HKSCAN

INTERIM REPORT
Q3/2019

HKScan's Interim Report 1 January–30 September 2019:

HKScan's EBIT was turned positive in the third quarter − EBIT improved in all market areas

July–September 2019 in brief

- HKScan's net sales increased by 5.6 per cent and were EUR 439.4 (416.2) million. In comparable currencies, net sales were EUR 443.4 million.
- EBIT was EUR 4.5 (-9.8) million, and the EBIT margin 1.0 (-2.4) per cent. Comparable EBIT was EUR 4.5 (-9.8) million. There was no material impact on the EBIT from changes in currency rates.
- Cash flow before investments was EUR 12.5 (-9.4) million and before debt service EUR 6.6 (-19.8) million.
- Profitability improved across the business and in all market areas thanks to improved commercial performance and operational efficiency as well as good cost control. The clear improvement of the poultry business performance in Finland continued and was one of the most significant factors strengthening the Group's EBIT and cash flow.
- HKScan's new Group strategy was published after the reporting period. In addition, the company announced its plan to renew the Group's operating model to support the strategy's implementation.

January–September 2019 in brief

- HKScan's net sales increased by 1.6 per cent and were EUR 1,280.6 (1,260.7) million. In comparable currencies, net sales were EUR 1,295.9 million.
- EBIT was EUR -16.7 (-44.8) million, and the EBIT margin -1.3 (-3.6) per cent.
- Comparable EBIT was EUR -8.0 (-44.4) million. The corresponding EBIT margin was -0.6 (-3.5) per cent. There was no material impact on the EBIT from changes in currency rates.
- Cash flow before investments was EUR 18.1 (-38.2) million and before debt service EUR -7.0 (-117.3) million.
- Net debt was EUR 308.8 (352.0) million and net gearing stood at 90.1 (103.8) per cent including an IFRS16 impact of approximately 14 percentage points.
- The clear improvement of the poultry business performance in Finland continued and was the most significant factor strengthening the Group's EBIT and cash flow. Improvement was also seen in commercial performance, operational efficiency and cost control.
- 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. Gross amount included EUR 14.9 million conversion of hybrid bond.

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

As of 1 January 2019, HKScan has adopted the new IFRS 16 Leases standard using the full retrospective method. Quarterly and full-year Group and Market Area financial information for 2018 has been restated accordingly. Additional information about the impact is disclosed in the accounting policies.

Key figures, net sales

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Net sales	439.4	416.2	1 280.6	1 260.7	1 715.4
Sweden	161.4	162.8	478.6	500.1	682.1
Finland	190.2	172.0	559.1	526.3	721.9
Denmark	43.9	39.4	117.3	113.6	149.3
Baltics	43.9	41.9	125.5	120.7	162.1

Key figures, EBIT

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
EBIT	4.5	-9.8	-16.7	-44.8	-48.3
- % of net sales	1.0	-2.4	-1.3	-3.6	-2.8
Comparable EBIT	4.5	-9.8	-8.0	-44.4	-46.3
- % of net sales	1.0	-2.4	-0.6	-3.5	-2.7
Comparable EBIT, Sweden	3.6	3.0	5.6	3.7	9.3
- % of net sales	2.3	1.9	1.2	0.7	1.4
Comparable EBIT, Finland	1.3	-9.4	-4.3	-33.6	-35.6
- % of net sales	0.7	-5.4	-0.8	-6.4	-4.9
Comparable EBIT, Denmark	-0.1	-1.5	-4.3	-3.4	-5.8
- % of net sales	-0.3	-3.8	-3.6	-3.0	-3.9
Comparable EBIT, Baltics	1.7	0.9	3.5	0.2	-0.7
- % of net sales	3.8	2.2	2.8	0.2	-0.4

Key figures, other

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Profit before taxes	1.8	-11.7	-25.6	-51.8	-58.5
- % of net sales	0.4	-2.8	-2.0	-4.1	-3.4
Profit for the period	0.4	-8.9	-26.9	-42.0	-51.3
- % of net sales	0.1	-2.1	-2.1	-3.3	-3.0
EPS, EUR	-0.01	-0.18	-0.41	-0.80	-1.00
Comparable EPS, EUR	-0.01	-0.18	-0.29	-0.79	-0.96
Cash flow before investments	12.5	-9.4	18.1	-38.2	-3.4
Cash flow before debt service	6.6	-19.8	-7.0	-117.3	-95.4
Cash flow before financing activities	3.2	-25.5	-14.6	-123.4	-104.1
Return on capital employed (ROCE) before taxes, %			-2.6	-9.6	-6.7
Net debt			308.8	352.0	335.6
Net gearing, %			90.1	103.8	103.3

Outlook 2019 (Unchanged)

HKScan expects its improvement programmes and other corrective actions to record results in 2019, and the company's EBIT is expected to improve clearly from the previous year.

Global meat consumption is projected to increase during the coming years. Within HKScan's home markets and in categories, in which HKScan is present, consumption growth is seen in poultry and meal categories. Demand of processed meat is expected to remain stable, while the consumption of red meat is estimated to face a slight decrease.

Tero Hemmilä, HKScan's CEO

The turnaround programme initiated at the beginning of 2019 has proceeded according to plan. HKScan's EBIT for the third quarter was positive and improved by EUR 14 million from the comparison period. In January–September, we have cumulatively improved our comparable EBIT by over EUR 36 million compared to last year's corresponding period. We are on the right path and are improving our financial performance as planned. The EBIT is clearly not on a satisfactory level yet, but our entire personnel has done an excellent job improving our financial performance and achieving a positive EBIT. We continue target-oriented and systematic work for profitability improvement.

