Board of Directors/ Report on non-financial information	
102-17	Mechanisms for advice and concerns about ethics	Report of the Board of Directors/Report on non-financial information, Risk management	HKScan Fair Way channel
Governance structure			
102-18	Governance structure	Corporate Governance Statement, Management approach, Report of the Board of Directors/ Report on non-financial information	

Disclosure	Disclosure title	Location 2019	Comments and/or SDG
102-19	Delegating authority	Management approach	
102-20	Executive-level responsibility for economic, environmental, and social topics	Management approach	
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 Statement	
102-36	Process for determining remuneration	Remuneration Statement, Corporate Governance Statement/Compensation Committee	
Stakeholder engagement			
102-40	List of stakeholder groups	Corporate responsibility at HKScan/ Stakeholder collaboration	
102-41	Collective bargaining agreements	Responsibility key performance indicators/ Personnel key performance indicators	
102-42	Identifying and selecting stakeholders	Corporate responsibility at HKScan/ Stakeholder collaboration	
102-43	Approach to stakeholder engagement	Corporate responsibility at HKScan/ Stakeholder collaboration, Personnel as part of the HKScan community	
102-44	Key topics and concerns raised	Corporate responsibility at HKScan/ Stakeholder collaboration	
Reporting practice			
102-45	Entities included in the consolidated financial statements	Notes to the financial statements, Related Party Transactions	
102-46	Defining report content and topic Boundaries	Corporate responsibility at HKScan	
102-47	List of material topics	Corporate responsibility at HKScan	
102-48	Restatements of information	Reporting principles	No changes
102-49	Changes in reporting	Reporting principles	No changes
102-50	Reporting period	Reporting principles	
102-51	Date of most recent report	Reporting principles	
102-52	Reporting cycle	Reporting principles	
102-53	Contact point for questions regarding the report	Reporting principles	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles	This report has been prepared in accordance with the GRI Standards: Core option

Disclosure	Disclosure title	Location 2019	Comments and/or SDG
102-55	GRI content index	GRI index	
102-56	External assurance	Reporting principles	No external assurance
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	Reporting principles	
103-2	The management approach and its components	Management approach	
103-3	Evaluation of the management approach	Management approach	
Economic standards			
GRI 201: Economic performance			
201-1	Direct economic value generated and distributed	This is how HKScan created value, Report of the Board of Directors, Financial Statement	Payments to government by country not listed in the financial statement. Community investments not material: Voluntary donations plus investment of funds in the broader community where the target beneficiaries are external to the organisation and not business related, not reported. Segment reporting revenue and EBIT level: Criteria used is based on segment reporting (management reporting detail level)
201-3	Defined benefit plan obligations and other retirement plans	Financial statement/Note 21. Pension obligations	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	Financial statement/Note 2: grants, Report of the Board of Directors/Shares and shareholders	Government presentation in the shareholding structure
GRI 203: Indirect economic impacts			
203-2	Significant indirect economic impacts	This is how HKScan created value, Corporate responsibility at HKScan/Stakeholder collaboration	
GRI 204: Procurement practices			SDG 8: Decent work and economic growth SDG 15: Life on land
204-1	Proportion of spending on local suppliers	Farmers as part of the HKScan community, Sustainable and healthy food	
G4 Food Processing Sector Disclosure 1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	Sustainable and healthy food	Reported as relevance for HKScan: • Animal sourcing (live): % of purchasing according to animal sourcing practices • Percentage of purchased volume from suppliers compliant with HKScan's Supplier Guidelines
G4 Food Processing Sector Disclosure 2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognised responsible production standards, broken down by standard	https://www.hkscan.com/en/responsibility/sustainable-and-healthy-food/responsible-sourcing/	Reported as relevance for HKScan - sourcing principles in: • Responsibly produced soy in value chain (animal feed, food product ingredient) • Responsibly produced palm oil
GRI 205: Anti-corruption			
205-2	Communication and training about anti-corruption policies and procedures	Risk management, Report of the Board of Directors/Report on non-financial information	
205-3	Confirmed incidents of corruption and actions taken	Report of the Board of Directors/ Report on non-financial information	There were no confirmed corruption cases

Disclosure	Disclosure title	Location 2019	Comments and/or SDG
GRI 206: Anti-competitive behaviour		Report of the Board of Directors/Report on non-financial information, Risk management	
Environmental standards			SDG 12: Responsible consumption and production SDG 13: Climate action SDG 15: Life on land
GRI 301: Materials			
301-1	Materials used by weight or volume	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
301-2	Recycled input materials used	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
GRI 302: Energy			
302-1	Energy consumption within the organisation	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	Used calculation unit MWh
302-4	Reduction of energy consumption	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
GRI 303: Water			
303-1	Water withdrawal by source	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	Reported fresh water from municipal water supplies, water from other sources not used
GRI 304: Biodiversity		https://www.hkscan.com/en/responsibility/environment/environmental-work-at-farms/	HKScan aspect: Cattle and sheep grazing at semi-natural pastures
GRI 305: Emissions			
305-1	Direct (Scope 1) GHG emissions	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
305-2	Energy indirect (Scope 2) GHG emissions	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
305-5	Reduction of GHG emissions	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
GRI 306: Effluents and waste			
306-2	Waste by type and disposal method	Wide-ranging environmental work, Responsibility key performance indicators/ Environment key performance indicators	
GRI 307: Environmental compliance			
307-1	Non-compliance with environmental laws and regulations	GRI Index 307-1	HKScan had no serious environmental legislation violations in 2019. In Sweden, we completed the contaminated soil clean-up operations at the old Uppsala production facility.

Disclosure	Disclosure title	Location 2019	Comments and/or SDG
Social standards			
GRI 403: Occupational health and safety			SDG 3: Good health and well-being SDG 8: Decent work and economic growth
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Personnel as part of the HKScan community, Responsibility key performance indicators/ Personnel key performance indicators	Authorities reviewed two injuries arising from non-compliances. In Finland, a HKScan supervisor was fined EUR 1,340 due to an injury. In Sweden, a corporate fine of EUR 28,000 was imposed on HKScan due to an injury.
GRI 413: Local communities			SDG 3: Good health and well-being SDG 13: Climate action
		Farmers as part of the HKScan community	Reported as relevance for HKScan: Farming community and impacts on local communities via farmers
GRI 414: Supplier social assessment			
414-2	Negative social impacts in the supply chain and actions taken	Sustainable and healthy food	Sourcing volumes from risk countries very low, process created to mitigate negative impacts
GRI 416: Customer health and safety			SDG 3: Good health and well-being
416-1	Assessment of the health and safety impacts of product and service categories	Sustainable and healthy food	
G4 Food Processing Sector Disclosure 6	Percentage of total sales volume of consumer products, by product category, that are lowered saturated fat, trans fats, sodium and added sugar	Sustainable and healthy food	Reported: percentage of total product development
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Sustainable and healthy food	Product recalls reported
G4 Food Processing Sector Disclosure 5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognised food safety management system standards	Sustainable and healthy food	Reported: FSSC 22000, IFS, BRC
HKScan special: Animal health and welfare			SDG 3: Good health and well-being
G4 Food Processing Sector Disclosure 9	Percentage and total of animals raised and/or processed, by species and breed type	https://www.hkscan.com/en/responsibility/animal-welfare/	
G4 Food Processing Sector Disclosure 10	Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic	https://www.hkscan.com/en/responsibility/animal-welfare/	
G4 Food Processing Sector Disclosure 11	Percentage and total of animals raised and/or processed, by species and breed type, per housing type	https://www.hkscan.com/en/responsibility/animal-welfare/	
G4 Food Processing Sector Disclosure 12	Policies and practices on antibiotic, anti-inflammatory, hormone, and/or growth promotion treatments, by species and breed type	https://www.hkscan.com/en/responsibility/animal-welfare/	
G4 Food Processing Sector Disclosure 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	Report of the Board of Directors/Report on non-financial information	



**HKSCAN
Governance
2019**

Corporate Governance Statement 2019



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 2015 (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 2016, and with Chapter 7:7 of the Finnish Securities Markets Act. The Finnish Corporate Governance Code 2015 has been updated to a new version, the Finnish Corporate Governance Code 2020, and that new code is also applied in HKScan starting on the first of January 2020. The corporate governance statement is issued separately from the Report of the Board of Directors 2019.

HKScan observes the Code subject to the following exceptions:

Recommendation 15: Members of the Nomination Committee may also be appointed from outside the Board of Directors in order to bring additional knowledge and expertise to bear on key appointments within the Company. The Board of Directors appoints the members of the Nomination Committee.

HKScan's corporate governance statement may be viewed on the Company's website at www.hkscan.com under "Investor information". 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 organisation 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. The Articles of Association contain no mention of any special order of Board member appointments.

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 particular competence and independence consistent with the position. The Board members are proposed by the Nomination Committee 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 2019 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.

An Extraordinary General Meeting was held on 30 January 2019 in Turku. This meeting elected Jari Mäkilä, Harri Suutari and Terhi Tuomi as new members of the Board. Ilkka Uusitalo was elected as new deputy member of the Board. At the Board meeting after the EGM, the Board re-elected Reijo Kiskola as Chairman and elected Jari Mäkilä as Vice Chairman.

The Annual General Meeting held on 11 April 2019 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 2019: 20,341

Independent of the Company
and significant shareholders.



Jari Mäkilä (b. 1970)

Deputy Chair of the Board since 2019
Agricultural technician

Shareholding at HKScan on
31 December 2019: 11,934
(direct ownership) and 97,499
(through Mäkilän Tila Oy)

Not independent of the Company
nor a significant shareholder.



Anne Leskelä (b. 1962)

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

Shareholding at HKScan on
31 December 2019: 9,878

Independent of the Company
and 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 2019: 15,214 (nominee-reg.)

Independent of the Company, but not
independent of a significant shareholder.

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

The Annual General Meeting held on 11 April 2019 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 2019: 9,628

Independent of the Company
and significant shareholders.



Terhi Tuomi (b. 1966)

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

Shareholding at HKScan on
31 December 2019: 8,378

Independent of the Company, but
not independent of a significant
shareholder.



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 2019: -

Independent of the Company, but
not independent of a significant
shareholder.



Ilkka Uusitalo (b. 1968)

Deputy member of the Board since 2019
Farm entrepreneur

Shareholding at HKScan on
31 December 2019: 105,000

Not independent of the Company
nor a significant shareholder.

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

During 2019, the Board held 21 meetings. The average attendance rate of Board members and deputy members was 96.3 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

The work of the Board of Directors is based on the provisions of the Finnish Limited Liability Companies Act and the Company's Articles of Association as well as on the charter adopted by 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 organisation 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

Five committees have been set up in HKScan to streamline the preparation and management of matters for the consideration of the Board. The Special Committee is a new Board Committee, which was established in February 2019.

The Board selects the members and chairs of the committees from among its members or deputy members, except for the Nomination Committee, to which members may be selected from outside the Board in order to bring additional knowledge and expertise to bear on key appointments within the Company. With respect to the Nomination Committee, the Company deviates 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 senior executives 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 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 2019. 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

The Board elects the three members of the Nomination Committee. The members of the Committee need not be Board members. The CEO of the Company or other senior executives may not be elected to the Nomination Committee.

The duties of the Nomination Committee are defined in its charter adopted by the Board. The Committee is tasked with preparing the proposals to be presented to the General Meeting of Shareholders concerning the number, appointment and remuneration of Board members. The Nomination Committee convenes at least once before the General Meeting of Shareholders and reports on its work to the Board of Directors immediately following the meeting of the Committee.

When the Nomination Committee plans the composition of the Board of Directors, the target is to ensure that the Board of Directors forms a functional entity. The prerequisite is sufficient diversity of the Board of Directors.

The Board's Nomination Committee searches, evaluates and recommends members to be elected to the Board of Directors and evaluates the number of the members of the Board of Directors. When preparing the proposal for election of Board members, the diversity principles determined by the Company shall be taken into account:

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

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

Introduction:

Per Lindahl (b. 1964)

Chair of the Board of Lantmännen Farmer, Kristianstad, Sweden

The Nomination Committee held two meetings during 2019. The average attendance rate of Committee members was 100 per cent.

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 senior executives 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 senior executives.

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 is chaired by Per Olof Nyman and its other members were Harri Suutari and Ilkka Uusitalo.

The Compensation Committee held six meetings during 2019. The average attendance rate of Committee members was 94.1 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 nine meetings during 2019. The average attendance rate of Committee members was 92.9 per cent.

Special Committee

A new Committee, called Special Committee, was introduced in 2019. 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 five meetings during 2019 and the average attendance rate was 100 per cent.

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. In managing HKScan Group, the CEO is supported by the Group Management Team.

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.

On 28 November 2018 Tero Hemmilä, M.Sc. (agr. econ.), was appointed as CEO of the HKScan Corporation and he started in his position on 4 February 2019.

The duties of the CEO were temporarily carried out by the Chairman of the Board, Reijo Kiskola before Tero Hemmilä's commencement.

Meeting attendance of the Board and its Committees

	Board	Audit Committee	Nomination Committee	Compensation Committee	Working Committee	Special Committee
Reijo Kiskola	21/21	5/5	2/2	1/1	9/9	5/5
Jari Mäkilä	21/21		2/2		8/9	5/5
Anne Leskelä ³⁾	16/16	4/4			6/6	
Terhi Tuomi ¹⁾	20/20	5/5			9/9	
Harri Suutari ²⁾	19/20	1/1		5/5	9/9	5/5
Per Olof Nyman	18/21			6/6	7/9	
Carl-Peter Thorwid	19/21	5/5			7/9	
Ilkka Uusitalo ⁴⁾	20/20			4/5	9/9	
Per Lindahl			2/2			

¹⁾ Member of the Board and Audit Committee as of 30. January. Between 30. January - 31. December 2019 the Board had 20 meetings, the Working Committee 9 meetings and the Audit Committee 5 meetings.

²⁾ Member of the Board, Compensation Committee and Special Committee as of 30. January. Between 30. January -31. December 2019 the Board had 20 meetings, the Working Committee 9 meetings, the Compensation Committee 5 meetings and the Special Committee 5 meetings. Member of the Audit Committee until 31. January. Between 1. January - 31. January 2019 the Audit Committee had 1 meeting.

³⁾ Member of the Board and Audit Committee as of 11. April. Between 11. April - 31. December 2019 the Board had 16 meetings, the Working Committee 6 meetings and the Audit Committee 4 meetings.

⁴⁾ Deputy member of the Board and member of the Compensation Committee as of 30. January. Between 30. January - 31. December 2019 the Board had 20 meetings, the Working Committee 9 meetings and the Compensation Committee 5 meetings.



Group Executive Team

The Group Executive Team of HKScan, called Group Management Team before 1 January 2020, 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 Group Executive Team are appointed by the Board.

The Group Executive Team on 1 January 2020:



Tero Hemmilä (b. 1967)

CEO

M.Sc. (Agr. & Econ.)

Shareholding at HKScan on 1 Jan 2020:
35,000



Mika Koskinen (b. 1972)

EVP, Strategic business development
and investments

M.Sc. (Chem. Eng.)

Shareholding at HKScan on 1 Jan 2020:
19,000



Jari Leija (b. 1965)

EVP, Business Unit Finland

Shareholding at HKScan
on 1 Jan 2020:

-



Denis Mattsson (b. 1953)

EVP, Business Unit Sweden

eMBA

Shareholding at HKScan on 1 Jan 2020:
4,000 (DSM Consulting Oy)



Anne Mere (b. 1971)

EVP, Business Unit Baltics

MBA

Shareholding at HKScan on 1 Jan 2020:
18,018



Jukka Nikkinen (b. 1962)

EVP, Business Unit Denmark

M.Sc. (Econ.)

Shareholding at HKScan on 1 Jan 2020:
15,657

The Group Executive Team on 1 January 2020:**Jyrki Paappa** (b. 1965)

CFO

M.Sc. (Econ.)

Shareholding at HKScan on 1 Jan 2020:
20,000 (Airisto Capital Oy)**Juha Ruohola** (b. 1965)

EVP, Export, import and meat balance

M.Sc. (Agr.), eMBA

Shareholding at HKScan on 1 Jan 2020:
-**Markku Suvanto** (b. 1966)

EVP, Administration

LL.M, trained on the bench

Shareholding at HKScan on 1 Jan 2020:
1,855

During the year 2019, the following persons
have also been members of the Group Management Team:

Anu Mankki as EVP, HR
until 3 April 2019

Pia Nybäck as EVP,
Animal Sourcing & Primary Production
until 3 April 2019

Mikko Saariaho as EVP,
Communications and Corporate
Responsibility until 3 April 2019

Kati Rajala as EVP,
Market Area Finland
until 3 April 2019

Heli Arantola as EVP,
Categories & Concepts
until 3 April 2019

Mikko Forsell as CFO
until 3 April 2019

Sami Sivuranta as COO
until 3 April

Esa Mäki as EVP,
Meat balance & Supply Chain
until 31 August 2019

Sofia Hyléen Toresson as EVP,
Market Area Sweden
until 19 November 2019

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 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, 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 built 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 CEO have responsibility for the strategy and principles of risk management within the Group, and for managing risks that threaten 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 key controls 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 anonymised channel through which personnel and partners can report unethical behaviour.

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 Management 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 a quarterly 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 2019, the development of the internal control framework continued among other things by introducing new HKScan Group guidelines, especially relating to internal and external security. During 2019, the Group arranged competition law training for persons in management positions.

Related party transactions

HKScan Group has identified its related parties and maintains a list of them in accordance with Recommendation 28 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 28 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 insider guidelines are based on the following laws and regulations: Market Abuse Regulation (596/2014/EU, as amended), Market Abuse Directive (2014/57/EU, as amended), Commission Delegated Regulation (2016/522/EU, as amended), Commission Implementing Regulation (2016/347/EU and 2016/523/EU, as amended), the regulations and guidelines of the European Securities and Markets Authority, Finnish legislation, especially Chapter 51 of the Criminal Code (39/1889) and Securities Markets Act (746/2012, as amended), Nasdaq Helsinki Ltd's Guidelines for Insiders of Listed Companies which came into force on 3 July 2016 (as amended), and the guidelines of the Finnish Financial Supervisory Authority. The purpose of the guidelines is to summarise 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 management 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 authorisation 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 at the 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

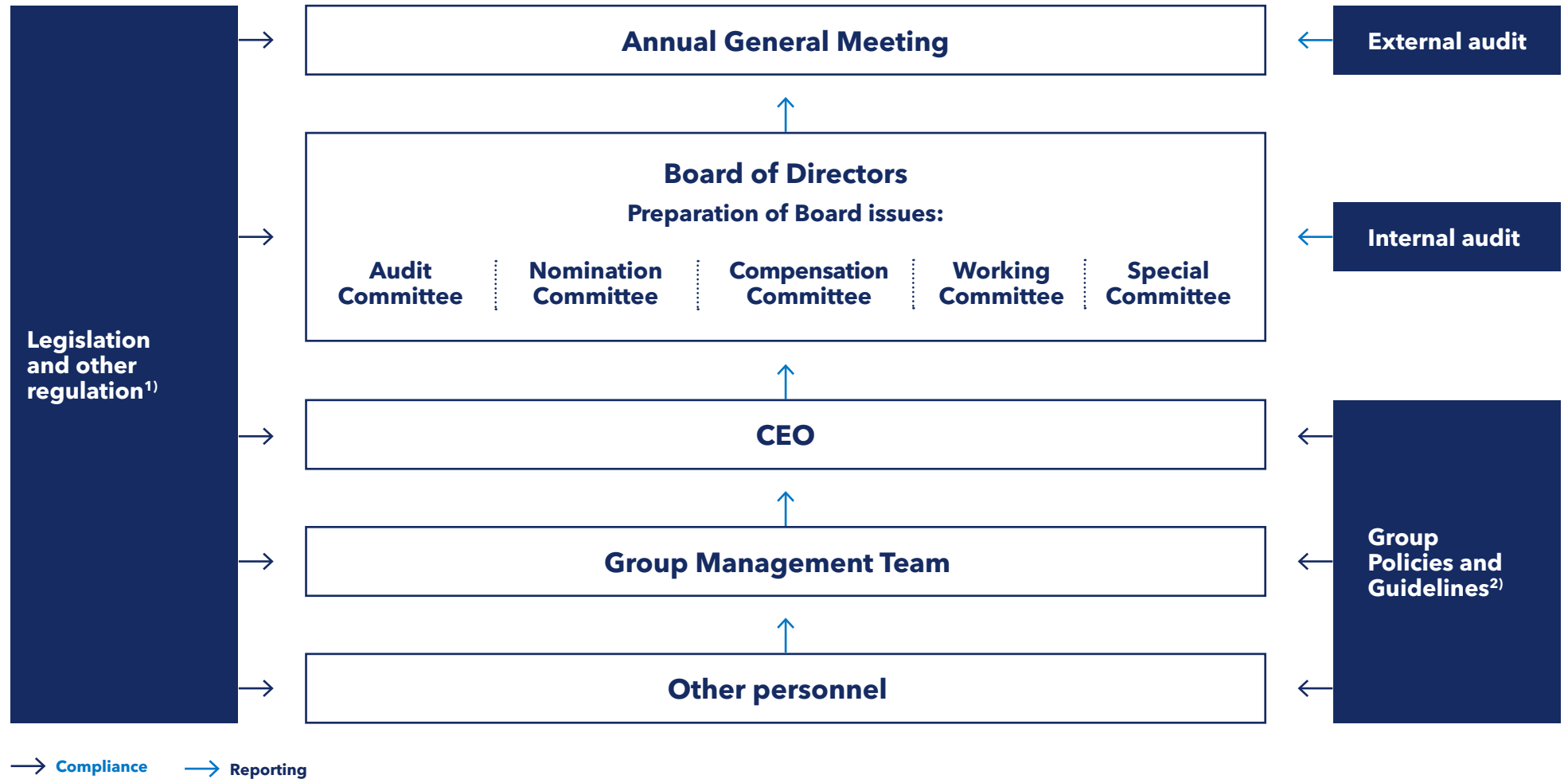
The external auditors are nominated annually by the Annual General Meeting. The AGM 2019 elected Ernst & Young Oy, the firm of authorised public accountants, with APA Erkkä Talvinko as responsible auditor of HKScan until the closing of the next AGM.

