Interim Report Q1 2023

HKScan's Interim Report 1 January – 31 March 2023

HKScan's profitability improved, but January-March EBIT slightly negative

January-March 2023

- HKScan's net sales from continuing operations increased by 15.6 per cent to EUR 457.6 (395.9) million. During the review period, sales prices were significantly higher than in the comparison period as higher costs due to strong inflation had been passed on to sales prices during 2022.
- The Group's EBIT from continuing operations totalled EUR -0.1 (-4.4) million.
- The Group's comparable EBIT from continuing operations was EUR -1.8 (-4.0) million. The exceptional cost inflation, which accelerated in 2022, continued at high levels in January-March. The particularly sharp rise in energy and logistics costs in autumn 2022 levelled off towards the end of the year, but the resulting costs were higher than in the comparison period. Sales price increases carried out during 2022 covered the increase in costs. Profitability improved due to production efficiency improvements and cost saving measures.
- The Business Unit Finland's comparable EBIT was EUR 0.1 (-1.2) million.
- The Business Unit Sweden's comparable EBIT was EUR -0.2 (0.2) million.
- The Business Unit Denmark's comparable EBIT was EUR 1.2 (0.5) million.
- The comparable EBIT of the Business Unit Baltics reported as a discontinued operation was EUR -1.6 (-4.5) million.
- Cash flow from operating activities was EUR -5.7 (-34.4) million. Cash flow improved from the comparison period due to significantly lower working capital growth.
- Interest-bearing net debt was EUR 367.7 (355.0) million and net gearing 138.3 (108.8) per cent.

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

As of 1 January 2023, HKScan has changed accounting policy for spare parts inventory retrospectively. This change has an impact on the inventory value and equity on the balance sheet and key figures (Return on capital employed and Net gearing). Quarterly and full-year financial information for 2022 has been restated accordingly. Additional information about the impact is disclosed in the accounting policies.

Outlook for 2023

HKScan's guidance for 2023 remains unchanged.

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

Key figures, net sales, continuing operations

(EUR million)	1-3/2023	1-3/2022	2022
Net sales	457.6	395.9	1 833.8
Finland	216.6	182.6	868.3
Sweden	179.6	163.9	745.1
Denmark	61.4	49.4	220.4

Key figures, EBIT, continuing operations

(EUR million)	1-3/2023	1-3/2022	2022
EBIT	-0.1	-4.4	10.1
- % of net sales	0.0	-1.1	0.5
Comparable EBIT	-1.8	-4.0	9.7
- % of net sales	-0.4	-1.0	0.5
Comparable EBIT, Finland	0.1	-1.2	3.4
- % of net sales	0.0	-0.7	0.4
Comparable EBIT, Sweden	-0.2	0.2	16.6
- % of net sales	-0.1	0.1	2.2
Comparable EBIT, Denmark	1.2	0.5	1.4
- % of net sales	1.9	1.0	0.6

Key figures, other

(EUR million)	1-3/2023	1-3/2022	2022
EBITDA, continuing operations	12.0	7.7	55.8
Profit before taxes, continuing operations	-6.2	-6.2	-0.9
- % of net sales	-1.4	-1.6	0.0
Profit for the period, continuing operations	-6.3	-6.3	-4.9
- % of net sales	-1.4	-1.6	-0.3
EPS, EUR, continuing operations	-0.07	-0.07	-0.11
Comparable EPS, EUR, continuing operations	-0.09	-0.07	-0.11
Cash flow from operating activities, incl. discontinued operations	-5.7	-34.4	18.9
Cash flow after investing activities, incl. discontinued operations	-12.8	-38.5	-21.9
Return on capital employed (ROCE) before taxes, %, incl. discontinued operations	-5.2	2.5	-6.4
Interest-bearing net debt	367.7	355.0	347.2
Net gearing, %	138.3	108.8	122.1

HKScan's CEO Juha Ruohola

HKScan's net sales from continuing operations increased by 15.6 per cent in January-March 2023 as a result of sales price increases. HKScan's net sales from continuing operations totalled EUR 457.6 (395.9) million. Net sales increased in all home markets and in all sales channels. Growth was particularly strong in the food service channel, where sales increased by more than 20 per cent. In Denmark, sales of value-added products continued to grow. For example, ready-to-eat chicken sales growth was 44 per cent in the first quarter. The value of retail sales increased in Finland and Sweden as well.

The Group's EBIT from continuing operations improved from the comparison period to EUR -0.1 (-4.4) million and comparable EBIT was EUR -1.8 (-4.0) million. Despite the improved performance, the profitability of HKScan's continuing operations is not satisfactory. Improving profitability is one of our top priorities in 2023.

The instability in Europe caused by Russia's invasion of Ukraine has sharply increased production costs and interest rates. As market interest rates have risen, costs for consumers and the entire value chain have increased. The inflation trend has continued in January-March, despite the stabilisation of energy prices. Cost levels are also pushed up by the wage settlements in spring 2023, which have increased costs in all of HKScan's home markets.

Rising housing and interest costs have continued to hold back overall consumer spending. This has affected consumer demand for HKScan's products and our sales mix. The change in consumer demand weakened EBIT, especially in Finland and Sweden. The particularly steep rise in energy and logistics costs in autumn 2022 levelled off towards the end of the year, but costs were still higher than in the comparison period.

During the first months of the year, we have continued our determined efforts to improve the profitability of our operations. HKScan's measures to improve cost efficiency and save costs improved the EBIT in the review period. In addition, several investments and development measures already decided will bring annual cost savings of around EUR 12.6 million once completed over the period 2023-2024.

To increase financial flexibility, the company continuously assesses the position of each business within the Group. In December 2022, we reported that HKScan had signed an agreement to sell its Baltic business to the Estonian AS Maag Grupp. The divestment of the Baltic business will improve HKScan's profitability and strengthen its balance sheet, while contributing to the company's ability to improve production efficiency and implement its long-term strategy. The transaction is expected to close at the end of September 2023 at the latest and it is subject to approval by the competition authorities in Estonia and Latvia. Competition authorities in Latvia have already approved the deal.

In early 2023, we have advanced our responsibility programme in our businesses. The objectives of the programme relate to the wellbeing of nature and people: to climate, packaging, biodiversity and the safety and wellbeing of employees. We work in a goal-oriented way to improve safety at work and aim for zero accidents at work in line with the Safety First principle. In particular, we want to promote a proactive safety culture and continuous improvement. We achieved good results in this respect in January-March: our staff recorded one fifth more safety observations than in the previous year and more than half of our employees completed the online training course on Blue Rules safe working guidelines, which was launched at the beginning of the year.

The effective use of the potential of our core business and the development of a sustainable, local food chain are important to HKScan's success. As previously stated, our focus at HKScan this year will be on improving the profitability of our core business, with the aim of minimising any negative impact on the company's profit development and ensuring that it develops in line with our objective. We have done this work successfully in the early part of the year and the key focus across the Group will continue to be on tight cost control, increasing productivity in production, optimising the product portfolio in response to changing consumer demand and our commercial activities.