The main contributors to the performance improvement in the third quarter were the positive development of the poultry business in Finland, driven by improved productivity and delivery capability of the Rauma unit together with the strong Kariniemen® brand. Commercial actions, cost management according to the set targets as well as operational efficiency measures in all market areas were also strong contributors to improved financial performance. The company's cashflow before financing activities in July-September was positive and improved by almost EUR 29 million from the comparison period, even though the net working capital increased.

HKScan's net sales increased by nearly 6 per cent during the reporting period, and the company achieved growth in all market areas. The reported net sales figures include a transfer of close to EUR 4 million of sales responsibility from Sweden to Denmark, so Sweden also saw growth in adjusted net sales. HKScan's red meat sales value increased by over 5 per cent from the comparison period in the third quarter despite the sluggish market. Sales volumes of red meat increased, as well. In Finland, the sales of HKScan's poultry business increased by over 15 per cent. During summer 2019, HKScan became the market leader in the Finnish poultry category and the Kariniemen® brand the market leader in branded products. There was growth in all main product categories of the company.

In the third quarter, all market areas improved their EBIT from the comparison period. All market areas, excluding Denmark, have also cumulatively improved their EBIT from the beginning of the year. Denmark succeeded in improving its profitability significantly in the third quarter after a weak beginning of the year.

"HKScan improved its EBIT in all its market areas and the Group's turnaround programme proceeded according to plan."

Pork export from Finland to China increased and the volumes developed according to plan. Demand in China is expected to continue strong also in the coming months. We are working in close collaboration with the authorities in our home markets in order to attain export licences to China for poultry and beef as well. The exceptional pork situation in China, caused by the African swine fever, also affects, to a certain extent, the demand and world market prices of other meat categories.

In Finland and Sweden, consumer demand for meat in retail continued steady during the first three quarters of the year, as the increased poultry consumption has compensated the decreased consumption of red meat. We estimate that the consumption of poultry will continue to increase clearly also in the coming years.

We highlight the role of meat as part of a healthy diet, as well as the significance of sustainable Nordic animal production as part of national food security on the domestic markets. Meat is a natural source of many important nutrients as part of a healthy diet. We are doing long-term and determined sustainability work across all areas of our value chain. Animal welfare and environmental responsibility are our key focus areas. We take the discussion related to meat production and its impact on climate seriously and are building an ecosystem together with our partners that will cover our entire value chain and improve our productivity and sustainability footprint.

Today on 6 November, we published HKScan's new Group strategy. At its core is a turnaround programme for the years 2019-2021 launched in early 2019. The programme aims to improve the company's profitability. HKScan's strategic target is to grow profitably into a versatile food company, to have stronger presence in the consumers' food moments and to strengthen the company's market position in evolving markets together with its customers. Strong partnerships are part of our strategy and provide an important basis for reaching our targets. The Group's poultry product portfolio as well as meals and meal components are our growth drivers. Meat and meat products will continue to play a major role in the future. As the key part of the strategy, HKScan is investing in strengthening its position in evolving retail and growing food service channels with new commercial concepts and digital solutions. In addition, our goal-oriented sustainability work is positioned more firmly as the foundation of HKScan's business and consumer brands.

We are also planning a renewal of our Group-wide operating model to strengthen the company's market area-level profit responsibility and management as well as customer- and consumer-driven way of operating.

HKScan's strongly improved financial performance, the successful share issue in summer 2019 as well as loan refinancing give us time to continue the ongoing, systematic work to improve profitability and build foundation for growth. The systematic implementation of the turnaround programme continues, and the new strategy sets the guidelines for the company's development and profitable growth. Our goal is to develop HKScan to become an interesting company that rewards its owners and belongs to key food-industry players on the market.

Group net sales and EBIT

July–September

The Group's net sales in the third quarter increased by 5.6 per cent and were EUR 439.4 (416.2) million. In comparable currencies, net sales were EUR 443.4 million. Comparable EBIT improved by EUR 14.3 million and was EUR 4.5 (-9.8) million.

Net sales increased from the comparison period particularly due to the improved delivery capability and efficiency of the Rauma poultry unit. Sales increased in Finland in all other product categories, as well. In Sweden, reported net sales decreased slightly due to the weakening of the Swedish krona, but in local currency, net sales increased from the corresponding period due to positive development in food service sales and successful branded sales in retail, although a EUR 3.6 million sales responsibility of Danish poultry, sold in Sweden, was transferred to market area Denmark.

The Group's comparable EBIT improved from the corresponding period by EUR 14.3 million, turning positive. Profitability improved widely from the corresponding period in all market areas and product categories. The main contributors to the performance improvement were the positive development of the poultry business in Finland, commercial successes as well as the successful cost control and operational efficiency measures in all market areas. Due to the improved profitability, the Group's cash flow before financing activities improved significantly, by nearly EUR 29 million from the corresponding period.

January–September

The Group's net sales in January-September increased by 1.6 per cent and were EUR 1,280.6 (1,260.7) million. In comparable currencies, net sales were EUR 1 295.9 million. Comparable EBIT was EUR -8.0 (-44.4) million.

The increase in net sales was mainly due to the continued recovery of the poultry business performance in Finland. In addition, sales saw positive development in all home markets and pork exports from Finland to China increased and were in line with set targets. The exports to China still have only a minor impact on Group figures. Enhanced operational efficiency together with Group-wide savings in personnel and administration costs and the positive development of sales margins improved the Group's EBIT.