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 labour & employment law issues.

EUR thousand	2019	2018
Audit fees	-542	-487
Tax consultation	-2	-16
Other fees	-102	-5
Audit fees, total	-646	-508

Ernst & Young Oy was paid in total 82,228 euros during the financial year 2019 for non-audit services to entities of HKScan.

HKScan Group governance and control system



¹⁾ 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

²⁾ Articles of Association, other internal policies, guidelines and operating procedures

Remuneration Statement 2019



HKScan remuneration statement 2019

This remuneration statement has been prepared in accordance with the Finnish Corporate Governance Code 2015. The company will present a new CEO and Board Remuneration Policy in the Spring 2020 Annual General Meeting, after which the company will in the future publish a Remuneration Report instead of a Remuneration Statement.

Remuneration governance

This section describes the decision-making procedure concerning the remuneration of the members of the Board of Directors (Board), the CEO and other executives.

The Annual General Meeting (AGM) decides on the remuneration and other financial benefits of the members of the Board and the committees of the Board annually based on a proposal by the Nomination Committee.

The Board decides, based on the proposal made by the Compensation Committee, on the remuneration principles and remuneration of the CEO. The remuneration and terms of employment of the Group Management Team (GMT) are decided by the Board on the basis of a proposal from the CEO. In addition, the Board approves all Group-wide incentive plans for senior management and key personnel.

The AGM decides on the use of the company's shares for share-based incentives and may authorise the Board to decide on the issue of shares and special rights

entitling to shares. Information about the valid authorisations of the Board concerning remuneration, as well as any decisions made by the Board concerning remuneration are described in the end of the Remuneration Statement.

Main principles of remuneration

This section describes the main principles relating to the remuneration of the Board members, the CEO and other executives.

Remuneration at HKScan Group is based on the principles of remuneration approved by the Board. The longstanding remuneration principles support our business strategy, performance driven rewards, continuous improvement, individual accountability and value-based behaviour. The Group's strategic goals and financial results are taken into account in reward planning.

A competitive remuneration system aims at ensuring that we can retain key people and senior management in the markets in which HKScan operates. The targets of the incentive schemes are based on business strategy execution and shareholder value creation. Supported by the motivating rewards, our target is to retain core competencies and key people. Competitive salaries and performance-based incentive systems, the selection of the best people for key positions, job rotation and succession planning are the strengths of the company in the long term.

Remuneration structure

HKScan Group's remuneration scheme consists of a base salary, benefits, as well as short-term and long-term incentive schemes.

Board of Directors

The remuneration of the Board members consists of annual fees based on memberships of the Board and its committees, and in addition, members receive an attendance payment for each Board or Committee meeting. The company has no share-based incentive scheme for Board members, nor are the members of the Board covered by the company's incentive or pension plans. Board members receive no separate meeting attendance fees for serving on the Boards of Directors of the Group's subsidiaries or associated companies.

The AGM 2019 resolved to keep the annual fees for the Board members on the same level as in 2018. The annual fees are the following: Board member EUR 27,625, Vice Chairman of the Board EUR 33,875 and Chairman of the Board EUR 67,750.

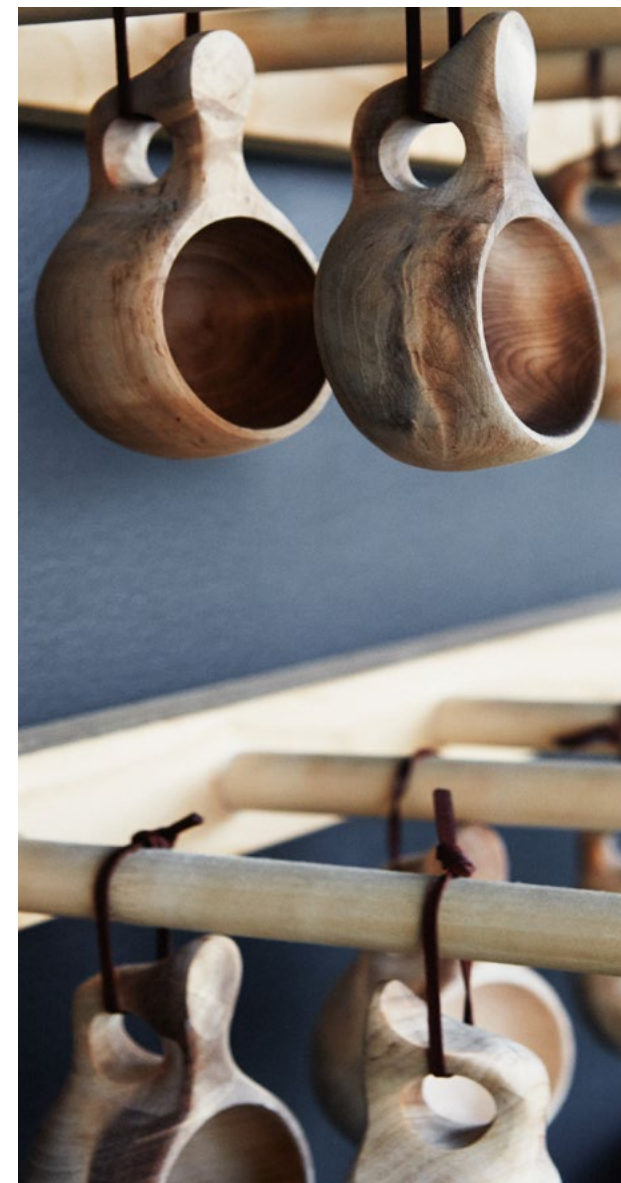
The AGM on 11 April 2019 resolved the annual remuneration payable to the members of the Board as follows:

Annual fee in EUR

Chairman of the Board	67,750
Vice Chairman of the Board	33,875
Member of the Board	27,625
Deputy member of the Board	13,810
Chairman of a Board Committee	5,000

The AGM also resolved that the annual fee is paid in Company shares and 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 is paid in cash. The AGM also resolved the following: The shares are acquired within two weeks of the publication of HKScan Corporation's half-year report 1 January - 30 June 2019, providing that the acquisition of the shares is possible pursuant to the regulations applied to the acquisition of shares. If acquisition of shares is at the designated time not possible as described above, the acquisition of the shares will be carried out without delay after the hindrance has been removed. If acquisition of shares is not possible due to a reason arising from the Company or the Board member, the entire remuneration is paid in cash. The Company bears the costs arising from the share transfer.

The AGM 2019 resolved the annual remuneration of a deputy member of the Board to be EUR 13,810, unchanged from 2018. An annual remuneration of EUR 5,000 was resolved for Chairs of Board Committees (Audit, Nomination, Remuneration and Working Committee). In addition, an attendance payment of EUR 550 is paid to each member of the Board for each Board and Committee meeting they attend, and a compensation of EUR 300 is paid for a meeting, which requires a Board member's participation beyond Board and Board Committee meetings. Travel expenses of Board members are compensated according to the Company's travelling regulations.



CEO

The principles of the CEO's remuneration in 2019 are described below:

Remuneration element	Description
Base salary	Fixed salary which includes taxable fringe benefits (car, housing and telephone). CEO's salary is EUR 56,000 per month.
Insurances	To support and protect the CEO in the performance of his duties, HKScan provides him with health insurance, life and disability insurance and business travel insurance.
Pension	Retirement age is 63. In addition to the Finnish statutory pension plan, the CEO is covered by 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 the annual base salary. If the CEO's contract ends before retirement age, he is entitled to retain the accrued savings.
Short-term incentive (STI)	The CEO is entitled to participate in HKScan's STI programme subject to the terms and conditions of such programme in effect. The performance criteria on the basis of the STI pay-out is annually predefined by the Board. The mix of Group and individual targets, and their threshold and maximum ranges, are defined based on financial and strategic targets. The achievement of individual performance targets shall be evaluated annually by the Chairman of the Board. The maximum award value was 60% of the annual base salary in 2019.
Long-term incentive (LTI)	The CEO is entitled to participate in HKScan's LTI programme subject to the terms and conditions of such programme in effect. The Board decides annually the plan terms and performance criteria based on strategic targets. If the performance targets are achieved, the share rewards attained based on the plan will be paid partly in HKScan's series A shares and partly in cash. The cash portion is intended to cover tax and tax-related costs arising from the award. The maximum award value at grant was 150% of the annual base salary in 2019. The final award value is dependent on performance and share price appreciation.
Share ownership guidelines	The Board recommends that the CEO would hold 50% of all the shares received from the LTI programme until the value of share ownership corresponds to his annual salary. This share ownership should be held during the validity of service.
Sign-on bonus	The CEO was entitled to a sign-on bonus at the time of assuming his duties. The Company can pay half of the bonus, at maximum, in HKScan's shares.
Termination	The agreement can be terminated by both parties. Notice period for the CEO is 6 months. In the event that HKScan terminates the agreement, the CEO is entitled to compensation corresponding to his 12 months' salary. In addition, he will be paid the salary for the termination period.

Other Executives

The principles of the GMT members' remuneration in 2019 are described below. The GMT consists of members from Finland, Sweden, Denmark and Estonia.

Remuneration element	Description
Base salary	The annual salary consists of a base salary and customary fringe benefits such as company car and phone. Each GMT member's annual salary package varies according to position and country of residence.
Insurances	To support and protect the GMT members in the performance of their duties, HKScan provides them with health insurance, life and disability insurance and business travel insurance.
Pension	The GMT members participate in local retirement programmes according to local market and company practice in their countries of residence. Additionally, the Finnish members of the GMT are covered by a supplementary defined contribution pension plan. The retirement age according to the pension plan is 63 years.
Short-term incentive (STI)	The GMT members are entitled to participate in HKScan's STI programme subject to the terms and conditions of such programme in effect. The performance criteria on the basis of the STI pay-out is annually predefined by the Board. The mix of Group, Unit/Function and individual targets, and their threshold and maximum ranges, are defined based on the strategic targets. The achievement of individual performance targets shall be evaluated annually by the CEO. The maximum award value was 50% of the annual base salary in 2019.
Long-term incentive (LTI)	The GMT members are entitled to participate in HKScan's LTI programme subject to the terms and conditions of such programme in effect. The Board decides the plan terms & conditions and performance criteria based on strategic targets annually. If the performance targets are achieved, the share rewards attained based on the plan will be paid partly in HKScan's series A shares and partly in cash. The cash portion is intended to cover tax and tax-related costs arising from the award. The maximum award value at grant was 150% of the annual base salary according to position in 2019. The final award value is dependent on performance and share price appreciation.
Share ownership guidelines	The Board recommends that the members of GMT would hold 50% of all the shares received from LTI programme until the value of share ownerships correspond to their annual salaries. This share ownership should be held during the validity of employment.
Termination	The agreement can be terminated by both parties with a notice period of 6 months. GMT members are, in the event of termination by the company, entitled to 6 months' severance payments.

Remuneration report

In this section, HKScan discloses the remuneration and other financial benefits paid to the Board, the CEO and other executives (GMT) during the previous financial period, i.e. 2019. The remuneration paid during the financial period preceding the reported financial period, i.e. 2018, is presented for comparison.

Board of Directors

Remuneration paid to the members of the Board in 2019 and 2018 are set forth in the table below.

	Annual fees (EUR)		Meeting attendance fees (EUR)		Paid in shares* (number of shares)		Other fees from participating meetings (EUR)	
	2019	2018	2019	2018	2019	2018	2019	2018
Kiskola Reijo	63,780	18,954	23,650	8,250	8,288	2,053	6,900	5,700
Leskelä Anne	16,226		14,850		3,378			
Lindahl Per			1,100	550				
Mäkilä Jari	30,427	14,208	19,800	8,800	4,144		3,300	2,100
Nyman Per Olof	27,101	25,433	16,500	11,000	3,378	2,053		600
Suutari Harri	21,049		20,900		3,378		300	
Thorwid Carl-Peter	13,810	13,810	17,050	12,650				600
Tuomi Terhi	19,799		18,700		3,378			
Uusitalo Ilkka	12,659		18,150				600	
Total	204,851	72,405	150,700	41,250	25,944	4,106	11,100	9,000

*) According to the resolution of the AGM in 2019, the Board's annual remuneration has been paid in Company shares and cash so that 20 per cent of the remuneration was paid in the Company shares acquired on the market on the Board members' behalf, and the rest was paid in cash. The shares were acquired within two weeks after the publication of HKScan Corporation's half-year financial report.

The meeting attendance fees do not include travel expenses.



CEO and other GMT members

Remuneration paid to the CEO and the other members of GMT in 2019 and 2018 are set forth in the table below:

EUR (thousand)	CEO		Other GMT members (in aggregate) ***	
	2019*	2018**	2019	2018
Base salary and benefits	689	755	2,177	2,055
Short-term incentives	0	50	0	32
Long-term incentives ****	0	0	0	26
Compensation related to termination of service	0	1,139	1,738	0
Sign-on fee	148	0	235	0
Supplementary pension	123	183	314	301
Total Remuneration	960	2,127	4,464	2,414

*) Remuneration of the CEO in 2019 is an aggregate of payments to Reijo Kiskola (1 Jan - 3 Feb) and Tero Hemmilä (4 Feb - 31 Dec).

***) Remuneration of the CEO in 2018 is an aggregate of payments to Jari Latvanen (1 Jan - 27 Nov) and Reijo Kiskola (28 Nov - 31 Dec), and includes compensation (payable in 2019) related to termination of Latvanen's contract.

****) Remuneration of GMT members in 2019 and 2018 is not fully comparable from year to year due to changes in GMT members and in foreign exchange rates.

*****) LTI payments are gross amounts, out of which a part has been paid in shares and a part in cash.

Short-term incentives (STI)

HKScan operated in 2019 an annual STI plan for the CEO, other GMT members and key employees. Performance criteria included pre-defined financial and non-financial targets at Group, Unit/Function and individual levels. Overall, the 2019 financial performance surpassed threshold STI performance levels. Thus, the incentives from 2019 will be payable in 2020.

Long-term incentives (LTI)

HKScan's long-term incentive plan 2018-2020 is a performance share plan with one one-year performance period (2018) and one two-year performance period (2019-2020). The earning criteria for performance period 2018 were not met and thus there was no pay-out from this period. The main structure is complemented with a restricted share plan 2018-2020 with one three-year vesting period, and the plan includes a financial criterion that is measured based on the average achievement of a three-year period.

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. In addition to a continuance of employment requirement, the plan includes a financial criterion that is measured based on the average achievement of a three-year period.

All LTI plans include the requirement of continuance of employment or service upon award payment in order to be qualified to receive the potential award. Also, the CEO and other members of the GMT should retain at least 50% of all shares received as award until the value of their ownerships correspond to their annual base salaries, during the validity of employment or service.

The table below describes the main features of the long-term incentive plans:

	LTI 2018 -2020			LTI 2019 -2021		
	Performance Share Plan		Restricted Share Plan	Performance Share Plan		Restricted Share Plan
Type of plan	PSP	PSP	RSP	PSP	PSP	RSP
Earning Period	2018	2019-2020	2018-2020	2019-2020	2021	2019-2021
Number of Participants at grant	27	33	11	10	10	10
Earning criteria	50% EBIT & 50% EPS	Group Cumulative Operative Cash flow	ROCE	Group Cumulative Operative Cash flow		ROCE
Achievement of criteria	0%					
Maximum number of shares to be allocated	910,400		44,200	1,322,200		881,500
Number of vested shares after taxes						
CEO	-					
GMT members	-					
Year of vesting	-	2021	2021	50% in 2022 and 50% in 2023	50% in 2022 and 50% in 2023	

Authorisations of the Board concerning remuneration

The AGM on 11 April 2019 authorised the Board to decide on a share issue as well as an issue of option rights and other special rights entitling to shares (stock exchange release on 11 April 2019) as follows:

The shares issued under the authorisation are new Series A shares of the Company or those in the company's possession. Under the authorisation, a maximum of 2 500,000 Series A shares, which corresponds to approximately 4.50 per cent of all of the shares in the Company and approximately 5.00 per cent of all the Series A shares in the Company, can be issued. The shares, option rights or other special rights entitling to shares can be issued in one or more tranches.

Under the authorisation, the Board of Directors may resolve upon issuing new Series A shares to the Company itself without consideration. However, the Company, together with its subsidiaries, cannot at any time own more than 10 per cent of all its registered shares.

The Board of Directors is authorised to resolve on all terms for the share issue and granting of special rights entitling to shares. The Board of Directors is authorised to resolve on a directed share issue and issue of the special rights entitling to shares in deviation from the shareholders' pre-emptive right. A directed share issue always requires a weighty economic reason for the Company and

the authorisation may not be utilised inconsistently with the principle of equal treatment of shareholders.

The authorisation to issue new shares, option rights as well as other special rights entitling to shares was resolved in order to enable the Board of Directors to decide flexibly on capital markets transactions that are beneficial for the Company, for instance to secure the financing needs of the Company or implement acquisitions. In addition, the authorisation may be used in order to implement share-based incentive arrangements and payment of the share-based remuneration directed to the management of the company and the Group.

The authorisation shall be effective until 30 June 2020, and it revokes the authorisation granted on 12 April 2018 by the Annual General Meeting to the Board of Directors to resolve on an issue of shares, option rights as well as other special rights entitling to shares.

The Board of Directors of HKScan Corporation decided in its meeting on 24 September 2019 to use the authorisation granted by the Annual General Meeting held on 11 April 2019 to acquire the Company's own shares (stock exchange release on 25 September 2019). The Board of Directors decided to initiate a fixed-term share buy-back programme for the purpose of acquiring series A shares in the Company in order to meet the potential rewards arising from the share-based incentive scheme for key employees.

Stock exchange release on 25 September 2019: The share acquisitions will begin at the earliest on 1 October 2019 and will end at the latest on 30 June 2020. The maximum number of shares to be acquired is 2,000,000 series A shares, however up to an equivalent of EUR 5,000,000. The maximum number of series A shares to be bought back under the programme corresponds to approximately 2.02 per cent of the total number of shares in the company and 2.13 per cent of the total number of series A shares. The shares will be acquired at the market price quoted in trading organised by Nasdaq Helsinki Ltd on a regulated market at the time of acquisition. The shares will be acquired with the Company's distributable non-restricted equity.

Stock exchange release on 13 December 2019: HKScan Corporation has completed the buy-back programme concerning the company's own series A shares, the start of which was announced by the company on 25 September 2019. In trading organised by Nasdaq Helsinki Ltd, the company has between 1 October 2019 and 12 December 2019 acquired a total of 2,000,000 of its own series A shares with an average price of EUR 2.3614 per share. The total purchase price for the shares was EUR 4.7 million. After these repurchases, HKScan Corporation holds a total of 2,000,000 own series A shares.

Risk management

The aim of risk management within HKScan Group is to enable uninterrupted business operations and to safeguard conditions for achieving business objectives.

Risk management is embedded in the HKScan management system and is based on the consistent identification, assessment and reporting of risks throughout the Group. The company's Enterprise Risk Management (ERM) process aims to systematise risk identification and promote proactive risk management throughout the Group, and to ensure that management and the Board of Directors are in possession of sufficient information about risks to support their decision-making. The risk policy approved by the Board is applied in all operative HKScan Group companies.

The Board of Directors and CEO have responsibility for the strategy and principles of risk management within the Group and for managing risks that threaten the Group's strategic intents. Operative risks are the responsibility of the heads of the respective market area or the Group function in question. The CFO is responsible for managing financial risks and Group insurance policies.

At HKScan, risks are divided into four main categories: strategic risks, operative risks, economic risks and risks of damage. At Group level, the company regularly assesses all significant risks inherent in the material balance sheet and income statement items and determines key controls for risk prevention.

Strategic risks are assessed as a part of the annual strategy process and in connection with major business decisions.

Operative risks are assessed not only in connection with the annual plans, but also as part of day-to-day business operations.

Economic risks and risks of damage are minimised as far as possible by applying policies and guidelines drafted for this purpose.



HKScan's most significant risks

Strategic risks

Fluctuation in the availability and prices of raw materials

There is variability in the prices and availability of raw materials needed for the production of HKScan products, such as feed, pork, beef and poultry. Global overproduction of feed and raw materials decreases the prices of raw materials and increases their availability, while underproduction leads to lower availability and rising raw material prices. Economic cycles, the EU's Common Agricultural Policy, trade barriers and subsidy changes affect the balance of supply and demand in the long term.

Factors rapidly affecting supply, such as animal disease epidemics and extreme weather phenomena (e.g. drought) may occasionally create an imbalance of supply and demand. The prices of products sold to retail are agreed months in advance in Finland, Sweden, Denmark and the Baltics, and under these circumstances, it may be challenging to carry unforeseen increases in raw material prices over into product prices quickly enough. This may also be difficult even in situations where prices have not been agreed in advance.

From HKScan's main brands, HK®, Kariniemen® and Scan® have delivered a promise of 100 per cent domestic meat content. Although this gives HKScan a competitive edge over imported products, it may also change HKScan's position if domestic meat production declines.

HKScan actively monitors the prices and availability of raw materials used in production. The Group may use external specialists for making estimates for future development.

In HKScan's market areas, competition is tightened by the private label products and brands of retail chains. This local competition is intensified by multinational operators and competitors based in lower-cost countries.

The company is responding to this tightened competition by strengthening its brands and product development, improving the efficiency of its core processes, investing in high-quality products and supply reliability, good co-operation with its producers, and more efficiently leveraging Group synergies.