Key events in January-March 2023

Juha Ruohola as HKScan's CEO

On 2 March 2023, HKScan's Board of Directors appointed Juha Ruohola (57), Master of Agriculture and Forestry, eMBA, as CEO of HKScan Corporation. Ruohola served as HKScan's interim CEO from 29 September 2022. Prior to this, Ruohola was HKScan's SVP responsible for the Baltic Business Unit, the Polish business and the Group's exports and imports, and he has held management positions in several other food companies. Markku Suvanto EVP, Administration and Legal, serves as Deputy to the CEO of HKScan.

HKScan's development investment in the Rauma poultry unit to improve profitability and competitiveness

The statutory negotiations at HKScan's Rauma unit, initiated in March, were concluded earlier than planned in April after the review period with an agreement between the negotiating parties. Following the statutory negotiations, HKScan decided to implement a development investment of approximately EUR 4.6 million in the Rauma unit's poultry cutting department to improve the profitability and competitiveness of the unit.

The investment will include reorganisation of operations, staff adjustments and renewal of operating methods. The Rauma unit's poultry cutting department will reduce up to 35 jobs and changes will affect up to 200 jobs. With the investment and related development measures, HKScan aims to achieve total annual savings of around EUR 3 million in Finland, which are expected to be realised after the completion of the investment in the second half of 2024 at the latest.

The regulatory process for the sale of the Baltic businesses progressing

On 13 December 2022, HKScan announced that it had signed an agreement to sell its Baltic business to Estonian AS Maag Grupp. The debt-free purchase price is EUR 90 million, of which EUR 20 million is conditional on the combined performance for 2024-2026 of the separately defined meat business subject to transaction and Maag Grupp's Baltic meat business.

The transaction is expected to be closed at the end of September 2023 at the latest and it is subject to approval by the competition authorities in Estonia and Latvia. The Latvian competition authority approved the transaction in February. Further information on assets and liabilities held for sale and discontinued operations can be found in Note 7 to the Interim Report.

Strategy

HKScan's long-term strategic target is to grow into a versatile food company. In the current exceptional and rapidly changing operating environment, the company is focusing on strengthening its financial base and improving the profitability of its core business. HKScan's core business includes meat, processed meat products and ready-made foods, such as meals, meal components and snacks.

Advancing the long-term strategy will require HKScan to achieve a stronger balance sheet. To increase financial flexibility, the company continuously assesses the position of each business within the Group. Increasing productivity in all the business processes is important.

Within its financial resources, HKScan is looking for new growth and actively pursuing new business opportunities promoting its strategy. Partnerships offer HKScan the opportunity to move into new business areas quickly and flexibly.

HKScan wants to grow in its core business by increasing the added value of its products and strengthening the value creation capacity of its own brands. The aim is to grow in product categories that make everyday life easier for consumers, such as meals, meal components and snacks. The aim is also to grow in poultry products and new product categories and to strengthen in growing and new sales channels. HKScan wants to renew commercially and strengthen relationship with consumers through its trusted brands.

Building responsibility as a value-creating basis for business plays a key role in creating differentiating value in the market. HKScan's responsibility work focuses on the business needs and the expectations and requirements of key stakeholders. HKScan continues goal-oriented climate work through its Zero Carbon programme.

Responsibility

In 2023, HKScan will focus its responsibility work on preparing for the EU's Sustainability Reporting Directive (CSRD) and on the determined promotion of its responsibility programme.

Responsibility is an important part of HKScan's consumer brand strategies. The Scan and Kariniemen brands significantly improved their ranking in the 2023 Sustainable Brand Index. The Sustainable Brand Index, conducted annually in several countries, measures consumer perceptions of brand sustainability. Scan moved up 105 positions and was ranked 80th in the Swedish Sustainable Brand Index. In Finland, Kariniemen moved up from the last year's ranking of 51st to 14th.

HKScan's human rights impact assessment for its own personnel and others working in HKScan's production units was completed in the review period. Together with an external specialist, the company reviewed the current status, likelihood and severity of human rights impacts. In addition, HKScan defined the next steps to manage human rights impacts.

A new group of young contract farmers started the Next Generation training programme in Finland. HKScan's programme offers young producers networking opportunities and information on strategic farm management, risk management and responsibility. HKScan also runs the Next Generation training programme in Sweden, where the latest group started at the end of 2022.

In Sweden, HKScan participated in Svenskt Sigill's project to define fossil-free food industry and agriculture. The project involves several food industry players and aims to promote a sustainable food chain through clear and harmonised practices. In Sweden, HKScan is also involved in a project to develop recipes for school meals from Swedish raw materials, taking into account climate and cost impacts.

Safety First

HKScan makes goal-oriented work towards zero accidents at work through its Safety First principle, with a particular focus on promoting a proactive safety culture and continuous improvement. In Denmark, the company started to prepare for the ISO 45001 occupational health and safety standard by mapping current practices. HKScan aims to have all its units ISO 45001 certified by the end of 2025.

The online training of the Blue Rules guidelines on safe working to avoid life-threatening accidents was launched for all staff in January-March, and more than half of the employees completed the training. Production units continued the implementation and auditing of the Blue Rules. In January-March, the number of safety observations by staff increased by one fifth year-on-year.

Group net sales and EBIT

Net sales

HKScan's net sales from continuing operations increased by 15.6 per cent to EUR 457.6 (395.9) million. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 12.3 million. Net sales increased in all the home markets and sales channels due to the sales price increases implemented in 2022. Growth was particularly strong in the food service channel, where sales increased by more than 20 per cent. In Denmark, sales of value-added products continued to grow. For example, ready-to-eat chicken sales growth was 44 per cent in the first quarter. Retail sales also grew in Finland and Sweden. Sales volume remained at the comparison period's level.

EBIT

HKScan's EBIT from continuing operations totalled EUR -0.1 (-4.4) million. The comparable EBIT from continuing operations was EUR -1.8 (-4.0) million. The exchange rate change of the Swedish krona had no impact on the EBIT.

During the review period, items affecting comparability of EUR 1.7 million were recorded in continuing operations. The comparison period EBIT included items affecting comparability of EUR -0.4 million. Items affecting comparability are described in more detail in the Tables section of this report.

The exceptionally high cost inflation was gradually offset by sales price increases during 2022. In January-March 2023, the cost inflation remained high, and the pressure to increase sales prices continues. The change in consumer demand weakened the EBIT, especially in Finland and Sweden. The particularly steep rise in energy and logistics costs in autumn 2022 levelled off towards the end of the year, but costs remained above the comparison period. HKScan's measures to improve production efficiency and save costs improved EBIT during the review period.

Balance sheet, cash flow and financing

At the end of March, HKScan's balance sheet total was EUR 985.7 (995.5) million. The Group's interest bearing debt at the end of March was EUR 398.2 (365.0) million including an IFRS 16 lease liability of EUR 106.5 (112.0) million. The company's net debt increased from the comparison period by EUR 12.7 million to EUR 367.7 (355.0) million. From the turn of the year, the seasonal growth in the net debt was EUR 20.5 million. HKScan's net gearing ratio was 138.3 (108.8) per cent. The impact of the IFRS 16 lease liability on the net gearing ratio was 40.1 percentage points.