In the first quarter, an impairment loss of EUR 4.5 million was recorded in Denmark as a result of an impairment test.

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, is was decided that HKScan's personnel reduces by 183 employees. The actions will result in annual savings of EUR 10 million in personnel costs. The planned changes are implemented according to plan, and the savings impacts were already partially visible during the review period, reaching their full effect next year. During the second quarter, a non-recurring cost of EUR 4.2 million was recorded in relation to completed statutory negotiations and other organisational changes.

Market area Sweden

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Net sales	161.4	162.8	478.6	500.1	682.1
EBIT	3.6	3.0	4.2	3.4	8.9
- EBIT margin, %	2.3	1.9	0.9	0.7	1.3
Comparable EBIT	3.6	3.0	5.6	3.7	9.3
- EBIT margin, %	2.3	1.9	1.2	0.7	1.4

July–September

In Sweden, net sales were EUR 161.4 (162.8) million but increased 1.5 per cent in local currency. Comparable EBIT was EUR 3.6 (3.0) million.

Net sales decreased slightly from the comparison period mainly due to the weakening of the Swedish krona. In local currency, net sales increased thanks to improved food service sales and successful branded sales in retail. The increase took place, regardless of the fact that EUR 3.6 million of the responsibility of Danish poultry sales in Sweden was transferred to market area Denmark. Swedish consumers' appreciation for domestic meat continued to strengthen and supported sales.

Despite the unfavourable currency impact, comparable EBIT increased from the comparison period as a result of better sales margins, improved operational efficiency and lower administration costs. The operational efficiency measures contributed to offsetting the increased raw material costs and temporary additional expenses relating to delivery capability.

January–September

Net sales were EUR 478.6 (500.1) million and comparable EBIT was EUR 5.6 (3.7) million.

Net sales decreased from the comparison period mainly due to the weakened Swedish krona and changes made in poultry sales channels. Both retail sales of branded products and food service sales improved towards the end of the period. Sales of processed products and meals developed positively as well.

Despite the negative local currency effect in net sales, comparable EBIT increased from the comparison period as a result of better sales margins, improved operational efficiency and lower administration costs. Stock levels remained below the comparon period's level throughout the period.

A non-recurring cost of EUR -1.5 million was recorded in the second quarter in relation to completed statutory negotiations.

Market area Finland

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Net sales	190.2	172.0	559.1	526.3	721.9
EBIT	1.3	-9.4	-5.4	-33.6	-36.1
- EBIT margin, %	0.7	-5.4	-1.0	-6.4	-5.0
Comparable EBIT	1.3	-9.4	-4.3	-33.6	-35.6
- EBIT margin, %	0.7	-5.4	-0.8	-6.4	-4.9

July–September

In Finland, net sales increased by 10.5 per cent and were EUR 190.2 (172.0) million. Comparable EBIT was EUR 1.3 (-9.4) million.

Net sales increased clearly from the previous year particularly due to growth in the poultry business. Sales increased in all other meat categories and meals, as well.

Comparable EBIT improved by EUR 10.7 million from the comparison period, turning positive. Profitability improved mainly due to positive development in the poultry business, which was driven by the improved delivery capability and productivity of the Rauma poultry unit, supported by the strong Kariniemen® brand. The profitability of other business categories, such as red meat and meals, also improved from the corresponding period due to increased sales prices, improved operative efficiency and tight cost control.

January–September

In Finland, net sales increased by 6.2 per cent and were EUR 559.1 (526.3) million and comparable EBIT was EUR -4.3 (-33.6) million.

Net sales increased from the comparison period due to poultry sales. 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 strong Kariniemen® brand. This boosted the entire Finnish poultry market. Sales increased in all other categories, such as red meat and meals, as well. 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 increased price level have supported the company in achieving its export targets.

Comparable EBIT improved from the comparison period by EUR 29.3 million mainly as a result of the positive performance of the poultry business, improved operational efficiency and tight cost control. The positive development in red meat and meals as well as improved sales margins boosted profitability from the corresponding period.

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

A non-recurring cost of EUR -1.1 million was recorded in the second quarter in relation to statutory negotiations.

Market area Denmark

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Net sales	43.9	39.4	117.3	113.6	149.3
EBIT	-0.1	-1.5	-8.8	-3.4	-5.8
- EBIT margin, %	-0.3	-3.8	-7.5	-3.0	-3.9
Comparable EBIT	-0.1	-1.5	-4.3	-3.4	-5.8
- EBIT margin, %	-0.3	-3.8	-3.6	-3.0	-3.9

July–September

In Denmark, net sales increased by 11.6 per cent and were EUR 43.9 (39.4) million. The comparable EBIT was EUR -0.1 (-1.5) million.

Net sales increased from the comparison period due to improved retail sales and product sales mix as well as increased export volumes. Net sales included a EUR 3.6 million responsibility transfer of Danish poultry sales in Sweden from market area Sweden to Denmark.

Comparable EBIT improved clearly due to improved sales mix, operational efficiency measures and tight cost control, contributing to a positive EBIT for the market area in August–September.

January–September

Net sales were EUR 117.3 (113.6) million and comparable EBIT was EUR -4.3 (-3.4) million.

Net sales increased due to growth in retail sales, export and industrial sales, although price competition remained fierce.

Comparable EBIT for January–September decreased from the corresponding period despite the positive development in operational efficiency. Financial performance was weakened in the first half-year by changes in both customer and sales mix as well as by increased raw material costs, but the EBIT improved clearly especially in the third quarter.