Adaptation of operations to possible changes in legislation or regulation and dependence on the authorities

HKScan's operations are regulated by the legislation of the respective countries in which the company operates. Regional and supranational regulation, such as EU legislation, also affects the company. The management affirms that HKScan operates in full compliance with all relevant legislation and other regulations. Legislation and other regulations and the interpretations thereof may change, however, and the company cannot guarantee compliance with altered requirements unless material actions are taken. The company is also dependent on the authorities in the countries in which it operates. Official procedures may also vary considerably in the company's various sectors of business. In addition, various unexpected actions potentially taken

by pressure groups may cause restrictions to the business or volatility in demand.

Acquisitions and integration of acquired businesses

HKScan may acquire, either in its current market areas or in new geographical areas, companies that enhance its competitive position. Risks relating to acquisitions include potentially unknown liabilities, potential inability to integrate and manage the business and personnel of an acquired company, and the risk of benefits of scale or synergies not materialising as planned. In addition, exclusion from industry consolidation might have an adverse effect on HKScan's strategic competitive position. Expansion into new geographical areas might also cause situations relating to exchange rate fluctuations, unexpected changes in statutory requirements, changes in and compliance with local legislation and regulations, as well as political risks.

Operative risks

Animal health and welfare-related risks

Animal diseases that spread easily, such as African swine fever, avian influenza, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Animal disease risks are mitigated by continuous follow-up of the animal disease situation, collaboration with authorities, veterinarians and HKScan's producer services and animal producers. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes. At farm level biosecurity and high hygiene standards and procedures are followed.

An outbreak of an easily transmitted animal disease may affect the company's business and demand for its products. For example, export bans between countries may be possible. Animal diseases may have a long-term impact on consumer behaviour, although HKScan believes that consumption usually normalises within a reasonable period of time after the discovery of an outbreak. The animal disease risk is evened out to some extent by consumption shifting to the company's other meat product groups.

In a fully integrated value chain, such as is the case with most of the company's Estonian operations, the discovery of an animal disease may in the worst-case scenario temporarily sever the supply of raw materials if no substitute raw material source exists.

Dependence on production plants and the uninterrupted operation of distribution chain

HKScan is dependent on the uninterrupted operation of its production plants and distribution centres. If a key production plant is destroyed or closed for any reason, if equipment is damaged in a significant manner, or other disruptions occur in production, this is likely to cause delays in HKScan's ability to produce and distribute its products as scheduled. Depending on the product, it may be possible for HKScan to transfer production to other locations, thus avoiding any significant interruptions to its operations. Changes in production of this kind may be more difficult to implement in some product groups and may lead to significant delays in the deliveries of products and to lost sales, giving rise to additional expenditure before insurance coverage.

Very short lead times on delivery of orders are characteristic of the meat industry. Short lead times increase the importance of an effective and dependable supply chain, underscoring the need to be able to anticipate consumer behaviour. Likewise, the reliability of logistics systems and other technological systems is extremely important. If distribution centres are damaged, destroyed or decommissioned for any reason, or if the products held in the distribution centres suffer significant damage, HKScan must come up with an alternative method of delivering products to customers until such time as the damaged distribution centre is made available again.

HKScan mitigates these risks with business continuity and recovery plans and by planning and implementing preventive maintenance at operational locations regarded as critical, among others.

Possible product quality issues and food safety risks

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalisation of the food chain, food fraud and deliberate sabotage have emerged as 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 entire chain.

To control risks, we require all players in our value chain to have a comprehensive food safety management system, and we monitor its implementation with regular audits both in our own facilities and in other production plants in our value chain.

Risks related to data systems and information security

Risks related to data systems and information security are central to HKScan, as disruptions involving them may materially hamper the continuity of operations. These risks are continuously and critically assessed. Based on the assessments, HKScan carries out, among other things, updates and modernisations relating to information networks, data systems and information security.

Environmental responsibility-related risks

Environmental risks have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. Identified environmental risks include risks related to wastewater and chemical leaks; these risks are managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

Risks related to respect for human rights and corruption or bribery

HKScan's risk management has identified risks related to human rights in work safety management and in inappropriate treatment of employees. Work safety risks are managed through work safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the risk evaluation of the sourcing process.

HKScan's Code of Conduct describes the company's policy on corruption and bribery, and these are monitored in internal audits. Corruption-related risks in the supply chain are managed in the risk evaluation of the sourcing process.

Reliance on skilled management and employees

HKScan's success is materially dependent on the professional expertise of the company's management and other personnel, as well as on the company's ability to foster the commitment of current management and other personnel and recruit new, skilled employees in the future.

The possibility of legal or illegal strikes cannot be ruled out in HKScan's own operations or in its supply chain. The risks are mitigated by developing wellbeing at work and alternative supply structures and processes.

Economic risks

Financial and other risks

Financial risks refer to unfavourable movements taking place in financial markets that may erode accrual of the company's result or reduce cash flow. The company's financial risk management aims to harness financial means to hedge the company's intended earnings performance and equity and to safeguard the Group's liquidity in all circumstances.

Financial risk management, including external and internal funding of the Group, is centralised in the Group Treasury function. HKScan's funding is obtained through the parent company, while funding to subsidiaries is arranged by the Group Treasury through intra-Group

loans in the local currency of each subsidiary. Part of the Group's profits and costs are denominated in foreign currencies. Additionally, some investments and earnings are denominated in foreign currencies. The most significant exchange risks in the company's business arise from the euro, Swedish krona and US dollar. The largest equities of HKScan companies are in euros, Swedish krona, and Danish krone. The Group's financial risks are presented in more detail in Note 24 to the financial statement.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. HKScan is also involved in some juridical proceedings in its home markets. The Group abides by its Code of Conduct and sound business practices, but potential breaches of these instructions may also cause risks.

Risks of damage

Unforeseeable factors

Natural disasters, fires, bioterrorism, sabotage, pandemics, exceptional weather conditions or other factors beyond the company's control may have an adverse effect on the health and growth of production animals. Such factors may also hamper the company's operations and cause power outages, damage to production and property, disruptions in distribution chains, or other handicaps. HKScan mitigates these risks caused by unforeseeable factors through insurances, when possible and necessary.





HKSCAN

**Report of the Board of Directors
and Financial Statement 2019**

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Report of the Board of Directors for the financial year 2019

- HKScan's net sales increased by 1.7 per cent and were EUR 1,744.4 (1,715.4) million. In comparable currencies, net sales were EUR 1,765.2 million, representing an increase of 2.9%.
- Comparable EBIT improved by EUR 44.1 million to EUR -2.2 (-46.3) million. The impact on the EBIT from changes in currency rates was EUR -0.4 million.
- HKScan recorded a total of EUR -21.0 (-2.0) million in non-recurring items impacting the EBIT.
- EBIT improved by EUR 25.1 million but remained negative at EUR -23.2 (-48.3) million.
- The strong improvement of the poultry business performance in Finland continued and was the most significant factor strengthening the Group's EBIT and cash flow. Also, commercial successes, operational efficiency and cost control improved the EBIT.
- Cash flow from operating activities improved by EUR 73.5 million to EUR 59.2 (-14.3) million.
- In June 2019, the company raised gross proceeds of approximately EUR 71.9 million in a successful directed share issue, strengthening the Group's capital structure. In July 2019, the company agreed with its financing banks on a new credit agreement that replaced its earlier bank loans.
- Interest-bearing net debt was EUR 275.8 (335.6) million and net gearing 84.8 (103.3) per cent including an IFRS16 impact of approximately 14 percentage points.
- HKScan's new Group strategy was published in November 2019.
- The company decided to introduce a new Group-wide operating model from the beginning of 2020 to support the implementation of the Turnaround Programme and Group strategy. The new operating model emphasises Business Units' profit responsibility.
- Outlook for 2020: HKScan estimates that the Group's comparable EBIT in 2020 will improve compared to 2019.

HKScan's CEO Tero Hemmilä

We started the Turnaround programme at HKScan at the beginning of 2019. The programme proceeded as planned and we are pleased with the achieved profit improvement. The Group's comparable EBIT improved by over EUR 44 million from the comparison year but was still EUR -2.2 million negative. We are on the right track and our profit improvement is almost on target. EBIT improved by over EUR 25 million from the comparison year and was EUR -23.2 million negative. The most significant non-recurring items in 2019 were related to the Rauma poultry unit, adjusting the number of personnel and impairment of assets in the Danish operations.

The company's cash flow from operating activities improved significantly in 2019 and was EUR 59.2 million positive, almost EUR 74 million higher than in the comparison year. Cash flow after investing activities was EUR 27.6 million positive. In the last quarter, cash flow from operating activities was EUR 48.6 million positive, almost EUR 17 million up from the comparison period.

In 2019, all HKScan's market areas improved their comparable EBIT. Finland and the Baltics were the best performers. Clear improvement was also seen in Sweden. Due to a clearly improved second half in 2019, Denmark achieved a better comparable EBIT compared to the previous year. It is clear that the Group's profitability is not yet at a satisfactory level, but we will continue our goal-oriented, systematic work together with the entire personnel.

HKScan's full-year net sales increased by 1.7 per cent, totalling EUR 1,744.4 million. In comparable figures, growth was seen in all market areas and in all product categories. During the second half of the year, we became the market leader in the Finnish poultry category and Kariniemen gained a market leadership position in branded products. Sales increased significantly both in the food service channel and in the Group's exports.

In Finland and Sweden, total meat consumption decreased slightly. In our estimation, the rise in consumer prices of meat has contributed to the consumption decline.

Growth in poultry consumption was strong while pork and beef consumption declined. According to our own estimates, total meat consumption continued to grow in the Baltics, both in pork, beef and poultry. In Denmark, poultry consumption continued to grow. We expect the clear increase in poultry to continue in all our home markets in the coming years.

Our pork exports from Finland to China increased, with volumes in line with targets. The demand is forecasted to remain strong also in 2020. The volatility of market prices is expected to continue. We will continue to work closely with the authorities in our home markets to obtain export licenses also for poultry and beef in China. The exceptional situation in the Chinese pork market caused by African swine fever has some impact on the demand for other types of meat and on world market prices.

We emphasise the role of meat as part of a healthy diet and the importance of responsible Northern livestock production in ensuring national food security in our home markets. The Group's new responsibility programme is based on leading and promoting responsibility throughout our long value chain from farms to consumers. Wide-ranging environmental responsibility, healthy and sustainably produced food, animal welfare as well as wellbeing and competence development of all the people involved in our operations are at the heart of our responsibility work. These priorities are based on an extensive stakeholder survey conducted in autumn 2019 and on our customers' responsibility requirements.

Our responsibility work develops as a systemic change guiding all our operations. Together with our partners, we will build an ecosystem that improves profitability and sustainability footprint across our value chain.

At the beginning of November, we published the Group's new strategy. HKScan's strategic target is to grow profitably into a versatile food company with a focus on poultry meat and meals as growth drivers, while keeping the responsibly produced pork and beef as well as processed meat products at the heart of our activities. We are also actively looking into new product categories and raw materials. We want to have a stronger presence in consumers' food moments and strengthen our market position in evolving markets together with our customers.

The new strategy provides direction for the company's development in the coming years.

In November, we published a strategic partnership with Hes-Pro (Finland) Oy. HKScan will sell and market Hes-Pro's plant protein products under its own product brands in the retail and food service channels in selected markets.

In December, the company decided to introduce a new Group-wide operating model targeted to strengthen market area-level profit responsibility and performance management as well as a customer and consumer-driven way to operate. The new operating model was launched at the beginning of 2020.

We have decided to continue increasing capacity and improving productivity in the Rauma poultry unit; we will invest approximately EUR 6.0 million in renewing the slaughter process. The investment will be implemented in stages at the end of 2020. With the investment, raw material yields, productivity and operational reliability will improve, and the capacity of the whole unit can be significantly increased to meet the strongly growing demand for poultry meat in the coming years. The current slaughter line does not correspond to the functional level we have set as our target in the Rauma poultry unit.

HKScan's strong profit improvement, significantly strengthened cash flow, successful share issue in summer 2019 and loan restructuring have provided the company with a solid foundation for continuing the systematic work to improve profitability and build the conditions for growth. We will continue the systematic implementation of our Turnaround programme, with our new strategy setting guidelines for the development and profitable growth of the company. Our goal is to make HKScan an attractive company that rewards its owners and is among the leading companies in its field.

Group net sales and EBIT

The Group's net sales increased by 1.7 per cent and were EUR 1,744.4 (1,715.4) million. In comparable currencies, net sales increased by 2.9 per cent to EUR 1,765.2 million.

Comparable EBIT improved by EUR 44.1 million and was EUR -2.2 (-46.3) million. EBIT was EUR -23.2 (-48.3) million. The impact on the comparable EBIT from changes in currency rates was EUR -0.4 million.

The increase in net sales was mainly due to the recovery of the poultry business in Finland. Sales development in all markets was supported by the increase in global meat market prices and the strengthened demand for domestic meat. Pork exports from Finland to China increased and were in line with set targets, but the exports to China still have only a minor impact on Group figures.

The Group's comparable EBIT improved by EUR 44.1 million from the previous year. The main contributors to the performance improvement were the positive development of the poultry business in Finland as well as commercial successes in all market areas, improved operational efficiency and Group-wide savings in both personnel and administration costs. Due to the improved profitability, the Group's cash flow from operating activities improved significantly, by nearly EUR 73.5 million from the corresponding period.

The full-year EBIT was burdened by non-recurring items totalling EUR -21.0 million. The most significant items were an impairment loss of EUR -4.5 million in Denmark as a result of an impairment test in the first quarter, a non-recurring cost of EUR -4.2 million relating to the completed statutory negotiations in the second quarter and an impairment loss of EUR -6.9 million for the Rauma unit's slaughter line as well as an impairment loss of EUR -2.9 million related to the assets of the Swedish associated company in the fourth quarter.

In February 2019, HKScan announced its plans to improve its cost efficiency. The related statutory negotiations were started among white-collar employees and management in all HKScan's operating countries. As an outcome, HKScan's personnel reduced by approximately 180 employees. The actions will result in annual savings of EUR 10 million. The savings related to the changes have materialised as planned and were already partially visible during the review period. The savings impacts will reach their full effect during 2020.

Balance sheet, cash flow and financing

The Group's interest-bearing debt at the end of December was EUR 313.3 (365.2) million including IFRS 16 lease liability EUR 46.3 (46.8) million. Interest-bearing net debt was EUR 275.8 (335.6) million and it decreased by EUR 59.8 million from the corresponding period in the previous year. The net gearing ratio was 84.8 (103.3) per cent. The impact of IFRS 16 lease liability on net gearing ratio was approximately 14.3 percentage points. Due to the positive financial performance, cash flow from operating activities improved clearly from the corresponding period to EUR 59.2 (-14.3) million. Cash flow after investments was EUR 27.6 (-104.1) million.

The Group's liquidity remained good. Committed credit facilities at the end of December stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 35.0 (35.5) million.

During the second quarter, the company strengthened its financial position with the directed share issue raising gross proceeds of EUR 71.9 million including subscriptions paid by setting off the outstanding receivables based on the notes issued by the company. A total of EUR 43.7 million of the subscriptions were paid in cash and a total of EUR 28.2 million by setting off the outstanding receivables based on the notes issued by the company. Of this amount, EUR 14.9 million represents the amount set off from the hybrid loan issued in September 2018.

During the third quarter, the company signed a new EUR 174.3 million loan agreement with its financing banks. The loan agreement consists of a EUR 100.0 million revolving credit facility and EUR 74.3 million term loan, and it matures at the end of 2021. The new credit agreement replaced the earlier revolving credit facilities and bilateral bank loans that were set to mature in 2020 and 2021. The new loan arrangement has one financial covenant, which is a net gearing ratio of 125%. Net financial expenses in the fourth quarter were EUR -2.5 (-3.3) million and EUR -11.7 (-11.2) million in January-December including fair value change for interest rate derivatives to the amount of EUR 2.4 (1.9) million.

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

Investments

The Group's investments totalled EUR 31.7 (41.0) million. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 11.3 (11.2) million.

The project concerning the modernisation of the Kristianstad unit in Sweden was completed in the first quarter of 2019. The upgrade enables energy savings, enhanced food safety and increased production efficiency.

In Estonia, the investment in the Rakvere unit was completed at the end of the second quarter of 2019. The investment comprised modernisation of the meals related cooking department, installation of new cooking and packaging lines and expansion of the plant. The benefits are seen in increased production capacity as well as in improved productivity and environmental efficiency.

The Group's investments' breakdown by market area was as follows:

(EUR million)	2019	2018
Sweden		
Gross capital expenditure on PPE	8.4	6.4
Additions in right-of-use assets	1.9	1.7
Investments total	10.4	8.1
Finland		
Gross capital expenditure on PPE	9.7	21.9
Additions in right-of-use assets	8.6	7.8
Investments total	18.2	29.7
Denmark		
Gross capital expenditure on PPE	2.0	2.3
Additions in right-of-use assets	0.6	0.7
Investments total	2.6	3.0

(EUR million)	2019	2018
Baltics		
Gross capital expenditure on PPE	11.6	10.4
Additions in right-of-use assets	0.3	0.9
Investments total	11.9	11.3
Group total	43.0	52.2

Review by market area

Net sales and EBIT by market area

(EUR million)	2019	2018
NET SALES		
Sweden	652.1	682.1
Finland	770.6	721.9
Denmark	153.3	149.3
Baltics	168.5	162.1
Between segments	0.0	0.0
Group total	1,744.4	1,715.4
EBIT		
Sweden	7.1	8.9
Finland	-10.3	-36.1
Denmark	-9.8	-5.8
Baltics	5.0	-0.7
Between segments	-	-
Segments total	-8.0	-33.6
Group administration costs	-5.2	-14.7
Group total	-23.2	-48.3

Net sales and EBIT by market area

(EUR million)	2019	2018
Comparable EBIT	-2.2	-46.3
Personnel costs, Group Management ¹⁾	-	-1.2
Termination of employment, Sweden ¹⁾	-2.0	-0.1
Closing of sales office, Sweden ³⁾	-	-0.2
Impairment of assets, Finland ²⁾	-7.3	-0.5
Termination of employment, Group Management ¹⁾	-1.6	-
Termination of employment, Finland ¹⁾	-1.3	-
Termination of employment, Baltics ¹⁾	-0.1	-
Impairment of assets, Denmark ²⁾	-4.5	-
Impairment of assets, Group Management ¹⁾	-1.3	-
Impairment of associated company balances, Sweden ³⁾	-2.9	-
EBIT	-23.2	-48.3

¹⁾ Included in the Income Statement in the item "Employee benefit expenses"

²⁾ Included in the Income Statement in the item "Depreciation and amortization"

³⁾ Included in the Income Statement in the item "Other operating expenses"

The division of segments is based on the Group's organization and the reporting to the Board of Directors and Management. Management monitors the profitability of business operations by market area. The Group's primary segments are geographical segments: Sweden, Finland, Denmark and the Baltics.

Market area Sweden

Net sales were EUR 652.1 (682.1) million. Comparable EBIT was EUR 12.0 (9.3) million and EBIT was EUR 7.1 (8.9) million.

Net sales decreased from the comparison period mainly due to the weakened Swedish krona. Net sales were also negatively affected by the transfer of the sales responsibility of Danish poultry sold in Sweden to market area Denmark, amounting to EUR 15.8 million. Adjusted for these effects, sales grew by 1.0 per cent.

Both retail sales of branded products and food service sales improved. The appreciation of Swedish consumers for domestic meat strengthened and supported sales.

Despite the negative local currency development, comparable EBIT increased from the comparison period as a result of commercial successes, improved operational efficiency and lower administration costs. Stock levels remained below the comparison period's level throughout the period.

A non-recurring cost of EUR -1.5 million was recorded in the second quarter in relation to statutory negotiations completed early in the year. A non-recurring cost totalling EUR -2.9 million relating to the assets of the associated company was recorded in the last quarter of the year.

Market area Finland

Net sales increased by 6.7 per cent and were EUR 770.6 (721.9) million. Comparable EBIT was EUR -1.7 (-35.6) million and EBIT was EUR -10.3 (-36.1) million.

Net sales increased from the comparison period due to poultry sales as well as increased demand for pork and meals. Also the sales of processed meat developed well. The increase in net sales was driven by the improvement in the delivery capability and efficiency of the Rauma poultry unit, supported also by the strengthened Kariniemen brand. This boosted the entire Finnish poultry market. The positive development of subsidiaries Tamminen and Kivikylän also contributed to the strengthening of HKScan's brand portfolio and market position.

Pork exports from Finland to China increased and proceeded as planned. African swine fever, which is spreading in China, and changes in demand in the global pork market together with the increased price level have supported the company in achieving its export targets.

Comparable EBIT improved from the comparison period by EUR 33.9 million mainly as a result of the positive performance of the poultry business, improved operational efficiency and tight cost control.

The positive development in sales of red meat and meals as well as commercial successes boosted full-year profitability, as well.

Stock levels decreased slightly from the comparison period and active measures to balance the meat balance and inventories continued.

The full-year EBIT includes non-recurring items amounting to EUR -8.6 million. The most significant items were the impairment loss of EUR -6.9 million relating to the Rauma slaughter line and the non-recurring cost of EUR -1.1 million recorded in the second quarter in relation to statutory negotiations.

Market area Denmark

Net sales increased to EUR 153.3 (149.3) million. Comparable EBIT was EUR -5.3 (-5.8) million and EBIT EUR -9.8 (-5.8) million.

After the weak beginning of the year, domestic sales improved during the second half of the year. Net sales increased in Denmark due to the transfer of sales responsibility for Danish poultry sold in Sweden from Sweden to Denmark. The impact of the transfer was EUR 15.8 million. Net sales also increased due to strengthened export and industrial sales as well as improved sales in Sweden. Price competition remained fierce throughout the year particularly in retail sales.

Comparable EBIT improved from the corresponding period although financial performance was burdened by changes in client portfolio and sales mix as well as increased raw material costs in the first half of the year. Commercial successes clearly improved profitability in the second half of the year.

As a result of modest financial development, an impairment loss amounting to EUR -4.5 million was recorded during the first quarter. The impairment had no impact on cash flow.