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

During the review period, the company agreed to extend the maturity of the additional EUR 45.0 million credit facility to April 2024.

The Group's liquidity position was satisfactory. The EUR 200 million commercial paper programme had been drawn to the amount of EUR 20.0 (86.0) million. Committed credit facilities at the end of March 2023 stood at EUR 145.0 (100.0) million and had been drawn to the amount of EUR 125.0 (15.0) million. In January-March, net financial expenses from continuing operations were EUR -7.2 (-3.0) million. The increase in net financial expenses was due to the arrangement costs of the loans as well as the general rise of interest rates.

Cash flow from operating activities was EUR -5.7 (-34.4) million. Cash flow after investments totalled EUR -12.8 (-38.5) million.

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

In December 2022, in connection with the sale of the Baltic business, the company negotiated temporary waivers to the net gearing covenants of the revolving credit facilities, the bank loan, certain export credit agreements and the bond. The waivers are valid until the closing of the sale, but expire at the latest on 1 January 2024. The temporary limit on the net gearing ratio is 140 per cent for the bank loans and 145 per cent for the bond. At the end of March 2023, the company's net gearing ratio was 138.3 per cent. Once the transaction of the Baltic business is closed, the limit on the net gearing ratio will decrease by 15 percentage points, and at the same time the Group's net gearing ratio will decrease accordingly.

The covenant limit for the net debt to EBITDA ratio is 6.0. At the end of March 2023, the net debt to EBITDA ratio was 5.6. During the review period, HKScan negotiated new covenant limits for the net debt to EBITDA ratio for the rest of the year: 5.5 from the beginning of July 2023, 4.5 from the beginning of October 2023 and 4.0 from the beginning of January 2024. HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicates that the covenants will not be breached, assuming that the divestment of the Baltic businesses is closed by the end of September 2023. Further information is available under the headline Assumption of ability to continue as a going concern in the accounting policies of the Interim report.

Disputes and pending legal proceedings

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

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

Investments

HKScan's investments in continuing operations totalled EUR 5.7 (4.2) million in January-March. IFRS 16 additions to right-of-use assets totalled EUR 7.8 (1.4) million in January-March.

During the review period, the Forssa unit in Finland continued the implementation of a development investment to improve the competitiveness and cost-efficiency of production. In Sweden, an investment to increase the efficiency and capacity of beef production started in the Linköping unit. In Denmark, the investment to increase the added value of ready-to-use poultry products progressed as planned. In addition, HKScan implemented several smaller efficiency investments during the review period.

Export

Export growth continued and was achieved as planned. Opening of the food service market after the Covid pandemic further increased demand for meat in HKScan's export markets. An export licence for beef from Finland to Japan was obtained at the end of 2022. HKScan is starting beef export from Finland to Japan during the first half of 2023.

Changes in the international meat market

Strong demand for poultry meat is expected to continue despite rising consumer prices. Beef consumption is expected to continue to decline, which will further increase demand for poultry products. Higher beef prices are not expected to increase beef production in EU countries.

Pork production has been declining in the EU, and is expected to continue to do so in 2023. Pork prices are expected to remain high in the EU, but profitability of production remains weak due to high input prices.

Business Unit Finland

(EUR million)	1-3/2023	1-3/2022	2022
Net sales	216.6	182.6	868.3
EBIT	0.1	-1.4	5.6
- EBIT margin, %	0.0	-0.8	0.6
Comparable EBIT	0.1	-1.2	3.4
- EBIT margin, %	0.0	-0.7	0.4

January-March

In Finland, net sales totalled EUR 216.6 (182.6) million. Net sales increased mainly due to the price increases made before the review period. Food service sales continued to grow, with the strongest growth in strategically important poultry products. Volume of retail sales was below the comparison period. Demand for pork, beef and poultry in Finland fell from the comparison period, leading to a significant increase in pork exports in particular.

EBIT was EUR 0.1 (-1.4) million. Comparable EBIT was EUR 0.1 (-1.2) million. The comparison period's EBIT included a negative item of EUR 0.2 million affecting comparability. Cost levels remained high in Finland, although the strong increase in energy and logistics costs levelled off in January-March. HKScan's measures to improve production efficiency and save costs improved EBIT during the review period.

HKScan aims to clearly improve its profitability and competitiveness. In March, HKScan started statutory negotiations in the Rauma unit related to the planned EUR 4.6 million development investment in the poultry cutting department. The investment will involve reorganisation of operations, staff adjustments and renewal of working practices. The statutory negotiations were concluded and the investment decision was made after the review period in April. The Rauma unit's poultry cutting department will reduce up to 35 jobs and changes will affect up to 200 jobs. With the investment and related development measures, HKScan aims to achieve total annual savings of around EUR 3 million in Finland, which are expected to be realised after the completion of the investment in the second half of 2024 at the latest.

According to the Finnish Sustainable Brand Index survey published in March, Kariniemen is perceived as the 14th most sustainable brand in Finland. Kariniemen improved its ranking significantly, rising from last year's 51st place to 14th. Kariniemen was the 7th most sustainable food brand in the survey and the highest ranked meat brand. The Sustainable Brand Index, conducted annually in several countries, measures consumer perceptions of brand sustainability. In Finland, 228 brands are included in the survey.

Business Unit Sweden

(EUR million)	1-3/2023	1-3/2022	2022
Net sales	179.6	163.9	745.1
EBIT	-0.2	0.2	16.6
- EBIT margin, %	-0.1	0.1	2.2
Comparable EBIT	-0.2	0.2	16.6
- EBIT margin, %	-0.1	0.1	2.2

January-March

In Sweden, net sales increased to EUR 179.6 (163.9) million. Net sales grew clearly at comparable exchange rates. The negative effect of the exchange rate change of the Swedish krona on net sales was EUR 12.3 million. The impact of cost inflation was partly offset by sales price increases, which increased net sales.

HKScan maintained its market position and retail sales volumes increased from the comparison period. Food service sales also continued to grow, with particularly strong growth in processed meat products. Pork exports increased significantly from the comparison period.

EBIT was EUR -0.2 (0.2) million. Comparable EBIT was EUR -0.2 (0.2) million. There were no items affecting comparability during the review period and comparison period. The exchange rate change had no effect on the EBIT. In the review period, high meat raw material price and general cost inflation had a negative impact on the EBIT. The higher costs were partly covered by an increase in sales prices. In addition, EBIT was negatively impacted by weaker demand for higher-value meat and an increased emphasis on promotional sales in the retail sector.

During the review period, HKScan initiated an investment in its Linköping unit to increase the efficiency and capacity of beef production. The value of the investment is approximately EUR 5 million. The investment, scheduled for completion in the first quarter of 2024, is expected to deliver cost savings of EUR 1.6 million per year after completion.