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

Market area Baltics

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Net sales	43.9	41.9	125.5	120.7	162.1
EBIT	1.7	0.9	3.4	0.2	-0.7
- EBIT margin, %	3.8	2.2	2.7	0.2	-0.4
Comparable EBIT	1.7	0.9	3.5	0.2	-0.7
- EBIT margin, %	3.8	2.2	2.8	0.2	-0.4

July–September

In the Baltics, net sales increased by 4.7 per cent and were EUR 43.9 (41.9) million. Comparable EBIT was EUR 1.7 (0.9) million in the third quarter.

Net sales increased from the corresponding period due to improved retail sales, better product sales mix and increased market prices of pork.

Comparable EBIT continued to increase from the comparison period. The improved profitability was positively impacted by better sales margins and operational efficiency measures, offsetting the increase in raw material costs. The change of biological asset revaluation amounted to EUR 0.0 (-0.2) million.

January–September

Net sales were EUR 125.5 (120.7) million and comparable EBIT was EUR 3.5 (0.2) million.

Net sales were boosted by continued growth in domestic retail sales and improved product sales mix. Branded sales of processed products developed positively and the demand for poultry products increased, as well.

Comparable EBIT improved clearly from the previous year especially due to the positive development of pork market prices and improved sales prices. The increased animal raw material costs were balanced by decreased administrative costs. The change of biological asset revaluation amounted to EUR 1.6 (-0.5) 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 increases production capacity of the unit and improves productivity and environmental performance. Activities related to the deployment of the new production lines continued during the third quarter.

HKScan's strategy

HKScan published the Group's new strategy after the reporting period on 6 November 2019. At the core of the strategy is a turnaround programme for the years 2019-2021 aimed at improved profitability. During the implementation of the turnaround programme, the strong foundation for the company's growth is also established.

HKScan's strategic target is to grow profitably into a versatile food company, to have stronger presence in the consumers' food moments and to strengthen the company's market position in evolving markets together with its customers. Strong partnerships are part of our strategy and provide an important basis for reaching our targets. In addition, the company's goal-oriented sustainability work is positioned more firmly as the foundation of our business and consumer brands. HKScan is finalising its corporate responsibility programme, which is a central part of the Group's strategy.

The Group's strong and innovative poultry product portfolio as well as meals and meal components are the company's growth drivers. Meat and meat products are at the core of our operations and they will continue to play a major role in the future. In addition, HKScan is actively looking into opportunities to expand into new product categories and raw materials due to changing consumption habits.

HKScan is a strong player in retail trade with its well-known consumer brands. Due to consumers' changing eating habits and buying behaviours, 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 market channels. In addition to the strengthened product portfolio, HKScan wants to drive growth with new commercial concepts and digital solutions.

The company's strategic focus areas include growth in consumers' food moments, performance excellence, advanced sustainability work and a competitive farming community. In its strategy, HKScan outlines that increasing exports, especially in Asia, is very important and that the company will continue to strengthen its market position in the prioritised export markets. HKScan continues its strategic assessments related to the company's structure and reviews the positioning of different market areas as part of the Group's business operations.

After the reporting period on 22 October 2019, HKScan announced its plans to renew its Group-wide operating model. The aim is to strengthen the company's market area level profit responsibility and management as well as customer- and consumer-driven way of operating. The planned renewal is an integral part of the implementation of the company's new strategy.

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

HKScan's strongly improved financial performance as well as the share issue in summer 2019 and loan refinancing give the company time to continue the ongoing, determined work to improve profitability and build the foundation for growth. The systematic implementation of the turnaround programme continues, and the new strategy will set the guidelines for the company's development and profitable growth. Our goal is to develop HKScan to become an interesting company that rewards its owners and is among the leading players of the food industry.

Balance sheet, cash flow and financing

The Group's interest-bearing debt at the end of September was EUR 325.0 (365.2) million including IFRS 16 lease liability of EUR 46.3 (47.1) million. Net debt was EUR 308.8 (352.0) million and it decreased by EUR 43.2 million from the corresponding period and EUR 26.8 million from the year-end. The net gearing ratio was 90.1 (103.8) per cent. The impact of IFRS 16 lease liability on net gearing ratio was approximately 14 percentage points. Cash flow before investments totalled EUR 12.5 (-9.4) million.

The Group's liquidity remained good. Committed credit facilities at the end of September 2019 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 15.0 (31.5) million.

Net financial expenses in the third quarter were EUR -3.3 (-2.3) million and EUR -9.2 (-7.9) million in January−September.

In July, 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 a EUR 74.3 million term loan which mature at the end of year 2021. These replaced the earlier revolving credit facilities and bilateral bank loans that were maturing in 2020 and 2021. The new loan arrangement has one financial covenant, which is a net gearing ratio of 125%.

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

Investments

The Group's investments totalled EUR 33.1 (37.5) million in January−September. The company initiated no new significant investments in the third quarter.

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 in June 2019. The investment comprised modernisation of the meals related cooking lines, 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.

Research and development

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

Corporate responsibility

Corporate responsibility is an integral part of HKScan's daily operations. HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal welfare and Environmental responsibility. We recognise several opportunities for developing further the CR performance in all areas within the entire food value chain. The work is carried out in close collaboration with HKScan's farming community. Actions to mitigate climate change have increased in importance.