Market area Baltics

Net sales were EUR 168.5 (162.1) million. Comparable EBIT was EUR 5.1 (-0.7) million and EBIT EUR 5.0 (-0.7) million.

Net sales increased in all main channels and were boosted particularly by continued growth in domestic retail and industrial sales, positive sales price development and improved sales mix.

Comparable EBIT improved clearly from the previous year especially due to the good development of pork market prices and improved sales prices. The EBIT was also strengthened by operational efficiency measures and lower administration costs. The change of biological asset revaluation amounted to EUR 2.3 (-0.7) million.

The investment project related to the Group's meals production capacity expansion in Rakvere, Estonia was completed as planned and the rebuilt sections of the unit were inaugurated in June. The investment increased the production capacity of the unit and improves productivity and environmental performance. Activities related to the deployment of the new production lines continued during the second half of the year.

HKScan's strategy

HKScan's new Group strategy, published in November 2019, focuses on the Turnaround programme for 2020-2021. Implementation of the programme creates a financially solid foundation for the company's future growth. At the same time, we pave the way for profitable growth with other forward-looking development measures. HKScan aims to grow profitably into a versatile food company, have a stronger presence in consumers' food moments and strengthen its market position in evolving markets together with its customers. Our growth drivers are the Group's strong, innovative poultry range as well as meals and meal components. Responsibly produced meat and meat products are at the core of the company's operations and will continue to play a major role in the future.

HKScan is a strong partner for retail with its well-known consumer brands. Due to consumers' changing eating habits and buying behaviour, the food service channel is growing and opening interesting opportunities for the food industry. HKScan will continue investing in growth and strengthening its position in evolving and growing sales channels. New commercial concepts and digital solutions, together with the expanding product range, are the company's growth drivers.

Strong partnerships are part of the company's new strategy; they provide the basis for achieving the goals. As consumption habits are changing, HKScan is looking into expanding its business into new product categories and raw materials. In November 2019, HKScan signed a strategic partnership with Hes-Pro (Finland) Oy. Hes-Pro's new plant-based protein products will be first launched in Finland, but HKScan is looking into opportunities to sell them in the company's other home markets in the Baltic Sea region, as well. HKScan will launch the products under the company's own brands first in the strongly growing food service channel and later this year in retail.

The company's strategic priorities are growth in consumers' food moments, performance excellence, advanced responsibility work and a competitive farming community. In its strategy, HKScan also states that the growth of exports, especially to Asia, is important and that the company will continue its efforts to strengthen its position in its key export markets. HKScan continues to strategically assess the company structure and reviews the positioning of different market areas as part of the Group's operations.

In early 2020, HKScan launched a new operating model targeted to strengthen market area-level profit responsibility and performance management as well as the company's customer and consumer-driven way to operate. The operating model renewal is central in the implementation of the company's new strategy.

HKScan's long-term financial targets remain unchanged: 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.

Responsibility

HKScan's new responsibility programme is a central part of the company's new Group strategy published last autumn. In autumn 2019, we conducted an extensive stakeholder survey to find out the views of the key stakeholder groups on the priorities in HKScan's responsibility work. The survey was carried out in all the company's market areas and we got responses from nearly 1,300 people.

Based on the survey results, we have made a materiality analysis that confirmed the key priorities in the Group's responsibility programme: wide-ranging environmental responsibility, healthy and responsibly produced food, animal welfare as well as wellbeing and competence development of the people involved in our operations.

The starting point of HKScan's new responsibility programme is to manage and promote responsibility throughout our value chain, from farms to consumers. Our responsibility work develops as a systemic change; it applies to the whole business and guides everything we do. The goal is to promote sustainable development by developing our operating model and structure.

The goals of our sustainability work are to respond to the change in the operating environment, position HKScan as the most responsible company in its field, apply responsibility in new business models and increase the competitiveness of the entire value chain. Together with our partners, we will build an ecosystem that improves profitability and sustainability footprint across our value chain.

Our central goal is also to meet the consumer and customer demand for healthy, high-quality, responsibly produced, tasty products. For us, it is important that consumers can eat locally farmed and responsibly produced meat and meat products in good conscience.

Examples of HKScan's responsibility work in 2019:

- In 2019, our Lost Time Injury (LTI) frequency decreased significantly. The number of incidents decreased by over 30% from 2018. This change is a result of the company's target-oriented work to improve working methods and conditions as well as to strengthen the culture of work safety across all functions.
- HKScan introduced the Agrofood Ecosystem® network in Finland. Its goal is more effective management of the food value chain and increasingly responsible food production. HKScan is building a cooperation network in which knowledge, expertise and best practices are collected and used widely to meet the customer and consumer needs in HKScan's market areas. With this development work, we aim to promote responsibility in the meat chain, increase transparency, improve the productivity of food chain operators and ensure competitiveness.
- For three years, HKScan has invested in reducing antibiotics use in its Baltic poultry production. In 2019, we did not use any antibiotics in poultry production. Close cooperation between specialists and farms, transparent procedures, stricter animal welfare criteria and research have produced significant results.
- In Finland and Sweden, HKScan actively promoted material efficiency and recycling by abandoning the use of non-recyclable black plastics in the packages of its branded products. In Sweden all packages made of black plastics were abandoned. In Finland HKScan stopped using black plastic trays.
- In Denmark, HKScan renewed all product packaging sold under its Rose® brand and moved to packaging made of recycled raw materials.

Research and development

A total of EUR 5.8 (8.6) million was spent on R&D in 2019, equal to 0.3 (0.5) per cent of net sales.

HKScan's research and development activities aim to develop the Group's product offering by leveraging consumer and customer insight and foresight as well as capabilities, resources and investments in innovation and concept development at all HKScan's markets.

In its product development, HKScan takes into account the growing categories defined in the Group strategy, the different needs of growing sales channels, changes in consumer behaviour as well as sustainability aspects.

Personnel

In 2019, HKScan had an average of 6 928 (7 179) personnel.

The average number of employees in each market area was as follows:

	2019	2018
Sweden	2 013	2 123
Finland	2 774	2 883
Denmark	628	636
Baltics	1 512	1 538
Total	6 928	7 179

Salaries and remunerations to employees, including social costs, totalled EUR 313.7 (316.7) million.

In February 2019, HKScan announced its plans to improve its cost efficiency. The company initiated statutory negotiations resulting in a Group-wide personnel reduction of approximately 180 employees. These actions were estimated to generate annual savings of EUR 10 million, which materialised in part in the fourth quarter of 2019 and will gradually take full effect during 2020.

In October 2019, HKScan announced its plan to renew the Group's operating model and initiate relevant processes. At the same time, HKScan announced it was evaluating the need to improve the efficiency of its operations in Finland. In December 2019, HKScan completed the country-specific processes.

After the review period on 1 January 2020, HKScan implemented the new operating model, the objective of which is to strengthen the company's market-area level profit responsibility and management as well as a customer and consumer-oriented way of operating. The renewal of the operating model has a central role in the implementation of the company's Turnaround programme and the Group's new strategy.

Changes in senior management

30 January 2019, HKScan announced that Tero Hemmilä would start working as the CEO of the Company on 4 February 2019.

On 3 April 2019, HKScan announced changes in the composition of the Group Management Team. The changes became valid as of 3 April 2019.

HKScan Corporation's Group Management Team includes the following positions and persons: CEO: Tero Hemmilä, EVP Market Area Finland: Jari Leija, EVP Market Area Sweden: Sofia Hyléen Toresson, EVP Market Area Baltics: Anne Mere, EVP Market Area Denmark & International: Jukka Nikkinen, EVP Meat Balance & Supply Chain: Esa Mäki, Chief Operating Officer (COO) leading Operations and Technology functions: Mika Koskinen, Chief Financial Officer (CFO): Jyrki Paappa and EVP Administration (HR and Legal): Markku Suvanto.

On 31 May 2019, HKScan announced that Esa Mäki, EVP Meat Balance & Supply Chain will leave his position at HKScan. Esa Mäki has been appointed as CEO of Apetit Plc and he will start in his new position on 1 September 2019. Mäki continues to work at HKScan and as a member of the Group Management Team until the end of August 2019.

On 2 September 2019, HKScan announced that Juha Ruohola has been appointed Executive Vice President of Group's Meat Balance and Supply Chain and a member of the Group Management Team. He succeeds Esa Mäki, who became CEO of Apetit Plc at the beginning of September 2019.

In November 2019, HKScan announced that Sofia Hyléen Toresson, EVP for HKScan's Swedish market area, was leaving her position in the company. In connection, Denis Mattsson was appointed HKScan's interim EVP for the market area Sweden and a member of the Group Management Team as of 20 November 2019.

In December 2019, HKScan announced it was introducing a new Group-wide operating model beginning on 1 January 2020. In connection with the change, the company specified the responsibilities of the members of the HKScan Management Team. HKScan's Management Team from 1 January 2020:

CEO Tero Hemmilä, EVP Business Unit Finland Jari Leija, EVP Business Unit Sweden Denis Mattsson, EVP Business Unit Baltics Anne Mere, EVP Business Unit Denmark Jukka Nikkinen, CFO Jyrki Paappa, EVP Administration Markku Suvanto, EVP Export, import and meat balance Juha Ruohola as well as EVP Strategic business development and investments Mika Koskinen.

Shares and shareholders

Shares

HKScan Corporation completed a directed share issue of new series A shares in June 2019. The share issue was based on the authorisation of the Extraordinary General Meeting on 29 May 2019. A total of 44,917,607 new series A shares subscribed for in the offering were registered in the trade register on 24 June 2019. In connection with the registration, the Company cancelled the series A shares in possession of the Company, totalling 992,348 series A shares. Following the registration of the new shares and the cancellation of treasury shares, the total number of registered series A shares in HKScan is 93,551,781.

At the end of December 2019, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The Corporation's total number of shares issued, 98,951,781, 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%). The A Shares are quoted on Nasdaq Helsinki Ltd. The K Shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of K Shares of LSO Osuuskunta and Lantmännen ek. för.

The market cap of HKScan's shares at the end of December 2019 stood at EUR 267.6 (76.7) million.

Series A shares had a market value of EUR 252.7 (69.1) million, and the unlisted Series K shares a calculational value of EUR 14.9 (7.7) million.

In January–December, a total of 26,948,127 (11,399,917) of the company's shares were traded with a total value of EUR 55,238,860 (27,366,358). In the period under review, the highest price quoted was EUR 2.88 (3.23) and the lowest was EUR 1.48 (1.29). The average price was EUR 2.05 (2.40). At the end of December 2019, the closing price was EUR 2.76 (1.42).

Shareholders

At the end of 2019, the shareholders maintained by Euroclear Finland Ltd included 13 942 (12 376) shareholders. Nominee-registered foreign shareholders held 16.5 (16.1) per cent of the company's shares.

Treasury shares

At the end of December 2019, the company held 2,000,000 (992,348) 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.

On 25 September, HKScan announced the decision of its Board of Directors to launch a fixed-term share buy-back programme, the purpose of which is to acquire the company's own A shares in order to meet the potential rewards arising from the share-based incentive scheme for key employees.

The acquisition commenced on 1 October 2019 and ended on 12 December 2019. The number of shares acquired was 2,000,000 series A shares, corresponding to approximately 2.02 per cent of the total number of shares in the company and 2.13 per cent of the total number of series A shares. The shares were acquired at the market price quoted in trading organised by Nasdaq Helsinki Ltd on a regulated market at the time of acquisition. The shares were acquired with the company's distributable non-restricted equity. The total acquisition price for the shares was EUR 4.7 million.

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 the 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 Management 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.

Shareholding of the Board of Directors and the President and CEO

At the end of 2019, 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 165 159 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 2019

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of share capital
1-100	3,575	25.64	173.768	0.18
101-500	4,808	34.49	1,389.239	1.40
501-1000	2,325	16.68	1,850.009	1.87
1001-5000	2,564	18.39	5,821.514	5.88
5001-10000	343	2.46	2,576.488	2.60
10001-50000	246	1.76	4,740.088	4.79
50001-100000	30	0.22	2,124.127	2.15
100001-500000	30	0.22	6,665.316	6.74
500001-	20	0.14	72,818.127	73.59
On common accounts	0	0	128.105	0.13
On waiting list	1	0	665.000	0.67
Total	13,942	100	98,951.781	100.00

Share capital by share series 31 December 2019

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
Total	98,951.781	100	100

Ownership breakdown by sector on 31 december 2019

	Share of owners %	Share of shares %	Share of votes %
Corporates	3.68	41.02	64.78
Finance and insurance companies	0.20	20.35	9.99
Public entities	0.04	11.44	5.62
Households	95.42	19.25	9.45
Non-profit organizations	0.43	6.65	3.26
Abroad	0.23	1.16	6.84
All sectors, total	100	99.87	99.94
General account		0.13	0.06

20 Largest shareholders on 31 December 2019

	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 Suomen Kulttuurirahasto	2,448.117		2.47	1.21
7 Keskinäinen Työeläkevakuutusyhtiö Elo	2,392.830		2.42	1.19
8 HKScan Oyj	2,000.000		2.02	0.99
9 Tiiviste-Group Oy	1,550.000		1.57	0.77
10 Oy Etra Invest Ab	1,500.000		1.52	0.74
11 Hisinger-Jägerskiöld Eva	1,100.000		1.11	0.55
12 Petter ja Margit Forsströmin säätiö Karl ja Olivia Forsströmin muistolle	1,000.000		1.01	0.50
13 Sinituote Oy	1,000.000		1.01	0.50
14 K. Hartwall Invest Oy Ab	850.000		0.86	0.42
15 VR Eläkesäätiö	820.000		0.83	0.41
16 Suhonen Jyrki	816.069		0.82	0.40
17 Pivosto Oy	582.190		0.59	0.29
18 Valtion Eläkerahasto	500.000		0.51	0.25
19 Sijoitusrahasto Taaleritehdas Arvo Markka Osake	500.000		0.51	0.25
20 Nordea Henkivakuutus Suomi Oy	427,331		0.43	0.21
Other shareholders	34,398.832	0	34.76	17.07
Amount of shares total	93,551.781	5,400.000	100	100

Source: Euroclear Finland

Annual General Meeting 2019

The Annual General Meeting (AGM) of HKScan Corporation was held on 11 April 2019 in Turku, Finland. The AGM decided that the company will not pay dividend for 2018.

The AGM also resolved on the annual remuneration of the Board's members, deputy members and the chairs of the committees. Of the Board members of that time, Reijo Kiskola, Jari Mäkilä, Per Olof Nyman, Harri Suutari and Terhi Tuomi were re-elected, and Anne Leskelä was elected as a new member until the end of the Annual General Meeting 2020. In addition, Carl-Peter Thorwid and Ilkka Uusitalo were re-elected as deputy Board members until the end of the Annual General Meeting 2020.

At the organisational meeting after the AGM, the Board re-elected Reijo Kiskola as Chairman and re-elected Jari Mäkilä as Vice Chairman.

Ernst & Young Oy, the firm of authorised public accountants, was elected as the auditor with Erkkä-Tapani Talvinko, APA, as the lead audit partner, until the closing of the next AGM.

The AGM authorised the Board of Directors to decide on the purchase of the company's own Series A shares and/or on the acceptance the company's own Series A shares as pledges. The authorisation will be effective until 30 June 2020 and it revoked the authorisation given to the Board of Directors by the AGM 2018.

The AGM also authorised the Board to decide on issues of shares, option rights as well as other special rights entitling to shares, but this authorisation was later revoked by the Extraordinary General Meeting on 29 May 2019.

The resolutions of the Annual General Meeting have been published in full in the stock exchange release of 11 April 2019 and are also available on the company's website at www.hkscan.com.

Extraordinary General Meetings

On 7 January 2019, HKScan published a notice of the Extraordinary General Meeting that was held on Wednesday, 30 January 2019 in Turku, Finland.

The Extraordinary General Meeting resolved that the number of ordinary members of the Board of Directors would be five (5) and the number of deputy members would be two (2).

Jari Mäkilä, Harri Suutari and Terhi Tuomi were elected as new members of the Board of Directors until the end of the Annual General Meeting 2019. In addition, Ilkka Uusitalo was elected as new deputy Board member until the end of the Annual General Meeting 2019.

Reijo Kiskola and Per Olof Nyman were elected to continue as Board members and Carl-Peter Thorwid as a deputy Board member until the end of the Annual General Meeting 2019.

On 8 May 2019, HKScan published a notice of the Extraordinary General Meeting that was held on 29 May 2019 in Turku, Finland.

The Extraordinary General Meeting resolved on the following:

Financing arrangement

The Extraordinary General Meeting authorised the Board of Directors to carry out a financing arrangement consisting of a share issue of up to EUR 60 million (expected) where:

- In exchange for cash consideration, new series A shares were offered for subscription to the public in Finland.
- New series A shares were offered to institutional investors in the EEA. The subscription price of the shares could be paid at the option of the investor either in cash or by bonds issued by the company (at their nominal value and together with accrued interest).

- In the event of over-subscription, the Board of Directors was entitled to increase the size of the share issue by a maximum of EUR 12 million. In addition, in the event of over-subscription, the Board of Directors was entitled to allocate series A shares to the subscribing shareholders of the company before allocating to subscribers who were not shareholders of the company.

On the basis of the authorisation, the Board of Directors was authorised to negotiate and execute the financing arrangement on terms and conditions that the Board of Directors considers to be in the best interests of the company.

Amendment to Articles of Association

The Extraordinary General Meeting resolved to amend Article 3 of the Articles of Association so that the maximum number of A shares is 100,000,000 instead of 60,000,000 shares. Following the amendment, Article 3 of the Articles of Association is as follows:

At least 3,600,000 and at most 8,000,000 of the total number of shares in the company are Series K shares and at least 400,000 and at most 100,000,000 are Series A shares.

Owners of Series K and A shares are entitled to exercise their right to vote at meetings of shareholders as provided in Article 5 of these Articles of Association.

Share issue authorisation

The Extraordinary General Meeting authorised the Board of Directors to resolve on a share issue as follows:

The shares to be issued under the authorisation are new series A shares. Under the authorisation, a maximum of 50,000,000 series A shares can be issued, which corresponds to approximately 47.6 per cent of all the shares in the Company and approximately 24.2 per cent of votes pertaining to the shares, if the authorisation is used in full. Shares can be issued in one or more tranches.

The Board of Directors is authorised to resolve on all of the terms and conditions of the share issue. The shares may be issued as a directed share issue, i.e. in deviation from the shareholders' pre-emptive rights. A directed share issue always requires a substantial economic reason for the Company and the authorisation may not be utilised inconsistently with the principle of equal treatment of shareholders.

The authorisation was effective until 30 September 2019.

The authorisation revoked prior unused authorisations granted earlier by the General Meeting to the Board of Directors to resolve on an issue of shares, option rights as well as other special rights entitling to shares.

Short-terms risks and uncertainty factors

Significant uncertainty factors in HKScan Group's business are related to sales and raw material prices. The demand-driven market situation of pork creates pressure for the increase of animal raw material prices.

In the food industry's raw material supply, the risks of animal diseases, such as the African Swine Fever (ASF), or any international or regional food scandals impacting the overall consumption outlook cannot be fully excluded. The company also recognises risks relating to food safety.

The risks related to impairment of assets will increase and have an effect on the financial position of the company if the Group is not able to improve its financial performance. Due to the successful share issue and improved financial performance, the risk for breaching financial covenants of loan agreements has clearly decreased.

Unexpected delays related to the efficiency improvement of the Rauma poultry unit may impact the Group's short-term financial performance.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. Public discussion

related to consumption of red meat and climate change may also have a negative impact on demand.

HKScan's potential involvement in juridical proceedings and potential breaches of business principles and the Group's Code of Conduct may pose operational risks.

HKScan's risks are reported in more detail in the risk management section of the Annual Report. More information is available in the Group's Report of Non-financial Information.

Corporate Governance

HKScan has issued a separate Corporate Governance Statement for the Group. The statement will be published as part of the online Annual Report 2019 on the company's web site www.hkscan.com on week 12/2020.

Events after the reporting period

On 22 January 2020, HKScan announced its investment of approximately EUR 6 million in a new slaughter process in the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability and ensure the capacity required for the strongly growing demand. The investment will be carried out in stages at the end of 2020 to ensure the security of supply stabilised during 2019.

We will renew the whole first part of the poultry unit's production process in Rauma, as the original slaughter line introduced in 2017 does not meet the standards required by the Group's current management. With the investment, the processing capacity of the slaughter line will increase by approximately 20 per cent and raw material yield by approximately 10 per cent. The investment will enable us to better meet the strongly growing demand for poultry products.

The current slaughter line will be dismantled once the investment is completed. For this reason, HKScan has recorded a EUR -6.9 million write-down of the residual value of the current line balance sheet in the last quarter of 2019. The write-down had no impact on cash flow.

Board of Directors' proposal on the distribution of profit

The parent company's distributable equity stands at EUR 274.7 (216.7) million including the reserve for invested unrestricted equity, which holds EUR 215.1 (143.3) million. The Board of Directors recommends that the company will not pay dividend for 2019. The company did not pay dividend for the year 2018.

Outlook for 2020

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

Annual General Meeting 2020

HKScan's Annual General Meeting will be held on Wednesday, 15 April 2020 at 10.00 in Turku, Finland.

To be eligible to attend the Annual General Meeting, shareholders should register by 1 April 2020 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd. A notice to the Annual General Meeting will be published at a later date.

Report on non-financial information

Business and operational impacts

HKScan Corporation is a publicly listed food company with over one hundred years of experience in responsible Nordic food production, sales and marketing for customer and consumer needs. The company's product selection covers pork, beef, poultry and lamb products, processed meat products and meals. HKScan's home markets are Finland, Sweden, Denmark and the Baltics. With production units in all its home markets, HKScan has a significant direct and indirect impact on employment. The company's products are exported to nearly 50 countries. Exports increased in 2019, particularly to China.