The long-term integration of responsibility into the Scan brand was reflected in a good performance in the Swedish Sustainable Brand Index survey. Scan moved up 105 positions to 80th place in the survey. The Sustainable Brand Index, conducted annually in several countries, measures consumer perceptions of brand sustainability. In Sweden, 418 brands are included in the survey.

Business Unit Denmark

(EUR million)	1-3/2023	1-3/2022	2022
Net sales	61.4	49.4	220.4
EBIT	1.0	0.5	1.4
- EBIT margin, %	1.6	1.0	0.6
Comparable EBIT	1.2	0.5	1.4
- EBIT margin, %	1.9	1.0	0.6

January-March

In Denmark, net sales totalled EUR 61.4 (49.4) million. Sales of value-added products continued to grow. For example, ready-to-eat chicken sales growth was 44 per cent in the first quarter. Food service sales showed clear growth in Denmark. Strong sales growth for Danish poultry products in the Swedish retail continued and food service sales to Sweden also increased. Due to the strong home market demand, exports were down from the comparison period.

Denmark's EBIT was EUR 1.0 (0.5) million. Comparable EBIT was EUR 1.2 (0.5) million. During the review period, an item affecting comparability of EUR -0.2 million was recorded. There were no items affecting comparability during the comparison period. The strong cost inflation was covered by sales price increases made before the review period. Successful commercial measures, strong consumer demand and long-term improvements in production efficiency improved the EBIT. Sales of strategically important higher value-added poultry products continued to grow.

In line with its strategy, HKScan is investing in Denmark in the growth of poultry products and increasing the added value of the products. The investment of around EUR 1.5 million in the Teflon frying line of poultry products will be completed by the end of the second quarter of 2023. HKScan's sales of ready-to-eat poultry products have increased significantly in Denmark, and the new investment will enable the production of a diversified range of healthy ready-to-eat products.

Personnel

The number of HKScan employees in Finland decreased from the comparison period mainly as a result of the change negotiations conducted in the Rauma production unit and Group operations in 2022.

During the review period, HKScan started statutory negotiations in Rauma's production unit in Finland. The negotiations were related to an investment in production development and aimed at improving profitability and competitiveness. The negotiations were concluded in April after the review period. The Rauma unit's poultry cutting department will reduce up to 35 jobs and changes will affect up to 200 jobs.

Personnel in continuing operations	1-3/2023	1-3/2022	2022
Personnel on average*	5,106	5,187	5,390
Finland	2,529	2,623	2,747
Sweden**	1,924	1,920	1,978
Denmark	653	644	664
Women / men %			35 / 65
Women / men of superiors %			26 / 74

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

HKScan encourages its employees to act according to its values with the We Are Valuable award, which was launched throughout the Group early in the year. During the review period, employees nominated teams whose work reflects the company's values particularly well.

Shares and shareholders

At the end of March 2023, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The company's issued shares totalled 98,951,781 and were divided into two share series as follows: A shares, 93,551,781 (94.54% of the total number of shares) and K shares, 5,400,000 (5.46% of the total number of shares). The A shares are quoted on Nasdaq Helsinki Ltd. The K shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of K shares of LSO Osuuskunta and Lantmännen ek. för.

The Board of Directors of HKScan Corporation resolved on a directed share issue without consideration related to the payment of the rewards for the Group's Restricted Share Plan 2019-2021 and Performance Share Plan 2018 for the performance period 2019-2021. On 6 March 2023 a total of 115,137 HKScan Corporation's series A shares owned by the company was transferred without consideration to the participants of the share-based incentive plan in accordance with the terms of the plan. The establishment of the plans and their key terms have been announced in stock exchange releases on 7 February 2018, 8 May 2019 and 7 April 2021. The transfer of own shares by a directed share issue without consideration is based on the Board's authorization granted by the Annual General Meeting on 30 March 2022. After the transfer HKScan Corporation holds 1,506,658 A shares as treasury shares.

At the end of March, the company held 1,506,658 (1,621,795) A shares as treasury shares, corresponding to 1.52% of the company's total number of shares and 0.7% of the total number of votes.

The calculational market value of HKScan's shares at the end of March stood at EUR 76.0 (142.3) million. The market value of the Series A shares was EUR 71.8 (134.4) million and the calculational market value of the unlisted Series K shares was EUR 4.2 (7.9) million.

In January-March a total of 7,357,147 (7,593,994) of the company's shares were traded with a total value of EUR 5,965,171 (11,769,349). The highest price quoted was EUR 0.97 (1.71) and the lowest EUR 0.69 (1.34). The average price was EUR 0.81 (1.55). At the end of March, the closing price was EUR 0.78 (1.46).

Annual General Meeting 2023

HKScan Corporation's Annual General Meeting, held on 20 April 2023 in Turku, adopted the parent company's and consolidated financial statements, discharged the members and the deputy members of the Board of Directors and the CEOs from liability for the year 2022 and adopted the remuneration report for governing bodies. The AGM resolved that no dividend will be paid for 2022.

The current Board members Reijo Kiskola, Jari Mäkilä, Anne Leskelä, Per Olof Nyman, Harri Suutari and Terhi Tuomi were re-elected until the end of the Annual General Meeting 2024. In addition, Ilkka Uusitalo and Ove Conradsson were re-elected as deputy Board members until the end of the Annual General Meeting 2024. At the organisational meeting after the AGM, the Board re-elected Reijo Kiskola as Chairman and Jari Mäkilä as Vice Chairman.

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

The AGM resolved to amend Article 6 of the Company's Articles of Association so that a remote meeting may be held without a meeting venue as an alternative to a physical or hybrid meeting.

The AGM authorised the Board of Directors to decide on a share issue as well as on the issue of option rights and other special rights entitling to shares, and on the acquisition and/or the acceptance as pledge of the company's own Series A shares. The authorisations are effective until 30 June 2024 and they revoke the authorisations given by the 2022 AGM to the Board of Directors.

The decisions of the AGM have been published in their entirety in a stock exchange release on 20 April 2023, and the minutes are available in Finnish on the company website at www.hkscan.com.

Share-based long-term incentive plan

On 7 April 2021, HKScan announced changes to the payment schedules of both the Performance Share Plan (PSP) and Restricted Share Plan (RSP) to ensure relative alignment with the company's long-term performance and shareholder returns. According to the new payment schedule, part of the rewards earned will be paid during 2021–2023 and the remaining portion of the Group Executive Team rewards is deferred and will be paid during 2024–2025. The deferred rewards will be paid on the basis of the achievement of minimum targets set by the Board of Directors for total shareholder return (TSR) and profitability. The Board of Directors has set a ceiling on the cost of the deferred reward.

Part of the shares earned based on the achievement of the performance targets in the 2018-2020 PSP were paid out in spring 2021 according to the original payment schedule and part of the rewards were paid out in spring 2022 according to the new payment schedule. Part of the shares earned based on the achievement of the performance targets in the 2019-2021 PSP and meeting the financial indicator of the 2019-2021 RSP were paid out in spring 2022 and 2023 according to the original payment schedule.

After the review period, HKScan announced a new Performance Share Plan for the CEO for the period 2023-2027. Further information on the incentive scheme is available in the stock exchange release published on 3 April 2023.