At the end of the review period, HKScan announced that it would start building the Agrofood ecosystem. The aim is to have more efficient control of the food value chain and even more responsible food production. HKScan extends a cooperation invitation to companies with expertise and technology in areas ranging from developing field husbandry all the way to energy solutions and transportation. The goal is to build a collaboration network and to collect and widely use its knowledge, expertise and best practices to serve the needs of customers and consumers in HKScan's markets. With the ecosystem, HKScan aims to contribute to the sustainability and transparency of its meat value chain as well as to improve the productivity of players in the food chain and to safeguard competitiveness.

Material efficiency and recycling are essential parts of HKScan's sustainability work. The company aims to reduce the use of plastic, reduce the carbon footprint and minimise food waste. One of the key goals of the company's packaging activities in 2019 is to improve recyclability by replacing black plastic packaging with other alternatives by the end of the year in Sweden and Finland. The work has proceeded well in both market areas, and the company estimates it will reach its goal. In addition, HKScan has introduced several ecological packaging solutions to the market and continues its development work to increase material efficiency and use of renewable materials.

After the review period, HKScan launched a stakeholder survey on corporate responsibility, the results of which shall be used in developing the Group's sustainability work. HKScan is also finalising its corporate responsibility programme, which is a central part of the Group's strategy.

Personnel

HKScan employed 6,645 (6,899) people at the end of September 2019. The average number of employees in January−September was 7,005 (7,275). Of that number, 29.0 (29.5) per cent were located in Sweden, 40.3 (40.5) per cent in Finland, 8.9 (8.8) per cent in Denmark and 21.8 (21.2) per cent in the Baltics.

Salaries and remunerations to employees, including social costs, totalled EUR 237.1 (237.5) million in January–September and EUR 77.0 (78.1) million in the third quarter.

In February 2019, HKScan announced its plans to improve its cost efficiency and to assess the way of working in its Categories & Concepts function. The company initiated statutory negotiations affecting all white-collar employees, senior white-collar employees and management, resulting in a Group-wide personnel reduction of 183 employees. With the planned actions, HKScan targeted Group-wide annual savings of EUR 10 million in personnel costs. The savings are estimated to materialise from the fourth quarter of 2019 onwards and gradually take full effect during 2020. The planned changes are implemented according to plan, and the savings impacts were already partially visible during the review period, reaching their full effect next year.

Changes in senior management

During the review period 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.

After the change, HKScan Corporation's Group Management Team comprises: 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 Juha Ruohola, 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.

Shares and shareholders

HKScan Corporation completed a directed share issue of new series A shares in June 2019 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 September 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 September 2019, the company held 0 (992,348) A shares as treasury shares.

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 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 shares to be bought back 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.

The market cap of HKScan's shares at the end of September 2019 stood at EUR 162.3 (117.7) million. Series A shares had a market value of EUR 153.4 (106.0) million, and the unlisted Series K shares a calculational value of EUR 8.9 (11.8) million.

In January–September, a total of 12,612,833 (6,939,843) of the company's shares were traded with a total value of EUR 20,721,749 (19,702,693). In the period under review, the highest price quoted was EUR 2.48 (3.23) and the lowest was EUR 1.48 (2.00). The average price was EUR 1.64 (2.84). At the end of September 2019, the closing price was EUR 1.64 (2.18).

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.

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 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 such 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.

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 current Board members, 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 Erkka 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 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.

Board Authorisations

The new authorisations, granted to the Board by the AGM 2019 on 11 April 2019, are described in the section 'Annual General Meeting 2019'.

Authorisations granted to the Board by the Extraordinary General Meeting on 29 May 2019 are described in the section 'Extraordinary General Meetings'.

Short-terms risks and uncertainty factors

Significant uncertainty factors in HKScan Group's business are related to sales and raw material prices, as well as management of global and local meat balances. 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 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 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 is also involved in some juridical proceedings in its home markets. Potential breaches of business principles and the Group's Code of Conduct are also recognised as operational risks. HKScan has made a settlement agreement with its former members of the Baltic management team and the related civil case processes have been ended in the Estonian court.

HKScan's risks are reported in more detail in the risk management section of the Annual Report 2018. More information is available in the Group's 2018 Report of Non-financial Information.

Events after the reporting period

On 22 October 2019, HKScan announced its plan to renew the Group's operating model and initiated related statutory negotiations and other market-area specific processes.

On 6 November 2019, HKScan published its new strategy. At the core of it lies the turnaround programme, which was launched in early 2019 and aims to significantly improve the company's profitability, as well as growth as a versatile food company.

Press conference for analysts and media

An information meeting related to HKScan Corporation's January−September 2019 interim report for analysts, institutional investors and media will be organised in the auditorium of Hotel Haven (address: Eteläranta 16, Helsinki) on 6 November 2019 at 10–11 a.m. EET.

The interim report will be presented by Tero Hemmilä, CEO, and Jyrki Paappa, CFO. The event will be held in Finnish.

Conference calls in English will be arranged upon separate request. Those interested in the calls, kindly contact HKScan Communications, communications@hkscan.com (phone +358 10 570 5700) to make an appointment.

Next financial report

HKScan's Financial Statements for 2019 will be published on 6 February 2020.

Vantaa, 6 November 2019
HKScan Corporation
Board of Directors

For further information

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HKScan Corporation is a publicly listed meat and food company with over one hundred years of experience in responsible Nordic food production for customer and consumer needs. HKScan's sustainable way of operating spans the entire value chain, from farm to consumer. Our nearly 7,200 professionals ensure our promise of high-quality products that taste good. Our home markets cover Finland, Sweden, Denmark and the Baltics. Our diverse product selection includes poultry, pork, beef, and lamb products as well as charcuterie and meals. The company's strong consumers brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose®. In 2018, HKScan's net sales were EUR 1.7 billion.