HKScan's operations are based on responsible and efficient management of the entire, long value chain and on value creation throughout the farm to consumer chain. The company's sourcing of meat raw material in Finland, Sweden and Denmark is based on a close partnership and collaboration with HKScan's contract producers. In Estonia, the company has its own farms as well as contract producer partners. HKScan creates economic value for local communities and society by sourcing live animals from local markets. The company invests in the professional expertise of meat producers and in strengthening business expertise. Also the share of domestic purchases of other services and products is significant.

In its own operations, HKScan minimizes the environmental impacts related to its operations. Additionally, HKScan collaborates with its contract producers to reduce environmental impacts generated at farms.

Supply chain management is efficient. Production planning, transportation and distribution are critical functions for business operations. HKScan's customers include retail, the food service channel, the food industry and the export sector. HKScan engages in collaboration with its customers in sounding out trends, forecasting demand, product development, marketing, corporate responsibility development, and other business development.

Corporate Responsibility as an integrated part of strategy and operating model

HKScan launched a three-year, Group-wide Turnaround programme and renewed the Group's operating model to strengthen market area-specific profit responsibility and improve profitability. In 2019, HKScan also updated its Group strategy. Its realization requires successful implementation of the Turnaround programme, continuous operational improvement, and a cost-efficient way of operating. The goal is for continuous development of operations, improved performance, and development of know-how, ways of working and tools to achieve the Group's strategic targets.

Corporate responsibility is a significant part of HKScan's new Group strategy, published in autumn 2019, and consequently the company has also updated its corporate responsibility programme. A stakeholder survey was carried out in autumn 2019 to help determine the various stakeholders' views on HKScan's sustainability focus areas. The survey was conducted in all market areas, and nearly 1,300 people from different stakeholder groups responded. The survey results were used to update the materiality analysis and to confirm the key focus areas of the new corporate responsibility programme. These are: sweeping environmental responsibility, healthy and responsibly produced food, animal welfare, and the wellbeing and development of expertise of the people involved in HKScan's operations.

The premise of the new corporate responsibility programme is to manage and promote responsibility in all operations, from farms to consumers, throughout the value chain. Responsibility work develops as a systemic change; it applies to the whole business and guides everything HKScan does with the starting point to respond to the change in the operating environment, to position HKScan as the most responsible company in its field, to use responsibility in new business models and to increase competitiveness of the entire value chain.

The corporate responsibility programme measures are focused on the key areas of the company's value chain, i.e. on developing the farming community's sustainable and economically efficient operations, reducing climate impacts from own processes, improving material efficiency, and responding to consumer and customer demands with healthy, high-quality products that taste good. A Group-wide management system was also created for the corporate responsibility programme, and it will be adopted in 2020.

Most important commitments, policies and principles

HKScan's values and Code of Conduct are at the foundation of the company's operations. HKScan expects all its suppliers to sign and 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.

HKScan has reported on its operations in line with the Global Reporting Initiative's GRI standards (2016) since 2017.

HKScan is committed to the UN Sustainable Development Goals (SDGs) and has identified five goals (SDG 3, 8, 12, 13, 15) to promote; the development of these goals is monitored through indicators and targets in the corporate responsibility programme. HKScan is committed to promoting the following SDGs:

- SDG 3: Good health and wellbeing – ensure healthy lives and promote wellbeing for all at all ages
- SDG 8: Decent work and economic growth – promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 12: Responsible consumption and production – ensure sustainable consumption and production patterns
- SDG 13: Climate action – take urgent action to combat climate change and its impacts
- SDG 15: Life on land – protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Key measures and results

The key results of the realized work and the renewed corporate responsibility programme are available in the Corporate Responsibility section of the 2019 Annual Report. Results will be reported in line with the KPI table in the end of this report.

In 2019, wide-scale development of corporate responsibility sub-areas, e.g. with investments, wasn't at the core of operations because the securing of the company's financial position required extensive measures to improve profitability.

Products: Healthiness, quality, food safety and raw material sourcing

When developing new products and planning product improvements, a focus is on the healthiness of products by, e.g., reducing the amount of fat or sodium, increasing the amount of vegetables, decreasing portion sizes, or reducing food additives without

compromising product safety. Meat, along with vegetables, wholegrain products and plant-based fats, is part of a balanced diet following nutrition recommendations. Nutrition recommendations guide the general eating habits of the population. HKScan aims to have a positive impact on public health by developing and offering a diverse range of nutritious, quality products and by raising consumer awareness and understanding of a healthy diet.

All of HKScan's production plants, with the exception of the Jelgava production plant in Latvia, are certified in accordance with the Global Food Safety System (FSSC 22000, IFS, BRC). The Jelgava plant is certified to ISO 22000. Ensuring quality and product safety is a continuous activity and the development of operations is based on risk assessments. Risk assessment at production plants is based on the Hazard Analysis Critical Control Point (HACCP) process. The operational level is verified annually by internal and third-party external audits and through inspections and audits conducted by customers and authorities.

The conditions for safe and healthy food production in HKScan's operating countries are good. Our home markets have ample and pure water resources, a cool climate, seasonal temperature variations, and pure soil and air. Our meat production chain is short and traceable because of contract production and our own animal production. Animals are slaughtered at HKScan's own slaughterhouses. Sourcing meat locally (almost 100 per cent) has a significant economical and social impact on local communities and, more broadly, also on the surrounding society. HKScan's producer services support and promote the business of producers and wellbeing in rural areas as well as increase their professional expertise and the development of their professional skills. HKScan offers its contract producers training and consulting in, among other things, the planning of animal feeding, in production management, in animal healthcare, and in planning new production facilities.

HKScan's other purchases from local markets are significant, about 70 per cent of total purchases. All suppliers are assessed for product safety, quality, environmental performance, business practices and sourcing process-related criteria. The supplier assessment process also includes an evaluation of the supplier's social responsibility and ethical risks.

Product-related quality issues and food safety risks and their management

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalization of the food chain, food fraud and deliberate sabotage have emerged as central themes alongside other food safety risks. To identify and prevent the risks related to them, HKScan Group has created a separate risk assessment model covering the entire chain.

Sourcing-related risks and their management

Sourcing-related risks involve fluctuations in the availability and prices of raw materials, including meat raw material. The decrease in domestic meat production is a risk because of the domestic origin promise of HKScan's most significant brands (HK®, Kariniemen® and Scan®). Risks related to raw materials or products sourced from external suppliers are managed with standards fundamentally related to sourcing. To control food safety risks, we require suppliers to have a comprehensive food safety management system, and we monitor its implementation regularly. Social risks in the supply chain are managed in the risk assessment of the sourcing process.

Personnel

Change management and development of the organization in line with the Turnaround programme were central activities in 2019. HKScan Group's operating model was renewed, and the company implemented organizational changes at all levels of the organization to support the new operating model and efficiency. The efficiency measures decreased the Group's headcount by about 10 per cent.

The company's operating model supports market area-specific profit responsibility and management as well as a customer- and consumer-driven way of operating.

In line with its new operating model, at the beginning of 2020 HKScan moved from a matrix organization to country-based business unit-level P&L management where Finland, Sweden, the Baltics and Denmark form the reporting business units. The key Group-level functions will ensure business synergies and good governance.

A key resource for the company is personnel wellbeing and competence; HKScan aims to create and maintain an inspiring work atmosphere and to take care of the physical and mental wellbeing of personnel. When employees feel good, their work motivation increases, and shared goals are achieved in an efficient manner.

Development of occupational safety was very successful. The number of injuries leading to an absence decreased by more than 30 per cent, and there were 140 fewer injuries than in 2018. This was enabled by the close collaboration and the open sharing of good practices between all market areas, functions and units. The guiding principle was the clarification of occupational-safety related responsibilities and obligations, and the additional training. During the year, standardized Group-wide occupational safety indicators and risk assessment models were rolled out, and the development of a new reporting tool got under way. The tool was taken into use in January 2020.

HR-related risks and their management

In HKScan Group's risk management, the significance of professional management and employees is defined as follows: HKScan's success is critically dependent on the competence and expertise of the company's management and other personnel, the company's ability to advance the competence and commitment of its existing management and other personnel, and the ability to recruit new, professional employees in the future. Possible legal and illegal strikes in HKScan's value chain, as well as in the Group's own production, can cause business risks. The risks can be diminished through the development of collaboration and the related practices as well as work wellbeing. Additionally, the risks can be mitigated through alternative supply chain structures and processes.

Environment

The focus areas of HKScan's environmental work include reducing climate impacts and improving material efficiency. The company measures its environmental impacts, and the results are reported as part of the 2019 Annual Report. No significant investments to improve environmental efficiency were made during the year, due to the company's focus on improving profitability and stabilizing its financial position. The efficiency and impact of environmental work are assessed through internal and external ISO 14001 or ISO 50001 audits.

A significant share of the environmental impacts of meat products originate at farms. HKScan's contract producers and its own farms in Estonia have engaged in significant environmental work for years. To understand and to reduce the climate impacts (CO2 equivalent) of meat production, HKScan's Finnish functions joined forces with VTT Technical Research Centre Finland in the development of a tool to calculate the climate impacts of Omega-3 pork production; the tool also takes the unique, farm-specific factors into account in the calculation. The tool is being developed to also measure the climate impacts of other species-specific production. To manage and mitigate the environmental impacts of farms, HKScan launched development projects in Finland (Agrofood Ecosystem) and in Sweden (Halla Gård project). The results of these projects will be reported as the work progresses.

Environment -related risks and their management

The environmental risks of HKScan production plants have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. Some of the production plants use also the ISO 50001 environment and energy-efficiency system. Identified environmental risks are risks related to wastewater or chemical leaks; these risks are managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

Animal health and welfare

The foundation for animal health and welfare is compliance with EU and local legislation, and guidelines and practices that are stricter than legislated requirements. Improving animal welfare is an ongoing activity in collaboration with the company's contract producers and other collaboration partners. Healthy and well-bred animals produce high-quality meat raw material and ensure profitable animal production. For HKScan, animal health and welfare means good animal genetics, nutritionally correct feeding, good rearing conditions and care, and proper animal transportation and slaughterhouse operations.

HKScan continuously develops animal production together with its contract producers and takes into consideration the natural behaviour of the animals, ensures good handling and rearing conditions for the animals, and creates an excellent level of biosecurity. HKScan has defined internal animal health and welfare KPIs. The monitoring is systematic, and any deviations are addressed immediately. In HKScan's production, the use of antibiotics is limited to the treatment of illnesses. Some of the production is already realized through healthy animals that have never had to be treated in their entire lifetime. Examples of this are the Omega-3 pork production and poultry production in Finland. Significant work has also been done to reduce the use of antibiotics in poultry production in Estonia and Denmark.

Animal health and welfare-related risks and their management

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Animal disease risks are mitigated by continuously monitoring an animal disease situation and by collaborating with authorities, veterinarians, and HKScan's producer services and animal producers. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes. At the farm level, biosecurity and high hygiene standards and procedures are followed.

An outbreak of possible animal disease such as African swine fever, avian influenza, Newcastle disease or foot-and-mouth disease may affect the company's business and demand for its products. For example, export bans between countries may be possible. Animal diseases may have a long-term impact on consumer behaviour. The animal disease risk may even out by a possible shift in consumption to another category of meat products. In a fully integrated value chain, such as is the case with most of the company's Baltic operations, an animal disease may in the worst case scenario temporarily sever the availability of raw materials if no substitute raw material source exists.

Human rights and prevention of corruption and bribery

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 United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. HKScan has zero tolerance for corruption and bribery.

In 2018 HKScan updated its Code of Conduct, which covers human rights, employee rights, ethical business principles, such as the prevention of corruption and bribery, open and credible communications, and responsibility for the environment, animals and product safety. The Code of Conduct was communicated to personnel in all of the company's operating countries, but the additional training was moved from 2019 to 2020 because of the rollout of the organizational changes. The aim of the additional training is to give the personnel with more specific guidelines on the compliance with human rights principles and on the zero tolerance for corruption-related measures. HKScan has so far not implemented human rights impact assessments or similar human rights reviews in its operations.

HKScan expects all its suppliers to sign and commit to its Supplier Guidelines, which cover, e.g., the suppliers' commitment not to pay or accept bribes or other improper benefits or gifts, and a commitment to follow human rights principles.

HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activity related to HKScan's operations. This pertains to suspected violations of laws and regulations as well as non-compliance with HKScan's Code of Conduct and other policies. In 2019, 11 reports of possible non-compliance or regulation violations were made via the Fair Way channel. All reports were investigated. In addition, the unresolved cases from 2018 were handled and closed. No cases of non-compliance or regulation violations were found in any of the reported and investigated cases for either year. Three cases lead to the improvement of HKScan's Code of Conduct. The main emphasis in the reports was on suspected improper behaviour.

Risks related to respect for human rights and corruption or bribery

HKScan's risk management has identified risks related to human rights in work safety management and in inappropriate treatment of employees. Work safety risks are managed through work safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the sourcing process risk assessment.

HKScan's Code of Conduct describes the company's principles related to corruption and bribery, and the realization of these principles is monitored in internal audits. Corruption-related risks in the supply chain are managed in the sourcing process risk assessment.

KPIs and targets of HKScan’s Corporate Responsibility work

CR FOCUS AREAS		KPI - Result reported in Annual Report 2019	Corporate targets
Animal welfare*		<ul style="list-style-type: none"> Internal animal health and welfare KPI's for pigs, broiler, cattle, lamb 	<ul style="list-style-type: none"> Increase in natural behaviour Continuous development in biosecurity Mitigation of painful procedures
Our community	Producers*		<ul style="list-style-type: none"> Increase producer welfare and competence Motivate next generation producers to become farmers Improve sustainable development in farming via new operating models
	Employees	<ul style="list-style-type: none"> Absentee rate (%) Lost Time Injury (LTI) frequency rate 	<ul style="list-style-type: none"> Continuous positive development in employee wellbeing Continuous positive development in absentee rate Systematic work towards zero accidents
Environment*		Climate impact, reduction in <ul style="list-style-type: none"> GHG emissions Energy usage Water usage 	Mitigation of environmental impacts <ul style="list-style-type: none"> 90% reduction by 2030 20% energy use reduction by 2030 25% water use reduction by 2030
		Material efficiency, improvement in <ul style="list-style-type: none"> Packaging Waste Whole raw material use (carcass) 	<ul style="list-style-type: none"> Development towards more sustainable packaging materials and solutions Follow waste hierarchy principles Efficient use of animal raw material (carcass) - circular economy approach
Sustainable and healthy food*		<ul style="list-style-type: none"> Healthy food: Percentage of product launches with health aspects 	<ul style="list-style-type: none"> Enhance positive impact on nutrition and public health via healthy food solutions Increase awareness in healthy diet solutions
		Safe food: <ul style="list-style-type: none"> Certified sites Number of recalls 	<ul style="list-style-type: none"> 100% certified sites, food safety management systems Zero recalls
		Responsible and ethical sourcing: <ul style="list-style-type: none"> Purchase of responsible soy Animal sourcing: % local, live animals Percentages of purchases (other materials and services) from local markets Animal sourcing (live animals): % of purchases according to animal sourcing practices Percentage of purchased volume from suppliers compliant with HKScan's Supplier Guidelines and sourcing practices 	<ul style="list-style-type: none"> Positive local economy impact Avoid ethical risks
ALL	Compliance	<ul style="list-style-type: none"> No non-compliances in CR focus areas 	<ul style="list-style-type: none"> Accordance with laws and regulations

*Operative plan and measurement will be defined 2020.

Key figures

Financial indicators	2019	2018	2017	2016	2015
Net sales, EUR million	1,744.4	1,715.4	1,808.1	1,872.9	1,917.1
Operating profit/loss (EBIT), EUR million**	-23.2	-48.3	-40.3	9.7	9.6
% of net sales**	-1.3	-2.8	-2.2	0.5	0.5
Comparable operating profit/loss, EUR million**	-2.2	-46.3	-17.6	13.2	21.5
% of net sales**	-0.1	-2.7	-1.0	0.7	1.1
Profit/loss before taxes, EUR million**	-34.5	-58.5	-45.5	0.9	2.2
% of net sales**	-2.0	-3.4	-2.5	0.0	0.1
Return on equity (ROE), %**	-11.5	-15.2	-10.4	-0.9	0.4
Return on capital employed before taxes (ROCE), %**	-3.1	-6.7	-6.3	2.1	2.3
Equity ratio, %**	34.8	33.3	36.9	47.9	50.9
Net gearing ratio, %**	84.8	103.3	59.3	33.5	33.8
Gross capital expenditure on PPE, EUR million	31.7	41.0	125.5	97.6	49.6
Additions in right-of-use assets, EUR million**	11.3	11.2	-	-	-
Investments total, EUR million**	43.0	52.2	125.5	97.6	49.6
% of net sales**	2.5	3.0	6.9	5.2	2.6
R&D expenses, EUR million	5.8	8.6	6.5	6.6	5.1
% of net sales	0.3	0.5	0.4	0.4	0.3
Employees, average	6,928	7,179	7,292	7,319	7,437

Per share data	2019	2018	2017	2016	2015
Earnings per share (EPS), undiluted, EUR**	-0.52	-1.00	-0.79	-0.10	0.01
Earnings per share (EPS), diluted, EUR**	-0.52	-1.00	-0.79	-0.10	0.01
Comparable earnings per share, EUR**	-0.26	-0.96	-0.37	-0.03	0.23
Equity per share, EUR**	3.18	5.73	6.23	7.31	7.63
Dividend paid per share, EUR	0.00*	0.00	0.09	0.16	0.14
Dividend payout ratio, undiluted, %	0.0*	0.0	-11.4	-160.4	2,378.9
Dividend payout ratio, diluted, %	0.0*	0.0	-11.4	-160.4	2,378.9
Effective dividend yield, %	0.0*	0.0	2.9	5.0	3.7
Price-to-earnings ratio (P/E)					
undiluted**	-5.3	-1.4	-4.0	-32.0	647.4
diluted**	-5.3	-1.4	-4.0	-32.0	647.4
Lowest trading price, EUR	1.48	1.29	2.96	2.89	3.24
Highest trading price, EUR	2.88	3.23	3.60	3.89	6.26
Middle price during the period, EUR	2.05	2.40	3.24	3.19	5.07
Share price at the end of the year, EUR	2.76	1.42	3.13	3.19	3.81
Market capitalisation, EUR million	267.6	76.7	169.1	172.3	205.6
Trading volume (1 000)	26,948	11,400	10,426	13,313	17,321
% of the average volume	33.7	21.1	19.3	24.7	32.1
Adjusted number of outstanding shares (1 000)					
average during financial period	79,943	54,030	54,018	54,006	53,973
at the end of financial period	96,952	54,034	54,018	54,018	53,973
fully diluted	96,952	54,034	54,018	54,018	53,973

* Based on the Board of Directors' proposal.