More information on the incentive plan is available in HKScan's 2022 Remuneration Report on the company website website www.hkscan.com.

Short-term business risks

Economic operating environment and financial risks

The war in Ukraine is causing uncertainty in Europe. High inflation is expected to continue in the euro area as a result of the unstable geopolitical situation. In the first quarter of 2023, inflation in the euro area remained high, especially due to increases in energy, food and transport prices. Inflation pressures are also present in the prices of other goods and services. The uncertainty around rising cost inflation in 2023 has decreased in the early part of the year. Particularly the uncertainty related to the energy and electricity prices for 2023 has diminished from the very unstable and highly volatile market prices in the second half of 2022.

There is still uncertainty for 2023 related to the evolution of consumer demand in the environment of high inflation and high interest rates. If consumer demand weakens significantly and HKScan's sales volumes fall considerably, this will have a negative impact on the company's profitability. The developments described above or a delay in the completion of the sale of the Baltic business would result in a breach of the covenants. The covenants are close to the limits throughout the year. Should unforeseen changes in the business environment or delays in approval by the competition authorities make a breach of the covenants appear likely, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms. If management cannot negotiate new terms, banks have the right to mature the loans. The circumstances described above indicate a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. For more information, see the accounting principles in the section “Assumption of ability to continue as a going concern” of the Interim Report.

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

Price increase and availability of production inputs and raw materials

Despite the slight fall, the price level of feed has remained high. Uncertainty about the availability and price of inputs can be reflected in production costs. If the crisis of liquidity and profitability of farms is prolonged, the situation may weaken the availability of local meat raw material or the company’s profitability if it fails to raise the sales prices of its products to cover higher costs in the production chain alongside measures to improve production efficiency.

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

Changes in consumer behaviour

Consumer purchasing behaviour is expected to change significantly as food prices rise sharply in response to rising costs in the food supply chain. Depending on the purchasing power of consumers in HKScan’s various home markets, consumer demand for food will focus on lower-priced products and product groups. This may be reflected in a weakening of HKScan's sales volume in higher-priced products and a strengthening in basic foods. In the unstable geopolitical situation, demand for basic foods is expected to remain strong.

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

Other business risks

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

Pandemics are a risk to the business and their potential development is closely monitored.

The risk of cyber-attacks has increased due to the unstable geopolitical situation. In the event of a cyber-attack, the company’s operations could be significantly affected.

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

Turku, 10 May 2023

HKScan Corporation
Board of Directors

Webcast

In connection with its January-March Interim Report, HKScan will hold a webcast in Finnish for analysts, institutional investors and media on 10 May 2023 at 10 am EET. You can follow the Finnish webcast at https://hkscan.videosync.fi/q1-2023 and the recording will be available at www.hkscan.com later during the same day. HKScan's CEO Juha Ruohola and CFO Jyrki Paappa will present the January-March result.

To arrange investor calls, please contact executive assistant Marja Säkö, tel. +358 50 576 7130 or marja.sako@hkscan.com.

Financial reports

HKScan will publish the following financial reports in 2023:

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

For further information

Juha Ruohola, CEO, tel. +358 400 647 160
Jyrki Paappa, CFO, tel. +358 50 556 6512
HKScan Media Service Desk tel. +358 10 570 5700 or email communications@hkscan.com

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

The brands mentioned in the Interim Report - HK®, Kariniemen®, Via®, Scan®, Pärsons® and Rose® - are registered trademarks of HKScan Group.

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

TARGETS	RESULTS, CONTINUING OPERATIONS 2022 Complemented with selected Q1/2023 figures marked in blue
NATURE	
Zero Carbon • Carbon-neutral food chain by the end of 2040 *KPI: climate emissions CO_2e*	2022: Climate impacts of the entire food chain (scope 1–3) 2.22 (2.20) $MtCO_2e$, carbon intensity 4.00 (3.97) tCO_2e / sold product tonne
Zero Carbon • Carbon-neutral own production by the end of 2025 *KPI: climate emissions CO_2e*	**Energy consumption Q1/2023: 0.71 (0.78) MWh /sold product tonne*** **Carbon intensity Q1/2023: 0.075 (0.067) tCO_2e /sold product tonne*** 2022: Climate impacts of own production (scope 1 and 2) 34,900 (34,800) tCO_2e, carbon intensity 0.06 (0.06) tCO_2e /sold product tonne*
Sustainable packaging • 100% recyclable packaging by the end of 2030 *KPI: share of recyclable packaging* • 80% of packaging renewable or recycled materials by the end of 2030 *KPI: share of renewable or recycled materials*	Results 2022: • 73 (72) % of packaging recyclable • 59 (47) % renewable or recycled materials
We are committed to increasing biodiversity in our food chain	Target added to the programme in 2022
PEOPLE	
Safety First • Systematic work towards zero accidents *KPI: lost-time accident rate (LTIR)*	**Lost-time accident rate (LTIR)** **4/2022–3/2023: 15.5 (4/2021–3/2022: 19.1) / million working hours** 2022: 15.6 (20.9) /million working hours
Better Together • Continuous improvement in employee wellbeing *KPIs: Sickness absences, inappropriate behaviour, eNPS: > 10*	**Personnel absences 4/2022–3/2023: 7.6% (4/2021–3/2022: 7.5)**

Consolidated Financial Statements 1 January – 31 March 2023

Consolidated income statement

(EUR million)		1-3/2023	1-3/2022	2022
Continuing operations:				
Net sales		457.6	395.9	1 833.8
Cost of goods sold	1.	-434.2	-376.5	-1 736.3
Gross profit		23.4	19.4	97.4
Other operating items total	1.	1.0	1.0	7.9
Sales and marketing costs	1.	-11.7	-10.6	-43.7
General administration costs	1.	-12.7	-14.2	-51.5
Operating profit		-0.1	-4.4	10.1
Financial income		1.0	0.5	2.9
Financial expenses		-8.1	-3.5	-19.2
Share of profit/loss in associates and joint ventures		1.0	1.3	5.4
Profit/loss before taxes		-6.2	-6.2	-0.9
Income tax		-0.1	-0.2	-4.0
Profit/loss for the period, continuing operations		-6.3	-6.3	-4.9
Profit/loss for discontinued operations		-1.8	-4.5	-61.1
Profit/loss for the period		-8.0	-10.9	-66.0
Profit/loss for the period attributable to:				
Equity holders of the parent		-8.5	-11.1	-69.7
Non-controlling interests		0.4	0.2	3.7
Total		-8.0	-10.9	-66.0
Earnings per share calculated on profit attributable to equity holders of the parent:				
EPS, undiluted, continuing operations, EUR/share		-0.07	-0.07	-0.11
EPS, diluted, continuing operations, EUR/share		-0.07	-0.07	-0.11
EPS, undiluted, discontinued operations, EUR/share		-0.02	-0.05	-0.63
EPS, diluted, discontinued operations, EUR/share		-0.02	-0.05	-0.63
EPS, undiluted, EUR/share		-0.09	-0.12	-0.73
EPS, diluted, EUR/share		-0.09	-0.12	-0.73