DISTRIBUTION:
Nasdaq Helsinki,
Main media,
www.hkscan.com

Consolidated Interim Report 1 January – 30 September 2019

Consolidated income statement

(EUR million)		7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Net sales		439.4	416.2	1 280.6	1 260.7	1 715.4
Cost of goods sold	1.	-413.7	-401.0	-1 226.6	-1 226.8	-1 659.5
Gross profit		25.7	15.2	54.0	33.9	55.9
Other operating items total	1.	1.4	1.5	6.1	5.0	6.9
Sales and marketing costs	1.	-8.6	-10.6	-28.3	-32.9	-43.6
General administration costs	1.	-14.0	-15.9	-48.5	-50.8	-67.5
Operating profit		4.5	-9.8	-16.7	-44.8	-48.3
Financial income		0.4	0.4	1.8	1.6	2.0
Financial expenses		-3.7	-2.8	-10.9	-9.6	-13.3
Share of profit/loss in associates and joint ventures		0.5	0.4	0.3	0.9	1.1
Profit/loss before taxes		1.8	-11.7	-25.6	-51.8	-58.5
Income tax		-1.4	2.8	-1.4	9.8	7.2
Profit/loss for the period		0.4	-8.9	-26.9	-42.0	-51.3
Profit/loss for the period attributable to:						
Equity holders of the parent		-0.4	-9.2	-28.4	-42.8	-53.0
Non-controlling interests		0.8	0.3	1.5	0.8	1.7
Total		0.4	-8.9	-26.9	-42.0	-51.3
Earnings per share calculated on profit attributable to equity holders of the parent:						
EPS, undiluted, continuing operations, EUR/share		-0.01	-0.18	-0.41	-0.80	-1.00
EPS, diluted, continuing operations, EUR/share		-0.01	-0.18	-0.41	-0.80	-1.00

Consolidated statement of comprehensive income

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Profit/loss for the period	0.4	-8.9	-26.9	-42.0	-51.3
OTHER COMPREHENSIVE INCOME (after taxes):					
Exchange differences on translating foreign operations	-1.4	1.5	-3.9	-4.4	-4.0
Cash flow hedging	-0.2	-0.8	-3.1	2.6	4.2
Actuarial gains or losses	0.0	0.0	0.0	0.0	-6.9
TOTAL OTHER COMPREHENSIVE INCOME	-1.5	0.6	-7.0	-1.8	-6.7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-1.2	-8.3	-33.9	-43.8	-58.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	-1.9	-8.6	-35.4	-44.6	-59.7
Non-controlling interests	0.8	0.3	1.5	0.8	1.7
Total	-1.2	-8.3	-33.9	-43.8	-58.0

Consolidated balance sheet

(EUR million)	Note	30 Sept. 2019	30 Sept. 2018	31 Dec. 2018
ASSETS				
Intangible assets	2.	135.1	134.8	137.5
Tangible assets	3.4	452.2	483.6	478.5
Holdings		32.3	32.4	33.0
Deferred tax asset	5.	42.5	42.5	43.3
Other non-current assets		4.3	2.6	2.5
TOTAL NON-CURRENT ASSETS		666.5	695.9	694.8
Inventories	6.	130.8	121.8	121.4
Current receivables		124.3	137.2	130.9
Cash and cash equivalents		16.2	13.0	29.4
TOTAL CURRENT ASSETS		271.3	272.1	281.7
TOTAL ASSETS		937.8	968.0	976.5
EQUITY AND LIABILITIES				
EQUITY	7.	342.9	339.1	325.0
Non-current loans, interest-bearing	4.	262.5	313.3	278.3
Non-current liabilities, non-interest-bearing		58.1	48.9	63.3
TOTAL NON-CURRENT LIABILITIES		320.6	362.3	341.7
Current loans, interest-bearing	4.	62.5	51.9	86.9
Current liabilities, non-interest-bearing		211.7	214.7	223.0
TOTAL CURRENT LIABILITIES		274.2	266.6	309.9
TOTAL EQUITY AND LIABILITIES		937.8	968.0	976.5

Statement of changes in consolidated equity

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

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
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**
IFRS 9, Change in opening balance	-	-	-	-	-	-	-	-	-1.0	-1.0	-	-1.0
Result for the financial period	-	-	-	-	-	-	-	-	-42.8	-42.8	0.8	-42.0
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	-4.4	-	-	-4.4	-	-4.4
Cash flow hedging	-	-	2.6	-	-	-	-	-	-	2.6	-	2.6
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	**2.6**	-	-	-	**-4.4**	-	**-42.8**	**-44.6**	**0.8**	**-43.8**
Direct recognitions	-	-	-	-	-	0.0	-	-	0.0	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-4.9	-4.9	-0.6	-5.5
Hybrid loan, issue	-	-	-	-	40.0	-	-	-	-0.2	39.8	-	39.8
EQUITY ON 30 Sept. 2018	**66.8**	**72.9**	**3.6**	**143.5**	**0.0**	**10.3**	**-12.3**	**0.0**	**-0.2**	**324.6**	**14.5**	**339.1**