** Years 2015-2017 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.

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

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

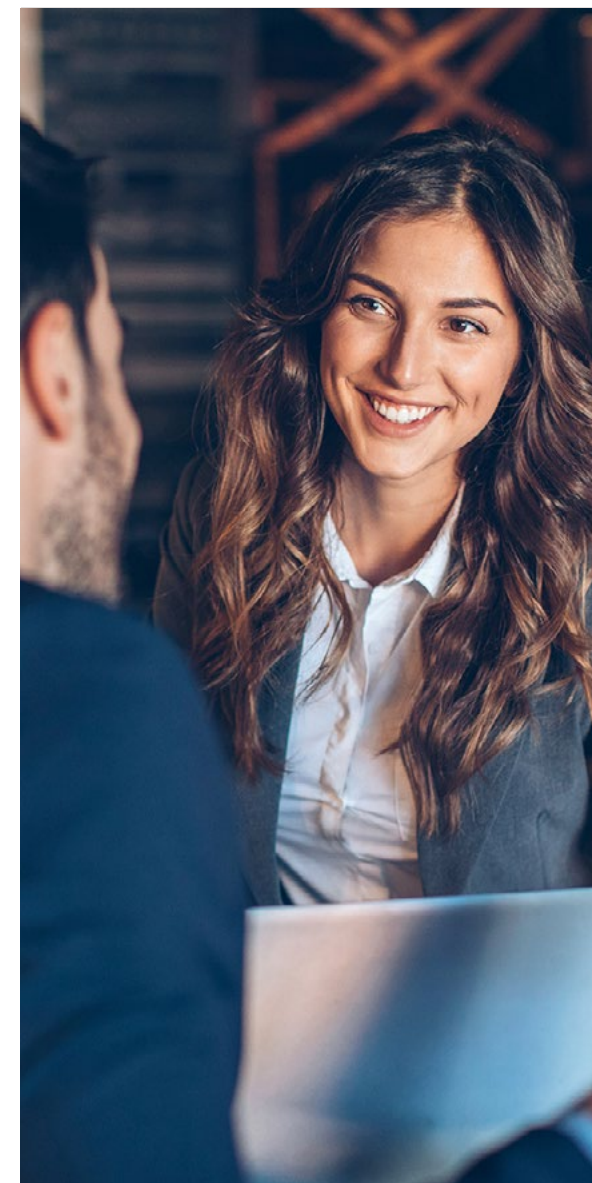
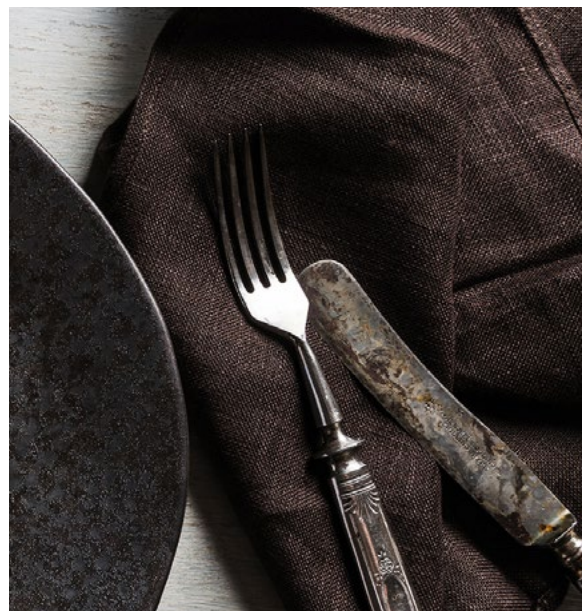
Effective dividend yield (%)	$\frac{\text{Dividend per share}}{\text{Closing price on the last trading day of the financial year}} \times 100$
P/E ratio	$\frac{\text{Closing price on the last trading day of the financial year}}{\text{Earnings per share}}$
Market capitalization	The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year
Cash flow before debt service	Cash flow after investment activities - financial items
Employee numbers	Average of workforce figures calculated at the end of calendar months
Items affecting comparability	One-time charges, which are not related to the normal continuing operations and materially affect 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.
Comparable EBIT	Operating profit - items affecting comparability
Comparable earnings per share*	$\frac{\text{Profit for the period attributable to equity holders of the parent - items affecting comparability}}{\text{Average number of outstanding shares during period}}$
Interest-bearing net debt	Interest-bearing debt - cash and bank

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

Financial Statement

Financial Statement

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Consolidated income statement for 1 January - 31 December

(EUR million)	Note	2019	2018
Net sales	1.	1,744.4	1,715.4
Other operating income	2.	8.8	8.4
Materials and services	3.	-1,211.3	-1,211.2
Employee benefits expenses	4.	-313.7	-316.7
Depreciation and amortisation	5.,13.	-80.4	-67.3
Other operating expenses	6.	-171.0	-176.9
EBIT		-23.2	-48.3
Financial income	7.	2.2	2.0
Financial expenses	7.,13.	-13.9	-13.3
Share of associates' and joint ventures' results		0.4	1.1
Profit/loss before taxes		-34.5	-58.5
Income tax	8.	-3.0	7.2
Profit/loss for the period		-37.5	-51.3
Profit/loss for the period attributable to:			
Equity holders of the parent		-39.9	-53.0
Non-controlling interests		2.3	1.7
Total		-37.5	-51.3
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-0.52	-1.00
EPS, diluted, continuing operations, EUR/share	9.	-0.52	-1.00

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

Consolidated statement of comprehensive income 1 January - 31 December

(EUR million)	2019	2018
Profit/loss for the period	-37.5	-51.3
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	-1.6	-4.0
Cash flow hedging	-4.2	4.2
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-4.2	-6.9
Total other comprehensive income	-10.0	-6.7
Total comprehensive income for the period	-47.5	-58.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	-49.8	-59.7
Non-controlling interests	2.3	1.7
Total	-47.5	-58.0

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

Consolidated balance sheet on 31 December

(EUR million)	Note	31 Dec. 2019	31 Dec. 2018
Intangible assets	10.	65.8	66.3
Goodwill	11.	70.7	71.2
Tangible assets	12.,13.	439.1	478.5
Shares in associates and joint ventures	14.	20.8	21.1
Other receivables	15.	3.5	2.5
Other shares and holdings	15.	11.7	11.9
Deferred tax asset	16.	43.4	43.3
Non-current assets		654.9	694.8
Inventories	17.	115.5	121.4
Trade receivables	18.	111.3	115.2
Other receivables	18.	16.2	15.5
Income tax receivable	18.	0.2	0.2
Cash and bank	19.	37.5	29.4
Current assets		280.6	281.7
Assets		935.6	976.5
Share capital	20.	66.8	66.8
Share premium reserve	20.	72.9	72.9
Treasury shares	20.	-4.8	0.0
Hybrid loan	20.	25.9	40.0
Fair value reserve and other reserves	20.	226.7	158.9
Translation differences	20.	-13.4	-11.9
Retained earnings	20.	-66.2	-17.2

Equity attributable to equity holders of the parent		307.9	309.5
Non-controlling interests		17.2	15.4
Equity		325.1	325.0
Deferred tax liability	16.	16.6	16.9
Non-current interest-bearing liabilities	13.,23.	262.7	278.3
Non-current non-interest-bearing liabilities	23.	3.1	3.5
Non-current provisions	22.	6.2	7.0
Pension obligations	21.	41.1	36.0
Non-current liabilities		329.8	341.7
Current interest-bearing liabilities	13.,23.	50.6	86.9
Trade and other payables	23.	222.0	215.5
Refund liabilities	23.	6.3	6.7
Income tax liability	23.	0.1	0.1
Current provisions	22.	1.7	0.7
Current liabilities		280.7	309.9
Equity and liabilities		935.6	976.5

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

Consolidated cash flow statement

(EUR million)	2019	2018
Profit/Loss for the period	-37.5	-51.3
Adjustments	95.8	70.6
Cash flow before change in net working capital	58.3	19.3
Change in net working capital	1.1	-26.4
Other changes	12.1	3.7
Interest paid	-13.0	-12.3
Other financial expenses paid	-6.5	-5.4
Interest received	1.7	1.7
Other financial income received	6.2	3.8
Dividends received	1.0	3.5
Income taxes paid	-1.6	-2.1
Cash flow from operating activities (A)	59.2	-14.3
Total investments	-31.8	-92.2
Total sales of assets	0.6	2.3
Acquisition of subsidiary, net of cash acquired	0.0	-
Loan receivables, borrowings and repayments	-0.4	0.1
Cash flow from investing activities (B)	-31.6	-89.8

Share issue	43.7	-
Share issue costs	-3.0	-
Purchase of own shares	-4.7	-
Hybrid loan	-2.1	39.8
Proceeds from external borrowings	74.3	136.5
Repayment of external borrowings	-114.7	-77.1
Payment of lease liabilities	-11.6	-11.1
Dividends paid	-0.6	-5.5
Cash flow from financing activities (C)	-18.8	82.6
Net cash flow (A+B+C)	8.9	-21.5
Cash and cash equivalents, end balance	37.5	29.4
Cash and cash equivalents, opening balance	29.4	50.9
Effect of changes in exchange rates	-0.8	0.1
Change	8.9	-21.5

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. 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
EQUITY ON 31 Dec. 2019	66.8	72.9	1.0	215.4	25.9	10.3	-13.4	-4.8	-66.2	307.9	17.2	325.1
EQUITY ON 1 Jan. 2018	66.8	72.9	1.0	143.5	0.0	10.3	-7.9	0.0	48.6	335.1	14.4	349.5
IFRS9 Change in opening balance	-	-	-	-	-	-	-	-	-1.0	-1.0	-	-1.0
Result for the financial period	-	-	-	-	-	-	-	-	-53.0	-53.0	1.7	-51.3
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-0.1	-	-	-	-4.0	-	-	-4.0	-	-4.0
Cash flow hedging	-	-	4.2	-	-	-	-	-	-	4.2	-	4.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-6.9	-6.9	-	-6.9
Total comprehensive income for the period	-	-	4.2	-	-	-	-4.0	-	-59.9	-59.7	1.7	-58.0
Direct recognitions	-	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Dividend distribution	-	-	-	-	-	-	-	-	-4.9	-4.9	-0.6	-5.5
Hybrid loan, issue	-	-	-	-	40.0	-	-	-	-0.2	39.8	-	39.8
EQUITY ON 31 Dec. 2018	66.8	72.9	5.1	143.5	40.0	10.3	-11.9	0.0	-17.2	309.5	15.4	325.0

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

Notes to the financial statements for 2019

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 5 February 2020. 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 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 2019. '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 2018 except for the adoption of new standards.

New and amended standards adopted by the group

The Group applies for the first time with full retrospective method the new IFRS 16 standard that is effective as of 1 January 2019. Comparative information is restated. According to IFRS 16 lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. Less than 12 months agreements and assets of low value are excluded by the Group. Detailed information about the accounting principle is described in chapter "Leases". Disclosures required by standard are reported in note 13.

Balance sheet (extract)

(EUR million)	31 Dec. 2019 (IAS 17)	IFRS 16	31 Dec. 2019 as presented	31 Dec 2018 as originally presented	IFRS 16	31 Dec. 2018 restated	1 Jan 2018 as originally presented	IFRS 16	1 Jan. 2018 restated
Non-current assets									
Tangible assets	371.5	44.3	415.9	403.5	46.1	449.6	422.2	46.2	468.5
Deferred tax assets	43.0	0.4	43.4	42.9	0.4	43.3	33.2	0.4	33.5
Non-current liabilities									
Non-current interest-bearing liabilities	226.3	36.5	262.7	242.0	36.3	278.3	245.1	36.4	281.6
Lease liabilities	0.0	36.5	36.5	0.5	36.3	36.8	1.3	36.4	37.7
Current liabilities									
Current interest-bearing liabilities	40.8	9.8	50.6	77.0	9.9	86.9	14.1	9.5	23.5
Lease liabilities	0.0	9.8	9.8	0.0	9.9	9.9	0.0	9.5	9.5
Retained earnings	309.5	-1.5	307.9	311.2	-1.6	309.5	336.6	-1.5	335.1

Income statement (extract)

(EUR million)	2019 (IAS 17)	IFRS 16	2019 as presented	2018 as originally presented	IFRS 16	2018 restated
Depreciation and amortisation	-69.0	-11.4	-80.4	-56.7	-10.6	-67.3
Other operating expenses	-184.0	12.9	-171.0	-188.6	11.7	-176.9
EBIT	-24.7	1.5	-23.2	-49.5	1.2	-48.3
Financial expenses	-12.5	-1.4	-13.9	-11.9	-1.4	-13.3
Profit/loss before taxes	-34.6	0.1	-34.5	-58.3	-0.2	-58.5
Income tax	-3.0	0.0	-3.0	7.1	0.0	7.2
Profit/loss for the period	-37.6	0.1	-37.5	-51.2	-0.1	-51.3

Cash flow statement (extract)

(EUR million)	31. Dec. 2019 (IAS 17)	IFRS 16	31. Dec. 2019 as presented	31. Dec. 2018 as originally presented	IFRS 16	31. Dec. 2018 restated
Cash flow before change in net working capital	45.3	12.9	58.3	7.6	11.7	19.3
Interest paid	-11.5	-1.4	-13.0	-11.0	-1.4	-12.3
Cash flow from operating activities (A)	47.7	11.5	59.2	-24.6	10.4	-14.3
Lease payments	-0.1	-11.5	-11.6	-0.7	-10.4	-11.1
Cash flow from financing activities (C)	-7.3	-11.5	-18.8	92.9	-10.4	82.6
Net cash flow (A+B+C)	8.9	0.0	8.9	-21.5	0.0	-21.5

The change had no impact to earnings per share or diluted earnings per share.

Comparability with previous years

The years 2019 and 2018 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 staggered 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 2018 - 2019 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 book-keeping 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 20. '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 2019	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group administration	Eliminations	Un-allocated	Group total
Income statement information									
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
Result for the period									-37.5
Balance sheet information									
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
Total assets	262.8	422.9	58.8	142.0	886.6	58.0	-67.9	58.8	935.6
Segment liabilities	129.5	124.8	20.7	24.4	299.5	18.5	-5.7	-	312.2
Unallocated liabilities	-	-	-	-	-	-	-	298.2	298.2
Total liabilities	129.5	124.8	20.7	24.4	299.5	18.5	-5.7	298.2	610.5

Other information

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	-2.9	-	-	-68.6
Impairment	0.0	-7.3	-4.5	0.0	-11.8	-	-	-	-11.8
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

Cash flow before debt service reconciliation Group total

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
Cash flow before debt service									38.7

Year 2018	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group administration	Eliminations	Un-allocated	Group total
Income statement information									
Net sales	682.1	721.9	149.3	162.1	1,715.4	-	-	-	1,715.4
EBIT	8.9	-36.1	-5.8	-0.7	-33.6	-14.7	-	-	-48.3
Share of associates' results	0.0	0.4	0.6	-	1.1	-	-	-	1.1
Financial income and expenses								-11.2	-11.2
Income taxes								7.2	7.2
Result for the period									-51.3

Year 2018	Swedish operations	Finnish operations	Danish operations	Baltic operations	Business segments, total	Group administration	Eliminations	Un-allocated	Group total
Balance sheet information									
Segment assets	261.9	425.3	62.3	143.6	893.1	45.5	-41.0	-	897.6
Shares in associates	3.4	13.2	3.6	-	20.2	1.0	-	-	21.1
Unallocated assets	-	-	-	-	-	-	-	57.9	57.9
Total assets	265.3	438.5	65.9	143.6	913.3	46.4	-41.0	57.9	976.5
Segment liabilities	124.9	121.6	19.8	25.8	292.2	19.5	-7.5	-	304.2
Unallocated liabilities	-	-	-	-	-	-	-	347.4	347.4
Total liabilities	124.9	121.6	19.8	25.8	292.2	19.5	-7.5	347.4	651.6
Other information									
Sales, goods	681.9	718.4	149.3	161.9	1,711.5	-	-	-	1,711.5
Sales, services	0.1	3.5	-	0.3	3.9	-	-	-	3.9
Investments	8.1	25.6	3.0	11.3	48.1	4.1	-	-	52.2
Depreciation and amortisation	-12.8	-33.0	-8.9	-10.5	-65.2	-1.6	-	-	-66.8
Impairment	-	-0.5	-	-	-0.5	-	-	-	-0.5
Goodwill	29.2	19.8	-	22.2	71.2	-	-	-	71.2
Cash flow before debt service	5.2	-86.4	0.8	2.1	-78.2	-17.2	-	-	-95.4
Cash flow before debt service reconciliation to Group total									
Cash flow from operating activities									-14.3
Financial items (-)									8.8
Cash flow from investing activities									-89.8
Loan receivables Borrowings and repayments (-)									-0.1
Cash flow before debt service									-95.4

2. Other operating income

	2019	2018
Rental income	1.5	1.3
Gain on disposal of non-current assets	0.3	0.8
Exchange rate gains related to foreign exchange derivatives	0.9	0.8
Insurance compensation	0.0	0.1
Government grants	-	0.0
Other operating income	6.1	5.5
Other operating income	8.8	8.4

3. Materials and services

	2019	2018
Purchases during the financial period	-1,041.3	-1,067.2
Increase/decrease in inventories	-18.3	8.1
Work performed for own use and capitalised	0.0	0.0
Materials and supplies	-1,059.5	-1,059.1
External services	-151.7	-152.1
Materials and services	-1,211.3	-1,211.2

4. Employee benefit expenses

	2019	2018
Salaries and fees	-242.4	-245.9
Share-based payments	-1.0	0.0
Pension expenses, defined contribution plans	-27.5	-27.2
Pension expenses, defined benefit plans	-2.4	-2.2
Total pension expenses	-29.8	-29.5
Other social expenses	-40.4	-41.3
Employee benefit expenses	-313.7	-316.7
Key management personnel compensation:		
Short-term employee benefits	-3.7	-3.3
Post-employment benefits	-0.4	-0.5
Termination benefits	-1.7	-1.1
Share-based payments	-	0.0
Key management salaries, fees and benefits	-5.8	-4.9
Average number of employees during financial year		
Clerical employees	1,181	1,264
Workers	5,747	5,915
Total	6,928	7,179

Members of Board of Directors:	Salaries and fees	Post-employment benefits
Reijo Kiskola, Chairman	0.108	-
Jari Mäkilä, Debuty Chairman, starting from 30.1.2019	0.060	-
Per Olof Nyman	0.049	-
Harri Suutari, starting from 30.1.2019	0.048	-
Terhi Tuomi, starting from 30.1.2019	0.044	-
Anne Leskelä, starting from 11.4.2019	0.036	-
Carl-Peter Thorwid	0.031	-
Ilkka Uusitalo, starting from 30.1.2019	0.031	-
Total	0.407	-
CEO		
Reijo Kiskola and Tero Hemmilä	0.837	0.123

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. 2018 - 31 Dec. 2018

Instrument	PSP 2019-2021 (2 tranche)	RSP 2019-2021 (2 tranche)	PSP 2019-2021 (1 tranche)	RSP 2019-2021 (1 tranche)	PSP 2018-2020	RSP 2018-2020	TOT/WA
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	3.3	3.3	2.3	2.3	1.3	1.3	2.3
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	20	8	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	
Changes during the period 2019							
	PSP 2019-2021 (2 tranche)	RSP 2019-2021 (2 tranche)	PSP 2019-2021 (1 tranche)	RSP 2019-2021 (1 tranche)	PSP 2018-2020	RSP 2018-2020	Total
1 Jan. 2019							
Outstanding at the beginning of the reporting period, pcs	0	0	0	0	718,100	33,600	751,700
Changes during the period							
Granted	661,100	440,750	661,100	440,750	628,600	38,000	2,870,300
Forfeited	0	0	0	0	458,292	30,000	488,292
Exercised	0	0	0	0	0	0	0
Expired	0	0	0	0	296,136	0	296,136
31 Dec. 2019							
Outstanding at the end of the period	661,100	440,750	661,100	440,750	592,272	41,600	2,837,572

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	1.67
Share price at reporting period end, euros	2.76
Maturity, years	2.9
Expected dividends, euros	0.00
Fair value at grant, euros	4,454,123
Fair value 31 Dec. 2017, euros	4,159,208

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

Expenses for the financial year, share-based payments, euros	1,037,016
Expenses for the financial year, share-based payments, equity-settled, euros	964,376
Liabilities arising from share-based payments 31 Dec. 2018, euros	72,640
Estimated amount of cash to be paid to the tax authorities under the plans which have not yet been delivered	3,801,616

5. Depreciation and impairment

	2019	2018
Depreciation according to plan	-55.8	-56.0
Depreciation expense of right-of-use assets	-11.4	-10.8
Impairment	-13.1	-0.5
Total	-80.4	-67.3

6. Other operating expenses

	2019	2018
Rents/leases	-2.0	-2.0
Losses on disposal of non-current assets	0.0	-0.1
R&D costs	-5.8	-8.6
Non-statutory staff costs	-10.1	-11.4
Energy	-37.5	-38.5
Maintenance	-43.2	-41.3
Advertising, marketing and entertainment costs	-12.6	-18.3
Service, information management and office costs	-24.2	-27.4
Exchange rate losses related to foreign exchange derivatives	-1.1	-1.1
Other expenses	-34.4	-28.0
Total other operating expenses	-171.0	-176.9

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.

	2019	2018
Audit fees	-0.5	-0.5
Tax consultation	0.0	0.0
Other fees	-0.1	0.0
Audit fees, total	-0.6	-0.5

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total 82 thousand euros during the financial year 2019.

7. Financial income and expenses

Financial income	2019	2018
Dividend income	0.5	0.3
Interest income		
Interest income from loans and receivables	1.7	1.7
Other financial income	0.0	0.1
Total	2.2	2.0
Financial expenses		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-8.6	-8.2
Interest expenses from interest derivatives	-2.6	-3.2
Interest expenses from lease liabilities	-1.4	-1.4
Other financial expenses		
Change in fair value of interest rate derivatives	2.4	1.9
Other financial expenses	-3.5	-2.1
Exchange gains and losses from loans and other receivables	0.0	-1.3
Exchange gains and losses from derivative instruments	-0.2	1.0
Total	-13.9	-13.3
Total financial income and expenses	-11.7	-11.2

8. Income taxes

Income taxes	2019	2018
Income tax on ordinary operations	-1.7	-1.6
Tax for previous financial periods	0.1	0.0
Change in deferred tax liabilities and assets	-1.4	8.7
Income tax on ordinary operations	-3.0	7.2
Cumulative tax rate reconciliation		
Accounting profit/loss before taxes	-34.5	-58.5
Deferred tax at parent company's tax rate	6.9	11.7
Effect of different tax rates applied to foreign subsidiaries	0.4	-0.6
Share of associates' results	0.1	0.2
Tax-exempt income	0.1	0.1
Non-deductible expenses	-0.1	-0.4
Unrecognised tax on the losses for the financial period	-10.4	-4.3
Tax for previous financial periods	0.1	0.0
Adjustments concerning previous financial periods	0.0	0.0
Effect of change in tax rate	-	0.5
Tax expenses in the income statement	-3.0	7.2

9. Earnings per share

	2019	2018
Profit for the period attributable to equity holders of the parent	-39.9	-53.0
Hybrid loan issue costs and calculational interest	-2.0	-0.9
Total	-41.9	-54.0
Weighted average number of outstanding shares in thousands	79,943	54,030
Weighted average number of outstanding shares adjusted for dilution effect	79,943	54,030
Undiluted earnings per share (EUR/share)	-0.52	-1.00
Earnings per share adjusted for dilution effect (EUR/share)	-0.52	-1.00

Notes to the balance sheet

10. Intangible assets

	2019	2018
Opening balance, cumulative acq cost	96.5	96.5
Translation differences	-1.1	-2.4
Additions	0.7	0.1
Disposals	-0.1	-3.9
Reclassification between items	2.8	6.1
Closing balance, cumulative acq cost	98.9	96.5
Opening balance, cumulative depreciations	-30.2	-31.8
Translation differences	0.0	0.1
Accumulated depreciation on disposals and reclassifications	0.1	3.9
Depreciation for the financial period	-3.1	-2.4
Closing balance, cumulative depreciations	-33.2	-30.2
Intangible assets on 31 Dec.	65.8	66.3

The trademarks included in the Swedish business operations, carrying amount EUR 52.2 (53.2) 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

	2019	2018
Opening balance	71.2	72.4
Translation differences	-0.5	-1.2
Closing balance	70.7	71.2

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	2019	2018
Finland	19.8	19.8
Sweden	28.7	29.2
Denmark	-	-
Baltics	22.2	22.2
Total	70.7	71.2

In addition to goodwill, trademarks related to Swedish business operations, carrying amount EUR 52.2 (53.2) 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 interest rates used before taxes are 9.3 (6.6) per cent in Sweden, 8.5 (6.3) per cent in Finland, 10.1 (6.0) per cent in Denmark and 7.5 (6.5) 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 3 million in Denmark and EUR 6 million in the Baltics. If EBITDA in testing would be 10 % smaller, impairment loss amounting to EUR 17 million in Finland, EUR 10 million in Denmark and EUR 20 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 5.3, Finland 1.6, Denmark 0.1, the Baltics 0.6. Recoverable amounts in testing exceeded the assets values by EUR 65 million in Finland, EUR 1 million in Denmark and EUR 12 million in the Baltics.