Consolidated statement of comprehensive income

(EUR million)	1-3/2023	1-3/2022	2022
Profit/loss for the period	-8.0	-10.9	-66.0
OTHER COMPREHENSIVE INCOME (after taxes):			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations	-1.2	-0.9	-7.2
Cash flow hedging	-7.7	6.4	15.2
Reclassification adjustment (electricity derivative)	-1.9	-	-
Items that will not be reclassified to profit or loss			
Actuarial gains or losses	-	-	14.1
TOTAL OTHER COMPREHENSIVE INCOME	-10.8	5.5	22.2
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-18.8	-5.4	-43.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent	-19.2	-5.6	-47.4
Non-controlling interests	0.4	0.2	3.7
Total	-18.8	-5.4	-43.8

Consolidated balance sheet

(EUR million)	Note	31 March 2023	31 March 2022	31 Dec. 2022
ASSETS				
Intangible assets	2.	112.0	142.4	113.8
Tangible assets	3.4	379.4	452.9	378.6
Holdings		41.7	39.7	41.1
Deferred tax asset	5.	32.2	35.3	31.8
Other non-current assets		10.4	8.2	12.2
TOTAL NON-CURRENT ASSETS		575.7	678.5	577.5
Inventories	6.	132.9	154.1	121.3
Current receivables		148.7	153.0	155.5
Cash and cash equivalents		30.5	9.8	17.2
TOTAL CURRENT ASSETS		312.1	317.0	293.9
Assets of disposal group classified as held for sale	7.	98.0	-	101.9
TOTAL ASSETS		985.7	995.5	973.4
EQUITY AND LIABILITIES				
EQUITY		265.8	326.3	284.4
Non-current loans, interest-bearing	4.	237.2	207.6	333.9
Non-current liabilities, non-interest-bearing		38.0	61.7	40.7
TOTAL NON-CURRENT LIABILITIES		275.2	269.3	374.6
Current loans, interest-bearing	4.	161.1	157.4	30.6
Current liabilities, non-interest-bearing		249.0	242.6	243.3
TOTAL CURRENT LIABILITIES		410.0	400.0	273.9
Liabilities of disposal group classified as held for sale	7.	34.7	-	40.4
TOTAL EQUITY AND LIABILITIES		985.7	995.5	973.4

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2023	**66.8**	**72.9**	**21.9**	**215.4**	**25.9**	**10.4**	**-19.9**	**-4.1**	**-129.5**	**259.8**	**24.6**	**284.4**
Result for the financial period	-	-	-	-	-	-	-	-	-8.5	-8.5	0.4	-8.0
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	-1.2	-	-	-1.2	-	-1.2
Cash flow hedging	-	-	-7.7	-	-	-	-	-	-	-7.7	-	-7.7
Reclassification adjustment (electricity derivative)	-	-	-1.9	-	-	-	-	-	-	-1.9	-	-1.9
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income / expense	-	-	-9.5	-	-	-	-1.2	-	-	-10.8	-	-10.8
Total compreh. income for the period	**-**	**-**	**-9.5**	**-**	**-**	**-**	**-1.2**	**-**	**-8.5**	**-19.2**	**0.4**	**-18.8**
Direct recognitions	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1
Transfer of own shares	-	-	-	-	-	-	-	0.3	-0.3	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	0.1	0.1
EQUITY ON 31 March 2023	**66.8**	**72.9**	**12.4**	**215.4**	**25.9**	**10.4**	**-21.1**	**-3.8**	**-138.2**	**240.6**	**25.1**	**265.8**

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2022	**66.8**	**72.9**	**6.6**	**215.4**	**25.9**	**10.4**	**-12.6**	**-4.8**	**-67.0**	**313.7**	**22.1**	**335.8**
Result for the financial period	-	-	-	-	-	-	-	-	-11.1	-11.1	0.2	-10.9
Other comprehensive income (+) / expense (–)												
Transl. diff.-	-	-	-	-	-	-	-0.9	-	-	-0.9	-	-0.9
Cash flow hedging	-	-	6.4	-	-	-	-	-	-	6.4	-	6.4
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income / expense	-	-	6.4	-	-	-	-0.9	-	-	5.5	-	5.5
Total comprehensive income for the period	**-**	**-**	**6.4**	**-**	**-**	**-**	**-0.9**	**-**	**-11.1**	**-5.6**	**0.2**	**-5.4**
Direct recognitions	-	-	-	-	-	-	-	-	-0.2	-0.2	-	-0.2
Dividend distribution	-	-	-	-	-	-	-	-	-3.9	-3.9	-	-3.9
EQUITY ON 31 March 2022	**66.8**	**72.9**	**13.0**	**215.4**	**25.9**	**10.4**	**-13.5**	**-4.8**	**-82.2**	**304.0**	**22.3**	**326.3**

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

Cash flow statement, incl. discontinued operations

(EUR million)	1-3/2023	1-3/2022	2022
Cash flow before change in net working capital	8.7	6.9	53.2
Change in net working capital	-5.7	-36.9	-20.8
Financial items and taxes	-8.7	-4.4	-13.5
CASH FLOW FROM OPERATING ACTIVITIES	-5.7	-34.4	18.9
Cash flow from investing activities	-7.1	-4.1	-40.8
CASH FLOW AFTER INVESTING ACTIVITIES	-12.8	-38.5	-21.9
Hybrid loan	-	-	-2.1
Change in loans	25.8	21.5	21.8
Dividends paid	-	-	-5.3
CASH FLOW FROM FINANCING ACTIVITIES	25.8	21.5	14.4
NET CASH FLOW	13.0	-17.1	-7.4
Cash and cash equivalents at beginning of period	17.8	27.2	27.2
Translation differences	-0.2	-0.3	-2.0
Cash and cash equivalents at end of period	30.6	9.8	17.8

Financial indicators

(EUR million)	31 March 2023	31 March 2022	31 Dec. 2022
Earnings per share (EPS), undiluted, EUR, continuing operations	-0.07	-0.07	-0.11
Earnings per share (EPS), diluted, EUR, continuing operationes	-0.07	-0.07	-0.11
Equity per share, EUR	2.47	3.12	2.67
Equity ratio, %	27.0	32.8	29.2
Adjusted average number of outstanding shares, mill.	97.4	97.2	97.3
Gross capital expenditure on PPE, EUR mill., continuing operations	5.7	4.2	37.4
Additions in right-of-use assets, EUR mill., continuing operations	7.8	1.4	9.0
Depreciation and impairment, EUR mill., continuing operations	12.0	12.1	45.8
Employees, average, FTE, continuing operations	5,106	5,187	5,390

Calculation of financial indicators

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

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

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

Notes to the Interim report

Accounting policies

HKScan Corporation’s interim report for 1 January–31 March 2023 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the interim report as in the annual financial statements for 2022, except for the change in accounting policy for spare parts inventory. From 2023 onwards spare parts exceeding minimum value as a practical matter are capitalised to spare parts inventory with acquisition cost. Items below the minimum value are recorded as cost when purchased. Before all purchased spare parts were recorded as cost when purchased. The change is done retrospectively as if the policy would have been always effective. Opening balance 2022 and each subsequent quarter inventory and retained earnings have been restated EUR 5.3 million higher than previously reported. The change has no impact to 2022 income statement as the inventory balance is stable. Due to the rounding of the figures to the nearest million euros in the financial statements bulletin, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2022. The interim report is unaudited.