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

Cash flow statement

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Cash flow before change in net working capital	21.5	6.5	38.3	4.9	19.3
Change in net working capital	-9.0	-15.9	-20.1	-43.1	-22.7
Financial items and taxes	-3.7	-6.1	-7.5	-8.0	-10.9
CASH FLOW FROM OPERATING ACTIVITIES	8.7	-15.4	10.6	-46.2	-14.3
Cash flow from investing activities	-5.6	-10.0	-24.4	-77.2	-89.8
CASH FLOW AFTER INVESTING ACTIVITIES	3.2	-25.5	-13.8	-123.4	-104.1
Hybrid loan	-2.1	39.8	-16.9	39.8	39.8
Share issue	-	-	71.9	-	-
Share issue costs	-0.9	-	-3.0	-	-
Change in loans	-5.4	-14.5	-50.3	51.3	48.3
Dividends paid	-0.2	-	-0.4	-5.5	-5.5
CASH FLOW FROM FINANCING ACTIVITIES	-8.7	25.3	1.2	85.6	82.6
NET CASH FLOW	-5.5	-0.2	-12.6	-37.8	-21.5
Cash and cash equivalents at beginning of period	22.2	13.1	29.4	50.9	50.9
Translation differences	-0.5	0.1	-0.6	0.0	0.1
Cash and cash equivalents at end of period	16.2	13.0	16.2	13.0	29.4

Financial indicators

(EUR million)	30 Sept. 2019	30 Sept. 2018	31 Dec. 2018
Earnings per share (EPS), undiluted, EUR	-0.41	-0.80	-1.00
Earnings per share (EPS), diluted, EUR	-0.41	-0.80	-1.00
Equity per share, EUR	3.30	6.01	5.73
Equity ratio, %	36.6	35.0	33.3
Adjusted average number of outstanding shares, mill.	74.0	54.0	54.0
Gross capital expenditure on PPE, EUR mill.	24.5	28.7	41.0
Additions in right-of-use assets, EUR mill.	8.6	8.8	11.2
Depreciation, EUR mill.	54.9	50.0	67.3
Employees, end of month average	7 005	7 275	7 179

Calculation of financial indicators

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

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

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

Notes to the Interim report
Accounting policies

HKScan Corporation's Interim report for 1 January–30 September 2019 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 2018, except for the adoption of new IFRS 16 standard effective as of 1 January 2019. Due to the rounding of the figures to the nearest million euros in the interim report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2018. The interim report is unaudited.

The Group applies with full retrospective method the new IFRS 16 standard that are 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. The new standard has no significant impact on profit before taxes. Assets and interest-bearing liabilities grew by approximately EUR 45 million. Detailed information about the impact is available in restatement bulletin published 3 May 2019.

Analysis by segment

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
NET SALES					
- Sweden					
Sales, goods	161.4	162.8	478.6	500.0	681.9
Sales, services	0.0	0.0	0.0	0.1	0.1
- Finland					
Sales, goods	189.4	171.1	556.8	523.7	718.4
Sales, services	0.8	0.9	2.3	2.6	3.5
- Denmark					
Sales, goods	43.9	39.4	117.3	113.6	149.3
Sales, services	0.0	0.0	0.0	0.0	0.0
- Baltics					
Sales, goods	43.7	41.8	125.1	120.5	161.9
Sales, services	0.2	0.1	0.4	0.2	0.3
Group total	439.4	416.2	1 280.6	1 260.7	1 715.4
EBIT					
- Sweden	3.6	3.0	4.2	3.4	8.9
- Finland	1.3	-9.4	-5.4	-33.6	-36.1
- Denmark	-0.1	-1.5	-8.8	-3.4	-5.8
- Baltics	1.7	0.9	3.4	0.2	-0.7
Segments total	6.5	-6.9	-6.6	-33.4	-33.6
Group administration costs	-2.0	-2.9	-10.1	-11.3	-14.7
Group total	4.5	-9.8	-16.7	-44.8	-48.3
INVESTMENTS					
- Sweden					
Gross capital expenditure on PPE	0.9	1.1	6.4	4.9	6.4
Additions in right-of-use assets	0.1	0.3	1.5	1.3	1.7
Investments total	1.0	1.5	7.9	6.2	8.1

- Finland					
Gross capital expenditure on PPE	2.1	4.8	7.0	15.3	21.9
Additions in right-of-use assets	1.6	4.3	6.4	6.1	7.8
Investments total	3.7	9.1	13.4	21.4	29.7
- Denmark					
Gross capital expenditure on PPE	0.2	0.6	0.9	0.9	2.3
Additions in right-of-use assets	0.1	0.4	0.5	0.6	0.7
Investments total	0.3	1.0	1.4	1.5	3.0
- Baltics					
Gross capital expenditure on PPE	2.5	3.3	10.3	7.6	10.4
Additions in right-of-use assets	0.1	0.1	0.1	0.8	0.9
Investments total	2.5	3.4	10.4	8.4	11.3
Total	7.6	15.0	33.1	37.5	52.2
AVERAGE NUMBER OF EMPLOYEES					
- Sweden			2 030	2 147	2 123
- Finland			2 823	2 949	2 883
- Denmark			625	639	636
- Baltics			1 527	1 540	1 538
Total			7 005	7 275	7 179

Notes to the income statement

1. Items affecting comparability

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Comparable EBIT	4.5	-9.8	-8.0	-44.4	**-46.3**
Personnel costs, Group Management 1)	-	-	-	-	-1.2
Termination of employment, Sweden 1)	-	-	-1.0	-0.1	-0.1
Closing of sales office, Sweden 1)	-	-	-	-0.2	-0.2
Impairment of assets, Finland 2) 3)	-	-	-	-	-0.5
Termination of employment, Group Management 1)	-	-	-1.5	-	-
Termination of employment, Sweden 2)	-	-	-0.4	-	-
Termination of employment, Finland 1)	-	-	-0.8	-	-
Termination of employment, Finland 2)	-	-	-0.2	-	
Termination of employment, Baltics 1)	-	-	-0.1	-	-
Termination of employment, Baltics 2)	-	-	0.0	-	-
Impairment of assets, Denmark 2) 3)	-	-	-4.5	-	-
EBIT	4.5	-9.8	-16.7	-44.8	**-48.3**