The following table presents EBITDA used in testing.

	2016	2017	2018	2019	2020	2021	terminal
Sweden	24.6	19.5	22.1	24.9	29.5	34.6	34.6
Finland	39.2	11.8	-2.6	32.6	49.5	59.4	59.4
Denmark	-0.1	2.7	3.1	2.6	9.3	9.2	9.2
Baltics	15.2	14.0	9.8	15.7	18.8	18.8	18.8

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 impairment loss EUR 4.5 million in Denmark in first quarter of 2019. The impairment was done to buildings as the segment has no intangible assets. The annual impairment testing performed in 2019 did not result in recognition of impairment loss. The annual impairment testing performed in 2018 did not result in recognition of impairment loss.

12. Tangible assets

Tangible assets 2019	Land and water	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Pre-payments and work in progress	Total
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
Tangible assets on 31 Dec. 2019	10.5	197.9	163.8	2.9	19.6	394.7
Right-of-use assets (Note 13)	10.0	18.7	15.7	-	-	44.3
Tangible assets total on 31 Dec. 2019	20.5	216.6	179.5	2.9	19.6	439.1

Tangible assets 2018	Land and water	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Pre-payments and work in progress	Total
Opening balance, cumulative acq cost	10.6	524.3	720.0	18.2	29.9	1,303.1
Translation differences	-0.1	-3.5	-7.7	0.0	-0.4	-11.6
Additions	-	1.9	12.1	1.5	25.0	40.6
Disposals	-0.3	-0.3	-0.9	-0.5	-0.2	-2.2
Reclassification between items	0.4	3.6	19.3	0.2	-29.4	-5.9
Closing balance, cumulative acq cost	10.6	526.1	742.9	19.4	25.0	1,324.0
Opening balance, cumulative depreciations	0.0	-304.2	-528.0	-14.9	-	-847.1
Translation differences	-	2.9	6.0	0.0	-	8.9
Accumulated depreciation on disposals and reclassifications	-	0.3	0.6	-0.3	-	0.6
Depreciation for the financial period	-	-14.1	-38.4	-1.0	-	-53.6
Impairment losses	-	-	-0.4	-	-	-0.4
Closing balance, cumulative depreciations	0.0	-315.1	-560.2	-16.2	-	-891.6
Tangible assets on 31 Dec. 2018	10.6	211.0	182.7	3.2	25.0	432.4
Right-of-use assets (Note 13)	6.4	19.7	20.0	-	-	46.1
Tangible assets total on 31 Dec. 2018	17.0	230.7	202.7	3.2	25.0	478.5

Other property, plant and equipment include EUR 1.3 (1.4) 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 -2.0 (-2.0) million has been recognised in other operating expenses from short term and items of low value leases.

	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
Closing balance on 31 Dec. 2019	10.0	18.7	15.7	44.3	46.3
	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2018	6.5	18.0	21.7	46.2	47.2
Translation differences	-	-0.4	-0.2	-0.6	-0.6
Additions	1.0	5.8	4.4	11.2	11.2
Depreciation for the financial period	-1.1	-3.9	-5.8	-10.8	-
Payments	-	-	-	-	-11.1
Closing balance on 31 Dec. 2018	6.4	19.7	20.0	46.1	46.8
				2019	2018
Depreciation expense of right-of-use assets				-11.4	-10.8
Interest expense on lease liabilities				-1.4	-1.4
Total amounts recognised in profit or loss				-12.8	-12.2

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

14. Shares in associates and joint ventures

	2019	2018
Opening balance	21.1	22.5
Translation differences	-0.1	-0.2
Additions	0.0	1.0
Impairment losses	-0.2	-
Closing balance	20.9	23.3
Share of associates' and joint ventures' results	0.4	1.1
Dividend from associates and joint ventures	-0.5	-3.2
Shares in associates on 31 Dec.	20.8	21.1
Effect on the Group's earnings:		
Associates	-0.1	1.0
Joint ventures	0.5	0.1
Total	0.4	1.1
Book value in the Group's balance sheet:		
Associates	9.9	10.7
Joint ventures	10.9	10.4
Total	20.8	21.1

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 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
Assets as per balance sheet								
Non-current trade and other receivables	-	3.2	-	-	-	3.2	-	-
Other shares and holdings	-	-	11.7	-	-	11.7	11.7	3
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	-	-
Total	0.0	158.9	11.7	0.6	0.0	171.2	-	-

* 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.

Liabilities as per balance sheet								
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	-	-
Total	6.4	0.0	0.0	0.0	538.0	544.4	-	-

* 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.

Financial instruments by category 2018

	Assets and liabilities at fair value through profit and loss: classified as held for trading	Loans and receivables	Available-for-sale	Derivatives used for hedging	Other financial liabilities at amortised cost	Total	Fair value	Fair value hierarchy
Assets as per balance sheet								
Non-current trade and other receivables	-	2.5	-	-	-	2.5	-	-
Other shares and holdings	-	-	11.9	-	-	11.9	11.9	3
Trade and other receivables *	-	123.6	-	-	-	123.6	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	29.4	-	-	-	29.4	-	-
Total	0.1	155.5	11.9	0.0	0.0	167.5	-	-

* Trade and other receivables balance sheet amount of EUR 130.7 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 7.0 million euros.

Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	278.3	278.3	-	-
Non-current non-interest bearing liabilities	-	-	-	-	-0.1	-0.1	-	-
Current interest-bearing liabilities	-	-	-	-	86.9	86.9	-	-
Derivative financial instruments *	8.3	-	-	-5.3	-	3.1	3.1	2
Trade and other payables *	-	-	-	-	222.2	222.2	-	-
Total	8.3	0.0	0.0	-5.3	587.4	590.5	-	-

* Trade and other payables balance sheet amount of EUR 222.1 million euros includes derivative financial instruments amounting to EUR -0.4 million euros and advance payments that are not financial instruments amounting to EUR 0.4 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 counter-parties 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 123.5 million has a market value of EUR 116.7 million at the end of 2019.

16. Deferred tax assets and liabilities

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
Total	43.3	-0.1	-1.5	1.8	43.4

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
Total	16.9	-0.2	-0.1	0.0	16.6

Specification of deferred tax assets

	1 Jan. 2018	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2018
Pension benefits	5.7	-0.2	-0.2	1.8	7.1
Other timing differences	4.0	0.0	-0.1	-	3.9
Postponed tax depreciations	6.2	-	3.7	-	9.9
Non-deductible interest expense	3.0	-	1.5	-	4.5
Adopted losses	14.6	0.0	4.2	-	18.8
Arising from hedge accounting	0.0	0.0	-	-0.8	-0.9
Total	33.5	-0.3	9.1	1.0	43.3

Specification of deferred tax liabilities

	1 Jan. 2018	Translation difference	Recognised in income statement	Recognised in equity	31 Dec. 2018
Depreciation difference	2.4	-0.1	0.5	-	2.8
Other timing differences	1.7	0.0	-0.1	-0.2	1.4
Arising from consolidation	13.3	-0.5	-0.1	-	12.7
Total	17.4	-0.6	0.3	-0.2	16.9

EUR 35.1 million of the deferred tax asset arise from Group's operations in Finland and mostly from adopted losses, postponed depreciations and non-deductible interest expenses. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

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

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

In 2019, 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, respective million euros deferred tax asset was used and recognized as a tax expense in Q4 2019. Unrecognized Finnish deferred tax asset at the end of 2019 was EUR 11.6 million. The losses in taxation in Finland expire with the following schedule: EUR 3.2 million in 2022, EUR 28.4 million in 2023, EUR 10.2 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027, EUR 27.2 million in 2028 and EUR 11.0 million in 2029.

Deferred tax liability has not been recognized in respect of retained profits of subsidiaries, amounting to EUR 21.6 (20.8) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2019, the Group had EUR 29.1 (19.6) million of losses, of which no deferred tax receivable has been recognized.

17. Inventories

	2019	2018
Materials and supplies	59.3	75.8
Unfinished products	4.7	4.8
Finished products	41.8	33.4
Other inventories	0.2	0.2
Prepayments for inventories	1.9	1.7
Biological assets	7.5	5.4
Total inventories	115.5	121.4

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 2.3 (-0.7) million.

18. Trade and other current receivables

	2019	2018
Trade receivables from associates	1.3	2.4
Loan receivables from associates	-	0.2
Other receivables from associates	0.2	0.0
Current receivables from associates	1.5	2.6
Trade receivables	110.0	112.7
Loan receivables	0.0	0.0
Other receivables	5.0	6.2
Current receivables from others	115.0	119.0
Current derivative receivables	0.4	0.1
Interest receivables	1.8	2.1
Other prepayments and accrued income	8.7	7.0
Current prepayments and accrued income	10.5	9.1
Trade and other receivables	127.4	130.7
Tax receivables (income taxes)	0.2	0.2
Total current receivables	127.6	130.9

Age breakdown of trade receivables and items recognised as impairment losses

	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
Total	112.2		-1.0	111.3

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

	2018	Expected loss rate	Impairment losses	Net 2018
Unmatured	107.6	0,01 % - 0,1 %	-0.03	107.6
Matured:				
Under 30 days	6.4	0,01 % - 0,1 %	0.0	6.4
30-60 days	0.7	30 % - 35 %	-0.1	0.6
61-90 days	0.1	30 % - 35 %	0.0	0.1
over 90 days*	1.2	50 % - 55 %	-0.7	0.5
Total	116.0		-0.8	115.2

* 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.

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

	2019	2018
Opening loss allowance at 1 January	0.8	0.7
Receivables written off during the year as uncollectible	-2.4	-0.1
Allowance exceeded	1.6	0.0
Increase in loss allowance recognised in profit or loss during the year	1.0	0.8
Unused amount reversed	0.0	-0.6
Closing loss allowance at 31 December	1.0	0.8

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:

	2019	2018
Cash and bank	37.5	29.4
Short-term money market investments	-	-
Other financial instruments	-	-
Total cash and cash equivalents	37.5	29.4

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 (1 000)	Share capital (EUR million)	Share premium reserve (EUR million)	RIUE (EUR million)	Treasury shares (EUR million)	Total (EUR million)
1 Jan. 2018	54,018	66.8	72.9	143.5	0.0	283.1
31 Dec. 2018	54,034	66.8	72.9	143.5	0.0	283.1
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

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 of the financial year 2019, HKScan held 992 348 treasury A shares. During the year the company completed a directed share issue and in connection with the registration, the company cancelled the series A shares in possession of the company. Subsequently the company has acquired 2 000 000 own A shares at the market price quoted in trading organised by Nasdaq Helsinki Ltd on a regulated market at the time of acquisition. The shares were acquired with the company's distributable non-restricted equity. The total acquisition price for the shares was EUR 4.7 million. At the end of December 2019, the company held 2 000 000 A shares. At the end of the year, they had a market value of EUR 5.5 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 reserves

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	2019	2018
Fair value reserve and hedging instruments reserve on 1 Jan.	4.6	0.4
Amount recognised in equity in the financial period (effective portion), commodity derivatives	-4.5	4.6
Share of deferred tax asset of changes in period	0.3	-0.4
Fair value reserve and hedging instruments reserve on 31 Dec.	0.4	4.6

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR 3.6 (0.2) million from commodity derivatives.

Dividends

Dividend of EUR 0.00 (0.09) per share, totaling EUR 0.0 (4.9) million, was distributed in 2019. 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

	2019	2018
Pension liability/receivable in balance sheet		
Defined benefit plans	40.3	35.0
Other long-term employee benefits	0.8	1.0
Pension liability (+)/receivable (-) in balance sheet	41.1	36.0

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 2.6 million on 31 December 2019. 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 2020 is EUR 0.4 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.

Summary of provision for post-employment benefits, defined benefit plans	2019	2018
Obligations	-104.5	-101.5
Fair value of plan assets	74.3	75.7
Special pension tax	-7.3	-6.3
Net provision for funded post-employment benefits	-37.6	-32.2
Provision for unfunded post-employment benefits	-2.7	-2.8
Total provision for post-employment benefits, defined benefit plans	-40.4	-35.0

Pension costs in the income statement	2019	2018
Current year service costs	-1.2	-1.2
Interest costs	-2.3	-2.4
Interest income	1.6	1.9
Early retirement pensions	-0.1	-
Special pension tax	-0.4	-0.4
Pension costs for defined benefit plans	-2.4	-2.1
Pension costs for defined contribution plans	-27.5	-27.4
Total pension costs for the period	-29.8	-29.5

Pension costs in other comprehensive income	2019	2018
Changes in actuarial assumptions	-4.3	-6.5
Special pension tax	-1.0	-1.6
Income tax effect	1.1	1.2
Total pension costs in other comprehensive income after taxes	-4.2	-6.9

The following information is about the funded defined benefit plan the Group has in Sweden:

Obligations	2019	2018
Obligations opening balance	-101.5	-103.5
Current year service costs	-1.2	-1.2
Interest costs	-2.3	-2.4
Early retirements	-0.1	-
Remeasurements:		
Effect of changes in financial assumptions	-7.3	-3.5
Effect of experience adjustments	0.8	-0.5
Exchange rate translation	1.9	4.3
Benefits paid	5.1	5.3
Obligations closing balance	-104.5	-101.5
Fair value of plan assets	2019	2018
Plan assets opening balance	75.7	84.6
Interest income	1.6	1.9
Remeasurements (experience adjustments)	2.2	-2.5
Exchange rate translation	-1.4	-3.4
Settlement paid	-3.8	-4.9
Plan assets closing balance	74.3	75.7

Assumptions applied for actuarial calculations, %	2019	2018
Discount rate	1.40	2.20
Expected salary increase	2.00	2.25
Inflation	1.7	2.0
Personnel turnover rate	4	4
Life expectancy	DUS 14	DUS 14

Plan assets by category %	2019	2018
Interest funds	70	69
Equity instrument funds	30	31

Sensitivity analysis 2019, effect on obligation (+decrease/-increase), EUR million	Change	Used value	Change
Discount rate	-0.50%	1.40%	0.50%
	-7.0	-104.5	8.0
Salary increase	-0.50%	2.00%	0.50%
	1.8	-104.5	-0.2
Inflation	-0.50%	1.70%	0.50%
	7.3	-104.5	-6.1
Life expectancy	-1 year	DUS 14	1 year
	5.6	-104.5	-3.9

Average duration of the obligation is 14 years.

22. Provisions

	1 Jan. 2019	Translation difference	Increase in provisions	Exercised in financial period(-)	Reclassification between items	31 Dec. 2019
Non-current provisions	7.0	0.0	0.0	-0.1	-0.6	6.2
Current provisions	0.7	0.0	1.9	-1.6	0.6	1.7
Total	7.6	0.0	1.9	-1.7	0.0	7.9

	1 Jan. 2018	Translation difference	Increase in provisions	Exercised in financial period (-)	Reclassification between items	31 Dec. 2018
Non-current provisions	7.1	0.0	0.4	-0.5	-	7.0
Current provisions	2.1	0.0	0.3	-1.7	-	0.7
Total	9.2	-0.1	0.6	-2.1	0.0	7.6

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

	2019	2018
Non-current liabilities		
Interest-bearing		
Bond	123.5	132.2
Bank loans	94.2	98.0
Pension loans	8.6	9.6
Non-current lease liabilities	36.5	36.8
Other liabilities	-	1.6
Non-current interest-bearing liabilities	262.7	278.3
Non-interest-bearing		
Other liabilities	-0.1	-0.1
Derivatives	3.2	3.5
Non-current non-interest-bearing liabilities	3.1	3.5
Non-current provisions	6.2	7.0
Deferred tax liability	16.6	16.9
Pension obligations	41.1	36.0
Non-current liabilities	329.8	341.7
Current interest-bearing liabilities		
Bond	-	33.5
Commercial paper	34.9	35.5
Pension loans	2.1	3.2
Bank loans	3.6	3.6
Current lease liabilities	9.8	9.9
Other liabilities	0.2	1.2
Current interest-bearing liabilities	50.6	86.9

	2019	2018
Trade and other payables		
Advances received	0.3	0.4
Trade payables	128.1	136.4
Refund liabilities	6.3	6.7
Accruals and deferred income		
Short-term interest payable	2.0	1.9
Matched staff costs	55.8	54.1
Other short-term accruals and deferred income	22.8	12.7
Derivatives	3.2	-0.4
Other liabilities	9.7	10.3
Trade and other payables	228.3	222.2
Income tax liability	0.1	0.1
Current provisions	1.7	0.7
Current liabilities	280.7	309.9
Liabilities	610.5	651.6

Amounts of the Group's interest-bearing liabilities and their contractual re-pricing periods are as follows:

	31 Dec. 2019	31 Dec. 2018
Under 6 months	132.7	138.8
6-12 months	10.9	48.0
1-5 years	123.5	132.2
Over 5 years	0.0	0.0
Total	267.1	319.0

Interest-bearing net debt reconciliation

	2019	2018
Cash and cash equivalents	37.5	29.4
Liquid investments	0.0	0.2
Lease liabilities due within 1 year	-9.8	-9.9
Lease liabilities due after 1 year	-36.5	-36.8
Borrowings due within one year (including overdraft)	-40.8	-77.0
Borrowings due after one year	-226.3	-241.5
Interest-bearing net debt	-275.8	-335.6

Other assets**Liabilities from financing activities**

	Cash/bank over-draft	Liquid investments	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Interest-bearing net debt on 1 Jan 2018	50.9	0.2	-9.5	-37.7	-14.1	-243.8	-254.1
Cash flows	-21.4	-	10.4	0.7	-63.0	2.3	-71.0
Acquisitions - leases	-	-	-2.3	-8.9	-	-	-11.2
Reclassification between items - leases	-	-	-8.7	8.7	-	-	0.0
Foreign exchange adjustments	-	-	0.1	0.5	0.1	-	0.7
Net debt on 31 Dec 2018	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
Interest-bearing net debt on 31 Dec 2019	37.5	0.0	-9.8	-36.5	-40.8	-226.3	-275.8

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. 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	2019	2018
	Exposure	Exposure
SEK	89.2	91.9
PLN	5.0	8.6
DKK	-2.4	11.0

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:

	2019				2018			
	USD	NZD	SEK	JPY	USD	NZD	SEK	JPY
Net position before hedging	2.8	4.5	24.2	0.9	3.7	2.2	12.0	0.0
Hedging of balance sheet items	-0.6	-1.7	-10.2	-0.5	-0.7	-1.3	-10.8	0.0
Hedging of committed items	-0.5	-2.5	-12.1	-0.4	-2.7	-0.9	0.0	0.0
Open position	1.6	0.3	2.0	-0.1	0.3	0.0	1.2	0.0

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.

	2019				2018			
	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	0.1	0.0	0.2	0.0	0.0	0.0	0.1	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 17 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 an increase/decrease of one per cent in interest rates, all other things being equal, was approximately EUR 2.5 (1.7) million 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 412 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 255 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	2019	2018
Electricity - effect in income statement	+/- 0,2	+/- 0,3
Electricity - effect in equity (price + 10%)	0.2	-3.0
Electricity - effect in equity (price - 10%)	-0.6	-4.1

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 -2.4 (-0.2) 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 2019. Undrawn committed credit facilities on 31 December 2019 stood at EUR 100.0 (100.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 17.4 (19.9) 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 35.0 (35.5) million.

Similar to previous year, cash and cash equivalents were above the normal level amounting EUR 37.5 (29.4) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 3.3 (2.5) 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 45 million. With this increase the net gearing increased by some 14 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

2019

Credit type	Size	In use	Available
Overdraft facility	17.4	-	17.4
Committed credit limit	100.0	-	100.0
Total	117.4	-	117.4

2018

Credit type	Size	In use	Available
Overdraft facility	19.9	-	19.9
Committed credit limit	100.0	-	100.0
Total	119.9	-	119.9

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. 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	-	-	-	-	-	
Total	538.1	561.7	283.5	96.1	140.3	12.1	10.5	19.2	

31 Dec. 2018 Maturity of financial liabilities

Credit type	Balance sheet 31 Dec. 2018	Cashflows sum	Cashflows					
			2019	2020	2021	2022	2023	>2023
Bond	165.7	181.0	38.2	3.5	3.5	135.7	-	-
Bank loans	101.6	105.4	4.8	38.9	43.8	3.3	3.3	11.3
Pension loans	12.8	13.1	2.2	2.2	2.2	2.2	2.2	2.2
Commercial paper programme	35.5	35.5	35.5	-	-	-	-	-
Lease liabilities	46.7	52.8	11.2	9.7	7.3	6.4	3.9	14.3
Other borrowing	2.8	3.3	1.4	1.9	-	-	-	-
Trade and other payables	222.2	222.2	222.2	-	-	-	-	-
Total	587.3	613.4	315.6	56.2	56.9	147.6	9.4	27.8

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.

	2019	2019	2019	2018	2019	2018
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
Interest rate derivatives	-	-5.8	-5.8	-8.2	98.5	119.1
matured in 2019	-	-	-	-0.4	-	20.0
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-1.6	-1.6	-2.3	25.0	25.0
matures in 2022	-	-2.6	-2.6	-3.7	44.1	44.5
matures in 2023	-	-1.6	-1.6	-1.8	29.4	29.6
matures in >2023	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-
Foreign exchange derivatives	0.0	-0.4	-0.4	-0.1	56.7	40.0
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	1.0	-0.5	0.5	5.3	12.9	10.0
matured in 2019	-	-	-	3.6	-	4.9
matures in 2020	0.6	-0.4	0.2	1.3	5.9	2.4
matures in 2021	0.3	-0.1	0.2	0.3	4.1	1.5
matures in 2022	0.1	0.0	0.1	-	2.3	1.1
matures in 2023	0.0	0.0	0.0	-	0.6	-
of which defined as cash flow hedging instruments	1.0	-0.5	0.5	5.3	12.9	10.0

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 -4.2 (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 34.8 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 84.8 per cent. With IFRS 16 introduction from 1. January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 45 million. With this increase the net gearing increased some 14 percentage points.