Assumption of ability to continue as a going concern

The Interim Report for January-March has been prepared on a going concern basis, assuming that HKScan will be able to realise its assets and settle its liabilities in the foreseeable future in the ordinary course of business. In assessing the going concern basis, HKScan’s management has taken into account the uncertainties and risks associated with the business environment, available funding sources and the cash flow estimates of the Group companies over the next 12 months.

The weak profitability development and the increase in working capital have had a negative impact on cash flow and further on the net gearing and leverage, which are the company's covenants. In January-March 2023, the impact of the weakening consumer demand on the company’s profitability and cash flow was offset by cost savings, efficiency improvements and working capital management.

The uncertainty related to the increase in cost inflation in 2023 has decreased in late 2022 and in January-March 2023. Especially the uncertainty related to energy and electricity prices has been reduced for 2023, based on the electricity price forecasts for the next 12 months updated during the period under review, from a very unstable and volatile market price situation in the second half of 2022.

Uncertainty for 2023 remains related to the development of consumer demand in the environment of high inflation and high interest rates. If consumer demand weakens significantly and HKScan's sales volumes fall considerably, this will have a negative impact on the company's profitability. The developments described above may also lead to a temporary increase in working capital, which would weaken the profitability and have a negative impact on the company’s cash flow and asset values. This could result in a breach of the covenants.

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

In December 2022, in connection with the sale of the Baltic business, the company negotiated temporary waivers to the net debt covenants for the revolving credit facility, the bank loan, certain export credit agreements and the bond. The waivers are valid until the closing of the sale, but expire at the latest on 1 January 2024. The temporary limit on the net gearing ratio is 140 per cent for the bank loans and 145 per cent for the bond. At the end of March 2023, the net gearing ratio was 138.3 per cent. Once the transaction of the Baltic business is closed, the net gearing covenant will decrease by 15 percentage points, and at the same time the Group's net gearing ratio will decrease accordingly.

The covenant limit for the net debt to EBITDA ratio is 6.0. At the end of March 2023, the net debt to EBITDA ratio was 5.6. During the review period, HKScan negotiated new covenant limits for net debt and EBITDA for the rest of the year, which are 5.5 from July 2023, 4.5 from October 2023 and 4.0 from January 2024.

HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicates that the covenants will not be breached, assuming that the divestment of the Baltic businesses is completed by the end of September 2023. The covenants will remain close to their limits for the full year. In case of unforeseen changes in the business environment or a delay in the approval by the competition authorities, a breach of the covenants would seem to be apparent, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms.
If management cannot negotiate new terms, banks have the right to mature the loans. The circumstances described above indicate a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

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

Analysis by segment

(EUR million)	1-3/2023	1-3/2022	2022
NET SALES			
- Finland			
Sales, goods	215.6	181.8	864.4
Sales, services	1.0	0.8	3.9
- Sweden			
Sales, goods	179.6	163.9	745.1
Sales, services	0.0	0.0	0.1
- Denmark			
Sales, goods	61.4	49.4	220.4
Sales, services	0.0	0.0	0.0
Group total	457.6	395.9	1 833.8
EBIT			
- Finland	0.1	-1.4	5.6
- Sweden	-0.2	0.2	16.6
- Denmark	1.0	0.5	1.4
Segments total	0.8	-0.8	23.5
Group administration costs	-0.8	-3.6	-13.4
Group total	-0.1	-4.4	10.1
INVESTMENTS			
- Finland			
Gross capital expenditure on PPE	2.7	1.3	15.3
Additions in right-of-use assets	5.9	0.3	3.0
Investments total	8.7	1.6	18.3
- Sweden			
Gross capital expenditure on PPE	2.3	2.4	18.6
Additions in right-of-use assets	1.2	0.6	4.1
Investments total	3.5	3.1	22.7
- Denmark			
Gross capital expenditure on PPE	0.7	0.5	3.5
Additions in right-of-use assets	0.7	0.5	1.9
Investments total	1.3	1.0	5.4
Total	13.5	5.7	46.4
AVERAGE NUMBER OF EMPLOYEES, FTE			
- Finland	2 529	2 623	2 747
- Sweden	1 924	1 920	1 978
- Denmark	653	644	664
Total	5 106	5 187	5 390

Notes to the income statement

1. Items affecting comparability

(EUR million)	1-3/2023	1-3/2022	2022
Comparable EBIT, continuing operations	**-1.8**	**-4.0**	**9.7**
Termination of employment, Group management 1)	-	-0.2	-1.8
Loss of prepayment, Finland 4)	-	-0.2	-0.2
Reversal of impairment of assets, Finland 2) 3)	-	-	2.3
Reclassification adjustment of electricity derivatives, Group management 2)	1.9	-	-
Impairment of associated company, Denmark 3) 4)	-0.2	-	-
EBIT, continuing operations	**-0.1**	**-4.4**	**10.1**

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	31 March 2023	31 March 2022	31 Dec. 2022
Opening balance	113.8	144.2	144.2
Translation differences	-1.1	-0.7	-6.6
Additions	0.3	0.1	2.0
Depreciation and impairment	-1.0	-1.1	-20.0
Reclassification between items	0.0	0.0	1.3
Assets of disposal group classified as held for sale	-	-	-7.0
Closing balance	112.0	142.4	113.8

3. Changes in tangible assets

(EUR million)	31 March 2023	31 March 2022	31 Dec. 2022
Opening balance	378.6	459.7	459.7
Translation differences	-1.2	-0.8	-6.8
Additions	13.2	7.7	53.2
Disposals	-0.2	0.0	-1.0
Depreciation and impairment	-11.0	-13.7	-51.9
Reclassification between items	-	0.0	-1.3
Assets of disposal group classified as held for sale	-	-	-73.3
Closing balance	379.4	452.9	378.6

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1 Jan. 2023	2.2	80.3	13.8	96.3	101.7
Translation differences	-	-0.2	0.0	-0.2	-0.2
Additions	-	6.8	1.0	7.8	7.8
Depreciation for the financial period	-	-2.0	-1.2	-3.3	-
Payments	-	-	-	-	-2.8
Closing balance on 31 March 2023	2.1	85.0	13.5	100.6	106.6

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1 Jan. 2022	2.2	92.1	15.3	109.5	113.4
Translation differences	-	-0.1	0.0	-0.1	-0.1
Additions	-	0.8	0.8	1.6	1.6
Depreciation for the financial period	0.0	-2.1	-1.3	-3.4	-
Payments	-	-	-	-	-2.9
Closing balance on 31 March 2022	2.1	90.8	14.7	107.6	112.0

(EUR million)	1-3/2023	1-3/2022	2022
Depreciation expense of right-of-use assets, continuing operations	-3.2	-3.1	-12.6
Interest expense on lease liabilities, continuing operations	-1.2	-1.1	-4.5
Total amounts recognised in profit or loss, continuing operations	-4.4	-4.2	-17.1

5. Deferred tax assets

Out of the total EUR 32.2 million, EUR 28.0 million of the deferred tax asset arise from adopted losses, postponed depreciations and non-deductible interest expenses in Group's operations in Finland. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and were therefore temporary in nature.