[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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	30 Sept. 2019	30 Sept. 2018	31 Dec. 2018
Opening balance	137.5	137.2	137.2
Translation differences	-3.5	-3.9	-3.5
Additions	0.6	0.6	0.1
Disposals	-	-	-
Depreciation and impairment	-2.3	-1.8	-2.4
Reclassification between items	2.8	2.8	6.1
Closing balance	135.1	134.8	137.5

3. Changes in tangible assets

(EUR million)	30 Sept. 2019	30 Sept. 2018	31 Dec. 2018
Opening balance	478.5	502.2	502.2
Translation differences	-2.9	-3.5	-3.3
Additions	32.5	36.9	52.1
Disposals	-0.5	-1.0	-1.6
Depreciation and impairment	-52.6	-48.2	-64.8
Reclassification between items	-2.8	-2.8	-6.1
Closing balance	452.2	483.6	478.5

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2019	6.4	19.6	20.0	46.1	46.8
Translation differences	-	-0.3	-0.1	-0.4	-0.4
Additions	4.5	1.6	2.5	8.6	8.6
Depreciation for the financial period	-0.9	-3.2	-4.1	-8.2	-
Reclassification between items	-	-	-1.8	-1.8	-
Payments	-	-	-	-	-8.6
Closing balance on 30.9.2019	10.0	17.7	16.5	44.2	46.3

(EUR million)	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	0.8	4.4	3.7	8.8	8.8
Depreciation for the financial period	-0.9	-2.8	-4.4	-8.1	-
Payments	-	-	-	-	-8.3
Closing balance on 30.9.2018	6.4	19.2	20.8	46.4	47.1

(EUR million)	7-9/2019	7-9/2018	1-9/2019	1-9/2018	2018
Depreciation expense of right-of-use assets	-2.9	-2.8	-8.2	-8.1	-10.8
Interest expense on lease liabilities	-0.4	-0.4	-1.1	-1.0	-1.4
Total amounts recognised in profit or loss	**-3.2**	**-3.1**	**-9.3**	**-9.1**	**-12.2**

5. Deferred tax assets

EUR 36.0 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 factory 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 within next thirteen calendar 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.

The company stalled increasing of deferred tax assets in Finland in Q3 2018 and has continued to follow that principle as using period of recognized assets is relatively high. Unrecognized Finnish amount at the end of Q3 was 7.0 million. This policy might decrease effective tax rate on potential future profits if performance exceeds current consideration and unrecognized deferred tax assets are recovered in coming years.

6. Inventories

(EUR million)	1-9/2019	1-9/2018	2018
Materials and supplies	71.7	74.1	75.8
Semi-finished products	5.1	5.3	4.8
Finished products	45.4	34.8	33.4
Other inventories	0.2	0.2	0.2
Inventories, advance payments	1.5	1.4	1.7
Biological assets	6.9	6.0	5.4
Total inventories	130.8	121.8	121.4

7. Notes to equity

Share capital and share premium reserve	Number of outstanding shares	Share capital	Share premium reserve	Reserve for invested unrestricted equity	Treasury	Total
1 Jan. 2019	54,034,174	66.8	72.9	143.5	0.0	283.1
30 Sept. 2019	98,951,781	66.8	72.9	215.4	0.0	355.0

Derivative instrument liabilities

(EUR million)	30 Sept. 2019	30 Sept. 2018	31 Dec. 2018
Nominal values of derivative instruments			
Foreign exchange derivatives	48.7	44.4	40.0
Interest rate derivatives	117.7	119.0	119.1
Electricity derivatives	11.8	9.5	10.0
Fair values of derivative instruments			
Foreign exchange derivatives	0.1	-0.2	-0.1
Interest rate derivatives	-7.2	-8.3	-8.2
Electricity derivatives	1.8	3.6	5.3

Consolidated other contingent liabilities

(EUR million)	30 Sept. 2019	30 Sept. 2018	31 Dec. 2018
Debts secured by pledges or mortgages			
- loans from financial institutions	-	-	-
On own behalf			
- Mortgages given	-	-	-
- Assets pledged	-	-	-
On behalf of others			
- guarantees and other commitments	11.4	13.3	11.7
Other contingencies			
Leasing and rental commitments	0.9	1.2	1.3

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

Derivatives

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

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

(EUR million)	30 Sept. 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	0.0	-	0.0	-
- Commodity derivatives	3.6	-	3.6	-
of which subject to cash flow hedging	3.6	-	3.6	-
Total	**3.7**	**-**	**3.7**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit of loss				
-Trading derivatives				
- Interest rate swaps	-8.3	-	-8.3	-
- Foreign exchange derivatives	-0.2	-	-0.2	-
- Commodity derivatives	-	-	-	-
of which subject to cash flow hedging	-	-	-	-
Total	**-8.5**	**-**	**-8.5**	**-**

Business transactions with related parties

(EUR million)	1-9/2019	1-9/2018	2018
Sales to associates	13.7	15.4	20.2
Purchases from associates	27.1	24.1	32.5
Trade and other receivables from associates	3.0	2.2	2.7
Trade and other payables to associates	2.8	6.8	3.3