Net gearing ratio

	2019	2018
Interest-bearing liabilities	313.3	365.2
Interest-bearing short-term receivables	0.0	0.2
Cash and bank	37.5	29.4
Interest-bearing net liabilities	275.8	335.6
Equity	325.1	325.0
Net gearing ratio	84.8%	103.3%

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.

Fair value hierarchy for financial assets and liabilities measured at fair value.
Fair values at end of reporting period.

	31 Dec. 2019	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.0	-	0.0	-
Commodity derivatives	1.0	-	1.0	-
of which subject to cash flow hedging	1.0	-	1.0	-
Total	1.0	0.0	1.0	0.0
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	-
Total	-6.7	0.0	-6.7	0.0

	31 Dec. 2018	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	0.1	-	0.1	-
Commodity derivatives	5.3	-	5.3	-
of which subject to cash flow hedging	5.3	-	5.3	-
Total	5.4	0.0	5.4	0.0
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading derivatives				
Interest rate swaps	-8.2	-	-8.2	-
Foreign exchange derivatives	-0.1	-	-0.1	-
Commodity derivatives	0.0	-	0.0	-
of which subject to cash flow hedging	0.0	-	0.0	-
Total	-8.3	0.0	-8.3	0.0

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	2019	2018
Loans secured by mortgages	-	-
On own behalf		
Mortgages given	-	-
Assets pledged	-	-
On behalf of others		
Guarantees	5.3	5.5
Other commitments	2.5	6.2
Leasing and rental commitments		
Leasing commitments maturing in less than a year	0.6	0.6
Leasing commitments maturing in 1-5 years	0.1	0.7
Leasing commitments maturing in over 5 years	0.0	0.0
Total	8.5	13.0

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. Today, LSO Osuuskunta has no actual business, but receives an income in the form of dividend paid by HKScan and, to a lesser extent, income in the form of other investments and rents. The HKScan Group applies pure market price principles to the acquisition of raw meat material.

Lot lease amounting to EUR 1.4 million in 2019 (EUR 1.2 million in 2018) has been paid by the Group to LSO. In addition, there are minor office services and funding between the Group and LSO. 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 14.7 million in 2019 (EUR 8.8 million in 2018). Said persons purchased animals from the Group with EUR 4.5 million in 2019 (EUR 2.6 million in 2018).

Information on employee benefits of the Management are presented in Note 4. More information on fees of the Board of Directors and the Management is available in the remuneration statement for 2019, which can be found on the Group's website.

Related party individuals are not otherwise in a material business relationship with the company.

Shares in subsidiaries	Owner %	Share of votes %
Konsernin emoyhtiön omistamat		
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
OOO HKScan, Russia**	100.00	100.00
Owned by HKScan Finland Oy		
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
Owned by AS HKScan Estonia		
Rakvere Farmid AS, Estonia	100.00	100.00
Owned by HKScan Sweden AB		
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
Owned by HKScan Real Estate AB		
HKScan Real Estate Halmstad AB, Sweden	100.00	100.00
Owned by HKScan Denmark A/S		
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 %
Owned by the Group's parent company		
Nordic Lotus Food Co. Ltd, China*	35.00	35.00
Owned by HKScan Finland Oy		
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	20.00	20.00
Owned by HKScan Sweden AB		
Industrislakt Syd AB, Sweden	50.00	50.00
Siljans Chark AB, Sweden	40.60	40.60
AB Tillväxt for svensk animalieproduktion, Sweden	25.00	25.00
Svenska Köttforetagen Holding AB, Sweden	23.52	23.52
Owned by HKScan Denmark A/S		
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

	2019	2018
Sales to associates	17.7	20.2
Sales of animals to related parties	4.5	2.6
Purchases from associates	35.5	32.5
Purchases of animals from related parties	14.7	8.8
Open balances on 31 December		
Trade and other receivables from associates	1.6	2.7
Trade and other payables to associates	3.0	3.3

28. Events after the reporting date

On 22 January 2020, HKScan announced its investment of approximately EUR 6 million in a new slaughter process in the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability and ensure the capacity required for the strongly growing demand. The investment will be carried out in stages at the end of 2020 to ensure the security of supply stabilised during 2019.

We will renew the whole first part of the poultry unit's production process in Rauma, as the original slaughter line introduced in 2017 does not meet the standards required by the Group's current management. With the investment, the processing capacity of the slaughter line will increase by approximately 20 per cent and raw material yield by approximately 10 per cent. The investment will enable us to better meet the strongly growing demand for poultry products.

The current slaughter line will be dismantled once the investment is completed. For this reason, HKScan has recorded a EUR -6.9 million write-down of the residual value of the current line balance sheet in the last quarter of 2019. The write-down had no impact on cash flow.

Parent company income statement for 1 January - 31 December

(EUR)	Note	2019	2018
Net sales		-	-
Other operating income	1.	32,151,344.79	21,998,196.77
Materials and services		-	-
Employee costs	2.	-16,712,272.38	-14,041,359.72
Depreciation and impairment	3.	-1,808,096.89	-527,975.49
Other operating expenses	4.	-22,258,392.91	-22,367,770.44
EBIT		-8,627,417.39	-14,938,908.88
Financial income and expenses	5.	-28,107.44	4,551,084.30
Profit/loss before appropriations and taxes		-8,655,524.83	-10,387,824.58
Appropriations	6.	14,729.00	-7,443.00
Income taxes	7.	-546,032.21	1,242,221.97
Profit/loss for the period		-9,186,828.04	-9,153,045.61

Parent company balance sheet 31 December

(EUR)	Note	2019	2018
ASSETS			
Intangible assets	8.	1,013,350.00	1,426,009.00
Tangible assets	8.	5,070,891.40	4,963,074.31
Financial assets	8.	448,675,293.11	448,695,032.22
Non-current assets		454,759,534.51	455,084,115.53
Non-current receivables	9.	274,958,632.30	267,130,260.72
Deferred tax asset	9.	11,246,159.82	11,757,958.74
Current receivables	10.	12,596,594.66	13,130,542.62
Cash and cash equivalents		32,618,562.79	19,353,845.69
Current assets		331,419,949.57	311,372,607.77
Assets		786,179,484.08	766,456,723.30
EQUITY AND LIABILITIES			
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	-38,612.12
Fair value reserve	11.	-	-
RIUE	11.	215,121,053.79	143,252,832.19
Other reserves	11.	4,899,963.05	4,882,017.78
Retained earnings	11.	72,899,758.94	82,052,804.55
Profit/loss for the period	11.	-9,186,828.04	-9,153,045.61
Equity		419,211,930.50	361,236,888.09

(EUR)	Note	2019	2018
Accumulated appropriations	12.	76,678.00	91,407.00
Provisions	13.	2,643,766.00	2,711,022.00
Deferred tax liability	14.	-	-
Non-current interest-bearing liabilities	14.	254,124,083.83	284,384,655.78
Non-current non-interest-bearing liabilities	14.	3,055,970.02	3,440,804.71
Current interest-bearing liabilities	15.	92,595,218.24	101,013,874.16
Current non-interest-bearing liabilities	15.	14,471,837.49	13,578,071.56
Liabilities		364,247,109.58	402,417,406.21
Equity and liabilities		786,179,484.08	766,456,723.30

Parent company cash flow statement

(EUR 1 000)	2019	2018
EBIT	-8,627	-14,939
Adjustments to EBIT	4,921	1,049
Depreciation and impairment	1,808	528
Change in provisions	-67	-69
Change in net working capital	1,447	-3,125
Interest income and expenses	2,321	5,645
Taxes	-34	-31
Cash flow from operating activities	1,769	-10,942
Purchases of shares in subsidiary	-85	-100,950
Purchase of other fixed assets	-1,657	-3,366
Disposals of other fixed assets	153	2,927
Repayments of loans receivable	-8,687	-16,459
Cash flow from investing activities	-10,276	-117,848
Cash flow before financing activities	-8,507	-128,790
Share issue	43,668	-
Share issue costs	-3,019	-
Proceed from external borrowings	74,300	136,540
Hybrid loan	-	39,751
Repayment of external borrowings	-88,453	-67,671
Dividends paid	-	-4,863
Purchase of own shares	-4,724	-
Cash flow from financing activities	21,772	103,757

(EUR 1 000)	2019	2018
Change in cash and cash equivalents	13,265	-25,033
Cash and cash equivalents on 1 Jan.	19,354	44,387
Cash and cash equivalents on 31 Dec.	32,619	19,354
CHANGE IN WORKING CAPITAL:		
Increase (-) / decrease (+) in current operating receivables	534	-1,474
Increase (+) / decrease (-) in current non-interest-bearing liabilities	913	-1,651
Total	1,447	-3,125

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 2019.

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

1. Other operating income, total

(EUR 1 000)	2019	2018
Other operating income	32,151	21,998
Other operating income, total	32,151	21,998

2. Staff costs

	2019	2018
Salaries and fees	-13,994	-11,833
Pension expenses	-2,479	-1,823
Other social expenses	-239	-386
Staff costs	-16,712	-14,041

Managing directors and their deputies	837	1,937
Members of the Board of Directors	409	360
Management salaries, fees and benefits	1,246	2,297
Employees, average	125	137

3. Depreciation and impairment

	2019	2018
Depreciation according to plan on non-current assets and goodwill	-485	-528
Impairment	-1,323	-
Total depreciation and impairment	-1,808	-528

4. Other operating expenses

	2019	2018
Rents/leases	-1,316	-1,492
Losses on disposal of fixed assets, tangible assets total	-105	-
Losses on disposal of non-current assets	-105	0
Audit fees, ordinary audit	-140	-84
Audit fees, other expert services	-98	-9
Audit fees	-238	-93
Non-statutory staff costs	-1,262	-2,485
Energy	-101	-95
Maintenance	-32	-39
Advertising, marketing and entertainment costs	-619	-1,355
Service, information management and office costs	-15,487	-14,068
Other expenses	-3,098	-2,741
Total other operating expenses	-22,258	-22,368

5. Financial income and expenses

	2019	2018
Financial income		
Income from units	0	0
Interest income from Group companies	14,248	15,582
Interest income from participating interests	1	3
Interest income from others	41	46
Interest income	14,290	15,631
Other financial income from others	3,300	4,139
Other financial income	3,300	4,139
Total financial income	17,590	19,770
Financial expenses		
Interest expenses payable to Group companies	-19	-
Interest expenses payable to others	-12,846	-9,060
Total other interest and financial expenses	-12,865	-9,060
Unrealised losses on fair value assessment	1,423	1,082
Other financial expense from Group companies	-	-1,342
Other financial expense from others	-6,176	-5,899
Other financial expense	-6,177	-7,241
Total financial expenses	-17,619	-15,219
Financial income and expenses, total	-29	4,551

6. Appropriations

	2019	2018
Increase (-) or decrease (+) in depreciation difference	15	-7
Total appropriations	15	-7

7. Direct taxes

	2019	2018
Change in deferred tax liabilities and assets	-512	1,273
Other direct taxes	-34	-31
Income tax on ordinary operations	-546	1,242

Notes to the parent company's balance sheet

8. Non-current assets

(EUR 1000)

Intangible assets 2019	Intellectual property rights	Other long-term expenditure	Total
Acquisition cost on 1 Jan.	3,881	661	4,542
Acquisition cost on 31 Dec.	3,881	661	4,542
Accumulated depreciation on 1 Jan.	-2,558	-558	-3,116
Depreciation for the financial period	-351	-62	-413
Accumulated depreciation on 31 Dec.	-2,909	-620	-3,529
Carrying amount on 31 Dec.	972	41	1,013

Intangible assets 2018	Intellectual property rights	Other long-term expenditure	Total
Acquisition cost on 1 Jan.	2,707	661	3,368
Decrease	-735	-	-735
Transfers between items	1,909	-	1,909
Acquisition cost on 31 Dec.	3,881	661	4,542
Accumulated depreciation on 1 Jan.	-2,226	-496	-2,722
Depreciation for the financial period	-332	-62	-394
Accumulated depreciation on 31 Dec.	-2,558	-558	-3,116
Carrying amount on 31 Dec.	1,323	103	1,426

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
Acquisition cost on 31 Dec.	1,166	381	5,005	6,552
Accumulated depreciation on 1 Jan.	-1,041	-367	0	-1,408
Depreciation for the financial period	-72	-	-	-72
Accumulated depreciation on 31 Dec.	-1,113	-367	0	-1,480
Carrying amount on 31 Dec.	53	14	5,005	5,072

Tangible assets 2018	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan.	1,166	381	5,572	7,119
Increase	-	-	1,176	1,176
Decrease	-14	-	-	-14
Transfers between items	-	-	-1,909	-1,909
Acquisition cost on 31 Dec.	1,152	381	4,839	6,372
Accumulated depreciation on 1 Jan.	-920	-367	0	-1,287
Depreciation for the financial period	-121	-	-	-121
Accumulated depreciation on 31 Dec.	-1,041	-367	0	-1,408
Carrying amount on 31 Dec.	111	14	4,839	4,964

Financial assets 2019	Holdings in Group companies	Holdings in associates	Receivables from associates	Other shares and holdings	Total
Acquisition cost on 1 Jan.	447,729	950	0	16	448,695
Increase	85	-	-	-	85
Impairment	-105	-	-	-	-105
Carrying amount on 31 Dec.	447,709	950	0	16	448,675

There is in China a joint venture company Nordic Lotus Co. Ltd owned by parent company. That company's equity was EUR 2.3 million in 2019 and profit/loss for the period was EUR -0.5 million. Owner% is 35 per cent.

Financial assets 2018	Holdings in Group companies	Holdings in associates	Receivables from associates	Other shares and holdings	Total
Acquisition cost on 1 Jan.	347,729	0	0	16	347,745
Increase	100,000	950	-	-	100,950
Carrying amount on 31 Dec.	447,729	950	0	16	448,695

Increase in 2018 amounting to EUR 100.0 million is an equity investment (RIUE) to a Finnish subsidiary.

Intangible assets	2019	2018
Intellectual property rights	972	1,323
Other long-term expenditure	41	103
Intangible assets	1,013	1,426
Tangible assets		
Machinery and equipment	53	110
Other tangible assets	14	14
Payments on account and tangible assets in the course of construction	5,005	4,839
Tangible assets	5,072	4,963
Financial assets		
Holdings in Group companies	447,709	447,729
Holdings in associates	950	950
Other shares and holdings	16	16
Financial assets	448,675	448,695
Total non-current assets	454,760	455,084

9. Non-current receivables

	2019	2018
Non-current loan receivables	484	794
Non-current Group loan receivables	274,475	266,174
Other receivables	-	32
Prepayments and accrued income	-	130
Total	274,959	267,130
Deferred tax assets	11,246	11,758

On 31 December 2019, the company had EUR 13.5 (2.5) million of losses, of which no deferred tax receivable has been recognized. The losses in taxation expire with the following schedule: EUR 1.3 million in 2022, EUR 12.1 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

	2019	2018
Trade receivables	5	8
Short-term receivables (from others)	5	15
Short-term prepayments from accrued income (from others)	1,952	2,458
Total	1,962	2,481
Receivables from group companies		
Trade receivables	157	2,035
Loan receivables	9,807	8,343
Other receivables	671	122
Total	10,635	10,500
Receivables from participating interests		
Loan receivables	-	150
Short-term receivables from participating interests	0	150
Total current receivables	12,597	13,131
Main items included in prepayments and accrued income		
Accrued financial items	32	65
Accrued interest receivables	1,533	1,791
Accrued staff costs	23	15
Other prepayments and accrued income	364	587
Total	1,952	2,458

11. Equity

Equity in 2019	Share capital	Share premium reserve	Treasury shares	Fair value reserve	RIUE	Other reserves	Retained earnings	Total
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
Equity on 31 Dec.	66,820	73,420	-4,762	0	215,121	4,899	63,714	419,212

Equity in 2018	Share capital	Share premium reserve	Treasury shares	Fair value reserve	RIUE	Other reserves	Retained earnings	Total
Equity on 1 Jan.	66,820	73,420	-38	0	143,203	4,818	86,916	375,139
Increase	-	-	-	-	50	63	-	113
Dividend distribution	-	-	-	-	-	-	-4,862	-4,862
Profit for the period	-	-	-	-	-	-	-9,153	-9,153
Equity on 31 Dec.	66,820	73,420	-38	0	143,253	4,881	72,901	361,237

Distributable equity	2019	2018
Contingency reserve	621	603
Treasury shares	-4,763	-38
Reserve for invested unrestricted equity	215,121	143,253
Retained earnings	72,900	82,053
Profit/loss for the period	-9,187	-9,153
Distributable equity	274,692	216,718

12. Accumulated appropriations

	2019	2018
Depreciation difference	77	91
Total appropriations	77	91

The unrecognised deferred tax liability on depreciation difference is EUR 49 000.

13. Statutory provisions

	2019	2018
Provisions for pensions	2,644	2,711
Statutory provisions, total	2,644	2,711

14. Non-current liabilities

	2019	2018
Hybrid loan	25,920	40,000
Bond	125,440	135,000
Loans from financial institutions	102,764	107,780
Other liabilities	3,056	5,045
Total	257,180	287,825
Total non-current liabilities	257,180	287,825
Interest-bearing		
Amounts owed to others	254,124	284,384
Non-current interest-bearing liabilities	254,124	284,384
Non-interest-bearing		
Amounts owed to others	3,056	3,441
Non-current non-interest-bearing liabilities	3,056	3,441
Total non-current liabilities	257,180	287,825

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

	2019	2018
Bond	-	33,495
Loans from financial institutions	40,656	42,293
Trade payables	1,358	2,170
Accruals and deferred income	9,626	8,495
Other liabilities	3,375	2,780
Total	55,015	89,233
Amounts owed to group companies		
Trade payables	81	101
Accruals and deferred income	32	32
Other liabilities	51,939	25,226
Total	52,052	25,359
Total current liabilities	107,067	114,592
Interest-bearing		
Current amounts owed to Group companies	51,939	25,226
Amounts owed to others	40,656	75,788
Current interest-bearing liabilities	92,595	101,014
Non-interest-bearing		
Current amounts owed to Group companies	114	132
Amounts owed to others	14,358	13,446
Current non-interest-bearing liabilities	14,472	13,578
Total current liabilities	107,067	114,592

	2019	2018
Main items (non-current and current) included in accruals and deferred income		
Accrued staff costs	3,455	3,655
Accrued interest expenses	2,531	1,842
Accrued changes in value of derivatives	2,375	2,127
Other accruals and deferred income	1,265	871
Total	9,626	8,495
Liabilities due in five years or more		
Loans from financial institutions	5,425	9,042
Pension loans	-	2,143
Liabilities due in more than five years	5,425	11,185

16. Commitments and contingent liabilities

Commitments and contingent liabilities	2019	2018
Debts secured by mortgages and shares		
Loans from financial institutions	-	-
Total	0	0
Real estate mortgages		
Real estate mortgages	-	-
Total	0	0
Security for debts of subsidiaries and other group companies		
guarantees	15,974	19,259
Total	15,974	19,259
Security for debts of participating interests		
guarantees	-	-
Total	0	0
Security for debts of others		
guarantees	1,307	1,303
Total	1,307	1,303
Leasing and rental commitments		
maturing in less than a year	1,711	1,644
Maturing in 1-5 years	4,107	4,061
Maturing in more than five years	1,885	2,793
Total	7,704	8,498
Other commitments	4	4
Total other contingencies	7,708	8,502

17. Derivative instruments

	2019	2019	2019	2018	2019	2018
	Positive fair value	Negative fair value	Fair value net	Fair value net	Nominal value	Nominal value
Interest rate derivatives	1,968	-5,797	-3,829	-5,248	64,359	64,627
matured in 2019	-	-	-	-	-	-
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-1,634	-1,634	-2,293	25,000	25,000
matures in 2022	947	-2,581	-1,634	-2,293	25,000	25,000
matures in 2023	1,021	-1,581	-561	-662	14,359	14,627
matures in >2023	-	-	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-
Foreign exchange derivatives	307	-424	-117	2	34,331	30,249
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	533	-533	-	-	-	-
matured in 2019	-	-	-	-	-	-
matures in 2020	240	-240	-	-	-	-
matures in 2021	232	-232	-	-	-	-
matures in 2022	60	-60	-	-	-	-
matures in 2023	2	-2	-	-	-	-
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 22 380 (9 755) thousand foreign exchange derivatives, EUR 12 871 (9 992) thousand commodity derivatives, EUR 34 145 (54 503) thousand interest rate derivatives.

Fair value hierarchy

	31 Dec. 2019	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	1,968	-	1,968	-
Foreign exchange derivatives	307	-	307	-
Commodity derivatives	533	-	533	-
Total	2,808	-	2,808	-
Derivatives, negative fair value				
Interest rate swaps	-5,797	-	-5,797	-
Foreign exchange derivatives	-424	-	-424	-
Commodity derivatives	-533	-	-533	-
Total	-6,753	-	-6,753	-
	31 Dec. 2018	Level 1	Level 2	Level 3
Derivatives, positive fair value				
Interest rate swaps	2,942	-	2,942	-
Foreign exchange derivatives	165	-	165	-
Commodity derivatives	5,283	-	5,283	-
Total	8,389	-	8,389	-
Derivatives, negative fair value				
Interest rate swaps	-8,190	-	-8,190	-
Foreign exchange derivatives	-163	-	-163	-
Commodity derivatives	-5,283	-	-5,283	-
Total	-13,636	-	-13,636	-

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, 5 February 2020

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, 5 February 2020

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 2019. 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 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**How our audit addressed the 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).

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 575 M€ representing 61 % of the total assets and 176 % 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**How our audit addressed the 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).

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 116 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 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 2 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, 5.2.2020

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