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

Deferred tax assets are assumed to be used during the current decade. Consideration is based on management's plans for the near future. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2026 and beyond. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and deductibility restrictions of interest expense can be used to speed up the utilisation of losses before they expire. Utilisation of postponed tax depreciations and non-deducted interest expense do not have a time limit. Unrecognized Finnish deferred tax asset at the end of March 2023 was EUR 24.5 million.

6. Inventories

(EUR million)	31 March 2023	31 March 2022	31 Dec. 2022
Materials and supplies	72.5	88.8	66.2
Semi-finished products	6.4	5.0	6.1
Finished products	46.5	45.3	41.9
Spare parts	5.3	5.8	5.3
Inventories, advance payments	2.2	1.4	1.7
Biological assets	0.0	7.9	0.0
Total inventories	132.9	154.1	121.3

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

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

Assets and liabilities held for sale are measured at debt-free purchase price EUR 83.2 million deducted with transaction costs which led to EUR 30.6 million impairment in book value at the end of year 2022. EUR 6.6 million of the impairment was allocated to goodwill, EUR 0.4 million to other intangible assets and the rest to tangible assets. During the year 2022 in Q2 an impairment amounting to EUR 15.6 million was recorded to Baltics goodwill. As result the whole year 2022 impairment to Baltics book value was EUR 46.2 million. Fair value measurement of assets and liabilities held for sale includes management consideration and estimate. Estimate includes transaction costs, post-closing purchase price discounting and an estimate on conditional EUR 20 million purchase price. Post-closing fixed purchase price has been discounted with 5 per cent and conditional purchase price with 9.7 per cent. Management has estimated the probability of earn-out realisation and estimate includes the uncertainty in development of profitability. EBITDA for the sold business required for realisation of earn-out is lower than the Group has previously used for valuation, because realization of earn-out is significantly impacted by development of buyer's meat business and synergies. The amount of conditional purchase price is estimated at 13.2 million and its carrying amount at fair value is 9.8 million at the end of 2022. During the year 2023 no changes have been made to the fair value measurement of assets and liabilities held for sale.

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

Profit/loss for discontinued operations

(EUR million)	1-3/2023	1-3/2022	2022
Net sales	49.5	41.2	195.7
Cost of goods sold	-50.3	-44.5	-222.7
Other operating items total	-0.9	-1.2	-3.2
Operating profit	-1.6	-4.5	-30.2*
Financial income and expenses	-0.1	-0.1	-0.3
Income tax	0.0	0.0	0.0
Profit/loss for the period	-1.8	-4.5	-30.5
Impairment from fair-value measurement	-	-	-30.6
Profit/loss for the period from discontinued operations	-1.8	-4.5	-61.1

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

Cash flow of discontinued operations

(EUR million)	1-3/2023	1-3/2022	2022
Cash flow from operating activities	-4.2	-3.6	-15.5
Cash flow from investing activities	-0.5	-1.7	-5.7
Cash flow from financing activities	-0.3	-0.3	-1.3
Cash flow total	-5.0	-5.6	-22.5

Assets and liabilities of disposal group classified as held for sale

(EUR million)	31 March 2023	31 Dec. 2022
Intangible assets	-	-
Tangible assets	50.1	49.7
Inventories	33.3	34.4
Receivables	14.5	17.8
Total assets (A)	**98.0**	**101.9**
Lease liabilities	7.9	8.1
Trade payables and other liabilities	26.8	32.2
Total liabilities (B)	**34.7**	**40.4**

Net balance sheet value (A-B)	**63.3**	**61.5**

Derivative instrument liabilities

(EUR million)	31 March 2023	31 March 2022	31 Dec. 2022
Nominal values of derivative instruments			
Foreign exchange derivatives	85.0	74.7	91.8
Interest rate derivatives	33.3	54.5	48.5
Electricity derivatives	-3.2	18.3	-1.7
Fair values of derivative instruments			
Foreign exchange derivatives	0.4	-0.6	0.7
Interest rate derivatives	0.2	-0.6	0.3
Electricity derivatives	14.9	14.4	23.8

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

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

Consolidated other contingent liabilities

(EUR million)	31 March 2023	31 March 2022	31 Dec. 2022
Debts secured by pledges or mortgages			
- loans from financial institutions	39.5	-	39.5
On own behalf			
- Assets pledged	61.5	-	61.5
On behalf of others			
- guarantees and other commitments	3.0	6.3	2.6
Other contingencies			
Leasing and rental commitments	0.2	0.2	0.2

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

Derivatives

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

(EUR million)	31 March 2023	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	0.2	-	0.2	-
- Foreign exchange derivatives	0.5	-	0.5	-
- Commodity derivatives	15.3	-	15.3	-
of which subject to cash flow hedging	13.4	-	13.4	-
Total	16.0	-	16.0	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps		-		-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-0.4	-	-0.4	-
of which subject to cash flow hedging	-0.4	-	-0.4	-
Total	-0.5	-	-0.5	**-**

(EUR million)	31 March 2022	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.2	-	0.2	-
- Commodity derivatives	14.5	-	14.5	-
of which subject to cash flow hedging	14.5	-	14.5	-
Total	14.7	-	14.7	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-0.6	-	-0.6	-
- Foreign exchange derivatives	-0.8	-	-0.8	-
- Commodity derivatives	-0.1	-	-0.1	-
of which subject to cash flow hedging	-0.1	-	-0.1	-
Total	-1.5	-	-1.5	**-**

The fair values of Level 1 instruments are based on prices quoted on the market. The fair values of Level 2 instruments are to a significant degree based on inputs other than the quoted prices included in Level 1 but nonetheless observable for the relevant asset or liability either directly or indirectly (derived from prices). In determining the fair value of these instruments, the Group uses generally accepted measurement models, the inputs of which are nonetheless to a considerable degree based on observable market information. The fair values of Level 3 instruments are based on inputs which are not based on observable market information; rather to a significant degree on management estimates and measurement models generally acceptable for their use.

Business transactions with related parties

(EUR million)	1-3/2023	1-3/2022	2022
Sales to associates	3.8	3.2	14.9
Purchases from associates	12.3	10.3	45.4
Trade and other receivables from associates	1.9	1.5	2.0
Trade and other payables to associates	3.6	2.9	3.5
Animal purchases from related party*	7.4	3.8	21.3
Animal sales to related party*	1.5	1.3	5.1
Loan receivable from LSO Osuuskunta	2.7	1.7	1.6

*Members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta.